

## AuditOne Advisory

From Bud Genovese, CEO

### Proactive Credit Management is Prudent Business in this Economic Cycle

We're hearing of many commercial banks experiencing accelerated instances of problem loans and increased pressure on loan loss reserves due to increased charge offs. During these trying economic times, prudent bankers are taking proactive steps to head of losses and associated regulatory concern. Here are five steps to help you mitigate potential loan risk and loss:

- 1) The bank board and management should make sure your loan officers are actively managing credits and submitting internal loan grade changes (downgrades) on a timely basis. Also, be sure that loan upgrades are well supported.
- 2) Loan administration and loan officers should ensure that newly downgraded credits and existing classified and watch-listed credits are adequately collateralized (as applicable) and that all loan covenants are being met.
- 3) Review your ALLL policies and related loan loss allocations.
- 4) Make sure your credit review program has adequate coverage and frequency.
- 5) Consider note operations, in-depth loan documentation, and construction department reviews to complement overall supervision of the portfolio.

Spillover from the subprime meltdown has also impacted the liquidity condition and the investment portfolio valuations at many institutions. Examiners have been applying intense scrutiny on ALLL, credit review, and management of CRE concentrations. The next wave of scrutiny is likely to dig deeper since this downturn could last well beyond 2008. We are beginning to see regulator focus into related areas like fund control, collections, and accounting for ORE. The FDIC recently issued guidance in the Summer 2008 issue of Supervisory Insights.

Banks need to be aware of the potential need to add human resources to address increases in collections activity. The regulatory aspects of handling and accounting for ORE was covered recently in the FDIC FIL 2008-62 regarding Guidance on ORE.

AuditOne's team of experts can help you prepare to mitigate potential risks during these economic times. Please feel free to give me a call to discuss any aspect of your internal audit or credit review strategy and program.

*Bud Genovese is founder and CEO of AuditOne LLC, a San Jose, California-based internal audit firm that focuses only on banks and their service providers. Mr. Genovese pioneered the concept of providing comprehensive, affordable, independent internal audit services by gathering wide-ranging, world-class expertise within one firm. AuditOne serves over 90 clients throughout California, the Western United States, and nationally.*

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