



Mike Stevens, Senior Vice President of Corporate Credit Risk

BB&T manages risk concentration with SAS®

Managing concentration means making the connection, seeing the correlations

Industry

Financial Services

Business Issue

Finding risk management software that would provide cutting-edge innovation and rapid access to information – all from a flexible, analytical tool framework.

Solution

SAS® Credit Risk Management for Banking

Benefits

With SAS, BB&T can now correlate interdependencies within the portfolio to manage concentrations, which helps reduce the bank's risk and ensure an adequate return on capital.

BB&T is using SAS to enhance its portfolio and predictive modeling capabilities as the company seeks to improve risk-adjusted returns, make more efficient use of the bank's capital and continue to generate superior long-term economic rewards for its shareholders.

With more than \$152 billion in assets, BB&T is the nation's eleventh-largest financial holding company. BB&T offers full-service commercial and retail banking, and other financial services at more than 1,500 financial centers throughout the Southeastern and Mid-Atlantic states.

According to Mike Stevens, Senior Vice President of Corporate Credit Risk, customers turn to BB&T for value. "We don't try to be the lowest-priced bank," he said. "We try to bring the highest value to our customers. So, our products are designed to deliver value at a fair price."

Being the bank with the most value for the price produces some challenges. Stevens said that the challenges that banks face are always the same. Even though one challenge may be more top-of-mind today than it was yesterday, "you can't take your eye off of any one."

"At BB&T, we have three major challenges," Stevens said. "One is accelerating growth. The second is controlling costs and the third is managing risk. The amount of emphasis that we put on each of those can vary from year to year. Right now, clearly, we're very focused on managing risk."

Top-of-mind

In light of current markets, managing risk is a big priority. Managing risk primarily means managing risk concentration - taking into account the risk at both the transaction level and the portfolio level. According to Stevens, managing concentration means keeping the institution's assets diversified, thereby ensuring flexibility and reducing risk.

Stevens says managing risk also means considering compliance issues. He predicts regulatory compliance pressures will continue to increase. "Anti-Money Laundering; Know Your Customer; USA Patriot Act ... I don't think regulations like those are going to go away," he said. "In fact, we anticipate a whole new wave of regulation as a result of what's happened in the mortgage lending markets. SAS' solutions are helping us deal with regulatory requirements."



BB&T uses SAS to manage specific risk-related issues:

- Loan defaults
- Fraud
- Know the customer.
- Regulation compliance
- Transaction concentration that puts the portfolio at risk.

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Mike Stevens

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And according to Stevens, understanding risk at the portfolio level is essential to understanding whether BB&T is earning an adequate return on the capital it deploys.

How does BB&T get answers?

Data is at the heart of managing risk, so SAS’ first task was to standardize BB&T’s data across all lines of business. Standardized data would allow the institution to report in a consistent, meaningful way at the transactional and portfolio level across the enterprise.

“We’re using SAS to aggregate our data and integrate it across all of our lending lines,” Stevens said. “That’s 14 or 15 lines of business, which make up a large portfolio. The second thing we’re using SAS for is to analyze that data.”

Once standardized, the data yields a richer analysis at the portfolio level. “We’re doing analyses of the ways different parts of the portfolio move differently or the same,” Stevens said. “SAS allows you to identify correlations between two separate parts of the portfolio – for instance, auto loans and home equity. Understanding those interdependencies within a portfolio is critical to managing concentrations.”

According to Stevens, BB&T also uses SAS to understand loan level risk. For example, how does being in Florida rather than North Carolina affect loan risk? Or how does having a high loan-to-value ratio over a low loan-to-value ratio or a high credit score versus a low credit score affect loan risk?

“All of those things could be evaluated very simply with a pivot table,” Stevens said. “What we can’t do with a pivot table is understand how the different combinations of all three factors – geography, loan-to-value and credit score – interact to affect the risk of an individual loan. That multi-variate analysis of the data is something that we can’t do without SAS.”

Value for the price

BB&T places a high premium on providing value to its customers for a fair price. It’s logical that those same standards are applied when BB&T evaluates and purchases a product. According to Stevens, getting a return on investment is important, and being able to accomplish the task at all is a necessary first step in getting a positive return.

Before BB&T decided to select SAS, the bank looked at the major vendors of risk

management software, and according to Stevens, SAS was chosen because of the flexibility it afforded. They also wanted cutting-edge innovation. “We looked at SAS as a toolkit rather than a defined model to which we had to conform,” Stevens said. “We like the ability to use the tools to build something that’s appropriate for our specific circumstances.”

“We’re doing things today that we couldn’t do without SAS software. We know that the things we’re doing with SAS software are important; they’re critical,” he added.

The Financial Risk Group, a SAS partner with extensive financial industry expertise, is working closely with SAS to implement the solution and help BB&T deploy and utilize the technology assets more efficiently, thereby reducing time to market while ensuring data integrity.



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