

Western Montana Chapter

Volume 52

Fall 2013

From Your Chapter President

Fall is in the air in Missoula! With the cooler days comes changing colors, back to school for the kids and Griz Homecoming! And of course, with Homecoming comes Dave Enger and his wildly popular two-day course, “**Financial Management for the Closely Held Business.**”

This highly rated course is important for bankers and small business owners alike. If you have a customer who desires to take their business to the next level of financial management, please consider recommending Dave’s course. Over the years, many banks have provided partial or full scholarships for their customers to attend. Whatever you choose to do, your customers and your bank *will* benefit!

The course will be held **October 2 & 3 at Ruby’s Reserve Street Inn** with an **RMA Sponsored Social Event on the evening of October 2 at Fiesta En Jalisco located at Rowdy’s Cabin** on North Reserve. Please check out the attached brochure to learn more. If you have questions, please contact me at (406) 549-2265.

~Larry Williams

2013–2014 Western Montana Chapter Officers

Larry Williams, Community Bank	President
Jason Erickson, Treasure State Bank.....	Vice President
Shannon Lukes, First Security Bank	Secretary
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Heather Barnhart, American Federal Savings	Director
Boone Jensen, Mountain West Bank	Director
Mark Anderson, Farmers State Bank	Director
Rachel Golden, Montana CDC.....	Director
Ryan Revis, U.S. Bank	Director
Jim Seel, First Security Bank	Director Emeritus

Fall 2013 Calendar of Events

September 24: Audioconference “State of the Commercial Real Estate Market” 11:00 am – U.S. Bank Training Room, 2801 Brooks Street, Missoula

October 2-3: Dave Enger’s “Financial Management for the Closely Held Business” Ruby’s Reserve Street Inn

October 2: Social Event at Fiesta En Jalisco sponsored by the Western MT Chapter of RMA

October 15: Audioconference “Understanding Municipal Bankruptcies” 11:00 am – location TBA

November 12: Audioconference “Credit Risk Challenges During the Next 18 Months” 11:00 am location TBA

December 10: Audioconference “Commercial Risk Ratings” 11:00 am location TBA

Audioconferences are offered *free of charge* throughout the winter by the Western Montana Chapter of RMA to all area bankers! More classes and dates will be announced in our Winter Newsletter. Stay tuned!

Please welcome our newest Board Members!

Mark Anderson, Farmers State Bank
 Boone Jensen, Mountain West Bank
 Heather Barnhart, American Federal Savings Bank
 Ryan Revis, U.S. Bank

Our chapter presents opportunities for individuals to get involved. Chapters rely on the talents of volunteers to stage many of their programs, conduct membership development efforts, and promote the ideals of the Association. To find out more about how you can get involved in our chapter, contact Larry Williams at 549-2265 - lwilliams@commbank.net; Jason Erickson at 543-8700 - jerickson@treasurestatebank.com or Brad Colberg at 523-4243 - Bradley.Colberg@fib.com.

Count on Loan Review for the Ugly Truth Executives elaborate on how the vital function of loan review has evolved – and how to make the most of its value proposition.

By Michael Marcucci, CRC

Well the blessed event has finally happened. The baby is brought home and there is a celebration. Everyone is happy; even your mother-in-law is smiling. Friends and neighbors coo over the little darling. And then ... Uncle Charlie walks in, takes a puff of his cigar and says, "What an ugly baby." Pandemonium ensues. How dare he say something like that! We all know the baby is beautiful! We won't be inviting him to parties anymore. And so it begins. Welcome to loan review: The process calls out the facts as they are, without regard to whose feelings are hurt.

Drawing on this author's personal experience from 30 years in risk management and interviews with senior loan review executives across the country, this article examines the mission of loan review, how it has evolved into a leading-edge practice relied on by critical stakeholders, and some of its fundamental challenges at mid-sized to large institutions.

Organizational Placement

The placement of the loan review function in the institution is evolving. Organizational structures and hierarchies are critical to risk and control functions because they are the institution's way of saying what's important and what's not. In this regard, the tone is set at the top of the house, with policies, resources, and compensation aligning with organizational structure to show the degree of focus loan review merits.

"Good risk management coverage starts at the top with a strong statement," said Maryann Lawrence, SVP, commercial credit risk review, Key Bank. Banks with plain-vanilla portfolios backed by conservative standards and consistent performance usually place loan review within the credit department, where it has a low profile. Banks that have recently come off a steep growth curve or have spent quality time with their boards explaining a regulatory order often will see the need for elevating loan review. And banks that ignore the signs warning that a greater emphasis on loan review is required to improve the credit culture often end up closed by the FDIC.¹

Traditionally, at many banks, loan review has been aligned with the internal audit function. Although the practice remains quite diverse, there is a clear trend for loan review functions to align with risk management as opposed to audit. A common structure is for the senior loan review executive to report to the chief risk officer on a dotted line (administratively) and to a board governance committee, usually the risk committee, on a solid line.

This structure facilitates candid feedback on credit quality, risk trends, and quality of risk management from an independent source within a committee that can focus on risk issues, versus the audit committee, which must also focus on assurance and testing functions.

This evolution away from audit and toward risk management is being driven by a number of factors:

- **Format of audit versus risk.** Audit reporting, testing, and analysis can be formulaic, which is necessary for rigorous assurance testing but inconsistent with the approach loan review must take toward its exams. While the file review component of an exam can certainly be formulaic and standardized, the other critical aspects of the exam that cover governance and management are more open-ended.

To read this article in its entirety, please visit our website: <http://www.rmahq.org/tools-publications/the-rma-journal>.

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RMA Credit Risk Certification

Why RMA-CRC?

In today's rapidly changing financial services industry, you need practical, day-to-day knowledge that will help you excel in your profession. You need the latest skills—skills that are current and complete. And you need the demonstrated ability to serve a diverse base of clients. Plus, you need all of your knowledge, skills, and abilities to be validated by a respected organization like RMA.

For more information, check out our website: www.rmahq.org