



**Southwest Lending
& Collections Conference**

Regulatory Climate for Member Business Lending

Presented by Ancin R. Cooley CIA, CISA
Synergy Credit Union Consulting

About the Instructor



Presenter bio

Ancin Cooley is a Principal with Synergy Consulting, Inc. and has primarily focused his practice on providing financial institutions with services such as strategic planning, internal audits, directors' exams, and regulatory compliance reviews.

He holds both the Certified Internal Auditor (CIA) and Certified Information Systems Auditor (CISA) designations. He is also a member of the Institute of Internal Auditors, Appraisal Institute, and Risk Management Association. In addition to his consulting services, Ancin Cooley provides training to credit unions on several topics.







\$275,000 in assets

**\$11,000,000,000 in
assets**

Credit Union Services

- Asset Based Strategic Planning
- Growth Consulting
- CEO Assistance Retainer
- Board Therapy
- Governance Training and Consulting
- Board and Supervisory Committee Training
- MBL Audits

"Hands on training delivered directly to You"

Credit Union.Training

presented by



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Synergy Credit Union Consulting

Mission: Save Credit Unions

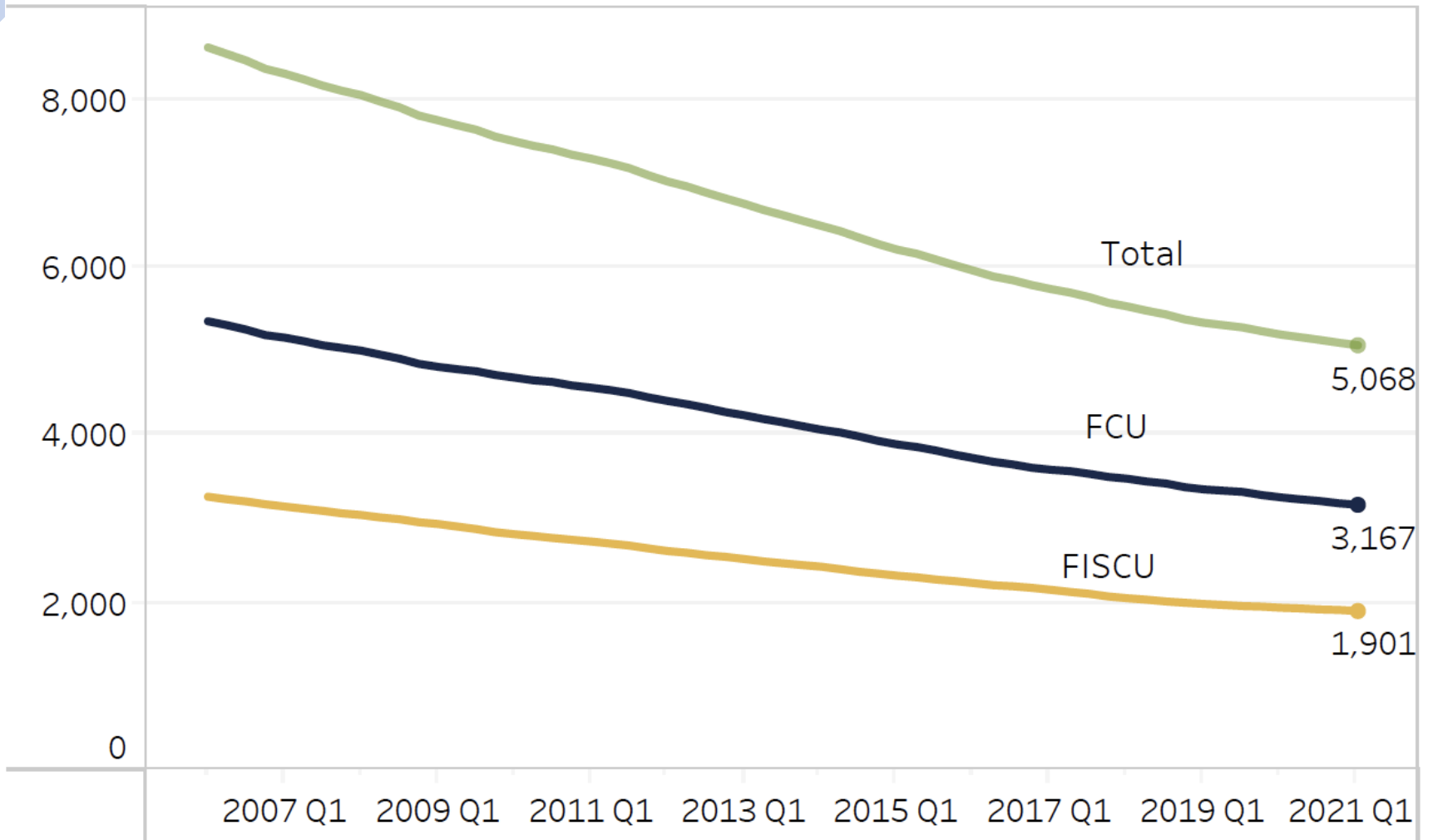


Let's Level Set First....

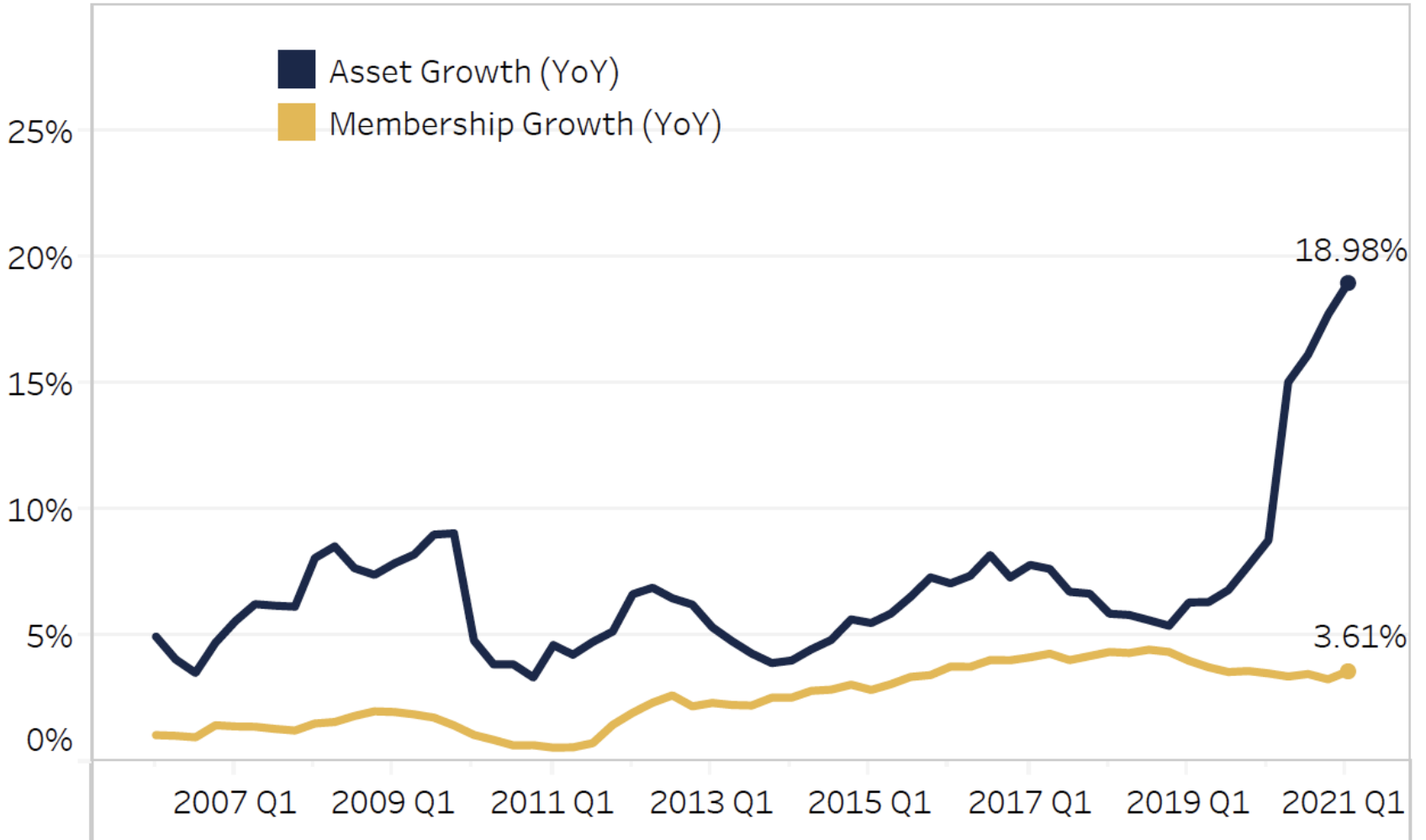


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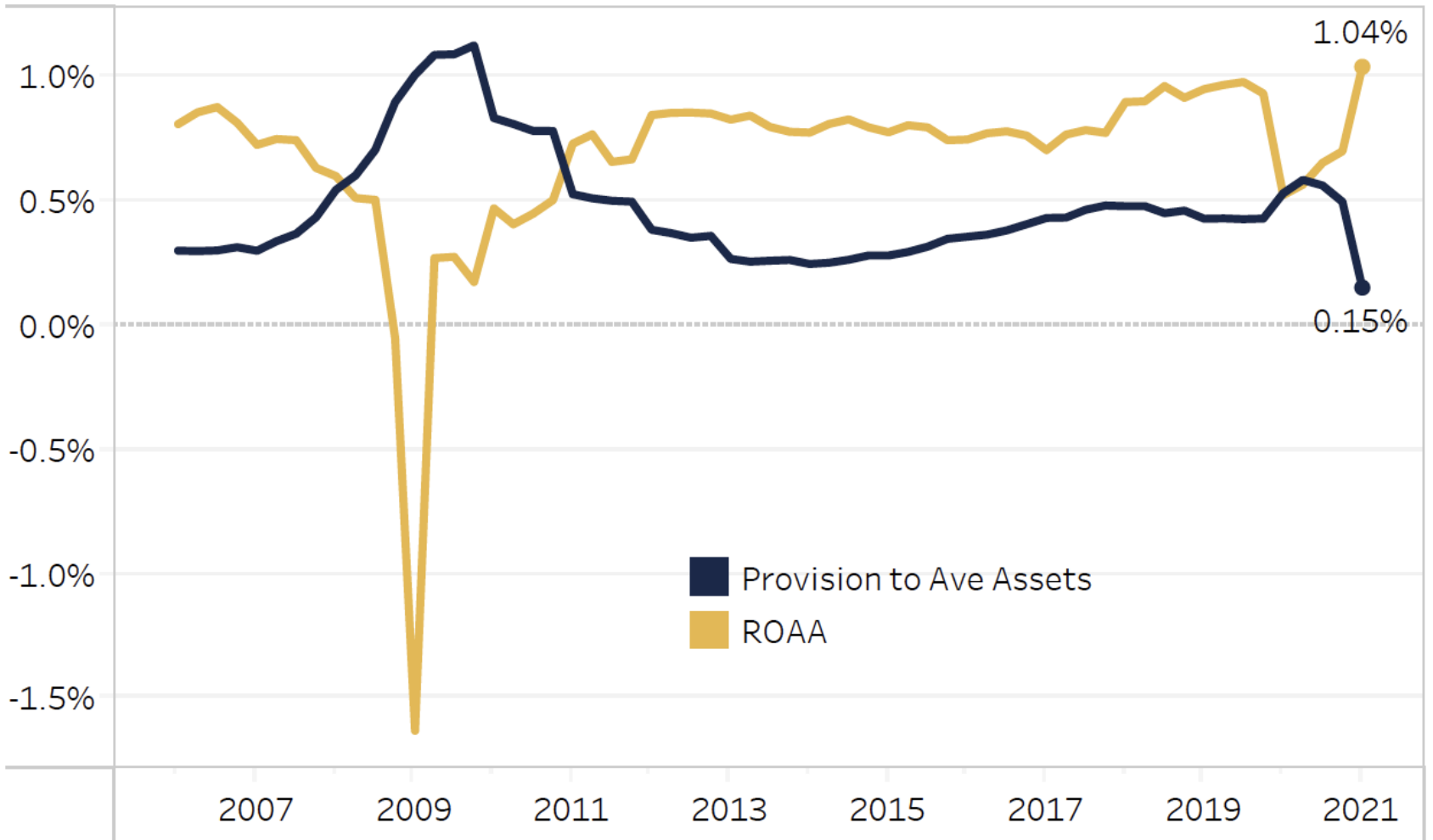
Number of Insured Credit Unions Reporting



Asset Growth vs. Membership Growth



Return on Average Assets vs. Provision for Loan & Lease Losses

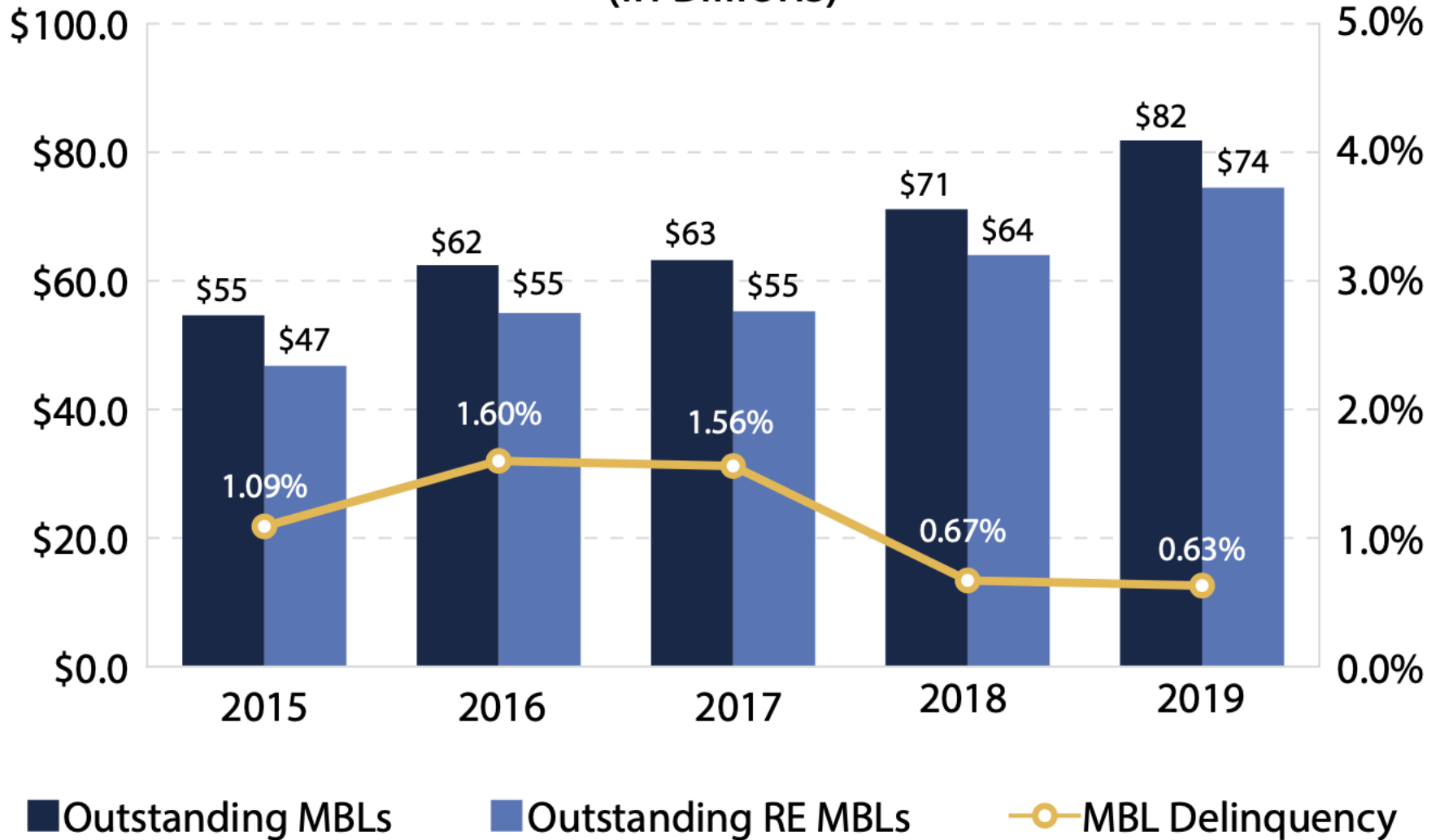




Summary of Trends by Asset Group

	<\$50M	\$50M to \$100M	\$100M to \$250M	\$250M to \$500M	\$500M to \$1B	\$1B to \$10B	>\$10B
Number of FICU Reporting	2,616	694	714	367	289	370	18
Total Assets	\$43,424M	\$50,067M	\$114,111M	\$128,946M	\$204,611M	\$969,971M	\$438,343M
Average Assets / CU	\$17M	\$72M	\$160M	\$351M	\$708M	\$2,622M	\$24,352M
Net Worth / Total Assets	11.99%	10.87%	10.20%	9.82%	9.92%	9.98%	9.83%
Average Net Worth Ratio (non-dollar weighted)	13.88%	10.96%	10.32%	9.92%	10.03%	10.02%	9.90%
ROAA	0.25%	0.51%	0.58%	0.67%	0.83%	1.08%	1.42%
Net Int Inc to Ave Asset	2.59%	2.59%	2.58%	2.57%	2.64%	2.45%	2.78%
Fee & Other Inc to Ave Asset	0.79%	1.08%	1.21%	1.32%	1.38%	1.34%	1.19%
Operating Expenses to Ave Assets	3.12%	3.15%	3.20%	3.19%	3.18%	2.69%	2.38%
Provision to Ave Assets	0.08%	0.08%	0.07%	0.09%	0.11%	0.13%	0.28%
Loan to Share	49.31%	54.48%	59.92%	64.99%	70.02%	71.71%	68.94%
Delinquency Rate	0.79%	0.55%	0.48%	0.44%	0.44%	0.37%	0.65%
Real Estate Delinquency Rate	0.72%	0.47%	0.42%	0.37%	0.38%	0.34%	0.63%
Commercial/MBL Delinquency Rate	1.68%	1.30%	1.01%	1.03%	0.87%	0.56%	0.77%
Net Charge-Offs to Ave Loans	0.27%	0.24%	0.23%	0.23%	0.25%	0.25%	0.56%
Net Long Term Asset / Total Assets	16.71%	24.33%	29.41%	33.27%	36.51%	37.52%	38.16%
Cash + ST Investment to Asset	35.54%	29.77%	25.21%	22.12%	19.20%	19.40%	18.87%
Borrowings to Shares & NW	0.06%	0.25%	0.46%	0.93%	1.56%	2.24%	3.73%

Commercial/Member Business Loans & Delinquency (in Billions)



* Reporting requirements for loans were changed with the September 2017 cycle to accommodate the regulatory definition of commercial loans.

Does NCUA Require Loans be Guaranteed by the Principals of the Borrower, and Who Should Guarantee the Loans?

No.. but.. waiving the guarantee should be considered an exception because personal Guarantees provide an important element of financial integrity to commercial loan transactions. When a guarantee is not required, credit unions should detail in the approval document(opens new window) the justification and mitigating factors that offset the additional risk associated with an unguaranteed loan.

Does Are Credit Unions Required to Follow the Regulatory Adverse Loan Classifications of Substandard, Doubtful and Loss?

No, but the approach is consistent with the regulatory standard. Part 723 requires credit unions to monitor the levels and changes in risk in individual loans and in the overall commercial loan portfolio by administering an accurate credit-risk rating system (opens new window). The rule does not specify any particular risk ratings or definitions.

United States Government Accountability

GAO

Report to the Ranking Member,
Committee on Financial Services,
House of Representatives

May 2011


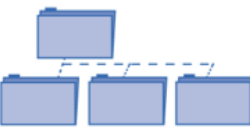

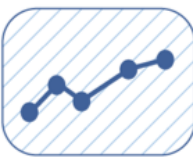



BANKING REGULATION

Enhanced Guidance on Commercial Real Estate Risks Needed



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Figure 1: Bank Internal Control Areas for Managing Commercial Real Estate Concentration Risk Based on 2006 Guidance

						
<p>Board and management oversight</p> <p>Example: Establishing policy guidelines and approving an overall CRE lending strategy regarding the level and nature of CRE exposures acceptable to the bank.</p>	<p>Portfolio management</p> <p>Example: Developing appropriate strategies for managing CRE concentration levels, including a contingency plan to reduce or mitigate concentrations in the event of adverse CRE market conditions.</p>	<p>Management information systems</p> <p>Example: Providing management with sufficient information to identify, measure, monitor, and manage CRE concentration risk.</p>	<p>Market analysis</p> <p>Example: Providing management and board of directors with information to assess whether the bank's CRE lending strategy and policies continue to be appropriate in light of changes in CRE market conditions.</p>	<p>Credit underwriting standards</p> <p>Example: Establishing sound lending policies for CRE loans.</p>	<p>Portfolio stress testing and sensitivity analysis</p> <p>Example: Performing portfolio-level stress tests or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings, and capital.</p>	<p>Credit risk review function</p> <p>Example: Assessing credit quality and identifying problem loans.</p>



**What is
Risk
Appetite
?**

What is Risk?

Risk Appetite Defined:

Risk appetite is the amount of risk, on a broad level, an organization is willing to accept in pursuit of value. Each organization pursues various objectives to add value and should broadly understand the risk it is willing to undertake in doing so.

What is Risk

Definition: possibility of loss or injury



Risk Appetite and Risk Tolerance Example:



Types of Risks in Credit Unions

Credit Risk:

Credit risk is the risk to current or anticipated earnings or capital arising from an obligor's failure to meet the terms of any contract with the credit union or otherwise perform as agreed.

Types of Risks in Credit Unions

Credit Risk Example:



The Interagency Guidance on Credit Risk Review Systems

“Back of a Napkins Review of the Guidance”

Independent 27 times

Independence 24 times

Must 2 times

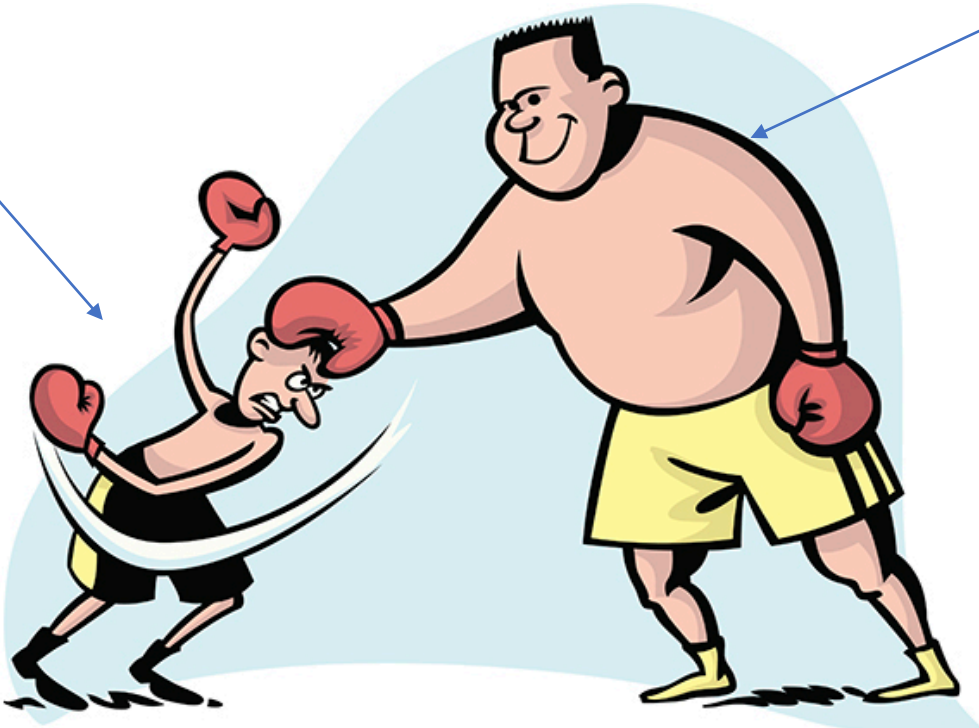
May 68 times

“The Loan Review should be in the same weight class”

Asst. Vice
President of
Loan Review

Chief Lending
Officer

Senior Lender



or LRO

Ancin's Top Ten or Three Credit Risk Pet Peeves



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31 Flavors of Risk Ratings

© Baskin Robbins

A cartoon illustration featuring two characters against a background of horizontal wooden planks. On the left, a character with spiky blue hair, wearing a white lab coat over a teal shirt, stands with a stern expression. He is holding a green wallet with a 'C' on it, from which a large pile of orange coins is spilling out. On the right, a character with brown hair, wearing a yellow shirt, is looking through large green binoculars with a serious expression.

Loan Officer

Credit Analyst



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Appraisers
who also
Invest in the same market
they perform appraisals

You dipped the chip... you took a bite... and you dipped again.



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Best Practices

Want to Optimize Deal Flow? Ask Your Analyst these questions

- What loan types or industries give you the most trouble?
- Which loan officer do you like to work with the least?
- Do you concentrate better in the morning or the afternoon?
- Are there any additional areas in the credit department you would like to learn more about?

Consistency audits: What would happen if you gave all your analysts the same file?



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Key outcomes: 1) Risk Appetite Calibration 2) Identification of Industry Bias and 3) Understand Thought Process



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