

Monitoring Your Problem Loan Portfolio



Agenda

- Internal Risk Rating System
- Watch List
- Action Plans
- Classified Asset Reports – Case Studies



Internal Risk Ratings - Purpose

- Promptly identify loans with well-defined weaknesses to minimize losses;
- Provide a basis to determine ALLL adequacy;
- Identify trends within the loan portfolio and isolate potential problem areas;
- Evaluate lending personnel;



Internal Risk Ratings - Purpose

- Assess adequacy of, and adherence to, loan policies and procedures;
- Monitor compliance with laws and regulations;
- Provide the Board and senior management with an objective assessment of loan quality.



Internal Risk Ratings Loan Review Program

- Responsibilities: assigning initial credit grades, changes when needed, compiling information necessary for ALLL;
- Loan officers are typically involved, but ratings should be reviewed by peers, superiors, the loan committee, or by other internal or external review specialists;



Internal Risk Ratings Loan Review Program

- Complexity and scope based upon the complexity and size of the institution;
- Smaller institutions are not expected to maintain separate loan review departments, but the system must be effective;
- If external loan review utilized, it should be for validation – not substitution for an effective internal process



Watch Lists

- Snapshot of those loans that meet the bank's criteria for concern;
- Criteria should be well-defined and consistently applied;
- Criteria should be based on risk, not just delinquency;
- Should include some narrative as to current status / Action Plan



Watch List

Sample Handout



Action Plans

- Should be specific and decisive, noting responsible parties for recommended actions;
- Should be event driven, date specific, and have a contingency plan;
- Should identify the timing and sources of repayment or the events that would result in stabilization;



Action Plans

- Should discuss events that would drive an upgrade or downgrade and identify what deficiencies need to be modified or corrected in the loan structure, collateral position, or documentation;
- Should identify alternative strategies as part of the plan in the event that the primary actions are unsuccessful.



Criticized Asset Reports

Case Studies

- Does it effectively identify the problem?
- Does the risk rating seem appropriate?
- Is there an appropriate Action Plan?

QUESTIONS?

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