



CLIENT SUCCESS STORY
STAR FINANCIAL BANK

STAR Financial Bank sought a more effective approach to understanding the risks and requirements within its loan portfolio. The challenge was finding the most comprehensive view of risk.

THE CHALLENGE

STAR Financial, a \$1.7 billion community bank with 51 locations in central and northeast Indiana, was among the earliest adopters of advanced technology services. However, inefficient processes were hindering STAR Financial's ability to effectively manage loans while complying with numerous ongoing regulations. To calculate its quarterly Allowance for Loan and Lease Losses (ALLL), STAR Financial, like many community banks, was using Excel-based models.

"Our home-grown spreadsheet methodology was prone to errors and omissions," Bill Wingrove, Chief Credit Officer, notes. "It did not provide a sufficiently robust way to understand historical losses or develop a methodology for our allowance. We wanted to do a loss-migration analysis, so any ALLL service we would implement would also have to accommodate that methodology."

THE SOLUTION: BAKER HILL SOFTWARE AND MST LOAN LOSS ANALYZER

STAR Financial initially employed Baker Hill software to manage tickler files and spread financial statements in the 1990s. The institution incorporated a combination of Baker Hill's commercial customer relationship management system, pricing methodology and financial analysis for "more proactive and comprehensive loan management," according to Wingrove. STAR Financial also added MainStreet Technologies' (MST) Loan Loss Analyzer to manage capital and develop its allowance.

Wingrove calls the combination of Baker Hill and MST "a happy marriage of two perspectives." Baker Hill solutions provide a view of credit and operational risk relative to a specific borrower/customer relationship or industry group. The data resident in MST's Loan Loss Analyzer is related to historical migration of loan grades and performance, which reveals probabilities of default (PD) and loss given default (LGD) to support the ALLL and other verticals, such as stress testing and loan pricing.



"If you are not looking forward, you are at risk of falling behind. Any time you can look ahead with more insights and fewer assumptions, you are much better off. This is what we are getting from the collective products of Baker Hill and MainStreet Technologies and their collaboration in addressing our challenges."

Bill Wingrove | Chief Credit Officer | STAR Financial



“How you manage the data you have is key to making good decisions,” Wingrove explains. “Bringing these two approaches together gives us the flexibility and the ability to respond to loan- and portfolio-level issues.” Relative to the need for more and more complex loan data to manage risk as well as to comply with regulations, “the different perspectives are of substantial value,” Wingrove notes. “Combined, the two products provide a more comprehensive approach with more flexibility and more efficient use of the data.”

THE RESULTS

Increased Compliance

A coordinated approach by the two providers means new efficiencies for banks implementing both Baker Hill solutions and MST’s Loan Loss Analyzer. Beyond implementation cost savings, integrating the two products will provide advantages in adhering to the impending Financial Accounting Standards Board (FASB) accounting requirement (Current Expected Credit Loss, or CECL) for banks to adopt a forward-looking approach to understanding and reporting on their loan portfolios.

“We’ve been taking steps to understand how CECL will work and how we need to manage, retain and acquire the data necessary to be in front of CECL better,” Wingrove explains. “Baker Hill and MST both are going in that direction from different angles, and having the ability to use both tools together gives us great flexibility and functionality. That is a true enhancement to what each group does independently.”

Stress Testing

Wingrove finds the two products complementary in supporting another of the bank’s journeys: stress testing. “With the Baker Hill statement spreading solution, we are able to stress test specific loans and relationships while MST’s Loan Loss Analyzer allows us to stress test from a portfolio perspective, integrating the quantitative and qualitative factors that impact the allowance,” says Wingrove. “We are moving from an accounting environment to an environment of great expectations as to how we are modeling, how we are reviewing and how we are testing. Bringing the capabilities of Baker Hill and MST together provides significant advantages to a bank.”



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