

## TOO MANY SILOS

**By Ed Robertson, CFA, Co-Head & Managing Director, Situs Financial Institutions Group**



**Edward S. Robertson, CFA**  
Co-Head and Managing Director,  
Situs Financial Institutions Group

*On March 18, 2015, Situs joined other industry experts at the **2015 Stress Testing USA Congress** in New York City to discuss the challenges of ensuring the consistency of data compiled across different loan portfolios, departments, and business lines in a financial institution. There was such interest in the qualitative failure rates that we decided to align our interests in helping financial institutions gain our learning curve related to projects such as these in advance of the reporting curve.*

Today's banks are flooded with existing loan data across multiple platforms. Departments with their own data sets can range from commercial loan servicing, commercial loan origination, retail loan servicing, retail loan origination, commercial deposit servicing, and retail deposit servicing. In addition, there are often geographical and origination breakdowns of data within those groups, which add even more variables to the equation.

Compounding the situation is the challenge of dealing with data from acquired institutions. For example, South Brooklyn Bank, which was formed in 1857, became Independence Savings in 1975. In 1992, Independence Savings acquired Long Island City Savings & Loan, and in 1996, acquired Ridge Federal Savings, and in 2004, acquired Staten Island Bank & Trust. In 2006, Independence Savings Bank was then acquired by Sovereign Bank, and in 2008, Banco Santander acquired Sovereign Bank. Imagine the amount and diversity of data that has been housed within legacy systems without transitioning to a host system. Further, certain core data are often housed only in physical loan files (not electronically), making interfacing between the systems impossible

to capture. The multifamily portfolio of Banco Santander alone was 8,800 loans which required approximately 75 data points each to be input into the risk management system – that's 660,000 data points which had to be gathered and which Quality Control had to check twice.

Banks and other financial institutions hold so much data from investment properties that to define, gather and organize all the associated data so that it is accessible for future use can seem next to impossible. The proverbial 'finding a needle in a haystack' metaphor falls short of the challenge confronting banks today. Given the amount of data to sort through, however, the project is more like extricating a certain type of grain from many different silos at the same time—with a straw!

Finding disparate grains in multiple silos is precisely what clients ask Situs to do, as they focus on the various stress tests that must be passed in accordance with the Federal Reserve's requirements. It is challenging work, but the Situs team has created a process with best practices and superior technology to efficiently capture and identify data. Once the data are captured and identified, Situs then makes sure the data elements are validated, recalculated, updated, and integrated into a risk management system. Next, Situs reviews the data and conducts a multi-variable loan stratification analysis to advise clients on risks inherent in the loan portfolios and how each particular risk can be mitigated.

Pulling loan servicing, origination and risk data across multiple loan portfolios, business lines and geographies onto a single host system with full redundancy may seem excessive. But the Comprehensive Capital Analysis and Review (CCAR) requirements state that banks need to pull core data into a limited number of host systems that provide a reasonable interface and can readily provide data to meet customer, financial, and *Regulatory Reporting Requirements*. Per recent headlines, any CCAR or Dodd Frank Act Stress Testing (DFAST) data deficiencies detected by regulators can result in Federal Reserve publicly rejecting capital plans, issuing Matters Requiring Immediate Attention (MRIAs)



or Matters Requiring Attention (MRAs), and eventually, levying fines on banks which have assets totaling more than \$10 billion.

Part of the challenge is the Federal Reserve Bank requesting information that, in many cases, is not currently captured in any bank system, or possibly has been overwritten with subsequent information. Loan origination data, for instance, captures the borrower's credit score. This credit score is updated every quarter and kept for a rolling 8-quarter basis on the bank's core banking system. After 8 quarters, the loan origination credit score will be overwritten and lost from the core banking system. The Federal Reserve now requires the original credit score to be maintained on the core banking system for the life of the loan, forcing some banks to secure the original credit memo located in the original loan documents and to obtain this score. These data gaps need to be identified, protocols need to be established, and systems need to be upgraded to provide a location for the required data on an ongoing basis.

Additionally, the Federal Reserve wants CCAR- and DFAST-approved banks to demonstrate the use of robust data in capital planning. To accomplish this requirement, banks will need to focus on aggregating data within a limited number of host systems, such as a single servicing system, a single loan origination and data warehouse system, or a single deposit management system. Once proper data repositories are determined, the historical and on-going data elements to be collected must be identified.

While most loans have between 120 to 250 core data elements that can be collected, there are numerous additional data elements that can be derived from the core data elements. Thankfully, the Federal Reserve has whittled down their requirements for their monthly filing Y-14 M, for example, to 138 elements.

Once the core data elements to be collected are determined, the data must be collected historically (at origination and for the previous 9 quarters) and protocols must be established to collect the required elements at origination and throughout the life of the loan. This can involve the scanning of hundreds of thousands of loan files and massive data aggregation projects. These projects can be almost unlimited in scope, be conducted in various phases, and can involve multiple certifications and/or validations.

*“...most of the loan originations information is not in data warehouses because it was over-written years ago with current data at the time,” explained Ed Robertson, co-head of the Situs Financial Institutions Group in an April 10, 2015 interview for a risk intelligence article for the Global Association of Risk Professional (GARP).”*

[http://www.garp.org/#/risk\\_intelligence\\_detail/a1Z40000002vbHFEAY](http://www.garp.org/#/risk_intelligence_detail/a1Z40000002vbHFEAY)

So whether it is data aggregation on performing commercial real estate loans in a large investment bank, data validation on residential loans for a government-sponsored entity (GSE), or imaging, indexing, document management, and data aggregation on thousands of performing and non-performing loans at a super-regional bank, the Situs Financial Institutional Group is here to serve you. Our speed, efficiency, and quality data services which comply with all regulatory mandates are second-to-none.

For more information about Situs' FIG capabilities, please contact **Ed Robertson** at 206-696-6261 or [ed.robertson@situs.com](mailto:ed.robertson@situs.com), or **Charles Rierison** at 404-920-7247 or [charles.rierson@situs.com](mailto:charles.rierson@situs.com), or visit us at <http://www.situs.com/services/financial-institutions-group-services>.

## Situs' CCAR Reporting 99.998% Accurate

As the premier third-party real estate advisory firm supporting the financial markets, the Situs Financial Institutions Group (FIG) has been designing data integrity programs focused on helping banks comply with the Federal Reserve's **Comprehensive Capital Analysis and Review (CCAR)** reporting requirements. These programs have substantially reduced, or in some cases, have eliminated, the Federal Reserve's edit checks for banks.

Along with the data integrity programs, Situs also provides a highly skilled team of qualified and experienced data experts and credit underwriters, who assist in the design of data integrity programs and the uploading of data to be used for a bank's CCAR reporting and stress testing. We also extract and validate key data elements from agreed-upon sources within physical or imaged loan files, after identifying the key data elements to reduce/eliminate Federal Reserve edit checks.

As such, Situs is now the market leader in providing data aggregation services to banks and other financial institutions for CCAR. To date, Situs has validated and populated nearly 10 million data points accounting for \$75 billion in outstanding principal across 441,000 loan files. Most significantly, this was done with an accuracy rate of 99.998 percent in 2014, the last year that data was available.

See <http://www.situs.com/services/financial-institutions-group-services> for more information about Situs' CCAR capabilities.