

## REMOTE LOAN FILE REVIEW

Third-party independent loan review is a staple of loan portfolio risk management for many community-based financial institutions. Traditionally, loan reviews were performed on-site at the financial institution to provide access to both the files and staff. This traditional approach is changing as regulatory agencies are now driving more procedures of their field work that can be completed remotely and as more financial institutions are better leveraging the continuing improvements in imaging technology and data security. This combination can provide for greater opportunities for remote loan reviews.

Most of our current loan reviews involve an imaged-based or other electronic file system. Although the credit file information is electronic, many of the loan reviews we perform remain on-site. In theory, there are few reasons these on-site reviews should remain as an on-site review. We are, however, beginning to see an increasing trend toward remote loan file reviews.

The Federal Reserve's Commercial Bank Examination Manual, October 2018 (Supplement 45 -April 2016, section 2088.1) provides for the inclusion of remote loan file reviews as part of their examination procedure for community banks.

The Federal Reserve may use the off-site loan review program when leading examinations of State Member Banks with less than \$50 Billion in assets and where the Bank has communicated its' willingness to participate in a remote loan review program.

The Reserve Bank will consider the following when determining whether an off-site review of loan files is appropriate for an institution:

- Will the institution submit the loan file data using a secure transmission method such as cloud-based collaboration products, secure email services, encrypted removable media, virtual private networks, or remote desktop control services?
  - Up-front technical preparation is necessary to ensure the data is made available in a secure method, typically a VPN, secure portal or other secure options.
- Is the institution able to provide loan data and imaged loan documents that are legible, easily viewable, and properly organized to allow for timely review by examiners?
  - Image quality must be sufficient for easy reading with images sorted and labeled in a consistent method to allow for accurate searches.
- Are the loan files comprehensive to allow an examiner to conclude an appropriate rating of a credit without having to request additional information from the institution?

This criterion works well to determine if a third-party remote loan review would be an opportunity for your financial institution. This determination may involve input from the institution's information technology department along with their credit administration to determine the institution's capability to both deliver complete loan files along with the quality and current condition of the credit files.

Financial institutions should consider the many reasons a remote loan file review can be a part of

their approach to third-party loan reviews. The remote loan review process can:

- be more efficient by minimizing the day to day disruption for the staff of the financial institution.
- be less intrusive to the staff of the financial institution by reducing the number of reviewers the institution needs to create on-site space.
- be more cost effective by reducing travel time and expenses.
- provide for greater flexibility in the scheduling of the loan file review.
- provide for a broader geographic selection of qualified loan review firms.

A remote loan review does not reduce the value of the review in assessing asset quality and the credit risk management process of the financial institution. Key components of a loan review such as the review of credit files for quality, documentation, and compliance with bank policy and laws and regulations can be efficiently and effectively accomplished through a remote loan file review.

Communication throughout the review between the review firm, management and loan officers is key to discuss any findings that may arise in the course of the file review. Effective communication will also help the reviewer identify any current concerns with the financial institution. Changes to the lending or credit staff, policy or procedures which may create additional risk for the institution, may also be revealed. The financial institution may prefer to schedule touch points throughout the engagement and a structure exit meeting for the end of the review.

A blended approach to remote loan file review may be a good way to develop the expertise and comfort to achieve for those institutions that are interested but have not yet engaged a remote review. A blended approach would involve a portion of the review to be completed remotely while a portion of the review would be completed on-site. A blended approach can still minimize the disruption but allow for face-to-face dialogue as part of the review. The effective use of technology can be a key tool in minimizing disruption and reducing costs with respect to a third-party loan review.

Kevin Graff is the President of Integrity Loan Review. We have significant experience with numerous imaged and other electronic loan file systems for both remote and on-site loan reviews. We are happy to discuss with you how a remote review or a blended review can be designed and structured to fit into your loan portfolio risk management needs. Kevin can be reached at 920-857-6225 or [kevin@integrityloanreview.com](mailto:kevin@integrityloanreview.com).

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