# FDIC Atlanta Region Regulatory Conference Call
# Commercial & Industrial Lending
# April 12, 2012

# Commercial & Industrial (C&I) Lending

- In the wake of the real estate market collapse, many banks are looking for ways to stabilize operations, increase revenues, and expand lending opportunities to businesses

- Hard data and anecdotal information reflect migration of many banks from real estate lending to various forms of C&I lending

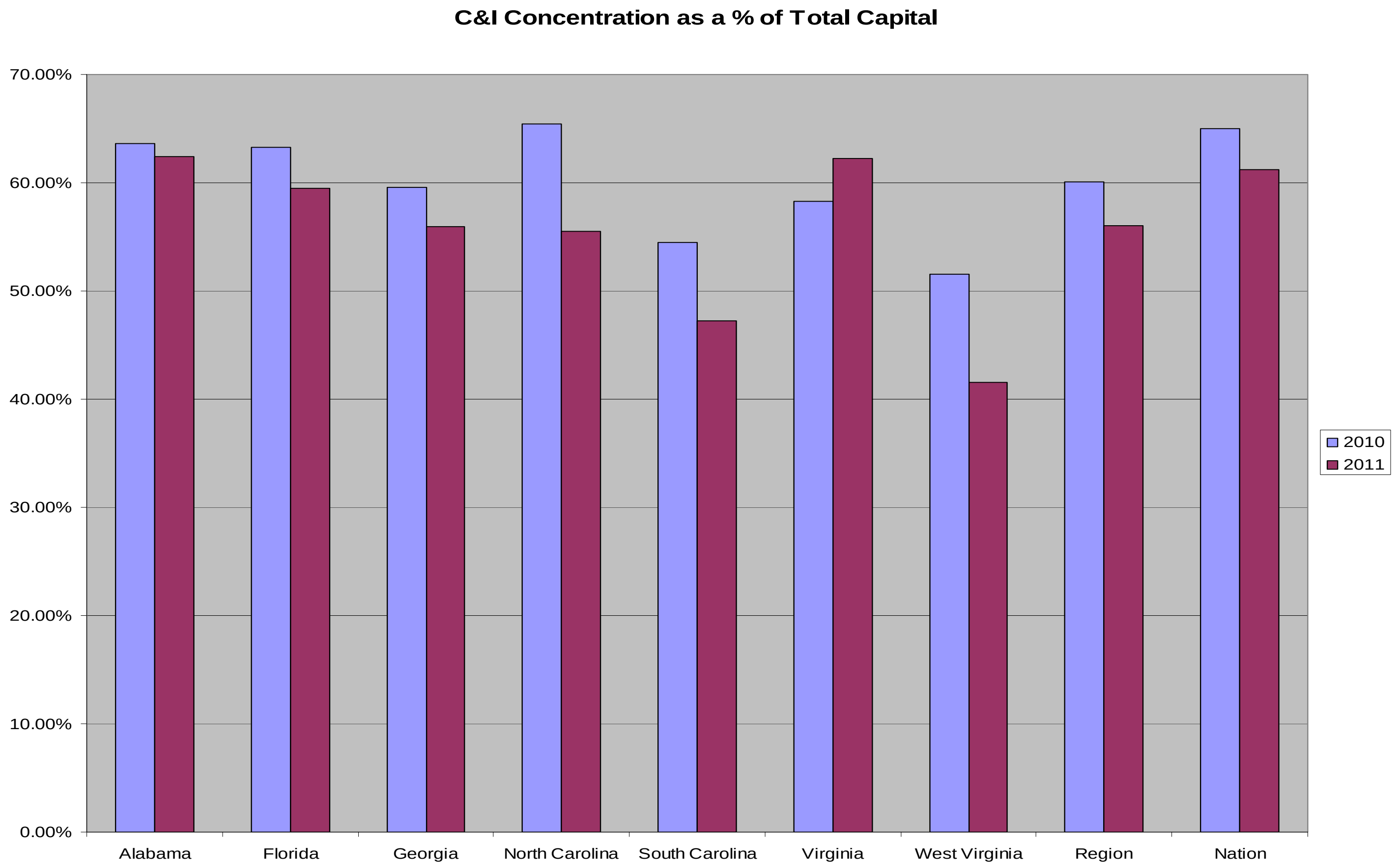
- When appropriately managed, C&I lending can provide a beneficial earnings opportunity for banks

# C&I Lending – The Raw Numbers

- For the Atlanta Region, C&I lending volume increased by approximately $38.1 billion in 2011, or 15 percent
- Most of this growth was concentrated in North Carolina banks, which saw a $25.3 billion, or 15 percent, increase in C&I Lending
- Other states in the Region with notable gains were Georgia ($5.3 billion or 16 percent) and Alabama ($4 billion or 15 percent)
- South Carolina banks reported a $121 million, or 7 percent, decline in C&I lending

Note: Information derived from Call Report data

# C&I Lending – The Raw Numbers



# C&I Lending – The Raw Numbers

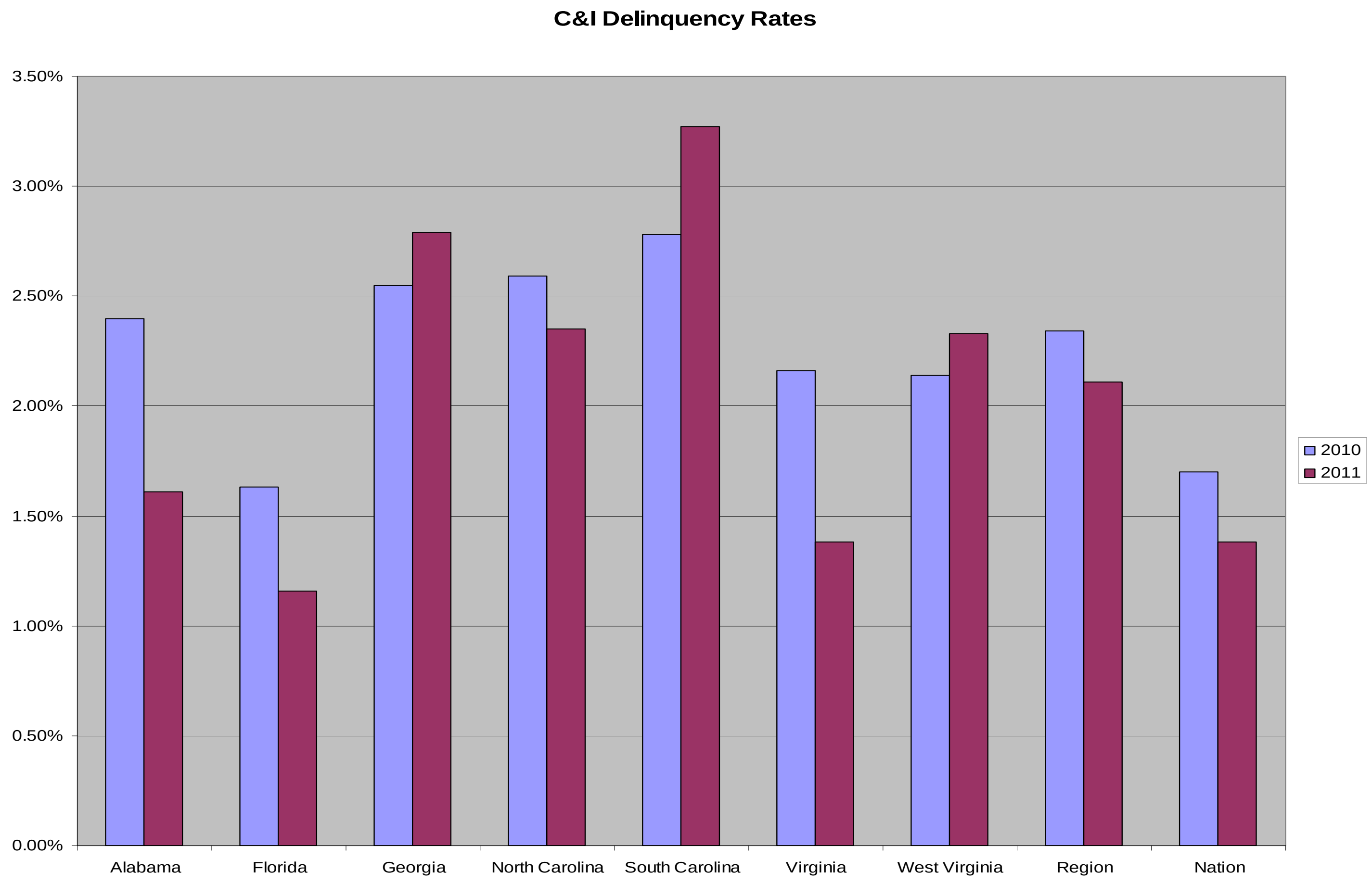
- In 2011, C&I Concentrations, as a percent of Total Capital, declined in all states within the Region, with the exception of Virginia

- Two states, Alabama (62.45 percent) and Virginia (62.27 percent) have concentration levels slightly above the national average (61.25 percent)

- While C&I lending, by dollar volume, actually increased in the Region in 2011, corresponding increases in capital levels led to a reduction in overall concentration levels for the Region

Note: Information derived from Call Report data

# C&I Lending – The Raw Numbers



# C&I Lending – The Raw Numbers

- The C&I delinquency rate for the Atlanta Region (2.11 percent) is notably above the national average (1.38 percent)
- C&I delinquency rates equal or exceed the national average in all states, with the exception of Florida
- Year over year, delinquency rates have increased in Georgia, South Carolina, and West Virginia

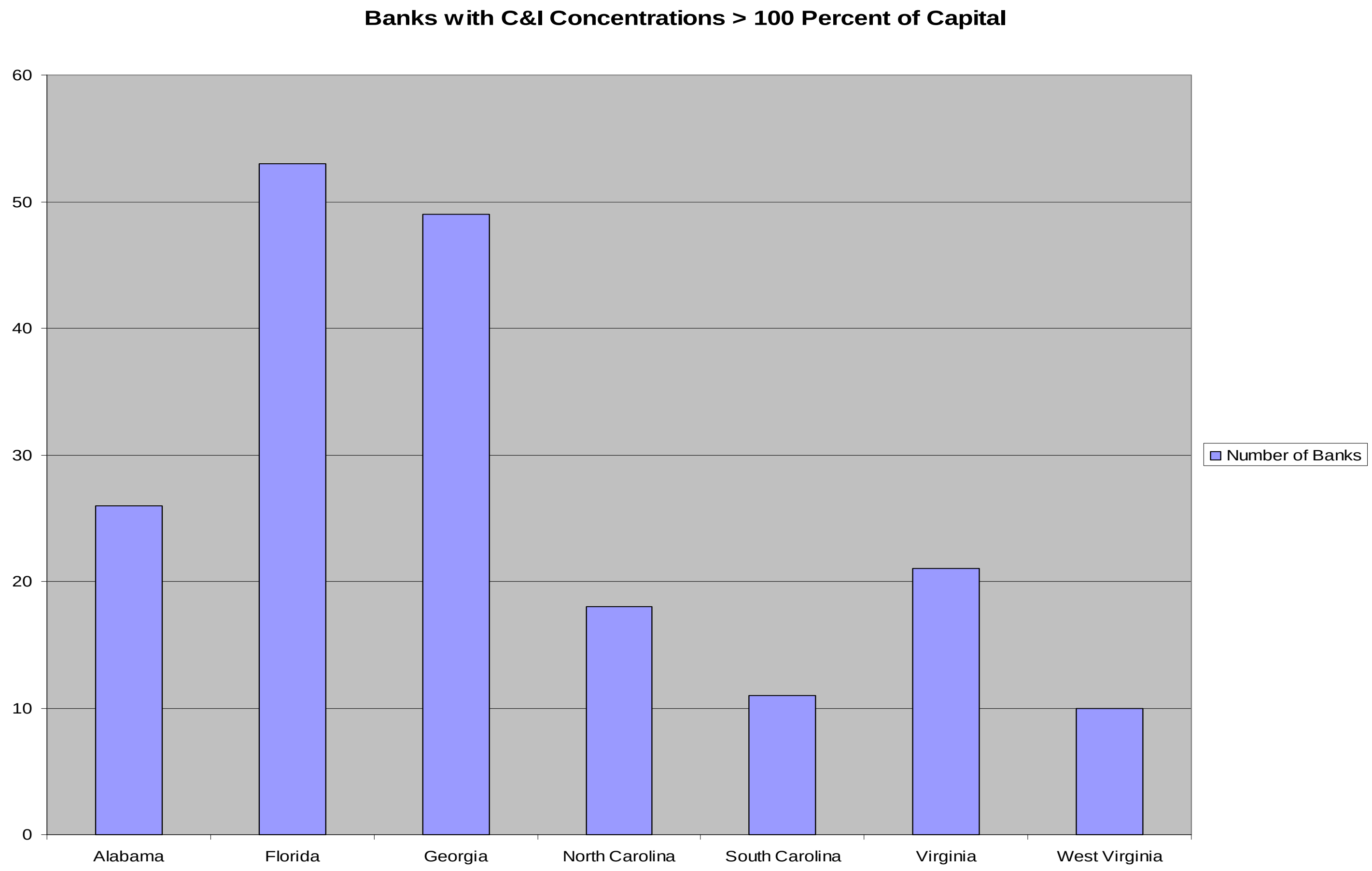
Note: Information derived from Call Report data

# C&I Lending – The Raw Numbers

- In the Atlanta Region, we have seen an uptick in banks with C&I concentrations exceeding 100 percent of Total Capital
- As of year-end 2011, the Region had 188 banks (21 percent) with C&I concentrations exceeding 100 percent of Total Capital
  - Concentrations for 34 of these banks exceeded 200 percent of Total Capital
  - Three banks had concentrations exceeding 400 percent of Total Capital
- The Region also has a number of banks with C&I lending growth exceeding 25 percent year over year

Note: Information derived from Call Report data

# C&I Lending – The Raw Numbers



# C&I Lending

- While demand for other loan types has remained relatively weak, evidence indicates a trend toward expanding C&I loan portfolios
- With the previous focus on real estate lending, many banks will need to implement and/or strengthen/enhance C&I credit underwriting and administration practices
- C&I lending can also present challenges to loan officers unfamiliar with this business line
- Banks must ensure management information systems and risk management practices are commensurate with the scope and complexity of C&I lending activities

# C&I Lending

- Common Types of C&I (non-real estate secured) Lending
  - Loans to manufacturing, construction, transportation, communications, wholesale and retail trade, and public utility companies
  - Loans to service enterprises such as hotels, motels, laundries, automotive service stations
  - Loans to customers in the legal, medical, insurance, and accounting/finance industries
  - Loans for the purpose of financing capital expenditures, current operations, equipment, and other business assets
  - Loans to businesses guaranteed by the Small Business Administration
  - Loans to merchants or dealers on their own promissory notes secured by the pledge of their own installment paper
  - Dealer flooring or floor-plan loans

Note: Common loan types are detailed in the Call Report Instructions

# C&I Lending

- C&I Loans typically take the form of:
  - Short-term working capital loans (financing accounts receivable, inventory, etc.) – typically referred to as asset-based lending
  - Seasonal loans
  - Term loans (to finance capital assets)
  - Other loans to individuals for various business purposes

# C&I Lending Risks

- On the Borrower Side
  - Faulty business plans
  - Poor management
  - Competition
  - Economic conditions

# C&I Lending Risks

- On the Bank Side
  - Inadequate knowledge of business line
  - Lax supervision and monitoring
  - Weak management information systems
  - Fraud
  - Economic conditions
  - Inappropriate loan structure (margins, liquidation, etc.)
  - Concentrations

# C&I Lending – Management Responsibilities

- Planning & Strategy
- Staffing
- Policies & Procedures
- Infrastructure

# C&I Lending Policies & Procedures

- Lending policies should specifically address:
  - All types of C&I lending to be pursued
  - Trade areas
  - Lending limits
  - Lending authorities
  - Specific underwriting criteria for each type of C&I loan product
  - Documentation requirements

# C&I Lending Policies & Procedures

- Lending policies should specifically address:
  - Credit monitoring processes
  - Collection processes
  - Stress testing
  - Exit strategies

# C&I Credit Underwriting and Administration

- Analyzing financial condition and performance
- Analyzing cash flow and repayment capacity
- Business experience
- Know your customer and their business

# C&I Credit Underwriting and Administration

- Loan structure
- Collateral
- Business plan
- Competition and local market conditions
- Monitoring

# C&I Lending – Loan Review, Risk Identification, and Credit Grading

- Reviews should analyze a number of credit factors, including:
  - Overall credit quality
  - Credit and collateral documentation
  - Lien perfection
  - Loan approval
  - Adherence to covenants
  - Compliance with bank policy and laws, regulations, and regulatory guidance
  - Accuracy and timeliness of credit grades

## C&I Lending – Loan Review, Risk Identification, and Credit Grading

- As with other loan types, accurate and timely grading of C&I loans is critical to an effective loan review system
- Effective credit grading includes:
  - Assessment of credit quality
  - Prompt and accurate identification of problem loans
  - The assignment of accurate risk ratings
- Effective credit grading is critical to ensuring the maintenance of a fully funded reserve

# Audit Function

The bank's audit program should provide for comprehensive, independent reviews of C&I lending policies and processes, as well as their implementation.

# Conclusion

While C&I lending can provide earnings opportunities, bank management must take a balanced approach ensuring an effective decision-making process and risk management practices are in place.

# Regulatory Guidance

- FDIC Risk Management Manual of Examination Policies
- Interagency Statement on Meeting the Credit Needs of Creditworthy Small Business Owners (FIL-5-2010 issued February 12, 2010)
- Interagency Statement on Meeting the Needs of Creditworthy Borrowers (FIL-128-2008 issued November 12, 2008)

# C&I Lending

Questions?