Integrity Loan Review LLC

**Loan Policy – A Cultural Evolution**

Every financial institution has a culture and more specifically, a credit culture. This culture can be arrived at in many ways, through the leadership, policies, practices and other intangibles that employees may not even be aware of. Interestingly, culture is rarely documented as a specific item but rather it is a collaboration of the various policies and procedures and undocumented practices the financial institution has in place to run their business. It is the culture that sets the tone for how things get done in the financial institution, how customers are treated, how employees are treated and how the financial institution is managed. It is my experience that separate from their policies and procedures, high performing financial institutions have created a culture where everyone knows what the expectations are, and everyone works to achieve them for the betterment of the financial institution.

The loan policy is a key document that has a substantial impact on the nature of the credit culture. The loan policy survives the natural turn-over of employees to provide for a consistent approach to credit. As new employees are added, and more tenured employees leave, long-standing institutional knowledge may disappear. An evolution of the loan policy may influence a shift in the nature of the credit culture within the organization. Long understood staples of the credit culture may become less pronounced over time. Loosening or modifying requirements in a loan policy that may seem subtle at first, may have a broad and profound effect on the credit culture of a financial institution. I have received direct feedback from customers that have made changes to the loan policy that were influenced by recent regulatory examinations. Many times, these changes improved the loan policy as loopholes may be addressed or items in policy are be clarified. Recently however, it seems these changes have provided a larger box for the financial institution to work within. A financial institution that is criticized in a regulatory exam for their exception monitoring and tracking may look to reduce the number of items that are considered exceptions within the loan policy. Some financial institutions have addressed the level of exceptions through changes to their loan policy. In recent months, I have observed financial institutions that have removed long standing industry practices from the loan policy. In one example, the explicit requirement to obtain a personal guaranty from the owner(s) has been eliminated from the loan policy. The financial institution continues to expect the credit structure to include the personal guaranty however if the guaranty is not obtained, an exception to the loan policy is not created. I have also recently observed a similar type modification to the loan policy through the omission of amortization periods, specifically for C&I deals where the amortization may not be aligned with the useful life of the asset. Again, an exception is not created if the amortization parameters are not in the loan policy.

As this calendar fiscal year ends, many financial institutions are reviewing and updating policies. Take a moment to consider if the proposed changes are in-line with the culture and the long-term strategic vision of the financial institution.

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