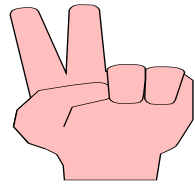
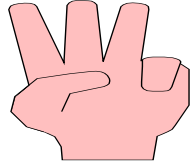


Loan Classifications



Substandard



Doubtful



Loss

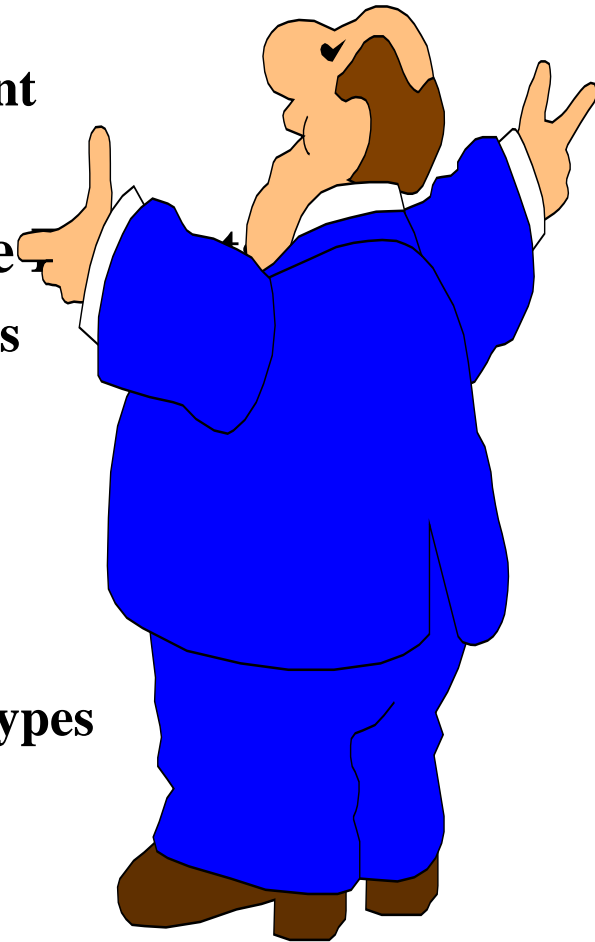
Bank Analysis and Examination School

Loan Classification Objectives

- Explain the purposes for regulatory loan review and the classification process
- Define the regulatory classification types
- Define the **5C's** and **P's** of Credit
- Identify characteristics of problem loans

Examiner Loan Review Process

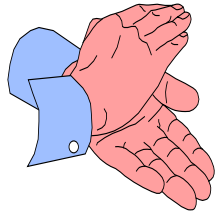
- **Purpose of the loan review process**
 - Support assessment of credit risk management
 - Determine asset quality rating
- **Selecting Individual Loans and Coverage**
 - Internally identified Problem Loan Indicators
 - Previously Classified Credits
 - Delinquent and Nonaccrual Credits
 - Exceptions to Loan Policy or Regulations
 - Loans to Directors, Officers, and Employees
 - Loans from selected industries and product types
 - Newly underwritten credits



Examiner Loan Review Process

- **Determine Loan Coverage Percentage**
- **Review Loan Files**
- **Hold Loan Discussions**
- **Document Your Work**
- **Evaluate the Loan review process**
- **Determine Portfolio Characteristics and Concentrations**
- **Assess Credit Risk Management and Assign an Asset Quality rating**
- **Complete a Loan Write-up**

Rating Categories



- **Pass**

- **Special Mention**



- **Substandard**



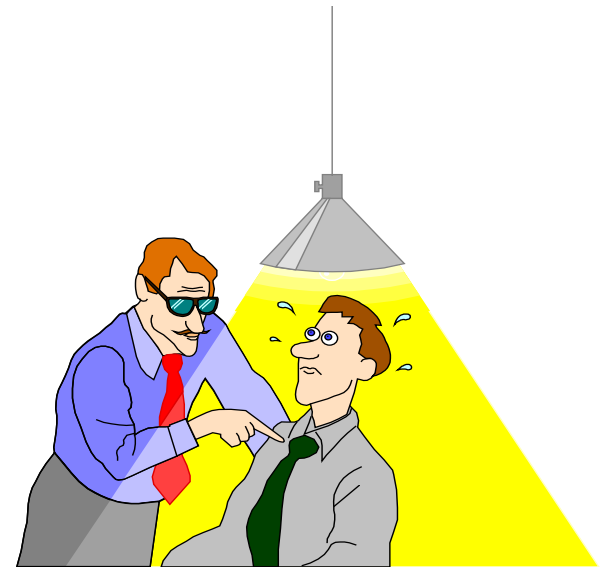
- **Doubtful**

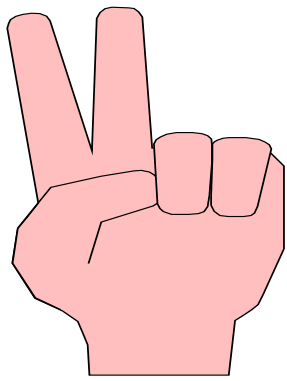


- **Loss**

Special Mention

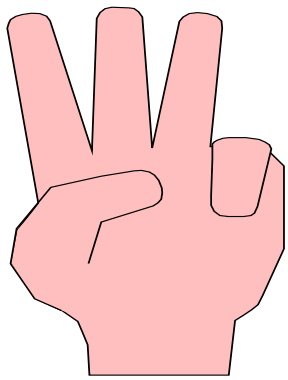
- Asset which has potential weaknesses that deserve management's close attention. If not corrected may result in deterioration of the repayment prospects.
- Not a classification category





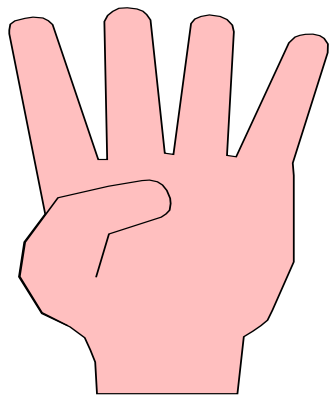
Substandard

- A loan in this category is inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any. A credit so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. It is characterized by the distinct possibility that the bank will sustain some **loss** if the deficiencies are not corrected.



Doubtful

- A loan in this category has all the weaknesses inherent in one classified as substandard with the added characteristic that the weakness makes collection or liquidation in full on the basis of currently known facts, conditions, and values highly questionable and improbable.
 - *A doubtful classification is not to be used as a substitute for substandard or loss.*



Loss

- A loans classified loss is considered uncollectible and of such little value that its continuance as a bankable asset is **NOT** warranted.
 - *This does not mean that the loan has absolutely no recovery potential or salvage value. However, it is not practical to defer writing off this asset, even though partial recovery may be effected in the future.*

Other Types of Classifications

- **Split Classifications**
- **Consumer Loan Classifications**
 - Closed-End
 - Open-End
- **Accrued Interest Classifications**

The 5 **P**'s and **C**'s of Lending

- **P**eople or **C**haracter
- **P**ayment or **C**apacity
- **P**rospects or **C**onditions
- **P**rotection or **C**ollateral
- **P**urpose or **C**apital

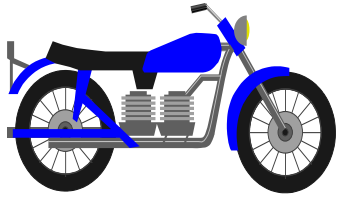


Characteristics of Problem Loans

- **Weak Underwriting standards**
 - Failure to enforce repayment
 - Poor selection of risk
- **Deterioration in economic conditions**
 - Out of area lending
 - Changes in economic conditions
 - Competition

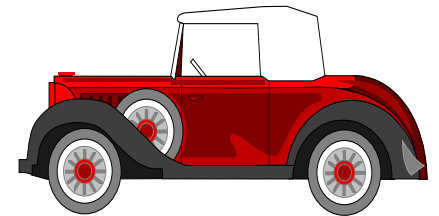
Characteristics of Problem Loans (Continued)

- **Inexperienced or poorly trained lending personnel**
 - Lack of supervision
- **Weak loan review and analysis of credits**
 - Incomplete credit information
 - Overemphasis on collateral
- **Insider abuses and self dealings**



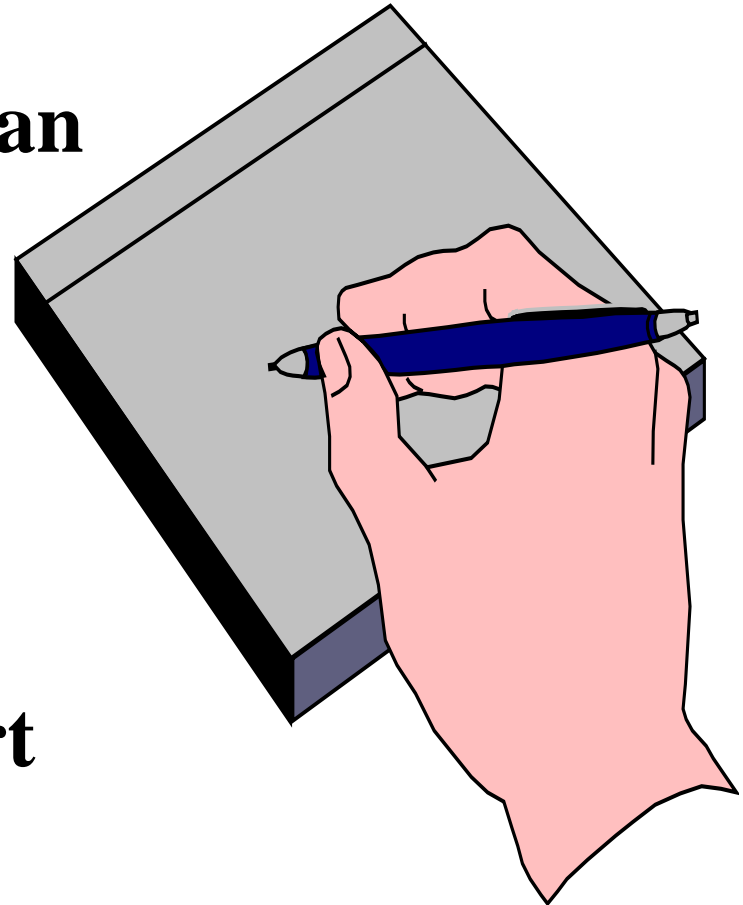
Other Assets

- Investment Securities
- Other Real Estate Owned
- Miscellaneous
- Off-Balance Sheet Items
 - Commercial and Standby Letters of Credit
 - Unfunded Loan Commitments
 - Lines of Credit



Loan Write-Up Information

- **Borrower Information**
- **Purpose and Terms of Loan**
- **Statement of Problem**
- **Financial Data**
- **Collateral Analysis**
- **Management's Intention**
- **Classification and Support**



Questions???