



Managing Risk in the New Lending Landscape

By Keith Knudsen and Brandon Baller

Back in the 1990s, when Security National Bank began using software lending technology from WebEquity Solutions, major league baseball players were going on strike, the first Harry Potter novel was just hitting bookstores and the Nebraska Cornhuskers were racking up three national college football titles.

More than 20 years later, we've been using WebEquity so long that it's hard to imagine the 'old days' when approving a consumer loan could take several days or even a week.

As a locally owned and managed community bank with \$160 million in assets and five branch locations in northeast Nebraska, we pride ourselves on knowing our customers and providing outstanding service. With WebEquity, we process and manage all our agricultural, commercial and consumer loans, with the exception of secondary real estate loans.

Speeding decision-making

From application to risk scoring through underwriting, the cloud-computing software supports every step in the lending process, making us much more efficient. In fact, in about the same time that it takes to get a cup of coffee – five to 10 minutes – we can process a consumer loan application, pull a credit report and make a good loan decision.

From talking to my peers at community banks across the country, I know that this level of efficiency isn't typical. Without an integrated lending system like WebEquity, the loan approval process could require up

to three days or more. By having the ability to make credit decisions in minutes, we can strengthen our relationships with customers.

The WebEquity system enables us to customize the way we spread financials for our agricultural and commercial loans to meet our needs. To further streamline the loan approval process, we reduced our loan application to one page, making it simpler for borrowers to fill out. Because we placed the fields in the exact order as our loan origination software, we don't have to jump across the page to look for pertinent information. Instead, we can go right down the line, from one field to the next, and capture all the information needed to prepare closing documents.

At every step, we can ensure our documentation and credit decision making are consistent from branch to branch and customer to customer. We can easily update our underwriting standards and make sure that every lender across all our locations follows these policies.

Streamlined approval process

Because the system is Web-based, everyone working on a credit, from the loan officer to our senior lenders and loan committee, can easily access all information residing on the central WebEquity database, no matter where they are located. All requests for loan approvals are submitted electronically. To reduce turnaround times for larger requests that require additional approval authority, we can have a senior loan committee member at any location access the system and enter their electronic signatures and timestamps on the application and credit presentation directly into WebEquity.

Our credit committee typically meets weekly to review most other requests. With WebEquity, we can pull up the data on a projector in our meeting room. Because members have access to the information ahead of time, they can address any questions at the meeting and quickly arrive at consensus - with less paperwork to shuffle through. WebEquity ensures complete recordkeeping and consistent credit presentations. Every write-up in WebEquity includes specific data, from pricing to the customer's profitability history and projections.

Managing risk

In the wake of the financial crisis, bank examiners are stepping up their regulatory oversight and are recommending that banks routinely use risk management tools to stress test their loan portfolios. WebEquity's Risk Dashboard provides a critical early warning system to help us detect potential risks sooner rather than later.

Some industry experts have warned about the possibility that the agricultural bubble could burst and negatively impact farm real estate prices and agricultural businesses. We keep a close eye on this potential risk since our bank serves a largely rural and agricultural market in northeastern Nebraska. Our loans to farms and related agribusinesses make up about 30 percent of our total portfolio.

At Security National, we regularly perform rigorous what-if analyses to determine the best-case and worst-case impact of various changes on our portfolio's risk ratings and determine whether we need to take proactive steps. For example, how much would farm expenses have to increase before depleting the debt service margin? In the event of a significant drop in commodity prices or land values, how big a shock to our loan portfolio would we experience?

This kind of stress testing and portfolio analysis lets us drill down from the aggregate level to an individual customer or segment of customers to identify exactly which loans would be at risk of moving from a pass rating to a classified or substandard rating on our risk scale. The Risk Dashboard reinforces our confidence in the bank's

loan portfolio and assures us that we never carry risky credits on our books with high-loan-to-value ratios.

Both our examiners and the consulting firm that performs our loan reviews have been impressed with the capabilities that WebEquity provides. For example, our regulator requested that we provide more detailed collateral analysis and trigger dates for problem loans and workout plans. With WebEquity, we were able to implement these changes in just 10 minutes to provide this information.

Calculating loan loss reserves

Recently, we implemented WebEquity ALLL, a cloud-computing solution that helps our bank systematically calculate and accurately manage our allowance for loan and lease losses (ALLL). By replacing inefficient manual processes and Microsoft Excel with the ALLL software, we have reduced the chance of calculation errors, while delivering significant timesavings.

Previously, it would take hours just to pull the loss history data from the FDIC website for the ALLL calculation. With the click of a button, the system now automatically imports this information into the system. All told, the ALLL process used to take four to five hours. Now we can complete it within an hour from start to finish.

When we relied on spreadsheet-based processes, we would always run the risk of inadvertently tweaking a formula and throwing off the numbers. With the WebEquity system, we have greater confidence that all our ALLL calculations are accurate and well documented.

By managing all our credits in a single integrated system, we are better positioned to manage our entire loan portfolio. The bottom line is that WebEquity is helping us better serve our customers in a constantly changing lending landscape by providing faster turnaround while proactively assessing the ongoing risk of our entire portfolio.

Keith Knudsen is executive vice president and chief credit officer and Brandon Baller is branch president at Security National Bank (www.secnatbank.com), a community bank based in Laurel, Neb.

Efficiency Highlights

- 5-10 min. consumer loans
- Ag/commercial electronic approvals
- Aggregated/detailed stress testing
- 10 min. address examiner request
- ALLL process reduced by 80%