

11th Annual Loan Review Industry Benchmark Survey Results

Courtesy of DiCOM Software

Thank you for joining us. The webinar will begin promptly at 11:00am EDT.

Welcome to the 11th Annual DiCOM Loan Review Survey Webinar (Special Session for: DiCOM Clients and Survey Participants)



Jim Xander

SVP, Sales and Marketing

DiCOM Software

jxander@DiCOMsoftware.com



Kent Kirby

SVP, Director of Client Experience

DiCOM Software

kkirby@DiCOMsoftware.com

About the Webinar



Purpose

- Provide industry benchmark data for comparisons & continuous improvement
- Offer insights to provoke thought for the benefit of the loan review function

Length:

- 45 Minutes

Webinar Protocol

- Attendees will be muted to eliminate background noise
- Questions and comments may be submitted via meeting chat panel or email (jxander@DiCOMsoftware.com & kkirby@DiCOMsoftware.com)
 - Questions will be answered via follow-up email after the webinar

Webinar Overview

Outline

- Survey Demographics and Portfolio Composition
- Department Staffing
- Loan Review Process
- Credit Risk Management Process
- Reporting and Guidelines



Enhancements from prior-year

- Updated Questions/Responses
 - Staffing Section
 - Process Section
 - Reporting and Guidelines Section

Survey Demographics and Portfolio Composition

Survey Participation – Thank You!

Overall, the participation gives us good data in every asset range larger than \$1B.

Asset Size	# of Survey Responses	# of Banks in Segment	% of Responses in Segment
Under \$1B	2	3806	0%
Between \$1B and \$5B	24	713	3%
Between \$5B and \$10B	13	112	12%
Between \$10B and \$20B	20	61	33%
Between \$20B and \$50B	21	50	42%
Between \$50B and \$100B	4	14	29%
Over \$100B	9	35	26%

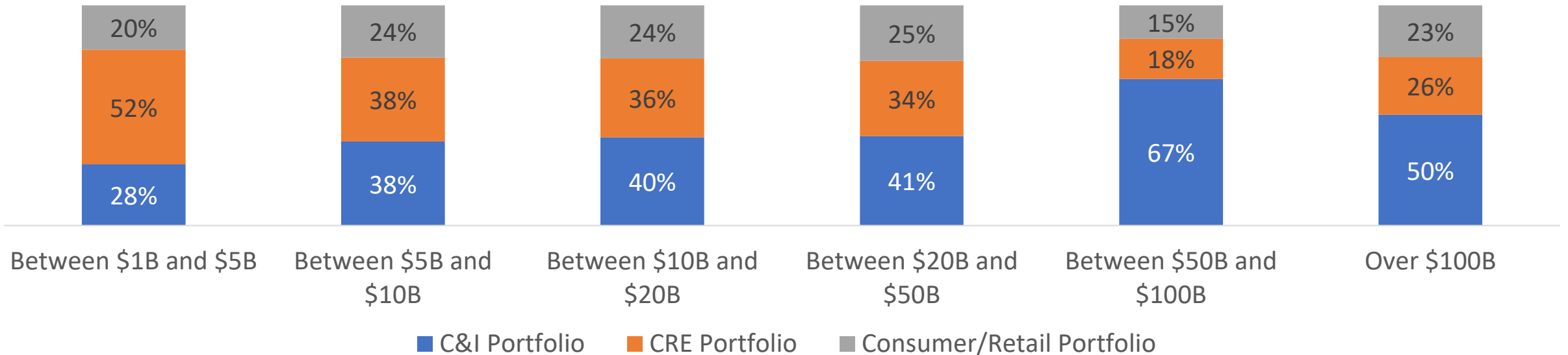
Loan Portfolio Sizes

CRE makes up the largest percentage for banks below \$5B

Generally balanced C&I vs CRE in banks between \$10 and \$50B

C&I makes up the largest percentage for banks above \$50B

Portfolio Composition by Bank Size

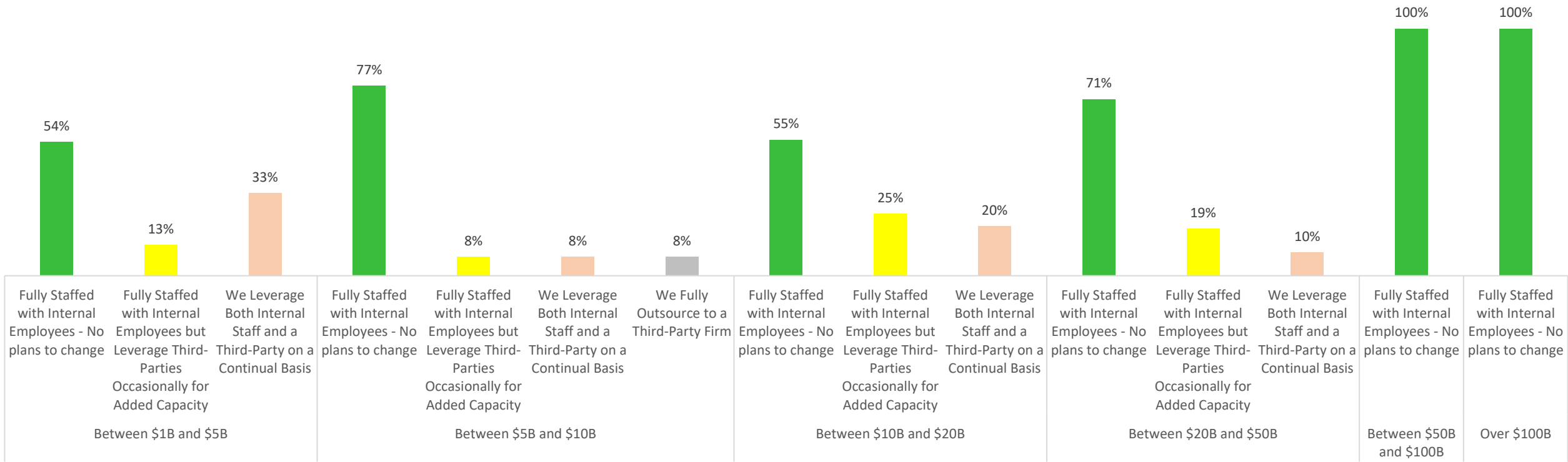


Loan Review Department Staffing

Most Banks Are Fully Staffed with Internal Employees

The majority of banks leverage internal employees, but partial outsourcing is common

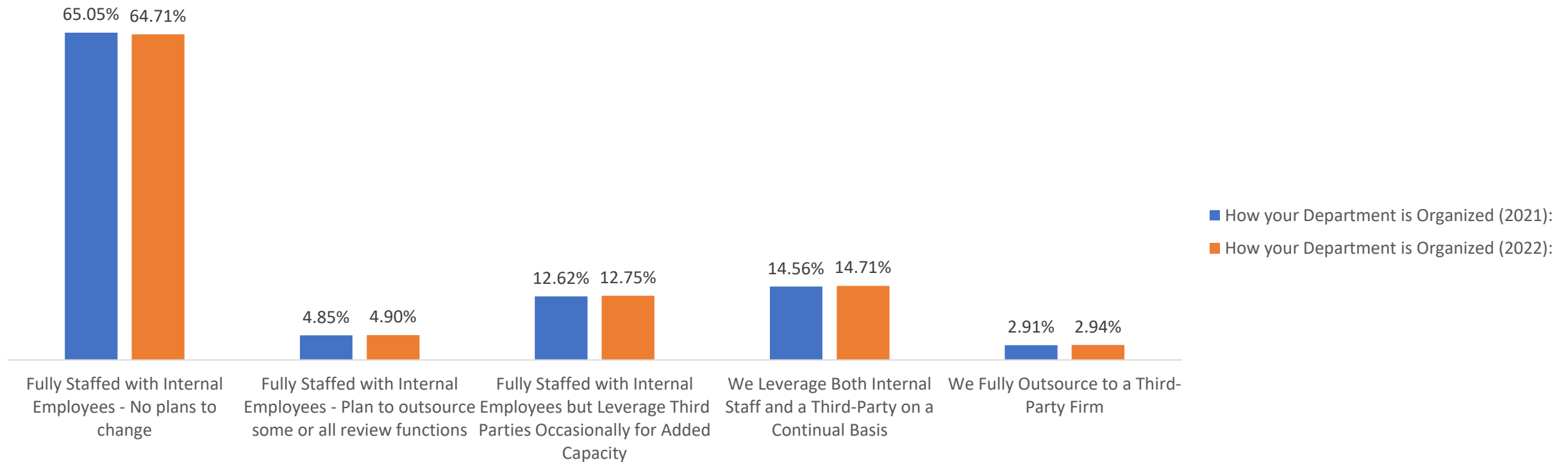
Insourcing vs Outsourcing Loan Review Staff by Bank Size



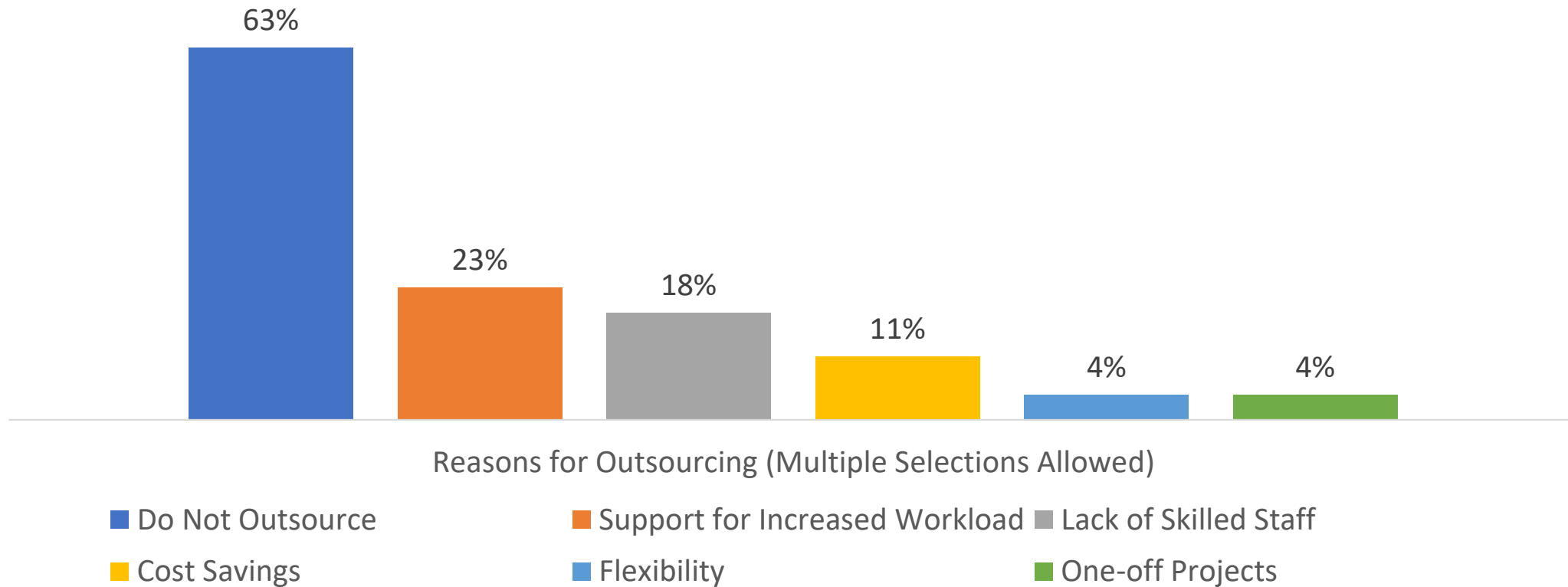
How Departments are Organized 2022 vs 2021

2022 results are virtually identical to last year's results

How Loan Review is Organized



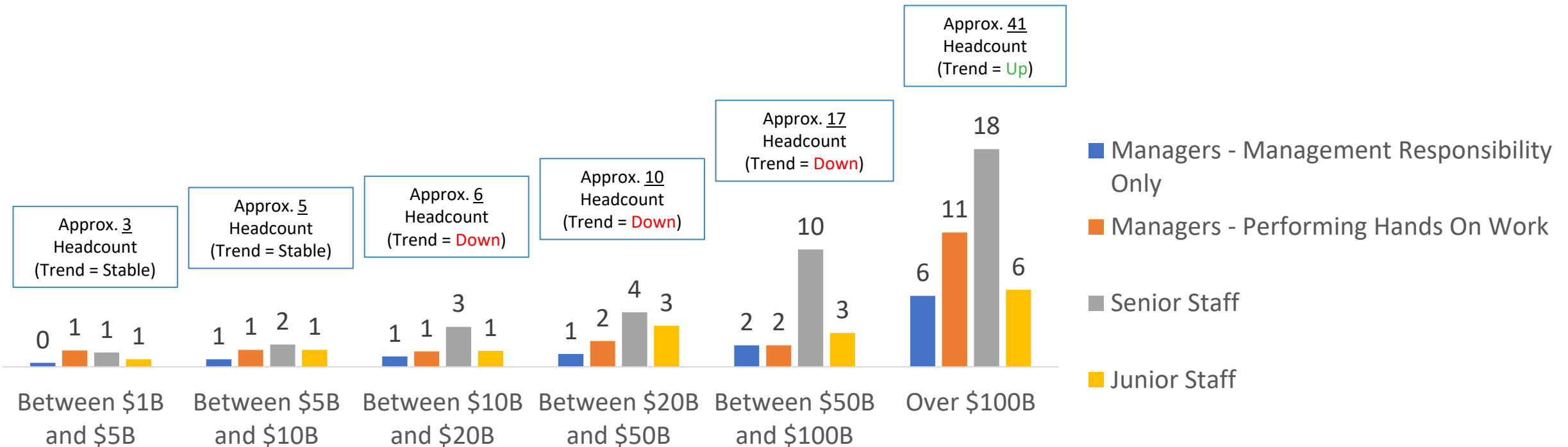
Increased Workload and Lack of Skilled Staff Are Main Reasons for Outsourcing



Staff Composition by Bank Size

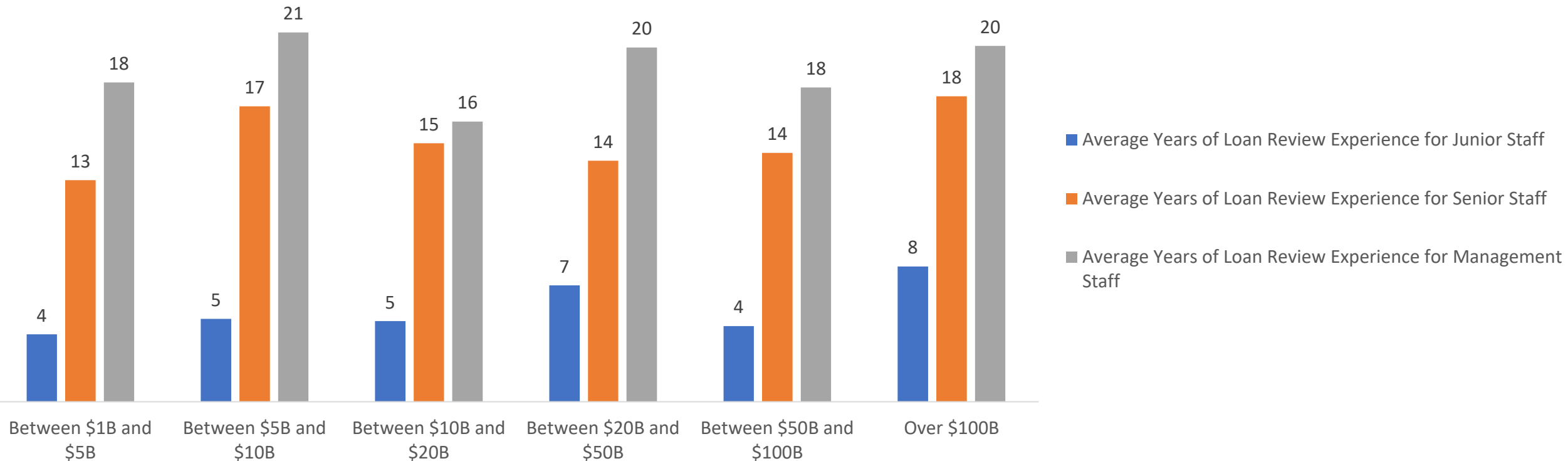
Takeaways:

- Managers more likely to perform “hands on work” at almost all bank sizes (even banks over \$100B)
- Senior Staff make up the largest % of staff at all banks over \$5B
- Staff sizes from \$10B - \$100B are trending down from prior year’s results



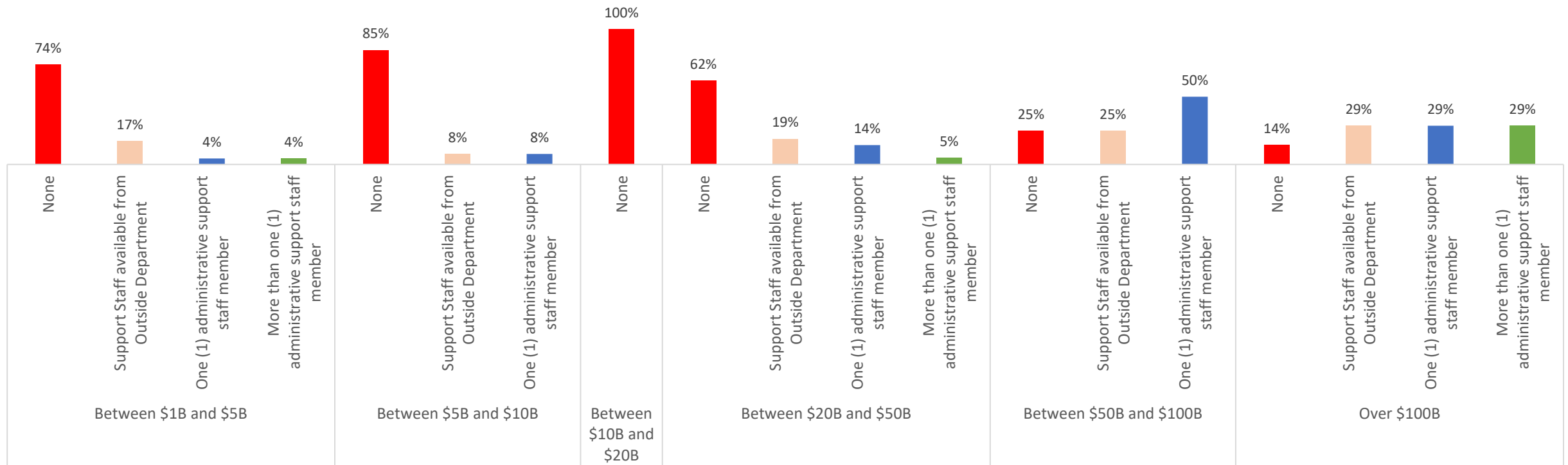
Loan Review Staff Years of Experience

According to the last 2 years of survey data, staff experience has become more normalized across the different bank segments.



Only the Largest Banks are Likely to Have Dedicated Admin Staff to Support Loan Review

Loan Review Admin Staff



Salary Levels Continue to Rise for All Staff

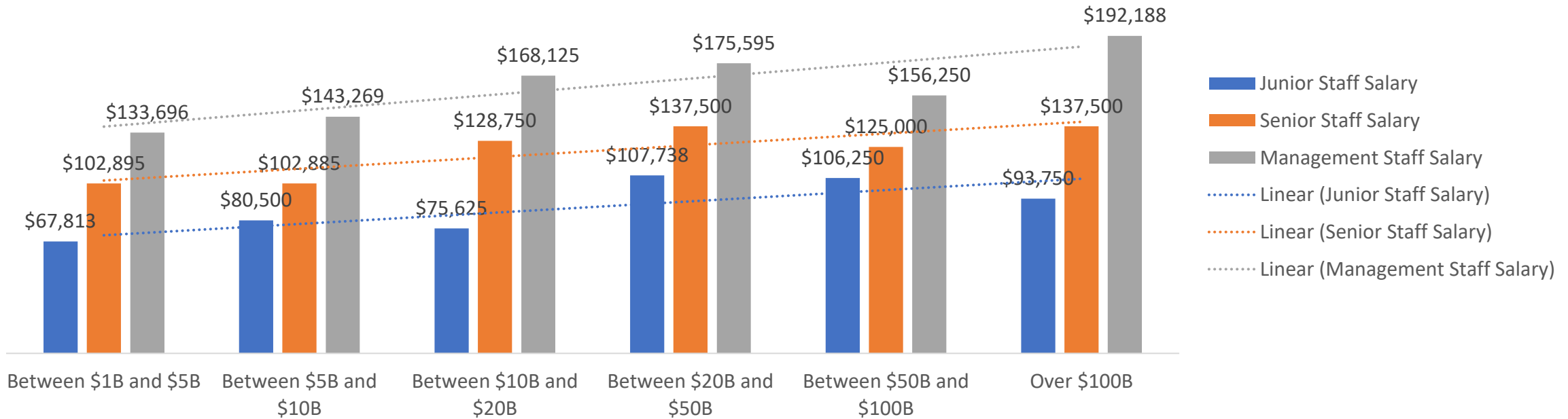
2021 Salary Ranges:

Junior Staff: \$55k – 104k
 Senior Staff: \$81k – 129k
 Mgmt Staff: \$120k – 151k

2022 Salary Ranges:

Junior Staff: \$68k – 108k (↑4%)
 Senior Staff: \$103k – 138k (↑7%)
 Mgmt Staff: \$134k – 192k (↑21%)

2022 Estimated Staff Salary by Bank Size



Estimated Salaries by State

(*states with 3 or more data points)

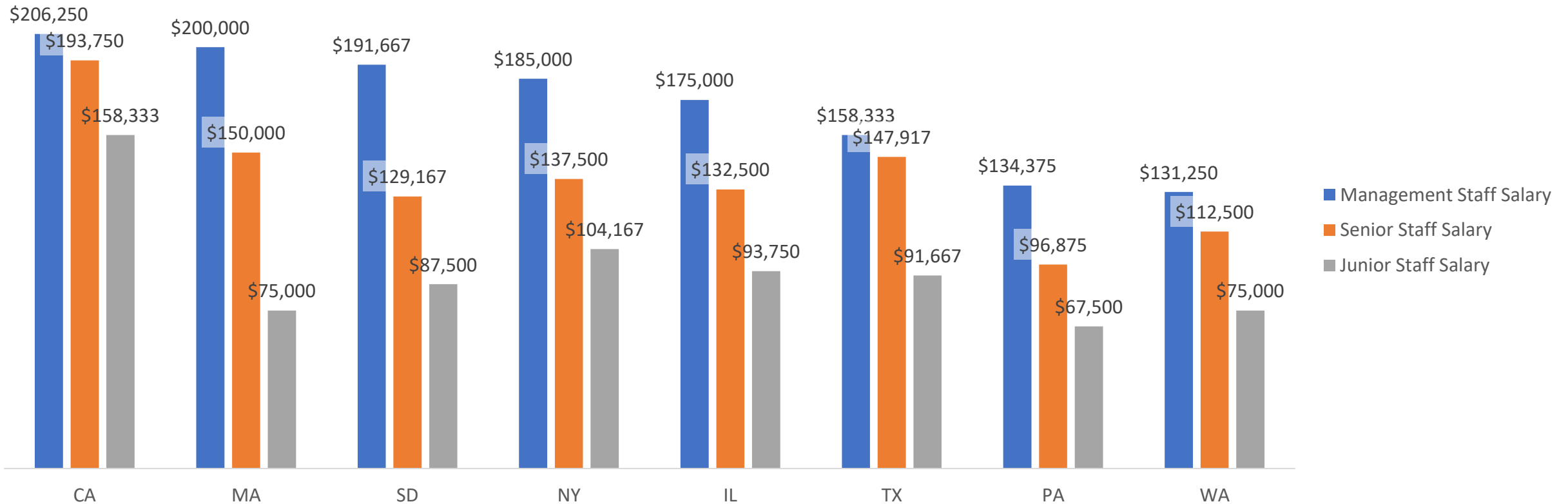
Regional Salary Ranges*:

Junior Staff: \$68k – 158k

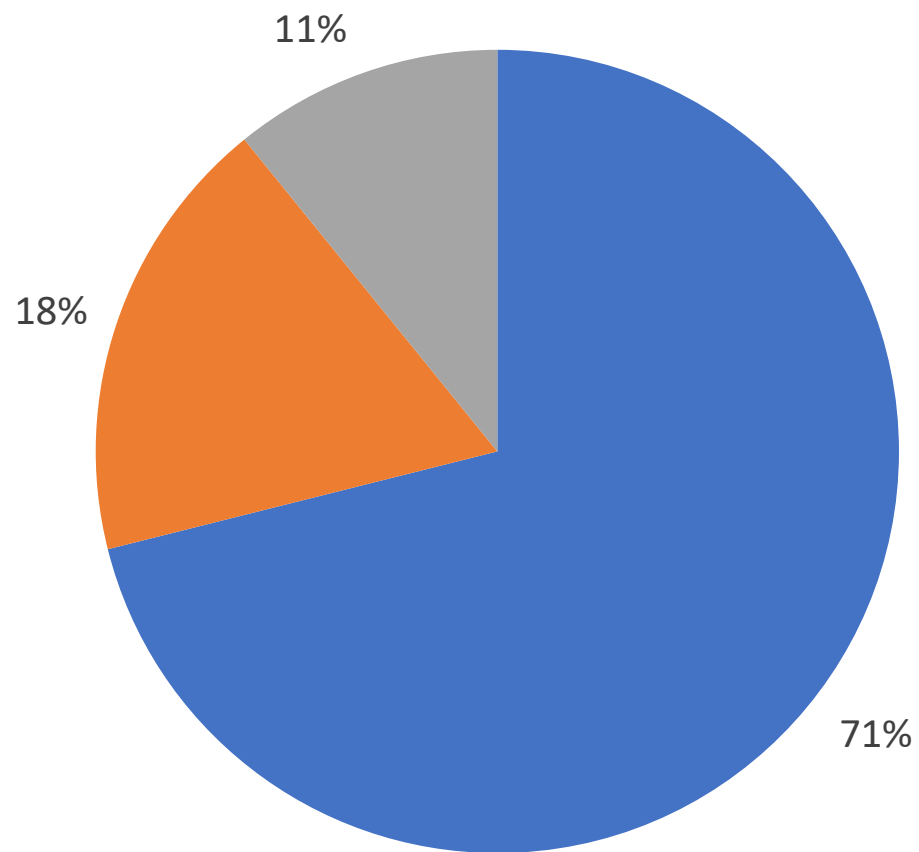
Senior Staff: \$193k – 96k

Mgmt Staff: \$206k – 131k

Loan Review Staff Salaries - Regionalized



Bonus Eligibility for Loan Review Staff



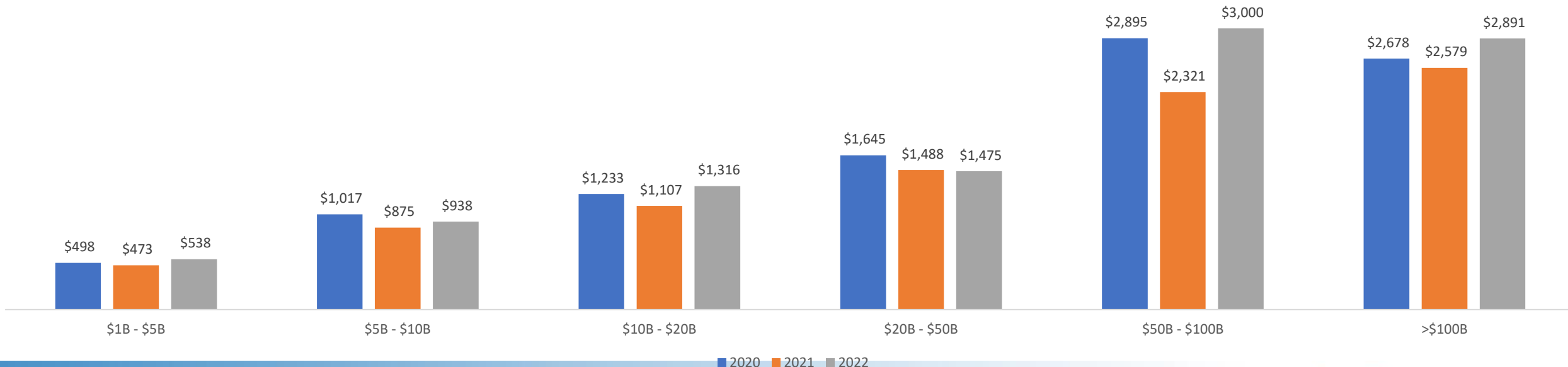
89% of respondents are eligible for a bonus. Bank-wide Pool is by far the most common option.

- Participate in a Bank-Wide Bonus Pool
- Eligible for Individual Objective-Based Bonus
- None

Average C&I/CRE Exposure Per Junior/Senior Staff Reviewer (3-year Trend)

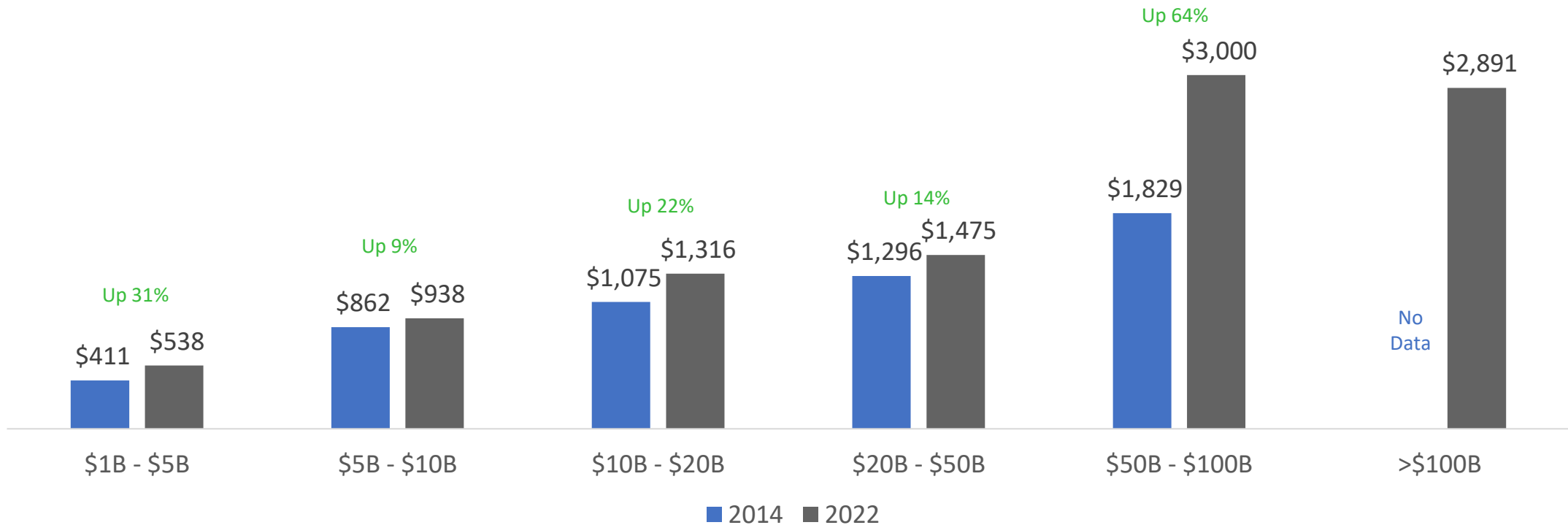
- As expected, exposure per staff reviewer increases as bank size increases
- Exposure per staff reviewer appears to be stable over the past 3 years

Average C&I/CRE Exposure (MM) Per Junior/Senior Staff Reviewer (2020 - 2022)



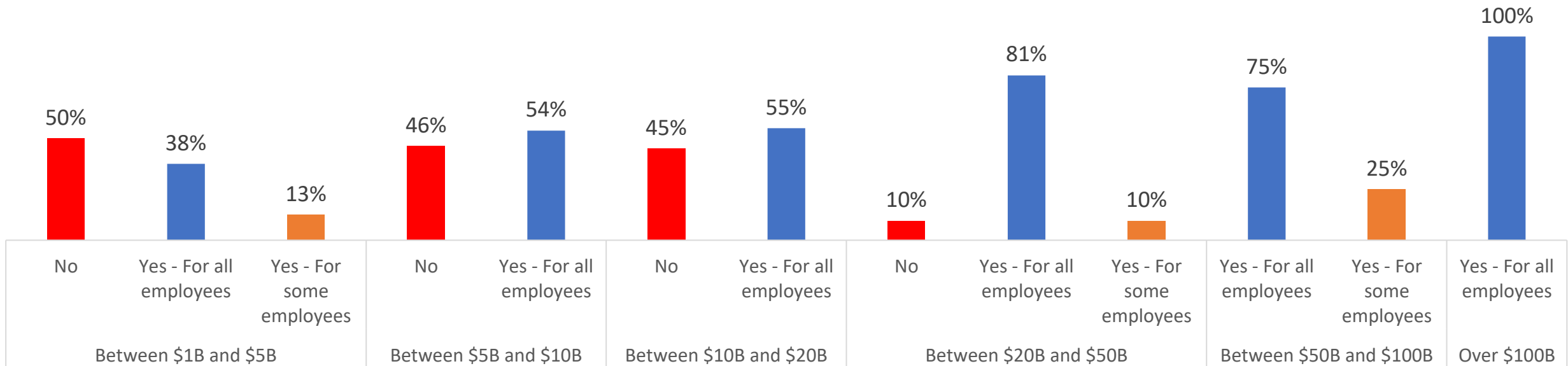
Compared to 2014, Exposure per Junior/Senior Reviewer has Increased Significantly

Average C&I/CRE Exposure (MM) Per Junior/Senior Staff Reviewer (2014 vs 2022)



Staff Training Likelihood Increases with Size of Bank

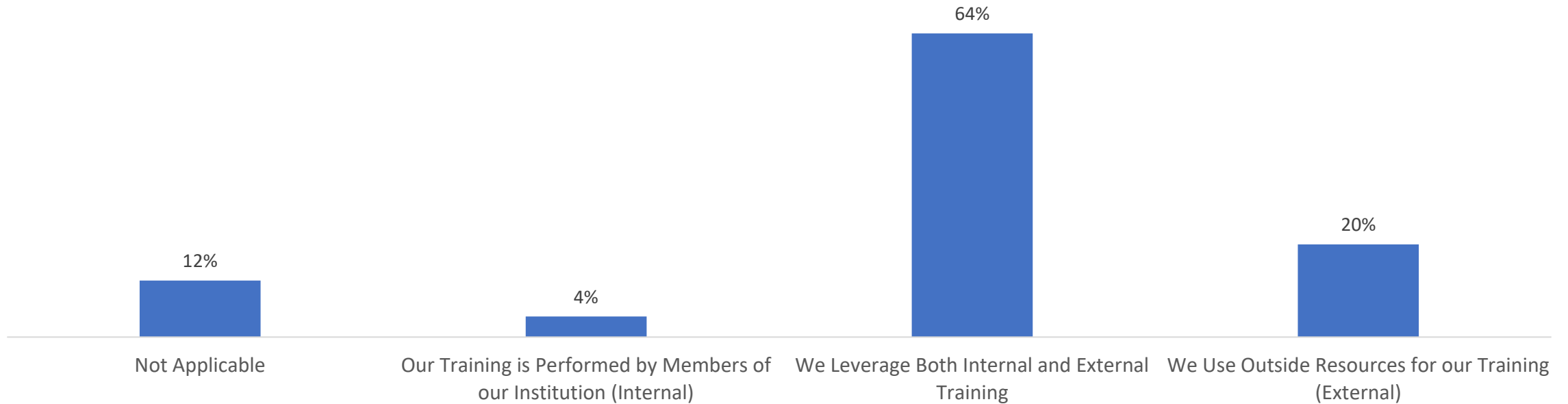
Is Loan Review Staff Training Required?



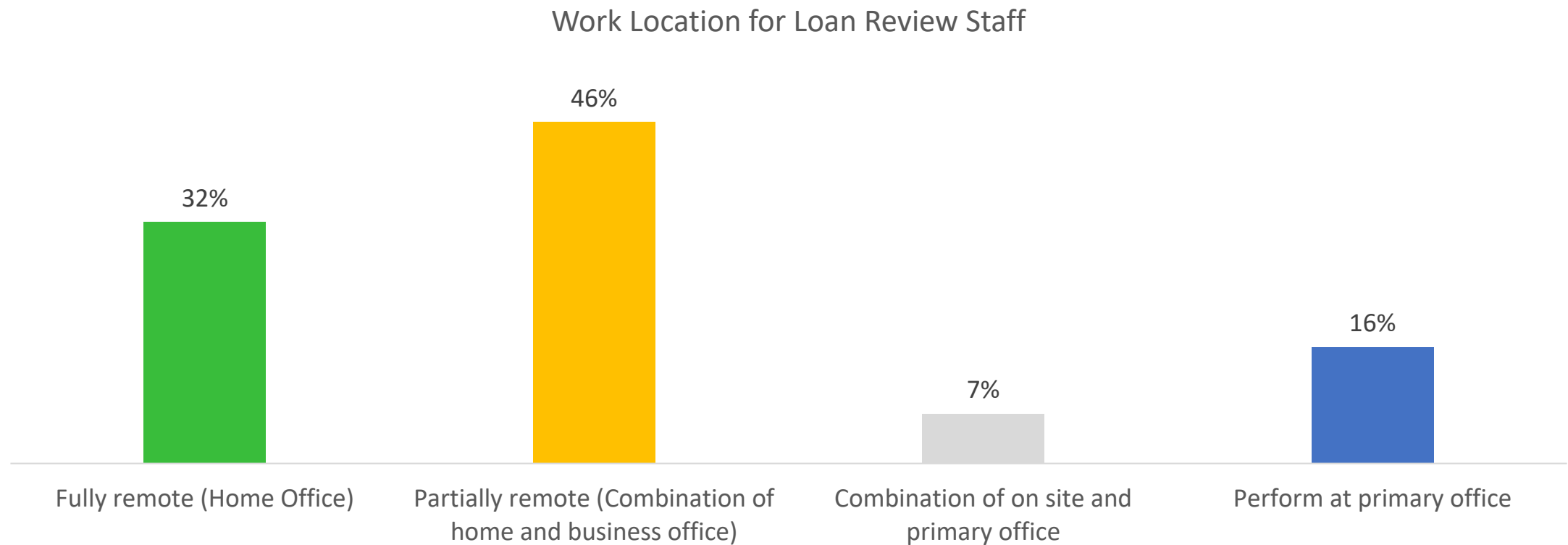
Approach to Loan Review Training

Most banks are leveraging both internal and external resources to perform Loan Review training

Approach to Staff Training

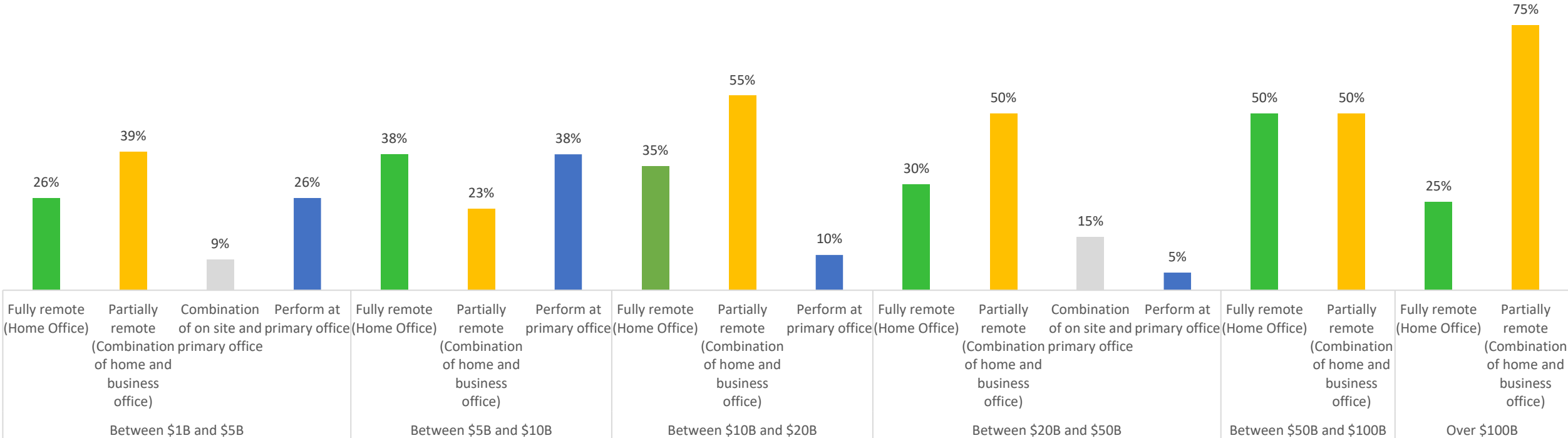


78% of Banks Indicate Fully or Partially Remote Workforce



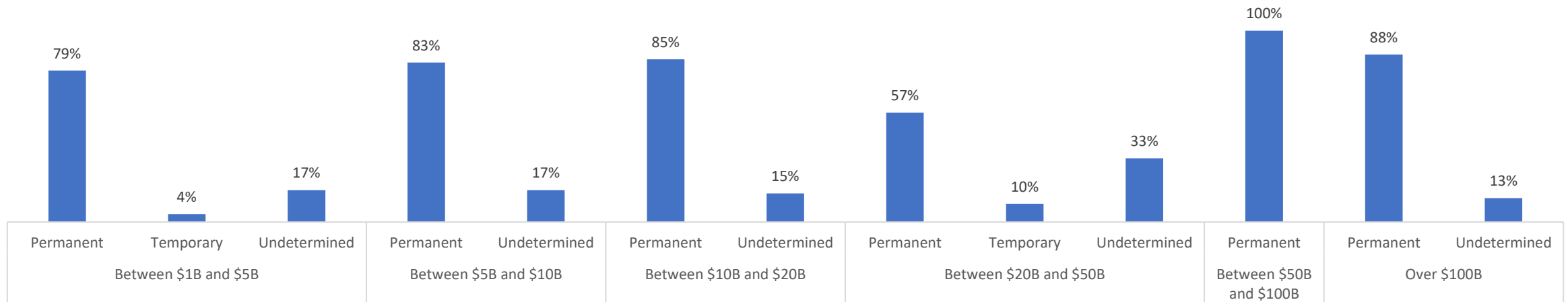
Remote versus On-site Workforce

A **“Partially Remote”** Approach is Generally the Most Common



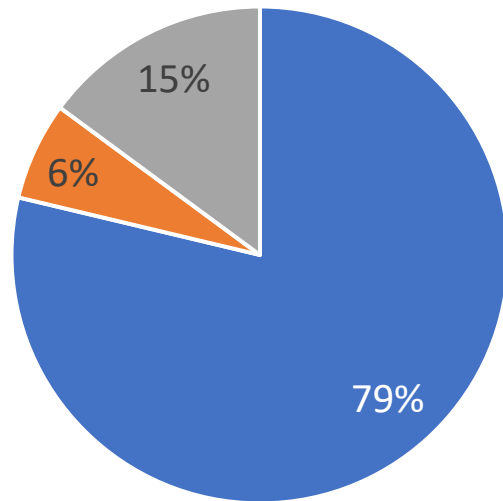
Most Banks View the Work Location as Permanent

Is Location Temporary or Permanent?



Loan Review Productivity Metrics

Loan Review Productivity Metrics



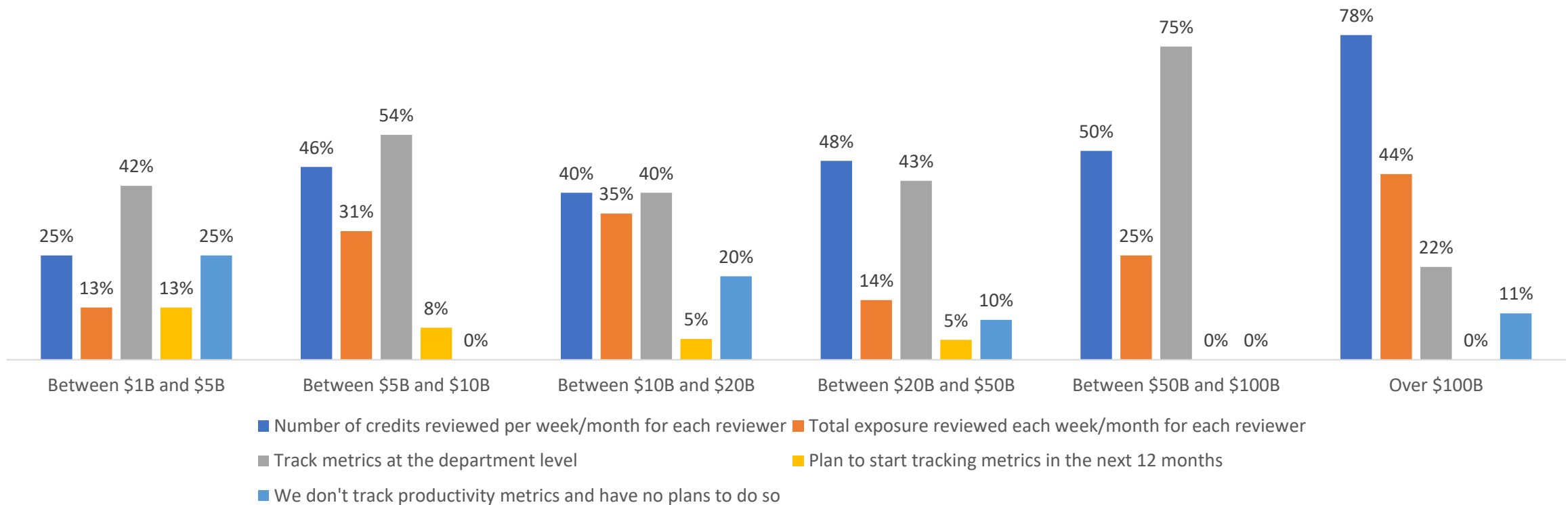
■ Currently Track Metrics ■ Plan to Track Metrics ■ No Plans to Track Metrics

Key Takeaways

- 79% of Banks are Tracking Metrics
 - Up 8% from PY
- 6% of banks have plans to start tracking
- 15% of banks aren't tracking metrics & have no plans to do so
 - Down 4% from PY

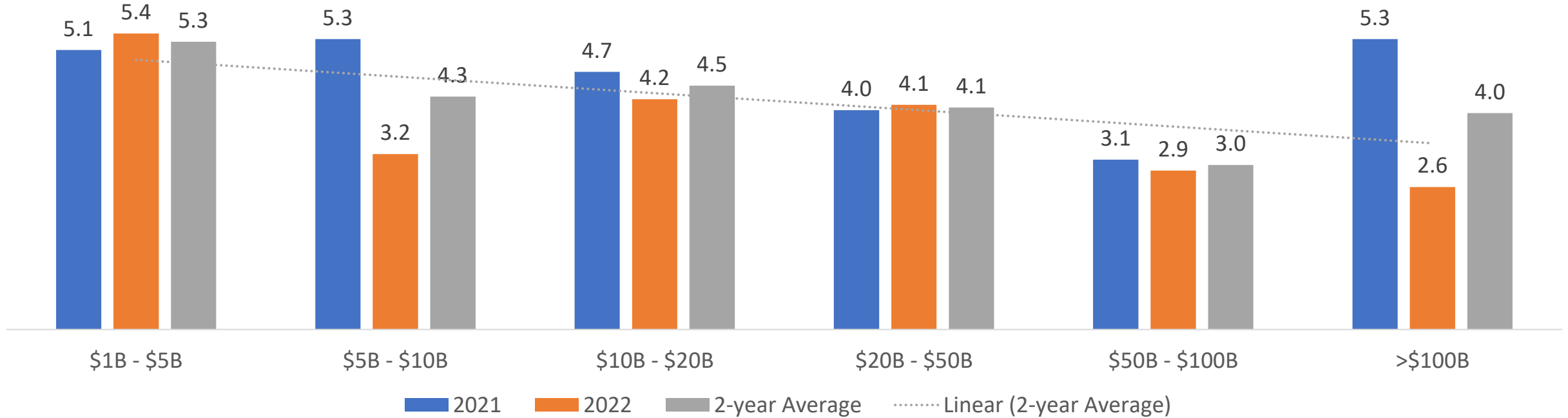
Loan Review Productivity Tracking

Loan Review Productivity Metric Tracking by Bank Size (Multiple Selections Allowed)



Loan Review Productivity – Files per week for Each Junior and Senior Staff Reviewer

Reviewers at Most Banks Average Between 4-5 Files Per Week



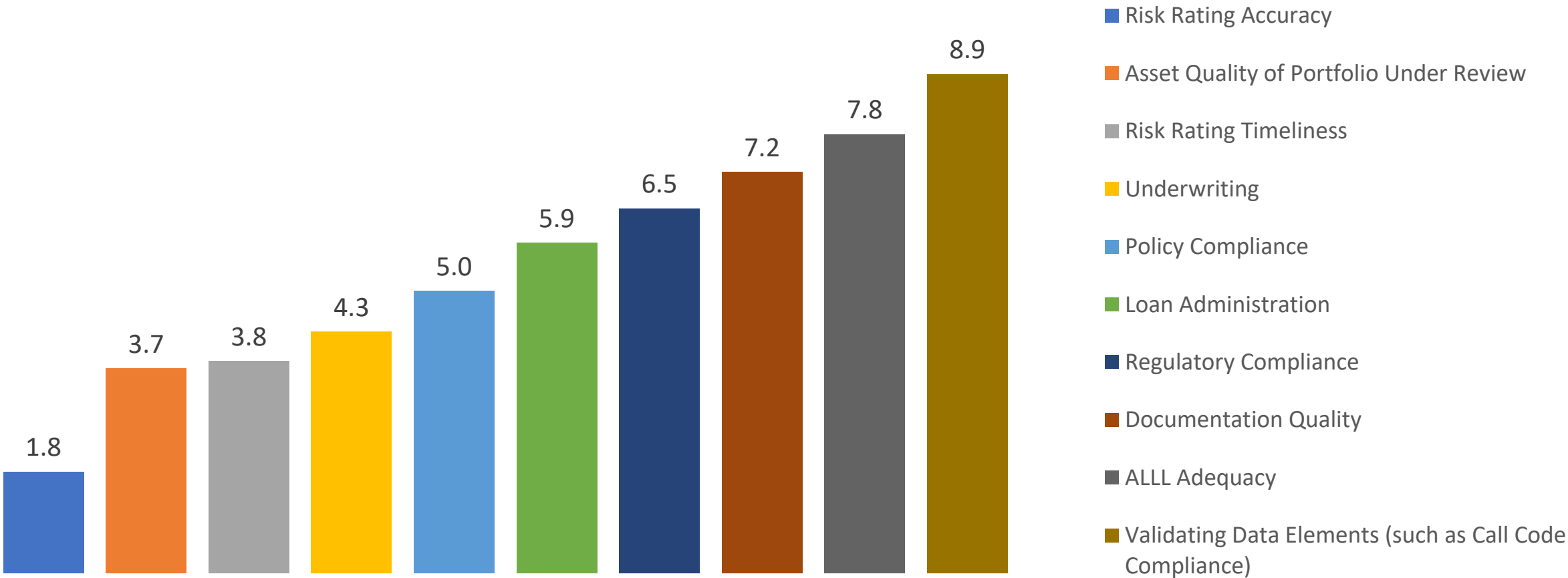
Section Highlights

- Banks of all sizes are more likely to employ a larger percentage of Senior Staff compared to Junior Staff
- Experience levels of Senior and Management staff seem to have normalized across most bank sizes (2-year trend)
- Banks of all sizes are leveraging a remote workforce and the survey results indicate the current approach/location is permanent
- Salaries are increasing; most notable increase in management staff
- Asset exposure per reviewer has been steady over the past three years; notable increase compared to 2014 levels
- Average number of files per reviewer each week is approximately 4-5

The Loan Review Process



Primary Objectives of Loan Review

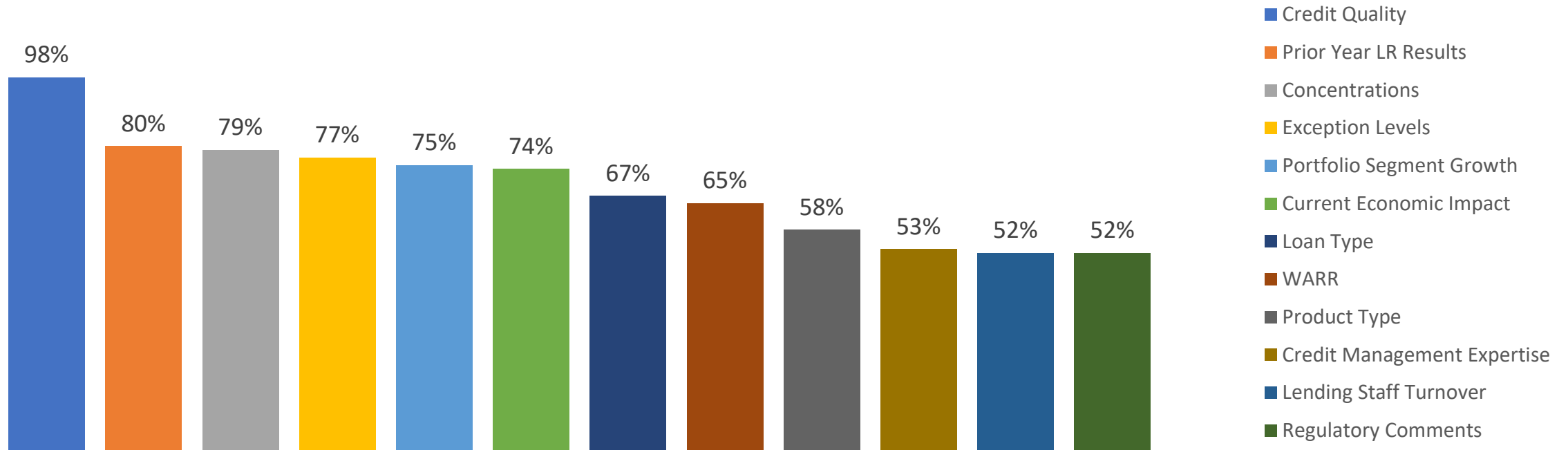


Importance Ranking – Lower Score is More Important



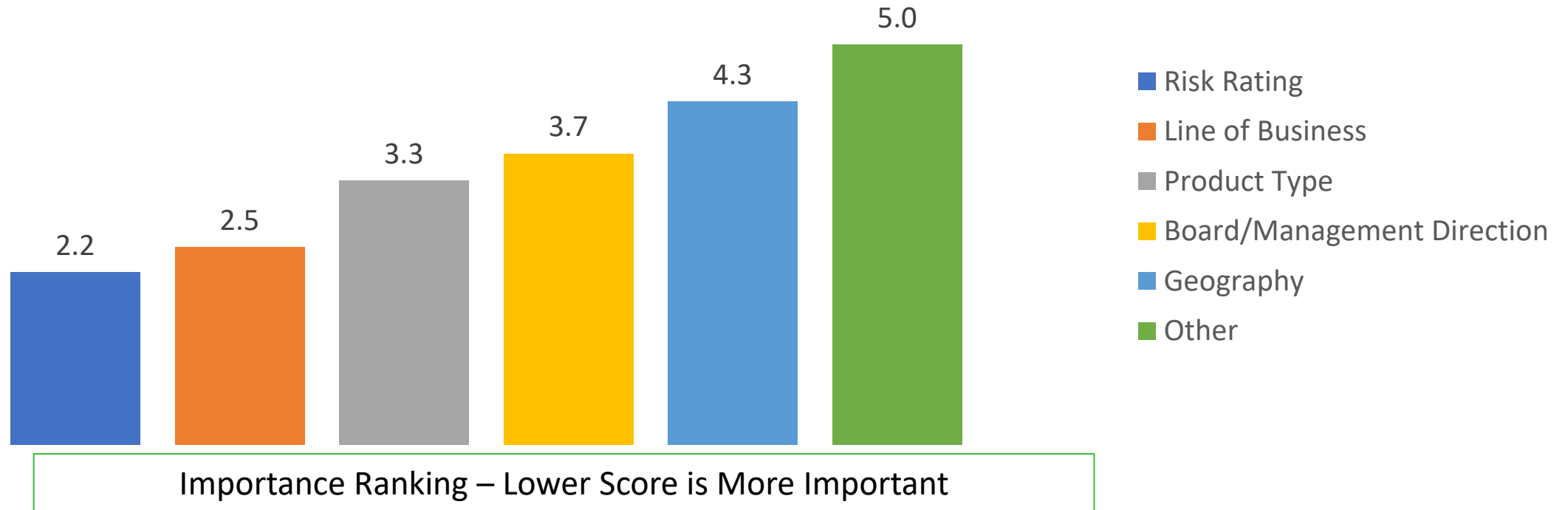
Risk Assessment Criteria Evaluated by Loan Review

Risk Assessment Criteria Evaluated by Loan Review



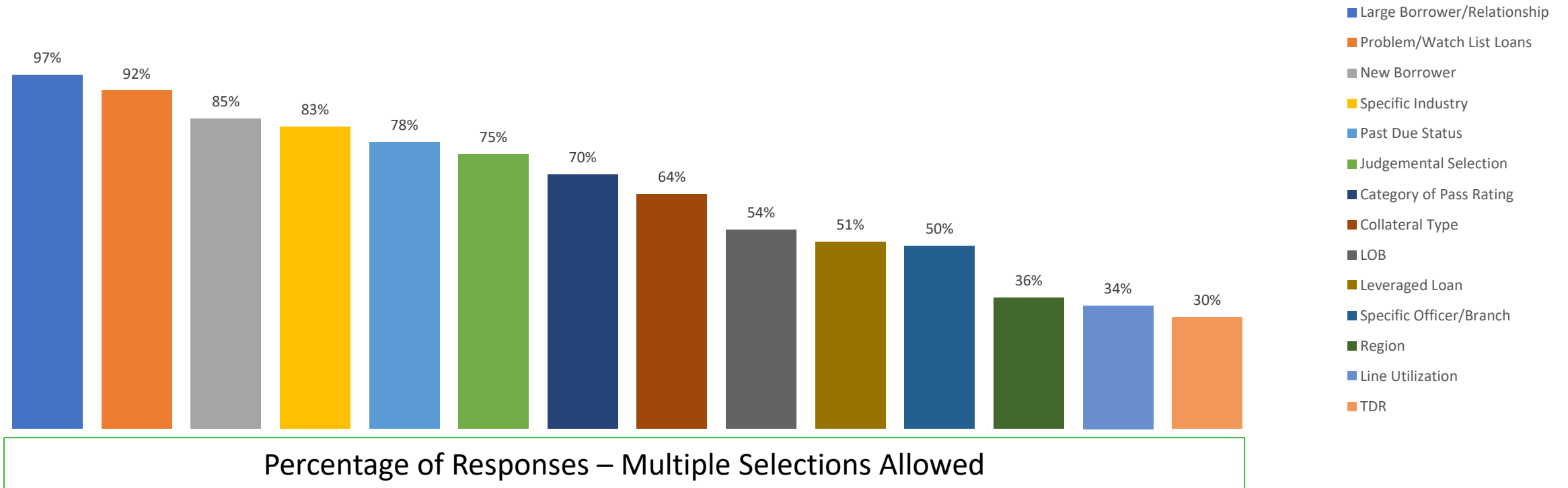
Multiple Selections Allowed

Importance as a Determinant for Loan Review Scopes



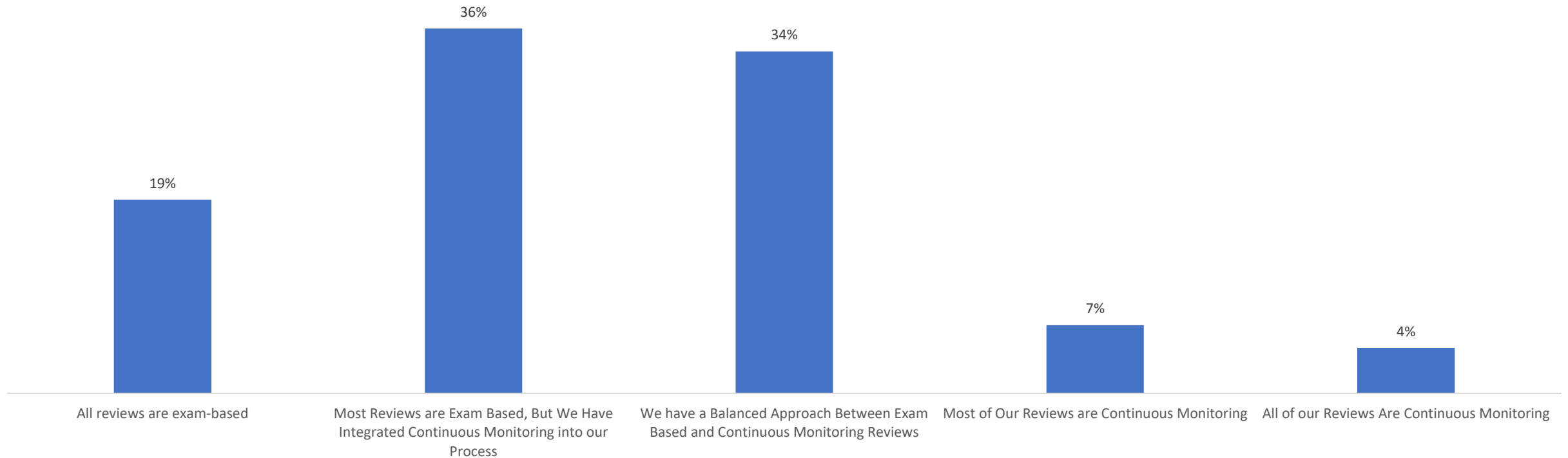
Sample Selection Criteria

Sample Selection Criteria



Continuous Monitoring vs. Exam-based Reviews

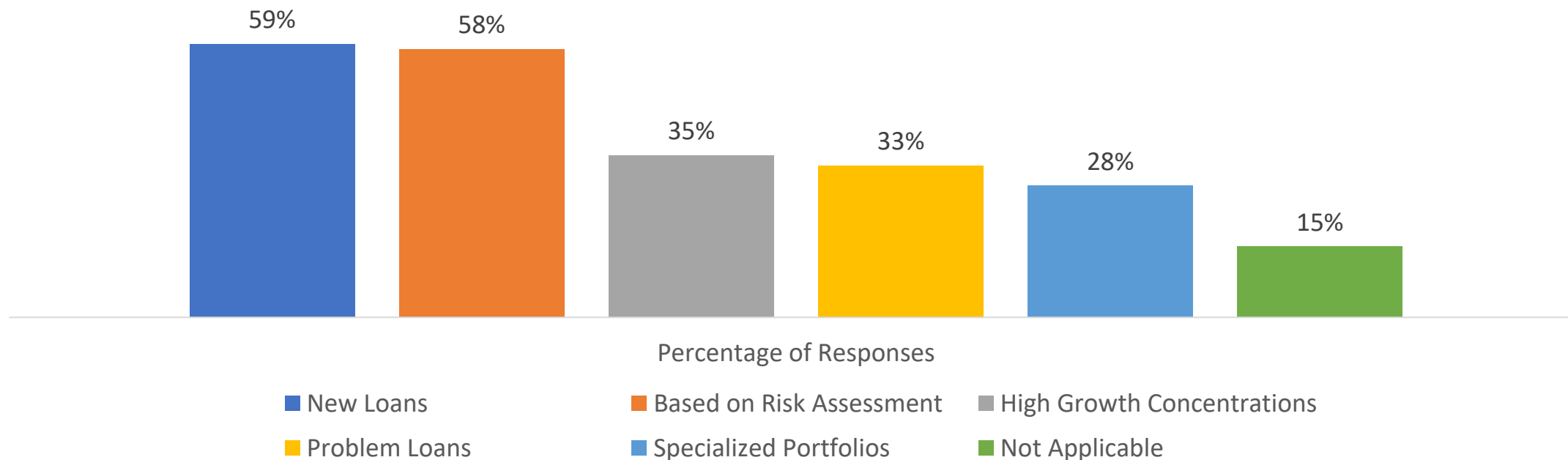
Exam-based Reviews vs. Continuous Monitoring Reviews





Continuous Monitoring Reviews

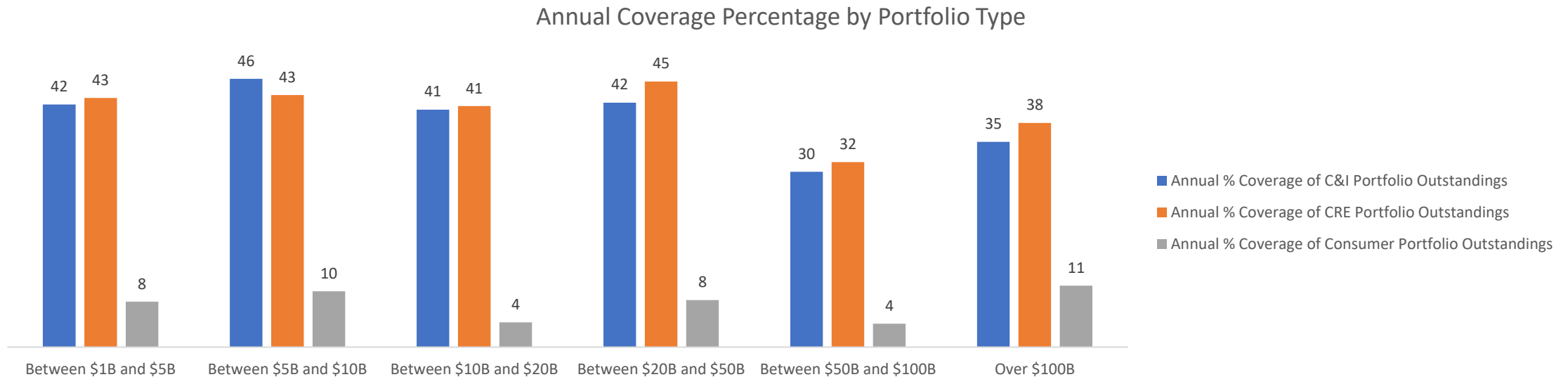
Focus Areas for Continuous Monitoring Reviews



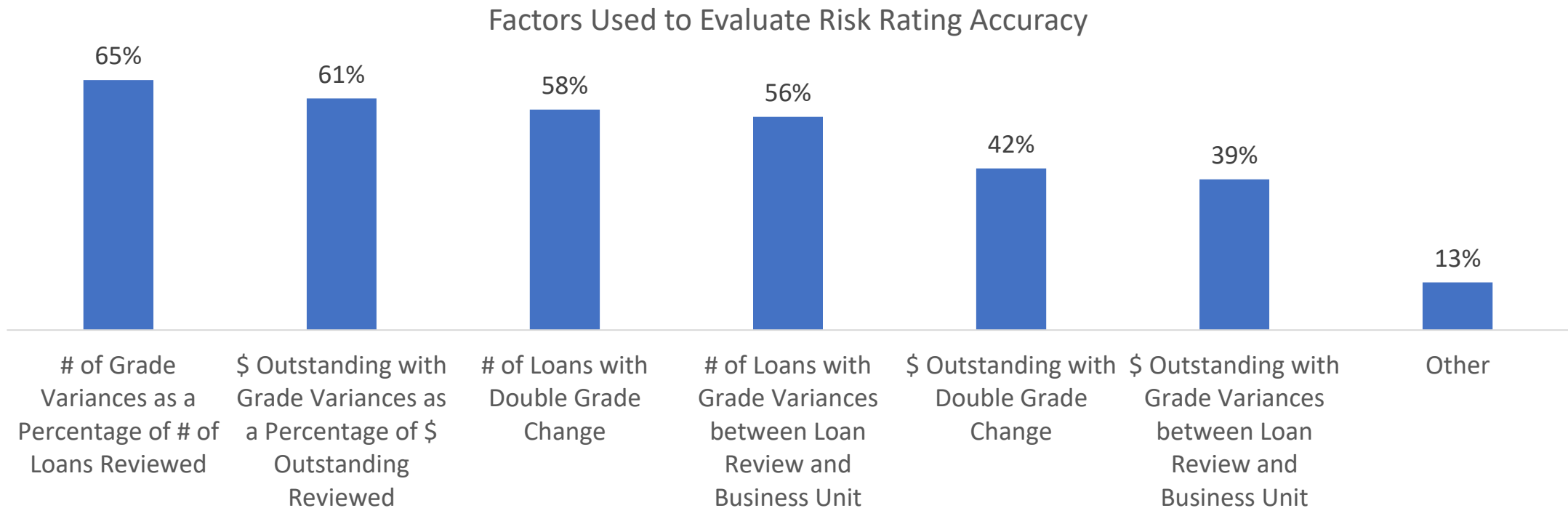


Target Penetration Percentages

- Penetration percentages for C&I and CRE Portfolios hover around 40%
- Coverage for Consumer Portfolios tend to be around 10%



Factors Used to Evaluate Risk Rating Accuracy

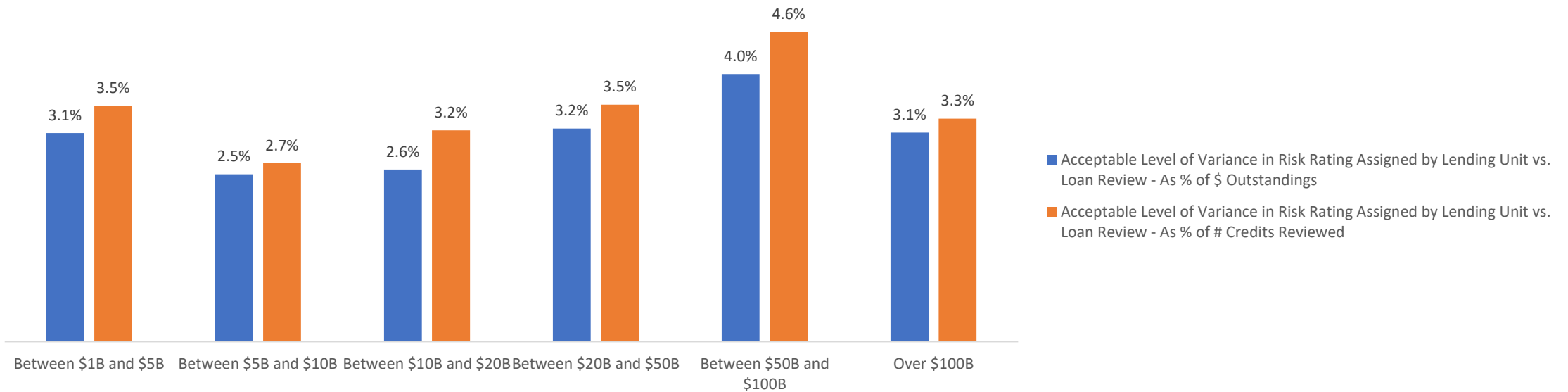


Multiple selections allowed. Percentage based on total respondents.

Acceptable Level of Variance in Risk Rating Assigned by Lending Unit vs. Loan Review

Most Banks set a threshold around 3-4%

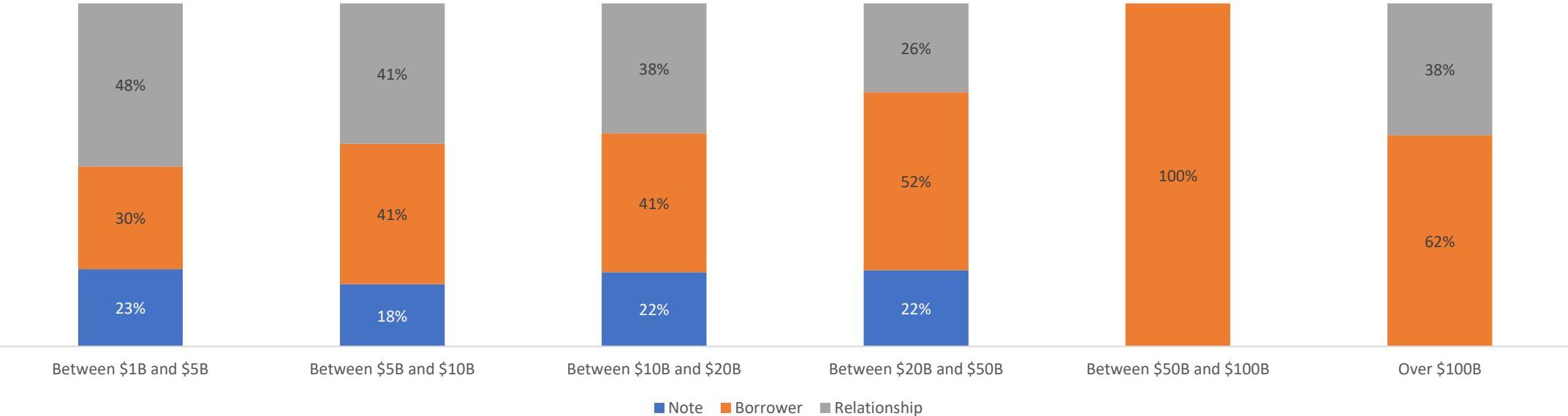
Acceptable Levels of Risk Rating Variations



Reviews are Performed at What Level?

Most Banks Review at multiple levels; varies by review type and complexity

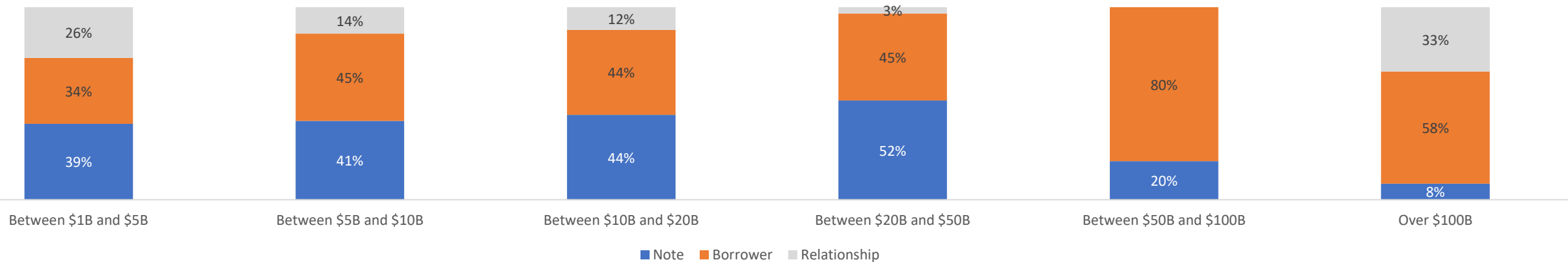
Note, Borrower or Relationship Level Reviews – Percentage of Total Responses by Bank Size



Where are Exceptions Cited?

Exceptions are generally cited at whatever level makes sense with Borrower and Note generally being the most common.

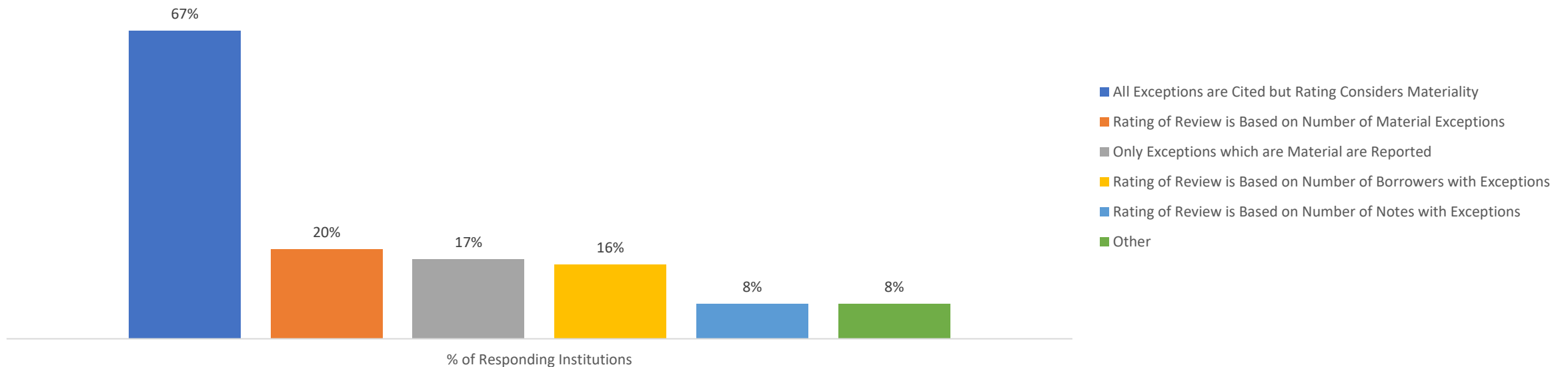
Exceptions are Cited at What Level



How do Exceptions Impact a Review Rating?

Reinforcing the results YoY, banks tend to cite all exceptions but only the material exceptions impact the rating.

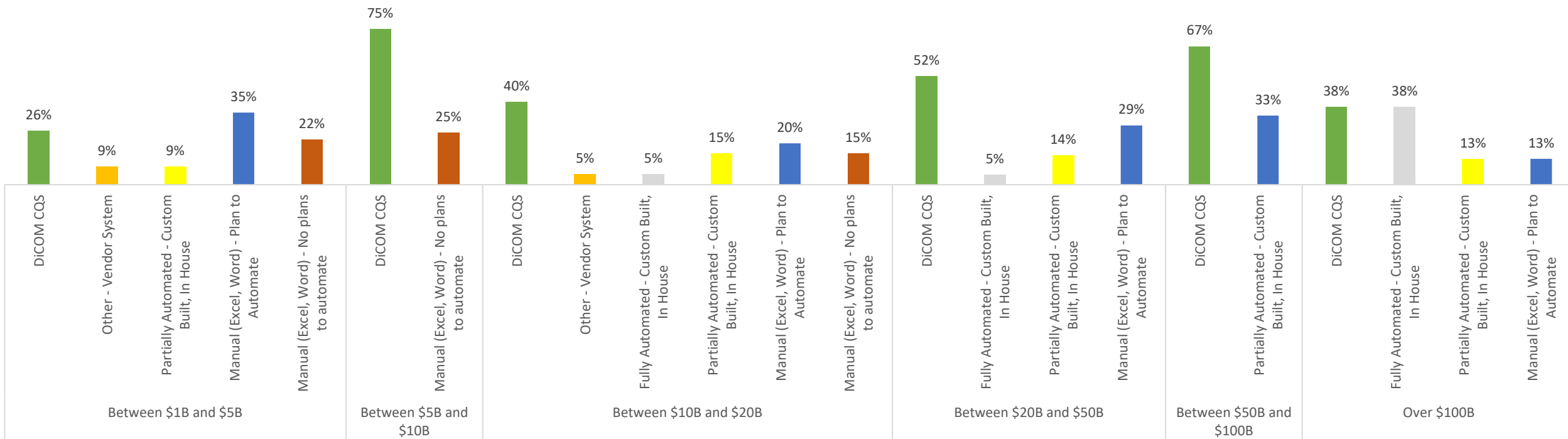
How do Exceptions Impact the Rating of the Review? (Multiple Selections Allowed)



Loan Review System – Segmented by Bank Size

- Most respondents are using DiCOM CQS for Automation
- Most banks below \$20B have either automated or plan to automate their process in the next 12 months
- All banks above \$20B either have or plan to automate their process in the next 12 months

Loan Review System or Manual Process?





Section Highlights

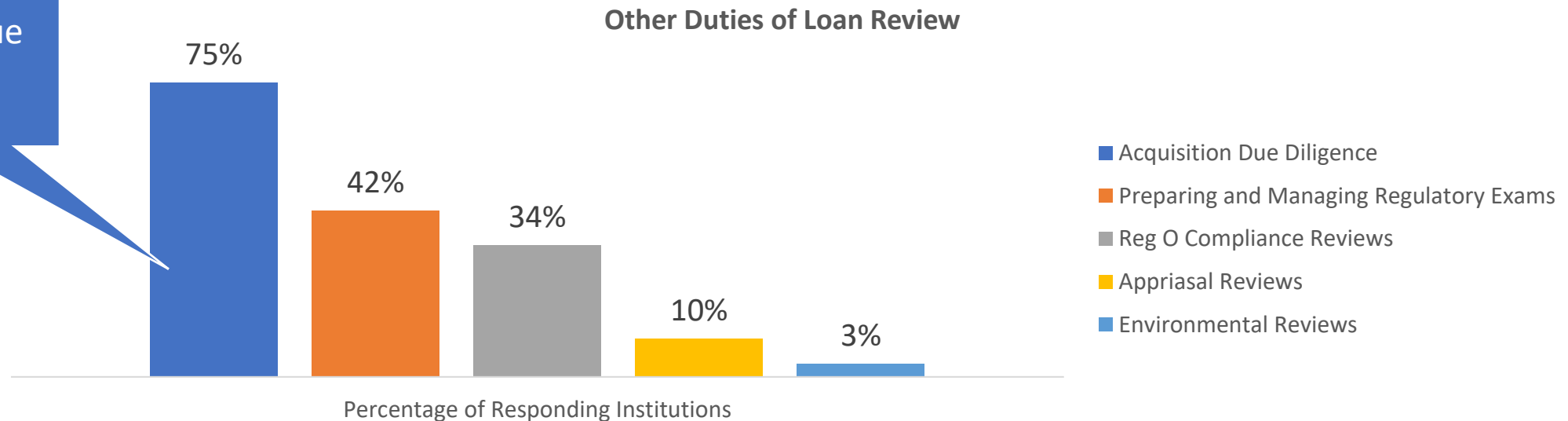
- Primary objectives of Loan Review are consistent with the 2020 Credit Review Systems guidance
- There appears to be some inconsistency with the execution and the objectives
- Loan Review should take care that exceptions don't become noise that drowns out the message
- Relationships tend to be more important for smaller banks than larger banks – the customer seems to be the preferred approach.
- The use of workflow automation is becoming more prevalent as portfolios grow and become more complicated – can't manage manually anymore.

Credit Risk Management Process and Reporting Lines

Other Responsibilities of Loan Review

- Primary additional responsibility is Acquisition Due Diligence

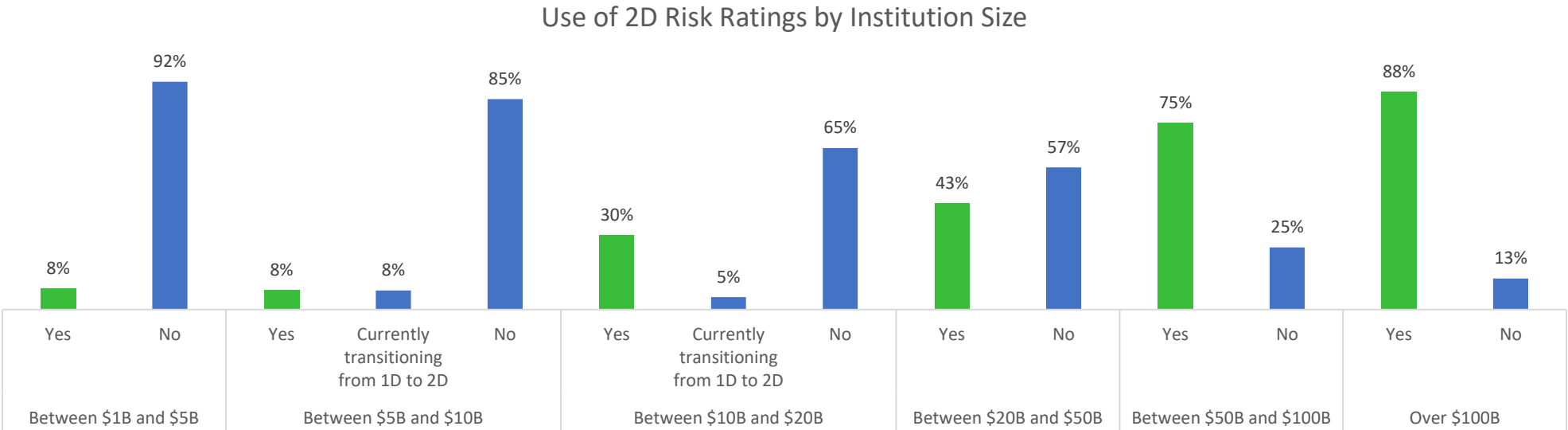
DiCOM clients use CQS to optimize due diligence reviews



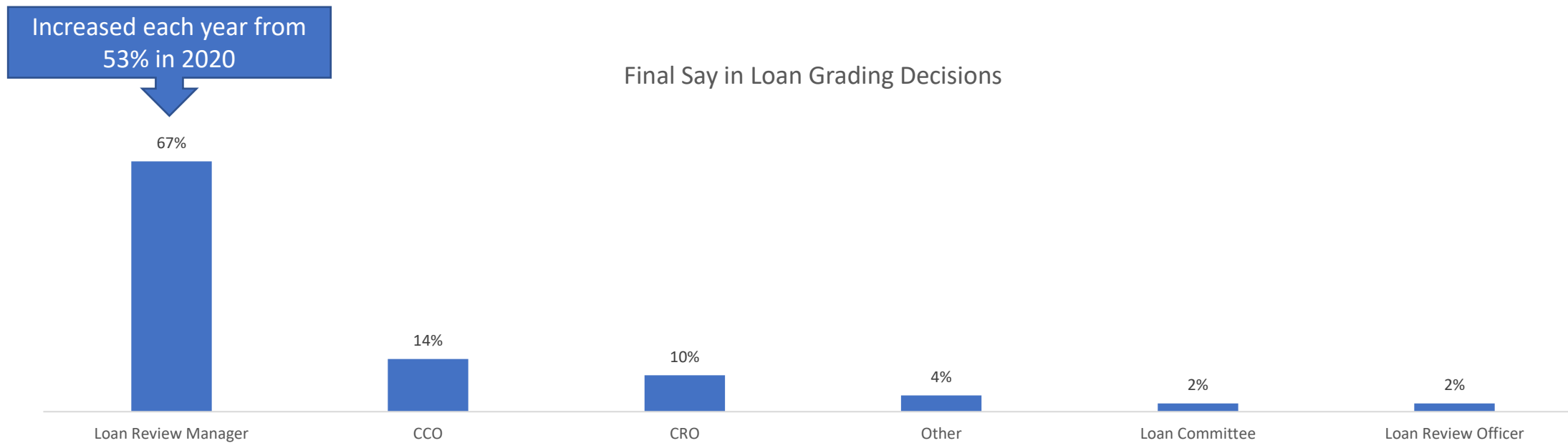
Multiple selections allowed. Percentage based on total respondents.

1D versus 2D Risk Ratings

Usage of 2D Risk Ratings Trend Up as Bank Size Increases and becomes the norm at institutions over \$50B



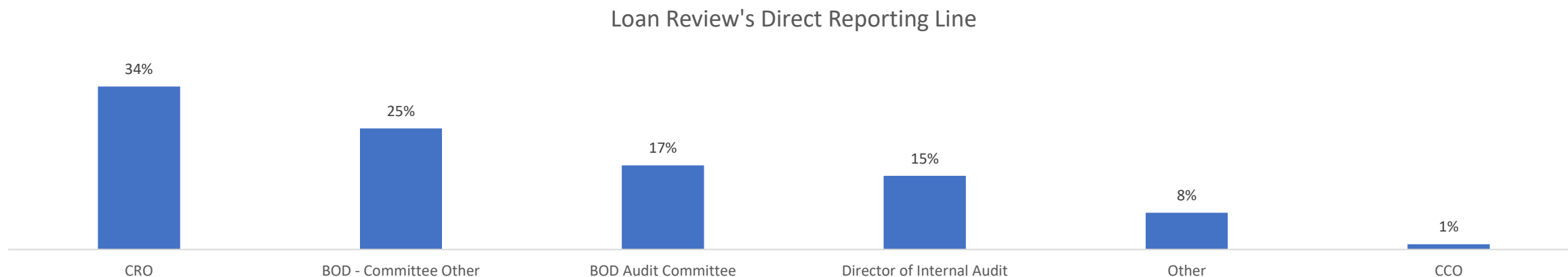
Who Has the Final Say in Loan Grading?



Loan Review Manager consistently has the final say across all bank sizes



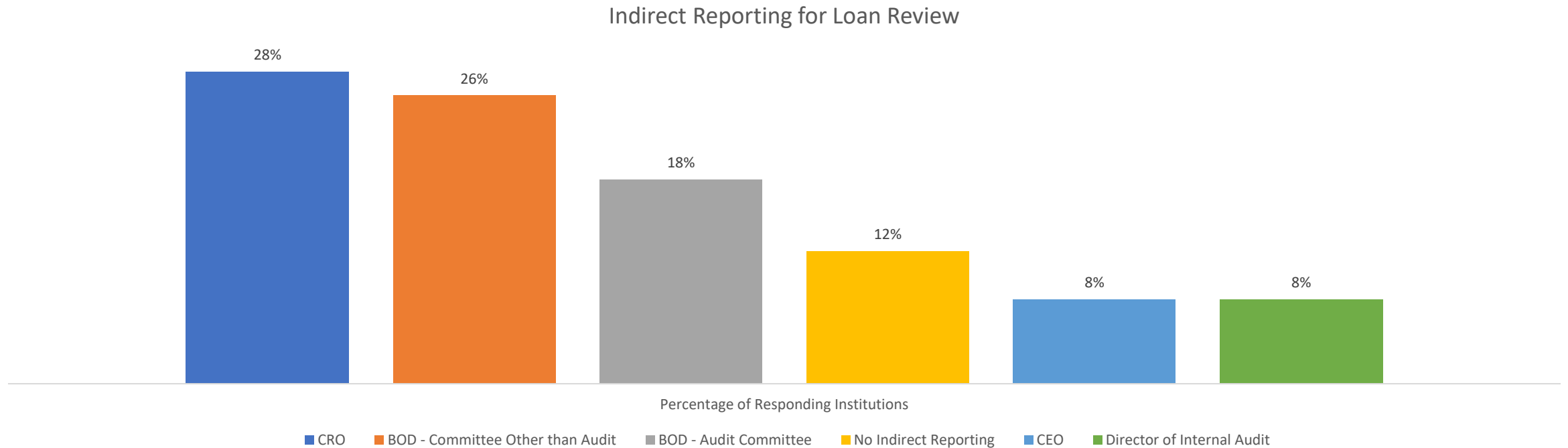
Loan Review's Direct Reporting Line



Multiple selections allowed



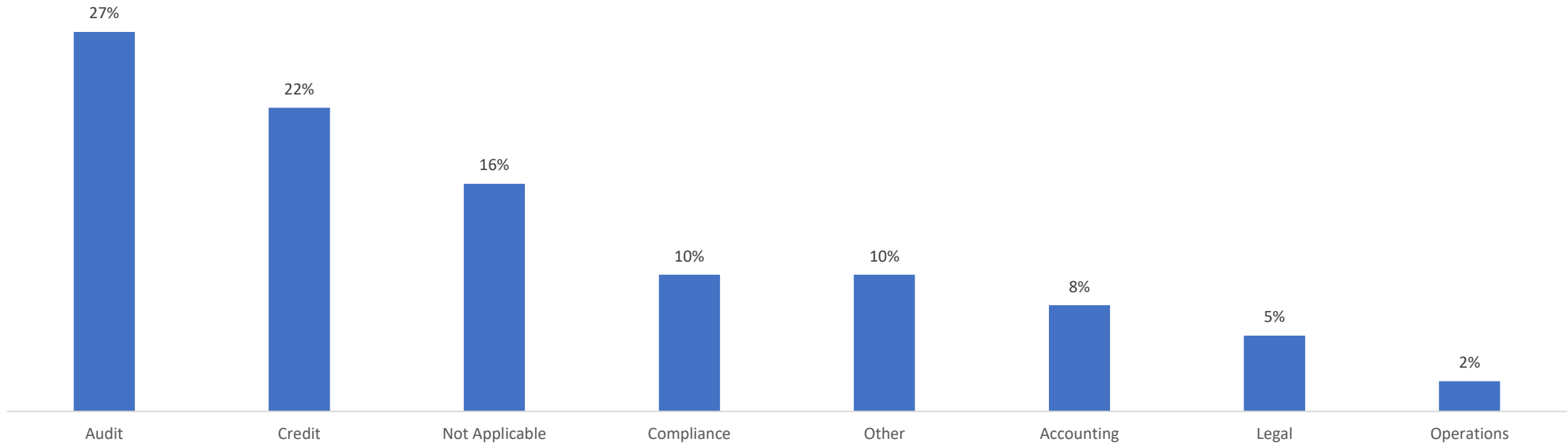
Loan Review's Indirect Reporting Line



Multiple selections allowed

Background of Loan Review's Primary Reporting Line

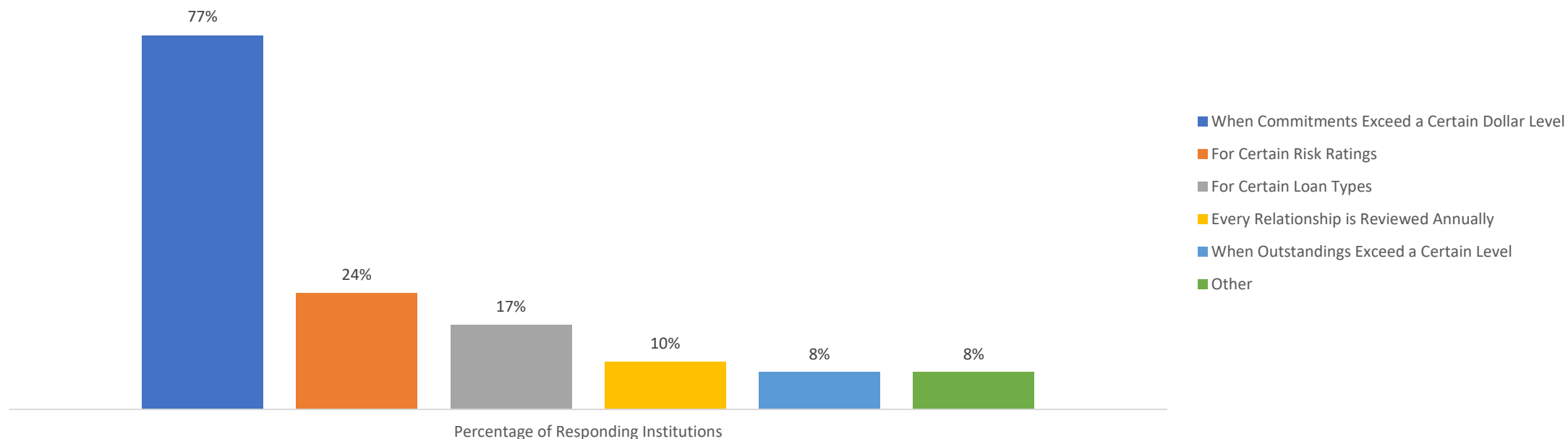
If Loan Review Reports to an executive inside the organization, what is the primary background of that individual?





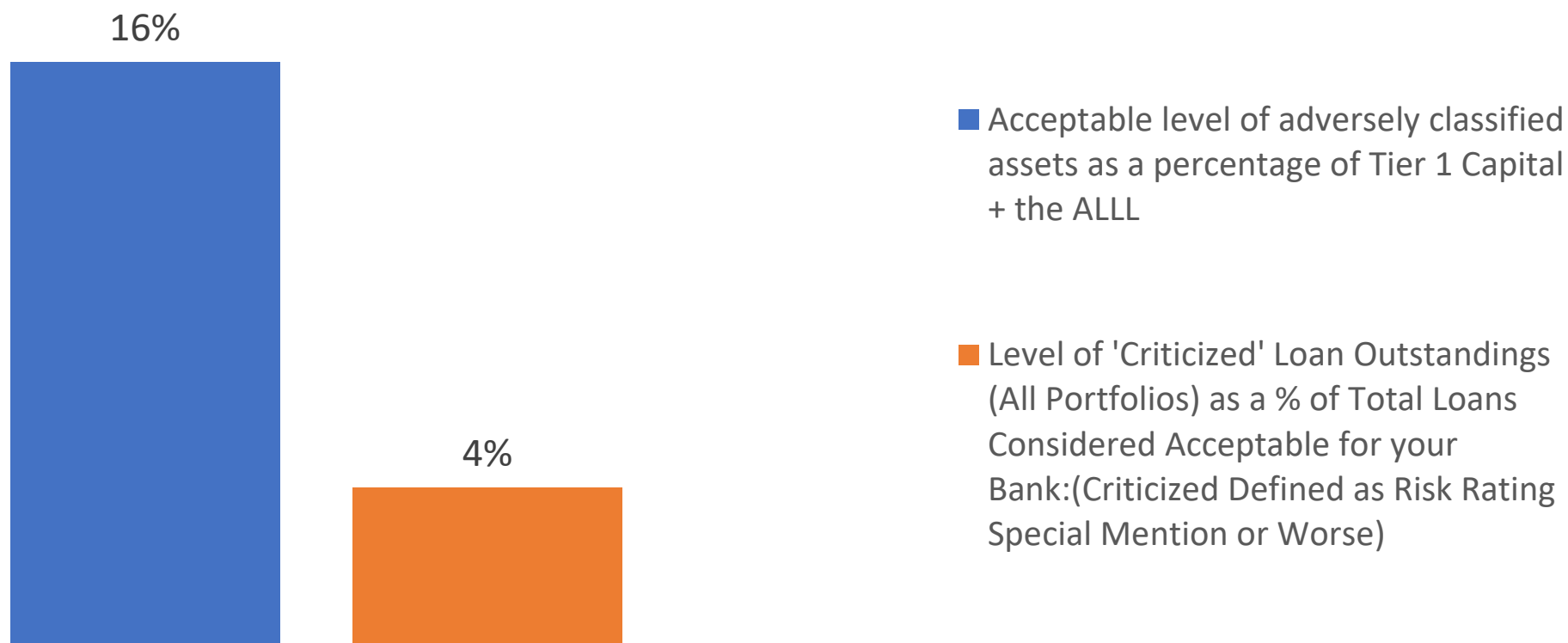
When Are Annual Reviews Required

When Are Annual Reviews Required



Benchmarks for Criticized and Classified Assets

- Under 20% is the typical acceptable level of adversely Classified assets (as % of Tier 1 Capital + ALLL)
- Under 5% is the typical acceptable level of Criticized assets (as % of Total Outstandings)





Section Highlights

- Acquisitions continue to require significant Loan Review time and effort
- The ability of Loan Review to have the final say on risk ratings continues to increase, albeit at a slower rate. Pandemic may have been a turning point
- There does seem to be something of a shift in reporting lines from previous years – it's not clear if it's an actual shift or interpretation
- Credit experience has less importance as a qualification for overall management of the Loan Review function
- Annual Reviews are typically required for larger credit. The issue to be explored is whether these are uniform reviews or risk based.

Final Thoughts

- The lack of younger staff and desired work environment (and willingness to move to maintain it) have resulted in fairly significant salary bumps for senior personnel
- Increasing demands on Loan Review (at banks of all asset sizes) and limited staff is resulting in increasing use of workflow automation
- There does seem to be some disconnect between the objectives of Loan Review and how those objectives are carried out
- Most banks are measuring productivity, but the metrics don't appear terribly robust (files reviewed per week or department level metrics)
- Credit is becoming less of a requirement for oversight of the Loan Review function

It Doesn't Stop Here!

- We will distribute the full slide deck to participants
- Whitepaper will be distributed to all participants by end of August
- Connect with us and follow DiCOM Software on [LinkedIn](#)!
- DiCOM clients can look forward to breakout sessions and presentations on key topics/findings at the 2023 User Conference next March



Jim Xander

jxander@DiCOMsoftware.com

Kent Kirby

kkirby@DiCOMsoftware.com

Thank you for your participation!

www.DiCOMsoftware.com