

# Centralize Credit Administration to Improve Your Credit Discipline

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The key element toward insuring proper credit discipline in your bank is the development of a strong centralized credit administration department. Once that department is in place, you'll be amazed at how much more time the rest of your staff can devote to enhancing your sales culture ... a move that can go straight to your bottom line.

Let's take a look at not only the credit manager's responsibilities, but also at the specific accountabilities of the credit administration department.

The credit administration department must take charge of many of the issues that affect the focus of the bank. For instance, it must:

- \* Implement sound credit administration procedures throughout the bank to ensure full and appropriate use of bank resources, while still being consistent with your bank's goals and objectives;
- \* Maintain ongoing review of loan approval report's (LAR's) interim statements and officer comments to monitor proper risk ratings and comply with loan policy;
- \* Assist lenders in the preparation of financial statement

spreadsheets and credit memoranda;

- \* Oversee the timely reporting of all credit decisions; and
- \* Monitor reporting through a tracking system.

When it comes to reporting, the department should also:

- \* Ensure completeness of LARs in conformance with policy and/or obtaining proper waivers where appropriate;
- \* Serve as a credit information resource; and
- \* Provide technical support regarding financial analysis, loan structure, pricing, collateral/credit documentation, appraisal requirements and problem loan identification. Having a properly organized credit administration department in your bank will support your personnel in the management of the collection and recovery process bank-wide, including consumer, commercial, other real estate owned and other asset loans.

Your credit administration department also must take responsibility for periodic notification and follow-up for the preparation of criticized asset reports to be presented to the board of directors. Preparing reports on the recovery progress of previously charged-off loans needs to be the norm as well.

In order to ensure credit quality and customer driven support for the bank, the credit administration department needs to review the process of compliance with underwriter requirements.

Your department needs to ensure that a number of documents are maintained according to policy and regulatory requirements. These documents include:

- \* Collateral documentation;

- \* Collateral inspection;
- \* Collateral evaluations; and
- \* Credit compliance, which includes the supervision and updating of tracking systems and the generation of periodic reports.

The credit administrator should directly support the accountability of the directors' loan committee by completing special projects and providing specified reports as needed or set by policy.

The manager of your credit administration department - often given the title of credit administrator - is primarily responsible for:

- \* The bank's complete loan portfolio;
- \* All aspects of the bank's lending support activities, including:
  - Analysis;
  - Underwriting;
  - Processing;
  - Preparing documentation;
  - Retaining records; and
  - Reviewing functions to ensure existing and proposed loans adhere to established regulatory and policy guidelines.
- \* Credit quality monitoring; and
- \* The development and implementation of sound loan policies as well as communication of those policies.

The credit administrator should know that all changes in loan policy are formulated and submitted to the senior loan committee and board for approval. He or she is responsible for loan documentation to ensure adequate collateral, security and risk management; and that ongoing administration and review is adequate to maintain the portfolio's quality and profitability.

Your credit administrator needs to be well versed on every aspect of the loan policy, allowing him or her to communicate the functions clearly to the bank. The credit administrator needs to:

- \* Monitor and report policy exceptions and trends in loan quality;
- \* Provide leadership and guidance for the performance of these functions; and
- \* Provide interpretation of loan policies and procedures to staff and department managers within the loan division.

For this position to be most effective, the credit administrator in this position should report directly to the bank chief executive officer.

What does this mean for my bank? A strong centralized credit administrator function can help ensure proper credit discipline. If this department fulfills its responsibilities, it will effectively remove the "back room" work from the loan platform, support your lenders and provide them with additional time to focus on your bank's sales culture.

#### About the Author

John M. Floyd is chief executive officer of John M. Floyd & Associates, a Houston-based bank profitability consulting firm with 30 years' experience serving more than 1,400 financial institutions. He began his consulting career after serving as a profit planning manager of Texas Commerce Bank and its holding

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