

Lodestone Loan Portfolio Review Program

The loan portfolio is the most significant group of assets on the balance sheet of almost every financial institution and loans usually represent the majority of the institution's earning assets, and pose the greatest amount of risk. Until recently, many financial institutions cited their superior knowledge of borrowers as sufficient to preclude the need for an objective loan review. Much of that feeling of security has vanished in recent years. Over 132 financial institutions have failed in 2010; most because of loan problems. Even though financial institutions may have internal processes and loan review programs, many turn to an outside company to perform an objective loan review.

Risk Based Approach

Lodestone's senior consultants are seasoned professionals with extensive financial institution and regulatory experience. Our approach is risk based. During our review we evaluate risk specifically associated with the bank's credit portfolio. We identify those loans that have a greater potential for loss based on specific criteria developed through preliminary interviews with management, use of analytical models, and significant lending, collateral, and economic risk factors.

Scope of Work

Lodestone's loan portfolio review programs are customized to the client's needs. Our loan reviews routinely include evaluation of underwriting with internal policies, regulatory guidelines, risk grading, loan documentation, perfection of security interest in collateral, valuation of collateral including compliance with FIRREA (Financial Institutions Reform, Recovery, and Enforcement Act), and compliance with ECOA (Equal Credit Opportunity Act) and flood requirements. Our programs typically include but are not limited to the following:

- Overall evaluation of portfolio quality
- Specific commercial credit relationships using the 5 Cs of lending (capacity, collateral, capital, character and condition)
- Evaluation of compliance with the institution's written policies
- Analysis of financial statements
- Evaluation of collateral
- Verification of the perfection of security interests
- Review of compliance procedures regarding regulatory and lending-related laws and regulations
- Development / review of current loan risk rating systems
- Validation of the adequacy of reserve for loan losses
- Review of adequacy of loan policy

Summary

Lodestone's loan portfolio review methodology is designed to not only satisfy regulators, but more importantly to enhance loan portfolio performance and quality and satisfy the requirements of management, the board of directors and shareholders. Additionally, regulators and internal/external auditors will have the benefit of Lodestone's findings and recommendations. After an initial review of the loan portfolio, periodic reviews to follow up on problem loans as well as to review newly booked loans can be performed.

Furthermore, if your financial institution is placed under a regulatory action, Lodestone can provide you with the experience that is needed to address the concerns of regulators and assist in the bank being released from the agreement as soon as possible.