



servion

COMMERCIAL LOAN RESOURCES

CHOOSING THE RIGHT COMMERCIAL LOAN RESOURCES VENDOR

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ABOUT SERVISION



CHOOSING THE RIGHT COMMERCIAL LOAN RESOURCES VENDOR

Community financial institutions are turning to commercial lending to fuel growth. If yours is among them, consider assessing your available internal resources, including staff and processes, and decide where you need help. In most cases, leaders find they need additional people and/or expertise in order to manage and mitigate the risks of commercial lending. Partnering with an outside firm that works behind-the-scenes and augments internal resources, is a common choice as institutions balance the need for risk management with the cost of maintaining the needed personnel in-house.

Companies that provide commercial loan resources, including underwriting, credit review and administration, auditing, appraisal review, environmental review, title services, portfolio servicing, annual reviews, and more, provide financial institutions with expertise that might not be available in their marketplace or in their budget. A strong relationship with a commercial loan resources vendor can greatly enhance the risk mitigation process for commercial lending.

Once internal strengths and weaknesses are identified, the process of selecting the right vendor begins by talking to the people who regulate the industry. Regulators working for the National Credit Union Administration (NCUA), the Federal Deposit Insurance Corporation (FDIC), or the Office of the Comptroller of the Currency (OCC), know which companies provide the services you seek.

Carefully evaluate each reference, asking questions about reputation, areas of expertise, experience, and product offerings. Ask your referral sources to share, if possible, the track record of the vendors they recommend. You can also find out the other institutions that partner with a vendor. Once you have, look up their performance using publicly available records. Data published by the NCUA or the FDIC is a great second check on the quality of that vendor's work.

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EXPERIENCE AND SERVICE OFFERING IS KEY

Lending institutions need to ensure the commercial loan resources vendor under consideration has a deep and broad expertise, with the goal of gaining confidence in its talent pool. Ask for the names and resumes of the people who will be assigned to your team. Add up the years of experience that you'll gain through your partnership.

You can also ask for the processes the vendor uses to identify risk. Do they do it the same way for each loan or each institution? If their processes are standardized, efficiency is gained. Yet the processes also need to allow professionals to understand and identify risk.

When your institution sends loan conditions to the vendor to be evaluated, who puts everything together in a loan product package? Where in the process is this package reviewed prior to being returned to your financial institution? Is there a threshold whereby a loan will automatically require additional review by a senior credit analyst or department head? How many sets of eyes fall on the presentation before it is returned to the loan committee? Answers here can help a financial institution get a more complete picture of a vendor's credit review process and know what checks and balances are in place.

Look at the vendor's à la carte menu of services. If they perform appraisal reviews, are they limited geographically? How do they analyze the information in the review? What happens when their review differs from the appraiser's? Do they check to see if the appraiser earned a credit commission? There are several firms that conduct only appraisal reviews, but a review done in conjunction with an overall loan application assessment will go into greater detail and be tested against credit issues. Likewise, environmental reviews can introduce complexity into the process. Assess whether the vendor has significant experience in environmental issues.

Ask how it handles documentation. Ask how it handles annual reviews. Look with an eye to the future at which of the vendor's other services you may want to use. Does the vendor perform auditing services to assess risk? Can it audit to determine the overall loan to value position or underwriting quality, or if a borrower is meeting necessary qualifications? Sometimes examiners ask for third-party review. Is the vendor equipped to provide such a service?

ASK FOR THE NAMES AND RESUMES OF THE PEOPLE WHO WILL BE ASSIGNED TO YOUR TEAM. ADD UP THE YEARS OF EXPERIENCE THAT YOU'LL GAIN THROUGH YOUR PARTNERSHIP.

A full service commercial loan resources vendor ought to be equipped to respond to any request tied to commercial underwriting.

The right commercial loan resources vendor can also become a valuable resource to you during an examination. Talk to the vendor about how examiner interactions are supported. How is documentation made available? Is a portal created to examiner specifications? If so, how will examiners access the documents and how secure will it be? The NCUA expects third-party involvement in commercial lending because the associated nuances can challenge credit unions; bank regulators from the FDIC and OCC will be less accustomed to institution-vendor partnerships for commercial lending. If your institution is regulated by either of those agencies, ask the vendor how past interactions have unfolded.

BEYOND EXPERIENCE AND PROCESSES

When considering a commercial loan resources vendor, a financial institution will want to look beyond expertise or its menu of services. Assess the vendor's business philosophy. The right vendor becomes a lending partner, committed not only to providing valuable credit services but being a factor in the equation for success. The right partner won't guard its expertise; it will share its knowledge and experience to support the financial institution's lending team and commercial lending initiatives. The right partner will provide all the information necessary to accurately assess the risk with any given credit and when it makes a recommendation, the right partner will provide the thinking that buoys the decision. Recommendations should be drafted without acronyms in easily digestible language.

If a question or concern arises, the right partner will be quickly accessible. Whether located in another town, a neighboring state, or one thousand miles away, your commercial loan resource vendor will have a stake in the success of your institution's commercial lending operation. When assessing a vendor, ask who the contact point will be, how you can reach him or her, and how quickly you can expect a response. You will, of course, want to compare answers with the experiences shared by current or past clients to gauge the likelihood their promises will hold.

A commercial loan resources vendor should also be able to provide services, even after loans close. Because the vendor operates behind the scenes, a representative of the vendor rarely attends loan closing. But the activity will likely continue.

The vendor might build tickler lists to ensure, in the case of a commercial real estate loan, it gets the final recorded mortgage and corresponding documents. The right partner will follow up with the lender to complete the servicing portfolio, which will be continuously monitored. From an environmental standpoint, once a loan closes, the environmental report should be placed into a database for monitoring. Ask your vendor if it offers this service.

If the vendor provides portfolio servicing, it will ensure insurance premiums and property taxes are paid, and it will gather all the financial information needed to complete annual reviews of the credit. If it is invested in thoroughness, a commercial loan resources vendor will re-underwrite the majority of the credits in its portfolio to see what, if anything, has occurred that will impact the success of the loan. The right vendor may even oversee automatic UCC filings on behalf of the lender. In other words, as you assess a commercial loan resources vendor, consider how comprehensive its risk mitigation and monitoring of loan portfolios is to insure your institution is protected from undue risk. The right vendor will eliminate all the risks it possibly can.

CONCLUSION

From a risk management perspective, a commercial loan resources vendor might be the most efficient route financial institutions can travel when they begin to offer commercial lending or desire to further strengthen an existing commercial lending effort.

Most commercial loan resources vendors offer a wide range of services, such as: loan structuring, appraisal reviews, valuation opinions, portfolio auditing, loan documentation, title policy exception mitigation, regulatory compliance guidance, third party vendor management, covenant tracking, tickler and critical exception monitoring, and a number of other risk mitigation products and services. These services, when paired with a vendor's measured and supported opinions about the level of risk a borrower poses, are invaluable.



The right commercial loan resources vendor does not source loans or compete with an institution on loan production. When you begin the search for the right commercial loan resources, consider your institution's current needs, the depth of offerings available in the marketplace, and the accessibility and responsiveness the vendor promises. Start a conversation and see how well the vendor listens.

ABOUT SERVION

Based out of Minnesota, The Servion Group works with credit unions and community banks across the nation. Servion Commercial Loan Resources, a business unit of The Servion Group, provides smart commercial lending solutions for lending institutions and their marketplace.

Along with personal service, complete confidentiality, local and national commercial real estate closing, and sound underwriting standards, we bring over 120 years of experience in the lending and servicing industry.

In a continued effort to help our owners/partners stay abreast of the current business lending trends, we created this whitepaper. If you are not a partner of The Servion Group and would like to learn more, please reach out to us at 651-631-3111 or check out the commercial loan resources information on our website at: <https://www.myservion.com/CLR>.