

# An Internal Control – Credit Stress Testing



Credit Stress Testing and Capital Planning are integral to an institution's "Internal Controls" and strategic planning practices. The mission of Credit Stress Testing is to provide insights to potential portfolio risk migrations under market changes of varying severity and the impact on the institution's capacity to meet those challenges. This information is a powerful tool used by Enterprise and Credit Risk Management as a control mechanism for influencing policy, portfolio risk, growth strategy, capital requirements, and strategic planning.

We specialize in conducting portfolio-wide transactional credit stress testing for community banks and credit unions with less than \$10 billion in loan assets (aka "bottom-up analysis"). Over time, this comprehensive approach has proven to be the most beneficial and is recommended for community banks with concentrations in commercial real estate (CRE).

CEIS Review has extensive experience developing and conducting portfolio-wide and segment-targeted stress tests for community banking institutions. Our Credit Stress Testing programs are directly managed by experienced Senior Bankers with decades of portfolio analysis experience.

## **Loan Review and Stress Testing are essential Internal Controls**

Combining these two essential internal control activities enables clients to understand and confirm their current portfolio performance and quality in detail. They can then view it under different adverse scenarios with loan-level detail to present loan-level capital requirements.

The results of the transactional stress testing are examined under customized stress factors and aggregated as segments (i.e., CRE, office, region, others) to provide analysis by segment in addition to the overall portfolio.

The analysis considers various factors such as increases in interest rates, higher expenses caused by inflation, reduced cash flow for debt service coverage (DSCF), and the impact of potential changes in asset values (collateral) on secured loans. These factors affect macroeconomic dynamics, such as "refinance risk" and "loss risk."

Lastly, CEIS' approach evaluates the stress results to assess the institution's capital adequacy under stress for capital leverage, T1 ratio, and total capital. These standards are used by public, private, and regulatory bodies as a measure of business strength.

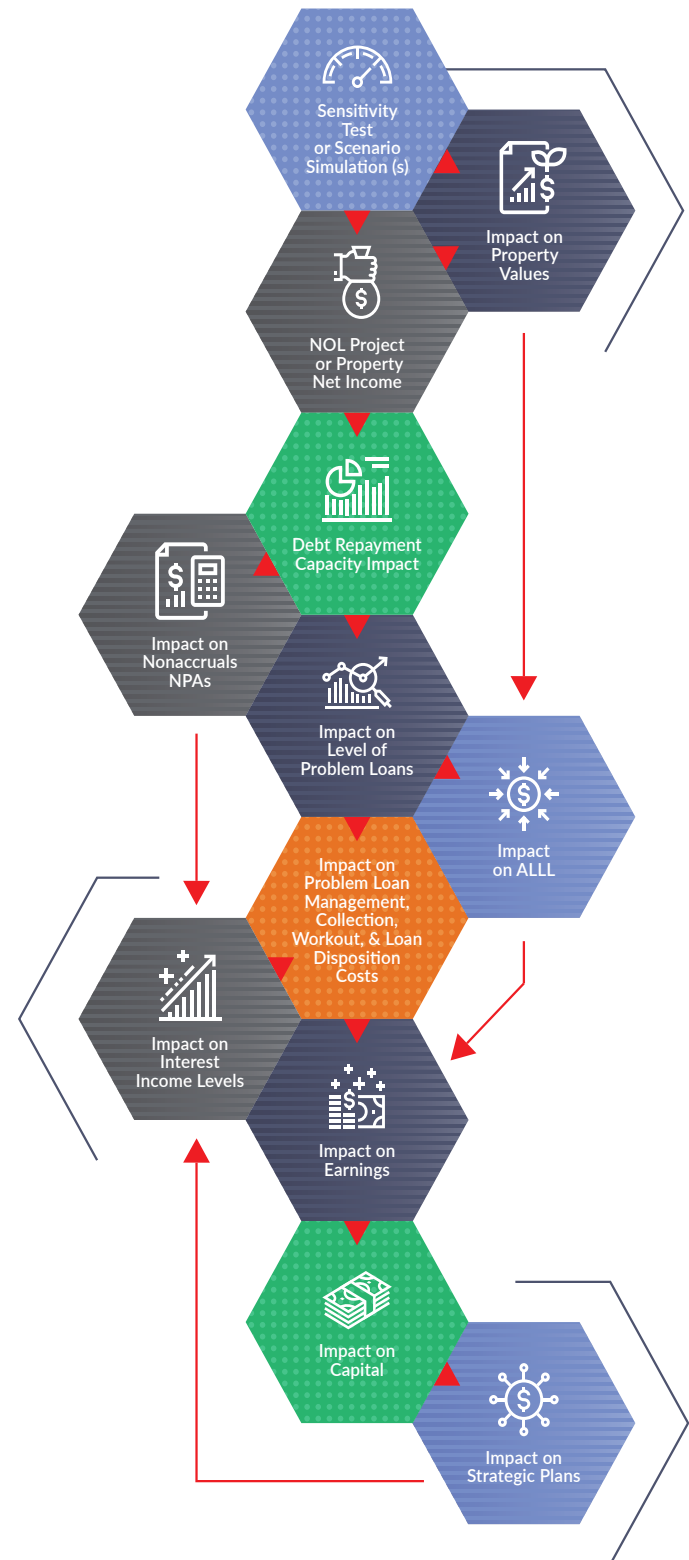


**CEIS REVIEW INC.**  
*Commercial Portfolio Advisors EST 1989*

# Why partner with CEIS Review?

- **Experience** – Our Stress Testing group is led by Senior Bankers with a combined ~85 years of Credit Risk experience, and more than 15 years of performing stress testing for CEIS clients. CEIS performs an average of ~40 Stress Tests annually for Commercial Banks and Credit Unions. CEIS' management team is involved in each account and works with the Client to ensure complete transparency along the entire process.
- **Proven/Recognized** – CEIS Review has satisfied OCC, FRB, FDIC and State stress testing requirements. The regulatory agencies are familiar with CEIS, having a well-earned reputation for providing quality reporting, resolving MRAs and MRIs related to Loan Review, Stress Testing, and Methodology Validation without exception.
- **Proprietary Peer Analysis** - CEIS' historical data set of stress test analytics gives clients the ability to have portfolio analysis performed against CEIS' client peer institutions.
- **Model Validation** – The CEIS Stress Test model is validated on a bi-annual basis through an independent third party to certify the accuracy and repeatability of our formulas and mathematical computations. This practice meets "Model Risk Management" requirements under SR 11-7. The analysis is transparent to the users and readers alike. The CEIS approach is Econometric, not a statistical "Black Box" approach.
- **Agility** - Our process is consultative; our seasoned Directors discuss specific portfolio areas of concern (i.e., offices, construction, retail) when crafting a customized stress strategy.
- **Cost** – Compared to the costs of developing and managing an internal Stress Testing department, CEIS Review is the obvious choice. Our experienced Senior Bank Executives structure, lead, conduct, and consult client Institutions throughout each of CEIS' stress testing engagements providing perceptive support and guidance.

The chart below highlights the Bottom-Up approach:



In today's challenging environment, it is critical to move beyond mere reactionary responses and embrace proactive credit risk assessments. **Contact us today to discuss your Portfolio Stress Testing plans.**