A CLIENT SUCCESS STORY
FROM A $7 BILLION DOLLAR COMMERCIAL BANK

A $7 billion dollar Northeastern bank wanted a more proactive approach to loan reviews and monitoring the risks within its loan portfolio. The challenge was finding a solution that had proven results and could automate and streamline their highly manual process.

THE CHALLENGE

A community bank located in the Northeast had two easily relatable goals. They wanted to first reduce the amount of time spent on annual loan reviews and second switch from a manual and judgmental process to a proactive approach to migrating risk ratings on the commercial portfolio.

Using a manual and judgmental system was taking too much time and bandwidth, and they knew there was room for efficiencies with all the data at their fingertips. In addition, their corporate risk-rating matrix was still manual. Their matrix included a financial review, loan repayment history, a threshold of a certain dollar amount, and credit score data – all with different weightings. Handling this with a manual process understandably created slowdowns.

The institution knew what they needed to do to improve efficiencies, but they needed a partner with the correct solution to help them achieve their goals. Enter Baker Hill.

THE SOLUTION

Baker Hill Portfolio Risk Management allows financial institutions to address the overall risks and opportunities within their loan portfolio. It can improve efficiencies and lower operating costs related to portfolio monitoring, integrate multiple sources of information about client interactions into one platform to manage risk, and utilize a single-database approach to allow for more comprehensive reporting and analysis. Considering the bank's goals, Portfolio Risk Management was the logical choice.

THE RESULTS

According to the bank, before Portfolio Risk Management it was difficult to get the loan review and special assets groups on board to use a behavior mechanism. They were doing financial reviews sometimes four months after year-end! However, the key was seeing the warning signs appear before financial review thanks to Portfolio Risk Management.

Prior to Baker Hill, smaller commercial credit and consumer loans were handled on a reactive basis. It was a challenge to get the departments to change to be proactive. With the help of Portfolio Risk Management, the credit department was able to demonstrate there was segmentation and a migration of two categories. Once a loan hit 60 days past due, it would change to substandard and then charge off. They would watch the risk ratings go from pass to watch to substandard.

This information allowed the bank to consider if they wanted to work with the client or come up with an exit strategy. Thanks to Portfolio Risk Management, the credit department was able to demonstrate the ability to migrate credits and reduce the overall charge offs in the portfolio. The clients were happy that someone was willing to work with them on how to reduce expenses and the bank was able to develop a better rapport with the client in a workout situation.

The credit department learned that some of the early warning indicators were behavioral and they affected the probability of default while other indicators have a correlation to delinquency. This made for better-informed lending.

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Even though it was a big change to switch from a reactive approach to a proactive approach, the results were noticeable and allowed the team to put more loans through the system with better risk management and more efficiency. On estimate, the staff was able to save at least an hour on the amount of time they used to spend on one risk rating change form. They averaged around 20 downgrades a month, so this resulted in being able to cut their work by 20 hours each month!

The bank was able to reduce their cost when it comes to annual reviews on the portfolio too. The bank had 2,200 lines of credit in their small business portfolio that they were performing a full review on every year. This required three to four people and about half of the year to accomplish. After using Portfolio Risk Management for a little over a year, they were able to switch to an automated review of 1,800 of the 2,200 lines and reduce labor to one person for half a year.

With increased efficiency, the institution was able to take their savings and apply them to the cost of the software.

Baker Hill Portfolio Risk Management helped this bank reduce costs and increase efficiencies – and it can do the same for your institution.

Baker Hill empowers progressive financial institutions to increase revenue, reduce risk, and drive more profitable relationships. As the #1 provider of member business lending services, Baker Hill serves 500 financial institutions, including more than 20% of the top 150 banks in the U.S.

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