

# MIB

MIDWEST INDEPENDENT BANK

---

MISSOURI • NEBRASKA • IOWA • ILLINOIS

# Who is Midwest Independent Bank?

- We are a banker's bank dedicated to providing exceptional correspondent banking products, services and solutions for community banks, while increasing value to our investor institutions.
- We are owned by community banks and have over 340 shareholders in Missouri, Nebraska, Iowa, Illinois and South Dakota
- Manage approximately \$5.4 billion in assets (loans, fed funds, safekeeping, etc.)
- Provide Operational, Lending, Investment & Audit Services

# Operational Services

- ▶ Check clearing products
- ▶ Cash management
- ▶ Federal Funds
- ▶ Midwest Image Exchange – MIE.net
- ▶ CONTROL – Information Reporting
- ▶ Wire Transfers
- ▶ ACH
- ▶ Safekeeping
- ▶ Foreign Exchange

# Audit Services

- ▶ MIB Banc Services, LLC
  - Compliance – ACH Audit, BSA Audit, Lending Compliance, Deposit Compliance, Directors' Examination, Interest Rate Review
  - Loan Services – *Loan Review*
  - IT Services – External Penetration Test, Internal Penetration Test, IT Security Audit.

# Investment Services

- First Banker's Banc Securities, Inc. - St. Louis, MO, Overland Park, KS and Lincoln, NE
  - ▶ Gov't & Agency Bonds
  - ▶ Municipal Bonds
  - ▶ Mortgage Backed Securities
  - ▶ Public Finance
  - ▶ Mutual Funds/Equities
  - ▶ Corporate Bonds
  - ▶ Municipal Bond Credit Review
  - ▶ Bond Portfolio Accounting & Analysis
  - ▶ Asset/Liability Management

# Lending Services

- ▶ Commercial Loans
- ▶ Commercial Real Estate
- ▶ Agricultural Loans
- ▶ Bank Stock Loans
- ▶ Special Purpose Loans
- ▶ Leasing
- ▶ Participations/Overlines

# Lending Services (con'd)

- \$145MM loan portfolio - outstanding
- \$77MM of unfunded commitments
  - ▶ Primarily Bank stock, C&I and AG production lines of credit
- \$101MM of participations sold to downstream banks
- \$1.35 Billion in fed fund lines

# Who is Joe Kollmeyer?

- Quick background
  - ▶ Have been involved in community banking for the past 19+ years
  - ▶ Worked for Central Bancompany and related affiliates for over 10 years – auditing, loan review and commercial lending in Jefferson City & Sedalia
  - ▶ Worked for MIB since August 2009
    - Commercial loan officer
    - Currently SVP/Senior Loan Officer
    - Member of the Executive Management Team



# Loan Review: The Frontline of a Healthy Loan Portfolio

- Having a robust loan review system is the first step in evaluating asset quality and administration of lending activities for your bank. This session will provide the basic tools for setting up a proper loan review program.

# Loan Review - Overview

- Key takeaways for today:
  - ▶ Purpose of the loan review function
  - ▶ Policy development
    - Primary objectives
    - Responsibility for loan review function
      - Internal vs. External program
    - Scope & Frequency
    - Exception tracking
    - Risk grading
    - Reporting
    - Resolution of rating differences
  - ▶ Key elements of a loan review form
  - ▶ Headwinds to the loan review process
  - ▶ Food for thought

# Loan Review – Overview (con'd)

- What questions do you want answers to today?
  - ▶ ???
  - ▶ ???
  - ▶ ???
  - ▶ ???
  - ▶ ???

# Purpose of the Loan Review Function

- Primary purpose of Loan Review is to provide the Board of Directors and bank management with an independent evaluation of the asset quality and administration of lending activities for your bank
- Accomplished through periodic reviews and ongoing supervision of the asset quality and lending activities as identified in the Loan Review Policy
- It's not a luxury – it's a necessity!

# Policy Development

- ▶ Key Components
  - Primary objectives
  - Responsibility for loan review function
    - Internal vs. External
  - Scope & Frequency
  - Exception tracking
  - Risk grading
  - Reporting
  - Resolution of rating differences

# Policy Development – Primary Objectives

- Evaluation of loan underwriting quality
- Evaluation of loan administration quality
- Analysis of the risk level of the loan portfolio

# Policy Development – Primary Objectives (Con'd)

- Evaluation of loan underwriting quality
  - ▶ Determine adequacy of, and compliance with, the bank's loan and loan related policies
  - ▶ Ensure adequate and consistently applied underwriting standards
    - Repayment Capacity
    - Adequacy/quality of financial information at inception
    - Proper structure
    - Satisfactory collateral
    - File documentation

# Policy Development – Primary Objectives (Con'd)

- Evaluation of loan administration quality
  - ▶ Overall procedures for administration of the loan portfolio
    - Ensuring complete and ongoing credit and collateral information
    - File maintenance
      - Memos, loan documents, etc.
    - Risk rating accuracy
      - System vs. presentations vs. reviews
    - Concentration of credit tracking
    - Technical exception tracking/monitoring



# Policy Development – Primary Objectives (Con'd)

- Analysis of the risk level of the loan portfolio
  - ▶ Determine adequacy of the Allowance for Loan and Lease Losses
  - ▶ Recognition of adverse economic trends – local/regional/national
  - ▶ Adequacy of the identification and management/monitoring of problem & watch loans
  - ▶ Accurate loan ratings
    - Identify individual credits that require additional risk management
    - Identify risk trends in the overall portfolio

# Policy Development - Responsibility

- Internal vs. External Loan Review Function
  - ▶ Based on the size/complexity of your institution
  - ▶ Cost factors
  - ▶ Various external sources
    - Larger CPA firms
    - Endorsed members of banking trade organizations
    - “Trunk of the car” vendors
    - MIB Banc Services, LLC (☺)

# Policy Development – Responsibility (Con'd)

- Regardless of an internal or external program, each loan officer should share in the loan review responsibilities in the following manner
  - ▶ Identifying loan problems or potential loan problems at the earliest indication of weakness and reporting those problems to bank management
  - ▶ Assigning a risk grade for all loans for which the loan officer is responsible
  - ▶ Contributing to the overall evaluation of individual loan relationships by disclosing, through credit file documentation, all knowledge or credit information which may be pertinent to the continued evaluation of the loan portfolio

# Policy Development – Scope & Frequency

- Scope
  - ▶ Should have enough coverage to adequately evaluate the quality of loan underwriting, loan administration, and overall risk/credit quality
  - ▶ Generally 50% +/- portfolio coverage, could vary
- Frequency
  - ▶ Recommend annually, but at least every 18 months, depending on the size/complexity of the bank's loan portfolio
- Example – at Midwest Independent Bank (for commercial credits)
  - ▶ “The annual scope of loan review will include all loans over \$1,000,000, all Watch/Problem loans, and all new loans booked in the previous year. The loan review scope will include, at a minimum, 60% of the loan portfolio on an annual basis.”
  - ▶ Additionally, every other year, we review all loans not captured in the annual review over \$100,000. (This is all done internally.)

# Policy Development – Exception Tracking

- Can provide insight into potential problem areas
  - ▶ Financial statement tracking, file documentation, etc.
- Provide to Chief Lending officer or appropriate bank management for follow-up and corrective action

# Policy Development – Risk Grading

- Independent evaluation for each loan
- Use bank's internal risk rating guidelines, matrix, etc.
- Important to identify the unique risk characteristics for each loan and use those to validate the loan review risk rating

# Policy Development - Reporting

- Detailed review/write up for each loan
- Summary reports
  - ▶ Comparison of all current risk ratings to loan review ratings
  - ▶ Comprehensive listing of any exceptions noted
  - ▶ Concluding analysis of loan underwriting, loan administration and overall risk in the loan portfolio
  - ▶ Recommendation of action items
- Final reports should be shared with bank management but reported directly to the Audit Committee
  - ▶ Helps maintain independence for the loan review function

# Policy Development – Resolution of Rating Differences

- There will always be differences of opinion!
- Important to have resolution process in place
- Tailor to what will work best at your shop
- Examples
  - ▶ Any significant risk rating differences to be resolved by President of the bank
  - ▶ External or Internal loan review will be the final authority for all risk ratings



# Key Elements of Loan Review Form

- Mirror loan presentation form used at the bank
  - ▶ Note Listing
  - ▶ Deposits
  - ▶ Executive Summary/Background
  - ▶ Note & collateral information
  - ▶ Financial analysis
  - ▶ Recommendation

# Key Elements of Loan Review Form (con'd)

- Note Listing
  - ▶ Name
  - ▶ Note number
  - ▶ Rate
  - ▶ Origination
  - ▶ Maturity
  - ▶ Gross loan balance
  - ▶ Net loan balance
  - ▶ Risk Rating

# Key Elements of Loan Review Form (con'd)

- Deposits
  - ▶ Name
  - ▶ Account type
  - ▶ Current Balance
  - ▶ Average balance
  - ▶ For DDA's – always helpful to include NSF/OD information for the past year

# Key Elements of Loan Review Form (con'd)

- Executive Summary/Background
  - ▶ History of relationship
  - ▶ General discussion of borrower/business
  - ▶ Current events that could affect the borrower
  - ▶ Any other information deemed necessary to provide good understanding of the relationship

# Key Elements of Loan Review Form (con'd)

- Note & Collateral information
  - ▶ Purpose – be specific
  - ▶ Collateral
    - Type
    - LTV or Collateral analysis for mixed collateral base
    - Source of valuations
  - ▶ Performance history
    - Has the note paid as agreed?
    - Have there been any delinquencies? If so, how severe and how many times over the life of the note?

# Key Elements of Loan Review Form (con'd)

- Financial Analysis
  - ▶ Earnings
    - Repayment capacity – previous & ongoing
    - Retention
  - ▶ Capital & Leverage
  - ▶ Industry comparisons
  - ▶ Trends
    - Sales, earnings, leverage, capital, etc.
  - ▶ Anything else to add substantive value
  - ▶ Apply most of these same elements to evaluating personal financials

# Key Elements of Loan Review Form (con'd)

- Recommendation
  - ▶ To agree, or not to agree – that is the ratings question...
    - Strengths, weaknesses & mitigating factors
    - Include any exceptions noted
      - Financials
      - File documentation
      - Policy violations
  - ▶ Be specific

# Headwinds to the Loan Review Process

- Lack of independence or autonomy
- It's not a team approach
  - ▶ Unwillingness of bank personnel to work with the loan reviewer
  - ▶ “Gotchya” mentality of loan reviewer
- Incomplete loan files



# Food for Thought

- Better to identify issues internally than wait for the regulators
- Provides credibility
  - ▶ Board level
  - ▶ Examiners

# Recap

- Key takeaways for today:
  - ▶ Purpose of the loan review function
  - ▶ Policy development
    - Primary objectives
    - Responsibility for loan review function
      - Internal vs. External program
    - Scope & Frequency
    - Exception tracking
    - Risk grading
    - Reporting
    - Resolution of rating differences
  - ▶ Key elements of a loan review form
  - ▶ Headwinds to the loan review process
  - ▶ Food for thought

# Contact Information

Joe Kollmeyer

SVP/Senior Loan Officer

MIB - Midwest Independent Bank

910 Weathered Rock Road | P.O. Box 104180

Jefferson City, MO 65110-4180

Direct (573) 556-1383

Toll-Free (800) 347-4642

Mobile (573) 821-4436

Fax (573) 636-8470

[jkollmeyer@mibanc.com](mailto:jkollmeyer@mibanc.com) | [www.mibanc.com](http://www.mibanc.com)

One Source. One Call.

# Questions

???