

Effective Credit Risk Management

Roles & Responsibilities for Credit Risk Ratings /

Transcription

Objective

- *Unique Responsibilities* – Refresher for understanding the roles and responsibilities for assigning timely and accurate credit risk ratings

Expectations

- *Learn Your Duty* – Effectively exercise key roles and joint monitoring responsibilities by Primary Relationship Officers (PROs), Credit Administrators (CAs), with Special Assets Department (SAD) oversight

Primary Relationship Officer (PROs)



PROs/First Line of Defense

PROs are responsible to continuously ensure the accuracy of the credit risk rating throughout the bank organization within a given credit relationship. This responsibility cannot be abdicated under any circumstance. Consider the following responsibilities:

- The PRO has authority to approve credit risk rating changes without any additional approvals
- Any perceived change in risk characteristics must be evaluated and where the need for a risk rating change is evident, the officer must immediately process a risk rating change
- Timely detection of credit improvement or deterioration must be exercised by the PRO to ensure accurate capital allocation to measure profitability and to develop appropriate loss protection measures
- The need for revision of a risk rating may be manifested by financial improvement or deterioration, events that are internal or external to the company such as the death of a principal manager, or related to performance on credit facilities, including covenant defaults

Second Line of Defense (Rating Validation) – Each person concurring on or approving a credit validates the accuracy of the risk ratings assigned by the PRO. Each signatory to a credit request may modify credit risk ratings established by previous signatories

Third Line of Defense (Credit/Loan Review) – Credit review has final determination on all credit risk ratings

Credit Administrator; Credit Administration (CA)

Credit Administrator, or CA Staff

CA supports the line lending staff in the review, structuring, and approval of credit requests. CA ensures appropriate and consistent application of bank credit standards and credit policies. CA also provides leadership in the transmission of the bank's credit culture.



- *Active Credit Administration* – CA will meet with lenders on a regular basis to review portfolio quality and engage in various early warning activities designed to provide early identification of emerging problem credits. It also conducts pipeline management reviews, and performs timely advisory reviews of Watch List credits, Special Mention, and Substandard rated credits. Once a credit has been downgraded due to performance issues, or other deteriorating financial conditions, CA will be actively involved with the PRO to assess the current condition, and work collaboratively to establish an action plan to remediate the concerns and return the credit to a Pass risk rated status
- *Root Cause Analysis* – CA will work together with the PRO to analyze and determine the underlying causes of credit deterioration based on gathered information from diverse sources, including periodic financial statements, checking account activity, trade reports, market information, personal observations, and discussions with borrower management
- *Asset Quality Monitoring* – CA will also provide oversight of the heightened monitoring to improve borrower performance, including those credits designated on the Watch List (Watch List Reporting – WLR), or criticized loans (Criticized Loan Reporting – CLR) action plans. In those cases where further downgrade or risk of nonaccrual, or loss is possible, a transfer of responsibility for the customer relationship to SAD may be appropriate

Special Assets Department (SAD)

SAD

SAD has oversight responsibility for loans risk rated Special Mention, Substandard, or Doubtful (criticized). As the PROs and CA work together to make appropriate risk rating changes on a timely basis, once a loan has criticized status, CA will consult with SAD to determine the appropriate roles and responsibilities of the PRO, CA, and SAD personnel as they relate to the administration of the credit going forward. If it is determined that SAD should have an oversight role in the management of the relationship, the role may be in either of the following two forms:

- *SAD Advisory (Indirect)* – Advisory is where the relationship is jointly managed by the PRO and SAD with strong oversight from CA. Customarily, the PRO retains customer contact and day-to-day account management, with credit approvals and administrative actions flowing through SAD and CA. Sad assists the PRO with criticized loan reporting and action plans, and other routine credit administration actions. CA may also serve in an indirect advisory role
- *SAD Primary (Direct)* – Primary means the relationship is managed solely by SAD, where all aspects of contact and management of the customer are the responsibility of the SAD officer. Such duties would include the approval of credit actions within delegated authority limits, making proper credit risk rating changes, preparing asset quality monitoring reports, monitoring collateral values and

market conditions, performing annual property inspections, and overseeing the valuation process. SAD will utilize all available legal remedies to recover bank assets, including legal action against the borrower, guarantors, and collateral. This will include the liquidation of underlying collateral, in conjunction with legal counsel, for secured credits. SAD may also confer with the legal department in conducting a review of the current loan documentation on a discretionary basis