



**Case Study: National Bank of Middlebury
West Central Vermont
Sarah A. P. Cowan
Senior Vice President**



Stable and Steady: Addressing CECL and More in Addison County

Tourism, the burgeoning local food movement and college students are at the heart of the economy of Middlebury, Vermont, an economy the National Bank of Middlebury has served since 1831, making this \$330 million community bank in rural west central Vermont one of the nation's oldest financial institutions.

As simple and unchanging as you might expect life somewhere like Vermont's Addison County might be, so too the local economy is "very stable, neither high growth nor deep recessions," noted Middlebury's Senior Vice President and Loan Department Manager Sarah Cowan, who has been with the bank since 1992. And as rooted and steady as the local economy, so too the bank's loan portfolio is an uncomplicated blend of mainly first mortgages and home equity lines complemented by small business loans and a small portfolio of municipal loans.

Over the years, Cowan, with the assistance of the bank's loan operations manager, has managed the ALLL process by "downloading data from our core and integrating it into a whole bunch of Excel spreadsheets." Her challenges, in addition to keeping the various spreadsheets consistent, have included the qualitative factors used to make adjustments to the allowance. "Due to the size of the bank and the rural environment, it has been difficult to quantify our Q factors; they've been more subjectively determined."

CECL and more

With CECL an impending reality, Excel will no longer provide an acceptable allowance analysis. That was among several practical matters driving Cowan to begin exploring ALLL automation.



"Most importantly, we wanted to reduce the time and human resources involved with all these spreadsheets," she explained. "We wanted a more consistent and process-driven methodology, fewer changes on the fly. We also wanted to include finance and our senior credit administrator in the process."

The need to sophisticate the ALLL process was also driven by recent increases in problem loans, delinquencies and charge-offs, and an increasing focus on the ALLL by the bank's regulators. "We need to know more about what was going on in our loan portfolio," she summarized.

Due diligence

As an active participant in the Risk Management Association (RMA), Cowan became aware of RMA's partnership with MST in a series of two-day workshops on the ALLL and attended the first edition of that series in 2014 in Philadelphia. The experience led Cowan to include MST in her first round of vendor reviews, three vendors all of which had been "prominent in conversations with several of my RMA contacts."

She interviewed vendor representatives, included the bank's prospective users and stakeholders in demo presentations, and developed a criteria matrix to identify and weight "the most important things for us in an ALLL solution: ease of use, cost, vendor support, resources and training."

There were also IT and cyber security concerns.

"Where the software would reside became a critical component for us," she said. "Would our data remain within the bank's firewall or somewhere in the cloud?"

"The knowledge level of the vendor about the ALLL was a final deciding factor," she added. "What became evident to us was that MST was solely focused on the ALLL. It wasn't just an add-on to other products they sold."

And of course, Cowan's due diligence included checking references, some from MST and some of her own.

"I went back to my RMA contacts and the users I found were very loyal to MST."

Clear expectations

One gets the sense that Cowan will remain diligent as an *MST Loan Loss Analyzer* user. Her expectations are clear.

"We expect MST and the *Loan Loss Analyzer* to meet all the criteria upon which we made our decision, to save us time and resources, to make it easier for us to adapt to CECL. We expect supporting documentation to satisfy our regulators, auditors and loan review people, and that the system will grow with us, support us, as we become a more complex institution."

CECL alone will make life more complicated for financial institutions. Cowan and the National Bank of Middlebury will count on the *MST Loan Loss Analyzer* to help keep things as uncomplicated as possible, as stable and steady as their nearly two-century old institution and the community they serve.