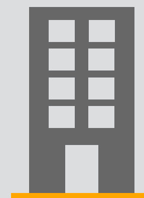
Crowe

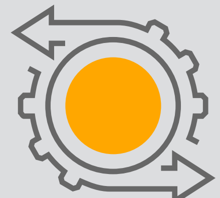
Smart decisions. Lasting value.™

Five data best practices to improve your credit risk management

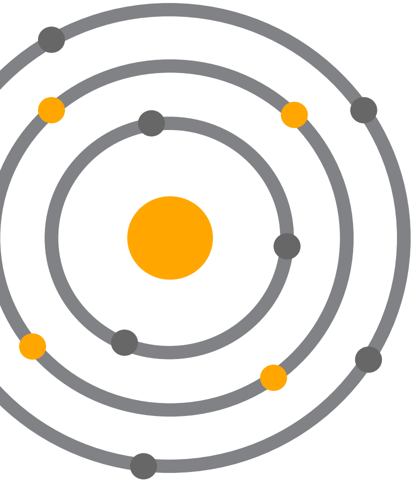
Effective credit risk management has likely been crucial to your bank's stability and success. In today's evolving regulatory landscape it's more important and more challenging than ever. One critical component of modern credit risk management is the efficient capture, management, and use of your bank's data.

Inside, you'll find five data best practices that can help your bank achieve better credit risk management.





Expand your data collection



To comply with new and upcoming credit standards, banks will need to collect and analyze an increasing amount of data. One of the most demanding and consequential of these upcoming standards is the Financial Accounting Standards Board's current expected credit loss (CECL) model. Following the CECL standard will require significantly more data than the current probable incurred allowance for loan and lease losses, including peer and industry data, borrower credit quality indicators, historical risk ratings or credit metrics, product or collateral type data, and more. For many banks, CECL presents a major data challenge.

62% **of banks say upcoming CECL demands are their top data quality and governance concern**[1]

Ahead of the CECL deadline, your bank will likely need to expand its data collection. To prepare, begin associating your bank's required data with portfolio risk characteristics to help make the required forward-looking models, and begin setting up processes to gather and store this data. This will help your bank build more robust, auditable models. You'll also be able to better align those models with the risk profiles in your portfolio while helping your bank comply with the new standard.

Select the right technology

New technologies can help your bank more efficiently use data to address growing and changing credit risk management needs. For example, in the loan review department, manually entering data, tracking progress, and producing reports leaves your team with less time to analyze the results to find potential credit issues, control breakdowns, or other possible problems. Reliance on manual processes can significantly reduce the impact your loan review department has on overall credit risk management.

While automation, analytics, and similar software features could benefit your loan review department, not all solutions will meet your bank's needs. Many require expensive maintenance or place a strain on IT resources, and can be difficult to upgrade. Others may not cover all of a loan review department's functions, be customized, or offer data analytics, limiting the value to your organization.

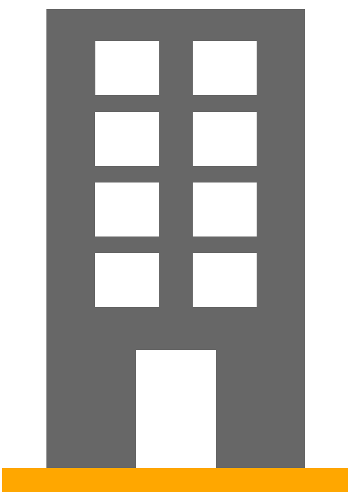
When selecting software, look for scalable, dynamic solutions that offer automation and analytics capabilities. This will help your bank respond to changing credit risks and regulations.

Leverage granular, loan-level data

Credit risk management and accounting functions can often benefit from loan-level analysis. For example, loan valuations performed at the loan level under the new Accounting Standards Update No. 2016-01 standard can produce more accurate results. Loan-level valuations allow the bank to apply assumptions dynamically based on the characteristics of each loan, such as the probability of default by product type, the loss given default tied to collateral, and prepayments linked to interest rates. Additionally, your future assumptions about these loans can reflect historical lifting and curves, assigning default, loss, and prepayment curves to the loans based on time since origination or time to renewal.

Producing these more accurate, loan-level valuations can provide actionable insights into overall portfolio trends and characteristics. Your bank can analyze the loan-level results to identify outliers, which often indicate data issues, credit risks not properly captured in the loan's all-in yield, or pricing inefficiencies in the market. Credit marks from loan-level valuations, which represent life-of-loan losses, can also be compared to life-of-loan loss estimates calculated under the new CECL standard.

Establish strong data governance



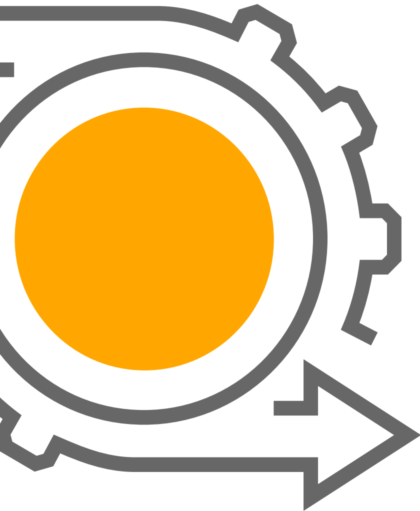
Effectively leveraging data requires consistently managed, centrally stored, and easily accessible data. This strong data governance helps all data users within your organization trust that their data is complete and reliable. This trust is especially important when it comes to analyzing your bank's concentration risk.

For many banks, effectively managing commercial real estate (CRE) concentration risk is a growing concern as regulators increase their focus in this area.

76% **of banks are concerned about effectively mitigating CRE-related risk[2]**

Missing data, coding errors, and other data issues give a distorted view of concentrations and the risk they bring. Implementing and following a robust data governance program can help your bank not only confidently identify potential concentration-related issues, but can also help satisfy regulatory demands.

Keep all data and keep it accessible



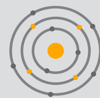
As banking industry regulations come and go, it may seem efficient to discard data collections and processes. But banks should retain as much of this data (and corresponding governance practices) as possible, as these previously collected data sets can often still help banks with credit risk management.

For example, although Dodd-Frank Act stress testing (DFAST) is no longer a regulatory requirement for many banks, DFAST data can be used to help banks conduct their own stress testing and gain valuable insights for capital planning. Additionally, many of the models used for DFAST are flexible and can be adapted to support new allowance calculations under CECL.

Leveraging data efficiently and effectively provides banks with valuable insights to improve their credit risk management. And better data usage in one area of credit risk management can lead to improvements in another – like how loan review results can feed into CECL and loan valuation models, and forecasted cash flows from loan-level valuations can feed bottom-up stress-testing models.

[1] Online survey of Crowe webinar participants, Feb. 20, 2018.
[2] Online survey of Crowe webinar participants, June 19, 2018.

The Crowe Credit360 suite provides banks with scalable, cost-effective software solutions to help them leverage data to improve in different areas of credit risk management. As a whole, the suite can also analyze the intricate relationships among these areas to help your bank better manage all elements of modern credit risk.

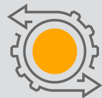


Crowe Credit360 for CECL™

Crowe Credit360 for Loan Review Departments™

Crowe Credit360 for Valuation™

Crowe Credit360 for CRE™



Crowe Credit360 for Capital Planning and Stress Testing™

Learn more at crowe.com/credit360

Visit www.crowe.com/disclosure for more information about Crowe LLP, its subsidiaries, and Crowe Global. © 2019 Crowe LLP.