



5 Questions to ask before your next exam

Experienced bankers know the impact of asset quality. They're an important determinant of risk that profoundly affects the overall condition of the bank, sometimes for years to come. When regulatory bodies periodically conduct exams, examiners consider many details to determine the bank's CAMELS score (1-5). If you receive an unfavorable rating, the exams will happen more often, your FDIC insurance premiums, bond and D&O insurance premiums could increase, and your team will be tasked with more work that will reduce the time to serve customers and develop new relationships.

That said, the most effective route is to continuously work to ensure your rating remains strong before you find yourself in that situation. Taking time to reflect on your systems in place as well as organizational processes is very beneficial.

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

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1. Are you comfortable with your financial institution's current appetite for risk? Having a strategy in place to strike your perfect balance is critical. No loans are risk-free, and with no risk, there's no reward.

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2. Are you being proactive, not reactive? The old saying, "An ounce of prevention is worth a pound of cure," rings true when it comes to prep work for exams. Having organizational systems in place to constantly monitor your data is crucial and allows you to act quickly with a path to resolution before it's too late. Take time to examine your software solutions and how they interact with your core. There might be areas to increase efficiency and make your team more proactive.

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3. Are your loan files organized? Your people, papers and files must all be accessible so that all data is organized and readily available. On top of organization, having good summaries is also key.

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4. Do you know your numbers? Having good asset quality reporting in place is a huge bonus come exam time. Utilizing a software solution like Asset Quality Manager allows clear definition of questionable loans and allows you to take a deeper dive into those that are actually impaired. That way, you can identify risk and how to manage it. A secure, intuitive hub like Asset Quality Manager not only houses portfolio information, but also provides detailed reporting and automatically generates “watch lists,” which simplify a typically labor-intensive process and eliminate the possibility of human error.

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5. Do you have tomorrow’s data...as well as yesterday’s? 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 impact your ratings.

After considering these questions with your team, you should be more prepared for 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. ■



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