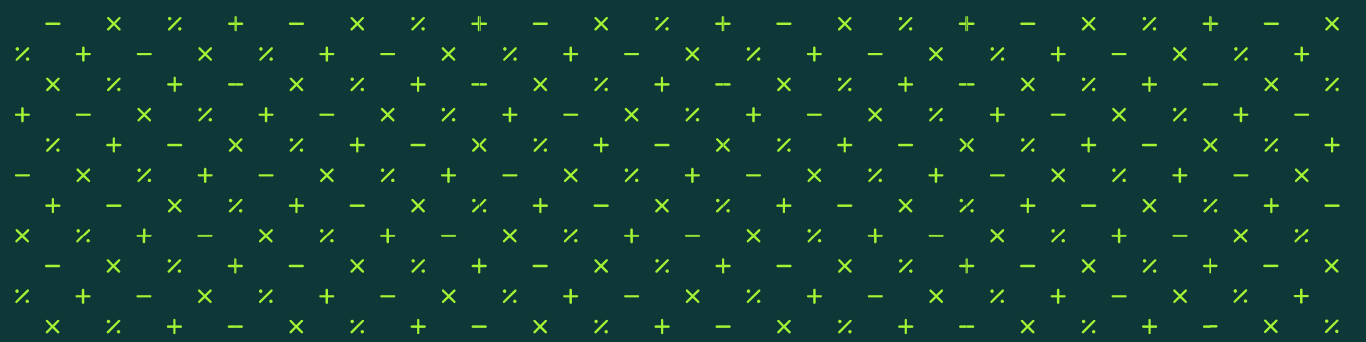




MOSSADAMS



Navigating Commercial Credit Risk in 2024

Todd Brocke, Senior Manager

Introductions

Financial Services
Advisory

Credit Risk Management



Todd Brocke
Senior Manager





Agenda

01 INTRODUCTION

02 COMMERCIAL CREDIT RISK TRENDS

03 HOW DO YOU MITIGATE THESE CREDIT RISK CONCERNS

04



Trends and Risks



Risk rating accuracy and recognizing deterioration



Commercial real estate



Loans maturing and repricing



M&A



How Do You Mitigate These Concerns



RISK RATINGS AND RECOGNIZING DETERIORATION

Risk Rating Accuracy

- Focusing on Primary Source of Repayment (PSOR)
 - Correctly identifying the PSOR
- Calculation of accurate cash flow analysis
- Discretionary adjustments or addbacks
- Identify trends
- Seasonality or temporary downturns



How Do You Mitigate These Concerns (Cont.)



RISK RATINGS AND RECOGNIZING DETERIORATION (CONT.)

Timely Risk Rating Changes

- Secondary Source of Repayment (SSOR)
- Collateral coverage
- Fluctuation of collateral value
- Guarantor support
- Global cash flow or guarantor liquidity
- Payment performance is NOT an effective risk rating criteria!



How Do You Mitigate These Concerns (Cont.)



RISK RATINGS AND RECOGNIZING DETERIORATION (CONT.)

Effective Portfolio Management

- Processes: meetings, management reporting
- Annual review process
- Receipt and timely review of financial reporting
- Communication with the borrower
- Alternative sources of information
- Watch loan/problem loan management and reporting



How Do You Mitigate These Concerns (Cont.)



COMMERCIAL REAL ESTATE

Stress Testing

- Interest rates, collateral, cash flow
- Analyzing rent rolls
- Property site inspections
- Updated appraisals/evaluations
 - Don't wait until it becomes a problem loan
 - Is your appraised value really accurate?



How Do You Mitigate These Concerns (Cont.)



COMMERCIAL REAL ESTATE (CONT.)

- Review collateral documentation
- Analyze Your guarantors
 - Obtain updated PFS and tax returns
 - Verify liquidity and review burn rate



How Do You Mitigate These Concerns (Cont.)



COMMERCIAL REAL ESTATE (CONT.)

Problem Loans

- Action plan and risk rating triggers
- Transfer to special assets
- Refinance with principal reduction to “right size” loan
- Obtain additional collateral and/or guarantors
- Establish loan payment reserves
- Exit relationship



How Do You Mitigate These Concerns (Cont.)



LOANS MATURING AND REPRICING

Analyze Loan portfolio

- Percentage of loans maturing and repricing in next one or two years vs. five years and loans that are repricing
- Portfolio stress testing; are they able to cash flow?
- What are the alternatives?
 - Refinance, principal paydown to “right size” loan
 - Work out strategy
 - Strengthen personal guarantors and/or additional collateral



How Do You Mitigate These Concerns (Cont.)



MERGERS & ACQUISITION

- Subject matter experts and staffing resources
- Confirm credit quality
 - Risk rating reviews
 - Targeted reviews
- Is target lending culture consistent with yours?



How Do You Mitigate These Concerns (Cont.)



MERGERS & ACQUISITION (CONT.)

Review Portfolio Composition

- Percentages of non-accrual, problem loans, OREO
- Industry concentration, including single relationship concentration
- Type of loans (CRE, C&I, unsecured, etc.)
- Type of collateral (geography, subtype collaterals)
- Guarantor based or transactional



How Do You Mitigate These Concerns (Cont.)



MERGERS & ACQUISITION (CONT.)

Analyze the Inherent and Residual Risks

- Variable vs. fixed rate loans
- Loan maturity
- Collateral (concentration, geography, value)
- Problem loans (short term or long term, projections)
- Documentation
- Credit policies and procedures
- Identify material differences
- What's the impact of the change (underwriting, risk rating, portfolio management)
- Systems



Questions?

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Thank you!

