LOAN PORTFOLIO MANAGEMENT – YEAR 2

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DESCRIPTION
This Section addresses overall management of typically the largest source of income for commercial banks: the loan portfolio. Practical and conceptual issues are covered in regard to the risks present in loan portfolios and external environment.

Along with a macro viewpoint, specific topics presented include:
- Credit culture and credit policy: concepts, and functional applications
- Portfolio risk management in the commercial real estate loan portfolio
- Loan Loss Reserve: evaluation, methodologies, and adequacy; trends and current issues
- Loan portfolio-wide stress-testing methods and quantitative portfolio-wide risk assessment approaches using business intelligence
- Loan Portfolio Management strategies and tools to identify, quantify, and mitigate risk
- Intersession Project: Identify key credit issues and sources of risk (internal and external), methods for reporting and measuring loan portfolio performance using peer comparison and asset quality ratios. Evaluate the bank’s loan portfolio management efforts in light of portfolio trends and external environment factors.

PURPOSE
Almost every troubled or failed bank had problem loans as the root cause of its difficulties. A bank's loan portfolio inherently contains risk exposure and potential for loss.

This Section augments the strategic Loan Portfolio Management Section in Year 1 and builds upon previous loan portfolio risk profiling courses to provide deeper insights in the asset/liability management issues addressed in the GSB curriculum. This is the only place in the curriculum that deals directly and specifically with management techniques for identifying, monitoring, and controlling risk on a loan portfolio-wide basis.

The LPM Section in Year 1 concentrated on credit risk management aspects, pricing, and portfolio risk profiling. This Section focuses on the tools necessary to monitor and/or change the loan portfolio and its risk objectives. The overall focus of LPM Year 2 courses and intersession project is to assist in the risk management of the loan portfolio as a whole. It does not address the analysis of individual credits.

Furthermore, this Loan Portfolio Management Year 2 material relates to GSB’s Asset and Liability Management courses, in that strategic A/L decisions have an impact on loan portfolio direction and risk. The reverse holds true as well. Loan loss reserve provision requirements may significantly impact capital adequacy and planning. The tools of Loan Portfolio Management are used to insure the portfolio’s direction is consistent with A/L decisions, and to indicate appropriate actions if it is not.

OBJECTIVES
After successfully completing this Section’s courses and intersession project, students will be able to:
- recognize and qualify inherent risks in the loan portfolio
- develop a macro perspective in regard to the loan portfolio rather than the perspective of dealing with individual loans
- learn portfolio management techniques for commercial real estate loan concentrations
- understand the integration of credit policy, loan review, credit administration, credit culture and credit discipline
- develop knowledge of key loan portfolio quality statistical and ratio information
- identify issues and challenges in the evaluation of loan loss reserve methodologies and adequacy as well as current trends
- understand portfolio-wide stress-testing techniques and how to use business intelligence data in risk management to correlate with economic drivers
- measure the impact loan portfolio stress-testing has on the capital adequacy and planning processes
- understand how senior bank management use specific tools to manage the loan portfolio
FEATURES
This Section incorporates lecture and an intersession project. The intersession project requires presentation and analysis of key loan portfolio quality information for the student's own (or selected) bank. The purpose of the intersession project is provide a practical example on understanding loan portfolio concentrations and trends, risk identification and management, and how to relate to other strategic objectives of senior bank management.