

Commercial Real Estate Information Management Peer Bank Survey Report



Ardmore Banking Advisors, Inc.

October 2007



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1. Executive Summary

a. Overview:

The results of Ardmore Banking Advisors' October 2007 CRE Information Management Practices Peer Survey should be considered within the context of the confluence of several credit, regulatory and economic factors including the issuance of the CRE Guidance of 12/06, a new national concern around Commercial Real Estate lending and the state of the CRE market in the fall of 2007.

While many of the practices outlined in the CRE Guidance such as concentration reporting, policy exception tracking, stress testing and performance trending are not new – the urgency to apply them to a bank's CRE portfolio is a new concern of bankers and regulators alike. The overall response to this survey indicates that banks are concerned and taking action, and this concern is justified by the new level of scrutiny of the bank's CRE loan portfolio management practices by their regulators. Banks are clearly taking proactive, prudent measures around CRE portfolio management as an industry best practice.

Comments received from respondent banks about how they are taking action on changing their CRE information management practices included:

“We are upgrading our reporting capabilities to enable us to segment the CRE portfolio in accordance with the CRE Guidance.”

“The guidance has caused our bank to look at whether or not we have sufficient descriptions of our R/E portfolios.”

“We have begun stress testing the portfolio on a macro level. Our stress tests in the past focused on stressing at underwriting on a micro level.”

“(We are) Looking to build reporting capabilities and work on stress testing, enhancing geographic stratification.”

“During the first quarter of 2007, we added the owner occupied field, more detailed real estate property type codes and more detailed product type codes. A CRE report is prepared quarterly.”

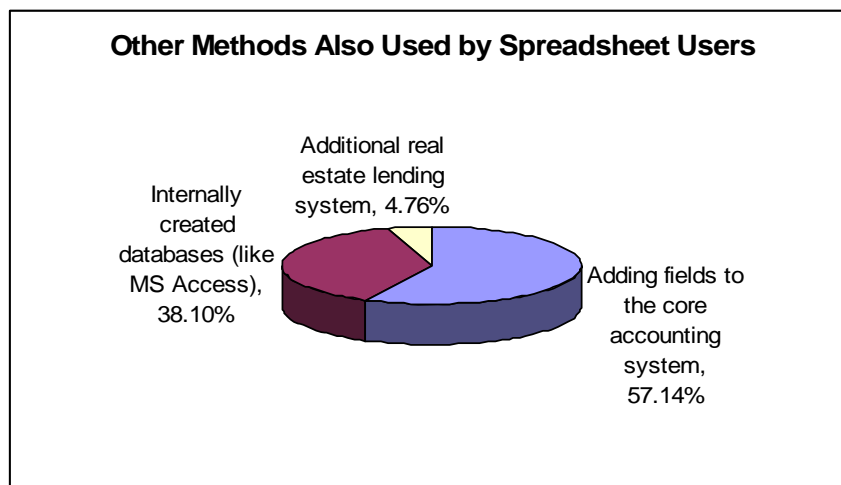
b. Key Survey Conclusions:

- *Regulators are focusing on CRE portfolio management practices in examinations even though the CRE Guidance best practices are just starting to evolve.*

Answer Options	Response Percent
Examiners asked about your specific CRE portfolio practices	75.00%
Examiners requested specific CRE portfolio reports/electronic files	55.00%
Examiners suggested specific CRE segmentation and/or concentration reporting	30.00%
Examiners suggested specific additional data to collect for CRE loans	15.00%
Examiners suggested your institution enhance your CRE portfolio management practices	20.00%

Those survey respondents that had already been examined overwhelmingly indicated that in their examination experience regulators did focus their attention on CRE information management practices during the process. Three quarters had been specifically questioned about their CRE portfolio management practices, with about a third being giving specific instruction about segmentation and concentration reporting. Twenty percent reported that they were clearly told to enhance their capabilities.

- *Banks are primarily utilizing manually built spreadsheets to track and report CRE portfolio information but usually also using other tools and alternatives.*



Based on the survey results, bankers are scrambling to use many different available tools to try to manage their CRE loan information, and in most cases are using multiple methods. Literally days or weeks of additional information management time are being added each month to a credit department's data collection and reporting processes in response to the new CRE focus.

It is inevitable that bank credit management will start to realize that the quickly implemented but time consuming manual spreadsheet processes of CRE information management can become "quicksand" for their Credit staff resources. Combining spreadsheet information with other data management alternatives simultaneously (such as building internal databases and creating core accounting system additions) can potentially create multiple "versions of the truth."

Of equal concern is that these multiple manual processes create doubt about the integrity of the bank's CRE portfolio information in the minds of their accountants, management and regulators. In 2008 we believe that bank credit management should look to their banks to have more efficient and controlled CRE information management solutions to meet the requirements of their management, board and regulators.

One comment from a respondent bank reflects a common concern amongst bankers:

"The MIS piece and building databases to capture information so that real time reports can be easily produced continues to be a struggle. The cost/benefit for a bank our size is difficult to quantify."

- ***Banks are finding that data collection and portfolio concentration categorization is still a significant challenge.***

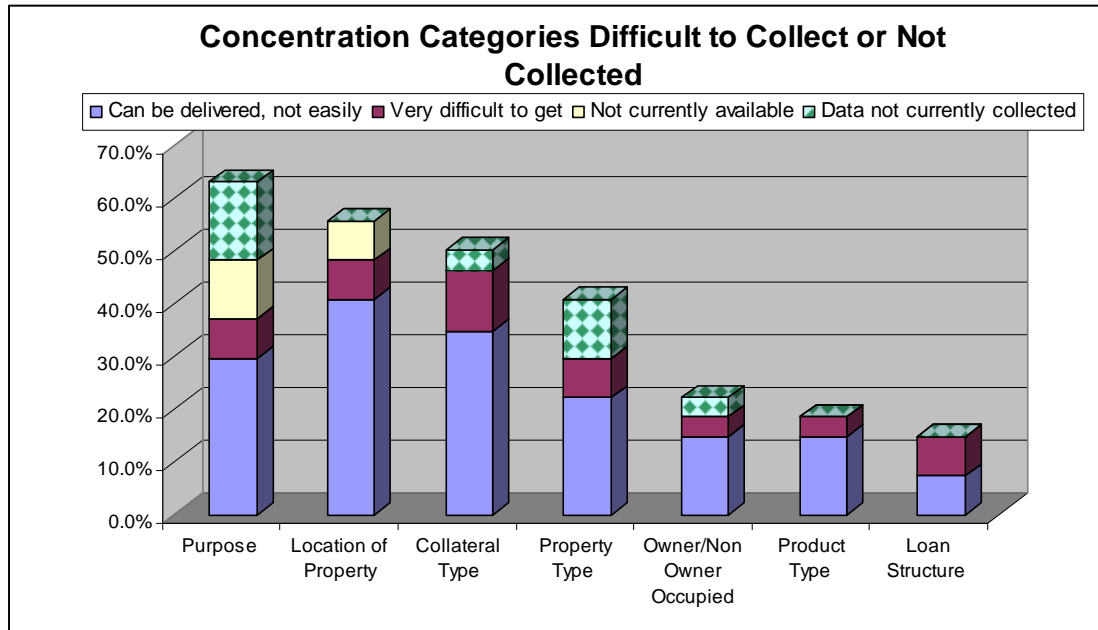
Bank Credit and Credit Administration departments are now revisiting how CRE loans are being coded and booked on bank core accounting systems, and looking for more CRE specific loan information to help them with CRE concentration management. In particular there is a new emphasis on collecting and tracking Property Types and Property Locations for CRE Loans – which is proving to be a challenge for most banks regardless of asset size.

Another concern expressed by banks related to the integrity of data previously collected.

One respondent commented:

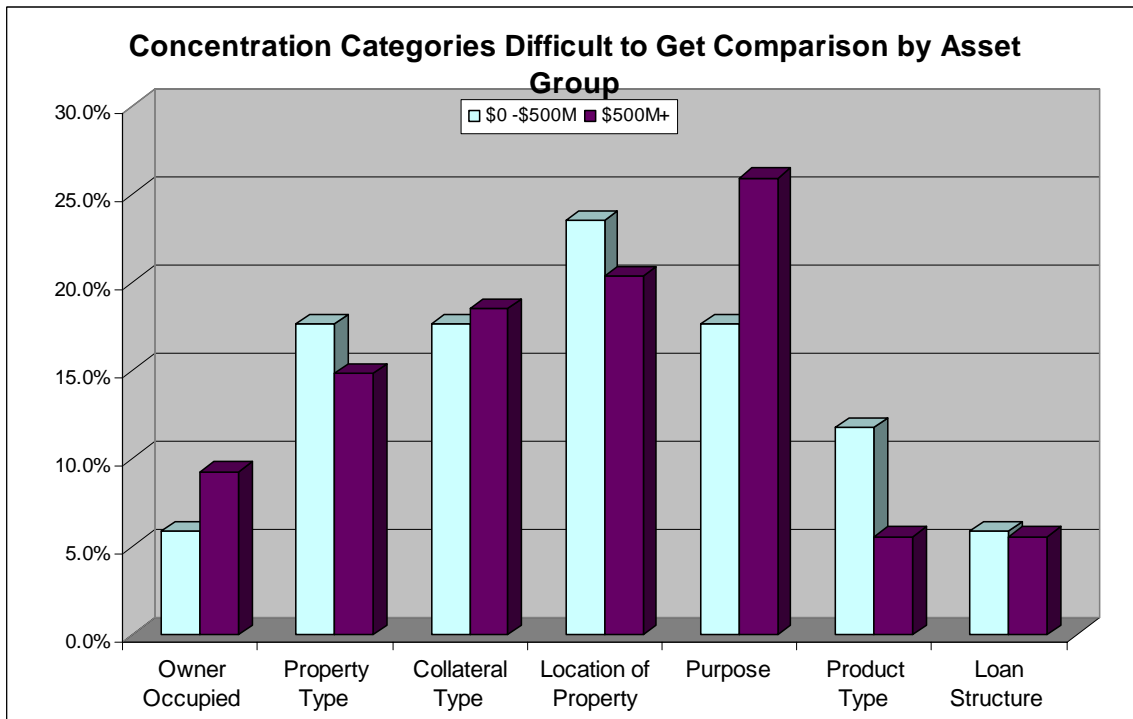
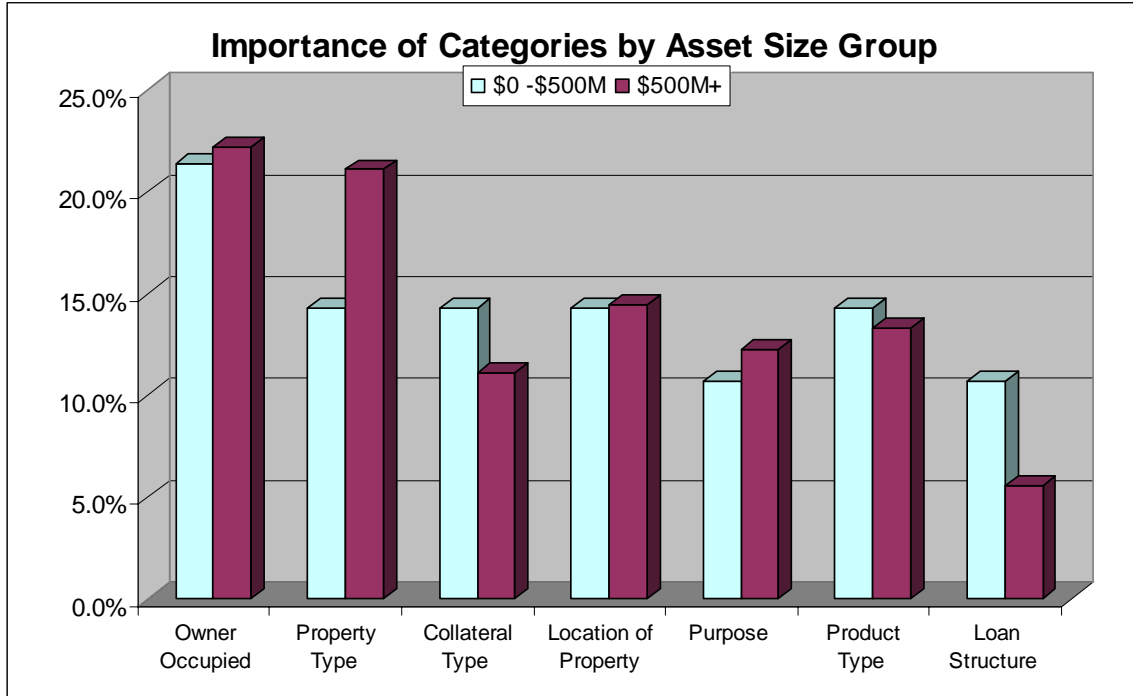
"Some items are easily delivered but may not be accurate in the core system for older loans. Information that is not in any system includes tenants, occupancy, debt coverage, cap rates, etc."

The following chart illustrates how accessing information in several concentration categories proves to be difficult for the Credit Department of the Bank.



- Respondents indicated that the most important CRE concentration categories to track are “Owner/Non Owner Occupied Status” (required in the current Call Report) followed by “Property Type” and “Location of Property.” Unfortunately most banks do not always have easy access to this and other concentration information.
- Sub-\$500 Million asset sized banks were less concerned about collecting “Property Type” code information, while banks in the asset size group above \$500 Million generally showed less interest in collecting “Collateral Type.”
- Sub-\$500 Million asset sized banks had more difficulty collecting “Property Type” and “Location” information, while banks in the asset size group above \$500 Million generally had more difficulty collecting “Owner Occupied Status” – most likely due to the sheer size of their portfolio.

More than one third of the survey responses indicated that some desired concentration information was either not easy to access or not currently collected. These survey results paint a picture of an industry actively attempting to respond to the Guidance, but somewhat hamstrung by incomplete information and the difficulty of accessing that information. Clearly some banks are more successful than others, while managing certain important CRE Loan portfolio concentration information including Property Type and Property Location is a real challenge for most banks regardless of size.



2. Survey Methodology and Respondent Demographics

a. Methodology

Ardmore Banking Advisors, Inc. (“ABA”) conducted the CRE Information Management Peer Banking Survey in early October 2007. The intention of the survey was to gather a brief sample of anonymous information from banks relating to the CRE Guidance:

- Steps they were taking to address it
- How their regulators dealt with it in their most recent examination

We have offered copies of this resulting report to the participants on request, and we also plan to distribute it to other interested banking institutions if interested. We intend to issue a similar follow up survey in 2008 to help bankers assess changing attitudes and practices of banks and regulators around CRE information management.

We sent out the survey invitation to one individual contact at a small number of US banks via an unsolicited email with the recipient’s names and addresses hidden. The survey recipient email addresses were gathered from a number of sources including recent Risk Management Association conference attendees, BAI Loan Review conference attendees along with some ABA client banks. Contacts generally included Chief Credit Officers, Credit and Lending Managers and Management from Credit Administration departments.

Some of the survey invitation emails were returned (“bounced back” as undeliverable) and some survey invitations may have gotten trapped in “Spam” filters or were immediately deleted. We still ended up with a 25% total response rate.

While this is overall a small sample, the response rate indicates the very high level of interest in the CRE issue. We also believe that the response comments are directionally correct and represent an accurate picture of many banks’ views based on our recent experience in conversations with bankers and regulators.

b. Survey Respondent Mix

About 40% of those responding were banks in the \$1 – 5 Billion asset size range, with an additional 22% in the \$250 - 500 Million asset range. Please refer to Figure One for a table detailing the responses by asset size ranges.

About half of the respondents identified themselves as being from the Mid Atlantic or North East region of the US, while about 25% identified themselves as Southern – either South East, South Central or South West. Please refer to Figure Two for a table detailing the responses by geographic region.

The majority of the respondents identified themselves as being regulated by the FDIC, with just less than half being regulated by the FED and nearly a third by the OCC. Half of those responding to the survey reported that they had already been examined since the CRE Guidance was issued, with the majority of the examined banks being in the \$1-5

Billion asset range. Please refer to Figure Four for a table detailing the responses by regulatory body.

Figure One

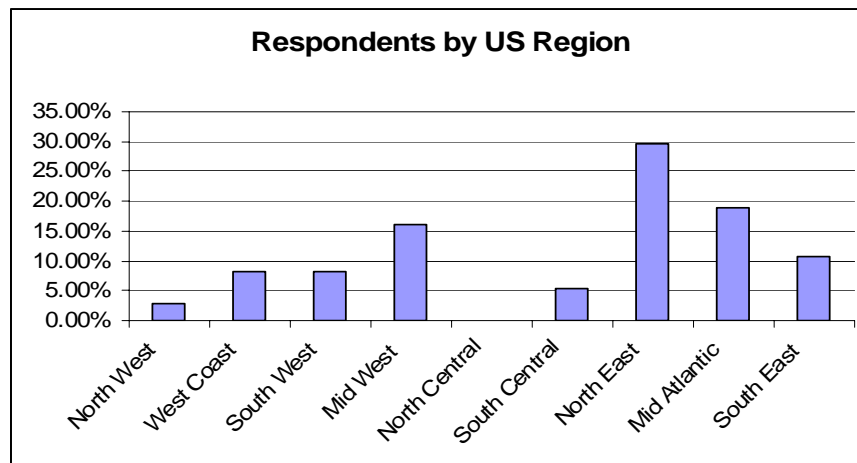
Answer Options	Response Percent
0 - \$250 Million	10.81%
\$250 - \$500 Million	21.62%
\$500 Million to \$1 Billion	18.92%
\$1 - \$5 Billion	40.54%
\$5 - \$10 Billion	0.00%
> \$ 10 Billion	8.11%

Nearly one half of all respondents were from the North East and Mid Atlantic regions, while those responding from the South (South West, Central and East regions) represented about one quarter of the responses. The responses are likely to be somewhat skewed to the North East and Mid Atlantic regions due to the location of many ABA clients and recipients attending Credit related conferences in the those regions as well.

Figure Two

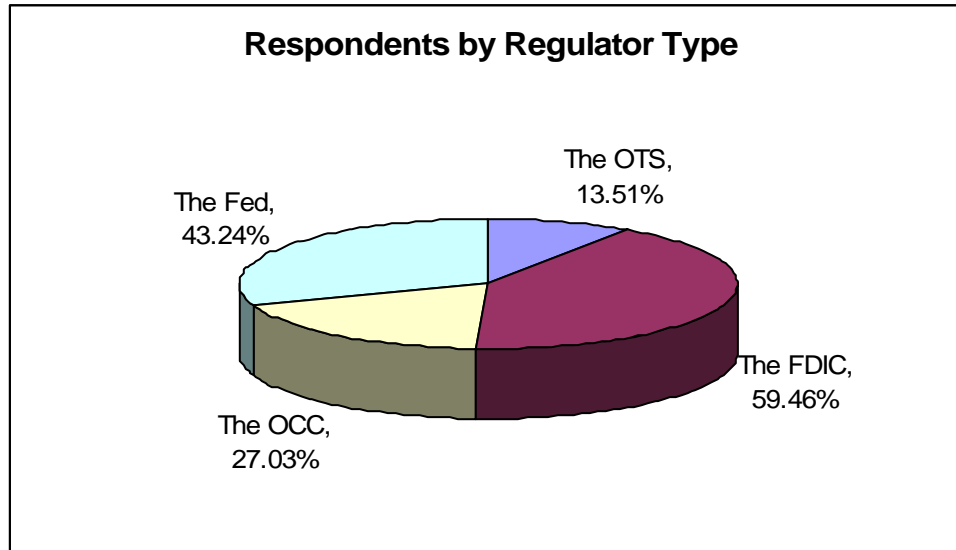
Answer Options	Response Percent
North West	2.70%
West Coast	8.11%
South West	8.11%
Mid West	16.22%
North Central	0.00%
South Central	5.41%
North East	29.73%
Mid Atlantic	18.92%
South East	10.81%

Figure Three



Banks were asked to list all of the regulators that examined their institution. Nearly 60% listed the FED and 40% the FDIC. Only 27% were regulated by the OCC, and less than 14% listed the OTS.

Figure Four



Exactly 60% of the \$1 – 5 Billion asst sized banks indicated being regulated by the OCC, and about 36% also listed the FDIC. Approximately 50% of the \$250 - \$500 Million asset sized banks listed the FDIC and 37% listed the FED as their regulators.

3. Respondent Examination Status Detail

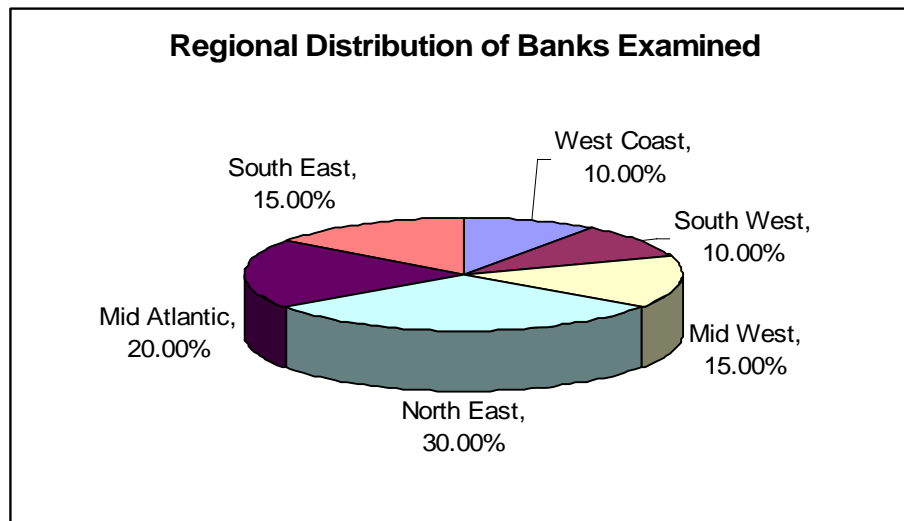
We asked respondents if they had been examined since the Guidance was put in effect and made part of examinations. Just over half indicated they had been examined with one bank reporting that the examination was in process. Exactly 60% of those indicating that they had been already examined were banks in the \$1 – 5 Billion asset range.

Figure Five

Answer Options	Response Percent
0 - \$250 Million	10.00%
\$250 - \$500 Million	10.00%
\$500 Million to \$1 Billion	10.00%
\$1 - \$5 Billion	60.00%
\$5 - \$10 Billion	0.00%
> \$ 10 Billion	10.00%

As shown in Figure Six below, while half of the banks examined were from the North East and Mid Atlantic regions, four other regions were also represented in this sample of examined banks.

Figure Six



While the respondents did not indicate which agency specifically had examined them, the following table shown in Figure Seven reflects the regulators of the banks that had been recently examined. It would suggest that most likely they had been examined by the FDIC, the FED and the OCC although the OTS is also possibly part of the sample.

Figure Seven

Answer Options	Response Percent
The OTS	15.00%
The FDIC	75.00%
The OCC	30.00%
The FED	50.00%

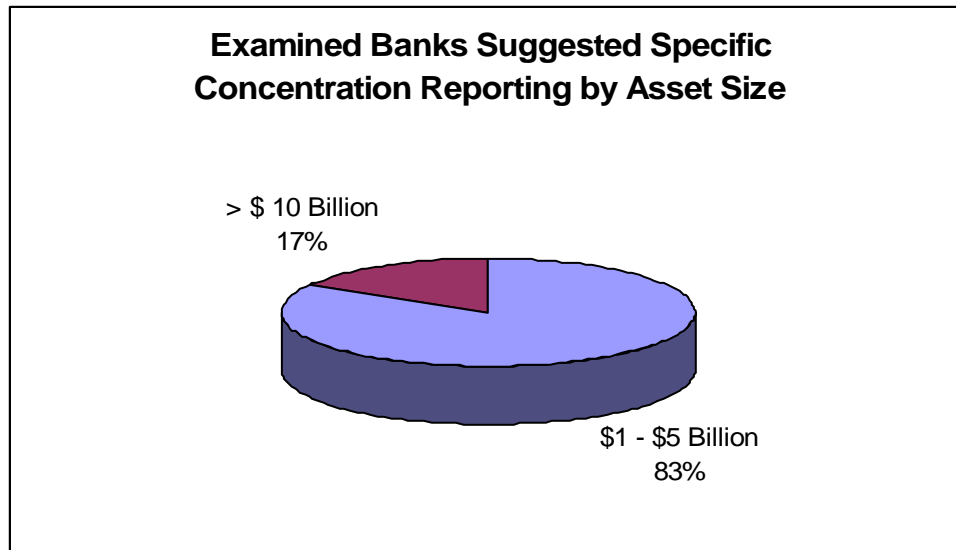
Recently-examined banks that responded to the survey were asked if they received some specific comments by the regulators relating to the CRE Guidance and their CRE portfolio management practices. The responses suggest that the vast majority of banks were asked about their CRE portfolio management practices regardless of their regulatory body, with about a third being given clear instruction by the examiners about specific CRE concentration reporting. Of those banks examined, 20% were specifically told to enhance their CRE portfolio management. Please note that Figure Eight does not reflect any other comments respondent banks received about CRE not specifically listed below.

Figure Eight

Answer Options	Response Percent
Examiners asked about your specific CRE portfolio practices	75.00%
Examiners requested specific CRE portfolio reports/electronic files	55.00%
Examiners suggested specific CRE segmentation and/or concentration reporting	30.00%
Examiners suggested specific additional data to collect for CRE loans	15.00%
Examiners suggested your institution enhance your CRE portfolio management practices	20.00%
None of these topics were discussed.	20.00%

Over 80% of the banks directed by regulators towards specific methods concentration reporting (Answer Option 3 above) were in the \$1 – 5 Billion Asset Size category as illustrated in Figure Nine below. All of these banks had indicated they were regulated by the OCC, though some were also regulated by the FED and FDIC.

Figure Nine

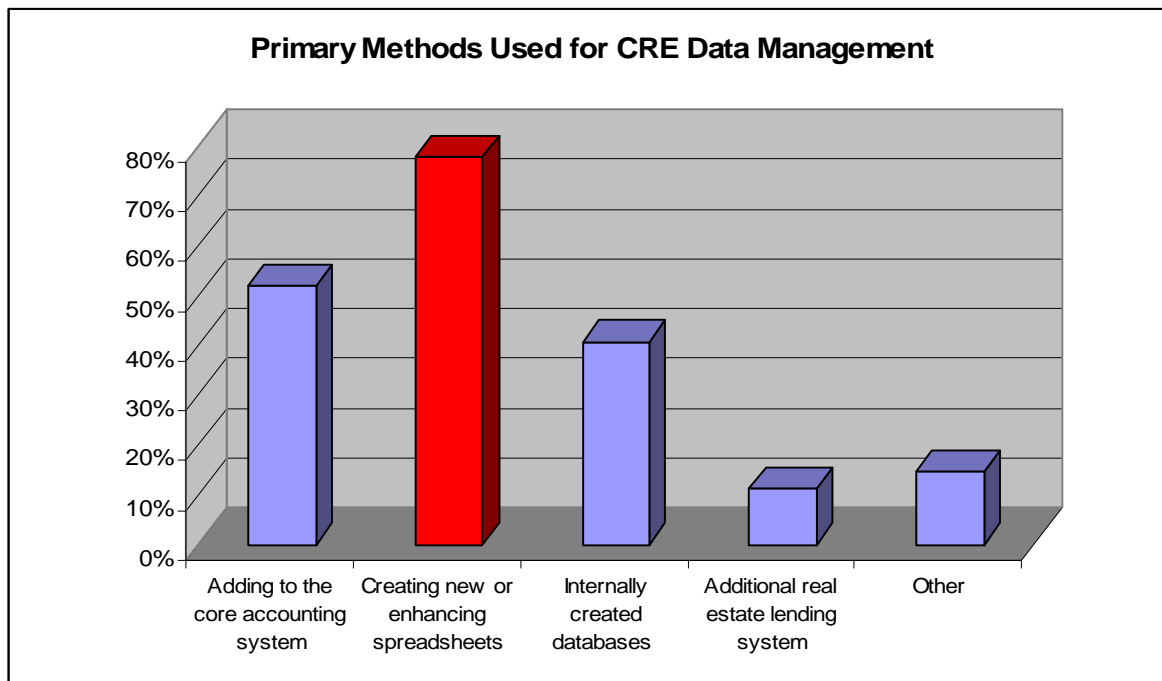


Of the banks responding that had been examined, 25% were specifically told to collect additional CRE data or improve their CRE portfolio management practices. All of those banks were in the \$1- 5 Billion or over \$10 Billion asset size categories and OCC regulated – though some of these same banks also said they were regulated by the FED and FDIC.

4. Detail on the Methods Used to Manage CRE Information

We asked respondents to indicate all of the “primary methods” they used to manage their CRE data and reporting. Close to 80% (highlighted in Figure Ten) of those that responded indicated they used spreadsheets, and more than half added additional fields to the core accounting systems. About one quarter of the sample suggested that they were using an additional RE lending system or some other method.

Figure Ten



Of those respondents that indicated they were primary using spreadsheets, close to 60% also added fields to the core system and nearly 40% also used internally-created databases to augment their spreadsheet process. Similarly of those that indicated that they were adding data to the core accounting system, more than 85% were also using spreadsheets to augment their reporting and data management capabilities.

Seven of the banks responding to this question indicated that they had in place or had purchased some kind of specific lending or collateral data management system or tool to use as a primary method of tracking and reporting on CRE information. Some respondents stated that they were using a collateral tracking system, others a CRE specific reporting system.

5. CRE Portfolio Concentration Category Detailed Analysis

We asked respondents a number of questions around how they segmented their portfolio for concentration reporting, how important different specific segments were to the bank, and how easy the data was to get.

Figures Eleven and Twelve indicate that the concentration categories ranking highest in “Very Important to the Bank” were Owner/Non Owner Occupied Status and Property Type, followed by Location of Property and Product Type.

Other concentration category types mentioned by the respondents include: Industry, LTV, Occupancy and Principal and Interest.

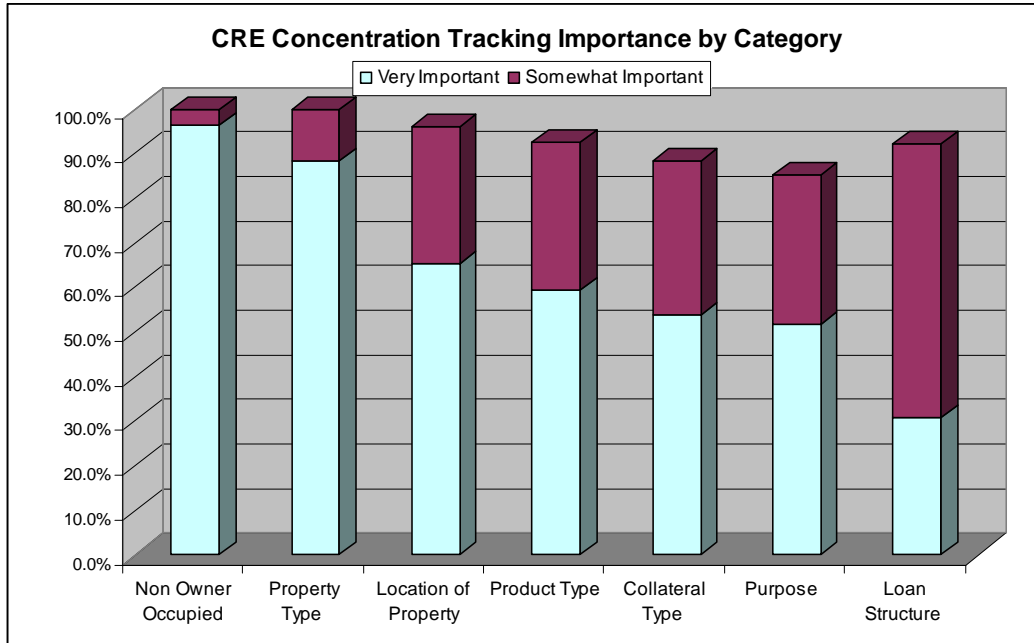
Related to concentration segmentation strategy, one respondent commented:

“(We perform) Quarterly reporting to the Board of CRE concentrations, segmenting by industry type, property type, & occupancy code. We plan to take it further by segmenting the portfolio by what regulators consider “high risk” CRE - such as construction, and further segregation by zip code.”

Figure Eleven

Answer Options	Very Important	Somewhat Important	Not Important
Non Owner Occupied	96.3%	3.7%	0.0%
Property Type	88.5%	11.5%	0.0%
Location of Property	65.4%	30.8%	3.8%
Product Type	59.3%	33.3%	7.4%
Collateral Type	53.8%	34.6%	11.5%
Purpose	51.9%	33.3%	14.8%
Loan Structure	30.8%	61.5%	7.7%

Figure Twelve

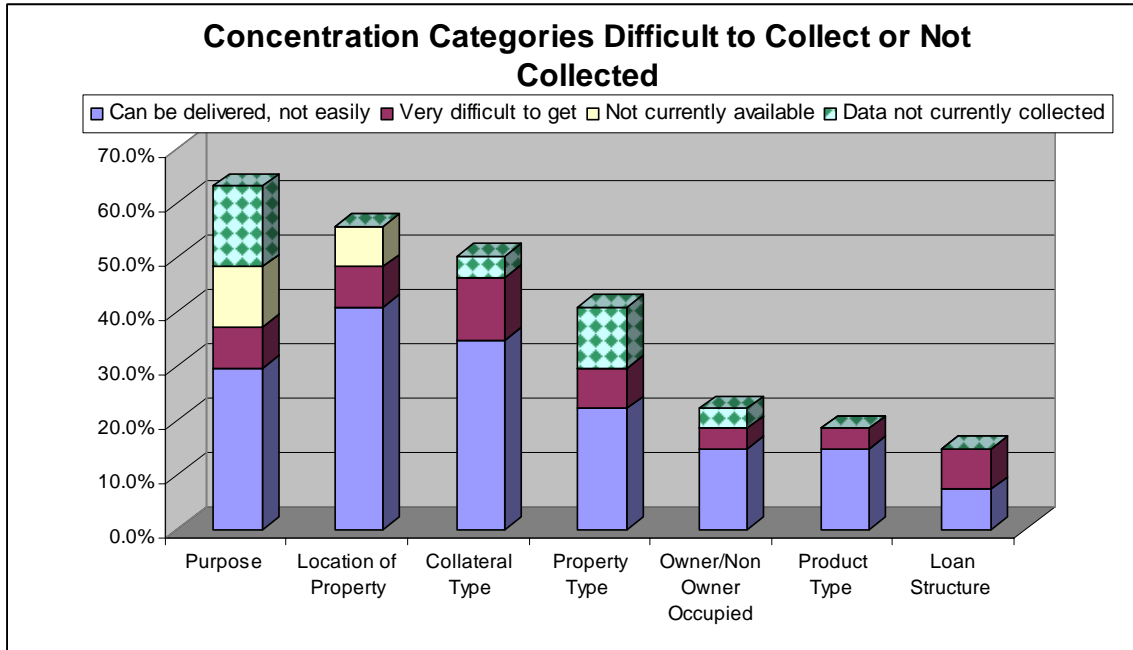


We next asked about the accessibility of this data. There was not one category of concentration data that was easily accessible to all banks. According to the respondents, Location of Property and Collateral Type were the most difficult to get, while Purpose and Property Type were the most often not currently collected.

Figure Thirteen

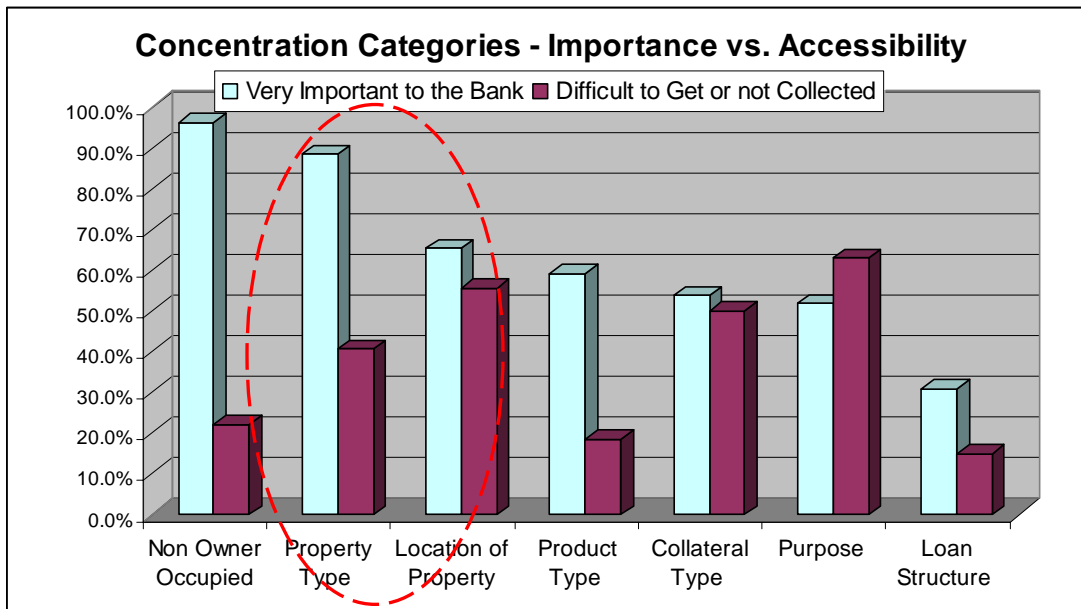
Answer Options	Easily delivered	Can be delivered, not easily	Very difficult to get	Not currently available	Data not currently collected
Owner/Non Owner Occupied	77.8%	14.8%	3.7%	0.0%	3.7%
Property Type	59.3%	22.2%	7.4%	0.0%	11.1%
Collateral Type	50.0%	34.6%	11.5%	0.0%	3.8%
Location of Property	44.4%	40.7%	7.4%	7.4%	0.0%
Purpose	37.0%	29.6%	7.4%	11.1%	14.8%
Product Type	81.5%	14.8%	3.7%	0.0%	0.0%
Loan Structure	85.2%	7.4%	7.4%	0.0%	0.0%

Figure Fourteen



When comparing the responses to the importance of the concentration category to the bank and the data categories difficult to get or not collected, the clearest conflicts are seen in the Location of Property and Property Type categories. As is illustrated in Figure Fifteen, while these two categories ranked in the top three of importance to the bank, they also ranked two and four in the most difficult to collect or not collected.

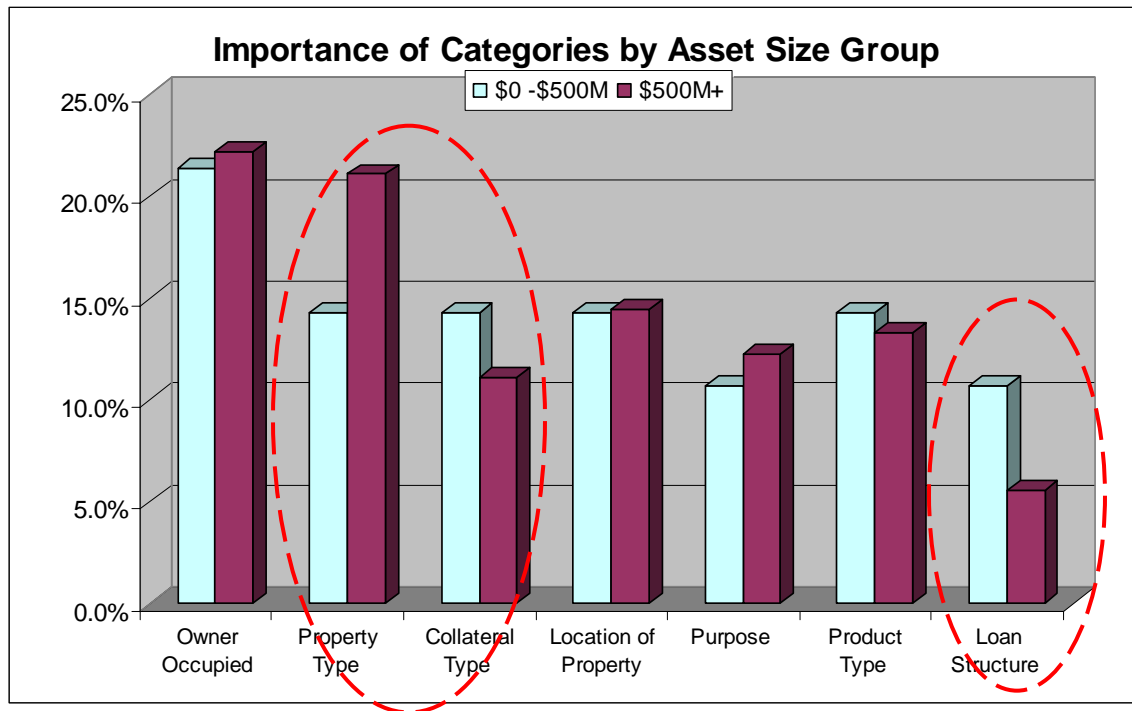
Figure Fifteen



When looking at the responses by asset size groups some notable differences can be detected. For example, grouping responses of banks below and above the asset size category of \$500 Million showed marked differences of the perceived importance of certain specific CRE concentration categories. This is shown in Figure Sixteen below.

In particular the sub \$500 Million asset size group respondents thought that the concentration categories of that Collateral Type and Loan Structure were more important than the over \$500 million group. The Property Type category was seen as more important to the respondent banks in the over \$500 Million asset group.

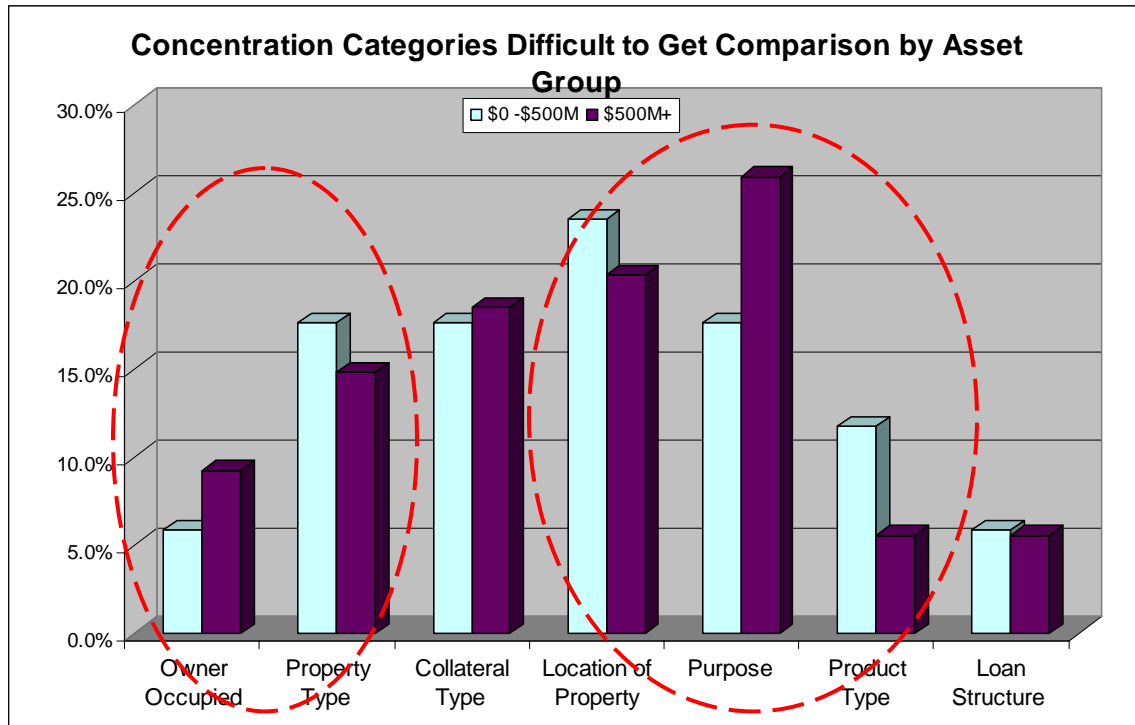
Figure Sixteen



Similar disparities in the two bank asset size groups can be seen relating to the accessibility of concentration categories in Figure Seventeen.

The sub \$500 Million asset size group respondents found it more difficult or didn't collect Property Type, Property Location and Product type in comparison to the over \$500 Million asset group. The over \$500 Million asset group found it more difficult to get the Owner Occupied and Purpose categories of data.

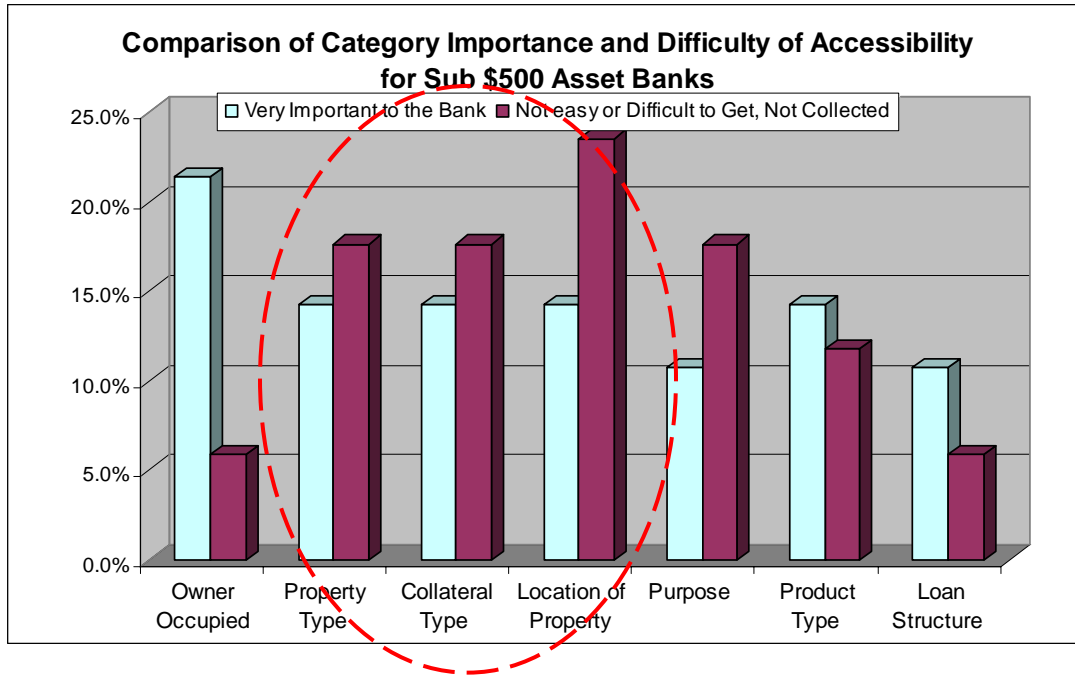
Figure Seventeen



When contrasting the importance to the bank vs. difficulty to collect of concentration categories within the two asset groups, some contrasts surfaced as shown in Figures Eighteen and Nineteen.

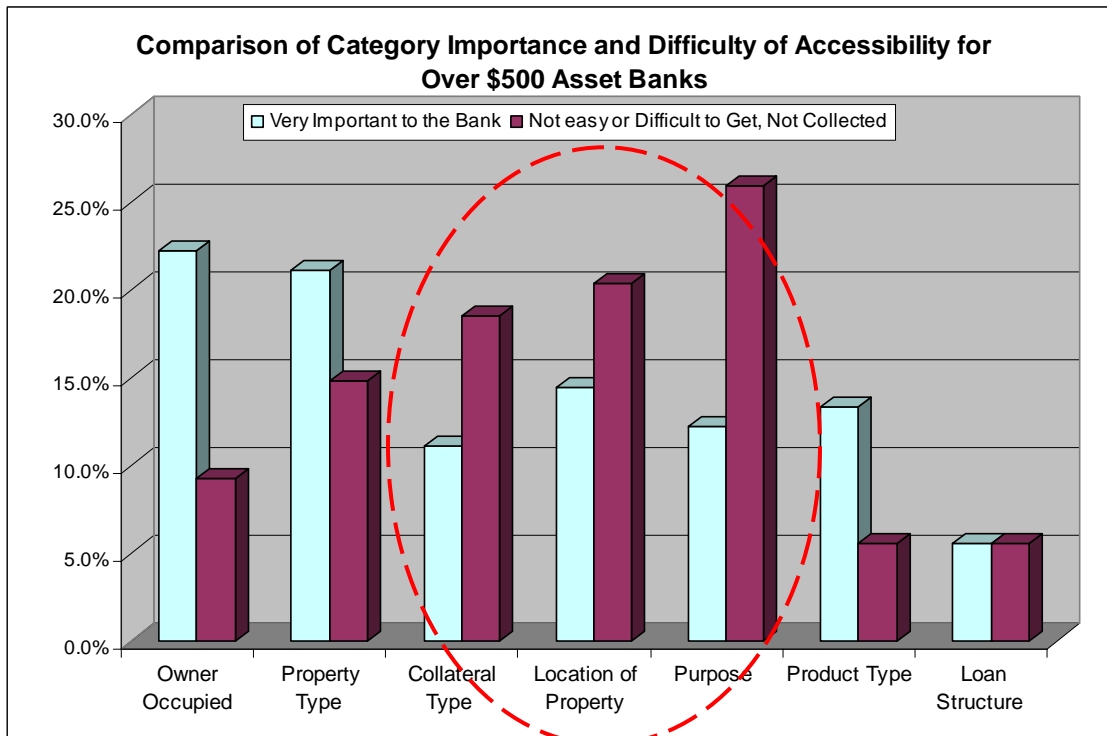
The sub \$500 Million asset size group respondents reported that Location of Property, Collateral Type and Property Type were important to the bank but difficult to access.

Figure Eighteen



The over \$500 Million asset size group respondents reported that while collecting and accessing the important categories of Collateral Type and Location of Property was also an issue, their largest problem category was Purpose, and Property Type was not an issue.

Figure Nineteen



About Ardmore Banking Advisors, Inc.

(www.ardmoreadvisors.com)

Ardmore Banking Advisors, Inc. ("ABA") has provided consulting services to financial institutions since 1991. Because our professionals include those who have been Bank Board Chairmen, Bank Presidents and CEOs, Bank Chief Credit Policy Officers, Bank Chief Lending Officers and Examiners-in-Charge at the OCC, we have a unique understanding of our clients' needs. It is the adage "been there, done that" distinguishes us from other providers of services to the financial community. Our unique blend of deep credit industry expertise in every phase of commercial, commercial real estate and consumer lending and knowledge of credit data management best practices makes ABA a low risk choice for bank credit data related projects and solutions.

1. Credit Consulting and Outsourcing

We have provided consulting and outsourced services to community banks as well as the largest of multinational banks and other large regional financial institutions including financial institutions of over \$50 billion from New York to Washington D.C.

a. Services:

- Loan Review
- Credit Policy
- Risk Rating Processes
- Bank Lending Processes
- Mortgage Quality Assurance
- Lending Best Practices
- Strategic Planning
- De novo bank formation consulting
- Regulatory consulting
- Due diligence
- Expert Witness
- Appraisal Reviews

b. Partial Client list:

- Allegiance Bank of North America
- The Bryn Mawr Trust Company
- Commerce Bank
- First Colonial Bank
- Harleysville National Bank
- MetLife Bank
- National Cooperative Bank
- National Penn Bank

- National Rural Utilities Cooperative Financing Corporation
- Wachovia Bank
- Washington Mutual Savings Bank
- Wilmington Savings Fund Society

2. Credit Data Management *Credit Insight*[™] and *CRE Insight*[™] Solutions

We have assisted a number of banks in credit data management and consulting solutions for reporting, compliance and credit portfolio management. We also implement our industry leading credit portfolio management solution *Credit Insight*[™] for both commercial and consumer loan portfolios and *CRE Insight*[™] for CRE loan portfolio management.

a. Services:

- Credit Data Warehousing
- Risk Rating Migrations
- Lending System Selection Management
- Reporting System Assessment and Customization
- Data Warehouse Project Management
- IT Assessments
- *CRE Insight*[™] CRE Solution Implementations
- *Credit Insight*[™] Solution Implementations

b. Partial Client List:

- Commerce Bank of New Jersey
- National Penn Bank
- Provident Bank of New Jersey
- Sterling Bank of Houston, Texas
- MetLife Bank
- Eagle Bank
- Atlantic Central Bankers Bank
- The Bryn Mawr Trust Company
- Harleysville National Bank

For more information about the survey, or our services and technology solutions please contact Peter Cherpack, Vice President, Director, Ardmore Banking Advisors, Inc. plcherpack@ardmoreadvisors.com Direct - 484-417-2082 or Info@ardmoreadvisors.com 610-649-4643.