



Case Study

Business banking loan portfolio growth

The brief

A large regional bank faced a major challenge to grow organically in the face of unexpected losses. As a result of the losses, significant expense reduction measures had been put in place. The head of business banking identified this bank's small business loan portfolio, with over 10,000 borrowers, as a primary segment for growth and outlined a plan to explore additional credit and cross-sell opportunities for the bank's customer-facing teams. Regular monitoring of changes in borrower creditworthiness and insights into small business market lending and credit conditions were included in the plan. The bank approached PayNet to support the execution of the plan. PayNet, after assessing the situation, recommended a four-point solution to spur growth:

- **Outreach:** Identify a pool of existing borrowers using specific criteria to define the opportunity population. Employ the PayNet AbsolutePD® Portfolio Manager "Borrower Profile" report to provide key information to the customer-facing teams as the basis to explore additional credit and cross-sell opportunities. PayNet conducts training for those teams on how to read and interpret the "Borrower Profile" report to support client outreach and facilitates the delivery of quarterly reports.
- **Increase share of wallet:** Calculate the delta between PayNet "High Credit" and loan balance with the bank to formulate capacity for additional credit offerings.
- **Monitor changes:** Assess movement in AbsolutePD®, the probability of default, each quarter to continue refining the target list over time—remove deteriorated borrowers and add improved borrowers to credit offering program.
- **Benchmark market conditions:** Employ PayNet indices and AbsolutePD® Outlook forecast to analyze and understand lending and credit conditions in targeted segments of the bank's footprint.

PayNet examined the bank's AbsolutePD® data on the small business portfolio to explore the potential for growth. The first step was to identify the borrowers who fit the current risk profile of the bank. Next, the pool was narrowed to borrowers who might be able to take advantage of increased borrowing capacity. Assumptions were made for the utilization of increased credit limits on revolvers and acceptance of new term loans to arrive at portfolio growth of 9–10%, representing incremental annual revenue of approximately \$1,912,000.

Defining the opportunity



Starting point

The bank had over 8,125 active small business borrowers that were present in three consecutive quarters (Q1 2015, Q2 2015, and Q3 2015). Recently observed product mix was 64% Term Loan/36% Revolver.



Creditworthiness

- AbsolutePD® must show quarter-over-quarter consecutive improvement in the two most recent periods.
- The initial borrower AbsolutePD® must be <2%.



Demonstrated borrowing capacity

The bank's aggregate exposure to the individual borrower must not exceed 50% of "high credit" (where high credit is defined as the most the borrower has owed at any given point in time across all lenders in the PayNet database).

Portfolio opportunity population

1,998 borrowers (24.6% of the active borrowers) qualified for the loan growth initiative using the above criteria. These borrowers carried a current balance (using the most recent period's data) of \$336 million.

Portfolio growth analysis

- Using the difference between the borrowers' aggregate loan balances with the bank and the PayNet high credit, total opportunity was calculated at \$1 .5 billion.
- A product mix ratio of 64% Term Loan/36% Revolver was applied to refine the opportunity for extending additional credit in the form of Term Loans and Revolvers: \$960 million and \$540 million, respectively.
- A 25% acceptance rate in Term Loans and 50% utilization for the increased lines in Revolver was applied to project new Small Business Banking Portfolio Loan Growth of \$510 million to 1,998 borrowers representing loan portfolio growth of 9.5%.
- Using a 75 basis point spread, and assumptions of 25% acceptance rate for Term Loans and 50% utilization for Revolvers, incremental annual revenue would total \$1,912,000 (\$900,000 for Term Loans and \$1,012,000 for Revolvers).

Ongoing strategy for client retention/sales coordination

Target sales efforts on areas of greatest opportunity

Client retention/sales: Geographical analysis of the potential borrower pool showed the largest opportunity. The \$1.5 billion in incremental loans broken down by state showed concentrations in five states.

Client retention/sales: Similarly, analysis of the potential pool on a broad industry basis identified concentrations in three major NAICS segments:

- **Transportation**
- **Agriculture**
- **Retail**

Client retention/sales: The focus of the sales initiative is narrowed by finding the intersection between industry/state potential. Transportation, previously identified as having the largest "potential" of any single industry segment, presents the greatest opportunity in States One and Two—233 borrowers in these states show \$106 million in potential new loans.

Review market conditions

Lending activity: The bank benchmarks transportation lending activity within States One and Two to identify warning of possible investment problems in these markets by utilizing PayNet Small Business Lending Index at <https://sbinsights.paynetonline.com>.

Loan delinquency: The bank benchmarks loan performance for State One by assessing 31–90-day delinquencies for signs of financial stress in the context of State One and overall U.S. by utilizing PayNet Small Business Delinquency Index at <https://sbinsights.paynetonline.com>.

Default rates: The bank benchmarks State One's transportation default rates for the past 12 months in the context of State One and U.S. with PayNet Small Business Default Index at <https://sbinsights.paynetonline.com>.

Refine sales target list of individual borrowers

Client retention/sales: The bank compiles the list of target clients from the overall pool for further examination and runs AbsolutePD® Portfolio Manager "Borrower Profile" reports for detailed analysis of each individual borrower.

Summary

The bank refined its sales program and employed PayNet AbsolutePD® and indices to achieve 9.5% targeted growth in its loan portfolio with \$1,912,000 increased revenue. PayNet AbsolutePD® enabled management to quickly filter the small business loan portfolio to identify creditworthy four borrowers who were evaluated further to identify increased credit capacity. PayNet's Small Business Indices are utilized to benchmark this pool of high-potential borrowers against market performance by state and industry. In addition, the AbsolutePD® "Borrower Profile" report is employed by relationship managers and centralized risk personnel to synthesize borrower creditworthiness and benchmark vis-à-vis geographic and industry peers. With quarterly AbsolutePD® updates, the bank monitors borrowers for deteriorating or improving credit risk.