How to Maximize the Benefit of an External Loan Review
Loan Review Series: Part 1 of 3

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Third-party loan reviews can be an excellent way to manage a variety of risks a financial institution is exposed to. These can include credit underwriting, credit administration, and reputational risks. A loan review should provide insights into the effectiveness of the risk rating process, credit underwriting and credit administration function.

Leveraging the overall loan review process will result in a more effective loan review. Up-front time preparing for the review will maximize the return on investment in the loan review process. Every loan review firm has their own approach to a loan review engagement. While the specific steps and processes may differ, they all require timely access to the credit file information and the appropriate personnel from the financial institution.

Investing the appropriate time and personnel before the review begins positively impacts the quality of the loan review process. The following are some key steps to leveraging an external loan review:

1. **Be prepared**
    a. Provide complete information as requested in advance of the loan review
        i. Paper and digital files should be well organized
        ii. Paper and digital files and their contents should be clearly labeled
    b. Ensure availability of the key personnel who will be relied upon during the file review process.
    c. Address known file or other information shortcomings up front.
        i. This can facilitate a more efficient loan review rather than waiting for the reviewers to identify items that could have been addressed.
2. **Be thorough**
    a. Review the file content prior to the review to ensure completeness
        i. Documentation
        ii. Financials
        iii. Other information such as construction draws, appraisals, etc.
3. **Communication before and during the loan review.**
    a. Discussions at the start of the review and throughout the review process between the loan reviewer(s) and key financial institution staff.
    b. On-going, real-time communication regarding information and the availability of requested follow-up information for each credit file.
4. **Facilitate an exit meeting**
    a. A well-organized exit meeting should address remaining questions and provide clear communication with the financial institution regarding the initial results of the loan review.

Systems and technologies are in a constant state of change with respect to commercial lending. The Covid pandemic, for example, accelerated the development of various forms of digital credit files. These technological changes can often require a combination of both the prior credit file system and the newly implemented system to provide a complete credit file. This sometimes can be a hinderance to an efficient loan review. The review may provide insights toward the progress and effectiveness of the transition to the new system/technology which management can incorporate into the transition.

Incomplete credit files and related information is one of the more frequent challenges with a loan review. Incomplete credit files will slow the review process, shifting valuable time from risk evaluation to managing the administrative aspects of the loan review engagement. The degree of incomplete file information may be an indicator of incremental risk for the financial institution. It may also reflect upon the institution’s management and overall credit culture.

Information that is not provided in a well-organized, well-labeled manner will also lead to an inefficient review process. While Easter egg hunts can be a fun family activity to celebrate the Easter season, a loan review should not feel like one—searching for necessary documentation should not be a challenge. A well-structured loan review will provide valuable insights into the quality of credit administration.

The following are some common barriers to an effective loan review:

1. **Poor on-site or remote access to credit file information**
    a. Incomplete credit files
    b. Limitations with technology
2. **Information not provided with the credit file request**
    a. Financial statements or other documents remain in the drawer of the loan officer.
    b. Providing a "dump" of information instead of specifically requested information.
3. **Poorly organized paper or digital credit files**
    a. Poorly labeled paper or digital credit files
4. **Limited staff availability**

Inefficiencies in the process will require more time and effort dedicated to administratively managing the review process leaving less time for the actual file review. This can lead to under-leveraging the loan review process and less time for value added risk management recommendations and observations for your management team.

Your time and money are valuable resources. Your third-party loan review professionals have the knowledge and experience to help you identify areas of opportunity within credit, underwriting and credit administration. By allowing the loan reviewers to focus fully on the review, the process becomes more efficient and effective, enabling a stronger focus on risk identification.

At Integrity, we believe our loan review process provides significant value to our customers. An initial upfront investment by both the Integrity team and the financial institution maximizes the efficiency of the file review, ensuring the best opportunity to identify and manage various risks effectively.

More about Integrity Loan Review

Based in Green Bay, WI, we serve community-based financial institutions across Wisconsin, Minnesota, Michigan, Illinois, and Iowa. Our loan review and related services are available both on-site and remotely, ensuring flexibility and convenience. With our proprietary methodology, we take a comprehensive approach to loan review, delivering thorough and insightful assessments tailored to our clients' needs.