



Commercial Credit Process Assessment & Redesign

About the Firm

Capital Performance Group is a management consulting firm based in Washington, DC. Our firm provides advisory, planning, analytic, and project management services to the financial services industry. Our professionals possess deep experience in a broad range of functional specialties including strategic planning, sales management, quality engineering, marketing and product development, market research, risk management, operations and technology, compliance and regulatory matters, mergers and acquisitions, and strategic cost management.

What makes CPG Unique

Experience — We are knowledgeable industry “insiders.” Our professionals have an average of over 20 years experience in the financial services industry.

Focus — We are financial services industry specialists. We have developed unique tools and methodologies to address the specific business issues and challenges of this industry.

Practicality — We know what it takes to implement and manage strategic initiatives. We provide hands-on assistance and actionable advice.

For more information, please call us at 202/337-7870 or email us at info@capitalperform.com.

The Need

Expansion of commercial lending has been a strategic focus for many community and regional banks during the last several years. Yet problems in the commercial credit process - defined to include business development, application, underwriting, approval, documentation, booking, and monitoring – often hinder commercial customer retention and expansion efforts. Sub-optimal credit processes cause significant inefficiencies that often translate into a poor customer experience in the form of unnecessary documentation and approval delays; missed revenue opportunities in the form of application fallout and time spent by lenders on issues unrelated to business development; and unnecessary expense in the form of personnel spending time on manual, redundant or superfluous tasks.

In addition, there are critical credit and pricing disciplines that will determine which banks will safely navigate C&I lending. The credit process must be designed to support those disciplines.

Objectives

A successful redesign of the credit process will:

- Increase the amount of time loan officers have to devote to business development and relationship management;
- Improve the customer experience and lender productivity by eliminating unnecessary documentation and reducing the time needed to decision a loan;
- Increase portfolio outstandings and improve portfolio profitability;
- Minimize processing costs, increase origination volumes per FTE, enhance risk management capabilities, and identify opportunities for improving pricing discipline; and
- Optimize the use of technology in order to automate the process.

Our Approach

- Review the bank’s plans for growth, change in business mix, organizational structure, value proposition, and risk profile and any other objectives or initiatives that could impact the redesign effort;
- Review the loan policy, analyze the composition of the loan portfolio and interview executive management to understand the bank’s credit culture and tolerance for risk;
- Analyze and document activities, forms, and systems in each step in the current loan processes including business development, application, underwriting and decisioning, booking, funding, and post-closing.;
- Identify significant improvement opportunities such as centralization of certain functions, the use of differential analysis, adoption of prequalification forms and standard credit applications and checklists, and monitoring, and/or loan workout requirements;
- Evaluate technology alternatives and identify ways to better utilize technology to further automate the process;
- Recommend organizational improvements, including revisions to job responsibilities;
- Develop benchmarks and scorecards to measure efficiency and productivity in the process on a going-forward basis; and
- Provide standardized and simplified procedures, forms, templates, analytical models, and reports.

Additional Credit Risk Management Services

Credit Risk Strategic Planning

- Assess the market opportunity and competition.
- Define commercial customer segments and development of value proposition for each customer segment.
- Educate executive management and the board on credit risk management requirements of the business.
- Confirm or define the organization's tolerance for risk and reach consensus amongst management and key stakeholders.
- Establish the organizational design of the credit function, define roles and responsibilities, approval authorities and approval processes.
- Specify necessary changes to work flows and quantifying required investments in personnel, systems, and products.
- Assist with tactical implementation initiatives, including lender and underwriter training program requirements, etc.

Asset Quality Rating Development

- Development of an asset quality framework tailored to the bank's credit culture, with sufficient objective criteria and specifically to clearly differentiate among borrowers and to facilitate migration among pass categories.
- Development and implementation of dual risk-rating methodologies that include rating components for probability of default and loss given categories.
- Assignment of risk ratings to industries, property classifications, and type of agriculture.
- Design and implementation of Excel-based templates that facilitate the assignment of the rating by credit personnel.
- Drafting of procedures and conducting training for credit personnel.

Portfolio Monitoring and Reporting

- Identification of reporting needs based on regulatory, risk management, and portfolio management requirements.
- Improvement of portfolio analysis and reporting and monitoring processes to support profit improvement and risk management objectives.
- Development of data dictionaries and analytic templates to support internal production of reports on an ongoing basis.
- Strategies to leverage portfolio MIS and improve practices to provide greater value to customers, build deeper relationships, rationalize pricing, and better manage risks.
- Recommendations for improving credit processes, frameworks, and policies to satisfy longer-term management and regulatory reporting needs.

Risk Based Pricing

- Evaluation of current approach to pricing and identification of opportunities to utilize risk-based pricing.
- Assistance in the development of an appropriate framework to determine cost of funds, overhead and capital allocations, and risk premiums.
- Help to evaluate and select software solution.
- Design and implementation of lender training and integration of risk-based pricing into incentive compensation plans.

Market Risk Analysis

- Assessment of market outlook to help guide expansion, resource allocation, and lending policy decisions.
- Comparative analysis of footprint economic conditions and real estate activity vs. those of other markets across the country.
- Assistance in communicating analysis results to help substantiate the merits of geographical lending strategies.

Training

- Custom-designed programs to help institutions reinforce their policies and underwriting guidelines.

