White Paper

Evolving Risk Management by Pairing Process With Technology

In this whitepaper, learn about the importance of four key pillars of risk management:

- **Identifying Risks**
- **Analyzing, Assessing, and Measuring Risks**
- **Monitoring and Controling Risks**
- **Responding to and Mitigating Risks**

Everyone who is part of a financial institution carries the responsibility to mitigate risk where possible. Risk is inherent in every area of a financial institution, and this whitepaper will address how to effectively manage risk in loan origination and portfolio management through automating processes for tracking exceptions.

As bankers, protecting the interests of stakeholders through sound risk management policies and processes is critical for the health of your institution and the success of your customers. A solution that consistently manages loan origination and continued portfolio management ensures a strong portfolio.

To get there, your technology needs to bring together information and processes to support origination and ongoing portfolio management across the financial institution. Inconsistencies and exceptions to this weaken the financial stability of your institution and can lead to reputational risks.

A financial institution cannot run a safe and sound business without a robust risk management program. The FDIC specifically states in its Rationale of Bank Exams that, “Onsite examinations help ensure the stability of insured depository institutions by identifying undue risks and weak risk management practices.” (FDIC, Section 1.1 Basic Examination Concepts and Guidelines).

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A strong risk management plan must have key elements to meet regulatory requirements and respond to identifiable risks. Here are the four key pillars to risk management to take into consideration:

1 Identifying Risks

A loan origination system should include functionality that provides a solution for all aspects of continued risk management. The use of automation should ensure that all risk factors are identified and evaluated consistently, every time. Imported core system data should run through a rules engine specific to institution policies, identifying risk without fail through the creation of exception items. Users should also be able to create exception items manually because not every client is alike therefore having the ability to pivot on the discovery of a new risk is critical.

2 Analyzing, Assessing, and Measuring Risks

Robust reporting capabilities provide the opportunity to create custom and ad-hoc reports to analyze potential risk and measure the mitigation response of your risks. You should create reports drawing from any data that is captured in the database. Evaluating these reports helps you easily assess the potential risk and determine when action needs to be taken.

3 Monitoring and Controling Risks

Whether exception items are created through automation like a rules engine or by a banker, you should be able to monitor them through queries configured with specific parameters. These queries should update in real time based on the data that has been saved, providing an accurate depiction of risk every time. They should also be actionable so that once you see an item that needs to be monitored, you can take action to control the risk which leads to the fourth pillar.

4 Responding to and Mitigating Risks

Use queries to do more than just monitor risk. You should be able to take action by selecting exception items to update with comments and correspondence. Effective risk management software will record the action you're taking, allowing you to evaluate trends, respond quickly, and mitigate potential risk in the future.

There are different types of exceptions, so it's important to understand the differences and their implications when it comes to effectively managing risk for your financial institution.

Exceptions

These are items of non-compliance or non-adherence to a financial institution's credit policy. For example, the financial institution's credit policy requires:

- **A LTV ratio of not higher than 80%, but the loan transaction has a LTV ratio of 85% and the financial institution approves the loan anyway**
- **A full appraisal and only a drive-by appraisal was ordered and the financial institution approves the loan anyway**

Exception Items

A transaction is unable to be fully processed until the financial institution receives all the documentation necessary to complete the loan and legally secure collateral. Exception items can be pre- or post-loan closing.

Examples of pre-closing exception items:

- **Copies of W2s**
- **Tax Returns**
- **Corporate Documents**
- **Financial Statements**

Examples of post-closing exception items:

- **Recorded UCC-1**
- **Recorded Deed**
- **Proof of Insurance**

Ticklers

There are repeating (annual, semi-annual, quarterly, monthly, etc.) ticklers or on-going tracking items that a financial institution must track and act on depending on loan types and collateral types, such as:

- **Delinquencies**
- **Financials** (balance sheets, income statements, profit and loss statements)
- **Line of Credit (LOC) Usage**
- **Drop in Average Deposit Balances**
- **Covenant Compliance**
- **Quarterly Occupancy Rates**
- **Updated Insurance Policy**
- **Rent Rolls**

Tracking Questions

Here are a few questions to consider for better tracking processes:

How is your financial institution tracking exceptions today? Is it a manual process?

If you are tracking exceptions in a spreadsheet, how accessible is it to others at your financial institution besides the person who created it?

If the creator of the tracking exceptions spreadsheet is out of the office (PTO or unexpected leave), how are others able to know any updates without access to the spreadsheet/program?

Do you have multiple people tracking different items in multiple tracking exceptions spreadsheets? Are the reports on those all done separately?

How much time is spent on adding or updating exception tracking items?

How about sending emails notifying relationship managers of outstanding or upcoming tracking items?

How could automating exception tracking allow your team to add value in other aspects of the loan process?

Have you had any comments from auditors/regulators asking more about how your tracking items are added/monitored? Are they asking for more concise reporting?

The Benefits of Streamlined Exception Tracking and Portfolio Monitoring

By building continuous, proactive processes, risk management becomes integrated into your institution's everyday workflows. Baker Hill NextGen® Exception Tracking and Portfolio Monitoring capabilities ensure consistency and completion throughout the origination process and the portfolio management process.

Financial institutions can't afford to have a weak exception tracking process because the mishandling of exceptions can result in financial losses, operational inefficiency, reputational damage, and even audit findings.

Baker Hill NextGen® consolidates portfolio management across all business lines to ensure accurate tracking consistency and completeness to support your risk management program.

As a core component, Baker Hill NextGen® establishes a consistent process for managing risk across lines of business by providing a flexible framework to securely monitor document, policy, compliance and exception management across all teams. By automating the administrative and relationship aspects of portfolio management, financial institutions experience decreased loan loss, a reduction in risk exposure, and an overall decline in client-servicing costs.

Banks and credit unions can experience substantial operational efficiency by managing ticklers from a single dashboard. Being able to generate pre- and post-closing tracking/tickler items within your loan origination process, monitoring policy exceptions, and capturing reportable data increases transparency and ease of use across the entire institution.

Process consistency allows users to quickly structure, secure and manage tracking items for one or more lines of business with:

- **Automation** to eliminate process burdens
- **Elimination** of repeatedly entering the same data over and over
- **A sustainable ecosystem** of efficient processes and scalable growth
- **A balanced human/digital experience** that creates a better experience for your customers
- **Unique views and checklist templates** to meet departmental needs through configuration
- **Controlled access to data** based on every user's role and security profile within each line of business
- **The ability to build checklists quickly** from a pre-defined list of tracking items
- **Assurance that complete and relevant information** is gathered and retained
- **One centralized location for client-facing staff to go for information** regarding ongoing monitoring to reduce the risk of ineffective portfolio management

Why Choose Baker Hill NextGen®

Risk management software like Baker Hill NextGen® Exception Tracking and Portfolio Monitoring has powerful functionality to effectively manage your exceptions. Here's how:

- **Reports:** Enterprise-wide data gathering to review and identify risk.
- **Queries:** Quick and easy function to get your arms around the granular data and manage it from a single place.
- **Tracking Items:** Efficiently identify, manage, review, complete and report on those pre- and post-closing items you need to obtain.
- **Team Members:** Clearly identify roles and responsibilities for all your team members and be able to easily supply your teams with reporting to ensure timely management of relationships.
- **Dashboards:** Charts and graphs to provide a clear visual of the data you want to monitor, from an enterprise level all the way down to the single loan level.
- **Notices and Letters:** Create notices and letters for your whole portfolio or individual loans.
- **Client Portal:** Safely communicate with your customers and securely gather documentation.
- **Credit Policy:** Your credit policy is built into the solution to automatically trigger messages to your team. Take the guess work out of whether or not a loan is being originated within your policy tolerances.