Finding the ALLL/Capital "Sweet Spot" for *Your* Bank

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How a more reliable approach to Credit Portfolio Assessment offers better balance between protection and growth

White Paper Summary/Overview

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Executive Summary

Every bank has an *optimal* level of ALLL and Capital that balances the need to protect against future losses with the obligation to deploy shareholders' investment to grow the bank's business. Hitting that "sweet spot" can be very challenging, due to:

- Regulator pressure for *maximal,* rather than *optimal,* levels of ALLL/Capital, and
- Management's *lack of confidence* in forecasts of future losses and expected portfolio risk distributions.

A more reliable approach to *credit portfolio assessment* can be invaluable in managing ALLL and Capital to serve the shareholders and satisfy the regulators at the same time. In this white paper, we will review:

- The relationship between credit portfolio assessment tools and financial management of reserves and capital;
- The importance of not only getting the numbers right, but of convincing others that those numbers are valid;
- Features of the most beneficial models for performing credit portfolio assessment to gauge future losses;
- *Terminal Risk Analysis*, as an example of the next generation of risk migration analysis tools, providing insights into how these models work and what is required to implement them effectively;
- Recommended next steps for learning more about credit portfolio assessment tools and taking steps toward developing the types of portfolio information and forecasts that can enhance financial management of the bank.

The paper concludes with a summary of the long experience Jeff Judy & Associates brings to credit portfolio assessment, credit policy, processes and practices, and of the training and consulting services available to significantly impact what happens in the board room and on the front lines of your financial institution.