

SOLUTION OVERVIEW

LOAN PORTFOLIO SOLUTION

Commercial Lending

The primary business activity for commercial banks is lending and therefore the loan portfolio represents one of the largest assets and a predominate source of revenue. It is also a great source of risk to a bank's safety and soundness. Whether due to lax credit standards, poor portfolio risk management, or weaknesses in the economy, loan portfolio problems have historically been the major cause of bank losses and failures. While annual audits of loan portfolios may address these risks, experience has revealed that continuous monitoring of the portfolio is the preferred approach. Identifying control breaches, anomalies and high risk activities early and employing a firm remediation strategy often prevents and certainly minimizes the impact of any potential impairment of the portfolio.

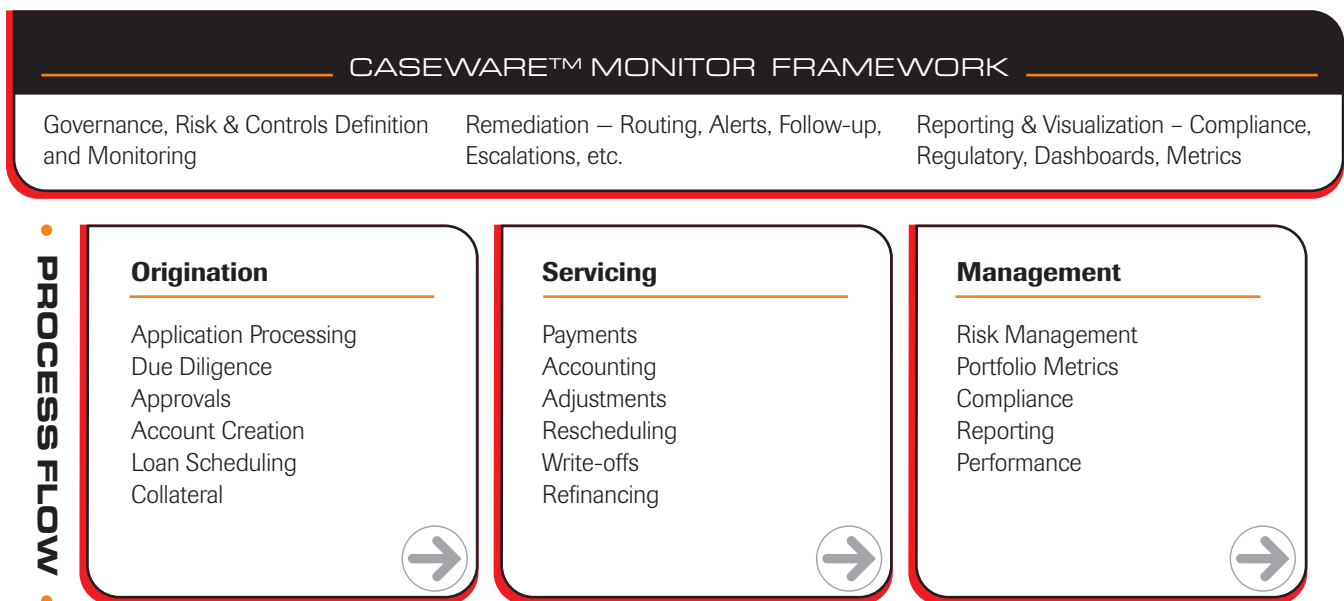
Purpose of an Audit

In the context of banks, financial institutions and other enterprises in the financial services sector, the quality of the loan portfolio has singular significance. Portfolio audits are therefore required to determine, by review of electronic records, any activities or conditions that require attention before they become problems.

CaseWare™ Monitor Loan Portfolio Solution

The focus of the solution is to automate the definition of governance, risk and controls within the financial institution's lending process. As outlined in Figure 1, the financial institution is allowed to define the control environment from loan origination to servicing and portfolio management. Once completed, the monitoring framework examines all electronic activity to detect control breaches and alert the relevant persons automatically.

Figure 1 – Monitoring Loan Portfolio Business Process



CaseWare™ Monitor Workflow and Reporting

When a breach occurs relevant alerts are triggered and a stringent remediation process is followed to ensure that high risk activities are addressed as stipulated by the business process owners.

Other key aspects of the solution are the automation of reporting and visualization of the control environment. CaseWare™ Monitor will automate key reporting for stakeholders, including regulators.

Reports include:

- Key portfolio metrics
- Loan loss provisioning and rates
- Portfolio at risk and repayments rates
- Best practice comparisons
- Loan risk concentration

Standard dashboards are included in the framework:

- Trending of results across dates
- Grouping by risk ranking
- Grouping by status (new, pending, overdue, etc.)
- Comparisons across processes and users

SAMPLE OF REPORTS

Origination

Disbursement and original loan amount varies

Loan disbursement date and loan start date differs

Loans without schedules or incorrect schedules

Policy variations at origin – rates, term, principal, fees, penalties, moratorium, etc.

Service charges differ from policy

Other charges differ from policy

Loan approval limits exceeded

Collateral information missing/incomplete

Potential duplicated disbursement

Servicing

Changes to schedules

Customer record changes

Principal repayments consistently different from schedule

Arrears incorrect

Prepayments not being applied

Payments applied incorrectly

Servicing (cont'd)

Delinquency analysis/reports

Loans written off but not according to policy

Write offs not accounted for in the G/L.

Policy variations at servicing – rates, term, principal, fees, penalties, moratorium, etc.

Suspicious rescheduling, write-offs, refinancing

Loan term changes for a delinquent loan

Lump-sum payments on overdue loan followed by another loan disbursement

New loan disbursed to customer with overdue loans

Ex-employees still receiving employee loan terms

Delinquent loan not flagged properly by system

Suspicious loan account changes

Management

Loan classifications inconsistent/inaccurate

Segregation of duties violations – approval, disbursement, adjustments, scheduling, etc.

Know your customer (KYC) violation

G/L entries incorrect

Loan Officer performance reports

Loan security margin below policy

Portfolio concentration analysis

Loan loss provision report – loan loss provision ratio

Other indicators – arrears, portfolio at risk (PAR)

Aged portfolio at risk (PAR) and repayment rates (RR)

Expected maturities within period

Key parameters – disbursements, arrears, rescheduling, refinancing, write-offs, payments, terms.

BENEFITS

BUSINESS CHALLENGE

CASEWARE™ MONITOR SOLUTION

STAKEHOLDERS' REQUIREMENTS

Escalating risk and compliance requirements

- Provide enterprise-wide definition and monitoring of controls and assurances that they are effectively implemented across all business processes.

AUTOMATION

Automating control breach detection and remediation

- Detects breaches at the data source.
- Distributes data across the enterprise by user-defined rules via dashboards, e-mail, SMS
- Provides workflow for remediation including automatic detection of resolution of errors
- Allows the user to define controls in multiple business processes with a consolidated view
- Increases efficiency by making analytics repeatable with the ability to adjust tolerances
- Business rules and parameters are customizable and new logic can be built by the organization
- Monitoring can also be applied to business metrics
- Issues are identified as soon as they occur

INTEGRATION

Seamless integration into existing solutions

- No changes required to underlying systems being monitored
- Non-intrusive access to data and cannot amend source data
- User and group security with LDAP support
- Strong encryption
- Distributed service oriented architecture (SOA).



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