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Winter 2010

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Article by TowerGroup

**Lenders, Lend**

Brian Shaw, CEO of Custom Credit Systems

Congratulations. You made it through another challenging year. And now as more predictions swirl around the banking industry as to when we will rebound from the current economic climate, more bankers are reevaluating their business strategy. This has made for a bit of a stalemate because some lenders are letting fear push them away from the core of their existence: lending.



Brian Shaw

Instead of waiting out the rebound of the economy, lenders should use information and technology to help them manage their portfolios efficiently. I contend that there should be no hesitation in making loans if lenders use their portfolio data to make wise, calculated decisions. There are good deals to be had and money to be made in any economic climate. If you have a handle of your portfolio, then by all means lend.

CCS has the technology and the experience to help lenders properly manage their portfolios and get back to the three C's of lending: character, capacity and collateral. This approach will help us in the coming months and years as we regain confidence in lending.

**CCS NEWS**

12.01.2009

"Multitasking Within Commercial Lending"

*Mortgage Technology*[\[VIEW THE ARTICLE\]](#)**UPCOMING EVENTS**

02.01.2010

MBA's Commercial Real Estate Finance Housing Convention  
*Las Vegas*

02.03.2010

Commercial Finance Conference of California  
*Universal City, Calif.*

02.03.2010

Commercial Finance Association's Asset-Based Capital Conference  
*Las Vegas*

05.12.2010

MBA's Commercial/MultiFamily Servicing and Technology  
*New Orleans*

## **CCS Survey Shows Uptick in Small Business Loans, Need for Better Integration and Automation in Commercial Lending Processes**

CSS Recently completed its 2009 State of Commercial Lending Survey.

Key executives at leading commercial lending institutions were surveyed to garner a better understanding of the current status of commercial lending technology, as well as denote where these executives plan to invest in technology and improve operations for 2010. Responding institutions ranged in assets from the low billions to trillions, representing a total of nearly \$4 trillion in assets. Of the participating financial institutions, two were top five bank holding companies; three were top ten commercial banks. Major findings from the survey include:

### **Industry Growth**

- Ninety percent of respondents have seen an increase in small business loans, mostly between 1 and 50 percent.

### **Technology Opportunity**

- Respondents unanimously agreed that technology is a major component for helping their financial institutions maneuver through current economic challenges.
- More than half of the respondents cited that their commercial lending process is less than 50 percent automated.
- Respondents all use at least four different systems to process and manage one commercial loan from beginning to end, with 45 percent of them using upwards of seven systems.
- Lack of integration with internal systems was considered the largest impediment to the banks' current commercial loan processing solutions, closely followed by multiple points of data entry. Internal compliance, workflow management and flexibility concerns were also high ranking challenges.

### **Technology Priority**

- A single point of entry was considered the most beneficial feature in the respondents' current commercial loan processing solutions. Closely following this was cost relative to worth and then workflow management and integration with internal systems.
- Efficiency led as the deepest technology concern for respondents, followed immediately by ease of configuration and integration. Compliance and price were lower priorities.

### **Looking Forward**

- Seventy percent of respondents plan to make changes to data security over the next twelve months, while the remaining 30 percent will not. None of the banks surveyed noted being in the midst of changes.

“America is on the cusp of a commercial mortgage crisis, and banks and commercial lenders must be prepared to quickly address these issues and make appropriate changes,” said Brian Shaw, president and CEO of CCS. “Executives have the ability to minimize losses in their commercial portfolios by creating a single point of entry for data, which dramatically increases efficiency and effectiveness. From there, proper reporting and monitoring can be enacted. This survey confirms that the industry still has more work to do, and CCS is devoted to providing lenders all of the tools they need to battle the storm.”

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## Shining Sunlight on Your Commercial Loan Portfolio

By Andy Schmidt, Research Director, Global Payments at TowerGroup

“Sunlight is said to be the best of disinfectants”

– U.S. Supreme Court Justice Louis Brandeis


As we move into 2010, commercial lending remains in a state of flux, with default and foreclosure rates expected to continue their upward climb despite indications that the recession is coming to an end. This does not mean the commercial lending industry is doomed — default and foreclosure rates often lag current economic conditions by as much as 12 to 18 months. Instead, 2010 is the perfect time for lenders to reexamine their portfolios and adopt a more efficient and proactive approach to commercial loan portfolio management.

Commercial lenders, no matter how cautious or savvy, cannot anticipate everything that might happen to a borrower during the life of a loan. They often have to work with the financial information available at the time of the loan request and hope for the best. A missed payment may be the first sign of trouble, nowadays, an event reflecting the financial challenges affecting many borrowers once considered strong credit risks. However, lenders can greatly increase their knowledge and awareness of borrowers' circumstances by shining informational and analytical “sunlight” onto their loan portfolios to identify “infections” at the industry, state, and regional level, thus gaining time to react so as to minimize the infections' impact.

Lenders can analyze their portfolios in a number of ways to mitigate risk, including taking an in-depth look at financial statements, collateral values, and covenant violations – as well as delinquencies, overdrafts and charge-offs and the frequency at which they occur. Furthermore, banks can scan public and private information such as credit reports for deteriorating ratings, or they can scan news feeds for stories about their borrowers to identify potential problems. (The latter step alone often provides regulators and examiners with a better understanding of a bank's commercial loan portfolio than the bank's files or its loan officers have at the time of the examination, creating a very uncomfortable situation for the bank's senior management.) Once negative trends are identified, lenders must adjust their course of action to minimize damage. Achieving and maintaining this greater level of insight allows many lenders to continue their support of customers' borrowing needs without adding unnecessary risk simply by adjusting credit requirements to reflect current conditions.

Portfolio management tools can also be used to model scenarios and stress test the portfolio, enabling banks to better forecast their reserve requirements. This approach is far more effective than letting loans default because it provides banks flexibility that is valuable for restructuring loans before they fail, saving them the time and expense of managing a foreclosed asset. Likewise, funds that would have to be put into reserve can instead be used to make additional loans that will generate income for the institution.

While commercial & industrial (C&I) and commercial real estate (CRE) loans outstanding fell 10.5



percent in 2009, average weekly originations rose 8 percent in the fourth quarter to 107,000, further indicating that a recovery may be at hand. Incorporating strong portfolio management practices into current and future commercial loans will make the road to recovery much smoother. It will not be instant gratification, but it will set the stage for healthy and sustainable growth in 2010 and beyond.

*This article is based on research by the Global Payments practice at TowerGroup, a leading research and advisory services firm focused exclusively on the global financial services industry. Andy Schmidt can be reached at [aschmidt@towergroup.com](mailto:aschmidt@towergroup.com). Those interested in learning more about TowerGroup or subscribing to its research services may call +1.781.292.5200 or e-mail [service-info@towergroup.com](mailto:service-info@towergroup.com).*

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