Risk Ratings

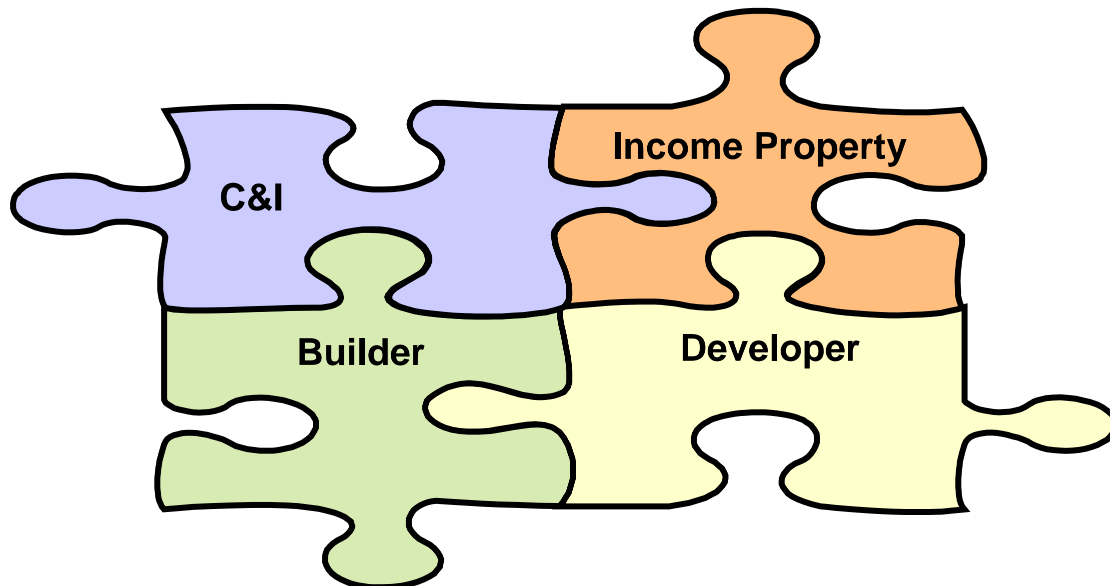
A loan risk rating system is intended to provide management with insight on the degree of risk in the bank's loan portfolio and how that risk is changing over time. Properly designed, it can complement a loan-pricing model to provide risk adjusted pricing on individual loan transactions.

Too frequently community banks employ risk rating systems originally designed for C&I lending at large regional or national banks. Many of these systems refer to investment grade credits for the highest two risk ratings - a market not available to a community bank - thereby effectively reducing the number of pass grades from six to four or even less.

In other situations, the individual risk rating definitions are highly subjective and many risk rating discussions evolve into a "beauty contest" or overly rely upon collateral margins. The result is a risk rating distribution curve that resembles a church steeple over the 'average' risk rating rather than a bell-shaped curve reflecting an array of risk within the loan portfolio.

Any of this sound familiar? Has your institution been criticized by bank regulators for inaccurate risk ratings? At Thurmond, Clower & Associates, we have an alternative.

Thurmond, Clower & Associates has developed four proprietary risk-rating models:



We believe risk ratings should primarily be quantitative and address Probability of Default. Our models therefore measure the drivers of default characteristic to each type of loan – in other words, we disagree with a "one size fits all" approach.

A defaulted loan generally cannot be traced to a single event or issue, but rather results from an accumulation of risk factors over time. Too frequently, bank management is taken by surprise because loan officers have not requested or obtained critical information that would have provided timely notice. Our models offer a disciplined approach to avoid this happening to your bank.