

# CONNECT

POWERED BY CBA

## *How to Grow Loans & Manage Credit Risk in Uncertain Times*

David Ruffin, *Principal of IntelliCredit*

*June 6, 2024*



# Today's Speaker



**David Ruffin**  
Principal  
IntelliCredit

- 50 Years in Banking
- 16 years as Chief Credit Officer / Commercial Lender
- 3,000+ Loan Reviews
- ~350 Capital Raise or M&A Due Diligences
- Former Co-Founder of Credit Risk Management
- Prolific author and speaker on credit risk topics

678.797.4057

[david.ruffin@intelligcredit.com](mailto:david.ruffin@intelligcredit.com)



# Affordable Fintech Solutions for Real Bank Problems.



QwickRate®

- Non-brokered Funding and Investing
- DTC CDs, Other Fixed Income Investments  
(*QwickBonds*)



IntelliCredit™

- Loan Review Services (*by our experts*)
- Loan Review Tool (*for your internal team*)
- Annual Review Tool
- Portfolio Analytics and more



QwickAnalytics®

- CECL Solver Compliance Tool
- Credit Stress Test
- Bank Research, Performance Metrics and Analysis



# This Conference is About YOU!

Let's get started with  
some interactive  
polling...



QwickRate®



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# What Do You Think?




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*A division of QwickRate*



# How to Grow Loans






# Embrace SBA, FmHA and other government guaranteed loan programs

U.S. SMALL  
BUSINESS  
ADMINISTRATION




An aerial night view of a city with a network of icons overlaid. The icons include a dollar sign, a padlock, a shopping cart, a person silhouette, a house, a document, and a globe. The text "Explore participations— from reliable sources" is centered in white.

Explore participations—  
from  
reliable sources



Give up on “all things to all people”—find niches that you’re good at




An aerial night view of a city with light trails from traffic. Overlaid on the image is a network of white lines connecting various financial and business icons: a dollar sign, a padlock, a credit card, a person silhouette, a document with a dollar sign, a piggy bank, and a person silhouette. The text is centered in white.

Look for quality borrowers where  
spigots curtailed at larger banks  
(*due to concentrations*)



Look for less traditional opportunities—  
not subject to ecommerce or rooted in  
alternative lifestyles



A large house is under construction, featuring a complex roof structure with multiple gables and a prominent chimney. The exterior walls are partially finished with grey panels, while the roof is covered in reddish-brown tiles. Scaffolding is erected around the house, particularly on the upper levels. In the foreground, there are stacks of construction materials, including metal beams and wooden planks, on a dirt ground. A semi-transparent blue horizontal band is overlaid across the middle of the image, containing white text.

Shed the reluctance to feed  
deficiencies in the local supply  
and demand dynamics

# What Credit Trends Are Telling Us

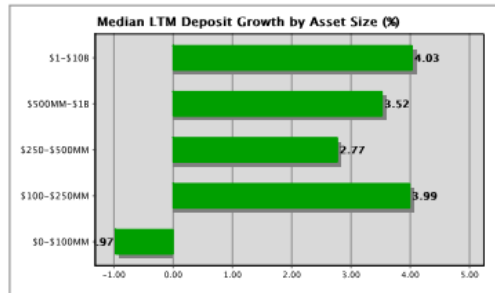
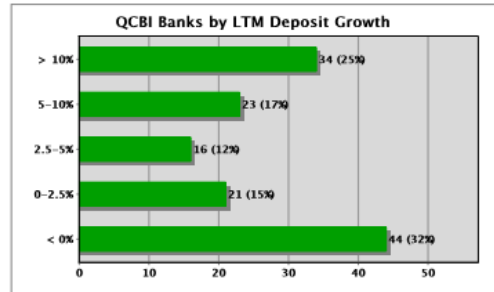
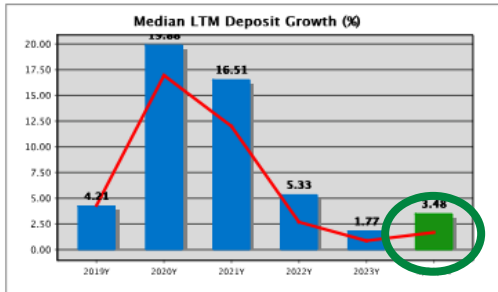


# GA Deposit Growth Trends: Banks <\$10B



## QwickAnalytics State Performance Trends Deposit Growth Trends

Georgia  
Banks  
March 31, 2024



— National Trend

\* LTM = Last 12-months (or "trailing" 12-months)

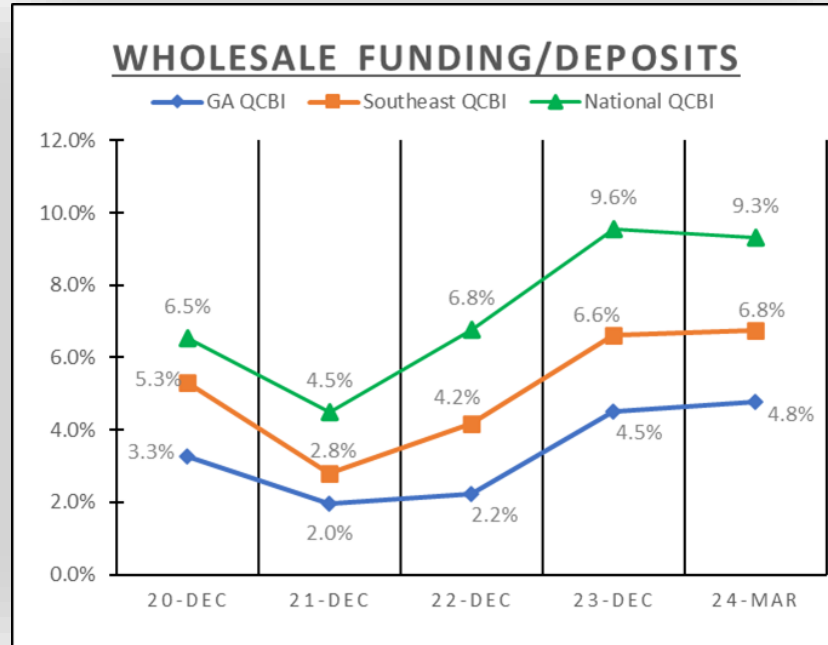
## Q1 '24 Call Report Data

Along with concentrations, a key factor in fueling your customers' fear of a credit crunch ahead!

# GA Wholesale Funding: Banks <\$10B



GA <\$10B / Southeast\* <\$10B / National <\$10B

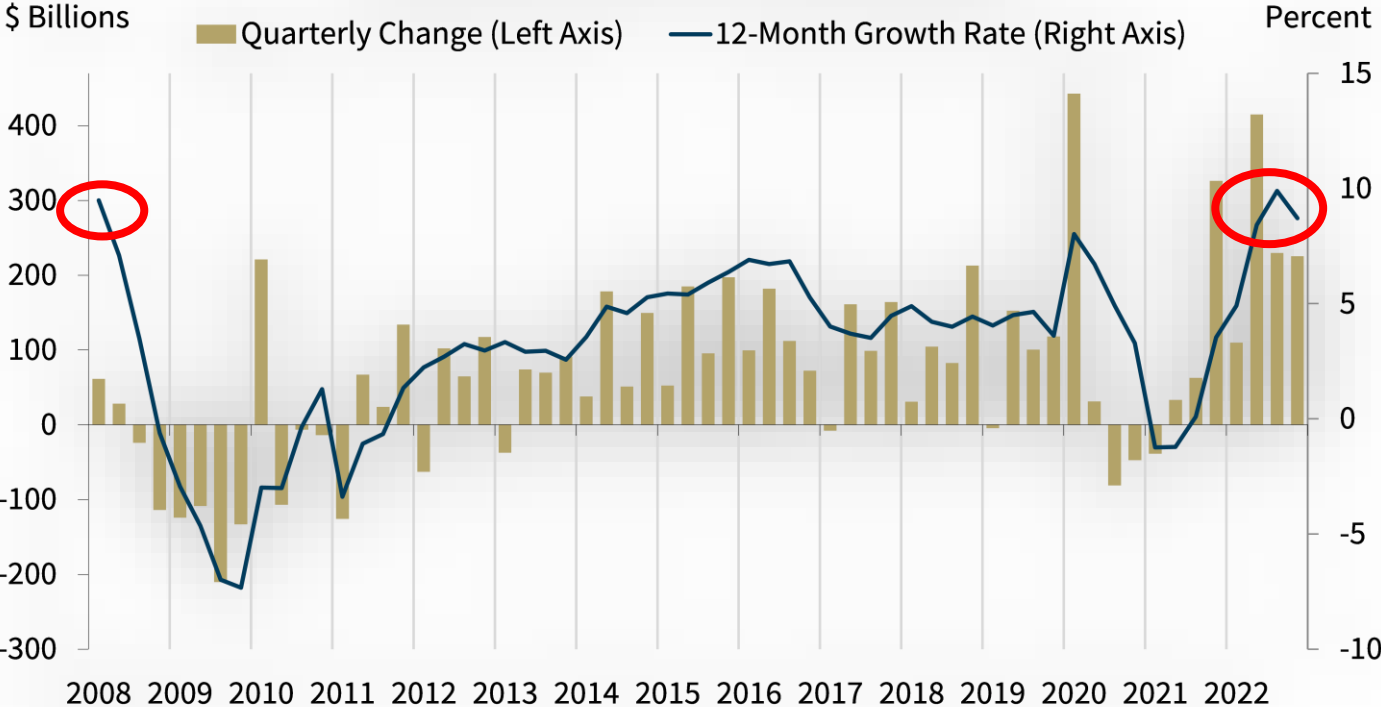


Q1 '24 Call Report Data



# National Loan Growth Trends: All Banks

## Quarterly Change in Loan Balances

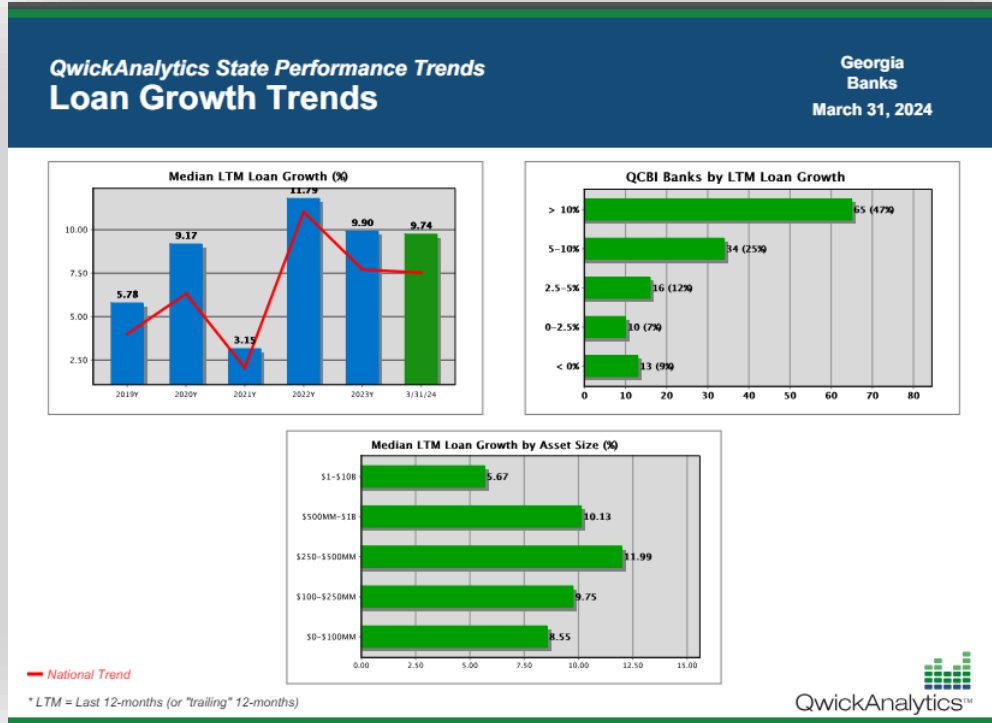




# GA Loan Growth Trends: Banks <\$10B



## Q1 '24 Call Report Data



### Vintages matter:

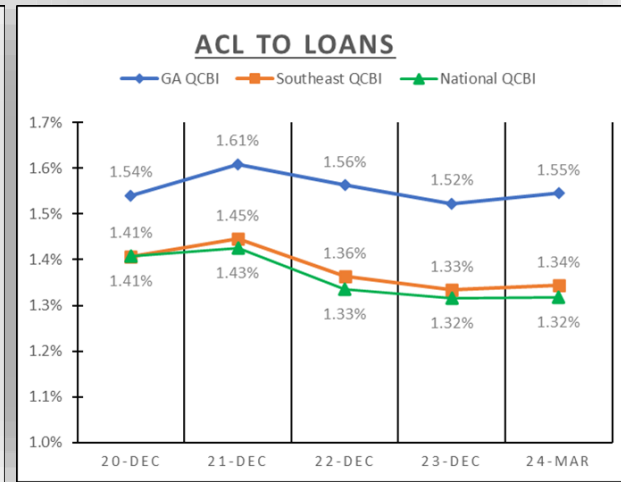
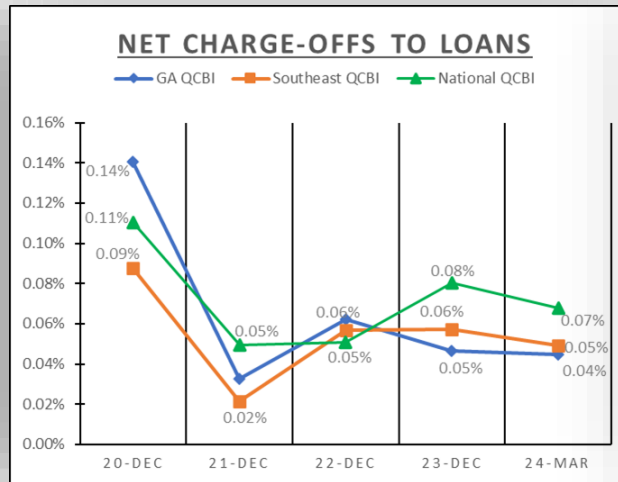
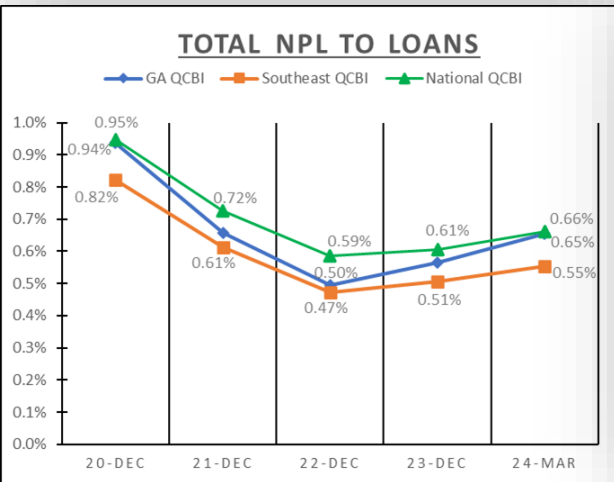
A weakened economy will disproportionately penalize credit quality from the most recent bursts of growth!

# Trifecta of Loan Quality: Banks <\$10B



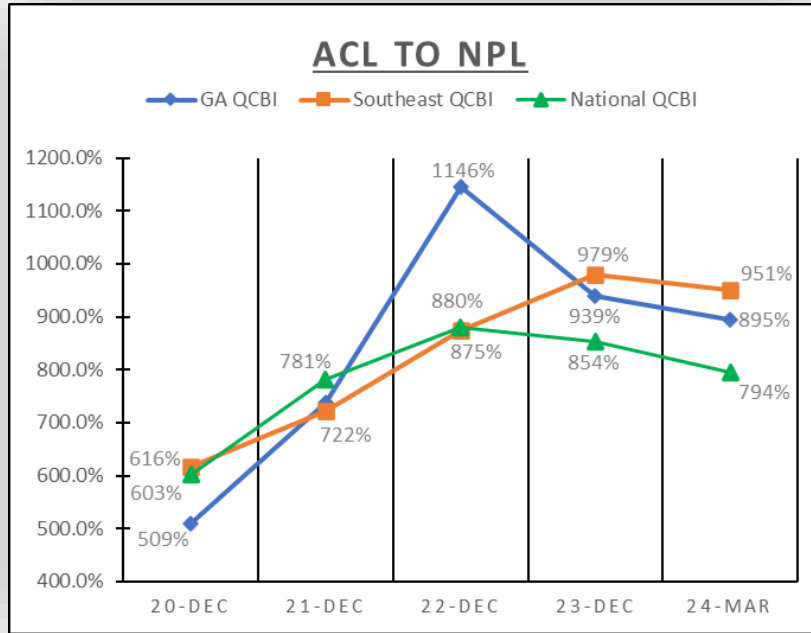
**Q1 '24 Call Report Data**  QwickAnalytics®

**GA <\$10B / Southeast\* <\$10B / National <\$10B**



\*Southeast: GA / FL / SC / NC / VA

# Trifecta of Loan Quality: Banks <\$10B



QwickAnalytics®

## Q1 '24 Call Report Data

- For Community Banks: ACL ↑ 19.3% YOY ('23/'23), but less than larger banks
- All banks reserve coverage ratio declined due to non-current loans increased at pace greater than provisions.

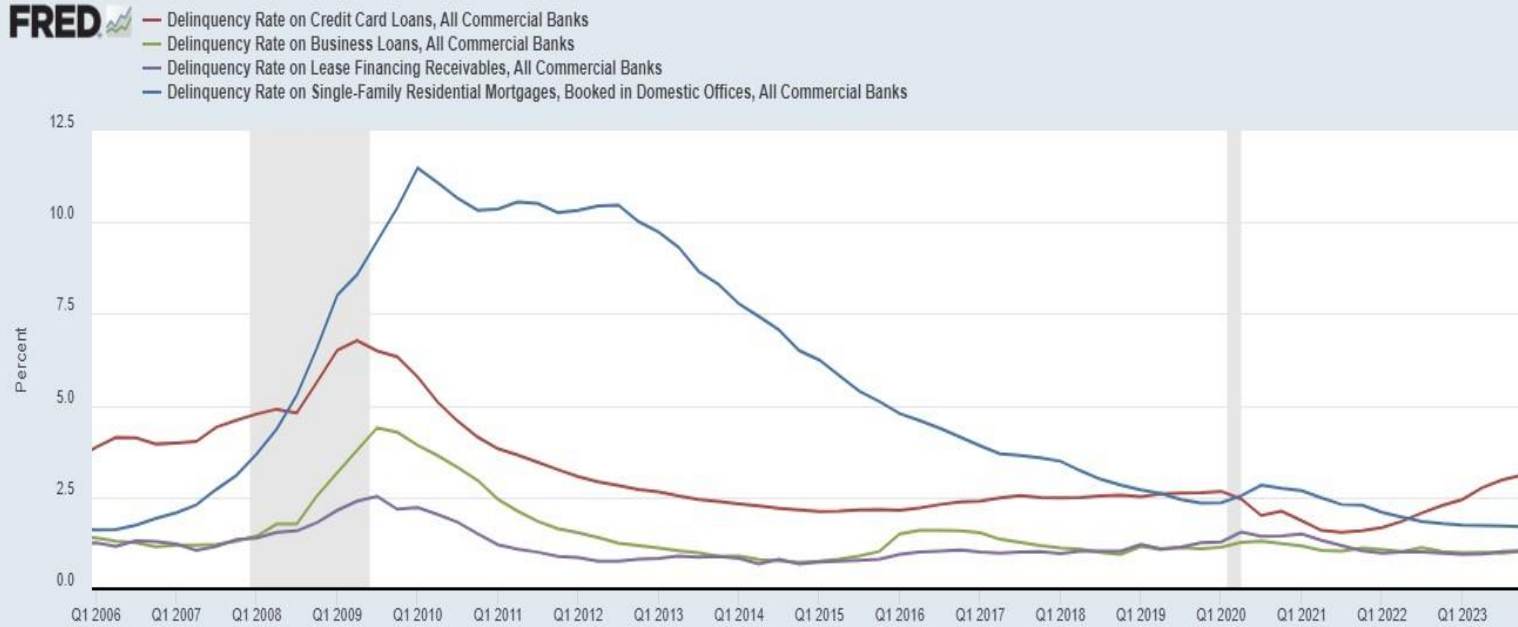
GA <\$10B / Southeast <\$10B / National <\$10B

Source: FDIC



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# Other than consumer, delinquencies manageable



Shaded areas indicate U.S. recessions.

Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org

## 30-day Past Dues\*

- SF Mortgages: **1.69**
- Credit Cards: **3.10**
- Leases: **1.04**
- Business Loans **1.03**

\*Q4 '23

# Loan quality metrics: *stronger in GA > \$1B*

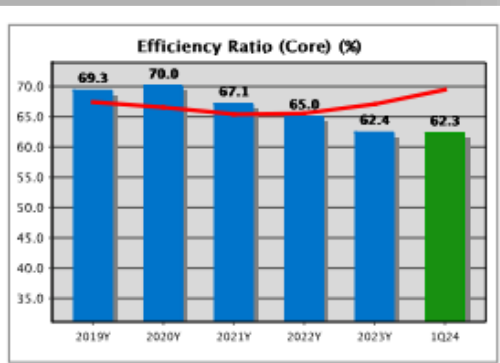
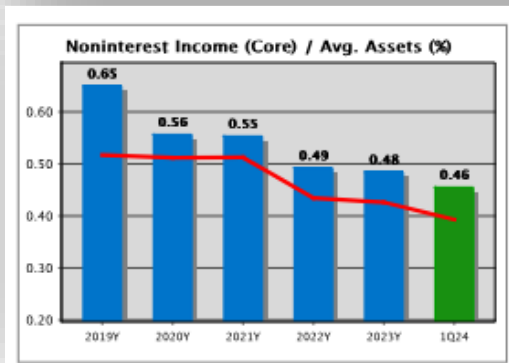
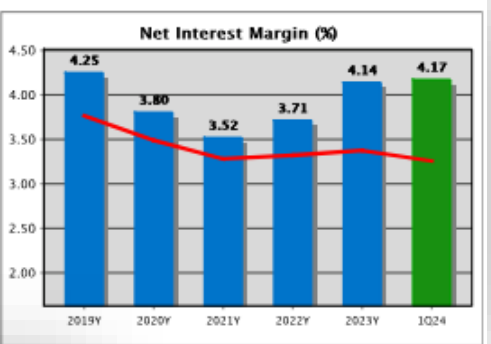
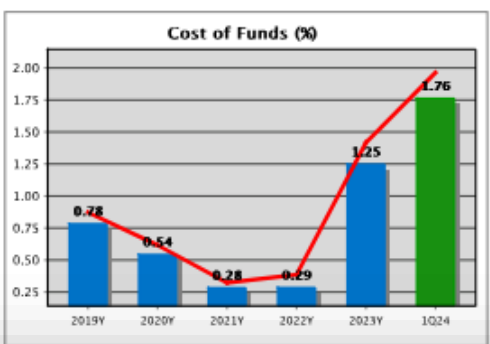
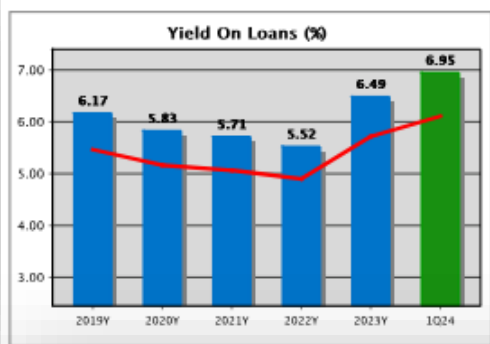


Institution Type	All Insured Institutions ▾			All Insured Institutions ▾		
Geographical Area	Georgia ▾			National ▾		
Report Date	December 31, 2023 ▾			December 31, 2023 ▾		
	All Insured Institutions Georgia December 31, 2023			All Insured Institutions National December 31, 2023		
	All Institutions	Assets Less Than \$1 Billion	Assets Greater Than \$1 Billion	All Institutions	Assets Less Than \$1 Billion	Assets Greater Than \$1 Billion
30-89 Past Due Loans to Total Loans & Leases	0.36	0.64	0.29	0.61	0.53	0.62
Noncurrent Loans & Leases to Total Loans & Leases	0.63	0.64	0.63	0.86	0.54	0.88
Nonperforming Assets to Total Assets	0.47	0.47	0.47	0.47	0.39	0.47

Source: FDIC

# GA Performance Trends

## VERY Positive to National Averages

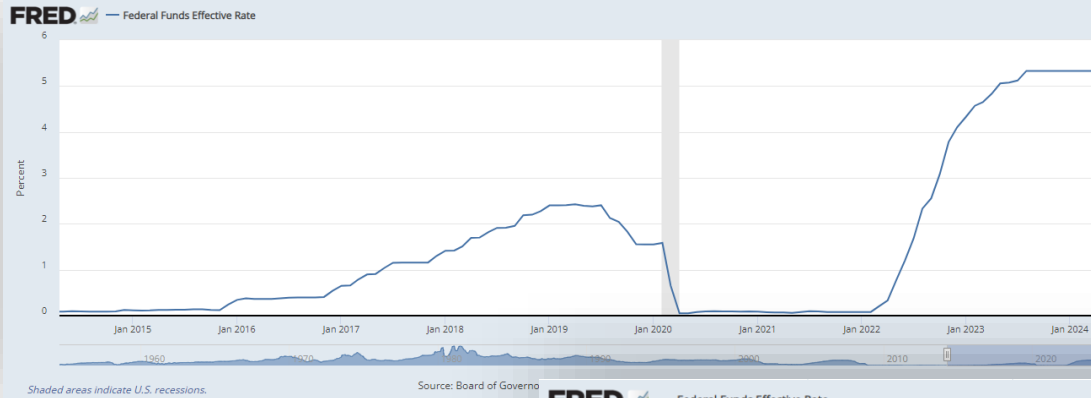


QwickAnalytics®

**Q1 '24 Call Report Data**

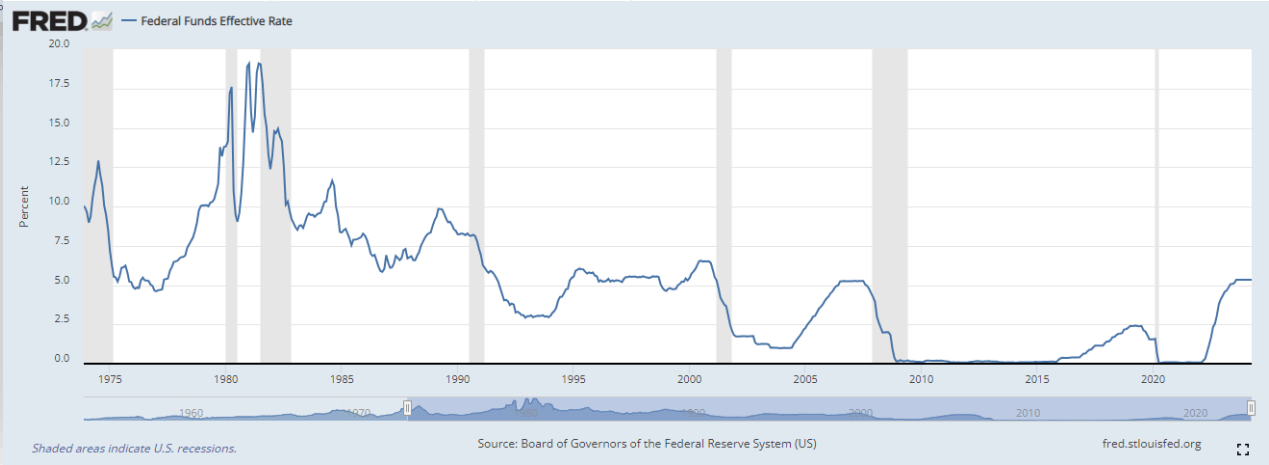
— National Trend

# Fed Funds Rate (Last 10 years / Last 50 years)



👉 Last 10 Years

Last 50 Years 👉



# What are Current Credit Concerns— especially CRE?





# Current Credit Landscape



Credit *performance* still good; only 11% of <\$10B banks have NCO's >10 bps

Post-booking servicing / monitoring needs improvement

Loan demand recently showing some more momentum

The bifurcated *paycheck-to-paycheck* consumer stress is growing

Small businesses feeling disproportionate rate pain

Regulators applying more scrutiny: heightened MRAs / focus on credit process

~\$1.5T of CRE repricing ahead by YE '25: inevitable drag on DSC's yet realized

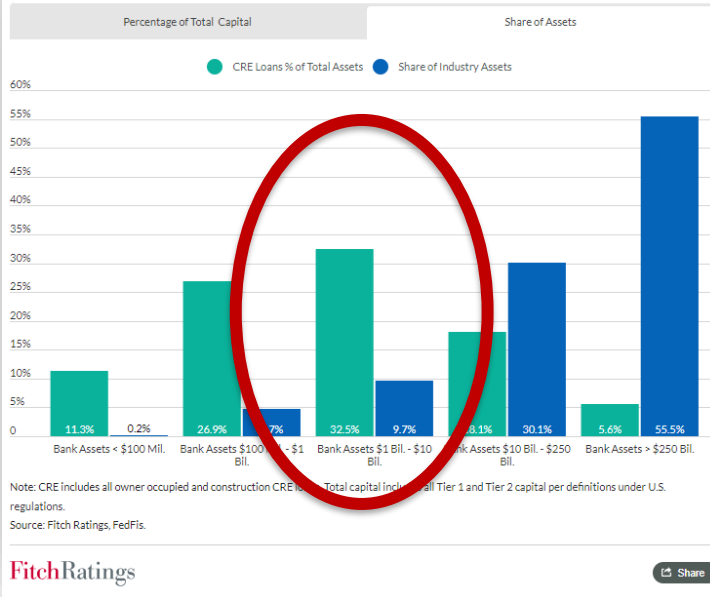
Smaller banks' CRE concerns mount: *multifamily* joining *office* in the spotlight!

# Community And Regional Banks: CRE Has Exploded In Exposure *Just Since The Pandemic!*

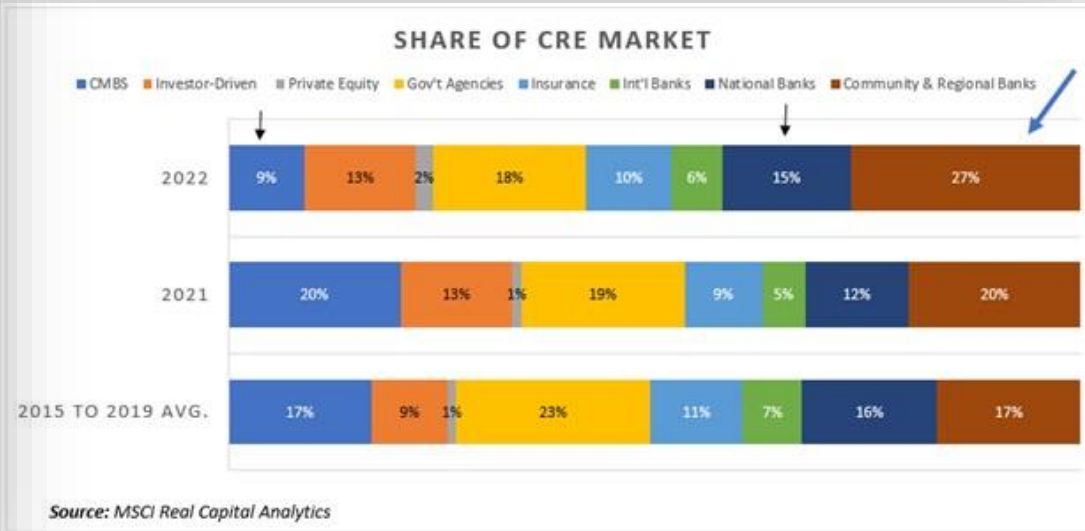
## Commercial Banking Exposure

Smaller Banks Exposure to CRE Significantly Higher than Larger Banks

Higher CRE Exposures and Elevated Loan Growth Have Historically Been Correlated to Small Bank Failures



## All CRE Exposure



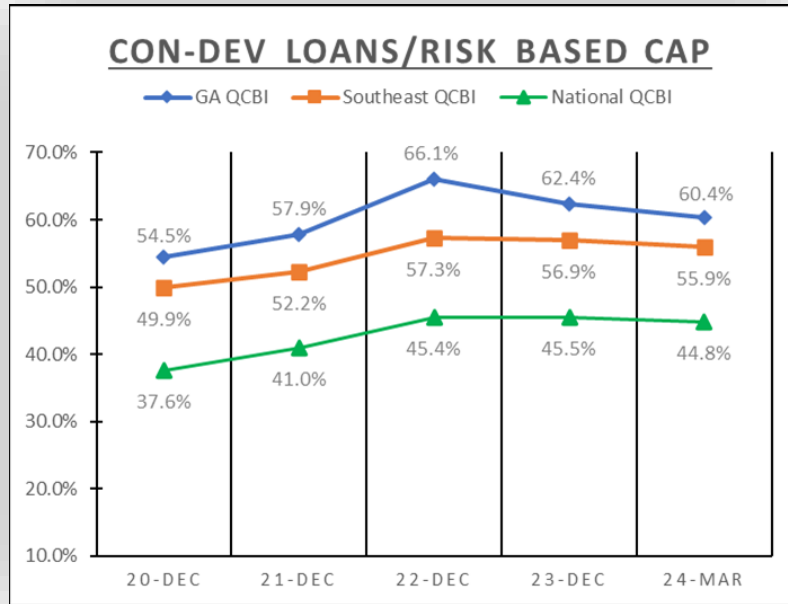
# CRE Concentrations: Banks <\$10B



Regulatory Guidance:  
≤ 100% RBC

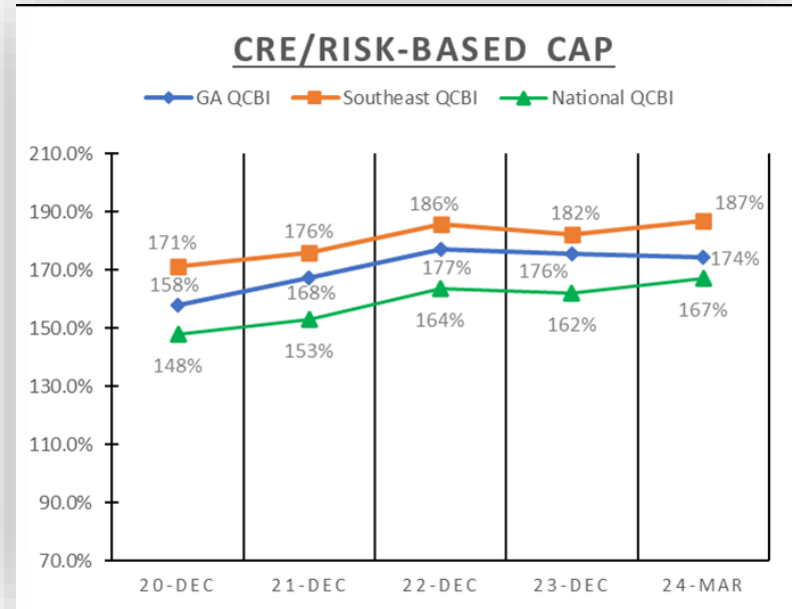
**Q1 '24 Call Report Data\***

Regulatory Guidance:  
≤ 300% RBC



**GA: 16 / Southeast: 33 / National: 225**

**↑ 100%**



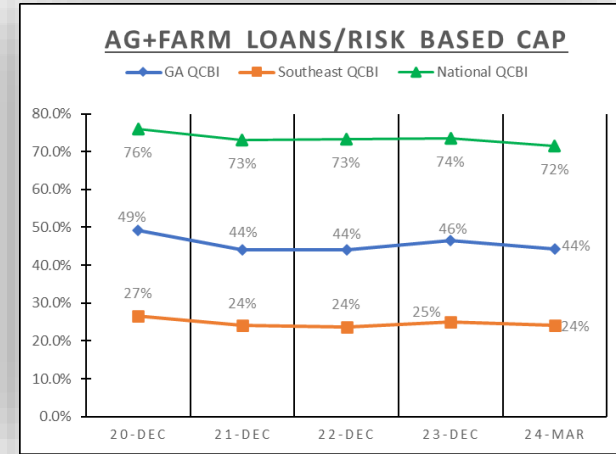
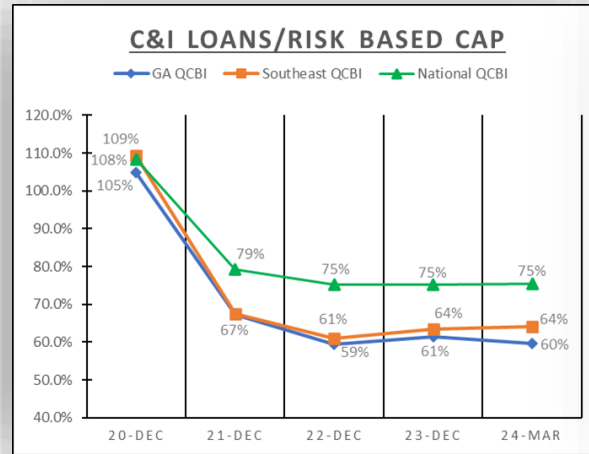
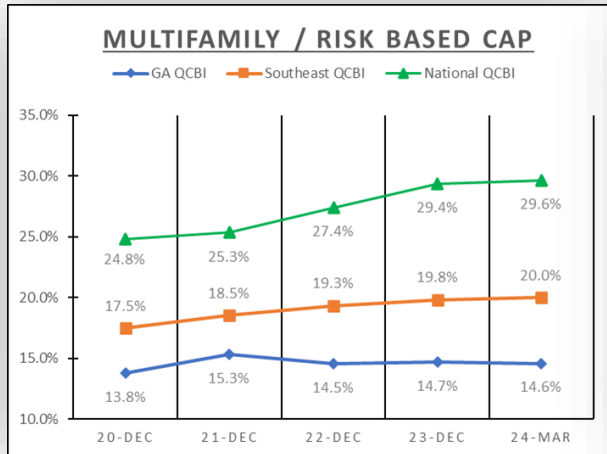
**GA: 9 / Southeast: 35 / National: 323**

**↑ 300%**

# Other Concentrations: Banks <\$10B



GA <\$10B / Southeast <\$10B / National <\$10B



Q1 '24 Call Report Data\*

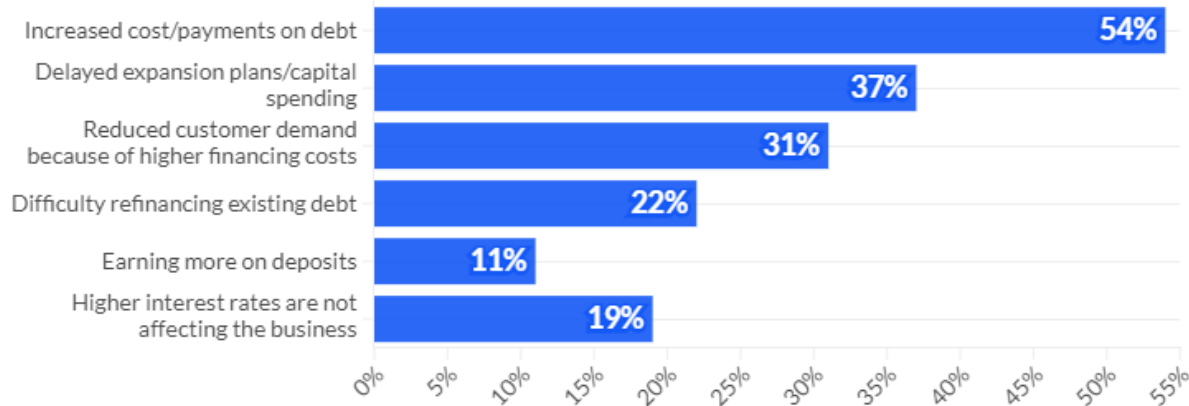
# After Protracted Low Interest Rates . . .



## Small business blues

In a recent survey, more than half of the small businesses that participated said that higher interest rates led to increased debt costs

### ■ Effects of higher interest rates



Source: Federal Reserve banks

--American Banker article, March '24

# Steps to Improve Credit Process / Monitoring, Especially CRE



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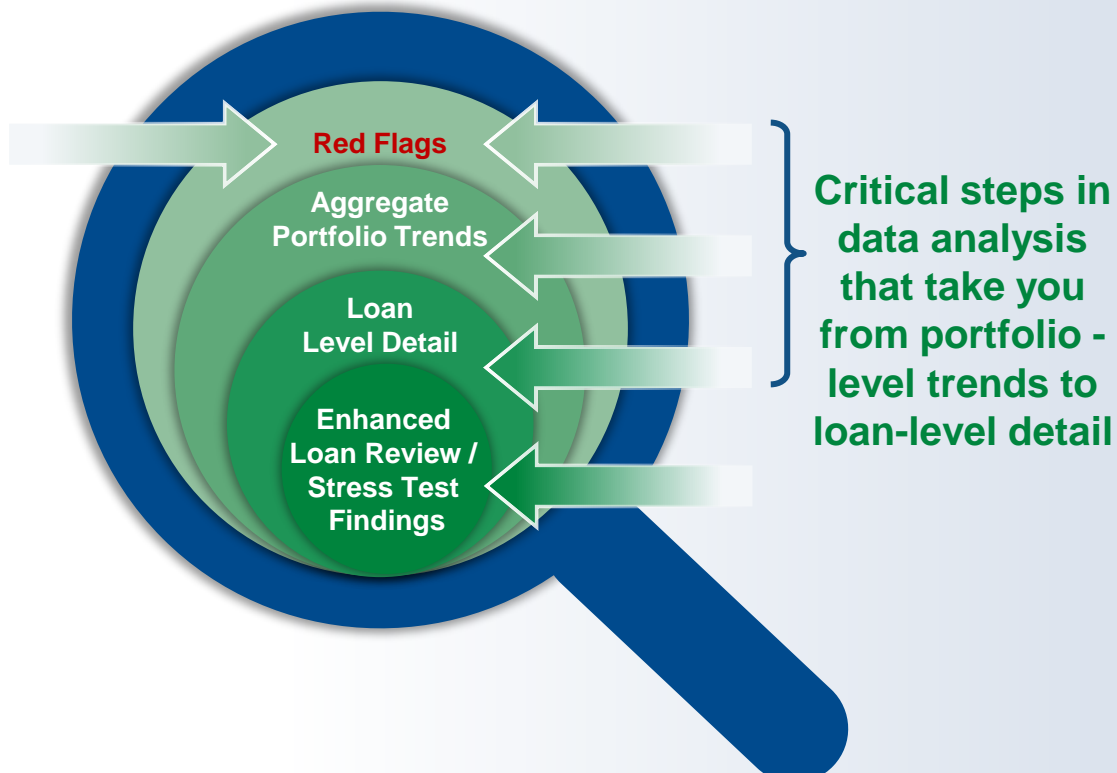


# More effective loan review starts here. . .



Public Data

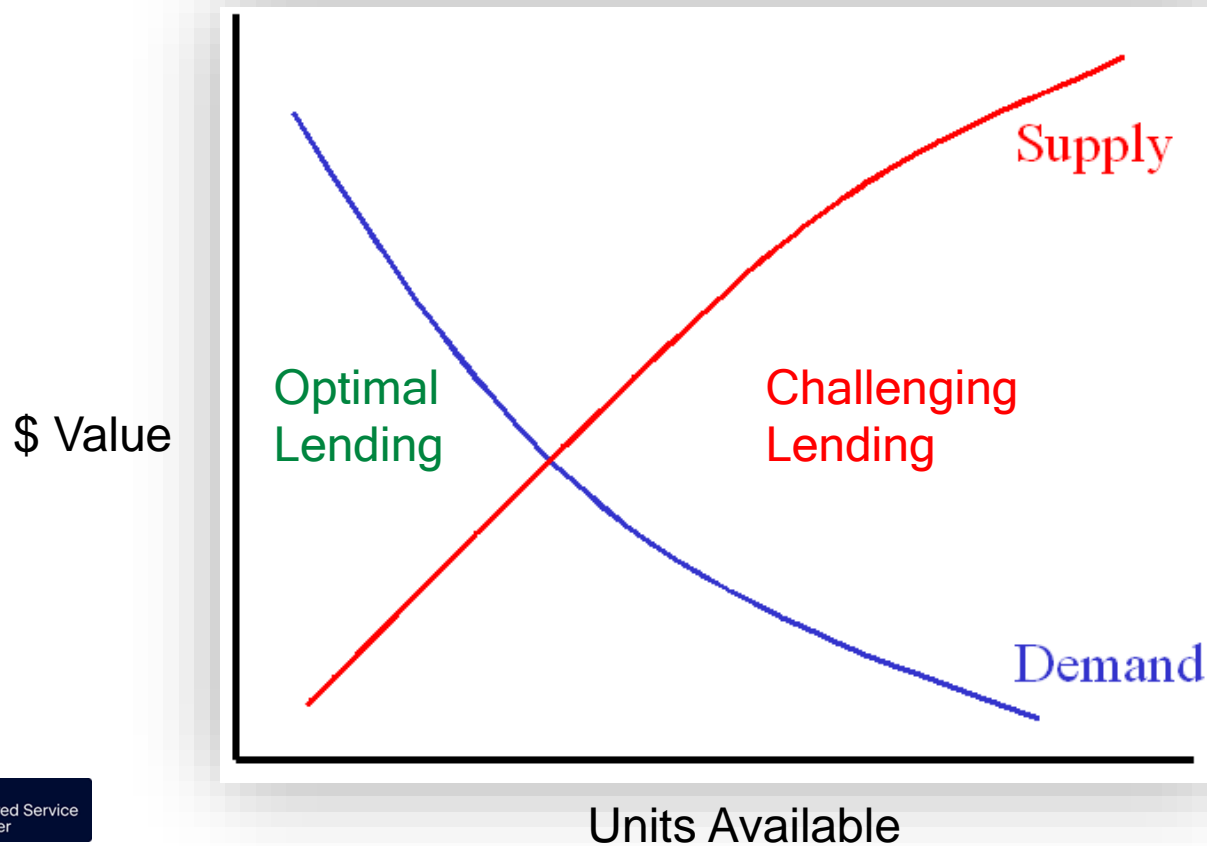
Non-Public Data



## Remember:

- The external stakeholders see a target through the lens of public (call report) data.
- Only with non-public, idiosyncratic loan data can you discern the whole story.

# Most Fundamental Metric In CRE – *Whatever The Type*

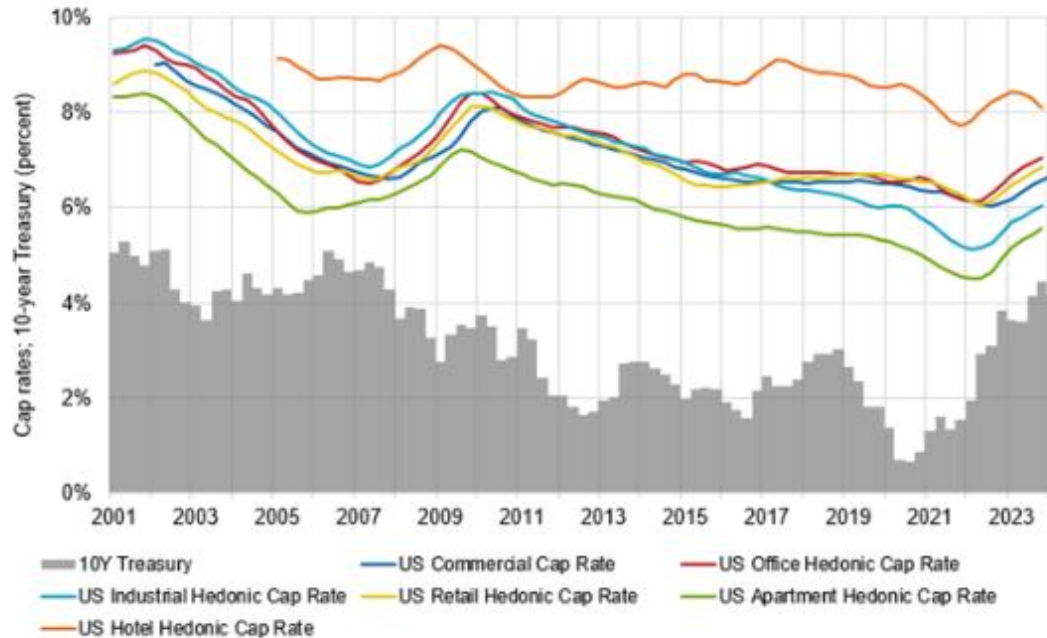




# Cap Rates on the Rise!



## US CRE Cap Rates



Note: Cap rates are hedonic measures.  
Source: MSCI, Federal Reserve Board of Governors, and S&R - Risk Analysis Unit

# Improving CRE Portfolio Management

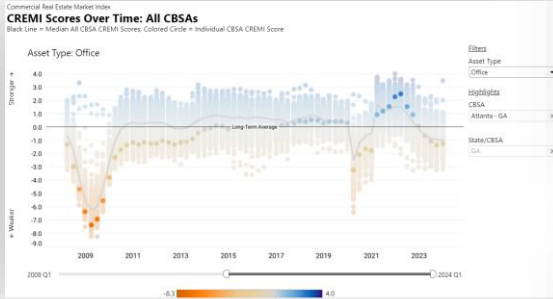


- Deepen CRE concentration assessments (to include all material subsets)
- Improve econometric/market data on lending footprint
- Enhance portfolio analytics / MIS data
- Adapt policies / underwriting to sync with conditions
- Embrace multiple stress test modes
- Expand loan review
- Integrate with strategic and capital plans
- Communicate effectively with both *Boards* and *Management*

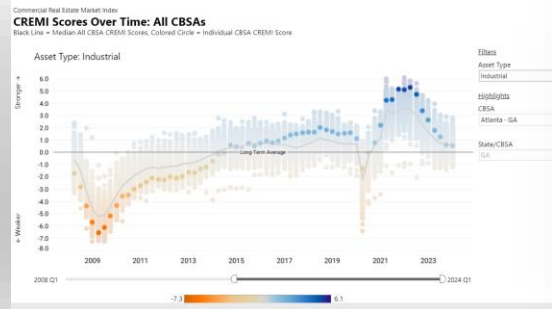
# Atlanta (Trends since Q1 '08 / CREMI as of Q4 '23)



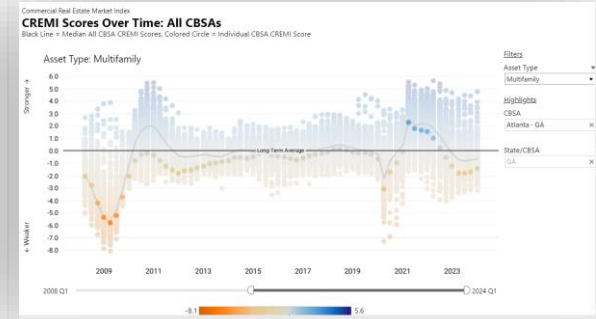
Office: **-1.20**



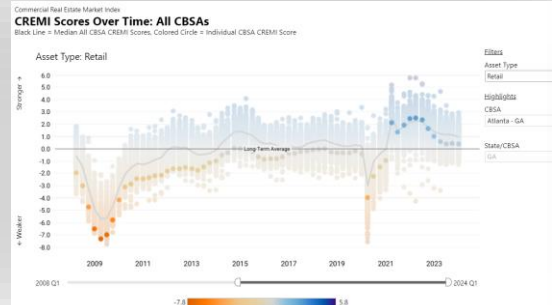
Industrial: **+0.60**



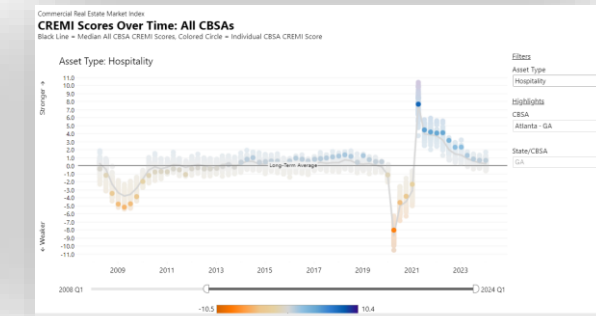
Multifamily: **-1.40**



Retail: **+0.40**



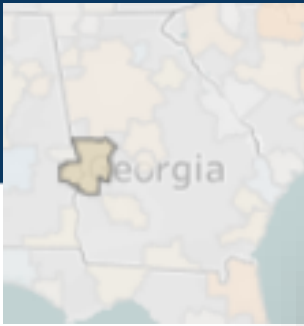
Hospitality: **+0.40**



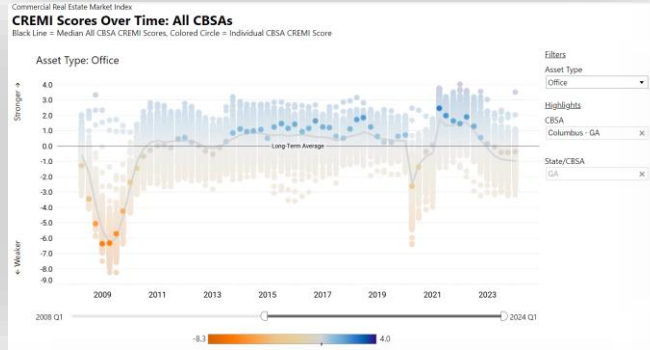
Source:  
 ATL Fed  
 CRE Market Index



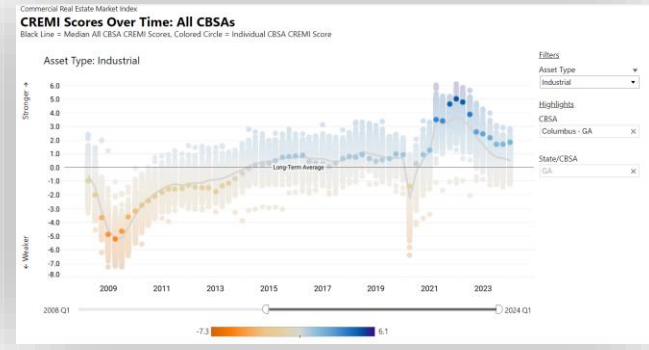
# Columbus *(Trends since Q1 '08 / CREMI as of Q1 '24)*



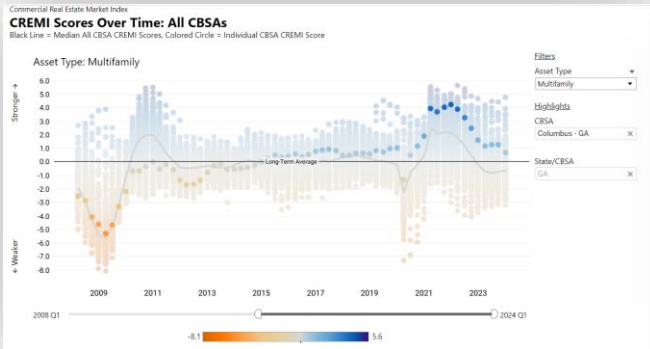
Office: **-0.40**



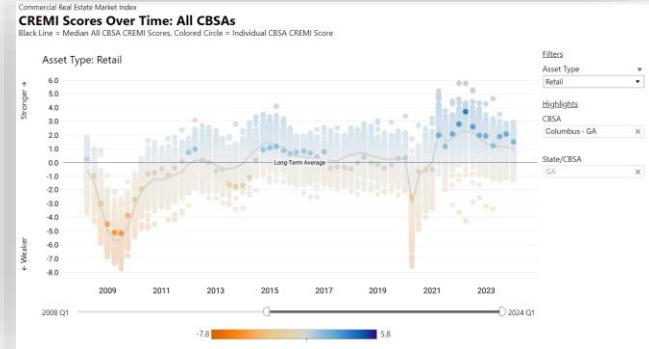
Industrial: **+2.10**



Multifamily: **+0.70**



Retail: **+1.50**



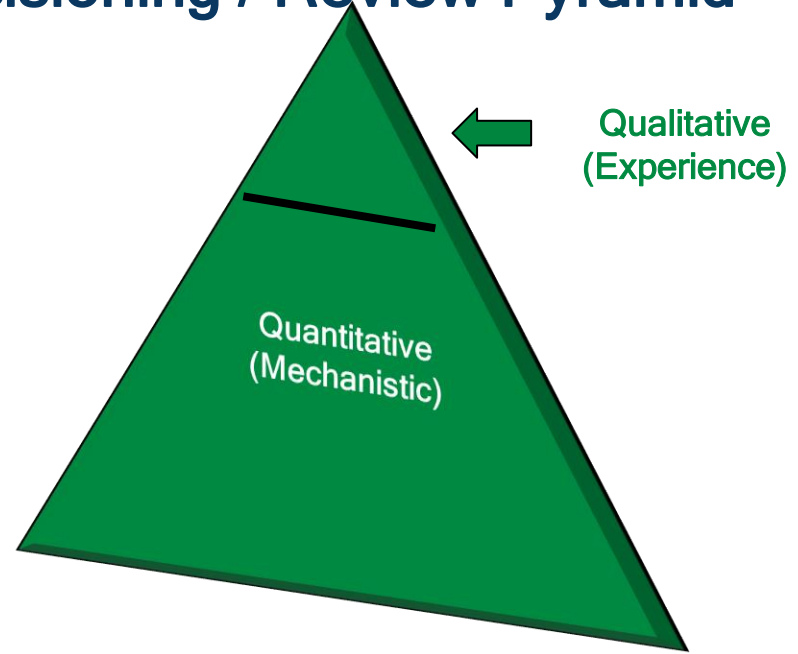
Source:  
 ATL Fed  
 CRE Market Index





## Credit Analysis / Decisioning / Review Pyramid

- Utilize reviewers that have *been there / done that*
- The power of *persuasion / collaboration*
- Companion with quality documentation review
- Require bios during RFP process
- Recognize loan review is a key first line of defense—*an asset, not an adversary?*



# Look For Emerging Weakness

Remember the proven axiom: ***Early Detection = Fewer Losses.***

Sample bias should be risk-based *(in addition to the larger relationships):*

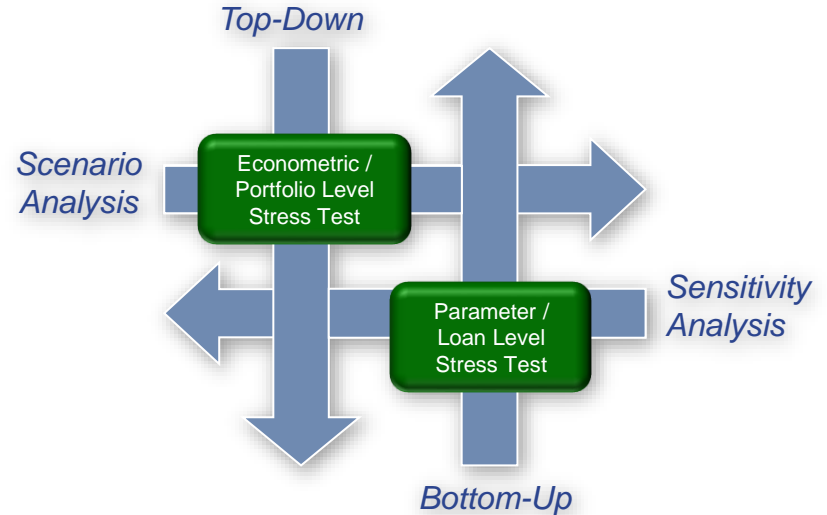
- *Low Pass risk grades*
- *Industry concentrations that you must defend—particularly CRE subsets*
- *Loans made out-of-policy*
- *Loans with slow payments*
- *Loans with high LTV's / low DSC's*
- *Loans breaking covenants*

**Materially impactful problem loans must now be subject to independent review!**

# Stress Test: Companion With Loan Review



- Loan review arguably has the most “real-time” perspective of a borrower’s current circumstance, off-setting risks of relying on potentially out-of-date initial credit underwriting data
- A sensitivity stress test on a subset portfolio, concurrent with the broader loan review, is a good faith attempt at a loan level approach on a significant concentration



**Pre-Stress**

Debt-Service Coverage	CRE Loan-To-Value			
	60-69%	70-79%	80-89%	90+%
>1.75x	5.0%	45.5%	38.0%	7.5%
1.51x to 1.75x	19.0%	74.0%	53.0%	15.0%
1.26x to 1.50x	22.5%	58.0%	60.0%	12.5%
1.16x to 1.25x	7.5%	35.0%	17.5%	0.0%
1.01x to 1.15x	0.0%	5.0%	25.0%	0.0%
<=1.0x	0.0%	0.0%	0.0%	0.0%

Note: Cell data represent the volume of loans, as a percentage of total risk-based capital, that meet the LTV and DSC criteria for that cell.

**Post-Stress**

Debt-Service Coverage	CRE Loan-To-Value			
	60-69%	70-79%	80-89%	90+%
>1.75x	0.0%	5.0%	15.0%	7.5%
1.51x to 1.75x	0.0%	7.5%	45.0%	12.5%
1.26x to 1.50x	5.0%	12.5%	20.0%	25.0%
1.16x to 1.25x	0.0%	20.0%	17.5%	12.5%
1.01x to 1.15x	0.0%	50.0%	125.0%	70.0%
<=1.0x	0.0%	10.0%	35.0%	5.0%

Note: Cell data represent the volume of loans, as a percentage of total risk-based capital, that meet the LTV and DSC criteria for that cell.

# Stress Test: Companion with Loan Review



## IV. COMPANION STRESS TEST FINDINGS

As a final step, for the 59 loans within the "Sensitivity" subsample with exposure totaling \$140.255MM (10.2% of total portfolio exposure), IntelliCredit applied a 20% downward adjustment to loan-level DSC ratios and a 20% upward adjustment to LTV ratios. The left table of *Figure 6* shows "pre-stress" Tier 1 concentration levels whereas the right side of *Figure 6* shows "post-stress" Tier 1 concentration levels.

Sensitivity Subsample Pre- and Post-Stress Findings					
Pro-Rata Tier 1 Capital (Sensitivity Subsample):			\$25,365,736		
<small>(allocable to Loan Review Sample)</small>					
PRE-STRESS	Loan-to-Value				
Debt Service Coverage	<=70%	70%-80%	80%-90%	>90%	Unknown LTV
>1.75x	55.9%	0.0%	0.0%	0.0%	0.0%
1.51x to 1.75x	5.2%	11.0%	102.0%	85.2%	0.0%
1.26x to 1.50x	17.8%	0.7%	17.0%	4.0%	0.0%
1.16x to 1.25x	1.5%	38.6%	12.8%	9.5%	0.0%
1.00x to 1.15x	14.0%	0.0%	7.6%	19.6%	0.0%
< 1.00x	90.0%	0.0%	0.0%	8.2%	0.0%
Unknown DSC	49.7%	2.2%	0.0%	0.0%	0.0%
*Percentages above represent the volume of loan exposure as a percentage of pro-rata Tier 1 Capital					
<b>COMMENTARY:</b>					
IntelliCredit's 09/30/2023 loan review included a subsample of 59 "Sensitivity Analysis" facilities (a mix of Call Report Codes: 1A1/1A2 - Construction Loans, 1C2A - 1st Lien Residential Mortgages, 1D - Secured by Multifamily, and 1E - Secured by Commercial Real Estate. These 59 "Sensitivity Analysis" facilities reported total exposure of \$140.255MM (10.2% of the Bank's overall exposure).					
At current DSC/LTV ratios, the Bank reported 7 facilities with exposure of \$8.985MM in the red highlighted fields where DSC < 1.15x and LTV was greater than 80%. After applying the 20% stress adjustments to DSC/LTV ratios, 24 of these "Sensitivity Analysis" facilities with exposure of \$33.651MM were reported in the red highlighted "high-risk" categories. These 24 stressed facilities accounted for 132.7% of the pro-rata Tier 1 Capital.					

20% downward DSC adjustment  
+ 20% upward LTV adjustment

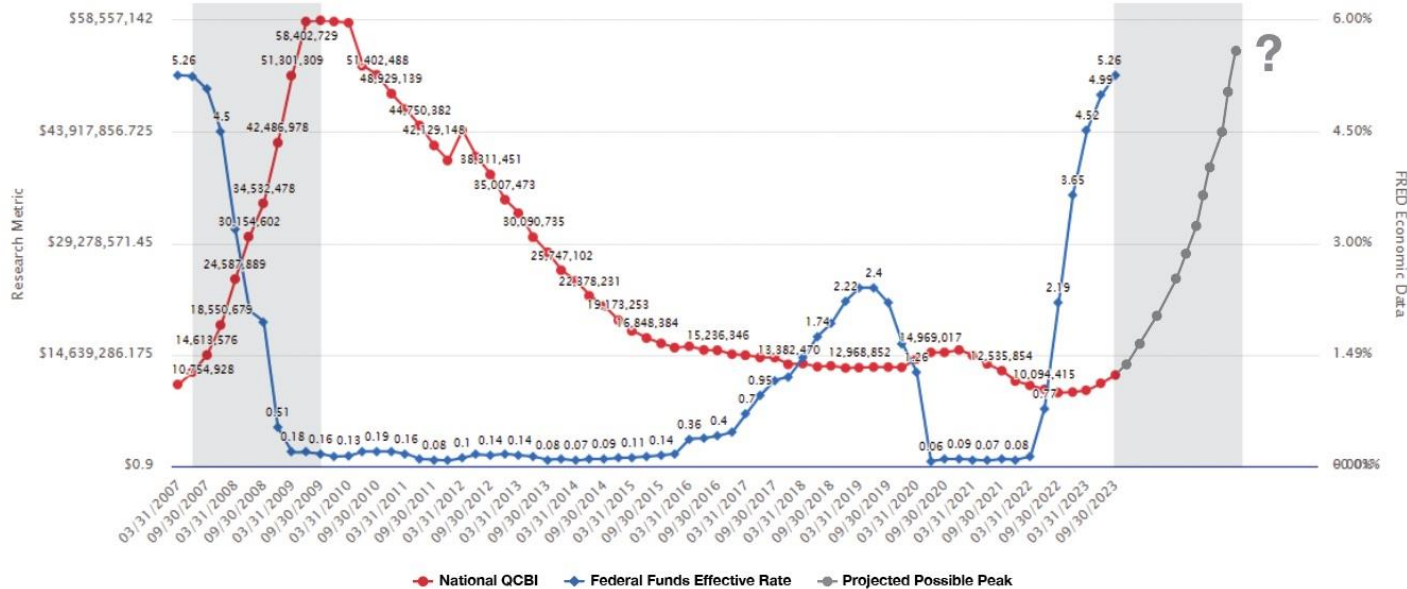
... identifying loans/borrowers most at risk under stress!



# Not So Soon (Celebrating Rate Peaks)...



## History Shows Non-Performing Loans Peak Two Years After Fed Rate Cuts



**QCBI:**  
Banks ≤ \$10B  
in Assets

# Closing Thoughts



# But remember...



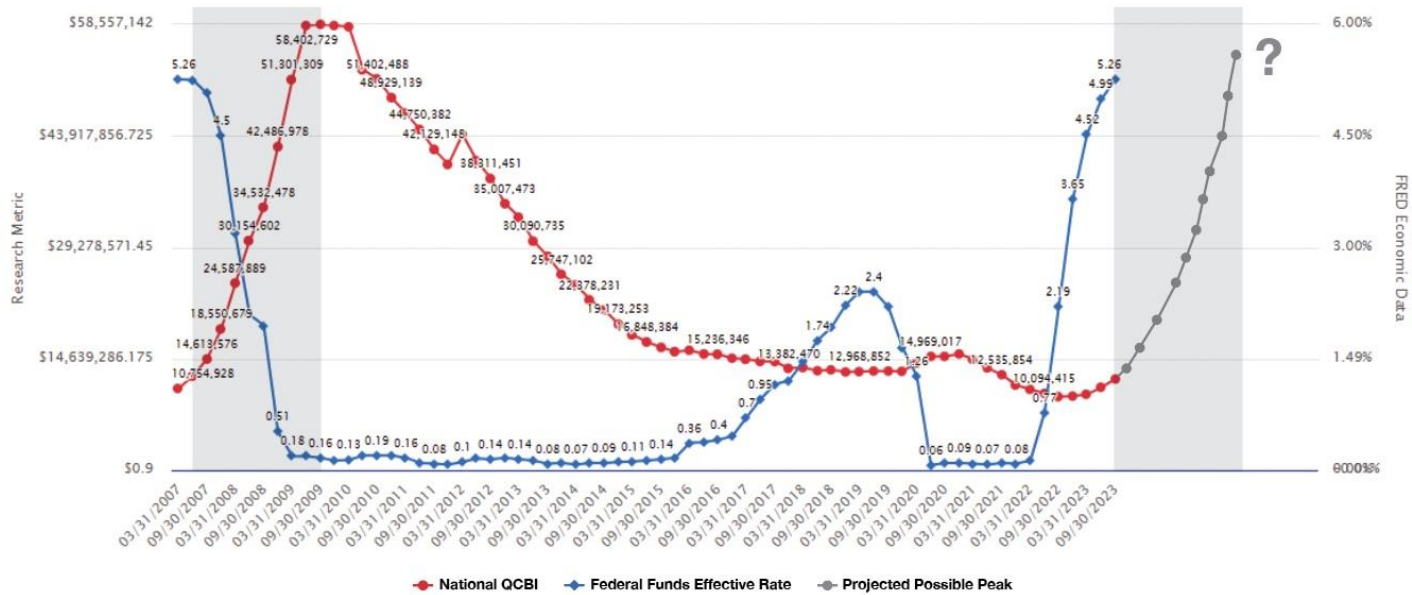
- The lesson of loan vintages (those made late in the credit cycle always prove the most problematic)
- To ensure the proper yin and yang of lending production and risk management, **NOW**
  - Retain your lending talent
  - Ensure the efficacy of your risk protocols
  - Embrace technology (practical & affordable)

# Not so soon (celebrating rate peaks)....



## History Shows Non-Performing Loans

Peak Two Years After Fed Rate Cuts



QCBI:  
Banks ≤ \$10B  
in Assets

# In conclusion



BankDirector Magazine Bank Services Events Content Research Rankings BANK SERVICES LOGIN

Risk 01/31/2024

## NOT SO FAST! BANK LOAN QUALITY DOESN'T TRACK WITH WALL STREET METRICS

Despite recent good economic news, the potential for trouble lurks in bank loan portfolios. It's time for stepped up vigilance.

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IntelliCredit

DAVID RUFFIN  
PRINCIPAL

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<https://www.bankdirector.com/article/not-so-fast-bank-loan-quality-doesnt-track-with-wall-street-metrics/>

## The Good:

- Reserves & capital positions
- Some risk has left our space
- Overall good market resilience
- Inflation abating
- Rates appear paused

## The Bad:

- Smaller banks' CRE exposure
- Trailing NPL effects
- Segments of consumers struggling

## The Now:

- Heightened regulatory scrutiny
- New focus on more robust
  - loan reviews
  - stress testing
  - portfolio analytics

At all costs, avoid too many credit surprises!

## Loan Review and Credit Intelligence Solution

### IntelliCredit Solution



#### Annual Review (for use by your team)

Move to an automated process that makes annual reviews easy, organized and repeatable – with everything right at your fingertips



#### Smart Loan Review™ (for use by your team)

Revolutionary online solution that expedites your entire loan review process, making it simple, retrievable online – and fast



#### Portfolio Analyzer (for use by your team)

Delivers insightful analysis of your portfolio and loan data so you can detect risk earlier – no need to build reports, create spreadsheets or hire consultants

### Loan Review Services



#### Smart Loan Review™ (performed by our experts)

Benefit from a smarter loan review service that uniquely combines deep credit expertise and an online, real-time portal – so you see progress and results as they happen

**Online. No installation. No software integration. SOC2 compliant.**



Please Reach Out for any  
Credit Portfolio Review Needs.  
Also, Deeply Experienced in M&A / Re-Caps.

Real-time combo:  
**Loan Review / Portfolio Analytics**



(P) 800.285.8626 ext. 4057  
[david.ruffin@intellicredit.com](mailto:david.ruffin@intellicredit.com)