Navigating Your Problem Loan Management Program Impacted by COVID-19

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CLA exists to create opportunities — for our clients, our people, and our communities.

OUR PROMISE

We promise to know you and help you.

OUR CLA FAMILY CULTURE

We're one family, working together to create opportunities.

STRATEGIC ADVANTAGES

Deep industry specialization

Seamless, integrated capabilities

Premier resource for private business and owners

Inspired careers

About CLA

CLA creates opportunities for businesses, individuals, and communities through our wealth advisory, outsourcing, audit, tax and consulting services. With 7,400 people, more than 120 U.S. locations, and a global affiliation, we promise to know you and help you. ***Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.***

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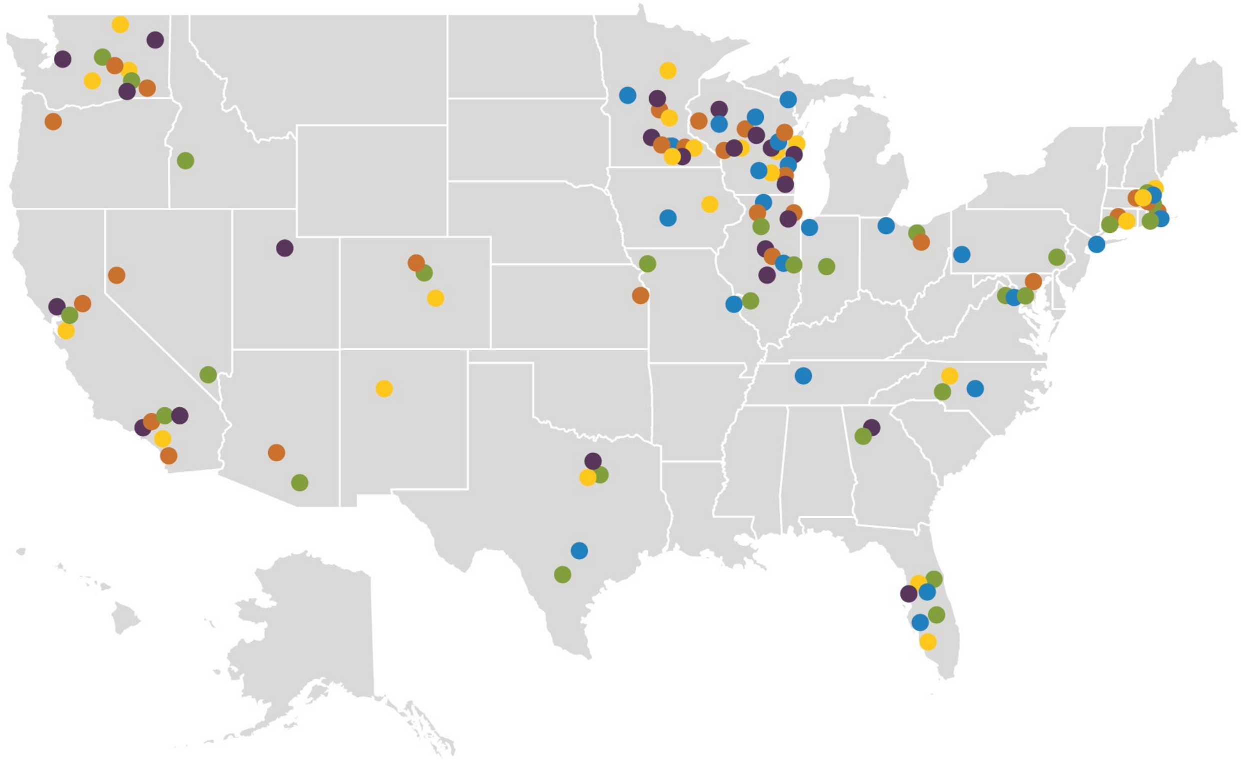

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CLA has 7,400 professionals, operating from more than 120 locations across the country.

Today’s Session

Your Presenters

Erica Crain is a former FDIC examiner and banker who currently serves as the national leader for CliftonLarsonAllen's Credit Risk Services. With over 20 years of experience, Erica utilizes her experience as former regulator, bank risk director, and commercial lender to lead the credit risk team and work with financial institutions across the country to assess the overall loan portfolio quality, evaluate credit risk identification procedures, and assess the overall effectiveness of credit administration practices.

Monica Bolin has a wide array of experience working with large regional and smaller community financial institutions. She has performed operational reviews and internal audits of enterprise-wide bank operations, including regulatory compliance programs, risk assessments, vendor management, disaster recovery, policy reviews, loan review and due diligence reviews. She has served as SVP of Credit Administration and Chief Risk Officer at a publicly-traded institution. In those capacities, she was responsible for loan operations, compliance and servicing, ERM, ongoing management of the internal and external loan review process, and post-closing loan reviews

Susan Sabo is a principal in the firm's Charlotte, North Carolina office and joined CliftonLarsonAllen in 2020 with more than 20 years of financial services experience. She began her career auditing financial institutions before moving into the financial services industry at small community banks and Fortune 500 companies. Susan has served in a variety of industry roles including controller, chief accounting officer, and business unit CFO. Susan has been involved in multiple mergers & acquisitions of sizes ranging from $150 million to $500 billion with engagement at all stages of the process.

Objectives

- **Identify problem loans: new problems, new problem loans**
- **Problem loan management**
  - Policy Guidance
  - Resources
  - Monitoring
  - Challenges
  - Pro-active approach
- **Financial analysis**
- **Loan modifications**
- **Action plans**

Problem Loan Identification

- **Defined:**
  - A problem loan is one that cannot be repaid according to the terms of the initial agreement, or in an otherwise acceptable manner.
- **What is considered acceptable?**
  - Acceptable vs. Allowed
- **Risk Rating Impact**

Problem Loan Management

- **Policies & Procedures**
  - Changes due to COVID-19
  - Proper identification of problem loan and responsible parties for managing “special assets”
  - Independence from lending staff
- **Resources**
  - Evaluate staff in light of current responsibilities and experience in handling problem loans

Problem Loan Management

- **Monitoring**
  - Pro-active approach (industry ➡ segment ➡ borrower)
    - Consider COVID-19 impact at every level for early identification
  - Challenges: masking of delinquent loans by government supported programs/lending facilities
  - Frequency
  - Loan modifications

Problem Loan Management

- **Financial Analysis**
  - Avoid delay in collecting updated financials
  - Challenges: “Noise in the Numbers”
    - Special reporting – past due, non-accrual, troubled debt restructurings
    - Government-assisted credit facilities
    - Increased COVID-related expenses
  - Core performance evaluation vs. modified payment capacity
  - Guarantor support

Problem Loan Management

- **Action Plans**
  - Responsibility
  - Audience
  - Frequency
  - Key Considerations
  - Updates

Problem Loan Action Plan Considerations

- **Borrower Identification and History.** Identify the obligor(s) (direct and indirect), ownership composition, type of business, underlying debt(s) and operational changes over the past few years or as a result of COVID-19.
- **Communication.** If the borrower remains communicative, address commitments made, if any, and all legal correspondence.
- **Financial Analysis.** Updated financial information with look at historical trend on standalone and global basis and impact of COVID-19.
- **Repayment History.** Payment status including any late payments or 30/60/90-day history. Discuss modifications.
- **Collateral valuation and analysis.** Evaluate need for updated values given changes in market, property type, or other pertinent factors.
- **Risk Rating**. Current and recommended risk rating changes, if any.
- **Impairment analysis.** Clearly document the analysis or testing for impairment to support quarterly ALLL analysis.
- **Progress Update.** Address actionable items from the last review. Is workout plan effective?
- **Next Steps.** Detail steps the borrower and institution will take to improve the status of the loan. Establish clear and quantifiable objectives and timeframes for both parties and document results as the plan progresses.

How Can We Help?

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