



# Protecting Habersham Bank Assets

**F**OR A FINANCIAL INSTITUTION WITH MORE THAN 100 YEARS OF HISTORY, Habersham Bank feels very young. Not only are its branches bright and contemporary looking, but it offers customers a long list of innovative products and services — including 24-hour banking via the Internet or an automated telephone system. Catering to Northeast Georgia homeowners, the bank maintains a full-service mortgage department and independent insurance agency offices in most of its branches.

The region served by Habersham Bancorp, a group of communities generally about an hour's drive north of Atlanta, has enjoyed substantial development in recent years. The bank has seized the opportunity for a growth spurt of its own, increasing in size both by expansion and acquisition to nearly a half billion dollars in assets.



oversaw credit administration for a bank in the Synovus organization and was part of a team that analyzed the loan portfolios of banks being considered for acquisition, contends that few banks know if their systems actually work.

As the bank rang in 2007, it celebrated the opening of its 10th branch. So well has the company performed that it ranked 54th on the Atlanta Journal-Constitution's 2006 list of "Top 100" public companies in Georgia.

"The real test of a system's effectiveness involves three questions: Did it make working exceptions more efficient? Are the data accurate? And of course, did it reduce exceptions?"

Habersham Bank's growing asset base is reflected primarily in its portfolio of more than 7,000 loans, about 80 percent of which are real estate mortgages. COO Bonnie Bowling is keeping the bank on the leading edge in protecting those assets against loss, having implemented the MST Loan Administration System in early 2006.

**"All bad loans have one thing in common: document exceptions."**

"Before MST and BankTect, our system was so cumbersome that we spent most of our time finding exceptions and getting them into the system, then producing reports. By the time we could issue reports, they were pretty much obsolete. We didn't have the time or the data to work the exceptions," she pointed out.

## Tracking document exceptions

"All bad loans have one thing in common: document exceptions," Ms. Bowling offered. The MST Loan Administration System reduced Habersham Bank's exposure to loan losses by providing real-time, accurate data on loan exceptions and deviations. The system helps Habersham Bank identify where it is exposed — that is, find and track exceptions — then delivers the information in a manner that allows the bank to proactively work those exceptions.

"In just six months with the system, we reduced our exception rate from 20 percent of our loans to less than one percent," she noted.

Whether by a manual tickler file, an Excel spreadsheet or some type of software, virtually all banks have a method for keeping track of loan exceptions. But Ms. Bowling, who before joining Habersham Bank

And for many banks, loan losses are deemed unavoidable, "a cost of doing business," she said. "But community banks like ours don't have much tolerance for loss."

## BankTect: automating the process

The inability to track and report exceptions effectively makes it difficult for bank management to understand its risk exposure. So the MST Loan Administration System works first to analyze the bank's loan portfolio and build an accurate picture of its risk exposure. Then MST custom-designs its BankTect software, the heart of the MST Loan Administration System, to automate exceptions tracking and reporting.

The system is designed to work the way the bank works — that is, accommodate its processes, including bank-specific rules. It provides real-time exceptions data, including advance notice on documents that are scheduled to expire, so loan officers and their staffs and operations personnel can work them proactively. "With

BankTect, we now spend our time working exceptions instead of looking for them," Ms. Bowling noted.

### Return on Investment

Ms. Bowling detailed a number of areas in which the system has delivered an exceptional return on the bank's investment.

"Not only did we dramatically reduce our exceptions, but MST and BankTect have also delivered quantifiable operating efficiencies."

**Personnel:** "There was no way one person could track 7,000 loans," Ms. Bowling said. "We were going to have to add another employee, and it wasn't going to be easy to find someone with the expertise needed to do the job."

With BankTect, an employee merely enters the loan documentation information. The system provides exceptions data in real time directly to loan officers and their staffs. Not only did Habersham Bank not have to hire another employee, but the individual who had been doing that work now has time to use her experience and expertise on other important projects. "There are so many defaults in the system, you don't need an expert to manage it," she pointed out.

The efficiency also extends to the loan department: "Loan officers and staff can spend more of their time

selling as opposed to working exceptions."

**No hardware or software to buy:** "The last thing I want is to own another system that I have to support," Ms. Bowling continued. "Because MST charges us on a subscription basis, we didn't have to buy the software or a dedicated server to run it. And we don't need to dedicate internal IT staff to it. MST operates and maintains it."

MST delivers regular system upgrades and consults with Habersham Bank on new applications. "We're putting our watch list of problem loans on the system," she explained, "and we're going to start using it for deposits."

**Loan loss reserves:** The resulting increase in efficiency has spread to all areas of credit administration. "Our low number of exceptions, past dues and charge-offs allowed us to eliminate the \$40,000 per month of loan loss reserve funding we had budgeted for 2006," Bowling noted.

**Regulatory approval:** "It was a breeze," said Ms. Bowling, characterizing

Habersham Bank's 2006 safety and soundness review. The addition of BankTect and the MST Loan Administration System resolved loan exceptions so thoroughly, the review process was shortened from about three weeks down to eight days. Regulators found no technical exceptions, and the percentage of loans with exceptions was so small, "they didn't list them or require any corrective action."

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### Executive Summary

Habersham Bancorp, serving a string of communities north of Atlanta, has grown to a half billion dollars in assets and boasts a portfolio of more than 7,000 loans. To track and report on loan exceptions, Habersham Bank COO Bonnie Bowling implemented the MST Loan Administration System and its key component, BankTect software, in 2006. In just six months, the system resulted in a reduction of document exceptions from 20 percent of the bank's loans to one percent.

Ms. Bowling attributes multiple efficiencies to MST and BankTect:

- Saved the bank the cost of a second operations employee with expertise in managing exceptions.
- Subscription agreement means no software or hardware to purchase.
- MST operates and maintains system; no bank IT support required.
- Resulted in an exception rate that was so low, Habersham Bank chose not to fund its loan loss reserve in 2006. (Had funded \$40,000 per month in 2005 and budgeted the same for 2006.)
- Contributed to positive safety-and-soundness review from regulators: no corrective actions required.

**To schedule a presentation or for more information, call MST today at 877.910.9789.**



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