

MEMORANDUM

To: *Senior Loan Officer's Desk Reference* Subscribers
From: Ed Pace, Sheshunoff Information Services, Inc.
Subject: 09.3 Update

CONTACT THE AUTHOR

Your author invites a two-way dialogue with subscribers to this manual. His email address is eepace@gmail.com. Please include a telephone number in your email. If you have subscription problems or would like information on another Sheshunoff product, please call our client services department at 1-800-456-2340. We also invite you to visit our website at www.sheshunoff.com.

SUPPORT PAPERS AND NEWSLETTERS

Please maintain the support papers and newsletters we send you in independent files, separate from your manual. Hard copies of the following support papers and newsletters are attached; digital copies have also been placed in folders on the CD:

- **Registering Loan Originators.** The Secure and Fair Enforcement Act of 2008 (SAFE Act) requires that financial institutions develop and maintain a system for registering residential mortgage loan originators. This white paper explains how the registration system will work and which bank employees will need to register when the system is up and running.
- **Administering Problem Loans.** Your commercial loan customers are facing tough economic times and some of them are not going to make it. As commercial loans deteriorate it is extremely important that the bank take appropriate actions at appropriate times. In this white paper we discuss how the bank should administer its problem loans. (This is the second white paper in a series on problem loan management.)
- **How a Chapter 7 Bankruptcy Works.** This is the second white paper in a bankruptcy series. In it we track Joe Borrower through a simple chapter 7 bankruptcy from beginning to end. We use Joe's case to explain the mechanics of a chapter 7 bankruptcy. This white paper also demonstrates the actions a bank should take in response to a customer bankruptcy.
- **Legal and Regulatory Compliance Newsletter: 2009 Third Quarter.** This is a recurring white paper that reports on compliance and regulatory matters that cross our desks between updates.
- **Court Cases Newsletter: 2009 Third Quarter.** This is also a recurring white paper. It covers interesting bank court cases that were reported in the literature in the recent past.

MANUAL AND CD CHANGES

CD Change; Important Notice: For sure, there is a trend toward regulation enhancement via questions and answer papers. A year ago, a CRA Q&A paper was seven pages long and covered about 25 questions; today it is 50 pages long and discusses about 250 Q&As. This quarter we placed the latest versions of the

following Q&A papers in the compliance folder on the CD: CRA, Identity Theft Red Flags, Real Estate Appraisals, the Allowance for Loan and Lease Losses (Regulatory Policy Statement and Frequently Asked Questions), and Flood Insurance. These should be printed and given to the people most responsible for each of these areas. The guidance contained in these papers is valuable compliance guidance. And please note: our papers are much simpler and easier to work with than the ones mailed to banks by the regulatory agencies.

OTHER CD AND MANUAL CHANGES

- *We simplified loan grading.* After a consultation with a retired and respected FDIC field examiner we updated our material on loan grading. We changed from using letters to designate a grade to using numbers, and we also eliminated a couple of grades in order to simplify the system. These changes can be found in our model loan policies (Chapter 1); our credit underwriting chapter (Chapter 2, and in our loan administration procedures (Chapter 5).
- We also updated our Chapter 4, *Loan Portfolio Risk Management*. The bank's senior credit officer should review this revision.
- We also revised our Chapter 17, *Problem Loan Management*. The major change was in how to do records checks to determine the bank's position, the position of other creditors, and to see if there are unencumbered assets that might be used as bank collateral.
- *Interest Rate Futures.* In Chapter 4A we updated charts that can be used to predict future interest rates. Also in this chapter we updated charts containing 25 years of historical interest rates.

YOUR CD

Feel free to use the files on the CD to customize our work until it fits your needs. The files are in PDF, Microsoft Word® and Excel® formats. The manual is in PDF; support papers are in Microsoft Word® and most charts are in Excel®. Among the files are copies of previous newsletters, and dozens of papers placed in one or more of the following support folders:

- Compliance Papers (There are about 50 compliance papers in this folder. These papers contain compliance reference material written in lay language.)
- Bankruptcy Papers (These papers explain important techniques that can be used to minimize bankruptcy losses. Consult these papers regularly when bankruptcy situations arise.)
- Financial Statement Analysis Papers (These papers provide instructions on how to spread and analyze commercial business financial statements. Among the files are Excel spreadsheets specifically developed so that they can be used to spread and analyze financial statements at your bank.)
- Problem Loan Management Papers (These papers explain how you should manage problem loans as they progress through various stages of deterioration and/or recovery.)
- Excel Files (These spreadsheets work in conjunction with Excel formatted models that appear either in the manual or on the CD.)