

Ardmore Banking Advisors

Advisors to Financial Institutions

Quick Polls on Community Banking Industry Understanding and Use of CRE Portfolio Stress Testing 09/16/09

On September 16th of this year, Ardmore Banking Advisors had the opportunity to lead a 2 hour web/phone seminar for the American Bankers Association on the topic of CRE Portfolio Stress Testing for community banks. About 250 banks attended the presentation, with over 750 individual bankers represented. During this presentation we asked the audience to participate in three polls – intended to help us better understand the state of the industry relating to this topic.

What follows for your information is an executive summary based on the results of these polls, and then the detailed poll results with a brief comment on the results of each.

Executive Summary

Of the 250 community banks attending this American Bankers Association web seminar on CRE portfolio stress testing, an average of two thirds of the banks voted in each of the three polls. Key points from the results include:

- Most community bankers don't really understand what CRE portfolio stress testing is, with less than 6% of those voting say they understand it well.
- Nearly half of the community bankers that responded don't do any CRE portfolio stress testing at all, and the vast majority that do any such exercise are using manual spreadsheets on an irregular basis.
- After the conclusion of the seminar, about 85% of the respondents suggest that they plan to either start or enhance their CRE portfolio stress testing process in the next six months – though very few (9%) plan to use anything but spreadsheets to do it.
- Only about 3% of those responding expect to report results of the CRE portfolio stress testing process to their management or board in the next six months.

Overall the results would suggest that community bankers are looking for much more education about what the CRE portfolio stress testing process is and the benefits to the bank. They are clearly interested in the topic but largely unaware, with the majority of the banks not performing this process in any meaningful way today. It appears that community banks do not understand or follow the recommendations of the 2006 CRE Guidance relating to portfolio stress testing today.

Most community banks are relying on internally built or possibly agency provided manual spreadsheets to perform this CRE stress testing function, or are planning to use spreadsheets in the future. This may be of concern as it will undoubtedly result in significant additional hours of work per bank as well as potential inaccuracy and misunderstood, inconsistent results to be reported to management.

If you have any questions about the polls or what was presented at the webinar, please don't hesitate to contact me at your convenience. Please feel free to share this information with anyone that you deem appropriate or has interest in this topic.

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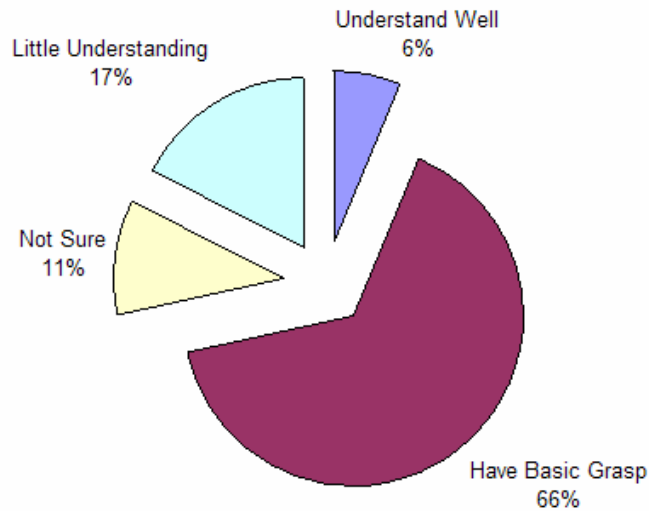
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Quick Polls on Community Banking Industry on CRE Portfolio Stress Testing 09/16/09 – Detailed Results

Question One: How well do you feel you understand what CRE Portfolio Stress Testing is and its benefits?

Understanding of CRE Portfolio Stress Testing



Results:

	Number of Votes	% of Total Votes cast
Understand it very well	11	6%
Have a basic grasp of the concept	112	65%
Not sure	19	11%
Have very little understanding at this point	30	17%

Comment:

Two thirds of the 172 bankers that responded to the poll felt that they had a “basic grasp” of what CRE portfolio stress testing was, while only 6% felt they understood it well. Hopefully after the seminar they had a better understanding of what the process is, but it is clear that more education is necessary in this area.

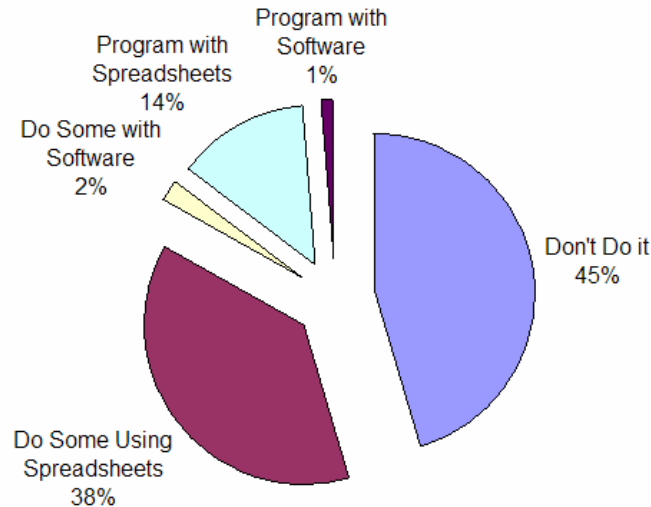
Opportunities to share knowledge about the process and its value include presentations at events like the Risk Management Association and American Bankers Association conferences and articles in industry periodicals. Ardmore Banking Advisors will continue to be active in these areas.

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Question Two: How does your institution perform CRE Portfolio Stress Testing currently?

Current CRE Stress Testing Practices



Results:

	Number of Votes	% of Total Votes cast
We do not do it currently	83	45%
We do some CRE Portfolio Stress Testing, using spreadsheets or internal database tools	69	37%
We do some CRE Portfolio Stress Testing, utilizing a purchased program	4	2%
We have a repeating CRE Portfolio Stress Testing program in place, using spreadsheets or internal database tools	25	13%
We have a repeating CRE Portfolio Stress Testing program in place, utilizing a purchased program	2	1%

Comment:

Nearly half of the banks that responded don't do CRE portfolio stress testing today, and of those that do, most are working with manual spreadsheets. Thirty eight percent say they perform "some CRE portfolio stress testing" using spreadsheets but it is likely that what they are actually doing is CRE loan by loan stressing, and only on a sporadic basis.

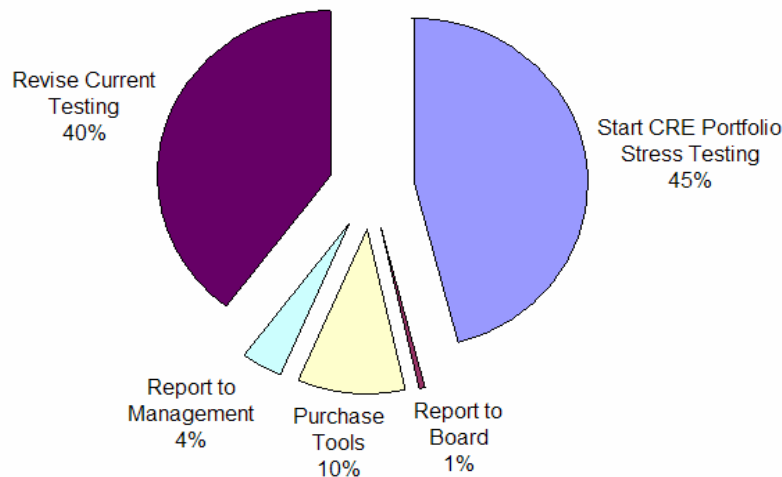
The results here would suggest that most community banks either do not or will not implement a "repeating CRE portfolio stress testing program" or utilize software programs available to do so unless made to do so. While for the smallest of institutions setting up manual spreadsheet CRE portfolio stress testing processes may suffice, for most banks the time and effort it will take them to set up and maintain these spreadsheet models accurately may serve as an internal justification for not doing the process at all.

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Question Three: Based on the information you heard today which of the following related actions do you believe your institution will take over the next six months?

CRE Stress Testing Next Steps



Results:

	Number of Votes	% of Total Votes cast
Start a CRE Portfolio Stress Testing process	69	45%
Revise/Enhance your current CRE Portfolio Stress Testing process	60	39%
Purchase a program or tools to assist you in your CRE Portfolio Stress Testing	15	9%
Begin reporting to your management CRE Portfolio Stress Testing results	6	3%
Begin reporting to your board CRE Portfolio Stress Testing results	1	0%

Comment:

The majority of banks responding (45% of voters, 28% of all banks attending) suggest that they will start a CRE portfolio stress testing program in the next six months. Only 15 banks suggested they will buy a program or tool to assist them – which may reflect an assumption that it will take the bank six months or more to get ready, or simply that they will choose to attempt to create more spreadsheets to meet their needs.

It is notable that only 7 banks that voted (about 3% of voters and 2% of all banks attending) suggest that they will begin reporting results of the testing to their management or board. This is of concern as a primary value of the testing process is to keep management and the board informed of potential risk in their CRE portfolios.