

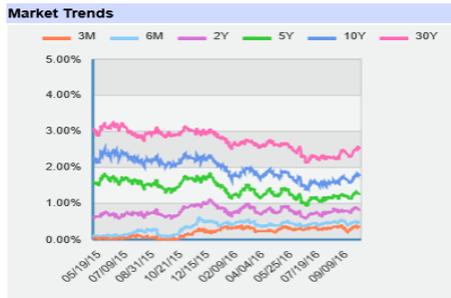


Weekly Post: Managing Loan Portfolios

Dear Clients-

As referenced in the September 28th, 2016 Post, managing loan portfolios is central to banking. Changing your mix of fixed to adjustable mortgages, from residential to commercial mortgages, tightening margin to increase volume, or keeping loans on the book instead of selling to agencies are a few of the loan portfolio management strategies you can implement.

But the external factors of prepayments, unanticipated commitments or charge offs, caps and floors of ARMs on loan repricing and sensitivity can also affect your loan portfolios. Both proactive and reactive forces on the loan portfolio continually alter the balance sheet performance. For example, the fall in rates, as



depicted here, may have significant impact on your loan rates and expected life.

Leveraging risk models will allow you to better manage your loan portfolios and enhance performance by

fully utilizing your risk capacity. As I discussed last week, THC provides a system to help ALM manage and navigate better. This Post explains how.

Challenges

- I have been increasing FRM production. But given the changes in customer’s behavior, how can I monitor the effectiveness of this strategy?
- I have been increasing CRE production, how can I monitor these new productions to ensure the balance sheet meets my risk policies?

Solution

In navigating ALM which is subjected to many uncertain factors, you have to adjust your loan strategies continually to optimize performance. Any adjustment needs a feedback loop, showing the effectiveness of your strategies when the customers’ decisions and market conditions are changing and often unpredictable. Obtaining a clear view of your loan portfolio performance continually provides this crucial feedback mechanism for you to monitor and enhance your performance. Today, you can use “Loan Performance Analytics” to generate the loan reports for prospective and retrospective analyses. For some of our clients who have dynamic links between THC Risk Officer and their core processors, this process is seamless;

Market Wisdom - Art Hilliard*

Off To The Races

Not to beat the scratch and dent dead horse, but the market is off and running. I received this pool of loans today that were put out for bid.

- 10 loans
- 9 fixed rate; 1 Jumbo LIBOR ARM
- All Performing
- WAC 3.84
- WA LTV 86.51
- WA FICO 770
- WA DTI 38.18
- Geographically diverse

No great shakes as far as issues go. Pretty much run-of-the-mill.

- Disclosure issues
- Appraisal issues
- Income issues

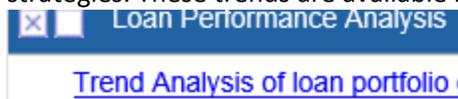
I am liking that jumbo ARM. The main issue is it is on the wrong appraisal form. There are some high rate fixed rate loans in there too. Bids are due on these loans by COB on 10/19. I am currently holding bids on four loans..

Art Hilliard has been in the mortgage industry for 29 years. He has originated, managed secondary marketing, securitizations and settlements, provided mortgage financial advisory and performed multiple mortgage portfolio sales and acquisitions. He was past president of the Illinois Mortgage Bankers Association.



reports are generated automatically. This report is currently available for all clients using your quarterly cycle numbers and for those that wish to view it monthly, the loan portfolio's can be easily uploaded.

I discussed the Loan Risk Reports on September 28th Post. Today, I want to discuss the retrospective analysis: using the historical trends to enable you to better monitor, comprehend and adjust your loan strategies. These trends are available in Loan Performance App, [Trend Analysis of Loan Portfolio](#)



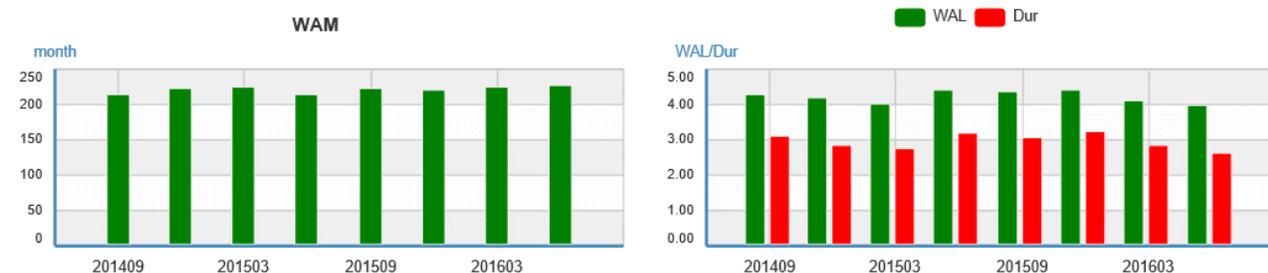
I will use a hypothetical loan portfolio of our Sample Bank to illustrate the use of these reports below.

Numerical Example

The following graphs depict the loan portfolio from 9/2014 to 9/2016. The graph shows that the loan portfolio grew significantly from 9/2014 to 9/2015, while the coupon rates remained fairly constant.



The trends below also show that the new loans continue to extend the weighted average maturity. However, because of the falling interest rates, the impact of prepayments lowers the duration and weighted average life. These monthly feedback reports enable our Sample Bank to execute plans of increasing the loan portfolio and extending maturity more effectively. For example, the bank may lower the loan rate to increase volume further and continue with 30 year FRM production.



These trend reports enable you to monitor the combined effect on your loan portfolio in a timely fashion. ALCO, the Board and the regulators can benefit from a timely "reality check" as opposed to just hypothesizing the outcome based on prospective analysis.

Furthermore, in Peer Group Comparison App, you can generate the trends of GL reported earnings. And by using "download all strategies" tab in Trade Simulation, you can see the historical trend for 8 quarters of your 12 month projection of earnings. You can relate the impact of these loan strategies on your earnings. In particular, you will find that the THC 12 month projections of earnings lead the GL reported earnings, because GL earnings are always backward looking, showing the efficacy of the THC models in tying the loan analysis to reported earnings.



Conclusion:

Loan strategies are important to ALM. Continual and timely monitoring of loan performance is a central component of an ALCO process. Advancements in core processor technology along with THC financial models, now provide you with access to an ALM navigation system to provide further insight into how you can monitor, model and execute your strategies.

If you have any questions regarding the Loan Portfolio Trend reports, please do not hesitate to contact THC.

Regards,
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THC is NOT a broker-dealer. THC only offers an analytical platform for clients to work together to meet your customers' needs or your balance sheet requirements. THC does not collect any commission.

*Art Hilliard is the Principal at AJHilliard Company assisting banks, credit unions, and mortgage companies with mortgage advisory and asset sales and acquisitions.

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