5 Questions to ask
before your next exam

Experienced bankers know the impact of prudent asset quality management. Loan portfolio strength is a key performance indicator for how well a financial institution is controlling risk and producing sustainable earnings. When federal and state regulators conduct their exams, their scrutiny of loan portfolios is an important part of a favorable – or not – safety and soundness determination.

Unfavorable findings have lasting effects beyond the dread of more frequent exams and increasing deposit insurance premium costs. Adverse loan classifications identified during an exam can punish banks for multiple periods by pulling down earnings due to needed increase in ALLL provisions, workout expenses, and private bonding premiums. Leadership teams bear the burden of stresses to capital requirements, the time needed to make critical decisions on the treatment of nonperforming loans, and added stakeholder scrutiny. All of this just creates distraction from growing banking relationships and profitability.

That said, this vicious cycle can be avoided through proactive planning. Take time now to reflect on your systems and outline your plan going forward to you respond quickly to troubled loans – and to examiners assessing this critical driver for your institution.

With something this important, preparation is key. In order to help prepare for your next exam, consider asking yourself the following questions.

1

1. **Are you comfortable with your financial institution's risk controls?** Having a strategy in place to strike the perfect balance between loan production and risk mitigation is critical. While no loans are risk-free, articulating your strategies and showing good loan origination and monitoring practices puts you in a great position in the early stages of examination.

2

2. **Are you waiting for the tail to wag the dog?** In other words, are you being proactive about improving your risk management? The old saying, "An ounce of prevention is worth a pound of cure," rings true when it comes to prep work for exams. Having systems in place to consistently monitor your loan performance data allows you to act quickly to minimize losses when nonperforming loans arise. Before it's time for your exam, investigate your people and software systems. Are you getting the feedback you need, when you need it? There may be multiple avenues to increase efficiency, improve communications, and make your team more proactive.

(continued)

3

3. Are your lending systems in sync? Your people, files, and decisions should all be accessible and aligned. Having consistent and actionable summaries on your loan relationships - beyond what's found in your loan write-ups - makes great organizational sense.

4

4. Do you know your numbers? Having actionable asset quality reporting in place is a huge bonus come exam time. Utilizing a software solution like Asset Quality Manager improves loan monitoring out of the box. It allows clear definition of at-risk loans and a platform for a deeper dive into those that are nonperforming. Asset Quality Manager allows management teams to show that they understand how a loan is performing, and when they can safely exit or cure the problem. It's a secure, intuitive hub that expands on your existing human capabilities by producing detailed analyses while reducing labor, duplicate work and errors.

5

5. Do you have the latest data to resolve tomorrow's troubled loans? Being able to show a loan's history is important and provides examiners with a track record to understand big-picture performance. But developing a forward looking strategy, and documenting that it is being followed, can positively influence your response to troubled loans and reduce losses and expenses that impact your ratings. Using technology to supplement decision-making gives your management team an advantage when fighting the fires in your portfolio in the future.

After considering these questions with your team, you should be more prepared for the next wave of troubled loans and your next exam. And with Asset Quality Manager as your tool, you can rest assured that your next exam is not accompanied by any asset quality surprises. ■