

Breakout 2: Why Getting More From Your Loan Review Is Now Critical

#BDAudit23

David Ruffin

*IntelliCredit, A Division
of QwickRate*

BankDirector.

Bank Audit & Risk Conference

Why Getting More from your Loan Review is More Critical

June 13, 2023



David Ruffin,
Principal, IntelliCredit



Today's Presenter



David Ruffin

- Principal, IntelliCredit™
- 49 Years in Banking
- 16 years as Chief Credit Officer / Commercial Lender
- 3,000+ Loan Reviews
- ~350 Capital Raise or M&A Due Diligences
- Former Co-Founder of Credit Risk Management
- Prolific author and speaker on credit risk topics

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QwickRate®

- Non-brokered Funding and Investing
- DTC CDs, Other Fixed Income Investments (*QwickBonds*)



IntelliCredit™

- Loan Review Services (*by our experts*)
- Loan Review Tool (*for your internal team*)
- Annual Review Tool
- Portfolio Analytics and more



QwickAnalytics®

- CECL Solver Compliance Tool
- Credit Stress Test
- Bank Research, Performance Metrics and Analysis

Loan Review and Credit Intelligence Solution

IntelliCredit Solution



Annual Review (for use by your team)

Move to an automated process that makes annual reviews easy, organized and repeatable – with everything right at your fingertips



Smart Loan Review™ (for use by your team)

Revolutionary online solution that expedites your entire loan review process, making it simple, retrievable online – and fast



Portfolio Analyzer (for use by your team)

Delivers insightful analysis of your portfolio and loan data so you can detect risk earlier – no need to build reports, create spreadsheets or hire consultants

Loan Review Services



Smart Loan Review™ (performed by our experts)

Benefit from a smarter loan review service that uniquely combines deep credit expertise and an online, real-time portal – so you see progress and results as they happen

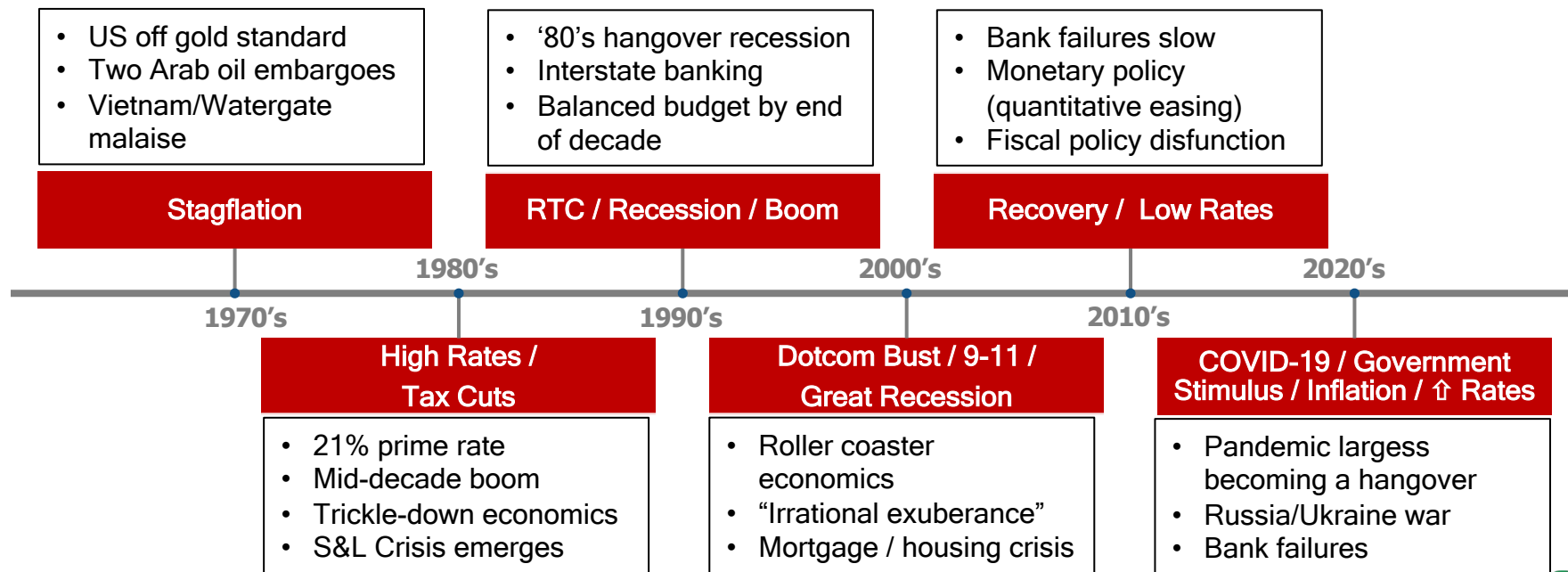
Online. No installation. No software integration. SOC2 compliant.



Current Credit Environment— *and Concerns*

Credit cycles over the last 50 years hold a pattern:

► Credit stress always preceded by economic/political/financial turmoil!



Current Credit Concerns (General)



Credit metrics still good, but heightened worries: inflation / rates / liquidity scares.

Reserves beginning to tick up in anticipation for more softness.

Loan demand moderating due to business skepticism, fear of “credit crunch”.

Credit servicing continues to struggle.

Recent loan growth bursts may prove problematic.

Rising consumer delinquencies are the first sign of trouble.

Growing concern for imbedded CRE loan quality.

Regulators fear complacency. Overreaction may be worse.

Current Credit* Concerns (By Industry)



Highest Risk: CRE Office & Retail / Consumer* / Small Business

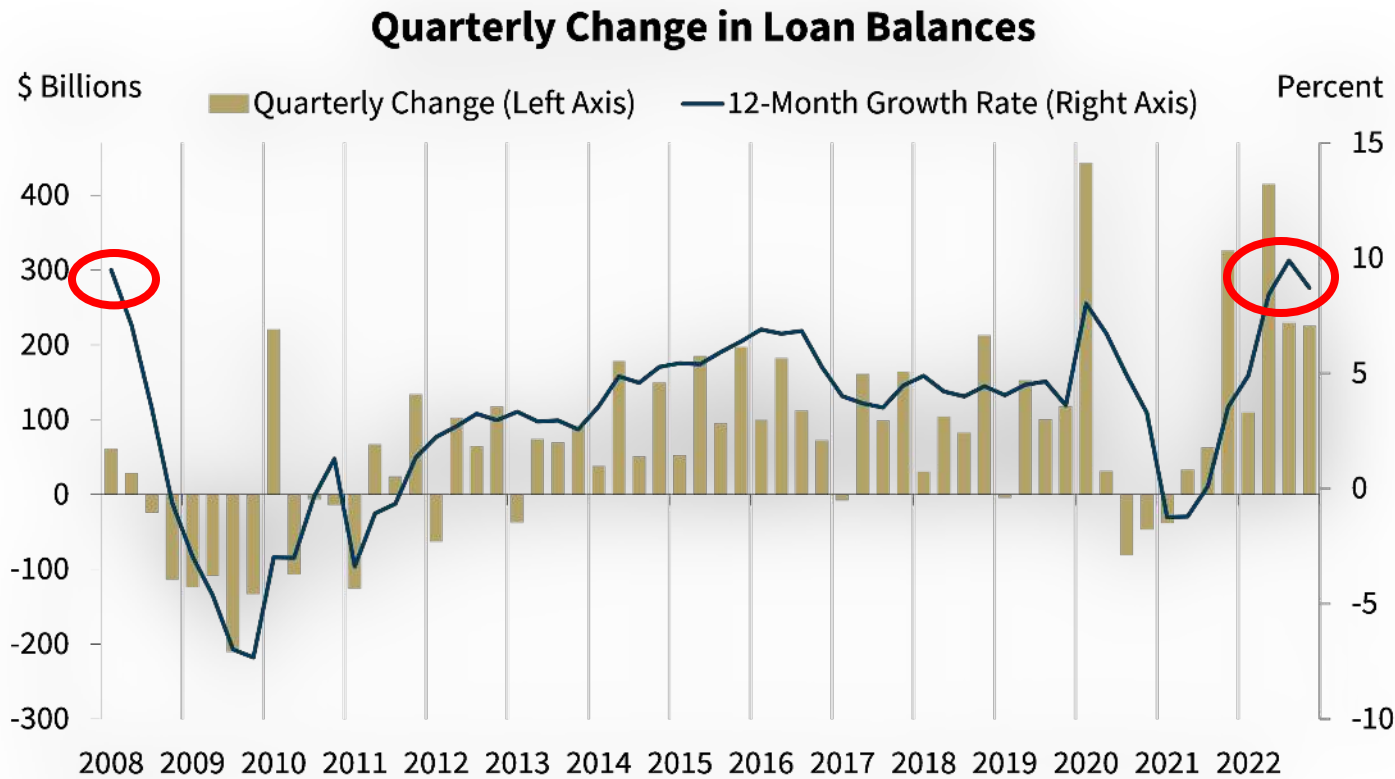
Moderate Risk: CRE Hospitality / Specialty Lending / Manufacturing

Lowest Risk: Agriculture

*Based on recent regulatory commentary / our DD & LR findings

**Susceptible Consumer*

National Loan Growth Trends: All Banks



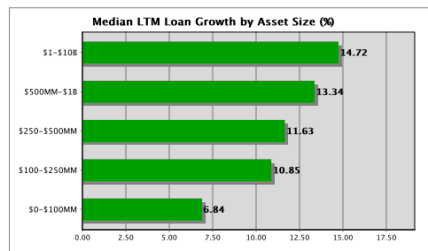
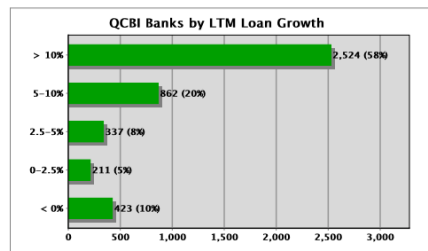
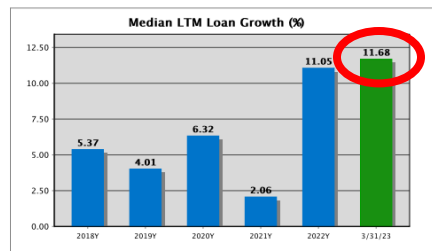
Source: FDIC.

National Loan Growth Trends: Banks <\$10B

Q1 '23 Call Report Data

QwickAnalytics National Performance Trends Loan Growth Trends

U.S.
Banks
March 31, 2023



* LTM = Last 12-months (or "trailing" 12-months)

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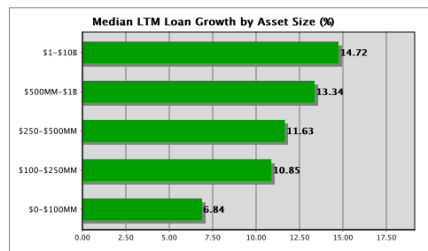
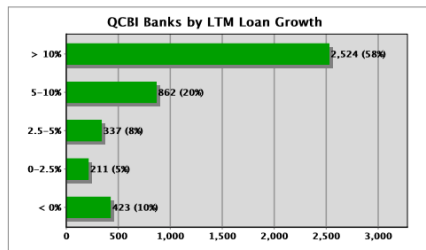
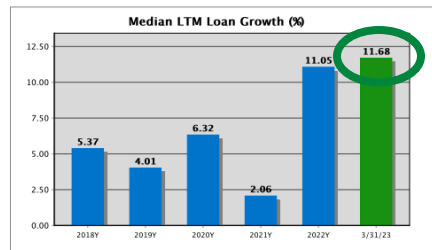
Vintages matter: A weakened economy will disproportionately penalize credit quality from the most recent bursts of growth!

National Loan Growth Trends: Banks <\$10B

Q1 '23 Call Report Data

QwickAnalytics National Performance Trends Loan Growth Trends

U.S.
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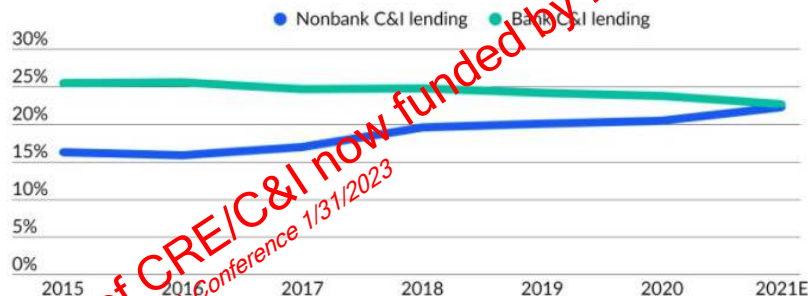
QwickAnalytics™

Banks losing ground to nonbanks

--American Banker article 10-4-2021

Neck and neck

While corporate bonds continue to account for the majority of commercial debt, nonbanks have almost caught up with banks in market share.



*~57% of CRE/C&I now funded by non-banks—
Piper Sandler AQB Conference 1/31/2023*

Fed Funds Rate (Last 10 years / Last 50 years)



👉 Last 10 Years

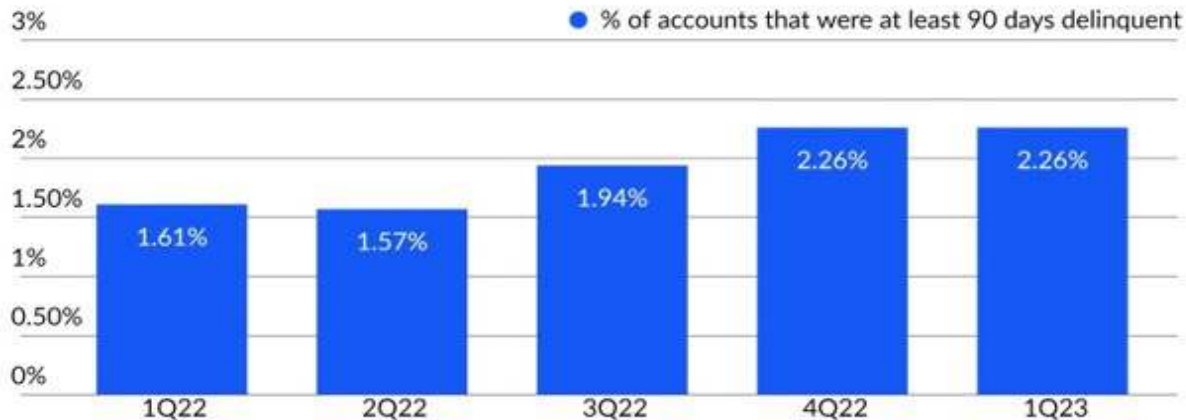
Last 50 Years 👉



Early Signs of Stress . . . Mainly Consumer

Cardholders falling behind

Late-payment rates on credit cards remained unusually low in the first half of last year, but they have since climbed back to more normal levels



Source: TransUnion

- The increase was driven by subprime borrowers, who have been more vulnerable to inflation and interest rate hikes than borrowers with higher credit scores.
- U.S. credit card balances: \$917B in the Q1 '24 from \$769B in Q1 '23.
- Mortgage repayment performances remain strong.
- Truly a tale of two consumer segments!

--American Banker May, '23

Consumer debt passes \$17 trillion for the first time despite slide in mortgage demand

--CNBC May, '23

Early Signs of Stress . . . CRE?



Charlie Munger says the U.S. commercial property market is in trouble: FT report

PUBLISHED SUN, APR 30 2023•10:13 AM EDT | UPDATED MON, MAY 1 2023•9:46 AM EDT

KEY POINTS

- Charlie Munger reportedly believes there is trouble ahead for the U.S. commercial property market.
- The 99-year-old investor told the Financial Times that U.S. banks are packed with “bad loans” that will be vulnerable as “bad times come” and property prices fall.
- “It’s not nearly as bad as it was in 2008,” he told the Financial Times in an interview. “But trouble happens to banking just like trouble happens everywhere else.”

--CNBC May, '23

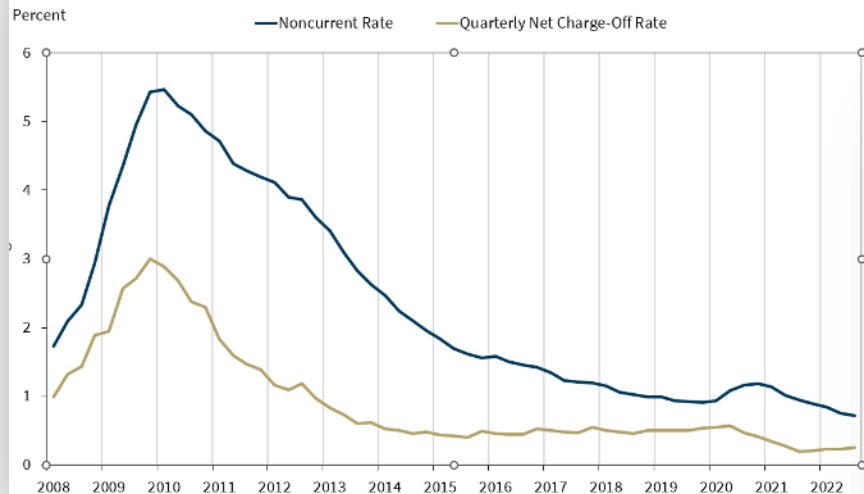


However, credit quality is at generationally high metrics . . . so let's take a look.

Source of the Complacency



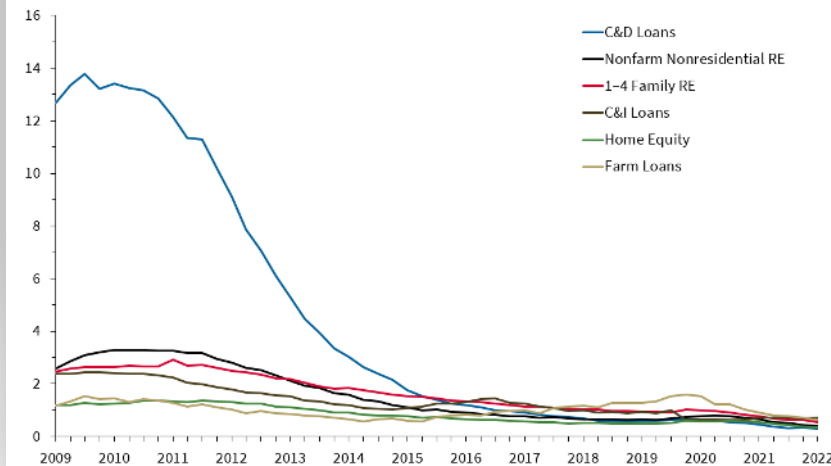
Noncurrent Loan Rate and Quarterly Net Charge-Off Rate



Source: FDIC.

Noncurrent Loan Rates for FDIC-Insured Community Banks

Share of Loan Portfolio Noncurrent
Percent



Source: FDIC.



National and Regional *1Q '23* Credit Performance Metrics

Trifecta of Loan Quality: Banks <\$10B

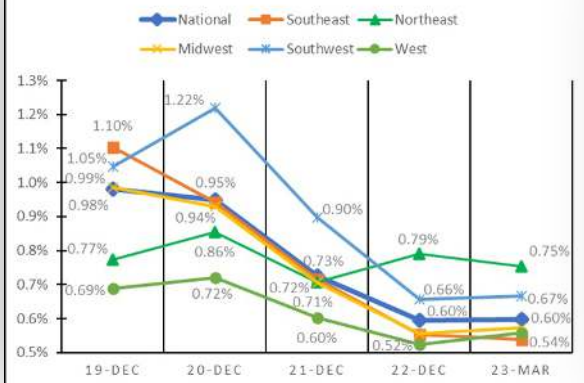


Q1 '23 Call Report Data QwickAnalytics®

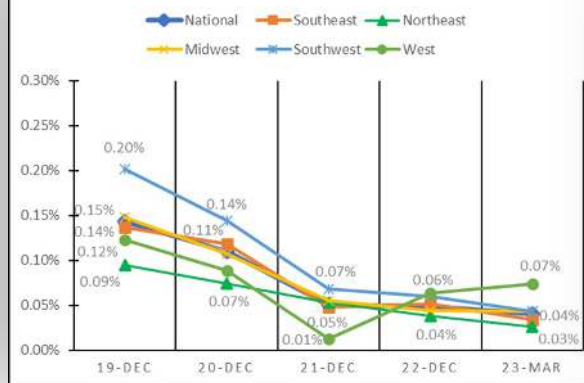


National / Southeast / Northeast / Midwest / Southwest / West

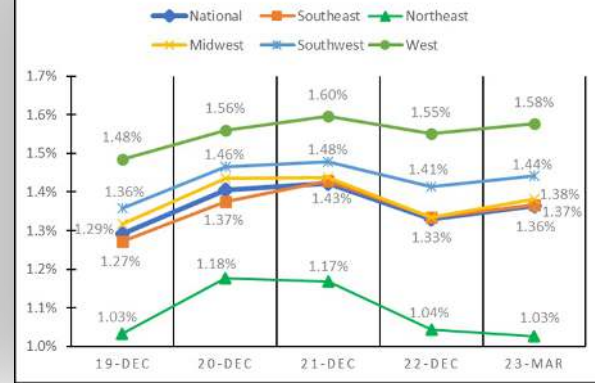
TOTAL NPL TO LOANS



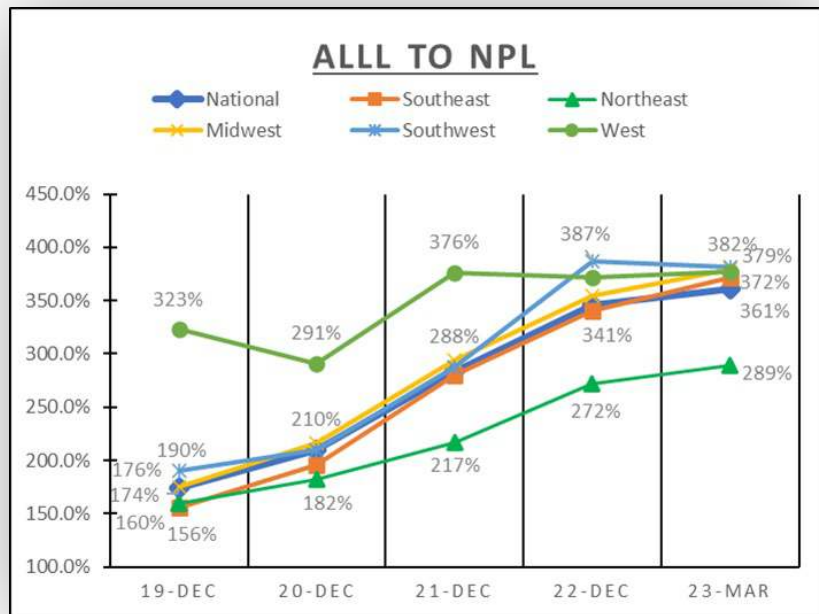
NET CHARGE-OFFS TO LOANS



ALL TO LOANS

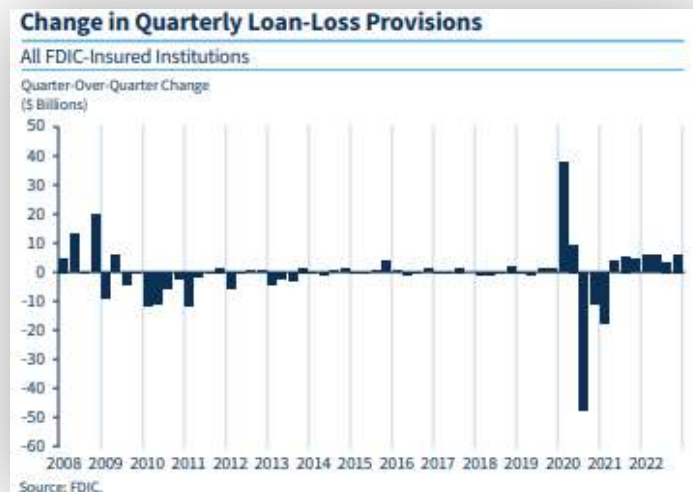


Trifecta of Loan Quality: Banks <\$10B



National / Southeast / Northeast / Midwest / Southwest / West

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Q1 '23 Call Report Data



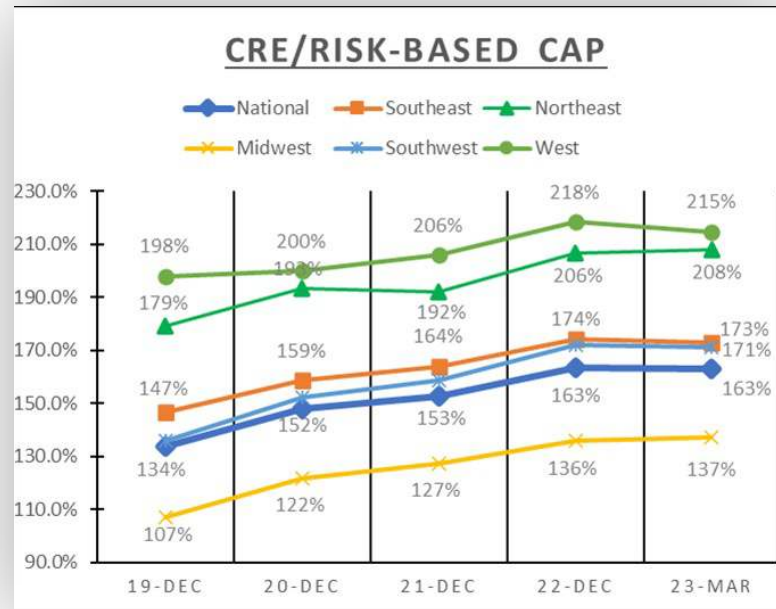
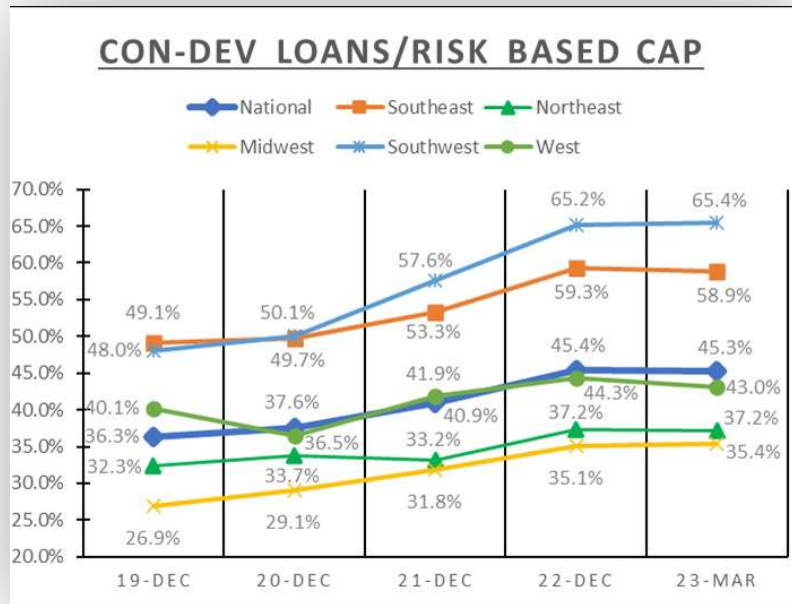
Regional CRE Concentrations: Banks <\$10B



Regulatory Guidance:
≤ 100% RBC

Q1 '23 Call Report Data

Regulatory Guidance:
≤ 300% RBC



282 National / 101 Southeast / 9 Northeast / 68 Midwest / 89 Southwest / 17 West

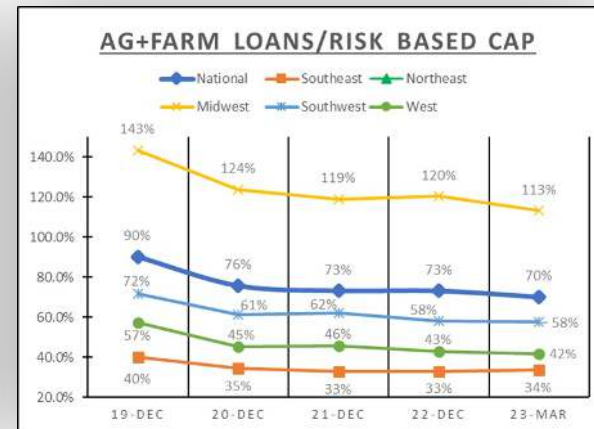
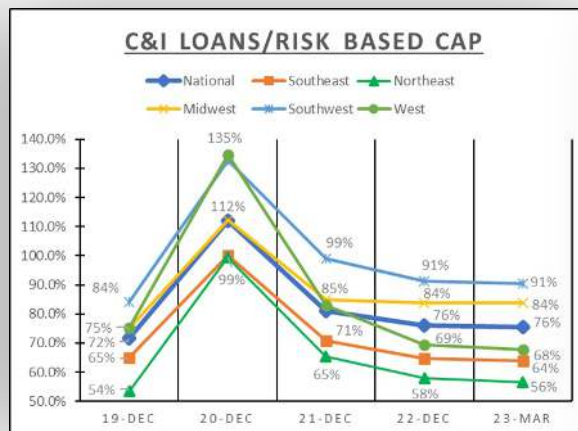
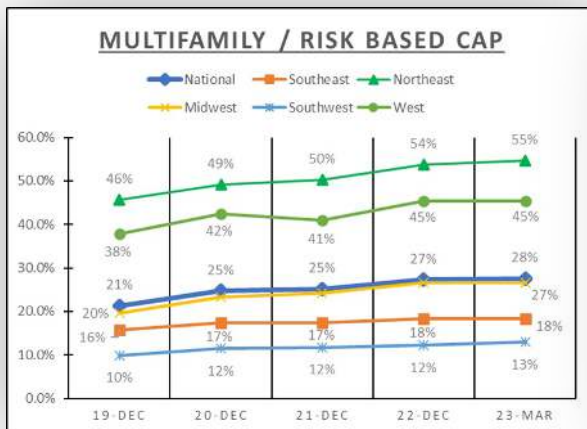
↑ 100%:

336 National / 66 Southeast / 72 Northeast / 114 Midwest / 47 Southwest / 42 West

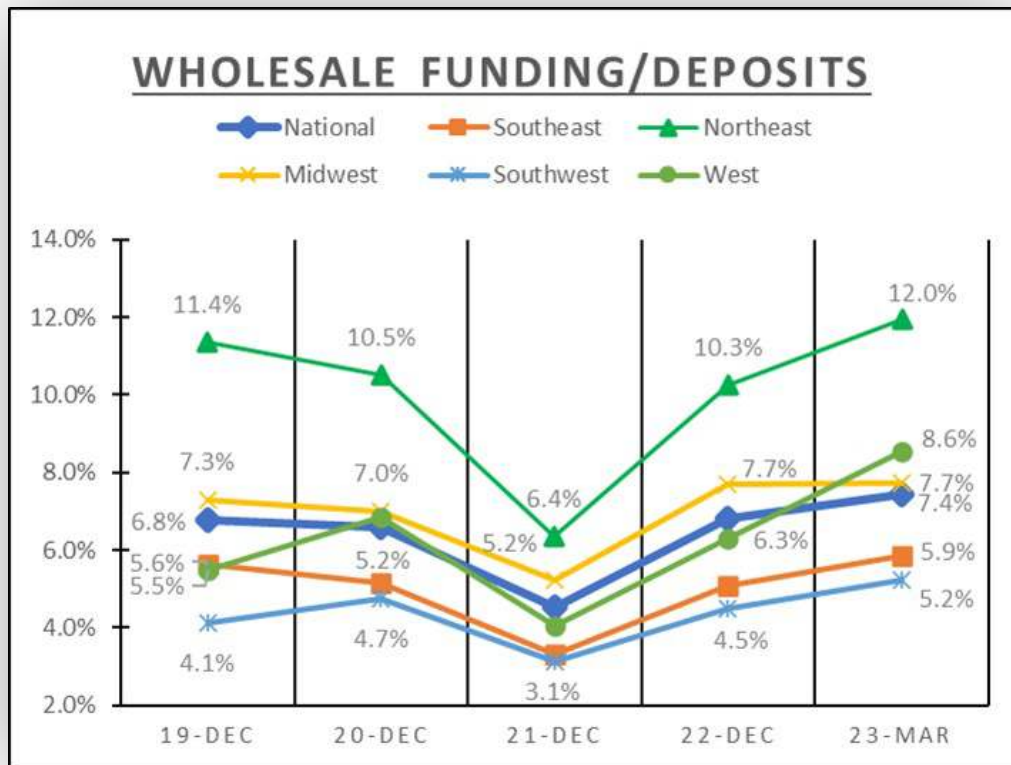
↑ 300%:

Regional Other Concentrations: Banks \leq \$10B

National / Southeast / Northeast / Midwest / Southwest / West



Wholesale Funding: Banks <\$10B



Q1 '23 Call Report Data



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National Performance Trends

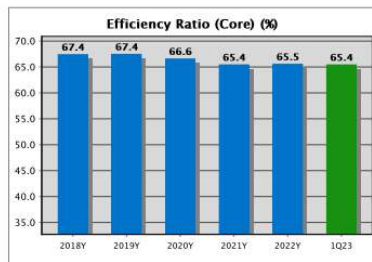
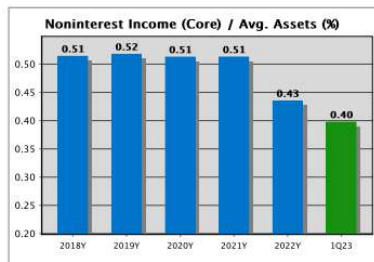
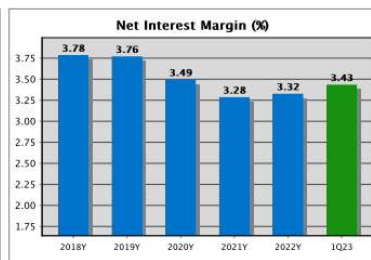
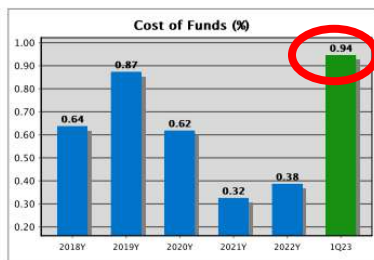
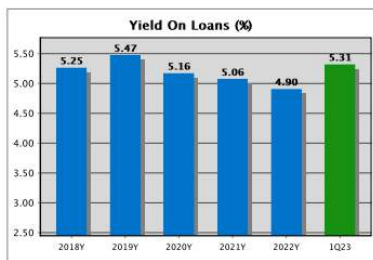
Significant Cost of Funds Impact



QwickAnalytics National Performance Trends

Performance Trends

U.S.
Banks
March 31, 2023



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Q1 '23 Call Report Data



Moving from *Typical* to *Optimal* Credit Risk Management

Typical, Non-synced, Credit Management Input

Bank Management



Optimal, Coordinated, Credit Management Input—In '23 Forward

Bank Management

Informed, Educated Decision Making

Shared methodologies
and corporate values

Of optimal value



Ongoing and interactive

Complementary and
coordinated

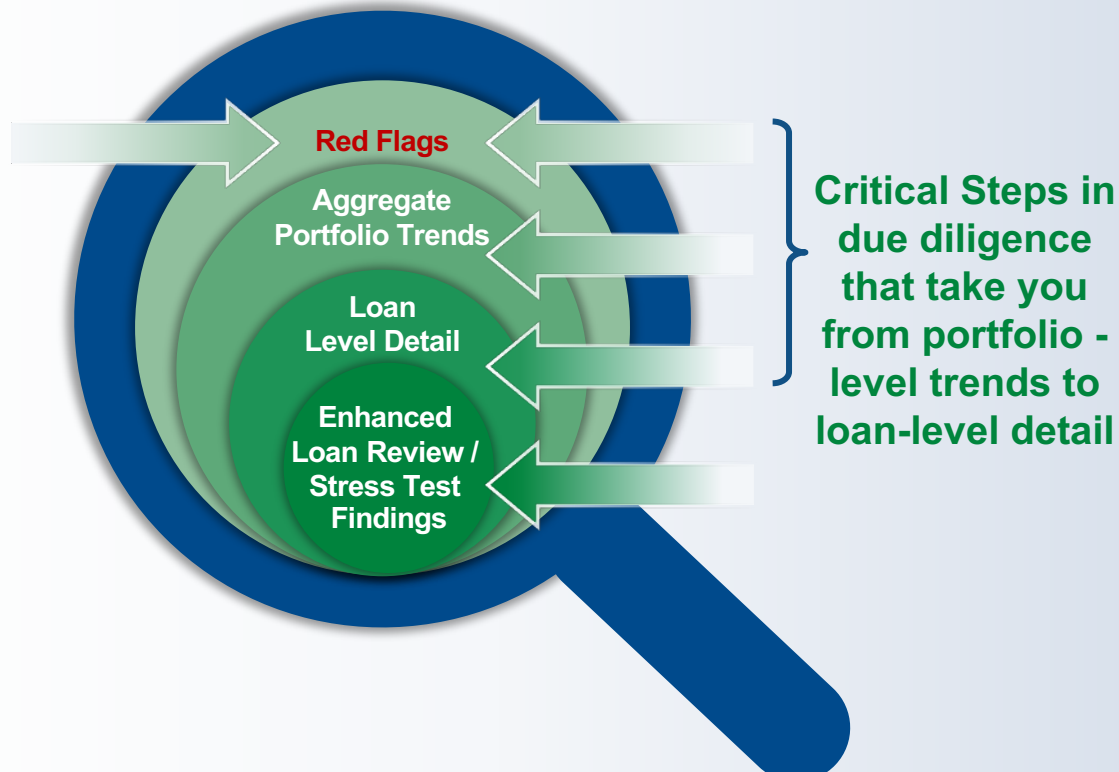
Goal: Write your own credit quality script!

Let's Start With A Critically Informing Concept . . .



Public Data

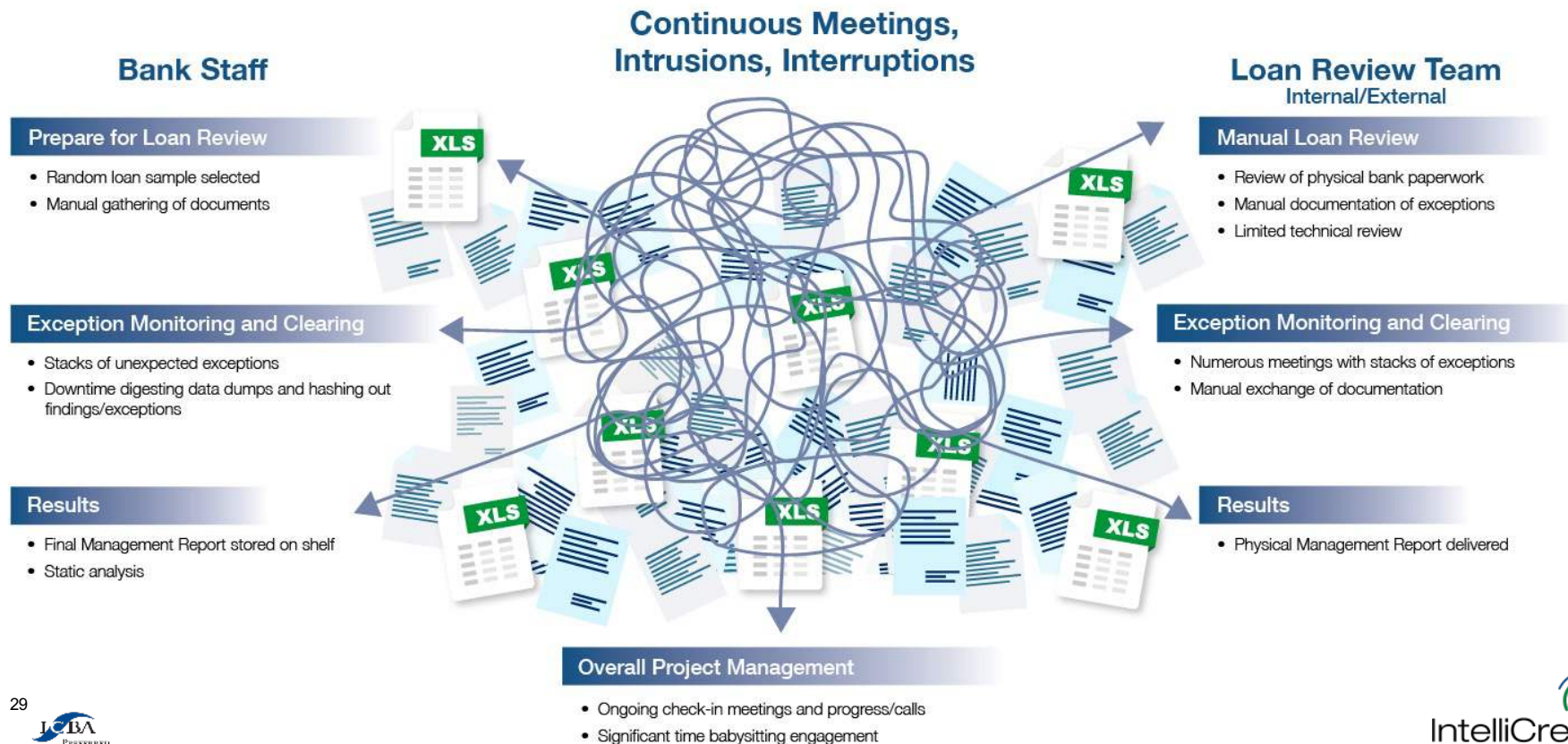
Non-Public Data



Remember:

- The external stakeholders see a target through the lens of public (call report) data.
- Only with non-public, idiosyncratic loan data can you discern the whole story.

Typical Loan Review Process - Manual



More Transparent, Less Intrusive, Ideal Loan Review Process





Loan Review Best Practice Trends for '23—*and Beyond*

1 Emphasize Experience



Credit Analysis / Decisioning / Review Pyramid

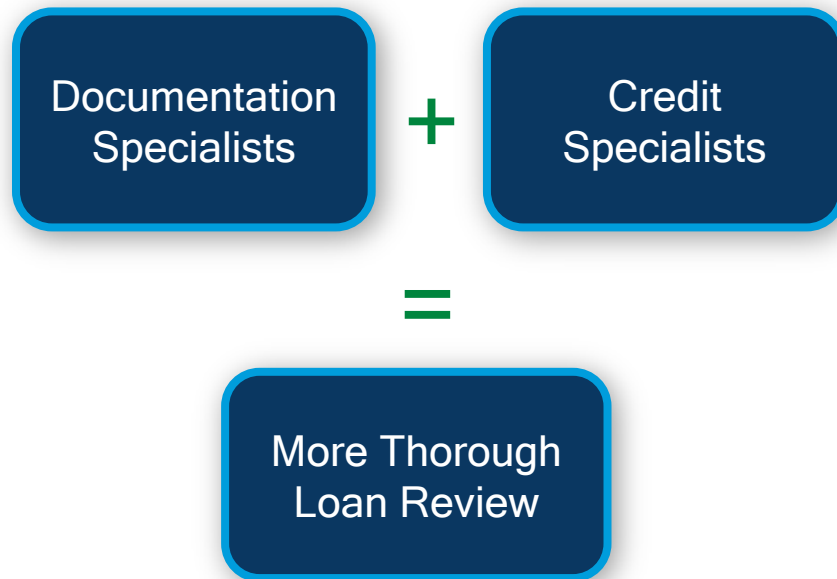
- Utilize reviewers that have *been there / done that*
- The power of *persuasion*
- Require bios during RFP process



2 Use Bifurcated Document And Credit Review



- Back-shop staffing crisis adding to more technical/documentation exceptions
- Documentation problems exacerbated by credit defaults
- Get the best of both, distinct expertise





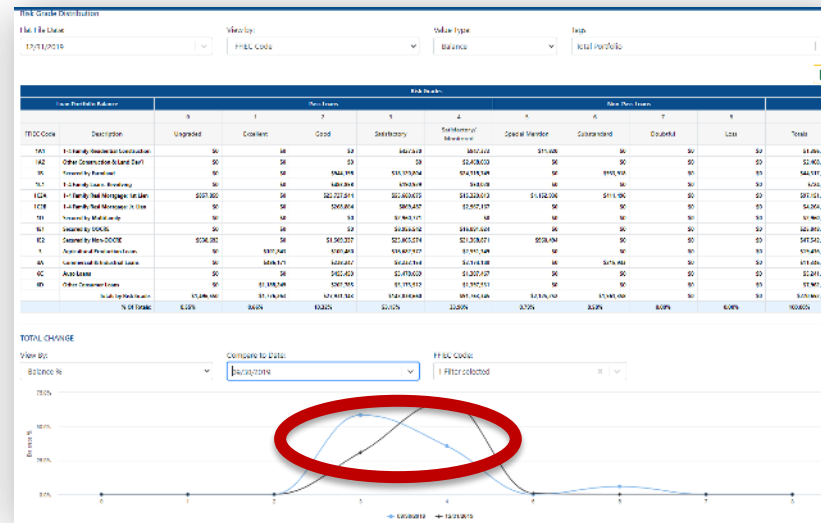
- We're different from the Great Recession where only one industry (1-4 family housing) was the focus
- Data mine all aspects of the broader portfolio, loan review findings, and annual reviews
- Ferreting out hotspots will be the name of the game for perhaps years to come
- Early detection: reduced losses



While balances and risk are correlated – they are not one in the same.

[illegible]

Risk Grade Migrations



Residential Construction

Key to early detection:
RG migrations within *pass* categories!

4

Apply Transparent Exception Identification And Clearing

- Documentation / Credit / Policy
- Quantification of pre/post levels: it speaks to the quality of the *credit process*

EXCEPTIONS PORTAL Legal Doc Exceptions Credit Exceptions Loan Policy Exceptions More SUMMARY OUTSTANDING CLEARED Loan Review 06/10/2020 05/18/2021

Highlighted items within the table(s) below do not represent credit servicing exceptions. However, IntelliCredit recommends that the institution obtain the identified documentation / information to conform to the industry's best practices.

Outstanding Credit Exceptions Search exceptions Q Today's Date: 12/04/2022 Credit Exceptions Cut Off Date: 12/30/2022 Days Remaining to Clear Credit Exceptions: 26 PDF

Required / Recommended	Reviewer Comments	Documents	Institution Comments	Status	Review Status
<input type="checkbox"/> Required per Loan Agreement	✓	Upload / Download (1)	✓	Acknowledged & Tracked by Institution	4
<input type="checkbox"/> Required per Institution Policy	✓	Upload	✓	Update	4
<input type="checkbox"/> Required per Institution Policy	1 Loan over balance threshold for PPS requirement	Upload	✓	Update	8
<input type="checkbox"/> Required per Institution Policy	✓	Upload	✓	Update	8
<input type="checkbox"/> Required per Institution Policy	✓	Upload	✓	Update	8
<input type="checkbox"/> Required per Institution Policy	✓	Upload	✓	Update	8
<input type="checkbox"/> Required per Loan Agreement	✓	Upload	✓	Update	8
<input type="checkbox"/> Required per Loan Agreement	1 Annual rent rolls are required per the Loan Agreement; lost rent roll...	Upload	✓	Update	4
<input type="checkbox"/> Recommended	✓	Upload	✓	Update	4

EXCEPTIONS PORTAL Legal Doc Exceptions Credit Exceptions Loan Policy Exceptions More SUMMARY OUTSTANDING CLEARED Loan Review 08/10/2020 06/18/2021

Credit Exceptions Summary

Borrowers	
Number of Borrowers Reviewed	22
Number of Borrowers w/ Credit Exceptions (Pre-Clearing)	5
Credit Exception Rate (Pre-Clearing)	22.73%
Number of Borrowers w/ Credit Exceptions (Post-Clearing)	3
Credit Exception Rate (Post-Clearing)	13.64%

Exceptions

Total Credit Exceptions	12
Outstanding Exceptions	8
Cleared Exceptions	4
Percentage of Exceptions Cleared	33.33%

Outstanding Credit Exceptions

Credit Exceptions	Total Exceptions	% of Exceptions
Missing / Outdated Acct. Prepared Financials	3	37.50%
Missing / Outdated Federal Tax Returns	2	25.00%
Missing / Outdated Other	2	25.00%
Missing / Outdated PPS	1	12.50%
Totals	8	100.00%

Cleared Credit Exceptions

Credit Exceptions	Total Exceptions	% of Exceptions
Missing / Outdated Federal Tax Returns	2	50.00%
Missing / Outdated Acct. Prepared Financials	1	25.00%
Missing / Outdated PPS	1	25.00%
Totals	4	100.00%

5 Rate Underwriting And Servicing

- *Underwriting*, at inception, generally satisfactory
- Post-booking servicing is degrading industry-wide

EXCEPTIONS PORTAL

[Legal Doc Exceptions](#)
[Credit Exceptions](#)
[Loan Policy Exceptions](#)
[More ▾](#)
[SUMMARY](#)
[OUTSTANDING](#)

Borrower Underwriting Ratings Summary

Underwriting Rating	Borrower Count	Borrower %	Loan Count	Loan %	Balance	Balance %	Exposure	Exposure %
Pending Completion*	65	95.59%	103	95.37%	\$114,260,113	96.92%	\$124,291,223	96.98%
Satisfactory	2	2.94%	4	3.70%	\$3,217,651	2.73%	\$3,461,251	2.70%
Weak	1	1.47%	1	0.93%	\$409,540	0.35%	\$409,540	0.32%
Totals	68	100.00%	108	100.00%	\$117,887,305	100.00%	\$128,162,014	100.00%

*Note: Loans identified as "Pending Completion" have not yet been published to the portal

EXCEPTIONS PORTAL

[Legal Doc Exceptions](#)
[Credit Exceptions](#)
[Loan Policy Exceptions](#)
[More ▾](#)
[SUMMARY](#)
[OUTSTANDING](#)

Credit Servicing Ratings Summary

Credit Servicing Rating	Borrower Count	Borrower %	Loan Count	Loan %	Balance	Balance %	Exposure	Exposure %
Pending Completion*	65	95.59%	103	95.37%	\$114,260,113	96.92%	\$124,291,223	96.98%
Satisfactory	3	4.41%	5	4.63%	\$3,627,192	3.08%	\$3,870,792	3.02%
Totals	68	100.00%	108	100.00%	\$117,887,305	100.00%	\$128,162,014	100.00%

*Note: Loans identified as "Pending Completion" have not yet been published to the portal

6 Observe Pricing / Valuations / Vintages

- With the volatile rate environment, there should be congruence between risk and loan pricing
- With the recent spurt in loan growth, remember the lesson of loan vintages

Loan Portfolio WAVG Interest Rate		Pass Loans					Non-Pass Loans		WAVG Interest Rate
		Ungraded	Excellent	Good	Satisfactory	Satisfactory/Monitored	Special Mention	Substandard	
FFIEC Code	Description	0	1	2	3	4	5	6	
1A1	1-4 Family Residential Construction	--	--	--	5.50%	5.01%	--	--	5.16%
1B	Secured by Farmland	--	--	5.50%	5.24%	4.90%	--	5.32%	5.08%
1C1	1-4 Family Loans: Revolving	--	--	6.08%	5.90%	6.75%	--	--	6.04%
1C2A	1-4 Family Resi Mortgage: 1st Lien	4.26%	--	4.38%	4.42%	4.81%	4.58%	5.65%	4.50%
1C2B	1-4 Family Resi Mortgage: Jr. Lien	5.00%	--	6.12%	6.00%	6.23%	--	--	6.04%
1D	Secured by Multifamily	--	--	--	5.21%	--	--	--	5.21%
1E1	Secured by OOCRE	--	--	5.75%	5.39%	5.08%	--	--	5.45%
1E2	Secured by Non-OOCRE	5.75%	--	5.68%	5.77%	5.49%	5.11%	--	5.62%
3	Agricultural Production Loans	--	3.50%	6.75%	5.68%	5.87%	--	6.25%	5.77%
4A	Commercial & Industrial Loans	--	1.05%	3.25%	5.70%	5.79%	--	--	3.63%
6C	Auto Loans	--	--	5.04%	6.43%	6.95%	--	--	6.48%
6D	Other Consumer Loans	--	3.25%	6.91%	7.81%	7.50%	8.25%	--	7.04%
WAVG Interest Rate		5.00%	1.24%	5.13%	5.24%	5.23%	4.73%	5.77%	5.04%

LOAN VINTAGES (PORTFOLIO)

Loan Vintages	Loan Count	Loan %	Balance	Balance %	Exposure	Exposure %	WAVG Risk Grade	WAVG Interest Rate
2000 and prior	1	0.12%	\$8,343	0.00%	\$8,343	0.00%	3.00	5.25%
2001 - 2005	3	0.37%	\$596,572	0.18%	\$596,572	0.17%	2.92	5.50%
2006 - 2010	32	3.92%	\$7,587,706	2.25%	\$7,587,706	2.13%	3.42	6.32%
2011 - 2015	82	10.05%	\$33,643,669	10.00%	\$33,866,590	9.51%	3.08	4.99%
2016	52	6.37%	\$18,414,873	5.47%	\$19,422,020	5.45%	3.07	4.75%
2017	82	10.05%	\$31,237,711	9.28%	\$31,318,260	8.79%	3.23	4.45%
2018	103	12.62%	\$35,535,863	10.56%	\$36,519,695	10.26%	3.37	4.89%
2019	189	23.16%	\$61,616,318	18.31%	\$64,020,542	17.98%	3.23	5.26%
2020	272	33.33%	\$147,921,774	43.95%	\$162,762,396	45.71%	2.94	5.08%
2021	0	0.00%	\$0	0.00%	\$0	0.00%	N/A	N/A
2022	0	0.00%	\$0	0.00%	\$0	0.00%	N/A	N/A
Totals	816	100.00%	\$336,562,829	100.00%	\$356,102,123	100.00%	3.10	5.04%

7 Produce Comprehensive Reports

A Good Loan Review . . .

- leaves behind substantive deliverables – not just a spreadsheet focused on downgrades to non-pass
- helps inform CECL
- brings a capacity to share *industry best practices*



~ 25-30 pages

Intel v. [Portfolio Concentrations and Growth \(powered by QuickAnalytics®\)](#)

The following depictions of the Bank's public data are provided by IntelliCredit's sister company, QuickAnalytics:

Regulatory Concentration – C&D Test

Regulatory C&D Totals - Call Report Balances (\$000s)	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015
FHCC Codes					
1A1	\$ 8,811	\$ 7,418	\$ 6,811	\$ 7,626	\$ 4,558
1A2	\$ 25,417	\$ 17,377	\$ 16,545	\$ 23,385	\$ 14,755
Regulatory C&D Totals:	\$ 74,738	\$ 64,895	\$ 53,556	\$ 53,021	\$ 58,352
1-Year C&D Growth Rate:	18.99%	(15.19%)	(17.47%)	8.34%	19.83%
3-Year C&D Growth Rate:	56.23%	6.04%	(17.88%)	(32.39%)	6.87%
Total Risk-Based Capital:	\$ 872,392	\$ 938,882	\$ 612,122	\$ 637,589	\$ 860,053
Regulatory C&D Concentration (% of Risk-Based Capital):	13.1%	10.9%	8.8%	9.1%	10.9%
Regulatory C&D Test	Within Guidelines	Within Guidelines	Within Guidelines	Within Guidelines	Within Guidelines

Regulatory Concentration – Total CRE Test

Regulatory CRE Totals - Call Report Balances (\$000s)	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015
FHCC Codes					
1A1	\$ 3,811	\$ 3,018	\$ 6,811	\$ 2,639	\$ 4,558
1A2	\$ 25,417	\$ 17,377	\$ 16,545	\$ 23,385	\$ 14,755
1A3	\$ 267,292	\$ 241,077	\$ 295,039	\$ 348,814	\$ 710,038
Regulatory CRE Totals:	\$ 496,514	\$ 461,470	\$ 762,488	\$ 584,818	\$ 829,351
1-Year CRE Growth Rate:	13.12%	8.20%	5.87%	11.72%	(1.50%)
3-Year CRE Growth Rate:	42.86%	29.03%	20.86%	29.03%	17.81%
Total Risk-Based Capital:	\$ 872,392	\$ 938,882	\$ 612,122	\$ 637,589	\$ 860,053
Regulatory Total CRE Concentration (% of Risk-Based Capital):	113.6%	119.3%	122.0%	131.3%	128.6%
Regulatory Total CRE Test	Within Guidelines	Within Guidelines	Within Guidelines	Within Guidelines	Within Guidelines
1. Balances over 30.0% of RBC; and	Within Guidelines	Within Guidelines	Within Guidelines	Within Guidelines	Within Guidelines
2. 36-month Growth Rate 10%	Within Guidelines	Within Guidelines	Within Guidelines	Within Guidelines	Within Guidelines

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7 Loan Review Best Practice (Cont'd)

Produce comprehensive reports (all loans/relationships: detailed reports)

Primary Lender Financial

Independent

Borrower: Building Builders LLC
Relationship ID: Alliquet
Loans: 3594900, 3724600, 9067000

Relationship

Building Builders is 50/50 owned by formed in 2002 and builds residential homes in building in only 4 solid Barns. The remaining 3 subdivisions have.

Primary source of payment is sold within the subdivision since homes are currently under contract (4) lots, at a time of build/market founding the company in 2008, who 100% the company and 5% to the (home) with a net income of \$2,889.

Note #9067000 is the A/R loan to the customer village subdivision. LTV is 100%.

Note #49000 is secured by a 2400 x 1600 ft lot.

Guarantee report is attached for 100% in the customer does not have guarantors do, do the list of local market accounts and CUs.

Recommend a PG 4 for all loans within this relationship. Borrower is well established, not a builder the County, borrower is actively building in 4 lots that is currently fully complete. Note #49000 is a sales contract in the borrower shows projected and aggressively pay-down A/R debt LTVs on liquidity of Personal Bank, inventory tracking by.

Of note, Note #49000 was downgraded to a PG 5 that and the loan is currently marked as a 60000 that the removal was in process and the role of by the bank, thus the recommendation for zero.

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Primary Lender Financial

Independent

PROSOMORY NOTE / MODIFICATIONS /

Original Terms:
Loan originated on 01/12/2019 in the amount of \$44 Interest Rate: Monthly Rate of 0.000000

OTHER ROC COMMENTS:
Insurance expired on 05/15/2020, insurance agent or

COLLATERAL DESCRIPTION AND VALUE

Real Estate #1
Lot Mortgage on 1385 North Pitt Street, Greenville, P Family Residence (Specs)
External Appraisal dated 02/28/2019 reported the lot
+ As-Complete = \$596,000

Real Estate
Address:
2883 North Pitt Street Greenville, SC 29615

OTHER COLLATERAL COMMENTS
The following loans are cross-collateralized and cross Building Builders LLC - #3594900, #3724600, #9067000

LOAN DATA POINTS

Product Type: 1-4 Family Rentals

Description:

Structure: House
Use: To Value (TTO)
Appraised: House
Global: House
Performance: PMA

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Primary Lender Financial

Independent

BORROWER / GUARANTOR / LOAN DATA

Borrower / Co-Borrower: Building Builders LLC
Loan Purpose: Build a 3,400 sq. ft. spec. 100% in the

Note Number: 3594900
Balance: \$1,820,000
Loan Officer: Joe Davis
Amount: \$1,820,000
Interest: 5.75%

Type: Construction (Perm)
Construction (Perm): Yes
Participation: 88.70%
Guarantee: Jerry Carmona, Steve Biles

COLLATERAL DESCRIPTION AND VALUE

Real Estate #1
Lot Mortgage on 2022 North Pitt Street, Greenville (Specs) located on a 0.71 acre lot
External Appraisal dated 12/15/2019 reported the lot
+ As-Complete = \$650,000

Real Estate
Address:
2022 North Pitt Street Greenville, SC 29615

OTHER COLLATERAL COMMENTS
The following loans are cross-collateralized and cross Building Builders LLC - #3594900, #3724600, #9067000

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Primary Lender Financial

Independent

LOAN DATA POINTS

Product Type: Residential Builder

Description:

Agency Type: 100
Structure: House
Use: To Value (TTO)
Appraised: House
Global: House
Performance: PMA

BORROWER / GUARANTOR / LOAN DATA

Borrower / Co-Borrower: Building Builders LLC
Loan Purpose: Non-recurring A/R loan residential lots

Note Number: 3594900
Balance: \$1,820,000
Loan Officer: Joe Davis
Amount: \$1,820,000
Interest: 5.75%

Type: Construction (Perm)
Construction (Perm): Yes
Participation: 88.70%
Guarantee: Jerry Carmona, Steve Biles

COLLATERAL DESCRIPTION AND VALUE

Real Estate #1
Lot Mortgage on 2022 North Pitt Street, Greenville (Specs) located on a 0.71 acre lot
External Appraisal dated 12/15/2019 reported the lot
+ As-Complete = \$650,000

Real Estate
Address:
2022 North Pitt Street Greenville, SC 29615

OTHER COLLATERAL COMMENTS
The following loans are cross-collateralized and cross Building Builders LLC - #3594900, #3724600, #9067000

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Primary Lender Financial

Independent

COLLATERAL DESCRIPTION AND VALUE

Real Estate #1
Lot Mortgage on 1002-2005 North Pitt Street, Greenville (Specs) located on a 0.48 acre lot
External Appraisal dated 04/07/2017 reported the lot
+ As-Complete = \$5,998,000
External Appraisal dated 07/25/2019 reported the lot
+ As-Complete = \$6,500,000

Real Estate
Address:
1002-2005 North Pitt Street Greenville, SC 29615

OTHER COLLATERAL COMMENTS
The following loans are cross-collateralized and cross Building Builders LLC - #3594900, #3724600, #9067000

BORROWER / GUARANTOR / LOAN DATA

Borrower / Co-Borrower: Building Builders LLC
Loan Purpose: Non-recurring A/R loan residential lots

Note Number: 3594900
Balance: \$1,820,000
Loan Officer: Joe Davis
Amount: \$1,820,000
Interest: 5.75%

Type: Construction (Perm)
Construction (Perm): Yes
Participation: 88.70%
Guarantee: Jerry Carmona, Steve Biles

COLLATERAL DESCRIPTION AND VALUE

Real Estate #1
Lot Mortgage on 2022 North Pitt Street, Greenville (Specs) located on a 0.71 acre lot
External Appraisal dated 12/15/2019 reported the lot
+ As-Complete = \$650,000

Real Estate
Address:
2022 North Pitt Street Greenville, SC 29615

OTHER COLLATERAL COMMENTS
The following loans are cross-collateralized and cross Building Builders LLC - #3594900, #3724600, #9067000

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Primary Lender Financial

Independent

FINANCIAL SPREADS

Relationship: Borrower
Entity Type: Individual

Personal Financial Statement

Assets:

Liabilities:

Net Worth:

Tax Returns

Credit Score Data

Documentation

Credit Operations (Relationship on Borrower)

Relationship: Borrower
Entity Type: RE Business

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Primary Lender Financial

Independent

FINANCIAL SPREADS

Relationship: Borrower
Entity Type: Individual

Personal Financial Statement

Assets:

Liabilities:

Net Worth:

Tax Returns

Credit Score Data

Documentation

Credit Operations (Relationship on Borrower)

Relationship: Borrower
Entity Type: RE Business

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8 Interpret Your Policy Lens / Make Recommendations



- Loan review is acting as your agent and should be reviewing through the lens of your policies / procedures / culture . . . particularly on pass credits
- However, an effective loan review partnership should be pointing out weaknesses and making recommendations based on *best practices* – well in advance of a regulator
- Thus, the conundrum: you can always show the door to the loan review provider

Legal Doc Exceptions	Critical Exceptions	Routine Exceptions	Total Exceptions	% of Exceptions
Title Insurance	6	0	6	54.55%
Guaranty Agreement	2	0	2	18.18%
Other	1	0	1	9.09%
Promissory Note	1	0	1	9.09%
Title (Personal Property)	1	0	1	9.09%
Totals	11	0	11	100.00%

Figure 12

Credit Exceptions	Total Exceptions	% of Exceptions
Missing / Outdated Annual Review	8	57.14%
Missing / Outdated PFS	5	35.71%
Missing / Outdated Federal Tax Returns	1	7.14%
Totals	14	100.00%

Figure 13

Loan Policy Exceptions	Total Exceptions	# Exceptions Mitigated or Approved	% of Exceptions
DSC / DTI	5	5	71.43%
Amortization Schedule	2	2	28.57%
Totals	7	7	100.00%

RECOMMENDATIONS

Based on observations from the loan review and publicly available data, IntelliCredit offers the following recommendations for more suggested alignment with the Bank's policies or with the industry's best practices.

Recommendations are assigned an impact rating of Low, Moderate, or High:

- "High" impact recommendations should be reviewed and addressed by the Bank as soon as possible, generally not to exceed 3-6 months. This type of recommendation addresses systematic process or control weaknesses that have been identified as part of the loan review. Failure to respond to high impact recommendations may result in increased operational and reputational risks and prohibit effective loss mitigation strategies in the future.
- "Moderate" impact recommendations should be reviewed and addressed by the Bank, in general, within 6-12 months. Moderate impact recommendations address risk areas that can be mitigated to better align with industry best practices.
- "Low" impact recommendations are observational and informational in nature and do not address high risk areas within the Bank; these are potential process improvement opportunities for the Bank to consider as time permits.

9 Review Material Work-out Credits

- Required under current regulatory guidance
- Concern over lack of objectivity

Interagency Guidance of Credit Risk Review Systems *(Issued)*

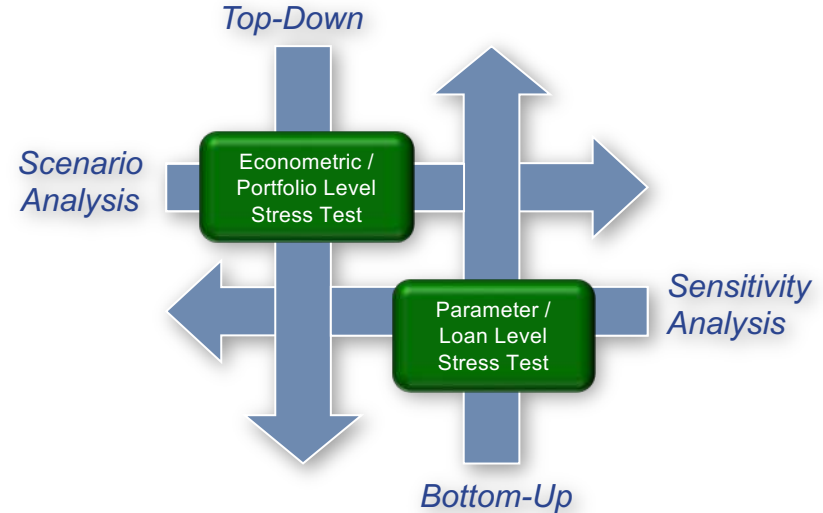
Regardless of structure (or size of the institution), an effective credit risk review system accomplishes the following objectives:

- ✓ Identifies loans with credit weaknesses
- ✓ Validates risk ratings
- ✓ Identifies relevant trends
- ✓ Assesses internal credit policies and loan administration procedures / compliance with laws and regulations
- ✓ Evaluates lending personnel, including their compliance with lending policies risk assessment
- ✓ Provides management and the boards of directors with portfolio quality assessments
- ✓ Develops problem loan management plans
- ✓ Provides management with timely credit quality information for regulatory, reporting, and ALLL

Final Guidance Issued May 8, 2020

10 Companion With Stress Test

- Loan review arguably has the most “real-time” perspective of a borrower’s current circumstance, off-setting risks of relying on potentially out-of-date initial credit underwriting data
- A sensitivity stress test on a subset portfolio, concurrent with the broader loan review, is a good faith attempt at a loan level approach on a significant concentration



Pre-Stress					
Debt-Service Coverage	CRE Loan-To-Value				
	60-69%	70-79%	80-89%	90+%	
>1.75x	5.0%	45.5%	38.0%	7.5%	
1.51x to 1.75x	19.0%	74.0%	53.0%	15.0%	
1.26x to 1.50x	22.5%	58.0%	60.0%	12.5%	
1.16x to 1.25x	7.5%	35.0%	17.5%	0.0%	
1.01x to 1.15x	0.0%	5.0%	25.0%	0.0%	
<=1.0x	0.0%	0.0%	0.0%	0.0%	

Note: Cell data represent the volume of loans, as a percentage of total risk-based capital, that meet the LTV and DSC criteria for that cell.

Post-Stress					
Debt-Service Coverage	CRE Loan-To-Value				
	60-69%	70-79%	80-89%	90+%	
>1.75x	0.0%	5.0%	15.0%	7.5%	
1.51x to 1.75x	0.0%	7.5%	45.0%	12.5%	
1.26x to 1.50x	5.0%	12.5%	20.0%	25.0%	
1.16x to 1.25x	0.0%	20.0%	17.5%	12.5%	
1.01x to 1.15x	0.0%	50.0%	125.0%	70.0%	
<=1.0x	0.0%	10.0%	35.0%	5.0%	

Note: Cell data represent the volume of loans, as a percentage of total risk-based capital, that meet the LTV and DSC criteria for that cell.

11 Embrace Technology

- It's the key investment in tackling the ever-present efficiency ratio issues
- Don't overpay vendors that have decided to make their focus larger game; stick with those with a reputation serving the community financial institution space
- Most importantly, it's a way to take loan review from a traditional point-in-time event to a more organic, *real-time* discipline



12 Be Collaborative



Which means . . .

- no written material findings, downgrades, or recommendations without prior explanations from the review team
- aiding in not only prep for a regulatory examination, but strategizing on enhancements to processes
- helping to avoid the most toxic of management / board / regulator events: *too many credit surprises!*



In Summary



The current uncertain credit environment requires:

- Accepting the axiom: *early detection of credit weaknesses correlates to reduced loan losses*
- Writing your own credit risk narrative—before a regulator does it for you
- Ensuring that whatever form of loan review you employ, it is enhanced with both credit expertise, and technological efficiency.



Loan Review Best Practices: Key to Combatting Credit Risk

By: David Ruffin

May 30th, 2023

<https://www.bankdirector.com/issues/risk-issues/loan-review-best-practices-key-to-combatting-credit-risk/>

- Trust your reviews to professionals with deep credit experience — not just junior CPAs
- Confirm your review includes paralegal professionals to conduct separate documentation reviews
- Insist on smart, informed sampling
- Segregate and differentiate exceptions in documentation, credits and policy
- Quantify both pre- and cleared exceptions
- Understand your own bank's DNA
- Observe pricing based on risk grades, collateral valuations and loan vintages
- Pair loan reviews with companion stress testing
- Transparently report and clear exceptions in real time
- Ensure that reviewers interpret risk grade parameters according to your institution's definitions
- Comply with workout plan requirements prescribed by interagency regulators
- Deliver comprehensive management reports and appropriate high-level board reports with public/peer
- Conduct loan reviews as a highly collaborative and consultative exercise — not “just another audit”
- Take advantage of a technology platform to automate every possible aspect of the loan review process



NOTHING else like this available.
Truly changing the game.

Real-time combo:
Loan Review & Portfolio Analytics

Any Questions?



This is the most substantive and efficient loan review I've experienced in my entire career. IntelliCredit allows you to do your day job while you're actually accomplishing a loan review.

Michael Johnson
Chief Credit Officer
Dogwood State Bank, NC



We were very pleased with every aspect of the Smart Loan Review service. For example, as review findings were completed, Loan Officers cleared or clarified questions as they came up.

Ronnie L. Bridges
SVP/CFO
The First National Bank of
Tom Bean, TX



Portfolio Analyzer has been an invaluable tool. It provides the ability to track interactions with our borrowers – especially our problem credits. This capability was specifically noted during a recent regulatory examination.

Joel C. Sweren
EVP/Chief Financial Officer
Freedom Bank, NJ



We believe the IntelliCredit team has put together the most innovative, efficient and affordable credit review process we've seen.


Ed Cooney
CEO
Affinity Bank, GA


IntelliCredit


Here's How We're Doing . . .
and How We Can Help You Closely Monitor Credit Risk.





2022 in Review

 **50** active IntelliCredit clients in **24** states spanning NY to FL, TX, WA to CA

 **74** loan reviews conducted by IntelliCredit experts

 **84** loan reviews conducted by third-party vendors using our technology

 **1.8 million** loans for **173** unique financial institutions securely stored in IntelliCredit

 **695** unique users benefitting from our technology

Now Your Team Can Use the Same Loan Review Tools

. . . with more products and expanded capabilities

Portfolio Analyzer – added customized home pages and reports

Loan Review – continued enhancements for internal reviews

Annual Review – making your reviews easy, organized and repeatable



Our Team's Expertise and Growth

IntelliCredit team members

- average 25 years of credit industry experience
- 4,000+ loan reviews, 100s of due diligences performed
- 2x growth in 2022
- adding more loan review and documentation specialists in 2023



Please Reach Out on any Credit
Portfolio Review Needs. Also, Deeply
Experienced in M&A / Re-Caps.

Real-time combo:
Loan Review / Portfolio Analytics



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Q & A