

Beyond the Basics: Unlocking the Power of Targeted Loan Reviews

Loan Review Series: Part 2 of 3

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When it comes to managing a loan portfolio, most financial institutions are well acquainted with full-scale loan reviews. But sometimes, the smartest move is not to audit everything—it's to focus on what matters most. A targeted loan review offers a precise and cost-effective approach that zeroes in on specific segments of a loan portfolio, allowing institutions to proactively manage both growth and risk.

What Is a Targeted Loan Review?

Unlike a full-scope loan review, which encompasses a large segment of the entire loan portfolio, a targeted review focuses on specific loans, specific segments of the loan portfolio, borrower types, industries, geographic areas, watch and worse rated credit relationships or other risk segments. These reviews can be prompted by a variety of factors—not all of them negative.

Some examples include:

- New portfolio growth in a particular niche (e.g., CRE, agriculture, or SBA lending).
- New loan officer or credit officers.
- Increased risk exposure in a specific borrower segment.
- Regulatory pressure following an exam.
- Performance trends that suggest deterioration or concentration risk.
- Specific industries or loan types which may be disproportionately impacted by interest rates, tariffs, or other economic or external factors

Targeted reviews allow institutions to ask sharper questions:

- Should lending limits as a percentage of capital be revised for certain loan types/industries, etc.?
- Should the loan policy be revised to address loan review findings?
- Is additional training for the lending/credit staff needed?
- Is a more comprehensive loan review needed?
- Are additional documented procedures necessary?

While many institutions have internal review capabilities, a third-party review offers several key advantages:

- **Objectivity:** Internal staff may be too close to the credit relationship or influenced by internal relationships. A third party offers an unbiased perspective.
- **Expertise:** Firms specializing in loan review often bring decades of experience across multiple credit environments and institution types.
- **Efficiency:** A third party can complete reviews with minimal disruption to your team, freeing internal resources for other critical tasks.
- **Regulatory credibility:** Regulators tend to look favorably on institutions that engage independent parties to validate portfolio health.

We recently completed a targeted loan review engagement involving twelve credit relationships, all connected by a common guarantor but organized under varying ownership structures. The review was prompted by the institution's regulator to provide a comprehensive review of these relationships. Several of the borrowers were demonstrating signs of weakness, and the institution recently had undergone staffing changes related to the origination of these loans.

Our review provided management with a thorough review of the twelve credit relationships, identifying the stronger borrowers and provided focus on the borrowers where weaknesses were identified. It also highlighted specific areas requiring further discussion with individual borrowers and supported management's assessment of ACL reserves.

Targeted loan reviews aren't just about uncovering risks—they're about building confidence. Whether you're scaling up a new line of business or shoring up a potential weak spot, a focused review can help ensure your institution is making informed, strategic decisions.

In today's dynamic lending environment, staying ahead of risk—and opportunity—requires more than just routine. It requires insight, experience, and a willingness to look closer at the areas that matter most.

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.