

New Efficiencies in Loan Portfolio Risk Reduction

Automating tracking and reporting with the MST Loan Administration System is the most efficient way to correct what has been a cumbersome and unreliable manual approach

As community bankers look for solutions to reduce the risk in their loan portfolios, to placate regulators as well as protect shareholders, they recognize the need for a system for tracking and real-time reporting of loan document exceptions and deviations. Such a system is the first and fundamental step in building an effective risk reduction program.

For most community bankers, automating tracking and reporting via the MST Loan Administration System is the most efficient way to correct what has been a cumbersome and unreliable manual approach. Banks like First South Bank, which has grown to more than \$378 million in assets and five locations since it was chartered in 1996, the initial step in automating risk reduction is MST's LAS .

LAS automates loan documentation tracking and reporting, managing the bank's loan portfolio. The system is configured to accommodate bank-specific rules and processes and deliver bank-specific reports. LAS is designed to eliminate the time and potential for error associated with duplicate entries by interfacing with the bank's core processing system, although the application operates as a standalone system. Therefore, the MST LAS is functional with any major banking core system.

For many banks, it is a struggling real estate market and the resulting havoc wreaked on their loan portfolios that have convinced them to intensify their efforts to keep track of the documents that secure their loans. For others, it has been the enhanced demands and increased scrutiny of their regulators that have caused them to implement new ways to manage their portfolios. But for First South Bank, it was internal economic factors that drove it to seek a better way to keep track of the multitude of documents that secure its loan portfolio.

As the bank grew steadily through its first decade, managing portfolio risk was a distributed task. Loan

officers and assistants in the branches were responsible for tracking and securing required documentation on their own customers. As loan officers increased their customer bases, the job of tracking and ensuring documentation became more complex and difficult to keep up with. It became apparent that the bank needed to consolidate the responsibility for documentation tracking and reporting, and bank officials determined a centralized, automated solution was the key to managing risk.

The bank quickly identified the MST Loan Administration System as an efficient automated solution. Concerns over its current core processing system and a cautious attitude about implementing expansive new solutions in a soft economy led to the bank's initial engagement with the MST LAS.

"The LAS is a stop-gap measure," explained Johnathon Closs, MST's vice president of sales. "It will give First South Bank the opportunity to understand the value of automating its tracking and reporting processes, how having accurate, timely information can help them be more proactive managing their loan portfolio and provide the peace of mind that comes with knowing the status of the documentation on the collateral that secures their loans."

Remote installation

"We designed the MST Loan Administration System to provide community bankers a comprehensive reporting system that is affordable," noted MST CEO Dalton Sirmans.

In addition to the cost-efficiencies inherent in LAS, First South Bank also benefits from MST's ability to complete the installation process remotely from its Technical Operations Center in Cornelia, Ga., including the evaluation of the bank's existing tracking and reporting procedures which MST conducts prior to designing and installing the system. MST will also provide ongoing technical support remotely.

In the initial step of the custom configuration and installation process, the risk evaluation, MST reviews the bank's current methods and systems for tracking and reporting on exceptions, compiles the existing loan documentation and reports back to the bank on its areas of risk.

The system is then designed to address the bank's specific needs and to accommodate its processes, infrastructure and how it works with its customers.

"Our technicians worked through a remote access account with the bank to access their server," offered MST Director of Client Services Heather Mitchell. "Working with the IT staffer at the bank, they arranged for the exchange of data online.

"It's really quite simple. Once an MST technician has

access to the information on the bank's server, he simply imports the data, then loads the MST system back onto the bank's server."

First South Bank's LAS system resides on the bank's own server.

"Nothing goes outside to a third party vendor," Sirmans pointed out. "That eliminates the security concerns that come into play in that kind of scenario. And it keeps system administration costs low."

According to Sirmans, the only face-to-face meetings between MST and the bank were the initial sales calls and consultations, and the training once the system was installed.

"The training also can be done remotely," he added, "but it is more effective in person."

Installing and supporting the LAS remotely means that location is not a factor in MST's ability to provide its risk management system and services to the nation's community banks.

MST currently serves banks located in 18 states, varying in size from \$6 billion to \$100 million.

Unacceptable Risk: the Warning Signs

How do you know when the information you have on your loan portfolio is insufficient? The following Warning Signs will tell you your risk is on the rise.

- You've been cited by regulators for, or notified by auditors of, an unacceptable level of loan exceptions.
- Regulators have informed you that you must increase your loan loss reserve.
- Loan portfolio reports are out of date by the time you see them.
- You're not confident that the exception reports you get are accurate.
- When you need a report, it takes more than the click of a computer key and a second to get it.
- You can't get one report that shows all your exposure to a single relationship.
- Tracking and reporting on loan documentation depends on an individual as opposed to an automated system.
- You, your senior managers, your lenders lack immediate access to loan files and exception reports.
- All your loan files aren't gathered in one place and aren't accessible from your computer.
- Access to customer and loan information is not protected from unauthorized people as well as you'd like.
- Evaluation of your lenders and loan staff are subjective due to lack of objective data.
- You and your team typically react in response to problems with loans as opposed to having the information you need to be proactive.

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or for more information,
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**3525 Piedmont Road
Seven Piedmont Center
Suite 300
Atlanta, Ga 30305
877.910.9789
www.mainstreet-tech.com**