

ProMS: The CECL/IFRS9 opportunity

How Commercial Real Estate Lenders are
using CECL/IFRS9 for competitive
advantage

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Commercial Real Estate Lenders can turn CECL/IFRS9 to competitive advantage

Regulations are generally a burden or at best the cost of doing business for Banks lending for Construction or Commercial Real Estate. CECL/IFRS9, however, represents a unique opportunity for lenders to radically reduce operational costs, get closer to customers and improve risk-adjusted profitability. The regulations coming into force in 2020 require lenders to implement an expected credit loss model utilising historical information, current conditions and reasonable forecasts to estimate the expected loss over the life of a loan.

What is needed to comply with CECL (and IFRS9)

To achieve these requirements, lenders must develop robust, well-documented data quality processes. Loan-level data used in modelling the probability of default (PD) and loss given default (LGD) parameters need to be clearly defined with a validated audit trail of data sources. In addition, portfolios must be segmented with sufficient granularity to appropriately forecast expected losses. Firms must be able to demonstrate their Credit risk modelling and forecast models and methodologies are sound and validated.

While these may seem onerous requirements, they are also an opportunity. We have developed ProMS to be a single cost-effective platform for all sizes of lenders.

Turn regulatory requirements into an opportunity to improve your processes

Lenders have demanded comprehensive workflow and data capture from Appraisal to Drawdown giving a single validated source of collateral, counterparty and loan data, now for the first time, this is available with the ProMS platform. Administrative workload and errors are significantly reduced by eliminating repeated data re-entry between property appraisal systems, loan terms/structuring and pricing models, as well as, portfolio and counterparty databases.

Using ProMS underwriting teams can rapidly obtain key metrics such as Loan to Value, Debt Cover Service Ratios and Ratings. The platform is accessed from any PC or mobile device enabling front-line lenders to share analysis and structure deals in the field with clients.

ProMS provides the risk team with the critical measures required for both CECL and risk-adjusted pricing: Probability of Default, Loss Given Default, Expected and Maximum Probable Loss on an annual and lifetime basis. All loan, collateral and counterparty data is stored in a validated and auditable database allowing lenders to run stress tests and portfolio analytics for regulatory and capital management purposes.

The platform can be implemented in a matter of weeks, requiring no IT or infrastructure as it is a fully cloud-delivered solution. Up-to-date market and real estate data are built into the system. External appraisals can be entered directly via the cloud ready to be validated and stressed by your underwriters in a simple to use interface.

Debt terms can be added in the easy to use GUI to determine if the deal meets your lending criteria. Enhancements, including additional collateral or reserve accounts, can be modelled

to see how they impact the key risk metrics. Loan terms such as amortisation rates, balloon payments, seniority and equity can easily be assessed in a fully auditable manner reducing operational risk and improving risk-adjusted pricing.

ProMS replaces a spaghetti of incompatible systems and processes with a single elegant, powerful but cost-effective solution. Implementing ProMS to meet your CECL requirements will reduce costs, enable much faster response times to customer enquiries, massively reduce errors, allow you to implement real risk-adjusted pricing (on economic or regulatory capital basis) and manage your portfolio.

CECL gives the impetus to radically transform the profitability of CRE lending.

ProMS manages over \$80 billion of commercial real estate debt for our clients, these are some of the features they appreciate:

- ✓ Cloud delivered SaaS
- ✓ Rapid Implementation Technology
- ✓ Comprehensive encryption and data security
- ✓ Easy to use screens
 - Drop down menus
 - Intelligent data validation and sense testing
 - Templates for loan and asset types
- ✓ Loan Enquiry data capture
- ✓ Multiple loan categories
 - SPV/IPRE
 - Commercial Mortgage
 - Un-stabilised and Construction Loans
 - Mixed Investment and Construction
 - Mezzanine and Junior
- ✓ All collateral types
 - Multi-family
 - BTR
 - Office
 - Retail
 - Warehousing
 - Hospitality
 - Etc.
- ✓ Macroeconomic and Real Estate market data updated quarterly
- ✓ Market assumptions updated quarterly
- ✓ 10,000 cashflow scenarios provided quarterly
- ✓ Full documentation and transparency for audit and validation
- ✓ Annual and lifetime for all key risk metrics
 - LTV
 - DSCR
 - Probability of Default/Loss Given Default
 - Expected and Maximum Probable Loss
- ✓ Statistics translated into equivalent risk grades – Moody's or S&P

- ✓ Loan status monitoring
- ✓ Counterparty database – with single Default Probability
 - Tenants
 - Construction contractors
 - Joint Venture Partners
- ✓ Integrates with leading loan origination systems such as Closer
 - Manage loan data in one consistent database
 - Integrate with Closer workflow
 - Manage portfolio and data tapes for Agencies
- ✓ Integration with Excel, Word, PowerPoint for analysis and report writing
- ✓ Multiple versions of each loan are stored for audit
- ✓ Full audit and recreation of loan at each stage of process including documentation
- ✓ Amendment tracking and audit
- ✓ Exception reporting
- ✓ Data validation and cleansing
- ✓ Securitisation tools (full waterfall analysis)
- ✓ CMBS
- ✓ Integration of scorecard models
- ✓ AVM: loan/collateral valuation tools (at any frequency)
- ✓ Integration with all leading General Ledger and Account systems (ETL or other)
- ✓ Industry standard SQL database
 - Built in pivot table
 - All data exportable to Excel
 - Integration into data mining tools such as QlickView
- ✓ Comprehensive and advanced risk management tools
 - DCF cashflow modelling to compare with Appraisal Models
 - Stochastic and simulation models
 - Big data analytics (macroeconomic and property specific indices)
 - Factor scorecard integration
 - Portfolio forecasting
 - Stress testing including CCAR
 - Asset and Loan Valuation
 - Key financial and risk metrics
 - Provisioning
- ✓ Meeting and exceeding all current regulatory regimes, for example:
 - CECL
 - IFRS 9
 - Basel 11 AIRB
 - OCC/CCAR stress tests

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