



▶ CASE STUDY

OLD POINT
NATIONAL BANK



BLENDING TRADITION
WITH TECHNOLOGY TO
MANAGE CREDIT RISK

Nestled along the Chesapeake Bay with its natural deep water harbor and beautiful shoreline views, Hampton is one of the oldest cities in the United States, established in 1610. Rich in history, Hampton offers residents a small-town feel, yet is one of the fastest growing cities in the region. It has been recognized as one of the “Best Places to Live” by *Money Magazine*, as well as one of the “100 Best Communities for Young People” in a national competition held by America’s Promise.

Hampton is also the headquarters for Old Point Financial Corporation, an \$836 million holding company. One of its two key subsidiaries, Old Point National Bank, was founded in 1922 and operates as a true community bank. The bank is an integral part of the fabric of this robust community and the surrounding regions, providing a broad range of banking and trust services to customers in Hampton, Newport News, Williamsburg/James City County, York County, Isle of Wight County, Norfolk, Virginia Beach and Chesapeake through its 20 branches and two trust offices.

Customer relationships with the bank are strong, with some enduring generation upon generation. There is also a strong military contingent, a significant component of the bank’s customer base. Despite being surrounded by the megabanks, Old Point offers customers a welcome sense of tradition, consistency and stability delivered with a personal touch in an otherwise volatile financial environment.

NEW RISKS REQUIRE new technology

Despite the idyllic setting, Old Point—like many community banks throughout the U.S.—still faces challenges that must be continually addressed: increased competition, tighter regulations, the economy and maintaining their independence. Also at the top of the list is ensuring they effectively manage risk as the bank grows and expands.

Sharon Davidson is Senior Vice President/Senior Loan Review Officer with Old Point and one of the bank’s leaders responsible for managing and controlling credit risk for the institution. It wasn’t too long after her arrival at the bank in 2003 when Davidson recognized that Old Point’s tedious manual processes were a serious impediment to effectively managing credit risk.

“I came from a bank where the credit risk management function was automated. All of a sudden, having to revert back to doing everything manually was onerous,” Davidson said. “Just the sampling would take days. I dreaded having to fill in the sheet with the loan number, the loan amount, the grade for each and every related borrower and all the other information. There was no way other than to literally type it.

Plus, the data had to be retrieved from another management information system within the organization which was not user friendly. It was very time consuming to gather the necessary data together.”

Bryan Landrum, VP and Loan Review Officer added, “We built the information for the reviews manually in a Word document, in line item format where we had to populate it by adding the names, addresses, loan amounts, and so on. And if we wanted to have attachments, we had to create separate spreadsheets. As a result, the reviews were not as consistent as we would have liked and it was difficult to really get an accurate picture about the portfolio,” he said.

EXECUTIVE SUMMARY

BANK: Old Point National Bank

LOCATION: Hampton, Virginia

ASSET SIZE: \$836 million

GEOGRAPHIC FOOTPRINT: Hampton, Newport News, Williamsburg/James City County, Norfolk, Isle of Wight County, York County, Virginia Beach and Chesapeake areas

DiCom APPLICATIONS:

LRS Enterprise, Portfolio Analysis

KEY CHALLENGES:

Manual processes were extremely inefficient and weren’t providing consistent, accurate information about the portfolio

RESULTS:

- Increased penetration from 52% to 67% in one year
- Increased number of reviews per year from 18-22
- Reduced scoping time from 1 day to 30 minutes or less
- Reduced review prep time (assemblage of reports, statistics, graphs, work paper review, etc.) from 3 to 4 days to 1 day
- Maximized time available for credit risk management

CLIENT COMMENT:

“As an officer of the bank with responsibility for managing credit risk, at the end of the day, what you really want is the ability to speak confidently about what’s in your portfolio. That is what DiCom has done for us.”

SHARON DAVIDSON

Senior Vice President/Senior Loan Review Officer
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Once Davidson assumed the position of Senior Loan Review Officer, one of the first things she did was speak to the bank's chairman about automating these processes. "I emphasized how important technology was to becoming more effective in managing risk across our portfolios. The bank wanted to grow and I knew that as a result, we would be taking on risks that were somewhat new to us. We would therefore need greater depth in our analysis capabilities in order to get the results and the degree of control that we expected, particularly since we wanted to conduct risk-based reviews," Davidson explained. "We simply couldn't do these things manually anymore."

With Davidson at the helm of the search for an automated solution, the team began its due diligence efforts and soon identified DiCom's Credit Quality Solution (CQS), as a candidate for consideration.

"DiCom was very matter-of-fact about the quality and sophistication of their products and had tremendous confidence in its capabilities. That impressed me. Once I was able to compare DiCom CQS with the other systems we reviewed, it was clear that DiCom was light years ahead of the competition."

The first product that Old Point implemented was DiCom's LRS Enterprise application, one of the company's three flagship offerings. LRS is a comprehensive credit review solution enabling analysts to gain control over all facets of their portfolio in order to improve coverage and conduct higher quality reviews.

According to Davidson, the implementation went very smoothly. "We have a great IT team here at the bank and DiCom was on site with us. The most time consuming part was the data mapping. DiCom's software has certain fields that we needed to map back to the fields in our core application, and once that was done, it was a smooth process. DiCom met with our IT group, then conducted three days of onsite classes for us. It was a very open, relaxed collaborative, time," she said.

Learning how to use LRS was relatively simple according to Faith Jones, VP /Loan Review Officer at Old Point, a 25-year veteran with the bank. "I've only been in the Loan Review Department for about a year, but when I first came to this department, I simply spent about a day, just observing the loan review officer and taking good notes. I then came in, sat down and just familiarized myself with the software. The hands-on training has been wonderful. With each review I do, I learn more and more about the software's capabilities and the benefits it can offer the bank. I like the way it interfaces with our core application and pretty much just populates everything you want," Jones said.



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MORE TIME for analysis

With LRS now a key tool in Old Point's credit risk management arsenal, the loan review team has traded in its former manual processes—Word documents, spreadsheets and endless hours of data input—for significantly more time to conduct analysis functions, rather than drowning in administrative tasks.

"Today, I have my portfolio right at my fingertips," Davidson said. If, for example, I wanted to know all the delinquent loans with a particular officer at any point in time, within five minutes I would have that information. If I wanted to know what my real estate concentration is across various units of the bank, it is right at my fingertips. We could get that information before DiCom, but the amount of time and effort it would take wasn't working. Now it's right there at my desktop."

Jones, who is often responsible for generating management reports, likes DiCom's automatic report-generating strengths. "I can give management exactly what they want. I can tailor the report so that they understand it without having to go through all the jargon and decipher what each code means," she explained.

Davidson agrees, recalling a situation where the Chairman of the bank asked for a particular report and when she turned it around the next day, he was surprised, saying he wasn't expecting it that soon.

“I told him with DiCom, it’s really not that hard. Before DiCom, to generate that same report, I would have had to drop everything else I was doing. From the Chairman down to other senior level executives, we are frequently asked whether we can get certain information about a slice of the portfolio and I often reply yes, DiCom can do that,” Davidson explained.

Old Point is also deploying LRS for analysis of the retail portfolio in addition to analysis of the commercial portfolio. “The branch officers are getting information they never really had before. We can look at a portfolio branch by branch, officer by officer, by loan type, collateral type, whatever they want to see. The entire organization is benefiting from our decision to automate with DiCom.”

Davidson and her team have also noticed some benefits in working with the examiners. “After we had done a number of reviews, the regulators were very complimentary, particularly about the thoroughness of our reviews. It seemed that the time they spent onsite was becoming less and less, because they were increasingly relying on our work. I believe using DiCom helped us make their job easier,” she said.

Most recently, Old Point implemented DiCom’s Portfolio Analysis solution, an automated tool for zeroing in on user-defined concentrations within the loan portfolio to evaluate potential areas of risk. “We are looking forward to giving our Credit Administration department the ability to customize and search on key fields that are meaningful to our organization so that

we can slice and dice the portfolio and take a look at risk, based on our own bank-defined risk pool criteria,” Davidson said.

SHARING BEST PRACTICES with banking peers

Earlier this year, Davidson attended her second DiCom user group conference. “One of the best things about the annual meeting is talking with the other DiCom users. Nine times out of 10, someone may be struggling with the same issue that I am struggling with, so if you ask for help, everyone is willing to help you. When I started this process to implement DiCom, I needed to come up with some procedures, some steps for my folks to follow. A banker I met at the conference emailed me her procedures as soon as she got home. I was so grateful that she did that for me. While I don’t know all the DiCom clients yet, all I have to say is that I am a DiCom user and I need your help and I know I will get support from anyone among the user base. There is a camaraderie among the group.”

She continued, “It also became obvious to me that DiCom really listens to us and they are very anxious to give us the tools we need to get our job done well. They take our feedback, they really do listen and they try to incorporate our wish list into the software. They take what we say seriously and I really appreciate that,” Davidson said.

“As an officer of the bank with responsibility for managing credit risk, at the end of the day, what you really want is the ability to speak confidently about what’s in your portfolio. That is what DiCom has done for us,” Davidson concluded.



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