

# Ardmore Banking offers real estate portfolio stress test

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ARDMORE — Ardmore Banking Advisors has developed a consultative service to help banks quickly establish a program to evaluate their commercial real estate portfolios.

This is in response to regulators strongly recommending quarterly "stress tests," a series of analyses that determine a bank's exposure to specific loans based on different variables and projections associated with their existing portfolio.

Peter Cherpak, an Ardmore Banking principal who heads its credit technology solutions, said so far only 10 banks have signed up for the service, called CREAssist, but nine of those have come on board since early summer.



Cherpak

"I think that's because of a change in regulatory approach and concerns about their CRE portfolios," Cherpak said. "Small banks often don't have the time or

resources to dedicate to the regulatory demands for stress testing, so we take their data and tell them what it means."

In 2007, regulators urged banks to begin conducting stress tests as a risk control. Cherpak said at that juncture, only larger banks with significant internal resources were regularly conducting stress tests.



Jones

So Ardmore Banking developed a software product called CREInsight that conducts stress tests on commercial real estate portfolios, the most trouble-

some part of most bank portfolios, with the target client being community banks that do not have large internal resources.

"We didn't get much response, maybe six banks," Cherpak said. "Then we launched it commercially in 2008. But when the real estate bubble burst that year, it really started to take off."

Cherpak said there are now 46 financial institutions using the software product, which helps evaluate credit risk in CRE portfolios, allowing bankers to sort information by product, geography or industry, import data from spreadsheets and obtain a credit-by-credit look at performance and leading indicators of risk within 30 days.

By late 2009, regulators began asking banks with a certain level of CRE loans to conduct stress tests, which increased interest in products like CREInsight. Ardmore Banking decided to develop a consulting service called CREAssist to assist banks in using the software.

While banks using the products range from startups to those with \$10 billion in assets, Cherpak said the sweet spot is those between \$1 billion and \$5 billion.

Banks pay \$1,400 for one quarterly test if they already have CREInsight and \$5,000 if they do not own the software. CREInsight software costs \$18,000.

Brian W. Jones is chief lending officer of Newfield National Bank, a \$506 million-asset bank based in rural Newfield, Gloucester County. While the bank's portfolio is in good shape — less than 1 per-

cent of its assets are nonperforming — Newfield still conducted stress testing and began using both Ardmore Banking's software and consulting services this summer.

Jones said the bank can evaluate the direction of specific segments and uses Ardmore Banking as an independent set of eyes before writing a narrative report for regulators, who then offer feedback. Jones said regulators are most concerned about capital levels, asset quality and earn-

ings and will offer views about what to do with certain portions of lending portfolios.

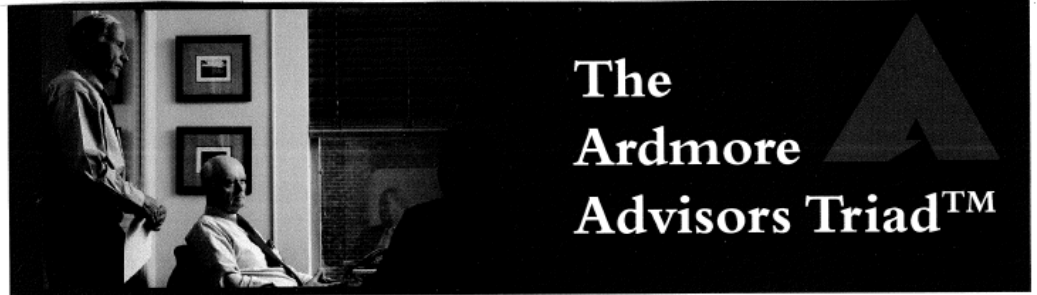
Newfield finished testing its first CRE segment, one that it perceived to contain inherent risk, and will be submitting a report to the Office of the Comptroller of the Currency later this month.

"It would have taken a lot longer if I did this on my own," Jones said.

Bob Seiwert, senior vice president of the American Bankers Association center for commercial lending and business bank-

ing, said there are only about four or five firms around the country offering such software and consulting services. He said a majority of community banks are now evaluating whether to buy or make their own software product while most larger banks already have their own. But he said consulting offered by vendors such as Ardmore can help community banks interpret the data more thoroughly.

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