

THE



INSIDE

2021 | ISSUE 1

OakNorth's
Credit Intelligence
magazine for
Commercial
Banking Leaders

Old National:
The Data-Driven
Future of the
Community Bank

REGULATORY OUTLOOK

Pandemics, Climate
Change, Recessions—
Oh My!

INNOVATE FAST

Effective Digital
Transformation in
Commercial Lending





What do these top banks
have in common?



OakNorth

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INSIDE THE ONSIDE

RISHI KHOSLA



IN 2005, MY BUSINESS PARTNER, JOEL Perlman, and I were looking for a working capital facility to support our growing business, Copal Partners, a financial research firm we'd founded three years previously. We approached numerous banks and kept getting variations of the same response – “the computer says no.”

Despite being a profitable business with strong cash flow and retained clients, none of the commercial banks were willing to lend to us. It was too small a ticket to offset the costs the bank would incur in doing a fundamental assessment of our business and structuring a finance facility for our needs.

“ The role of the ONside is to celebrate change-makers and innovators who are leading the charge from within their organizations...”

A few months later through one of our institutional client's special situations desk, we managed to secure 100x the amount of debt for a dividend recap. An institutional division of a bank was able to support us, but the commercial lending part of the bank was not.

THIS EXPERIENCE STUCK WITH US.

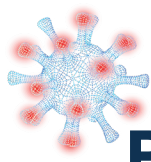
After we'd scaled Copal Partners to a 3,000-employee business, Moody's Corporation acquired it in 2014, and we set out to address the funding gap we had experienced first-hand.

We refer to this gap as the 'Missing Middle' - businesses that are the most significant contributors to economic and employment growth, yet still struggle to access fast, flexible debt finance.

Over the past 18 months, we have been privileged to work with some of the most tech-forward and innovative banks that have played a heroic role in supporting the Missing Middle through the pandemic.

The role of the ONside is to celebrate these change-makers and innovators who are leading the charge from within their organizations, share best practices, and help commercial lenders and community bankers address the challenges of the future.

We hope you enjoy our new magazine and thank you for encouraging us to launch it. Please send any feedback to ONside@oaknorth.com



Pandemics, Climate Change, Recessions —Oh My!



UNLIKE COVID-19, CLIMATE CHANGE isn't something we can develop a vaccine for – and is here to stay. The pandemic and the ensuing economic crisis have sharpened regulators' determination to do what they can to avert global threats, and build resilience to mitigate their effects. Banks need to be thinking about how they'll analyze climate-related risks and opportunities at a portfolio level.

OakNorth hosted a webinar to discuss this topic with three ex-regulators: Mark Levonian, former Senior Deputy Comptroller of Economics at the OCC, Bruce Richards, former Senior Vice President and Head of Supervision for Complex Financial Institutions at the Federal Reserve Bank of New York, and Jeremiah Norton, former U.S. Treasury Department and Board Member at the FDIC.

CLIMATE CHANGE RISK IS TOP OF THE REGULATORY AGENDA

From the outset, the Biden administration made it clear that climate change would be high on its global and national agenda. In November last year, only a couple of weeks after he became President-elect, Biden appointed the first ever "climate envoy," John Kerry. In May, Biden issued an executive order for the Financial Stability Oversight Council (FSOC) to issue recommendations on how agencies can incorporate climate risk into regulatory and supervisory practices, and in June, he met with U.S. regulators to get an update on the country's regulatory priorities which included climate-related financial risk. We've seen similar prioritization at the regulatory agencies – the Fed has created a Supervision Climate Committee and a Financial Stability Climate Committee.

BANKS FACE SEVERAL CHALLENGES WHEN IT COMES TO CLIMATE CHANGE RISK

DATA: There is a scarcity of relevant, granular, forward-looking data. Existing data are often disparate, making it virtually impossible to work with or garner insights from.

PREDICTING FUTURE RISKS: Climate risks are unpredictable and uncertain, so using historical data to estimate future risks is an approach that's not fit for purpose.

EXPERTISE: There is a lack of understanding and expertise on translating and quantifying climate risk across the banking sector.

VERY LONG-TERM HORIZONS: Physical climate risks are expected to materialize over a lengthy horizon – i.e. the next 20-30 years – whereas traditional bank strategic planning horizons are 3-5 years and transitional climate risks materialize in shorter time horizons.

PROPORTIONALITY: There is uncertainty about the appropriate governance structures required for different sized firms, and the level of detail needed to meet disclosure standards effectively.

WHAT CAN BE DONE TO ADDRESS THESE RISKS?

GET YOUR DATA ORGANIZED AND IDENTIFY, MEASURE AND MANAGE RISK: Climate risk must be fully integrated into banks' risk management frameworks, from setting risk appetite, through to risk identification and risk mitigation.

GET ON TOP OF GOVERNANCE: Banks should have a clear escalation and decision-making framework for climate risks, including someone at the Board-level who has responsibility for this.

SIGN ON TO SCENARIO ANALYSIS: Banks need to consider a broad range of granular, forward-looking scenarios to assess how to meet their risk management objectives and wider climate change targets to cover for both physical and transitional risk.

GET DOWN WITH DISCLOSURES: To mitigate the liability risk which may arise due to failures in disclosure, banks need to be able to provide current data on their material exposures to climate change and manage their credit risk.



[Download our Climate Change Risk Framework Information Sheet](#)



The Data-driven Future of the Community Bank



OLD NATIONAL BANK WAS FOUNDED IN EVANSVILLE INDIANA IN 1834, yet despite its age and name, there's nothing "old" about the way it does business. Over the decades, the bank has continued to evolve and adapt, investing in and embracing new technologies to ensure it can continue delivering an exceptional experience for its customers. With \$23.7 billion in assets, it is the largest bank in Indiana and ranks among the top 100 banks in the U.S.

In June, it announced plans to merge with First Midwest (*the transaction is expected to close in late 2021 or early 2022¹*) - an impressive feat given the challenges presented by COVID-19 over the last 15 months. However, Old National's 187-year history means it was around when the world experienced its last pandemic - the Spanish Influenza of 1918. In fact, we came across news archives from

that year, detailing how Old National offered its office building to the Red Cross, creating a space where dozens of women could help sew flu masks to keep the public protected. It is this unwavering commitment to community and strong focus on corporate social responsibility, that has helped Old National stand the test of time, and be named as one of the World's Most Ethical Companies for the last decade².

As COVID-19 reached U.S. shores early last year, Old National once again stepped up to support its customers and the community. We sat down with Daryl D. Moore, Senior Executive Vice President and Chief Credit



Source: Spokesman-Review Archives

¹Subject to customary closing conditions, including regulatory and shareholder approvals.

²Source: company release



Executive at Old National, to hear about its experience and key learnings from the last 15 months. An Old National veteran, Moore has been with the bank for 42 years, being named as its Chief Credit Officer in 1995. He has experienced his fair share of peaks and troughs in the economic cycle, but noted how this time was very different: “This is my sixth recession and this one is as different as any I’ve ever seen, and in the future, there’ll likely be other recessions which are very different to anything else we’ve seen.”

LESSON 1 WE CANNOT RELY ON PREVIOUS WAYS OF ASSESSING RISK

Moore explained how when the pandemic hit, Old National knew it needed to determine where the highest risk was in its commercial loan portfolio and how to address it. It soon became clear however, that its existing processes were too manual. As the team at Old National began to speak to our team here at OakNorth, they realized that if they had the ON Credit Intelligence Suite in place before the pandemic struck, they could have been more strategic in addressing the risk in their portfolio. Instead of manually going through the loan book from largest exposure to the smallest and spending a lot of time on credits that did not end up presenting a lot of immediate risk, they could have started with the riskiest and moved through those. Moore noted: “When we looked at OakNorth, we realized that we had found a solution that will help us manage risk more easily and efficiently during the next downturn.”

By leveraging ON Credit Analysis, Old National is able to make decisions faster, conducting consistent analysis across new credits, running periodic reviews of existing cases, and executing detailed re-underwrites.

“ When we looked at OakNorth, we realized that we had found a solution that will help us manage risk more easily and efficiently during the next downturn.”



DARYL MOORE
CHIEF CREDIT EXECUTIVE
AND SENIOR EVP,
OLD NATIONAL BANK

Continued...

LESSON
2 WHEN IT COMES TO DATA, DON'T DELAY

Old National has a very strong credit culture at the individual credit level, but saw with the advent of COVID, that there was more it could be doing to look at risk across its portfolio and that it needed to get its data organized. COVID was the catalyst the bank needed to do this. Moore explained: “The events of 2020 have shown the benefits of our conservative approach to underwriting, but also highlighted areas where we should continue to make investment to improve our credit analysis and monitoring. Working with OakNorth will enable us to better analyze and stress test our portfolio at speed in a consistent, objective fashion.”

Through analyzing each borrower’s data within its industry and geography, and monitoring it alongside peers using a bottom-up approach, the ON Credit Intelligence Suite is empowering Old National to conduct borrower-level stress testing, get a granular view of credit and vulnerability across its portfolios, and access relevant bank, borrower and third-party data in one place.

“Managing clients who are having problems is absolutely critical...if you are able to support a client through a difficult time, it can build a lot of loyalty... in the future.

DARYL MOORE
CHIEF CREDIT EXECUTIVE AND SENIOR EVP, OLD NATIONAL BANK

LESSON
3 SUPPORT CUSTOMERS THROUGH TOUGH TIMES, THEY WILL BE LOYAL FOR LIFE

Moore explained how the best banks are consultative banks – if a lender is able to identify potential challenges in the portfolio well in advance, it can take steps to rectify it with the borrower before a potential credit issue arises. This not only creates a better outcome for the bank, but also the borrower. Moore noted: “Managing clients who are having problems is absolutely critical. In economic downturns, it’s very important to understand the risk of a particular client. If you are able to support a client through a difficult time, it can build a lot of loyalty with that client in the future.”

ON Portfolio Insights generates a forward-looking view, inclusive of sub-ratings on liquidity, debt capacity and business profitability, using models that are highly specific to the sector and geography of the borrower. By leveraging it, Old National is able to obtain a granular view of credit and vulnerability across its loan book. Through the continuous monitoring of active credits, its Relationship Managers are able to turn monitoring into a real-time process, build deeper and more meaningful relationships with clients, and spend more time originating new deals.



Click here to learn more from Old National’s Chief Credit Executive



START LOOKING FORWARD

Forward-looking views are critical to understand potential risks before the next downturn or market disruption



GET YOUR DATA TOGETHER

Unify disparate data to effectively manage and risk rank your commercial lending portfolio



SUPPORT YOUR CLIENTS

Continuous monitoring of active credits allows you to better understand, support and retain valued clients

INNOVATE FAST



From spaghetti to lasagna: effective digital transformation in commercial lending



SPAGHETTI.

A staple food in Italian cuisine and the word used to describe a bank's entangled legacy tech stack. Spaghetti systems are the result of decades of bank mergers and acquisitions; they are costly and time consuming to manage, and often have proprietary interfaces which turn what should be fairly simple integrations, into multi-year projects. They are historically what have held many banks back from being able to innovate effectively or move quickly.

COVID-19 and the subsequent government interventions, however, are changing this. The existential threat to businesses and the need to deploy emergency capital at speed, forced banks to cut red tape and experiment with new technologies and fintech solutions. Many are now seeking to carry this momentum into the post-COVID world and catalyze digital transformation projects that seemed destined to fail or move at a snail's pace. They are deploying innovative technologies that can integrate and layer into existing systems like a neat lasagna, and this is where OakNorth comes in.

Continued...



LASAGNA.

“ Banks’ ability to move quickly and get emergency capital into the hands of individuals and businesses who need it, has made them heroes in this crisis.

Many of the banks we’re working with have already begun detangling the spaghetti and layering the lasagna, changing from a fully manual process to using a customer relationship management (CRM) or loan origination system (LOS). Our software, the ON Credit Intelligence Suite, is building on these initial investments in digitization, helping banks increase the ROI on these projects and deliver on their initial promise. On top of the process efficiencies gained from this type of digital transformation, OakNorth delivers the insights needed to truly differentiate when it comes to commercial lending. As a cloud-based solution, it can be easily layered onto, or integrated into, a bank’s existing tech stack and doesn’t require a long resource-intensive IT project to deliver results.

This has been demonstrated through our partnership with Customers Bank (NYSE:CUBI), a fintech-forward community bank, which was able to get our software up and running within 72 hours from our first conversation. Customers is leveraging the ON Credit Intelligence Suite to enhance its portfolio management capabilities with new market

insights, further strengthening its customer engagement and credit quality while helping to speed up its underwriting and loan processes.

These time frames aren’t just reserved for the community banks however – a few months after deploying with Customers Bank, we stood up the ON Credit Intelligence Suite with PNC (NYSE: PNC) in just a few days. PNC wanted to gain more insights into the credit risk across its loan portfolios - we had our first conversation on a Thursday, met with key decision makers on Saturday, and by the following Wednesday, we had deployed the system.

Business owners don’t want to spend their time dealing with a bank, they want to focus on growing their business. Having to wait months for an answer (even if it’s a ‘no’) creates a high opportunity cost for the business and undermines the strength of the relationship. Banks’ ability to move quickly will therefore provide them with a competitive advantage and the ability to create a better experience for borrowers. OakNorth is the innovative technology partner that can be seamlessly integrated to help them achieve this.

72
HOURS



When Customers Bank turned to OakNorth for support in providing loans, we were able to get the system up and running within **72 HOURS** from our first conversation.



Our UK Proving Ground

10 24%

CUMULATIVE
DEFAULTS SINCE
INCEPTION

EFFICIENCY
RATIO

29% \$8B

RORE

TOTAL LENDING
SINCE 2015
LAUNCH

30 54%

DEALS/RM VS.
5-8 AT OTHER UK
BANKS

LTV

82 1.9x

NET PROMOTER
SCORE VS. 42
FOR UK BANKS

NET LEVERAGE

▶ Read more about how OakNorth Bank transformed lending to the 'Missing Middle' using ON Credit Intelligence today

Innovative banks using the ON Credit Intelligence Suite include:



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