



YOUR
CREDIT
TEAM



TGA

CREDIT RISK
CONTROLLED


t.gschwender
& associates, inc.

A Credit Risk
Management
Company



T. Gschwender & Associates, Inc. is a diversified consulting company that has been providing services to financial institutions and businesses since 1984. Our financial institutional clients include small community banks and credit unions with less than \$100 million in assets to much larger regional institutions with over \$5 billion in assets. Our business clients include small sole proprietorships to middle-market privately held corporations.

With over 25 years of experience assisting financial institutions and businesses, we understand challenges and pressures you face. Bank presidents, regulators, CPAs, appraisers, business advisors, and environmental experts are just a few of the professionals that you can immediately add to your team. Regardless of your credit related needs, chances are we have already “been there and done that.”

Call us. The financial industry is now facing its toughest challenges in decades and we have the people, processes, solutions and the expertise to help you with your outsourcing needs.

T. Gschwender & Associates, Inc. is best known for their loan review service. But we do more than just loan reviews. Credit analysis, field audits, TDRs, ALLL, equipment evaluations, appraisal reviews, business valuations, environmental remediation, and problem loan management are just a few of the services we provide. We have also assisted many clients meet all components of a regulatory enforcement action. We will meet with you, learn about your needs, and offer cost effective solutions backed up by a formal contract.

We will complete the engagement and discuss our recommendations and findings with you before finalizing any reports. We will make sure all pertinent information has been analyzed before making any conclusions. Our goal is to provide you honest, direct feedback that will help you strengthen your processes, not create more problems. You can rest assured that our communication lines will remain open before, during, and after the engagement. We are always accessible.

We value our relationships with our clients. They are based on trust and commitment. Find out how you can add us to your team. Contact us today.

FOR ALL YOUR CREDIT RELATED NEEDS

Pre-Funding Due Diligence	Loan Portfolio Management	Problem Loan Management	Other Services
<ul style="list-style-type: none"> ■ Underwriting Assistance ■ Field Audits ■ Appraisal Reviews ■ Environmental Due Diligence ■ Business Valuations ■ Equipment Valuations 	<ul style="list-style-type: none"> ■ Commercial Loan Reviews ■ Consumer Loan Reviews ■ Stress Testing ■ Allowance for Loan and Lease Losses (ALLL) ■ Floor Plan Audits ■ Borrowing Base Certificates 	<ul style="list-style-type: none"> ■ Manage Problem Loan Portfolio ■ Collateral Valuation & Liquidation ■ FAS 114 Impairment Analysis ■ Turnaround Experts ■ Environmental Remediation ■ Sale of Problem Loans 	<ul style="list-style-type: none"> ■ Develop Policies and Procedures ■ Assess Loan Department Effectiveness ■ Supplement In-House Personnel ■ Loan Portfolio Acquisition Due Diligence ■ Expert Witness Testimony ■ Regulatory Relations

SUPPLEMENT YOUR CREDIT TEAM WITH OUR INDUSTRY PROFESSIONALS

Pre-Funding Due Diligence

UNDERWRITING ASSISTANCE

Conducting good up-front credit analysis can save banks millions in losses. At TGA, we understand banks want to support businesses in their communities; however, at times we have seen banks pass on very good loans simply because they feel they don't have the expertise to adequately analyze the borrower. TGA can help!

We have certified public accountants, industry turnaround experts, senior loan officers, bank presidents, appraisers, environmental experts and former bank examiners that can assist you in thoroughly evaluating a loan before you make a commitment to lend.

When we analyze credits, we stick to the tried and true: the 5-C's of lending. We will thoroughly analyze borrower's capacity to repay the loan, capital, collateral, character, and environmental conditions. We can prepare the analysis using your loan presentation or we can give you the analysis on ours. We can handle the entire process ourselves or assist your analysts as needed.

Don't feel like you need to pass on a good loan because you don't have the in-house expertise to do the loan. Contact us to see how we can help.

FIELD AUDITS

When you take business assets as collateral, do you merely take the value of those assets of the financial statements? If you are, then you may be taking more of a credit risk than you think!

At TGA, we have certified public accountants (CPA) that will physically visit the business and validate the numbers being reported on their financial statements. A typical field audit scope can include:

- Review of accounting related internal controls;
- Review of related party transactions and unusual items;
- Test accuracy of accounts receivables and verify agreement to the general ledger;
- Physically observe inventory quantities and test inventory costs; and,
- Prepare report on payment of tax liabilities.

We will give you assurance on eligible accounts receivables, inventory, and equipment. Rather than just taking a figure of a financial statement, let us verify the accuracy of those numbers so you know you are well protected. Enhance your credit risk management process by including field audits as part of your due diligence!

APPRAISAL REVIEWS

Our appraisal reviews are conducted by highly qualified, licensed appraisers. We use a comprehensive 12 page checklist that thoroughly evaluates an appraisal. We will:

- Ensure appraisal complies with Uniform Standards of Professional Appraisal Practices (USPAP) as promulgated by the Appraisal Standards Board of Appraisal Foundation;
- Ensure appraisal meets Financial Institutions Reform, Recovery, & Enforcement Act of 1989, Title XI and FRB compliance requirements;
- Form an opinion of the reasonableness and thoroughness of the appraisal; and
- Provide an opinion as to the content and accuracy of the identified appraisal report.

Our normal turnaround time for the review is 48-72 hours. We can complete a review sooner if you need it for a scheduled closing. We have streamlined our process where appraisals can be faxed/emailed to us and we will email the review back to you...saving valuable time.

Contact us to see how TGA can implement this process at your bank and enhance your credit risk management system.

ENVIRONMENTAL DUE DILIGENCE

Environmental due diligence is a critical component of any property transaction where potential environmental risks are a concern. Minimize risks and protect yourself from liability! TGA will help you:

- Understand the broad framework of potential environmental liability imposed by state and federal regulations on parties involved in commercial real estate deals.
- Complete Transaction Screen, Phase I and Phase II environmental site assessments.
- Manage contaminated property transactions including, brownfield redevelopment projects.
- Stay on top of cutting edge issues such as environmental disclosure, institutional controls, financial and other cleanup incentives, sustainability, vapor intrusion, and more.
- Mitigate liability risks by creating an environmental risk management plan that considers environmental insurance, indemnification contracts, and compliance auditing.
- Anticipate cleanup requirements and associated costs, understand potential sources of cleanup funding, and understand legal issues related to cost recovery.

Contact us to see how we can assist!

BUSINESS VALUATIONS

If you are financing a loan that involves a purchase of another business, determining a fair market value of that business is generally considered one of the most important steps in the process. SBA recently mandated that loans greater than \$250,000 used to acquire a 100% controlling ownership interest in a business require an independent third party valuation of the acquiring business. TGA can help you meet this requirement.

Our evaluations are completed by:

- Certified Public Accountant (CPA)
- Certified Valuation Analyst (CVA)
- Accredited in Business Valuations (ABV)

EQUIPMENT VALUATIONS

The importance of clearly understanding equipment values has never been greater than in today's highly volatile market.

TGA provides equipment and machinery appraisals, inspections and inventory analysis in all areas of business, equipment, machinery and technical specialties. We take several factors into account when evaluating equipment, including manufacturer, make, model, year of manufacture, accessories, optional equipment, market demand, market availability, obsolescence, current economic conditions, and, of course, machine(s) condition.

Our work complies with IRS definitions and meets or exceeds the standards of the American Society of Appraisers (ASA), the oldest and only multi-disciplinary appraisal organization in the world, and the Uniform Standards of Professional Appraisal Practice (USPAP).

Loan Portfolio Management

COMMERCIAL LOAN REVIEW

T. Gschwender & Associates, Inc. (TGA) is best known for its loan review services. Our loan review personnel all have extensive banking and/or regulatory experience.

Our approach is risk based. We start by performing a comprehensive Credit Risk Assessment, looking at your key credit related ratios, red flags, regulatory reports, audits, and credit management reports. We assess your overall inherent credit risk, its direction, and how you manage this risk. This allows us to determine how much of your credit portfolio to review and which loans to review.

When we review a credit relationship we stick with the tried and true, using the 5-Cs of lending (capacity, collateral, capital, character and condition) as our guiding framework. Our proprietary computer loan review program that we developed over the past twenty-five years will present this information to you in an organized manner, while expediting our review process.

After 25 years, our loan reviews are still considered some of the best by regulators and auditors. Call us to see why!

CONSUMER LOAN REVIEW

Since our inception in 1984, TGA has performed credit quality reviews in consumer loan portfolios (residential mortgages, home equity, auto, and personal) for many financial institutions.

TGA uses statistical sampling calculators to determine a sufficient sample that can provide the bank either a 99% or 95% confidence level with a minimum confidence interval of 5% or less. This will give both the bank and the regulators an exact indication on how the results of the review can be applied to the whole portfolio. Our scope typically includes:

- Determination if loan was approved in accordance with Board approved policy;
- Analysis of number of loans meeting various bank specific (as well as industry) underwriting standards such as debt-to-income, loan to values, employment history, residency requirements; and,
- Review to ensure lien on collateral has been properly perfected.

In addition, we will give you input on the quality of your consumer loan policies and procedures to ensure they are in-line with industry standards. Call us to schedule a review!

STRESS TESTING

TGA normally conducts Stress Testing of individual borrowers in conjunction with the loan review. However, a separate review can be scheduled if desired.

We test each borrower to determine the impact an increase in interest rate can have on the borrower's Debt Service Coverage Ratio (DSCR). The level of increase in interest rates can be set by the bank. At conclusion, a summary report is provided to the bank on the number of borrowers tested that will have difficulty making payments at various interest rate increases. In addition, the bank is provided a separate Stress Testing worksheet on each borrower to file in the credit file. This is often used by the loan officers as a discussion point with a borrower to ensure the borrower has a strategy in place in case rates increase.

We use statistical sampling methodology to apply the results of our review to the entire portfolio. We have found that using statistical sampling is often less expensive and labor intensive than implementing expensive modeling programs which require input of DSCR on each borrower every year in the core loan operating system.

Call us to discuss how we can do this review in a cost effective manner for you!

ALL MODELING AND REVIEW

TGA reviews both allowance for loan and lease losses (ALLL) methodology, as well as give opinion on the reasonableness of the ALLL based on the bank's current level of credit risk and direction of that risk. We can do this in conjunction with a loan review or as a separate engagement. Our goal is ensure the model meets all regulatory and generally accepted accounting practices (GAAP) guidelines.

TGA also assists many banks prepare the ALLL calculation and/or sign-off on the ALLL as being reasonable on a quarterly basis. We have developed a very user friendly and easy to understand, yet comprehensive, ALLL model based on our extensive experience. We can help you implement this model at your institution or enhance your current model.

In determining the adequacy of the ALLL, TGA will review loan portfolio composition; concentrations; risk rating profile; delinquency, non-accrual and loss levels and trends; off balance sheet commitments; and current credit risk controls. We will also make sure FAS 114 impairments are being correctly determined, FAS 5 pools are adequately segregated, and qualitative loss factors are properly supported. In the end, the bank will have assurance their ALLL is adequate to absorb their losses and their procedures will pass regulatory scrutiny. Call us today!

FLOOR PLAN AUDITS

The scope of the audits will be coordinated between TGA and the bank. Floor plan checks/physical inventories will be conducted at least monthly and on a random surprise basis. More frequent floor plan checks may be done if the dealer is experiencing financial difficulties. TGA floor plan inspector(s) will verify the following and indicate their findings on the floor plan check sheet:

- Serial number of item;
- Odometer reading of vehicles, if required (for used vehicles only);
- Condition of item;
- Location of item, if other than normal place of business; and,
- Existence of any fire or theft hazards.

In addition, TGA will determine the reason for differences between the bank's collateral records and the actual items held by the dealer. TGA will assist bank personnel review dealer sales patterns to determine that the number of units reported sold at the time of floor plan inspection is not excessive and does not indicate a float, verify those items noted as payments in process, and determine if any items were sold out of trust.

BORROWING BASE CERTIFICATES

TGA conducts comprehensive collateral examination reports (CER) to prepare borrowing base certificates. Examination reports are prepared by experienced certified public accounts (CPA). Scope includes, as a minimum:

- Review of accounting related internal controls;
- Review cash disbursements for related party transactions and unusual items;
- Summarize monthly aging of accounts receivable and verify agreement to the general ledger;
- Summarize concentration of accounts receivable with major customers;
- Test shipping support for accounts receivable;
- Test subsequent cash receipts on accounts receivable;
- Physically observe inventory quantities;
- Summarize accounts payable concentration;
- Prepare report on payment of tax liabilities; and,
- Prepare a borrowing base certificate.

Enhance your credit risk management process by requiring professionally prepared CERs!

Problem Loan Management

MANAGE CRITICIZED/CLASSIFIED PORTFOLIOS

The professionals of TGA are experienced in credit workouts, negotiation, bankruptcy proceedings, and loan restructuring. TGA can manage some, or your entire, criticized/classified portfolio (loans risk rated Special Mention, Substandard, Doubtful, and Loss). We will:

- Prepare quarterly written loan action plans documenting the current status of each loan for the credit file;
- Obtain and review interim financial statements;
- Conduct periodic collateral inspections;
- Determine the need for field audits; and
- Assess opportunities to strengthen or increase collateral position.

We will also advise as to when to foreclose on collateral and when to liquidate it. Why use up valuable lender time when it can be better used to develop new business! Let us help you maximize your recovery from distressed credits.

Call us today to see how we can help!

COLLATERAL VALUATION & LIQUIDATION

The importance of clearly understanding equipment values has never been greater than in today's highly volatile market. TGA provides equipment and machinery appraisals, inspections and inventory analysis in all areas of business, equipment, machinery and technical specialties. We take several factors into account when evaluating equipment, including manufacturer, make, model, year of manufacture, accessories, optional equipment, market demand, market availability, obsolescence, current economic conditions, and, of course, machine(s) condition.

Our work complies with IRS definitions and meets or exceeds the standards of the American Society of Appraisers (ASA), the oldest and only multi-disciplinary appraisal organization in the world, and the Uniform Standards of Professional Appraisal Practice (USPAP).

Asset liquidation/management involves choosing a proper technique, market target, and expertise to carry the task to a successful conclusion. TGA views each situation as a unique opportunity. We are committed to helping our customers understand their options and creating positive solutions to today's business needs. Quite often an engineered sale of assets i.e., an orderly liquidation, public auction, or a combination of these approaches are sound, responsible, and commercially reasonable avenues for solving immediate or long term financial needs.

FAS 114 IMPAIRMENT ANALYSIS

FAS 114 Impairment Analysis has to be completed on each non-performing loan every quarter in conjunction with the ALLL calculation. This requirement can take up significant amount of credit department's time if it is done properly. In addition, having expertise in-house to complete these reports accurately is not always feasible for a bank.

TGA has developed easy to use Fair Market Value and Net Present Value models to determine the impairment of your collateral based loans and trouble debt restructures (TDRs). In addition, TGA has the experts such as appraisers and accountants that are sometimes necessary in determining impairment amount. Our models insure all "costs to sell" and environmental factors are considered in the calculation. The models are also designed to determine if the loan requires immediate charge-off.

Don't take a chance misstating your ALLL! Having an independent firm calculate the impairments associated with these loans adds significant credibility to the ALLL calculation. Contact us for more information.

TURNAROUND EXPERTS

In today's changing and difficult economic climate, every day brings new challenges for businesses of all sizes. TGA Consultants offers skilled specialists to get your borrowers who may be struggling back on the road to profitability at a reasonable fee. By requiring your non-performing loan customers to utilize our turnaround services, you will be helping them while protecting your investment.

We have the professional depth required to not only evaluate the financial and operational issues that adversely affect performance, but also assess the strategic alternatives and develop and execute comprehensive plans to address borrower's business challenges. It's about more than identifying what's wrong; it's about identifying solutions that fix the underlying issues.

Guided by qualities of respect, integrity, professional excellence and leadership, we are dedicated to providing personalized attention and the highest-quality service to meet your borrower's needs.

Contact us for more information.

ENVIRONMENTAL REMEDIATION

When it comes to environmental remediation, there are many consultants out there who can handle the technical steps to cleaning up a site. TGA has partnered with S&W Redevelopment to provide this service to TGA's banking clients due to S&W's outstanding reputation and success record.

Successful environment remediation requires more than simply completing a list of tasks. When you choose TGA, you're getting the creativity and brainpower required to structure a deal where everyone walks away with a positive solution. You will not only have environmental experts at your side, but former bankers that clearly understand your situation.

S&W Redevelopment buys contaminated sites and self-funds and performs every facet of the Brownfield Cleanup Program, assuring a clean, shovel-ready property in the shortest amount of time, while incurring the lowest overall cost. They understand the importance of maintaining a cost-effective strategy in the process, as they are brownfield property owners themselves. S&Ws consult on brownfields on a turnkey basis, presenting site owners with advice backed by experience on the most efficient method to manage their property. If you have a potential environmental concern, contact TGA to assist you in managing this potential liability. We are pleased to discuss with attorneys or clients the possibility of pro bono work where appropriate.

SALE OF PROBLEM LOANS

Loan portfolio sales have become an integral component of credit and cash-flow management for credit grantors of every type. Portfolio sales can help you accomplish a number of critical objectives:

- Reduce concentrations of nonperforming assets;
- Dispose of unprofitable or underperforming product lines;
- Merger and acquisition-related cleanup; and
- Accelerate cash flow and manage staffing levels in servicing and collection areas.

TGA Consultants can provide you the loan sale advisory and portfolio valuation services that fit your particular need. Whether you want sell a portfolio of loans or just a single problem loan, contact us to see how we can help.

Other Services

DEVELOP POLICIES AND PROCEDURES

Your credit policies have to reflect your current lending environment and need to support your bank's strategy, goals and mission. TGA writes and updates loan policy and procedure manuals that reflect your bank's profile and that are consistent with safe and sound banking practices.

The process includes meeting with management at the executive and senior levels to discuss the intended policy and procedure resulting in a drafted document for further consideration. The team assigned to help you with your credit policy challenges are TGA professionals with many years of bank supervision and regulatory experience.

If you have inadequately experienced staff, higher than acceptable staff turnover, limited experience with credit policy protocol, and new ventures and new products, let us help you develop the needed policy and procedures.

ASSESS LOAN DEPARTMENT EFFECTIVENESS

The lending department analysis is a detailed study of your bank's lending department. It includes a detailed review of your bank's credit processes, a review of appraisal policy and practices, ALLL policy and documentation levels, collateral valuation and inspection techniques, utilization of the bank's MIS system, adequate staffing levels, sufficiency of workflows, responsibilities, etc. The assessment process includes a review of the institution's credit risk management processes and systems to identify, measure, control, monitor, and report credit risk as outlined by the supervisory guidelines. The study will be tailored to the needs of your bank and compared with institutions of similar size. The objective of the study is to maximize departmental efficiency while controlling costs.

Commercial, mortgage, and/or consumer loan underwriting training can be performed by TGA professionals on-site at your bank's location. This training can be tailored to fit your bank's lending standards or the standards set by the secondary market. This training can be used as a refresher course for your experienced lenders or as initial training for newly hired loan officers.

Contact us for more information.

SUPPLEMENT IN-HOUSE STAFF

TGA is a credit risk management company staffed by highly experienced individuals. We like to describe ourselves as a highly sophisticated "Credit Department," able to handle all functions from initial borrower due diligence to collateral liquidation ...and everything in between. Our goal is to provide these services in a timely and cost effective manner, allowing our clients to tap into resources they would not otherwise be able to employ internally.

We recognize that it is not feasible to have employees such as certified public accountants as credit analysts, former bank presidents as loan portfolio managers, licensed appraisers to do your appraisal reviews, and turnaround experts to handle your problem loans, but that does not mean you have to compromise the quality of your credit risk management. If you have inexperienced staff or higher than normal staff turnover, let us help you by supplementing your in-house staff.

For the cost of a single credit analyst, you can immediately add over a dozen highly qualified banking professionals to your team. Contact us to see how we can set up an ongoing consulting agreement so you can choose any service we provide at any time.

LOAN PORTFOLIO ACQUISITION DUE DILIGENCE

TGA reviews loan portfolios that are being purchased as part of a bank merger or acquisition. This request is given high priority and a team is assembled for a quick turnaround time in the due diligence assignment. The scope of the review is normally established by the client and is structured so that at the end of the on-site review, a preliminary oral report is made followed by a detailed written report.

The review can assess the sufficiency and reliability of the credit risk rating system, loan approval and monitoring, effectiveness of credit and loan administration, and adequacy of the loan loss reserve. The report will detail the findings of the review including a summary of observations and conclusions supported by a written report on each loan reviewed.

Engage a team that has the extensive loan review experience necessary to complete this task in an orderly, thorough, and expeditious manner. Call TGA for more information.

EXPERT WITNESS TESTIMONY

TGA provides litigation support, consulting and expert witness testimony to attorneys, financial institutions, businesses and individuals involved in financially related disputes. Our combined 100+ years of high-level, banking experience offers an understanding of how banks and other lenders operate internally. We have extensive experience in matters related to public or private financial institutions including lending, interest rates, bankruptcy, banking operations, regulatory influence, procedures, policies and standards of practice and conduct. This knowledge and experience, combined with clarity of communication that allows everyone to understand the issues, provides clients and their attorneys with financial and expert witness/litigation support services that result in the best possible outcome.

In addition to providing quality services to our clients, we consider Pro Bono activities an important professional responsibility. Pro bono service is not just a professional obligation. It strengthens our communities, it enhances the lives and practices of those who serve and helps make our communities a better, fairer place to live. We are committed to giving back to the community by using our expertise and experience in the service of others. To that end, we donate a certain percentage of our time to assist in the success of appropriate cases within our areas of expertise.

We are pleased to discuss with attorneys or clients the possibility of pro bono work where appropriate.

REGULATORY RELATIONS

TGA can assist bank management through each phase of the examination process. We offer liaison services that ease the regulatory process, effect resolution and return valuable time to management. Services include:

- Facilitating management's response to requests for information;
- Acting as liaison with examiners thereby streamlining the review process;
- Providing perspective and guidance when responding to examination findings or enforcement actions; and
- Developing detailed action plans to address regulatory concerns.

Our consultants include both former bank presidents and individuals with regulatory experience. We have extensive experience addressing regulatory concerns. Rather than go at it alone, contact TGA to assist you in streamlining this process.



"T. GSCHWENDER & ASSOCIATES IS AN INTEGRAL PART OF OUR CREDIT RISK MANAGEMENT TEAM. IN ADDITION TO REVIEWING THE ACCURACY OF RISK RATINGS OF OUR COMMERCIAL LOANS, WE RELY ON THEM TO PROVIDE US FEEDBACK ON BEST PRACTICES IN THE INDUSTRY. AS A RESULT, OUR LOAN PORTFOLIOS HAVE DONE EXTREMELY WELL DURING THESE CHALLENGING TIMES. I HIGHLY RECOMMEND THEM."

GARY W. KAVNEY
PRESIDENT AND CEO, ADIRONDACK BANK

"TGA'S RISK-BASED APPROACH ENSURED COVERAGE OF OUR MOST RISKY LOANS WHILE ENSURING APPROPRIATE PORTFOLIO COVERAGE BASED ON OUR CREDIT RISK. ALTHOUGH OUR ALLL HAS BEEN REVIEWED BY OTHER LOAN REVIEW FIRMS OVER THE YEARS, THE FIRST REVIEW TGA PERFORMED IDENTIFIED AN OPPORTUNITY TO SAVE OUR BANK SIGNIFICANT DOLLARS. I HIGHLY RECOMMEND THEM."

ROBERT M. FISHER
PRESIDENT & CEO, TIOGA STATE BANK



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