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Risk & Business Consulting.
Internal Audit.

High-Performance Loan Review

POWERFUL INSIGHTS

Loan review plays a critical assurance function within financial institutions, providing transparency to both senior management and the board on how credit risk is being managed. While the loan portfolio is often the earnings engine, it can also be the biggest threat to an institution's long-term survival. In downturns, it is not uncommon for charge-offs to increase by several times historical levels. An effective loan review process can provide an independent, objective view of the level of credit risk being accepted by the bank and serve as an "early warning" indicator as risk increases.

More than ever, executives and boards need to be assured that what they are being told is factual, complete and without bias. Consequently, there is a renewed need for on-demand, independent validation that portfolios are performing as reported and that the credit culture is being maintained with rigor. Institutions need loan review to help ensure that the established risk appetites and tolerances are being adhered to. Events in 2007-2009 have proven that even a small "first mover" advantage on exiting or reducing exposures can be the difference between survival and ceasing to exist.

Issue

In a recent Protiviti survey of loan review practices that included nine of the top 10 U.S. banks, 53 percent of respondents viewed the need to improve credit review data and analytical capabilities as a high priority, and 33 percent of respondents also viewed as a high priority the need to improve management and board reporting. Among the other factors cited as high priority were the need to upgrade or increase staff, more effective deployment of technology, and improved operational efficiency and cost management.

Challenges and Opportunities

Loan review functions are being stretched and asked to do more today by key stakeholders. Traditional solutions such as infrastructure enhancement or headcount increase may take a substantial amount of time and money to fully implement. Additionally, acquisition opportunities may arise that require prompt attention. A risk-based, flexible, sustainable and continuous credit monitoring function will not only help mitigate credit risks, but it will also position the organization to seize opportunities effectively in the marketplace.

Our Point of View

Highly effective loan review functions share several common traits:

- A risk-based scoping approach to portfolio coverage, blended with risk-sensitive methodologies that facilitate flexible responses to emerging risks
- A dual-ratings approach in reports covering asset quality as well as offering a process/control grade
- Continuous monitoring of newly originated credits and portfolio trends
- Effective technology, including access to data warehouses and workpaper retention/storage; electronic "linesheets" with embedded policies in a web-based format are also emerging
- Support by strong organizational "tone at the top," with regular access to and support by senior management and the board
- Ability to cover risk transference, including counterparty risk and securitizations
- Reporting that quickly focuses on what's important, preferably in a dashboard-type format, commenting on inherent risk, observed risk and trends

These traits enable loan (or credit) review functions to be viewed as a valuable partner by key stakeholders who are regularly sought out for their expertise. They also allow for today's challenges to be met efficiently.

PROVEN DELIVERY

How We Help Companies Succeed

Protiviti's Credit Risk practice is able to offer experienced professionals in a variety of roles, ranging from the assessment and benchmarking of an existing loan review function to the performance of outsourced and co-sourced loan review services on both an ongoing basis or as part of acquisition due diligence. We help clients understand the risks in individual credits and the portfolio as a whole and improve the capability of their current functions based on our assessment of more than 30 percent of the top 25 U.S. banks' loan review functions.

Our reviews allow management to make timely decisions regarding their credit risk exposure and mitigation strategies. In the case of transaction support, we mobilize quickly, often within 24 hours, and help companies make informed investment decisions based on an experienced review of credit risk in the target portfolio.

Example

Protiviti assisted a client in reviewing a possible portfolio acquisition from a local bank that was being taken into receivership. The timelines were very compressed and Protiviti's team was assembled within one day of notification. We were engaged to review a sample of assets from the target bank's portfolio and assist in developing a loss estimation model.

Protiviti identified an increased credit risk on 30 percent of the sample reviewed and assisted management in the identification of over $200 million of potential losses, which exceeded by more than five times the target bank's existing loss reserve. The client emphasized the value provided by Protiviti through our expertise, flexibility and responsiveness.

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About Protiviti

Protiviti (**www.protiviti.com**) is a global business consulting and internal audit firm composed of experts specializing in risk, advisory and transaction services. The firm helps solve problems in finance and transactions, operations, technology, litigation, governance, risk, and compliance. Protiviti's highly trained, results-oriented professionals provide a unique perspective on a wide range of critical business issues for clients in the Americas, Asia-Pacific, Europe and the Middle East.

Protiviti has more than 60 locations worldwide and is a wholly owned subsidiary of Robert Half International Inc. (NYSE symbol: RHI). Founded in 1948, Robert Half International is a member of the S&P 500 index.

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