



QUALITATIVE FACTORS

The **MST Loan Loss Analyzer (LLA)** platform provides a reliable, repeatable, efficient process for determining the allowance for loan and lease losses while satisfying accounting and regulatory requirements - currently and under CECL. The LLA is the leading solution for automating the ALLL, rich with capabilities that not only streamline the allowance process but provide a wide array of options for managing portfolio risk.

The LLA provides several options for management of Q-factors including a scale for rating the impact of the internal and external factors – both qualitative and environmental – the institution has determined applicable to account for losses beyond its historical losses. The Loan Loss Analyzer interprets the Q-factor data entered by the institution, then assigns a related basis-point adjustment as pre-determined by the financial institution as appropriate. All such ratings are defined according to the institution's preferences and methodology requirements.

The MST Loan Loss Analyzer helps remove subjectivity from the calculation and provides for greater consistency and documentation in Q-factor adjustments.

Although Q-factors are determined by the institution, the MST Loan Loss Analyzer streamlines determination for many factors, such as:

- delinquencies vs. average (for the historical data period)
- non-accruals vs. average
- charge-offs vs. average
- volume of loans vs. average
- credit concentration levels
- classified loans

The Loan Loss Analyzer allows institution management to make additional adjustments for subjective internal and environmental factors, factors that often lack observable data to determine the amount of their impact

on loan loss reserve calculations. Examples include:

- experience of the financial institution's lending staff
- changes in lending policies
- loan review quality
- regulatory requirements

In 2016 the Loan Loss Analyzer's Q-factor management feature was enhanced with a new user interface, which streamlines input and the documentation of factors to provide additional flexibility:

- Internal and external factors are accessed via a single combined page.
- Rating scales for Q-factor inputs can be created on a factor-by-factor basis.

Advanced Q-Factor Matrix

An Advanced Q-Factor Matrix add-on module supports users looking for a more quantitative approach to Q-factors. This module allows you to create matrices based on internal or external variables that will then lead to a particular basis point adjustment. These variables can be external, user-input variables that drive the adjustment, or internal variables that could be automatically pulled from data within the Loan Loss Analyzer to drive the adjustment.

With the Advanced Qualitative Factor Matrix, institutions also have more flexibility to create factors or "sub-factors" that only apply to certain pools or groups of pools and not others.

Loan Loss Analyzer reports provide justification for how Q-factors have been calculated, and allows the institution to back test previous quarterly calculations to demonstrate directional consistency and accuracy, a vital risk-management process, in particular when the institution makes negative adjustments to its ALLL.