

Credit Portfolio Management

Sea Harvest, Inc. *Fictional Case*

Background:

Sea Harvest, Inc. (SHI) is a processor and distributor of seafood products. Founded in 1993, the company was a deep sea fishing concern that developed a facility to process fish and seafood. By 2006, the company was well known in the field of freezing fresh seafood products. SHI now produces over 50 different fish products.

The company's management has been aggressive in the past by speculating on fish prices. These activities have impacted profits over the years. Consumers are not receptive to price increases on fish products and will reduce their demand if prices increase greatly during the year. Due to these factors, the company has occasionally had an oversupply of product with no ability to increase prices.

SHI has recently started a cost cutting program to improve the bottom line.

Key Facts:

- The Loan Officer (LO) was a senior lender with the Bank and had individual loan authority to approve any credit request up to \$7MM. LO had been the Bank's highest producer of new loans for the past 3 years.
- The standard process for the Bank was financial statements would be spread by the Credit Analysis Department for any borrower over \$1MM in total credit exposure. LO had ignored the requests from Credit Analysis for the updated financial statements on the borrower. The last year a statement spread was completed by Credit Analysis was year 0001.
- SHI has never had a late interest payment and always submits annual financial statements in a timely manner.
- LO had been soliciting SHI founder's investment and personal accounts which were held by a competitor bank.
- SHI Founder's personal guarantee of the company's debt had been dropped by LO as part of the credit approval in year 0001 due to competitive pressures from a competitor bank. LO justified removal of the personal guarantee based upon the profitability of SHI that year (0001).

- The Bank's Credit Review Department had experienced significant turnover during the past two years and the examination schedule for department had been reset and restarted each year when a new leader was named. SHI had never been included in any of Credit Review's samples to test the accuracy of the LO's assigned risk rating.
- It was generally known that LO was not receptive to any questions from Credit Review on the risk ratings.
- The Credit Policy Officer supporting the lending function was new to the bank. The Credit Policy Officer had plans to meet with LO during the next quarter or so.
- LO, much to the surprise of The Bank's leadership, abruptly moved to a smaller competitor on 7/1 to assume the role of Chief Lending Officer.
- LO's portfolio was left basically unattended for 90 days as leadership conducted a search for a replacement. The only actions taken on the portfolio during this period were for Credit Analysis to complete line renewals upon any expirations.
- Approximately 25% of all credits reviewed by Credit Analysis received a downgrade in risk rating during these specific renewals.
- Given the downgrades noted, on 10/1 Credit Review was ask to pull LO's entire portfolio and review the loan files for completeness and risk rating accuracy.
- Bank Examiners will begin a planned review of the bank effective 12/1.
- When Credit Review reviewed SHI, the desk file contained the unsigned financial statements for years 0002 and 0003, but they had not been spread or analyzed. Approval memos for the line renewals for years 0002 and 0003 had no reference to the financial statements. Credit Review noted there were two short memos to Loan Operations from LO stating the line had been renewed for another year and the loan system should be updated accordingly.