



Thursday, November 7 @2PM ET

# How to Steer Your Bank's Portfolio Through an Economic Downturn

## FEATURING



**Dallas Wells**

SVP, Strategic Innovation  
PrecisionLender, a Q2 Company



# Agenda

What we'll be covering...

1. Forecasting
2. The Steering Mechanism
3. Monitoring
4. Taking Action

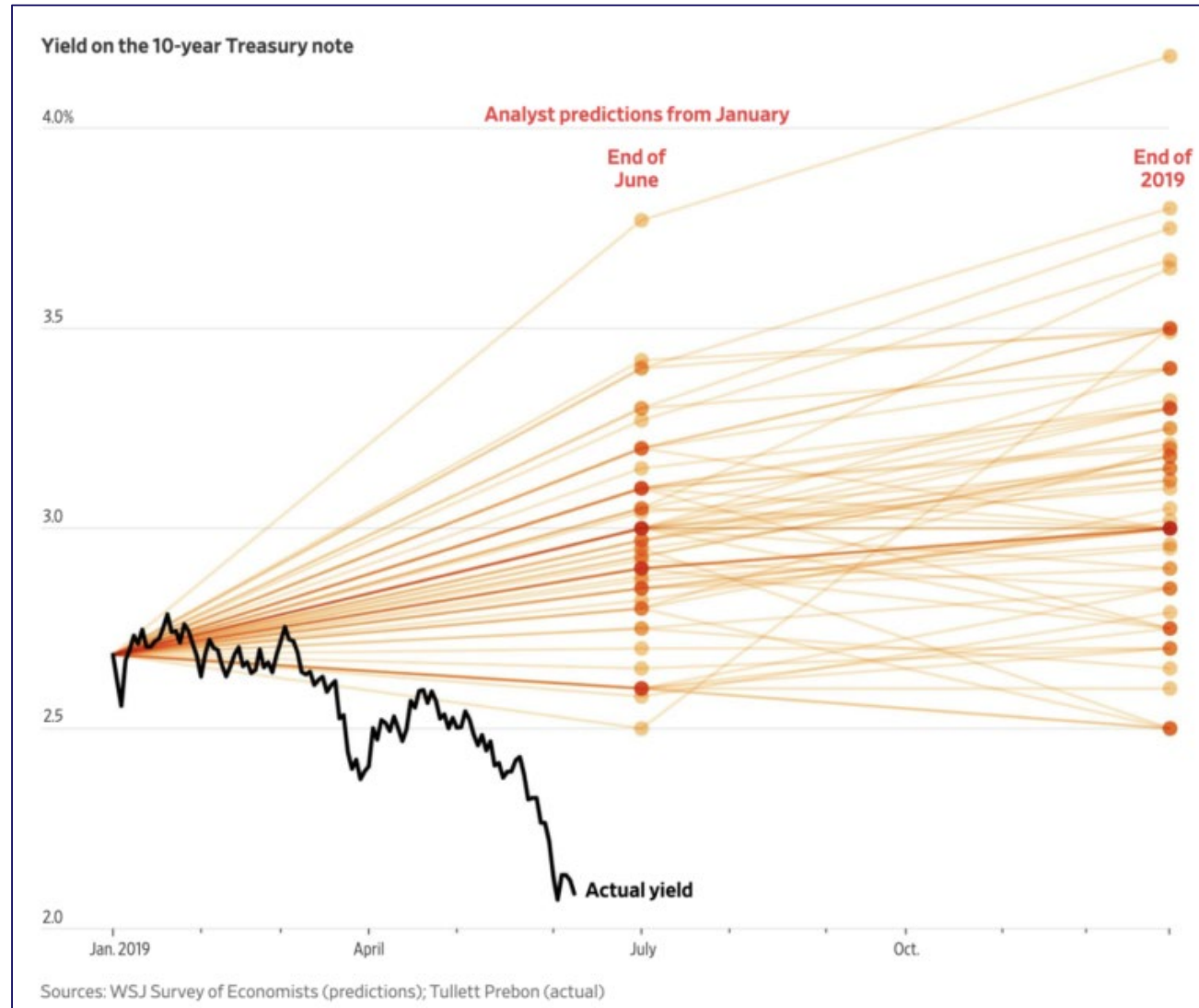


# Forecasting

Can we see what's coming in time?



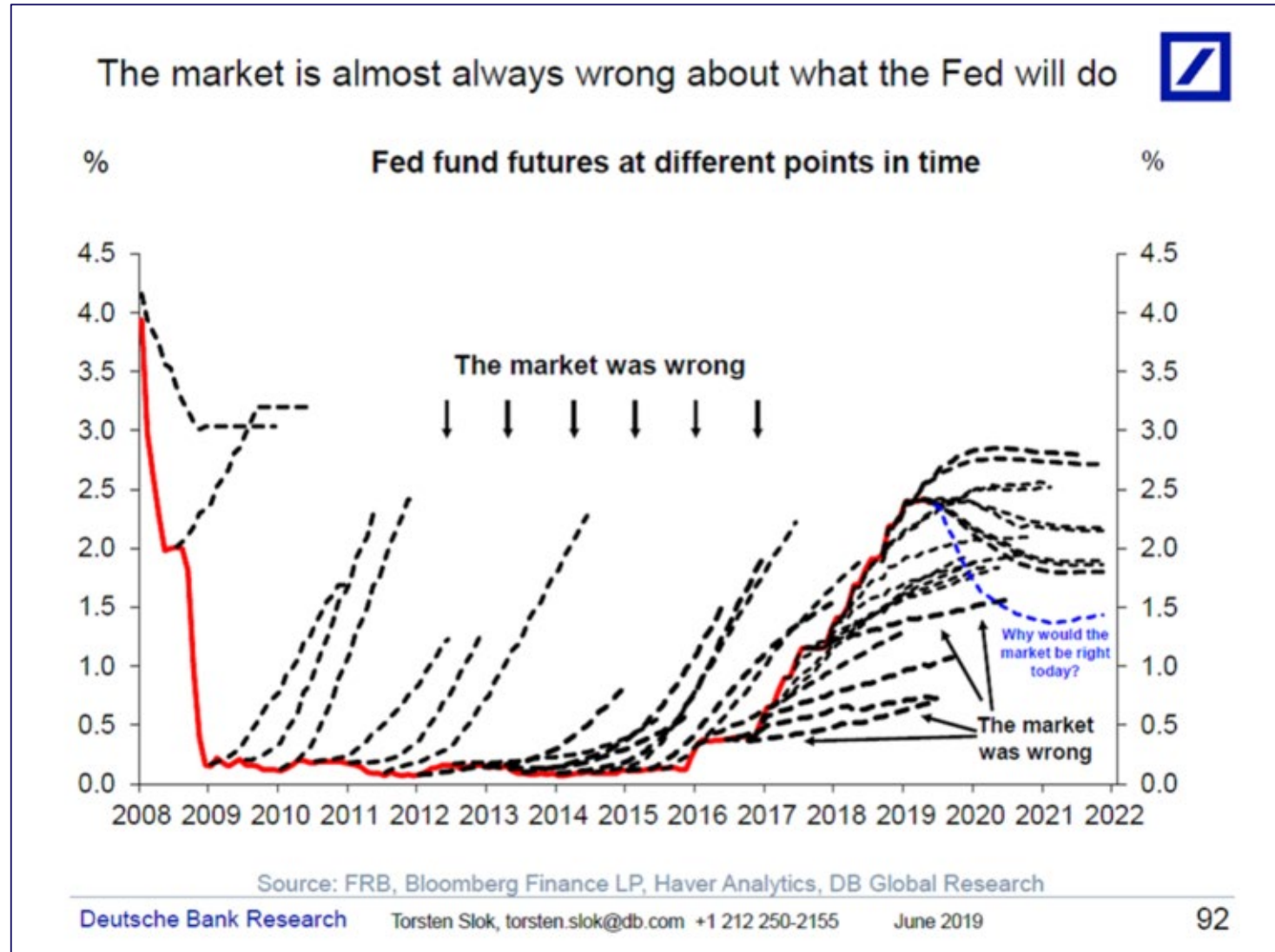
# The Folly of Forecasting



Yesterday's Yield:  
1.81%



# The Folly of Forecasting



# Downturn Preparedness Survey

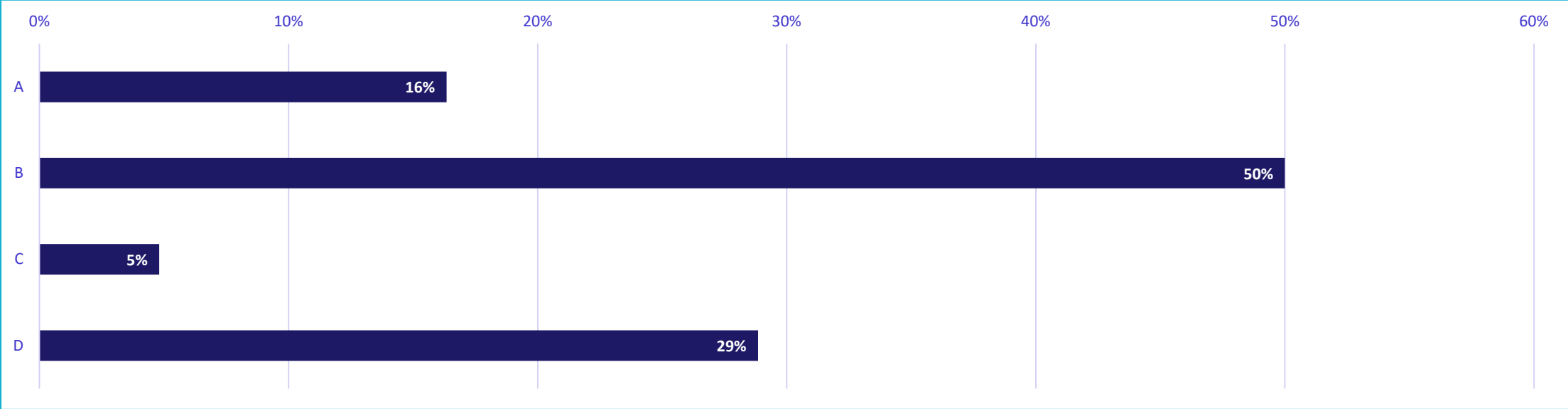
*Do you feel like your bank's portfolio is ready to withstand a recession?*

- A. My bank is not ready
- B. My bank is ready and is better positioned than our peers
- C. My bank is ready, and is behind our peers
- D. My bank is ready, and so are our peers

# Downturn Preparedness Survey

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# The Steering Mechanism

How do we quickly make changes?





# Downturn Preparedness Survey

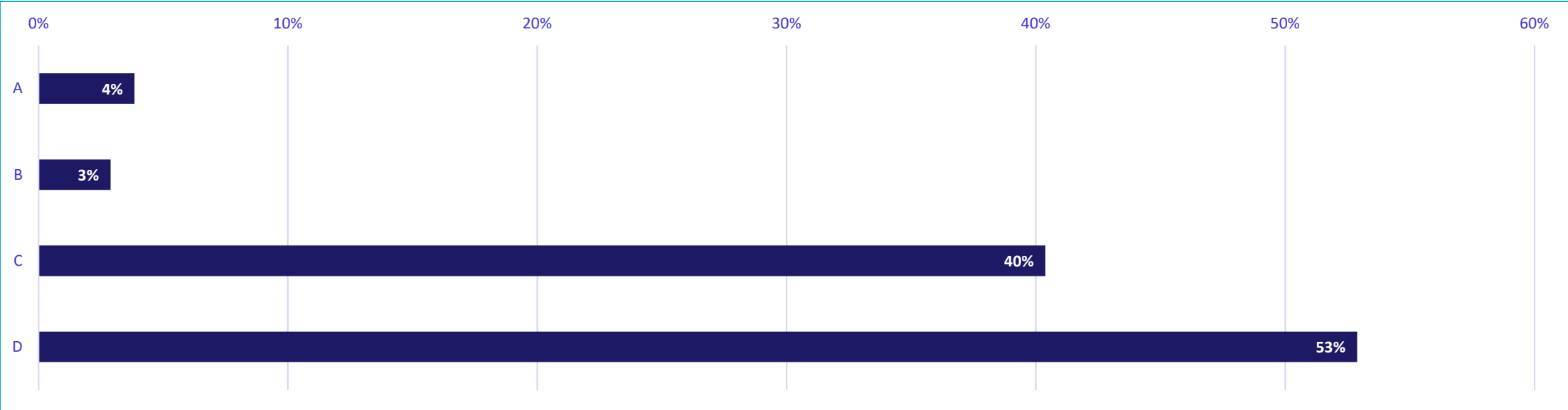
*How well can your bank quickly change course in the event of a downturn?*

- A. By the time we change strategies and tactics, it's too late to have an impact
- B. It's very difficult for our bank to change course at all
- C. We can change strategies and tactics, but it takes a while
- D. We're a nimble bank and can quickly change strategies and tactics

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**You can *measure* at the portfolio level, but you can only take *action* at the customer level.**

# Downturn Preparedness Survey

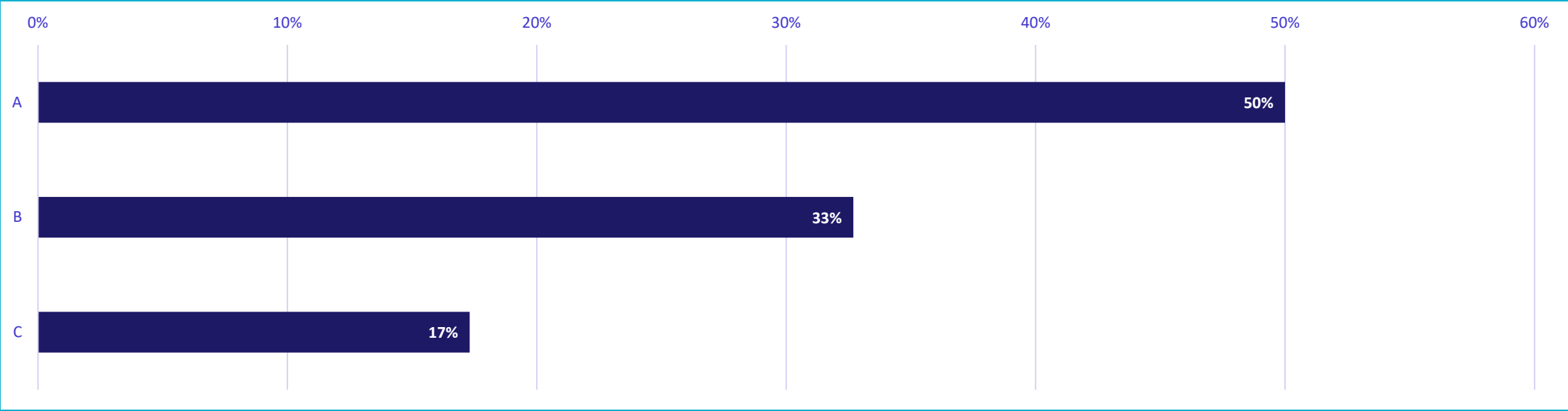
*How well can your bank proactively spot changes or weaknesses in a customer and take action accordingly?*

- A. We can spot potential problems and act quickly
- B. We can spot potential problems but it takes a while to do something about it
- C. We struggle to identify red flags until they've really become a problem

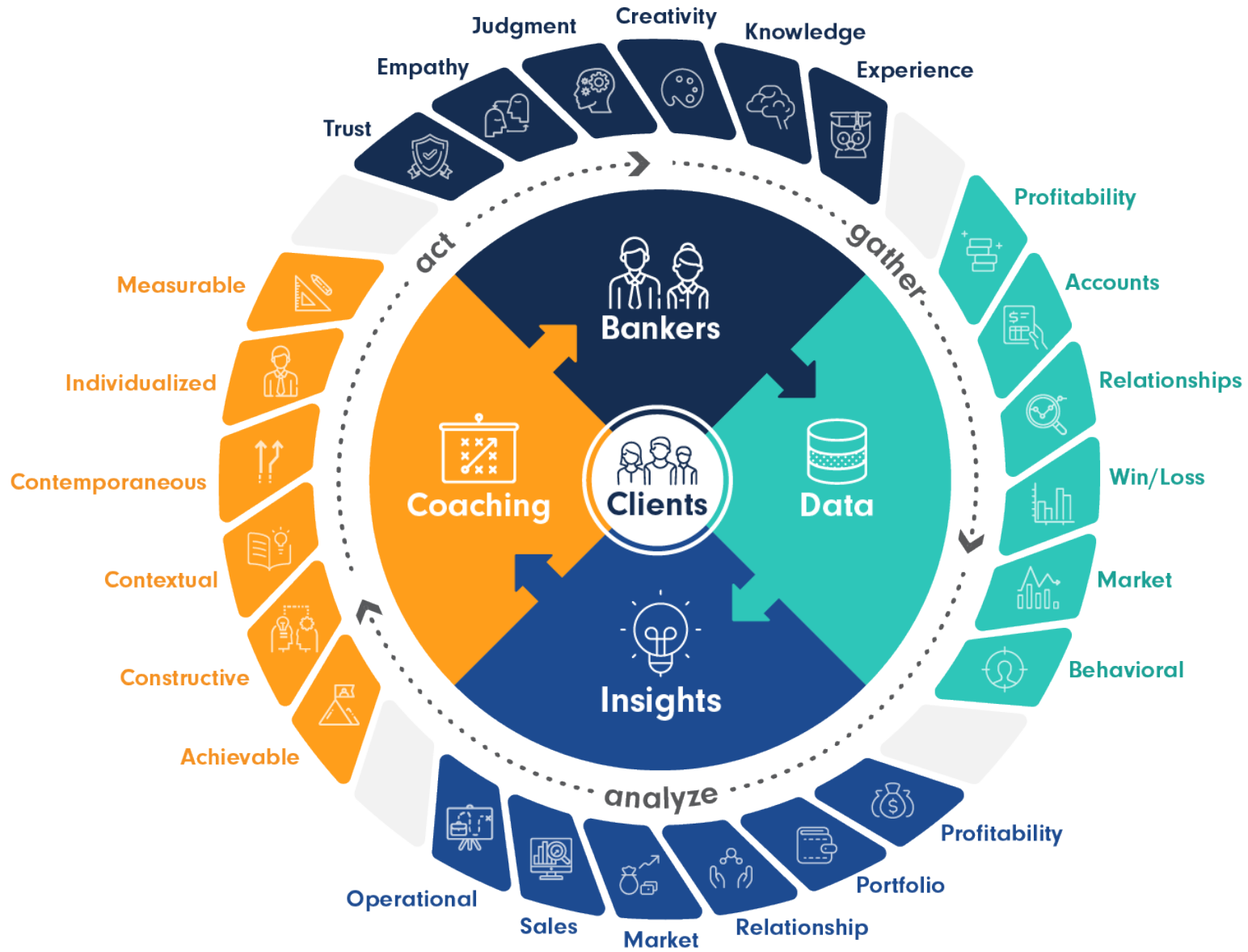
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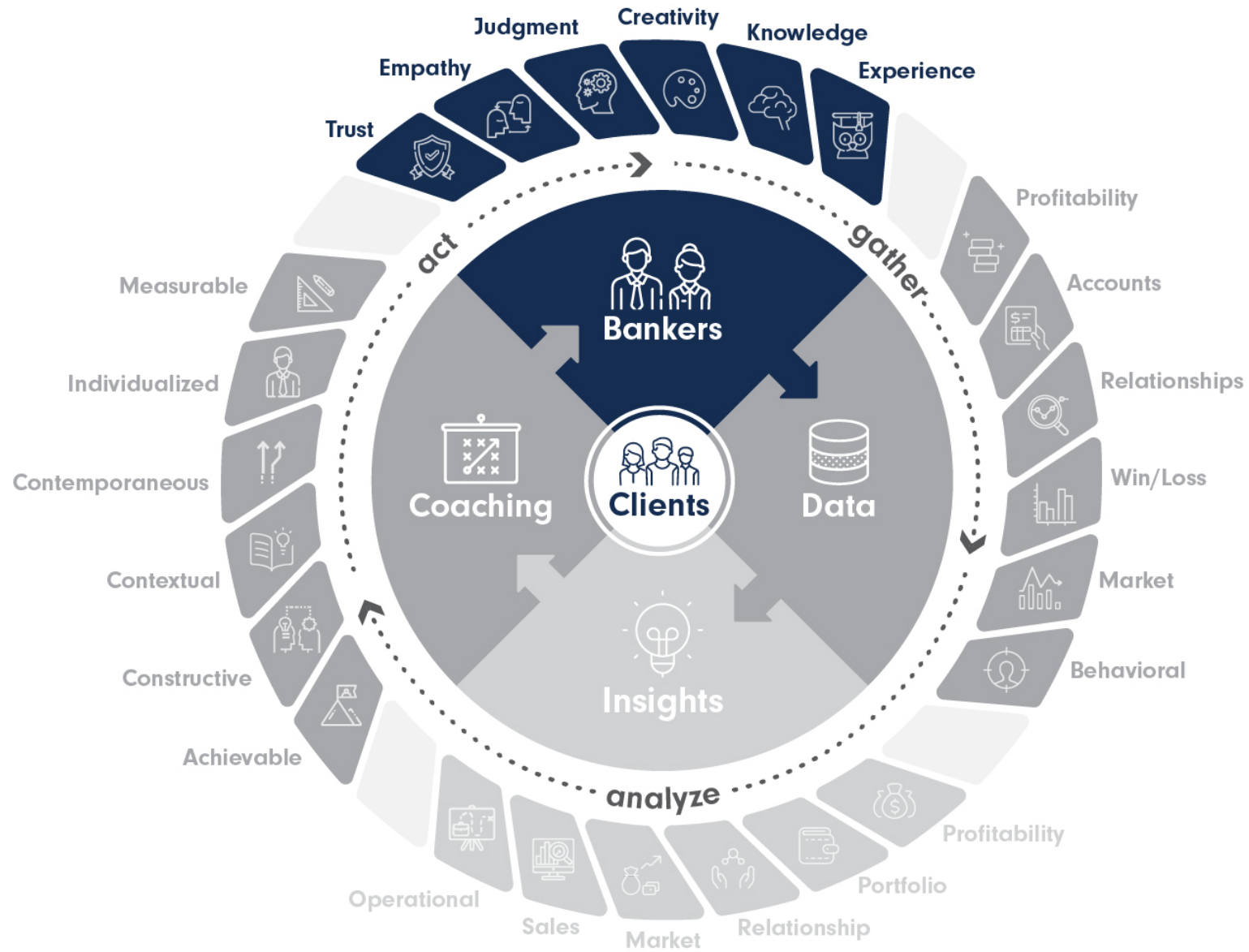
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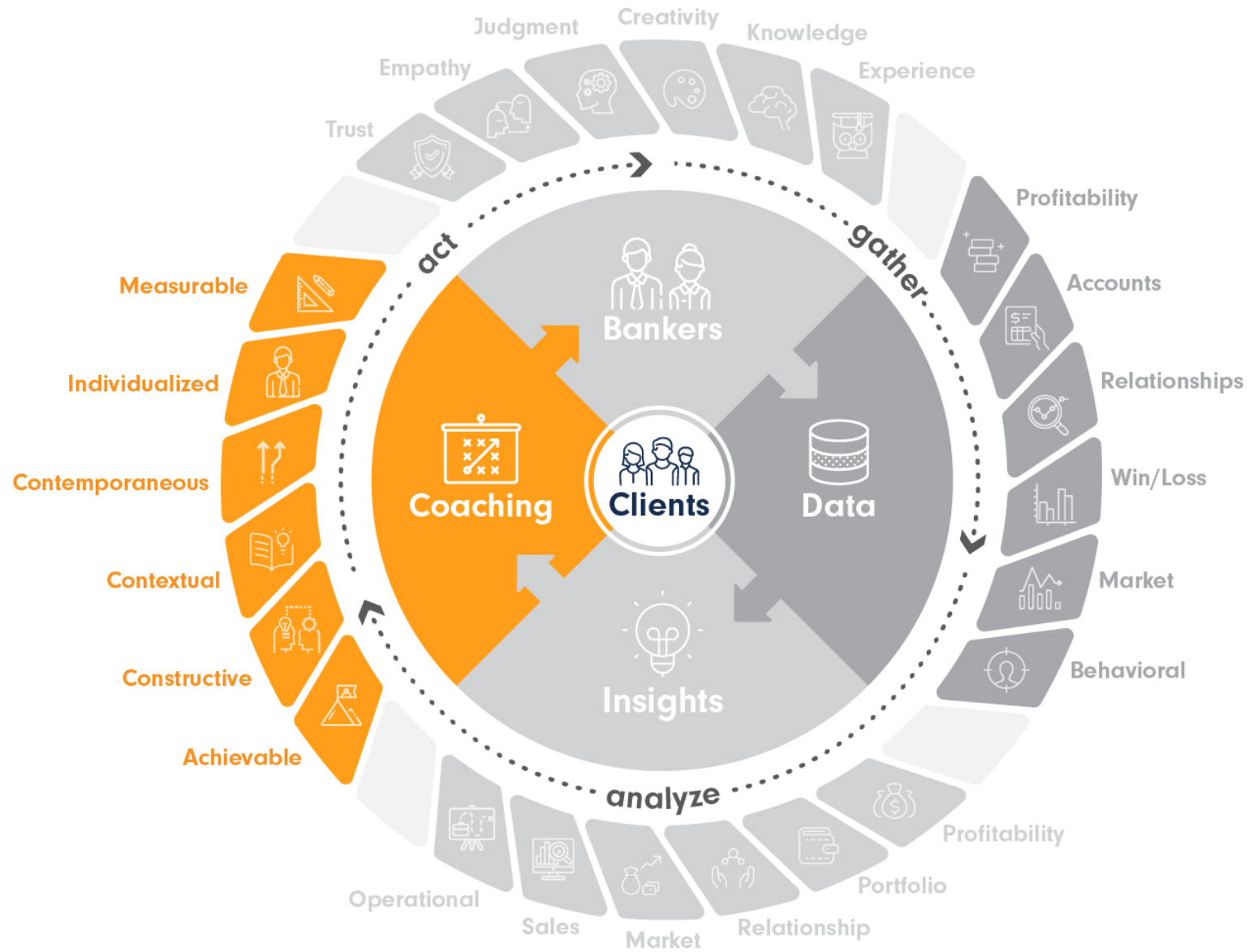




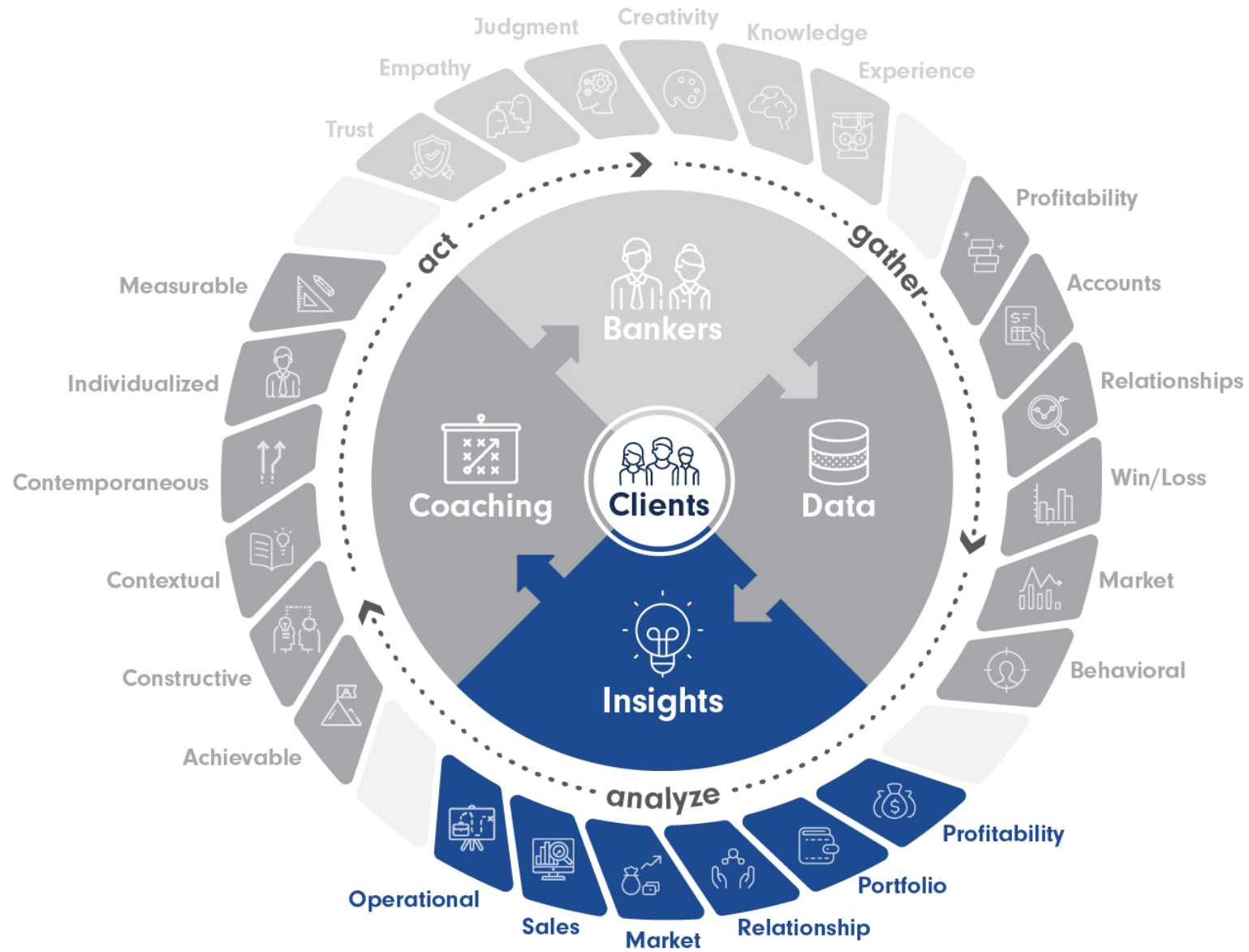




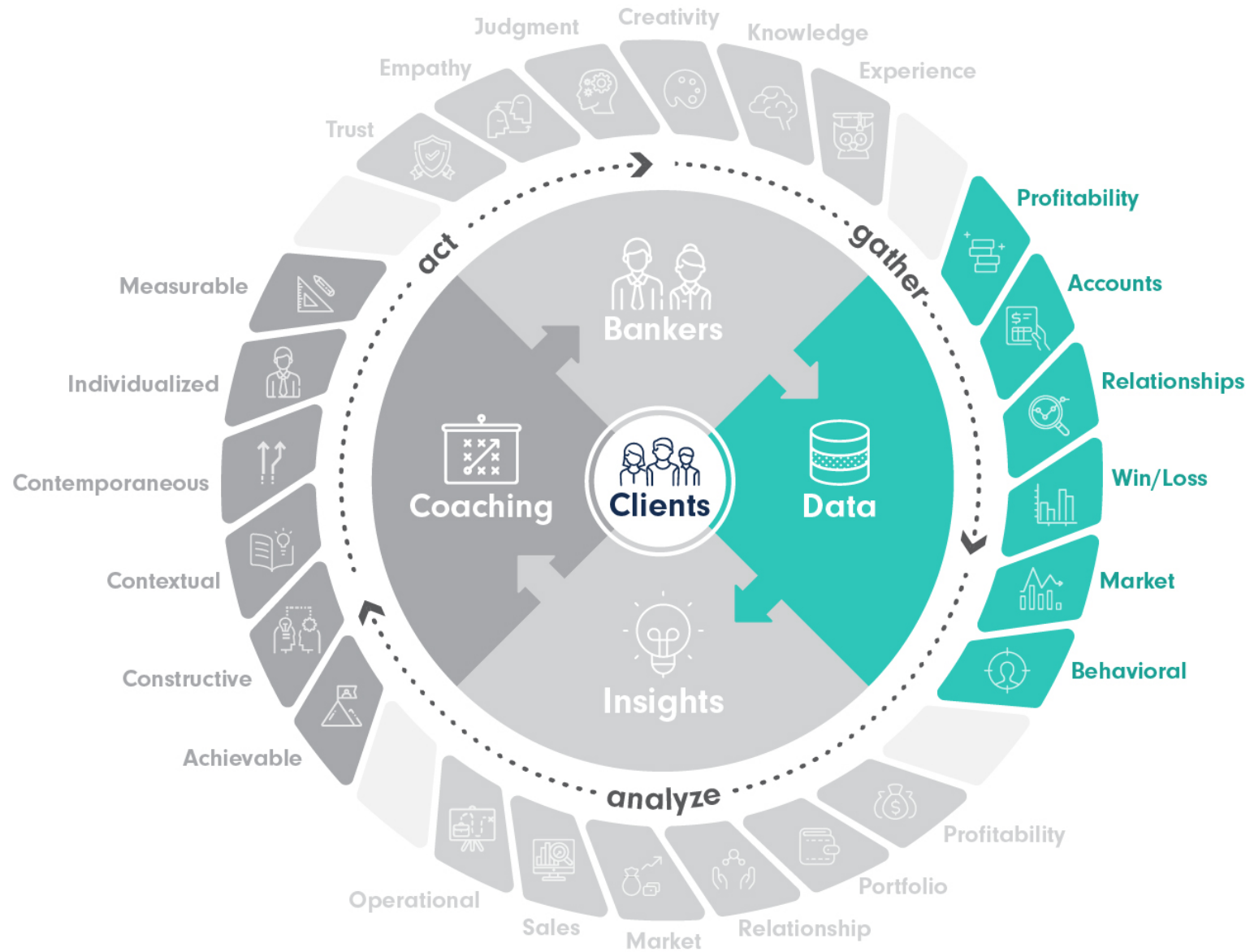
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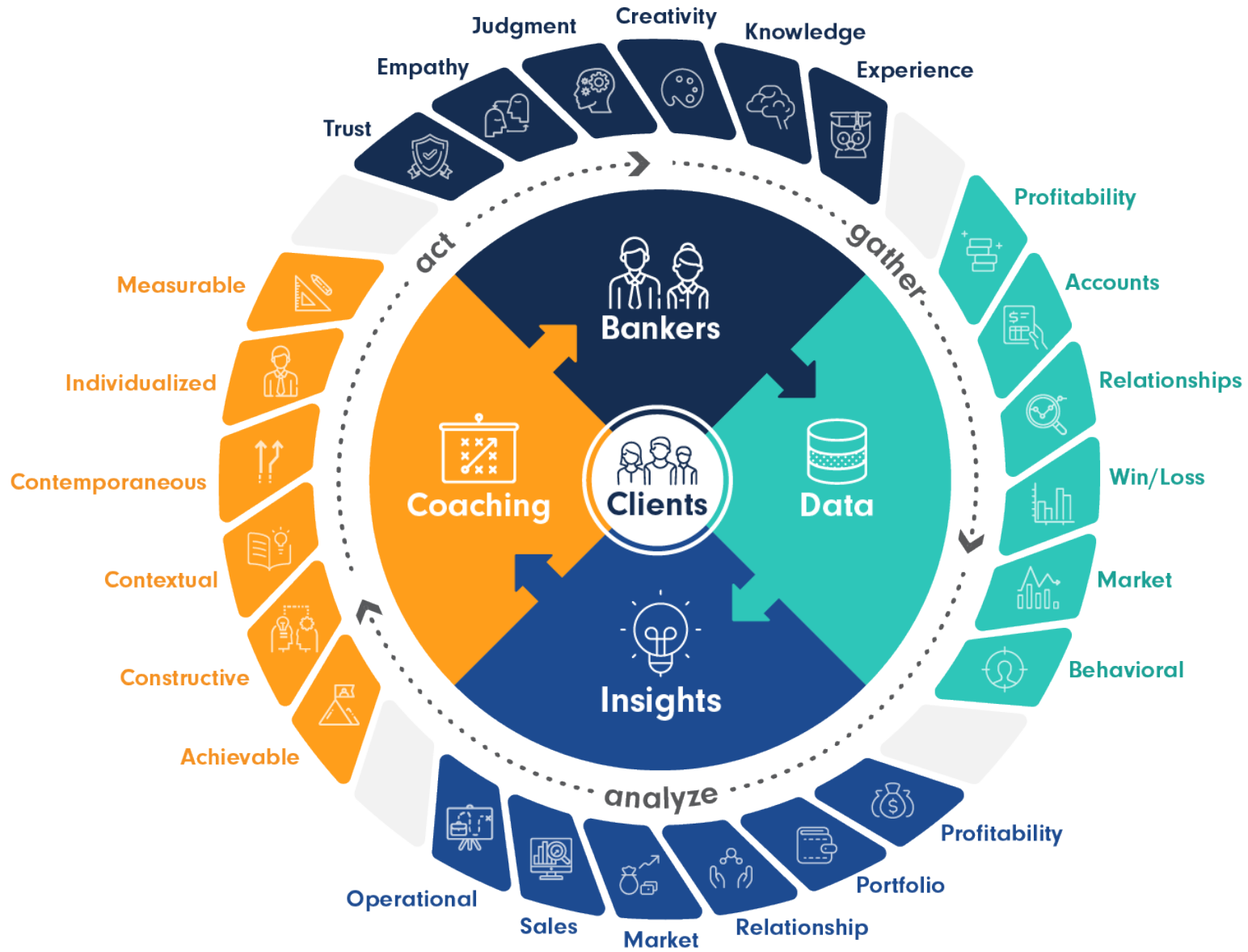


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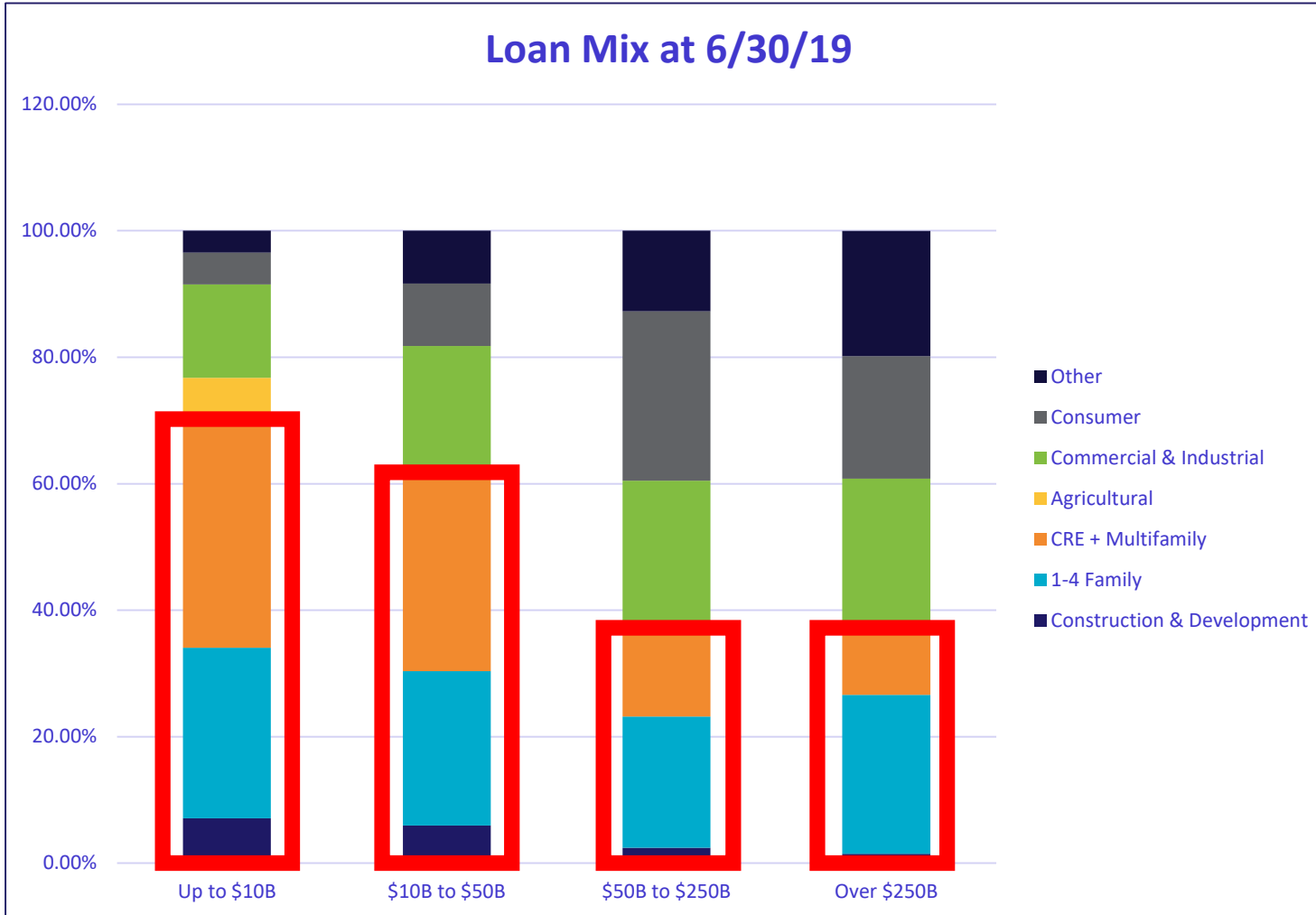


# Monitoring

What should we be looking for?



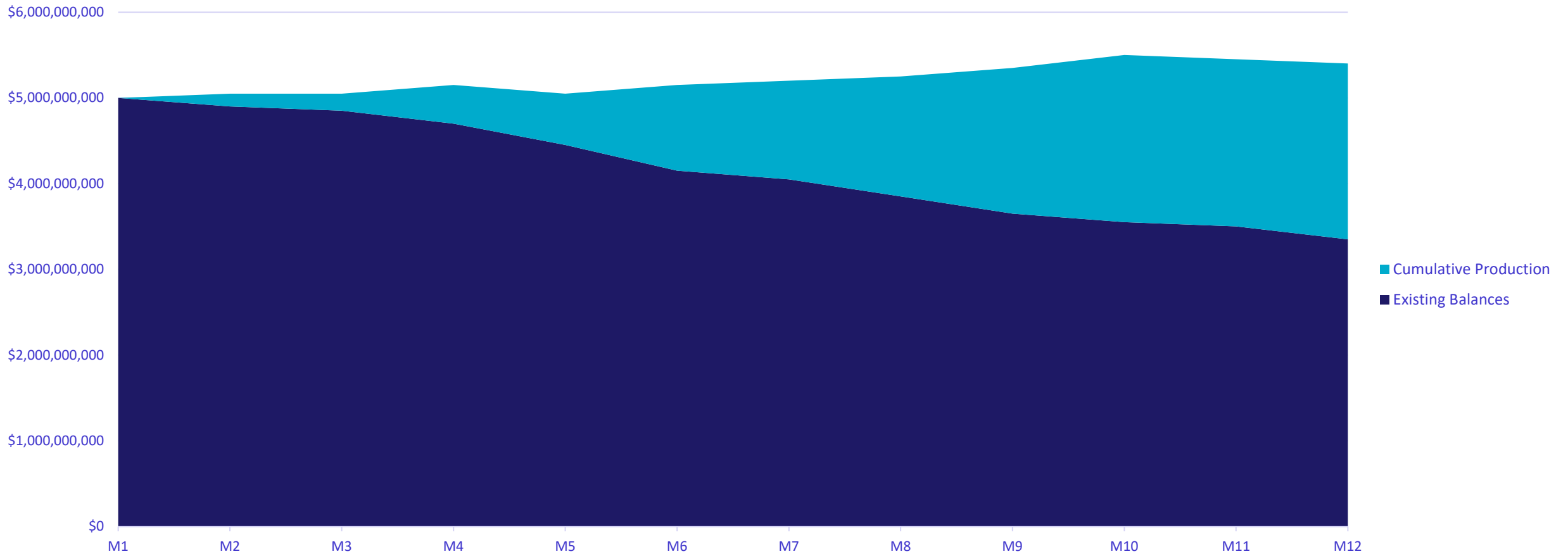
# Typical Commercial Portfolio



- Concentrations
  - Product
  - Geography
  - Durations
  - Industry
  - Customer
- Past Due Trends
- Prepay speeds
- Capital Allocation
- PD Migrations
- LGD Assumptions
- Stress Tests

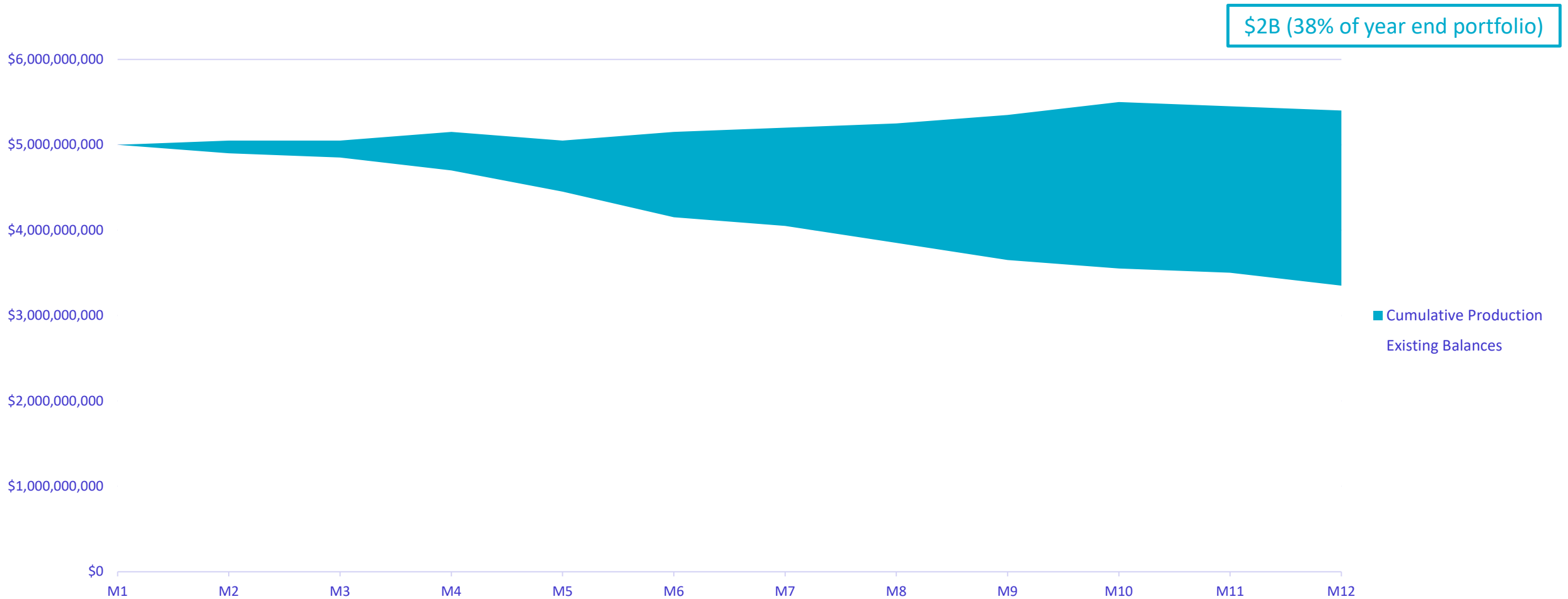
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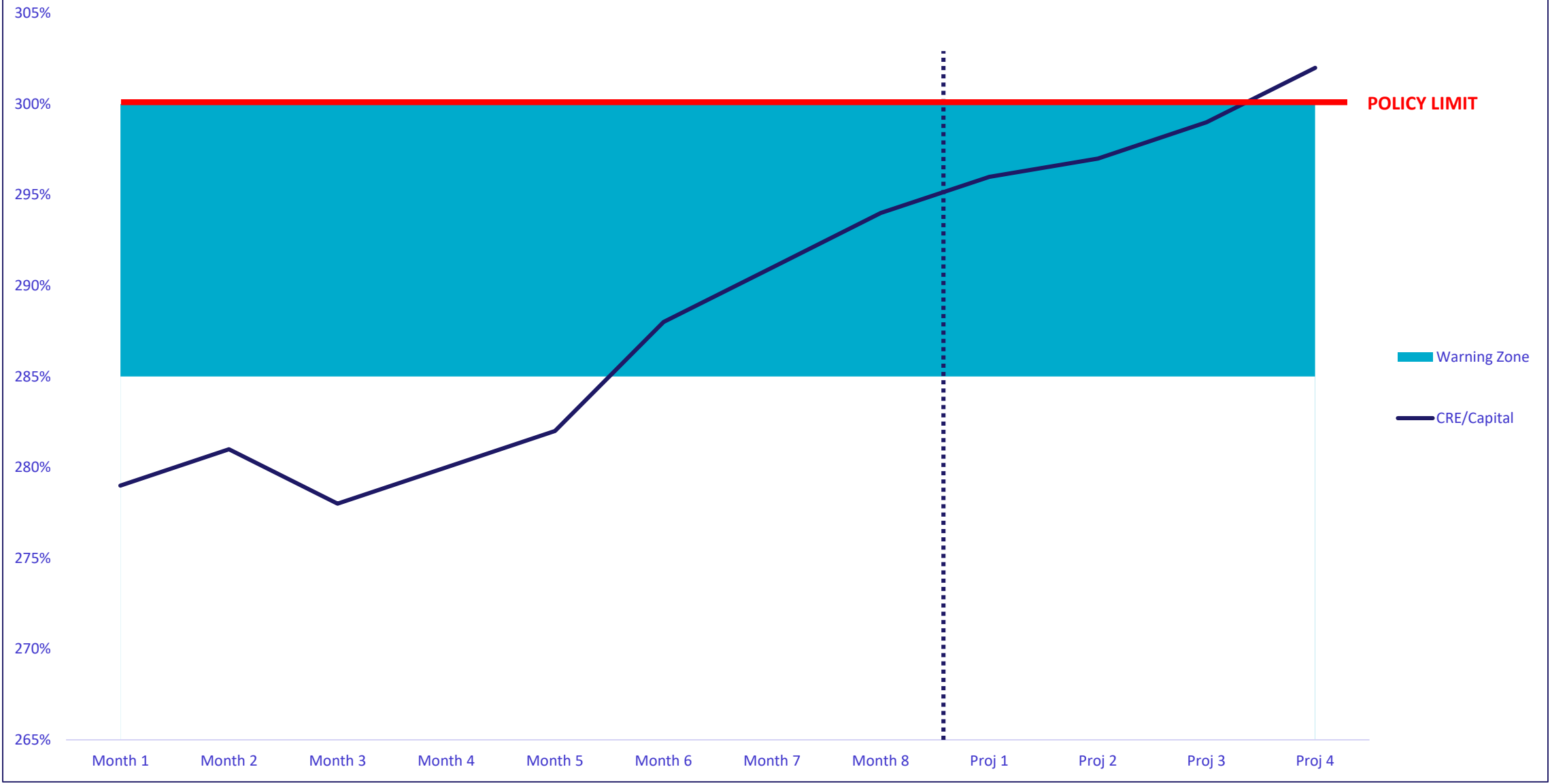
# Monitoring Deal Flow



- Customer/Relationship ID
- Owner
- Product
- Deal Terms
  - Balance
  - Maturity
  - Rate
  - Rate Type
  - Repricing date
  - Risk rating
  - Collateral
  - Guarantors
  - Fees
  - Etc

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# Commercial Real Estate Concentration



# Taking Action

How do we change the trajectory?



# Downturn Preparedness Survey

*How much (if any) has your bank relaxed credit standards in the past two years?*

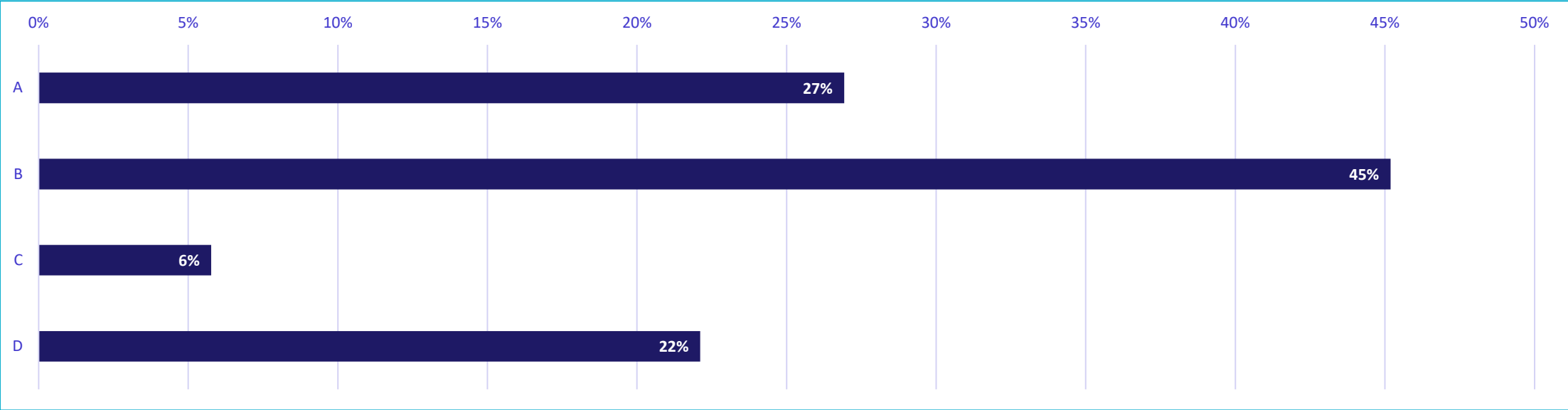
- A. Our credit standards have tightened this year
- B. We haven't changed our credit standards this year
- C. We're approving credits and customers we wouldn't have approved 2 years ago
- D. We're approving the same customers as before, but at more favorable terms and pricing



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# Coaching RMs

Give actionable, in-the-moment guidance

## Here are ways to reach the target:

- Increase the Spread by 12 bps
- Add \$32,472 to the Initial Fees
- Add 0.325% to Initial Fees
- Adding \$2,191K of Commercial DDA reaches opportunity target
- Reduce LTV to 67%
- Reduce Maturity to 47 months

## Here are things to consider:

- I recommend our Lockbox Services to handle tenant rents.
- Increase spread to L+165. More than 75% of similar deals are priced at or above L+165
- Add an origination fee of 22 bps - where assessed, origination fees on similar deals range from 20 bps to 30 bps
- Negotiate Foreign Exchange business totaling \$16K – many comparable customers have Foreign Exchange business averaging \$10-25K



Ask Andi your question...

Ok

# What kind of coaching?

## Targets

- Use dynamic profitability targets instead of static hurdle rates
- Targets become the way that you communicate appetite

## Assumptions

- Adjust critical assumptions like PD, LGD, capital, funding costs, etc
- Riskier deals now won't clear targets

## Approval requirements

- Add approval steps for specific high risk transactions
- A manager must actively say YES to every new dollar of exposure

## Structure restrictions

- Add restrictions to terms that add risk like collateral, maturities, etc
- Only deals that are able to fit neatly into policy/risk profile are booked

# Coaching for a CRE Concentration

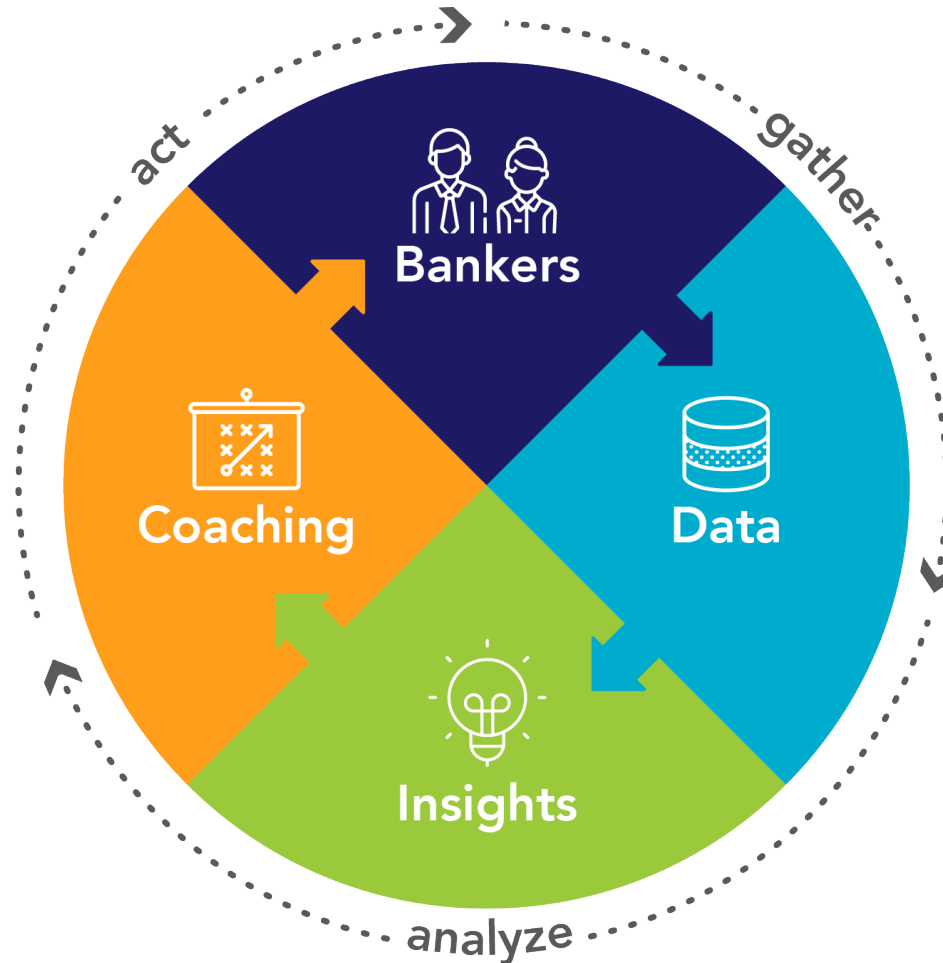
- Increase targets on non-owner occupied CRE
- Increase targets on all CRE in high risk markets
- Add approval requirements for CRE loans over a size threshold
- Restrict limits on LTV, maturity, amortization schedules, guarantors, etc for CRE loans

Negotiate deals that work for both the client and the bank, while providing a better customer experience.



## Andi

Deliver custom coaching via Andi. Use the Andi Skills Gallery and Andi Skills Builder to get enhanced control over the insights your RMs receive.



## PrecisionLender L3


Consolidate your bank's data into one location, analyze it, and generate insights that can be integrated into your sales and negotiation process.

 Let's see a demo...

File Message Help Acrobat Tell me what you want to do

Delete Archive Move Reply Reply All Forward Done Mark Unread


### Upcoming Renewals

 Andi Reports  
To: Banker

I found some Lines of Credit that are maturing and have recent credit downgrades:

Client Name	Maturity	Balance	Commitment	LOC ROE	Relationship ROE
<a href="#">Menlo Park</a>	9/15/2019	\$459,985	\$1,200,000	8.23%	20.09%
<a href="#">Antrans Enterprises</a>	9/20/2019	\$800,000	\$1,000,000	19.40%	9.91%
<a href="#">Megalomart</a>	10/1/2019	\$600,150	\$750,000	11.36%	19.02%

Cheers,



# Downturn Preparedness Survey

*If/when a downturn occurs, my bank's primary focus will be to:*

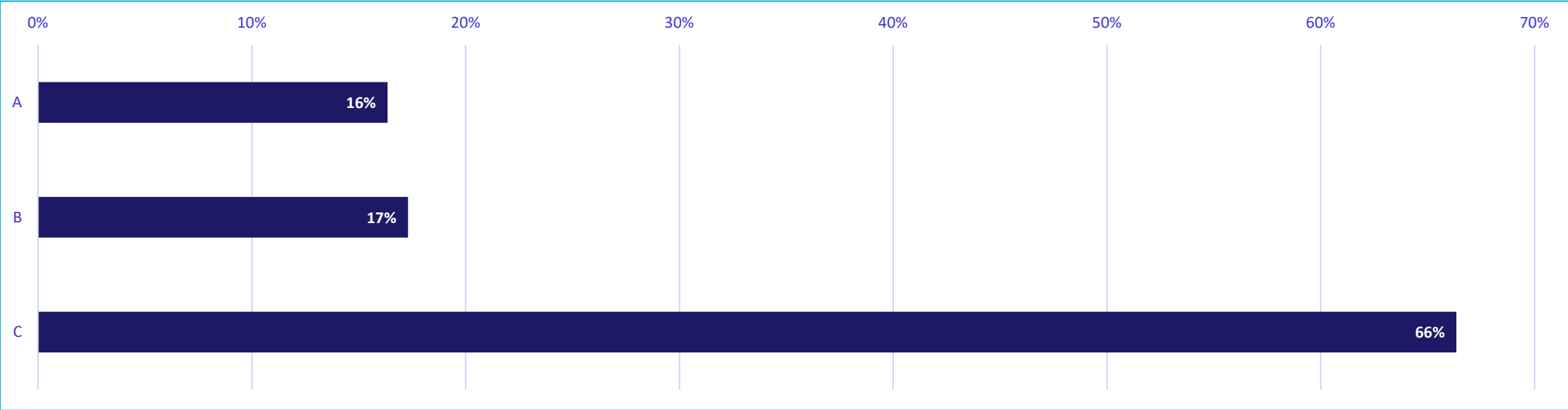
- A. Be aggressive and take market share
- B. Look for places where we can cut costs
- C. Stay the course. Our long-term strategy won't be affected.



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