Credit Stress Testing

Balancing Compliance, Risk, and Strategic Growth

Overview

- Why Credit Stress Testing is Important
- Regulatory Drivers
- Stress Testing Application
- Q&A

Why Credit Stress Testing is Important

- **Targeted Risk Management**: Identifies vulnerabilities in concentrated loan portfolios
- **Protects Local Economies**: Ensures stability and continued service to the community during downturns
- **Meets Regulatory Expectations**: Helps satisfy increasing regulatory scrutiny on community banks
- **Builds Trust**: Demonstrates sound risk management to regulators and customers

Regulatory Drivers

Dodd-Frank Act: Mandated stress testing for large banks to ensure they can withstand economic shocks

Federal Reserve & OCC Guidance: Emphasize the *need* for robust stress testing, even for community banks, to ensure capital adequacy

FDIC Guidance: Encourages community banks to use stress testing as a best practice for managing concentrated risks

Post-2023 Liquidity Crisis: The recent crisis spurred regulators to demand stronger risk management and stress testing from banks of all sizes

Scenarios

Baseline Scenarios: Representing normal economic conditions

Adverse Scenarios: Including moderate economic downturns

Severely Adverse Scenarios: Including deep recessions, market shocks

Top-Down Approach

- Analyzes the overall loan portfolio using broad economic factors

Loan Type	Balance ($000s)	Moderate Stress (%)	Severe Stress (%)	Moderate Loss ($)	Severe Loss ($)
Loans secured by other nonfarm nonresidential	137,899	1.56%	3.12%	2,153,405	4,306,811
Owner-occupied nonfarm non residential	104,196	1.70%	3.39%	1,767,352	3,534,703
Closed-end 1-4 family - first liens	92,769	1.19%	2.38%	1,105,181	2,210,363
Commercial and industrial	53,610	10.88%	21.76%	5,831,730	11,663,460
Other construction loans and land loans	50,591	6.30%	12.61%	3,188,645	6,377,290
1-4 family residential construction loans	39,777	3.22%	6.44%	1,281,793	2,563,586
Multifamily (5 or more) residential properties	34,245	5.82%	11.65%	1,994,639	3,989,278
Revolving, open-end loans secured by residential properties	27,665	1.18%	2.37%	327,677	655,354
Other consumer loans	12,675	3.73%	7.46%	472,914	945,829
Closed-end 1-4 family - junior liens	2,409	9.12%	18.23%	219,592	439,183
Secured by farmland	1,699	2.50%	4.99%	42,395	84,790
Loans to finance agricultural production	993	3.62%	7.24%	35,941	71,883
Automobile loans	163	1.84%	3.69%	3,005	6,011
Total	558,691	3.30%	6.60%	18,424,271	36,848,541

Impact On Earnings:

	Moderate Stress	Severe Stress
Preprovision Net Income (2 years)	14,412,600	12,811,200
Additional Provisions	18,424,271	36,848,541
Less: Tax Expense (Benefit)	-842,451	-5,047,842
Net After Tax Income	*-3,169,220*	*-18,989,500*

Impact On Capital:

	Moderate Stress	Severe Stress
Beginning Tier 1 Capital	83,686,000	83,686,000
Net Change in Tier 1 Capital	-3,169,220	-18,989,500
Ending Tier 1 Capital	*80,516,780*	*64,696,500*
Average Assets	850,777,780	834,957,500
Estimated Tier 1 Leverage Ratio	**9.46%**	**7.75%**

Bottom-Up Approach

- Assesses individual loans or specific loan segments using loan-to-value ratios and debt service coverage

Base Case

(0% Rate Increase, 0% NOI Decline, 0% Value Reduction,)

Current
$38,171,613.02

Debt Service Coverage	Loan-To-Value <70%	70-79%	80-89%	90+%
1.75 +	14.71%	0.00%	0.00%	0.00%
1.51 - 1.75	8.81%	0.00%	9.75%	0.00%
1.26 - 1.50	0.00%	14.97%	9.91%	0.00%
1.16 - 1.25	0.00%	16.28%	9.13%	0.00%
1.01 - 1.15	0.00%	0.00%	0.00%	0.00%
0 - 1.00	0.00%	0.00%	16.44%	0.00%

Five Years
$30,030,594.23

Debt Service Coverage	Loan-To-Value <70%	70-79%	80-89%	90+%
1.75 +	18.69%	0.00%	0.00%	0.00%
1.51 - 1.75	0.00%	0.00%	0.00%	0.00%
1.26 - 1.50	0.00%	0.00%	0.00%	0.00%
1.16 - 1.25	36.34%	10.92%	0.00%	0.00%
1.01 - 1.15	24.29%	0.00%	0.00%	0.00%
0 - 1.00	9.76%	0.00%	0.00%	0.00%

Ten Years
$20,425,322.68

Debt Service Coverage	Loan-To-Value <70%	70-79%	80-89%	90+%
1.75 +	27.48%	0.00%	0.00%	0.00%
1.51 - 1.75	0.00%	0.00%	0.00%	0.00%
1.26 - 1.50	0.00%	0.00%	0.00%	0.00%
1.16 - 1.25	50.83%	0.00%	0.00%	0.00%
1.01 - 1.15	21.68%	0.00%	0.00%	0.00%
0 - 1.00	0.00%	0.00%	0.00%	0.00%

Severe Risk

(1% Annual Rate Increase, 15% NOI Decline, 15% Value Reduction,)

Current
$38,171,613.02

Debt Service Coverage	Loan-To-Value <70%	70-79%	80-89%	90+%
1.75 +	14.71%	0.00%	0.00%	0.00%
1.51 - 1.75	8.81%	0.00%	9.75%	0.00%
1.26 - 1.50	0.00%	14.97%	9.91%	0.00%
1.16 - 1.25	0.00%	16.28%	9.13%	0.00%
1.01 - 1.15	0.00%	0.00%	0.00%	0.00%
0 - 1.00	0.00%	0.00%	16.44%	0.00%

Three Years
$33,660,025.82

Debt Service Coverage	Loan-To-Value <70%	70-79%	80-89%	90+%
1.75 +	16.68%	0.00%	0.00%	0.00%
1.51 - 1.75	0.00%	0.00%	0.00%	0.00%
1.26 - 1.50	0.00%	0.00%	10.08%	0.00%
1.16 - 1.25	0.00%	0.00%	0.00%	0.00%
1.01 - 1.15	0.00%	0.00%	16.99%	0.00%
0 - 1.00	21.61%	0.00%	24.34%	10.30%

Five Years
$30,446,750.36

Debt Service Coverage	Loan-To-Value <70%	70-79%	80-89%	90+%
1.75 +	18.44%	0.00%	0.00%	0.00%
1.51 - 1.75	0.00%	0.00%	0.00%	0.00%
1.26 - 1.50	0.00%	0.00%	0.00%	0.00%
1.16 - 1.25	0.00%	0.00%	0.00%	0.00%
1.01 - 1.15	0.00%	0.00%	0.00%	0.00%
0 - 1.00	18.12%	25.83%	37.62%	0.00%

Enhance Strategic Decision Making

1. Determine capital allocation
2. Proactively manage credit risk
3. Improve decision-making around loan origination and portfolio diversification

Q&A

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