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RISKS WILL
GENERATIVE AI
BRING?**
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▶ Pictured: Alan Renfro, president and CEO of First Federal Savings & Loan Association in Pascagoula, Miss.



Loan Review Best Practices: Key to Combating Credit Risk

by David H. Ruffin, Principal, IntelliCredit™



There's a proven correlation between early detection of emerging credit risk and reduced losses. Effective and efficient loan reviews can help your institution better understand the portfolio and identify potential risk exposures.

Now is the time for banks to ensure their loan review, either in-house or external, can proactively identify credit weaknesses, gain deep knowledge about the subsegments of the portfolio, and act to mitigate risk at the earliest opportunity. It's time to emulate a whole new set of loan review best practices. Here are a few.

✔ **Trust your reviews to professionals with deep credit experience — not just junior CPAs.**

Your reviewers should be seasoned experts that are skilled in the qualitative and quantitative axioms of credit, with hands-on experience in lending and risk management.

✔ **Confirm your review includes paralegal professionals to conduct separate documentation reviews.**

It is essential that your loan reviews include specialists with technical expertise in regulatory and legal compliance, lending policy adherence, policies, collateral conveyances, servicing rules, among others — working in tandem with seasoned credit professionals.

✔ **Insist on smart, informed sampling.**

To uncover vulnerabilities in specific segments of the portfolio, rely on a selection process that helps you choose very informed samples indicating possible emerging risk.

✔ **Quantify both pre- and cleared documentation, credit and policy exceptions.**

In the best of times, many loan reviews show almost no bottom-line degradation in loan quality for the portfolio as a whole. On close examination, you may find significant numbers of technical and credit exceptions indicating that the quality of your lending process itself may need to be tweaked.

✔ **Understand your own bank's DNA.**

Institutions must analyze their own idiosyncratic loan data. Arm your loan review team with the ability to automatically drill down into the portfolio and easily examine trends and borrower types to inform risk gradings, assess industry and concentration risk, etc.

✔ **Observe pricing based on risk grades, collateral valuations and loan vintages.**

Common risk characteristics are shared by loans originating around the same time and credits that tend to migrate as a

group. Isolating and analyzing those can answer the important question, "Are you being paid for the risk you're taking?"

✔ **Pair loan reviews with companion stress testing.**

Regulators are encouraging stress tests as a way for banks to learn where their risk may be embedded. Companioning the tests with loan reviews is a productive way to gain this knowledge.

✔ **Transparently report and clear exceptions in real time.**

Banks can benefit from using fintech's efficiency to remove huge amounts of time, team meetings and staff intrusions from the traditional process of reviewing loans.

✔ **Conduct loan reviews as a highly collaborative and consultative exercise — counter to "just another audit."**

An effective loan review is not an internal audit experience. It's an advisory process, and this approach is extremely important to its ultimate success. Substantive dialogue among participants with differences of opinion is key to favorable outcomes for the institution.

✔ **Take advantage of a technology platform to automate every possible aspect of the loan review process.**

Best practices call for the efficiency that comes with automating the loan review process to the maximum extent possible, without sacrificing substance or quality. Technology drives the race against loan risk, making early detection of vulnerabilities faster, easier and more complete.

Loan reviews are critical to an institution's risk-management strategy. **It's a one-two punch:** (1) deeply qualified reviewers and (2) automated technology that, when combined, deliver a more efficient, less intrusive loan review process that will help combat the looming credit stress ahead.

David Ruffin is principal of IntelliCredit™, a division of QwickRate®, and has extensive credit experience in the financial industry.

IntelliCredit Smart Loan Review™ Service. **Request a quote today!**

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