

New Efficiencies in Loan Portfolio Risk Reduction

Sometimes you prefer to stick your toe in the water before you dive in head first. You want to take the temperature, test the conditions, before immersing yourself completely.

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. But for some, situations dictate something less than the complete MST Loan Administration System.

Particularly in a slow market, when banks are hesitant to commit to new projects, they can still address their need for enhanced portfolio management, testing the waters, so to speak, before adopting the entire system. For 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 *BankTect Essentials*.

BankTect Essentials automates loan documentation tracking and reporting, managing the bank's loan portfolio in the same manner as MST's *BankTect* software, the program that is the heart of the MST Loan Administration System. Like *BankTect*, *BankTect Essentials* is customized to accommodate bank-specific rules and processes and deliver bank-specific reports. However, while *BankTect* is designed to eliminate the time and potential for error associated with duplicate entries by interfacing with the bank's core processing system, *BankTect Essentials* operates as a standalone system. As such, the bank enters loan data directly into the tracking and reporting 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. But concerns over its current core processing system and a cautious attitude about implementing expansive new solutions in a soft economy combined to limit the bank's initial engagement with automated tracking and reporting to *BankTect Essentials*.

"*BankTect Essentials* 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 *BankTect Essentials*, 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 development 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."

As with *BankTect*, First South Bank's *BankTect Essentials* system resides on its 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."

Being able to install remotely means that location is not a factor in terms of time and cost in MST's ability to provide its risk management system and services to the nation's community banks.

"Anytime we're not traveling," Sirmans surmised, "we're saving the bank time and money."

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.

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



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