

## LOAN PORTFOLIO MANAGEMENT

### COMMERCIAL LOAN REVIEW

T. Gschwender & Associates, Inc. (TGA) is best known for its loan review services. Our loan review personnel all have extensive banking and/or regulatory experience.

Our approach is risk based. We start by performing a comprehensive Credit Risk Assessment, looking at your key credit related ratios, red flags, regulatory reports, audits, and credit management reports. We assess your overall inherent credit risk, its direction, and how you manage this risk. This allows us to determine how much of your credit portfolio to review and which loans to review.

When we review a credit relationship we stick with the tried and true, using the 5-Cs of lending (capacity, collateral, capital, character and condition) as our guiding framework. Our proprietary computer loan review program that we developed over the past twenty-five years will present this information to you in an organized manner, while expediting our review process.

After 25 years, our loan reviews are still considered some of the best by regulators and auditors. Call us to see why!

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### CONSUMER LOAN REVIEW

Since our inception in 1984, TGA has performed credit quality reviews in consumer loan portfolios (residential mortgages, home equity, auto, and personal) for many financial institutions.

TGA uses statistical sampling calculators to determine a sufficient sample that can provide the bank either a 99% or 95% confidence level with a minimum confidence interval of 5% or less. This will give both the bank and the regulators an exact indication on how the results of the review can be applied to the whole portfolio. Our scope typically includes:

- Determination if loan was approved in accordance with Board approved policy;
- Analysis of number of loans meeting various bank specific (as well as industry) underwriting standards such as debt-to-income, loan to values, employment history, residency requirements; and,
- Review to ensure lien on collateral has been properly perfected.

In addition, we will give you input on the quality of your consumer loan policies and procedures to ensure they are in-line with industry standards. Call us to schedule a review!

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### STRESS TESTING

TGA normally conducts Stress Testing of individual borrowers in conjunction with the loan review. However, a separate review can be scheduled if desired.

We test each borrower to determine the impact an increase in interest rate can have on the borrower's Debt Service Coverage Ratio (DSCR). The level of increase in interest rates can be set by the bank. At conclusion, a summary report is provided to the bank on the number of borrowers tested that will have difficulty making payments at various interest rate increases. In addition, the bank is provided a separate Stress Testing worksheet on each borrower to file in the credit file. This is often used by the loan officers as a discussion point with a borrower to ensure the borrower has a strategy in place in case rates increase.

We use statistically sampling methodology to apply the results of our review to the entire portfolio. We have found that using statistically sampling is often less expensive and labor intensive than implementing expensive modeling programs which require input of DSCR on each borrower every year in the core loan operating system.

Call us to discuss how we can do this review in a cost effective manner for you!

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### ALL MODELING AND REVIEW

TGA reviews both allowance for loan and lease losses (ALLL) methodology, as well as give opinion on the reasonableness of the ALLL based on bank's current level of credit risk and direction of that risk. We can do this in conjunction with a loan review or as a separate engagement. Our goal is ensure the model meets all regulatory and generally accepted accounting practices (GAAP) guidelines.

TGA also assists many banks prepare the ALLL calculation and/or sign-off on the ALLL as being reasonable on a quarterly basis. We have developed a very user friendly and easy to understand, yet comprehensive, ALLL model based on our extensive experience. We can help you implement this model at your institution or enhance your current model.

In determining the adequacy of the ALLL, TGA will, as a minimum: review loan portfolio composition; concentrations; risk rating profile; delinquency, non-accrual and loss levels and trends; off balance sheet commitments; and current credit risk controls. We will also make sure FAS 114 impairments are being correctly determined, FAS 5 pools are adequately segregated, and qualitative loss factors are properly supported. In the end, the bank will have assurance their ALLL is adequate to absorb their losses and their procedures will pass regulatory scrutiny. Call us today!

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## FLOOR PLAN AUDITS

The scope of the audits will be coordinated between TGA and the bank. Floor plan checks/ physical inventories will be conducted at least monthly and on a random surprise basis. More frequent floor plan checks may be done if the dealer is experiencing financial difficulties. TGA floor plan inspector(s) will verify the following and indicate their findings on the floor plan check sheet:

- Serial number of item;
- Odometer reading of vehicles, if required (for used vehicles only);
- Condition of item;
- Location of item, if other than normal place of business; and,
- Existence of any fire or theft hazards.

In addition, TGA will determine the reason for differences between the bank's collateral records and the actual items held by the dealer. TGA will assist bank personnel review dealer sales patterns to determine that the number of units reported sold at the time of floor plan inspection is not excessive and does not indicate a float, verify those items noted as payments in process, and determine if any items were sold out of trust.

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## BORROWING BASE CERTIFICATES

TGA conducts comprehensive collateral examination reports (CER) to prepare borrowing base certificates. Examination reports are prepared by experienced certified public accounts (CPA). Scope includes, as a minimum:

- Review of accounting related internal controls;
- Review cash disbursements for related party transactions and unusual items;
- Summarize monthly aging of accounts receivable and verify agreement to the general ledger;
- Summarize concentration of accounts receivable with major customers;
- Test shipping support for accounts receivable;
- Test subsequent cash receipts on accounts receivable;
- Physically observe inventory quantities;
- Summarize accounts payable concentration;
- Prepare report on payment of tax liabilities; and,
- Prepare a borrowing base certificate.

Enhance your credit risk management process by requiring professionally prepared CERs!

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