

CECL: A Discussion

June 16, 2016

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ALLL TDR STRESS TESTING CREDIT ANALYSIS RISK RATING LOAN PRICING LOAN ADMINISTRATION WORKFLOW

Neekis Hammond



Neekis specializes in ALLL - ASC 450-20 and ASC 310-10; CECL preparation and methodology; acquired loan accounting and valuation - ASC 310-20, ASC 310-30, and ASC 820; Stress Testing, and various portfolio analysis topics - PD, LGD, migration, vintage, prepayment, utilization, pricing, risk rating, etc. Also, he has facilitated multiple FDIC Assisted Acquisitions.

Prior to joining Sageworks, he held a key role within Elliott Davis Decosimo's FIG Consulting division where he provided valuation, accounting, and loan analysis services. Preceding Elliott Davis Decosimo, he was with a multi-billion dollar financial institution where he worked on acquisitions ranging in size from \$130MM to \$2 billion and was an auditor with a regional CPA firm.

About RKL

- Leading regional accounting firm in PA with offices in Reading, Lancaster, York and Harrisburg
- Approximately 325 team members
- 67th on *Accounting Today's* 2015 “Top 100 Firms” list
- Consistently ranked as one of the top 20 leading credit union auditors in the U.S. of credit unions with an asset size of over \$40 million (Callahan & Associates Credit Union Survey)



Jim Pruzinsky



Jim is RKL's Audit & Accounting Functional Leader. He specializes services for credit unions and also has strategic planning experience.

Jim joined the firm in 1983 and has more than 35 years of public accounting experience. He started at the firm as a staff accountant in the Audit Services Group and was named to the partnership in 1992. He holds a bachelor's degree in accounting and finance from Drexel University.

Agenda.

- Audience Survey
- CECL and the Supervisory Committee
- Current GAAP
- What is CECL?
- Recent Updates & Timelines
- Forming An Implementation Committee
- Loss Methodologies
- Key Takeaways

Audience Survey

Who is in the audience?

- Supervisory Committee Members?
- Internal Auditors?
- Other?

Asset Size?

- <\$100M
- \$100 – \$500M
- >\$500M

Does your Credit Union have an internal audit function?

- Internal?
- External?
- Both?

Does your Credit Union receive an opinion audit?

CECL – Current Expected Credit Loss (Allowance for Loan Losses - ALL)

Why is CECL Relevant to the Supervisory Committee?

Roll of Supervisory Committee (NCUA Guidelines)

Two Major Roles:

- **Management's reporting objectives have been met** - ALL is a critical component of the credit union's financial statements
- **Management practices and procedures safeguard members' assets** – proper policies and procedures are necessary to effectively analyze the credit union's ALL

Roll of Supervisory Committee (NCUA Guidelines)

How are these two goals met? You are responsible for determining whether the credit union:

- Has established and maintained effective internal controls to achieve the credit union's financial reporting objectives
- Promptly prepares accounting records and financial reports to accurately reflect operations and results
- Promptly administered the relevant plans, policies, and control procedures established by the board of directors
- Establish policies and control procedures that safeguard against error, carelessness, conflict of interest, self dealing and fraud

Allowance for Loan Losses – Current GAAP

Allowance for Loan Losses (ALL)

What the ALL represents:

- The ALL is an accounting estimate of credit losses inherent in an institution's loan portfolio that have been incurred **as of the statement of financial condition date**.
- A loan is impaired when, based on **current information** and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement.
- This is the “incurred loss” threshold model.

Allowance for Loan Losses (ALL)

The allowance for loan losses is composed of the following:

- Individual loan impairment/reserve valuations (GAAP guidance Accounting Standards Codification (ASC) 310-10-35, previously FAS 114). TDR's are incurred in this component.
- General reserve calculations for homogeneous loan pools including (GAAP guidance ASC 450-20, previously FAS 5):
 - » Historical loss rate calculations; and
 - » Qualitative factor adjustments.

Allowance for Loan Losses (ALL)

Key qualitative factors that financial institutions should consider when analyzing the ALL relative to adjustment of historical loss rates:

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off and recovery practices not considered elsewhere in estimating credit losses.
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments.
- Changes in nature and volume of portfolio and in the terms of loans.

Allowance for Loan Losses (ALL)

Key qualitative factors that financial institutions should consider when analyzing the ALL relative to adjustment of historical loss rates:

- Changes in the experience, ability and depth of lending management and other relevant staff.
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans.
- Changes in the quality of the institution's loan review system.

Allowance for Loan Losses (ALL)

Key qualitative factors that financial institutions should consider when analyzing the ALL relative to adjustment of historical loss rates:

- Changes in the value of underlying collateral of collateral-dependent loans.
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations.
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio.
- Evaluate **EVERY ONE** of these qualitative factors and then conclude whether they negatively, positively or have no effect on your analysis of the ALL

What is CECL?

- FASB released proposal December 2012
- CECL = Current Expected Credit Loss
- What's changed from Incurred Loss Model?
 1. **Forward-looking requirements** - The proposal requires that forward looking information and forecasts are considered for the estimation of credit losses. This is a critical change from the current model's reliance on "incurred" losses to estimate loss rates.
 2. **"Probable loss" threshold removed** - The "probable" threshold for loss recognition used in the current guidance is removed, leaving institutions to evaluate whether or not a loss exists **at that time for the financial asset**. The removal of this threshold could accelerate the timing for when institutions are required to recognize impairment.

What is CECL?

- What's changed from Incurred Loss Model? (continued)
 3. **Need for accessible, loan-level data**
 4. **Longer loss horizon** - Loss estimates would use the lifetime of the credit instrument as the time horizon as opposed to the next 12-month period. These forecasted estimates will need to be defensible which could be particularly challenging for longer term loans.
 5. Makes ALLL more institution-wide calculation – not just accounting anymore

What is CECL?

Standard will require an entity to recognize an allowance for expected credit losses on financial assets, defined as: **"an estimate of contractual cash flows (P&I) not expected to be collected from a recognized financial asset (or group of financial assets) or commitment to extend credit."**

- Based on relevant information about past events, current conditions and reasonable and supportable **forecasts** that affect the expected collectability of the financial assets' remaining contractual cash flows.
- Includes quantitative and **qualitative** factors specific to borrowers and the economic environment in which the entity operates. In addition to evaluating the borrowers' current creditworthiness, the assessment includes and evaluation of **forecasted direction of the economic cycle.**
- Requires evaluation of financial assets on a collective basis when similar risk characteristics exist. **Examples would include auto loans, credit card loans, first mortgages, home equity loans, and commercial loans.**

What is CECL?

- Purpose/why? - Quicker recognition of losses. Changes in ALLL reserve balances will reflect changes in credit quality and flow through earnings (“Fed Perspectives,” 2015)

CECL Concerns.

- How are future, life-of-loan losses reasonably predicted?
- Even more subjective judgment is required
- Greater regulatory scrutiny
- Insufficient IT capabilities
- Lack/inaccessibility of data, especially for smaller credit unions
- Need to know where we are in the economic cycle

CECL Concerns.

- Implies we can identify when a downturn/recovery starts
- Implies we can predict the severity of a downturn
- Discourages longer-term lending
- Qualitative factors – Will need to consider both current and future conditions
- Requires more collaboration between Credit/Finance

CECL Concerns.

- More difficult for members receiving financial statements to understand the financials of their credit union
- Decreased capital because of the increased provisions for loan loss
 - » **One time adjustment to undivided earnings**
- Lack of adequate historical figures to construct a model to forecast expected losses accurately
- Potential for lower net income levels

Trivia Time – U.S. History

Trivia Time – U.S. History

Which U.S. president was associated with the Whiskey Rebellion?

- George Washington
- Thomas Jefferson
- James Madison

Recent CECL Updates.

Feb. 4 FASB Industry Roundtable.

- Participants from FASB, NCUA, ABA, ICBA, SEC, OCC, Fed, FDIC + more than a dozen financial institutions from \$145M to \$1.1B
- Participants were critical of the “life of loan” concept and voiced a need for more definitions and better examples
- Participants stressed the need for agreement among regulators on acceptance level of precision needed to merit the standard

CECL Transition Resource Group.

- Members announced on March 22nd:
 - » **SVP, CFO of Jeanne D'Arc Credit Union | \$1.1B in assets**
 - » **CFO at Mission Federal Credit Union | \$2.7B**
 - » EVP of TD Bank | \$246B
 - » VP, Chief Accountant at BMO Financial Group | \$104B
 - » Director of Accounting Policy at Wells Fargo | \$1.6T
 - » Managing Director at Citigroup | \$1.3T
 - » SVP at First Niagara Bank | \$39B
 - » President, CEO at Standard Bank | \$466M
- Also, representatives from:
 - » Allstate Insurance, KBW, PWC, Grant Thornton, Crowe Horwath, Deloitte, KPMG, EY

April 1st Meeting – CUNA Highlights.

- Proposal's revised language provides additional flexibility, stating that there is no one methodology that entities must use
- Susan Hannigan, CFO of D'Arc Credit Union, noted the revisions are "progress toward a workable solution"
 - » **Allows community financial institutions to evaluate and adjust their loan-loss amounts using qualitative factors, historical losses and current systems**
- Final standard expected by the middle of the year
- Specifics on the proposal's revised language?

FASB Vote – April 28, 2016

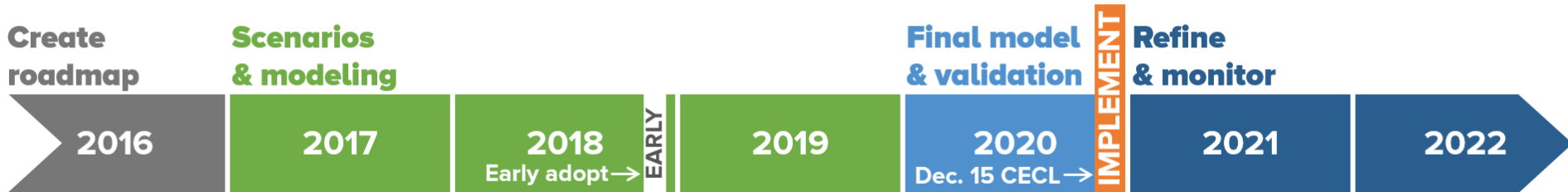
- Proceed with current CECL proposal
- Extend effective date for credit unions to years beginning after December 15, 2020

CECL Implementation Timelines.

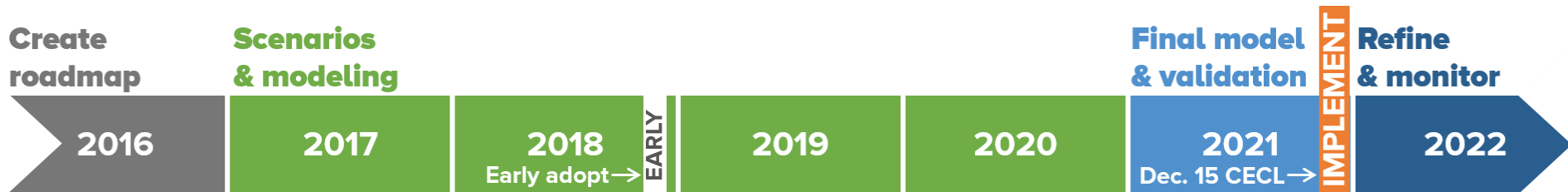
1. SEC Filing Institutions.



2. Non-SEC Filing Public Business Entities.



3. All Other Entities + Not-For-Profit Organizations.



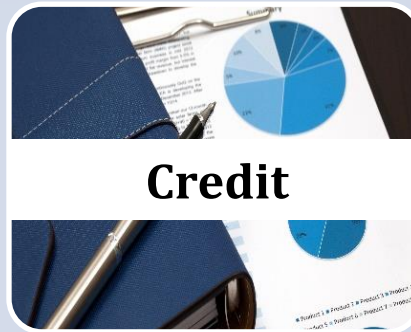
Implementation Planning.

Forming an Implementation Committee

Scope of CECL Implementation.



- IT Systems
- Vendor Management



- Credit Business Lines
- Mergers & Acquisitions
- Counter-parties



- Regulatory Reporting
- Financial Reporting

Forming An Implementation Committee.

- Notice how the allowance calculation flows through your credit union and how many areas touch it
- Strive for senior level representation across all departments
- CECL will require significant collaboration across functional areas



Factors to Consider.

Methodology Changes

Historical loss to migration, PD/LGD, vintage analysis

“Reasonable and supportable forecasts”

Data Requirements

Life of loan expected loss versus one year incurred loss

Model validation

Capital Adjustment

Internal controls

Communication

External provider

Projected Impact

Factors to Consider.

Methodology
Changes

**Data
Requirements**

Capital
Adjustment

Communication

Projected
Impact

Building and maintaining a data warehouse

Assessing availability and quality of historical data

Determining key data needed for calculation

Data validation process

Report building process

Factors to Consider.

Methodology
Changes

Need to raise additional capital?

Data
Requirements

Timing consideration

Capital
Adjustment

Member communication

Communication

Regulatory communication

Projected
Impact

Factors to Consider.

Methodology
Changes

Socialization of CECL with board and senior management

Data
Requirements

Periodic meetings

Capital
Adjustment

Documents read into the minutes

Communication

Projected
Impact

Factors to Consider.

Methodology
Changes

Earnings projection due to changes in provision

Data
Requirements

Peer comparisons will change

Capital
Adjustment

Asset and liability management

Communication

Stress testing

Projected
Impact

Loan pricing

Underwriting guidelines

Segment lending limits

Trivia Time – U.S. History

Trivia Time – U.S. History

Which U.S. president was associated with the Lewis and Clark Expedition?

- George Washington
- Thomas Jefferson
- Andrew Jackson

Loss Methodologies Under CECL.

Methodology Considerations

- **DISCOUNTED CASH FLOW**

- + Flexible loss application and forecasting (loss curve)
- + Wide array of applications
- - Requires a more technical analysis

- **LOSS RATE**

- + Some inputs are common in today's incurred loss model
- + Historical data is typically readily available
- - Difficult to include exogenous risk factors and amortization

- **ROLL RATE/MIGRATION**

- + Good for short-term forecasting
- - Difficult to include exogenous risk factors and amortization

- **VINTAGE**

- + Inclusion of maturation/duration information provides for flexibility
- - Suited for installment loans

Modeling Risk

- **DISCOUNTED CASH FLOW**

- Prepayment assumptions
- Timing of expected defaults
- Payment type assumptions

- **LOSS RATE**

- Methodology – true forward looking loss rate?
- Accurate segmentation loss rate; understand the connection between loan and loss
- Application – Ensure loss rate inherently captures curtailments or adjust for them

- **ROLL RATE/MIGRATION**

- Static look-forward?
- Accurate segmentation loss rate; understand the connection between loan and loss

- **VINTAGE**

- Rate calculation for application – sum remaining periods in life.
- Calculation for periods that have yet to take place – new originations.

Other Considerations

- **LOSS EXPERIENCE**

- Cumulative Historical Loss Rate (Specific NCO/Specific Balance)
 - Specific asset's NCOs over a period of time divided by the same asset's balance as of a point in time
 - Prepayments are embedded
- Average Historical Loss Rate (NCO/Average Balance)
 - Prepayments are not embedded
 - Requires declining balance assumptions/calculations

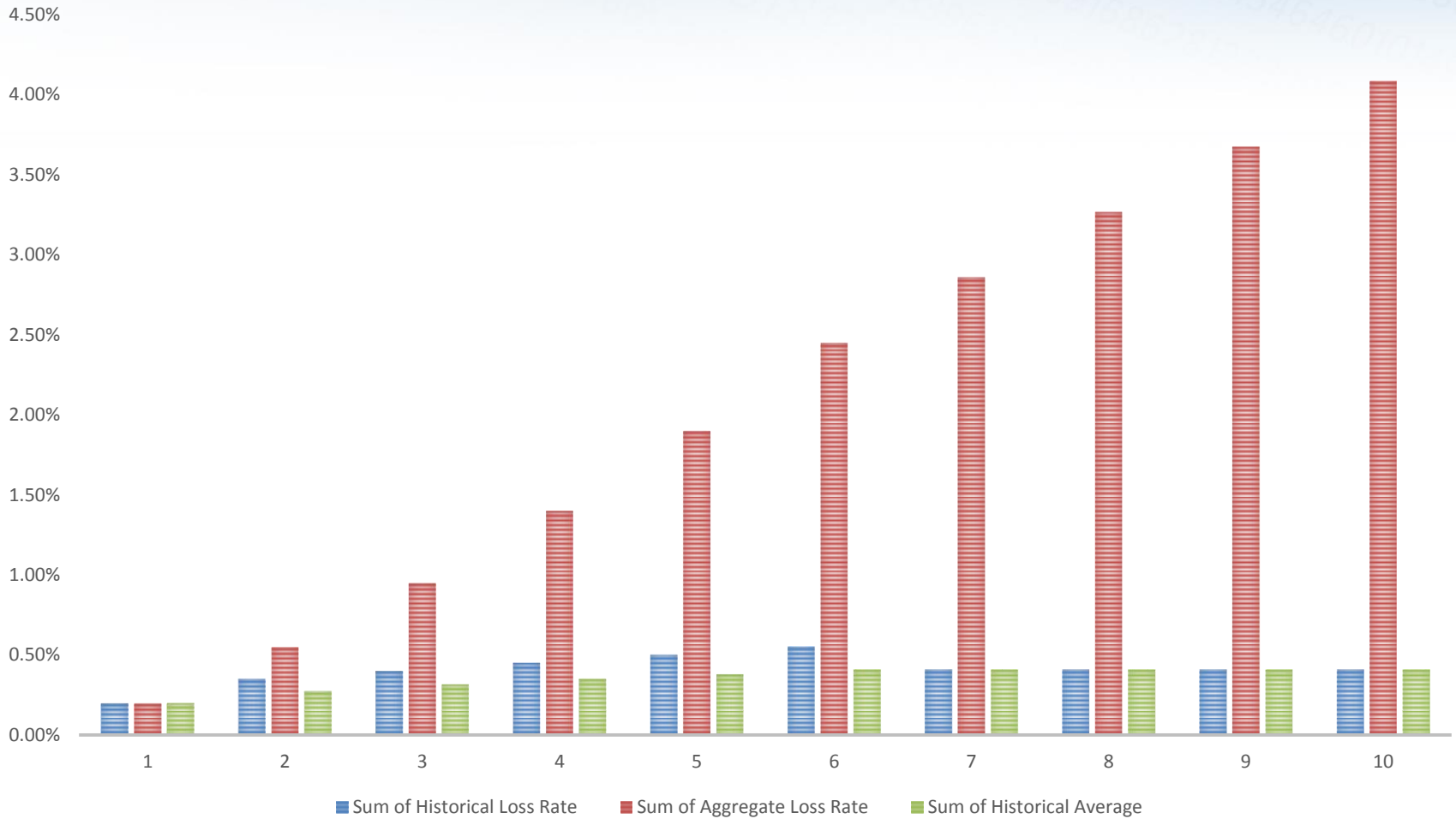
- **FORECASTING**

- An entity shall make reasonable and supportable forecasts and consider adjusting historical loss rates

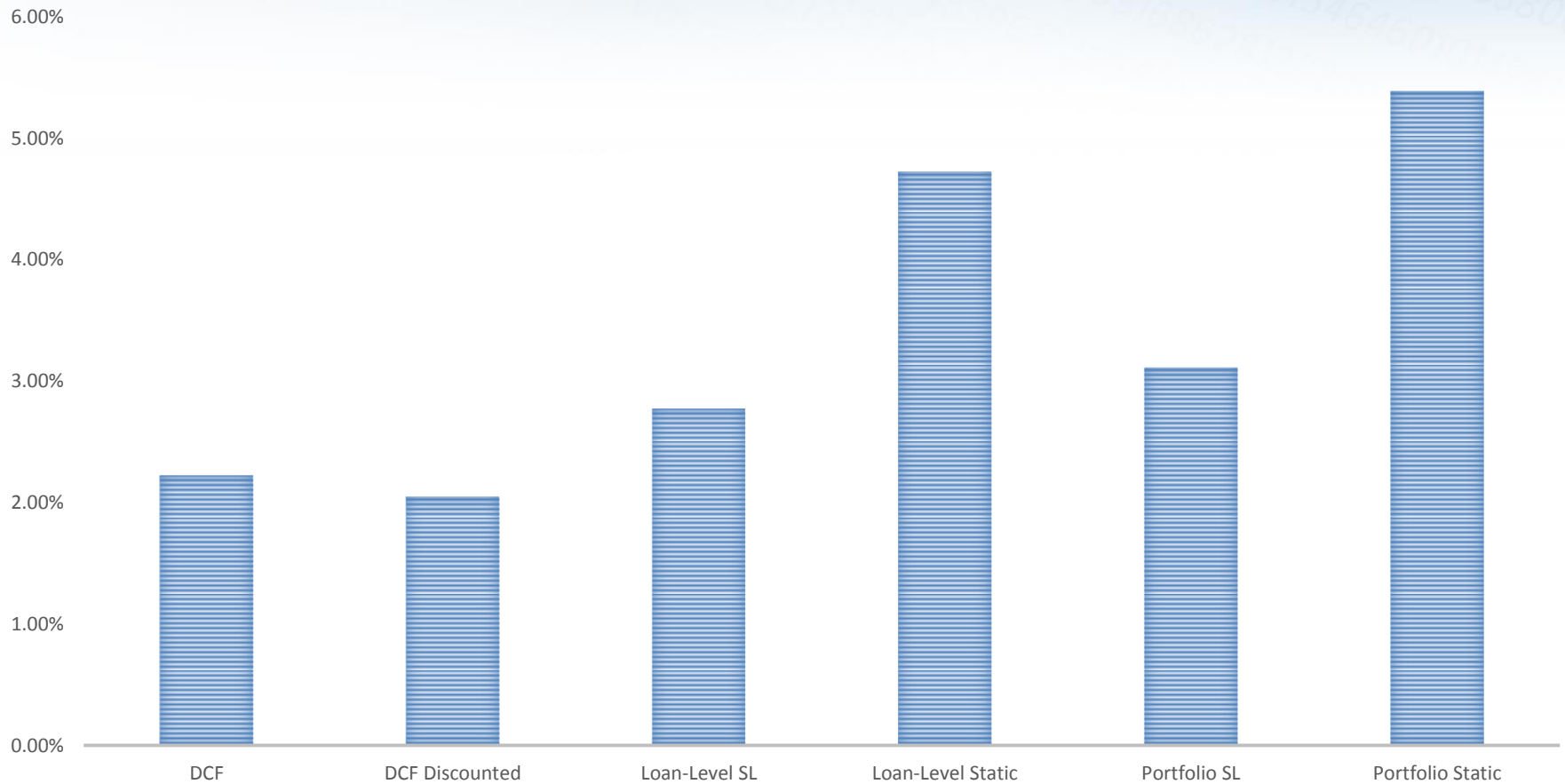
- **CONTRACTUAL TERM**

- Must consider prepayments as separate input or they must be embedded in the loss experience 326-20-30-5,6
- May not extend term unless there is a reasonable expectation of a TDR

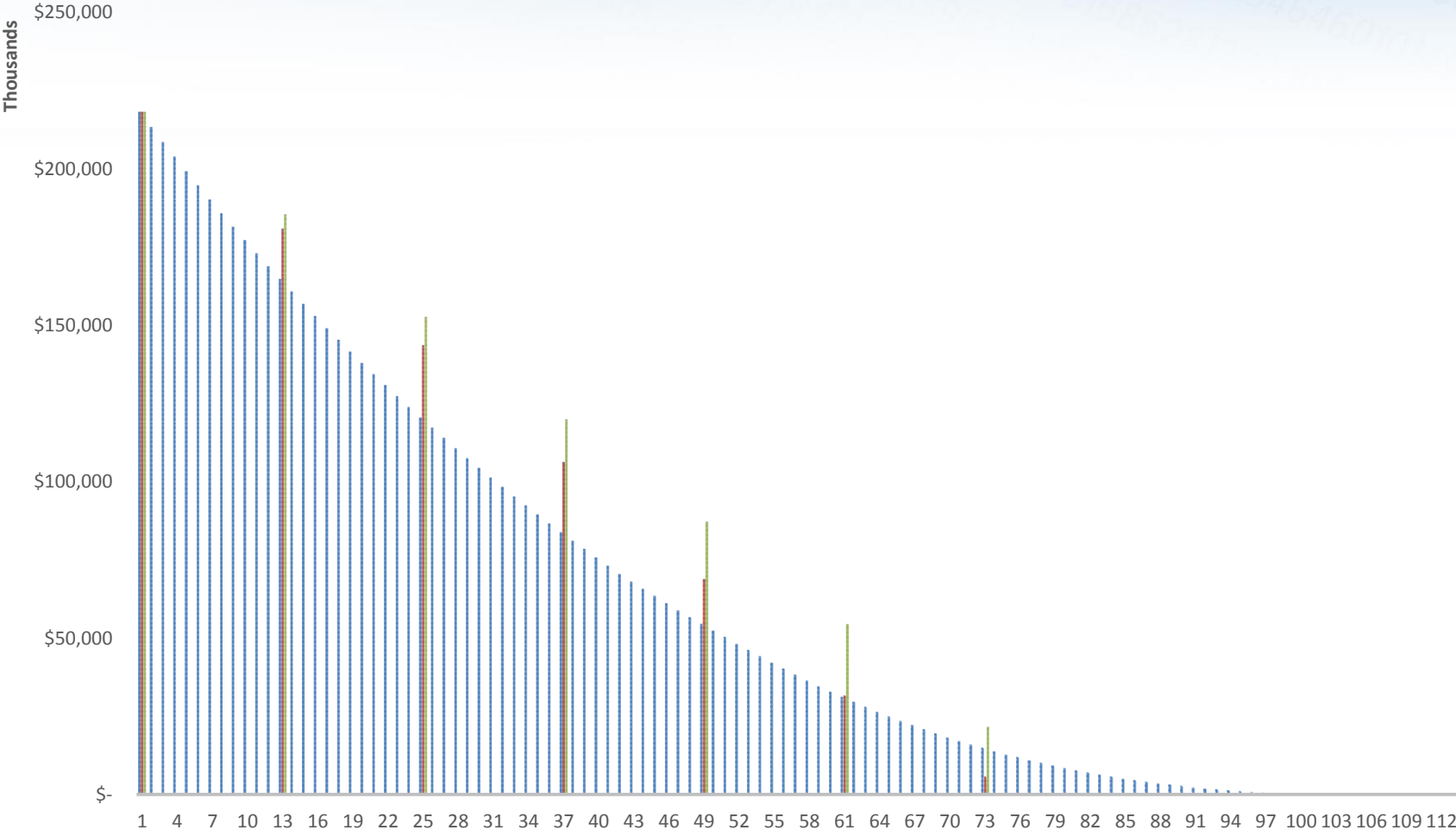
HISTORICAL LOSS EXPERIENCE



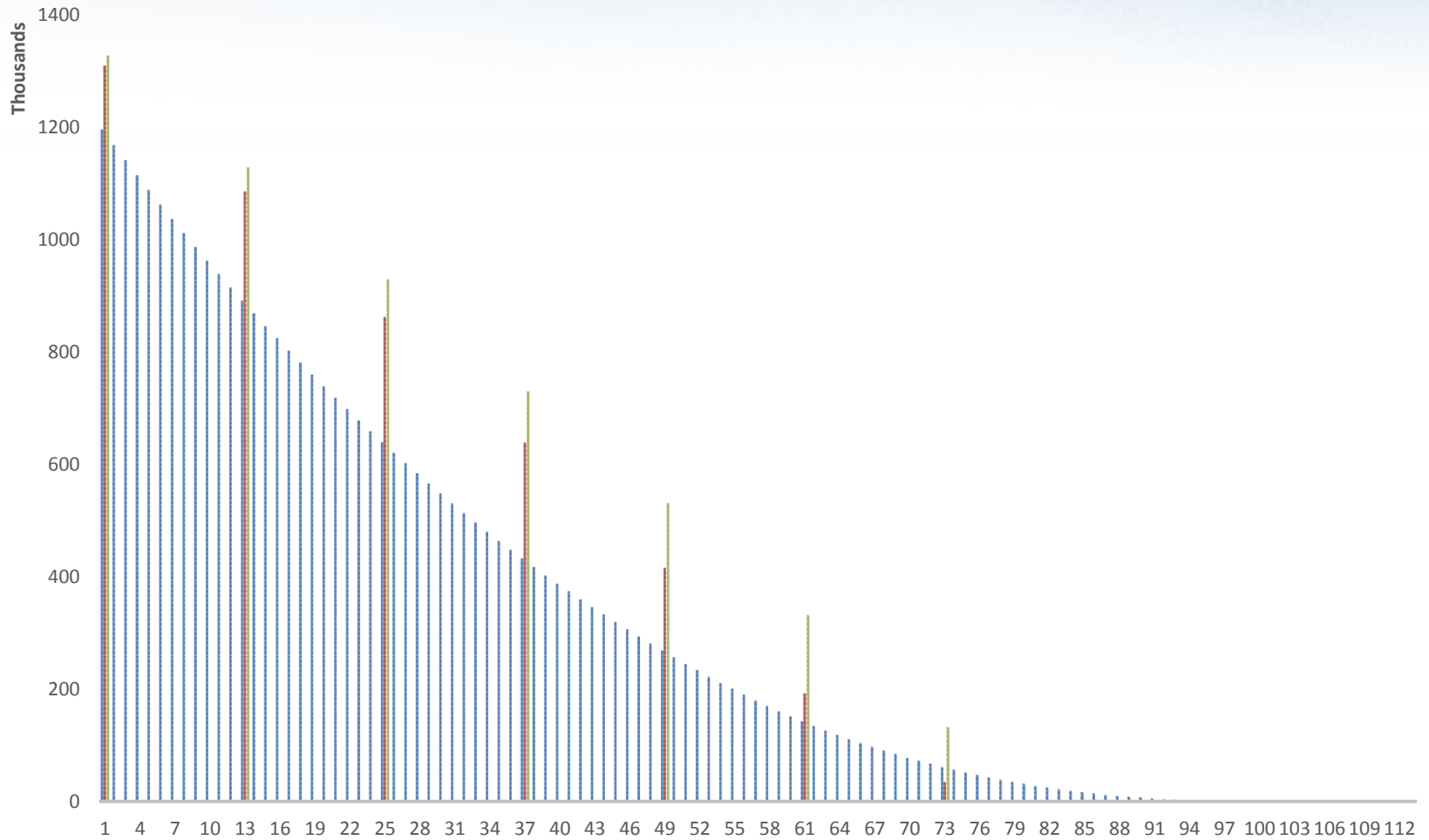
EXPECTED CREDIT LOSS/CURRENT BALANCE



SEGMENT BALANCE OVER TIME

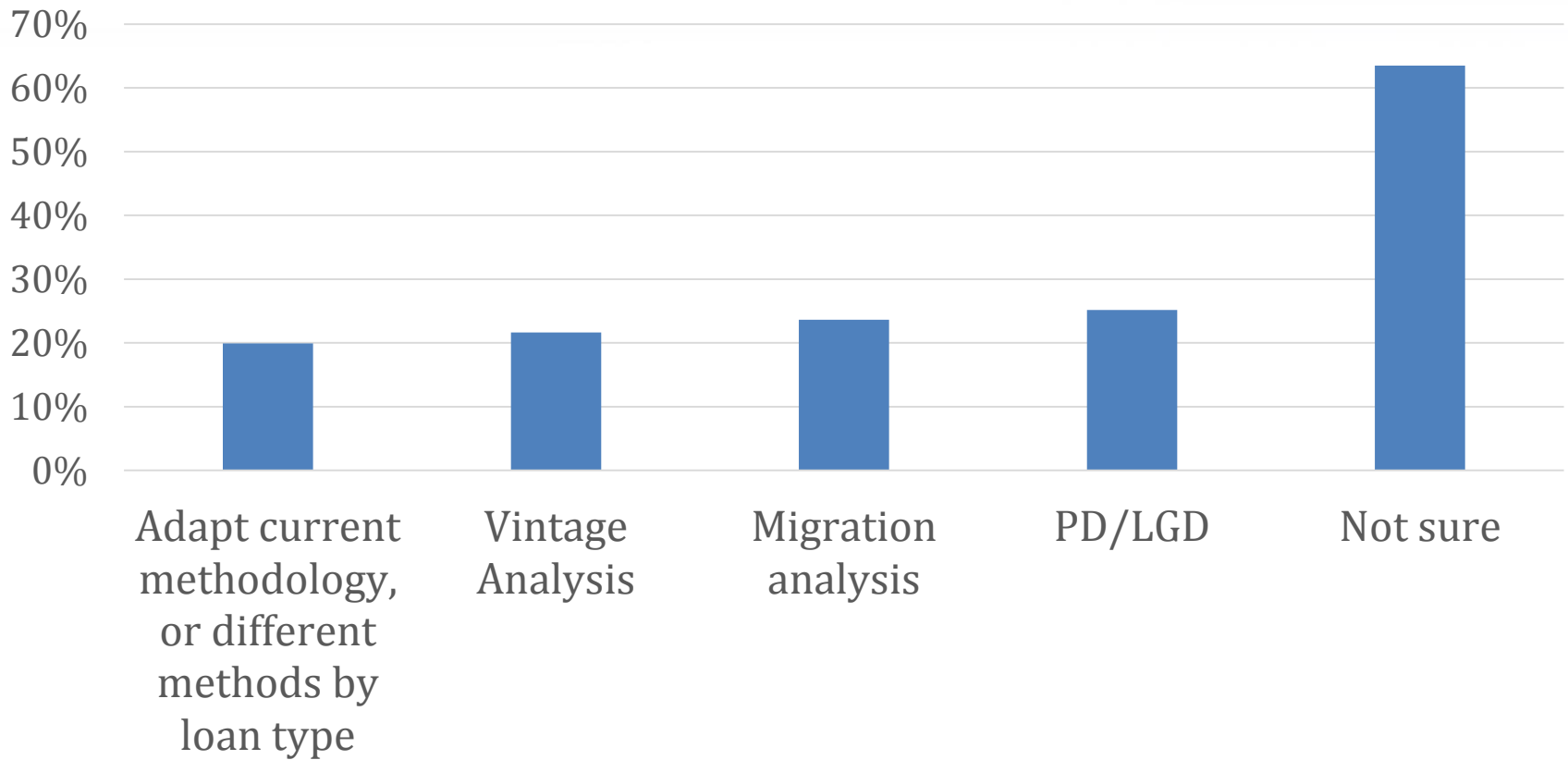


EXPECTED CREDIT LOSS OVER TIME



CECL Poll.

What methodologies are you considering for CECL scenario building? (multi-select)



Understanding and Forecasting

Table 2A. Supervisory adverse scenario: Domestic - Percent unless otherwise indicated

Date	Real GDP growth	Nominal GDP growth	Real disposable income growth	Nominal disposable income growth	Un-employment rate	CPI inflation rate	3-month Treasury rate	5-year Treasury yield	10-year Treasury yield	BBB corporate yield	Mortgage rate	Prime rate	Dow Jones Total Stock Market Index (Level)	House Price Index (Level)	Commercial Real Estate Price Index (Level)	Market Volatility Index (Level)	Multi Regression			Actual Data		Projected	
																	Un-employment rate	5-year Treasury yield	House Price Index (Level)	Total Charge-Offs (% of Average Loans)	12 Month Average (% of Average Loans)	Average	Multi
Q1 2004	2.3	5.9	2.9	6.1	5.7	3.4	0.9	3.0	4.1	5.5	5.6	4.0	11039.4	151.6	153.0	21.6	5.7	3.0	151.6	0.16%	0.16%	0.33%	0.13%
Q2 2004	3.0	6.6	4.0	7.0	5.6	3.2	1.1	3.7	4.7	6.1	6.2	4.0	11144.6	157.9	160.0	20.0	5.6	3.7	157.9	0.10%	0.13%	0.29%	0.10%
Q3 2004	3.7	6.3	2.1	4.5	5.4	2.6	1.5	3.5	4.4	5.8	5.9	4.4	10893.8	163.2	172.0	19.3	5.4	3.5	163.2	0.05%	0.10%	0.27%	0.10%
Q4 2004	3.5	6.4	5.1	8.5	5.4	4.4	2.0	3.5	4.3	5.4	5.7	4.9	11951.5	169.2	176.0	16.6	5.4	3.5	169.2	0.13%	0.11%	0.25%	0.12%
Q1 2005	4.3	8.3	-3.8	-1.8	5.3	2.0	2.5	3.9	4.4	5.4	5.8	5.4	11637.3	177.1	176.0	14.6	5.3	3.9	177.1	0.09%	0.09%	0.21%	0.12%



Table 2A. Supervisory adverse scenario: Domestic - Percent unless otherwise indicated

Date	Real GDP growth	Nominal GDP growth	Real disposable income growth	Nominal disposable income growth	Un-employment rate	CPI inflation rate	3-month Treasury rate	5-year Treasury yield	10-year Treasury yield	BBB corporate yield	Mortgage rate	Prime rate	Dow Jones Total Stock Market Index (Level)	House Price Index (Level)	Commercial Real Estate Price Index (Level)	Market Volatility Index (Level)	Multi Regression			Actual Data		Projected	
																	Un-employment rate	5-year Treasury yield	House Price Index (Level)	Total Charge-Offs (% of Average Loans)	12 Month Average (% of Average Loans)	Average	Multi
Q1 2016	-1.5	-0.1	2.3	1.2	5.5	-0.9	0.1	0.5	1.3	4.4	3.5	3.3	20899.6	181.2	270.6	40.7	5.5	0.5	181.2	0.21%	0.19%	0.36%	0.32%
Q2 2016	-2.8	-3.0	0.3	-0.6	6.1	-0.7	0.1	0.7	1.4	4.9	3.8	3.3	18454.3	178.7	264.2	37.0	6.1	0.7	178.7			0.38%	0.39%
Q3 2016	-2.0	-2.1	-0.2	-1.0	6.7	-0.5	0.1	0.8	1.5	5.1	4.0	3.3	16692.8	175.9	257.7	38.4	6.7	0.8	175.9			0.40%	0.46%
Q4 2016	-1.1	-1.1	0.0	-0.3	7.1	-0.1	0.1	1.0	1.7	5.4	4.2	3.2	15536.2	172.8	251.8	36.0	7.1	1.0	172.8			0.41%	0.50%
Q1 2017	0.0	0.2	0.9	1.0	7.4	0.3	0.1	1.2	1.8	5.4	4.3	3.2	15745.4	169.8	246.6	32.0	7.4	1.2	169.8			0.42%	0.53%
Q2 2017	1.3	1.8	1.4	1.9	7.5	0.7	0.1	1.3	1.9	5.3	4.3	3.2	16052.6	167.0	243.5	29.1	7.5	1.3	167.0			0.43%	0.53%
Q3 2017	1.7	2.6	1.1	1.9	7.5	1.0	0.1	1.5	2.2	5.4	4.5	3.2	16396.9	164.5	240.5	26.8	7.5	1.5	164.5			0.42%	0.51%
Q4 2017	2.6	3.4	2.1	3.1	7.5	1.2	0.1	1.6	2.3	5.4	4.6	3.2	17115.4	162.9	240.6	24.7	7.5	1.6	162.9			0.42%	0.50%
Q1 2018	2.6	3.4	2.3	3.4	7.4	1.3	0.1	1.8	2.4	5.4	4.7	3.2	17806.7	161.7	241.0	23.1	7.4	1.8	161.7			0.41%	0.47%
Q2 2018	3.0	3.9	2.5	3.7	7.3	1.4	0.1	1.9	2.6	5.5	4.8	3.2	18645.6	161.1	242.2	21.7	7.3	1.9	161.1			0.41%	0.45%
Q3 2018	3.0	4.0	2.6	3.8	7.2	1.5	0.1	2.1	2.8	5.5	4.9	3.2	19184.9	161.0	244.4	21.0	7.2	2.1	161.0			0.40%	0.43%
Q4 2018	3.0	4.1	2.6	3.9	7.1	1.6	0.1	2.3	2.9	5.6	5.0	3.2	19756.4	161.2	246.8	20.3	7.1	2.3	161.2			0.39%	0.40%
Q1 2019	3.0	4.2	2.4	3.9	7.0	1.7	0.1	2.4	3.0	5.6	5.1	3.2	20341.0	161.6	249.4	19.8	7.0	2.4	161.6			0.38%	0.38%

Understanding and Forecasting

SUMMARY OUTPUT

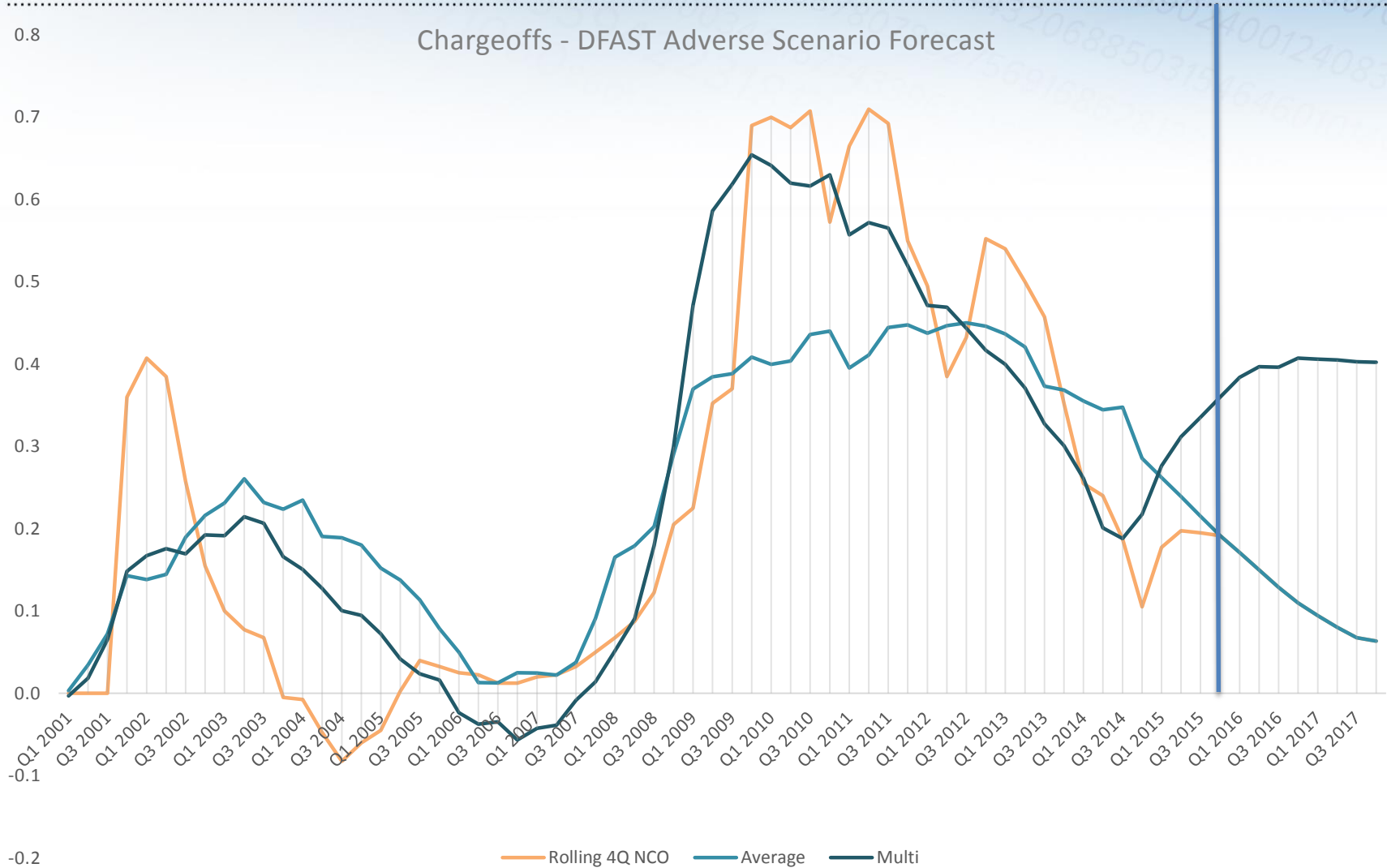
<i>Regression Statistics</i>	
Multiple R	0.9486
R Square	0.8999
Adjusted R Square	0.8932
Standard Error	0.0009
Observations	49.0000

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	0.0003	0.0001	134.7811	0.0000
Residual	45	0.0000	0.0000		
Total	48	0.0003			

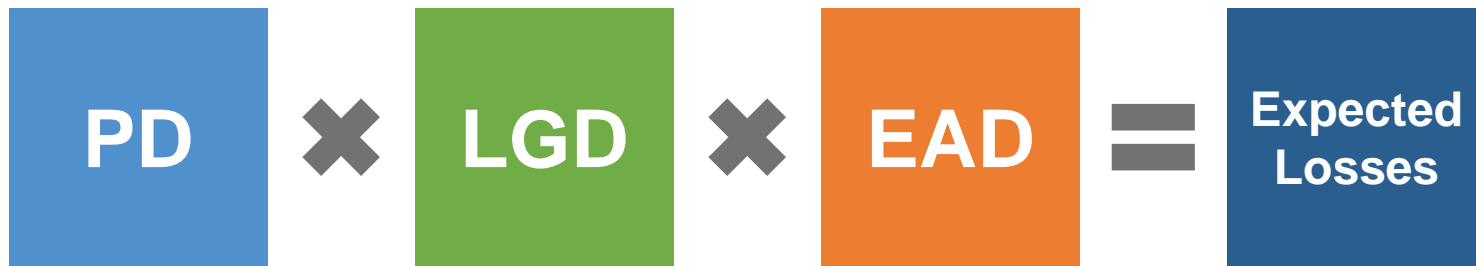
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-0.01106	0.00342	-3.23019	0.00231	-0.01796	-0.00416	-0.01796	-0.00416
Un-employ-ment rate	0.00148	0.00016	9.34915	0.00000	0.00116	0.00180	0.00116	0.00180
5-year Treasury yield	-0.00046	0.00013	-3.58313	0.00083	-0.00072	-0.00020	-0.00072	-0.00020
House Price Index (Level)	0.00003	0.00002	2.25404	0.02911	0.00000	0.00007	0.00000	0.00007

Understanding and Forecasting



PD / LGD Method.

- Methodology gaining popularity after mentions in Basel II, Basel III and FASB CECL guidance
- Currently used by larger institutions, primarily



- **PD (probability of default)**: the average percentage of members that default over a certain time period
- **LGD (loss given default)**: the percentage of exposure to a credit union if the member defaults
- **EAD (exposure at default)**: an estimate of the outstanding amount, or exposure to the credit union, in the event a member defaults

Probability of Default – Example.

- Definition of “default” must be determined – 90 days past due?
- Also, time period over which PD is measured

Probability of Default Calculations

June 2015 - Balances

Segment: Commercial & Industrial (C & I)

Probability of Default Factors

Risk Level	Probability of Default
Pass	0.7500%
Special Mention	1.8000%
Substandard	5.0000%
Doubtful	40.0000%
Loss	80.0000%

Loss Given Default – Example.

Loss Given Default Calculations

Please use this screen to configure your Loss Given Default Factors

June 2015 - Balances

Segment: Commercial & Industrial (C & I) ▼

Loss Given Default Factors

Risk Rating	Loss Given Default
1	4.0000%
2	6.0000%
3	8.5000%
4	11.2500%
5	12.7500%
6	20.0000%
7	35.0000%
8	50.0000%
9	75.0000%
Unknown	0.0000%

[Upload Your Own Supporting Documents](#)

PD / LGD – Example.

Loan Number	Customer Name	Loan Balance	Reserve Amount	Loan Type Code	Probability of Default	Loss Given Default	Qualitative Adjustments	Loss Rate
180110550	SULLIVAN FARM ASSOCIATION INC	\$79,295	\$1,067	Commercial & Industrial (C & I)	0.7500%	12.7500%	1.2500%	1.3456%
180110558	COMMODORE COMMONS CONDOMINIUM	\$128,514	\$2,069	Commercial & Industrial (C & I)	1.8000%	20.0000%	1.2500%	1.6100%
180110599	TWIN OAKS CONDO ASSOC INC	\$65,868	\$886	Commercial & Industrial (C & I)	0.7500%	12.7500%	1.2500%	1.3456%
180110619	AREA CONGREGATIONS TOGETHER INC	\$267,883	\$3,605	Commercial & Industrial (C & I)	0.7500%	12.7500%	1.2500%	1.3456%
180110722	FIRST ORONOKE INC	\$952,374	\$12,815	Commercial & Industrial (C & I)	0.7500%	12.7500%	1.2500%	1.3456%
180110751	JOE'S REFUSE REMOVAL LLC	\$40,087	\$539	Commercial & Industrial (C & I)	0.7500%	12.7500%	1.2500%	1.3456%
18531345	ALL ABOUT SERVICE S & P CARTING INC	\$0	\$0	Commercial & Industrial (C & I)	0.7500%	4.0000%	1.2500%	1.2800%
180210504	PIONEER GAS & APPLIANCE CO	\$236,674	\$3,185	Commercial & Industrial (C & I)	0.7500%	12.7500%	1.2500%	1.3456%

PD / LGD – Challenges & Benefits.

- Challenges
 - » Calculating PD and LGDs using internal resources – more complex
 - » Gathering and interpreting loss data
 - » Validating the model and proving forecasting accuracy
- Benefits
 - » Enables estimation of the reserve on a loan-by-loan basis
 - » Useful in situations where there is limited historical data by leveraging peer or industry data until internal data is developed
 - » Drive improvements in underwriting standards, data collection
 - » Leverage for Basel III or CCAR/DFAST (larger institutions)

Vintage Analysis.

- Track homogeneous loans by origination period
 - » Year, quarter, etc.
- Measure losses accumulated on each vintage
- Apply the expected cumulative loss to the remaining vintages outstanding
- At measurement date, adjust expected loss rate for current conditions and reasonable & supportable forecasts

Origination Year	Loss Rates by Vintage				
	Year 1	Year 2	Year 3	Year 4	Total
2010	0.20%	1.00%	1.40%	0.30%	2.90%
2011	0.25%	1.00%	1.50%	0.35%	3.10%
2012	0.30%	1.20%	1.30%		
2013	0.25%	1.25%			
2014	0.35%				
2015					



Can use economic indicators to forecast

Adapted from: "Credit Risk Management's Role in Measuring ECLs" by Graham Dyer of Grant Thornton at 2015 Risk Management Summit

Vintage Analysis.

- Challenges
 - » Does not capture the impact of Q Factors inherently
 - » May require more sophisticated techniques to identify correlations
 - » Difficult for new or growing product offerings
 - Must capture life of loan in history for analysis to be meaningful
- Benefits
 - » Establishes strong historical basis for expectation of lifetime losses
 - » Able to address portfolios that have inconsistent seasoning (growing or shrinking portfolios)

Source: "Credit Risk Management's Role in Measuring ECLs" by Graham Dyer of Grant Thornton at 2015 Risk Management Summit

How to Choose the Right Method.

- Carefully analyze your portfolio's performance and loss history
 - » For each line of business
 - » Engage credit and risk management partners
- Review your credit union's resources and data collection processes
- Account for changes in credit policies, portfolio volume and management
- Develop quantifiable research and documentation to support decision
- Consider different loss methods or periods across segments if portfolio analysis warrants the change

Trivia Time – U.S. History

Trivia Time – U.S. History

Which U.S. president fought in both the American Revolution and the War of 1812?

- James Monroe
- John Quincy Adams
- Andrew Jackson

Key Takeaways.

Supervisory Committee's Major Roles:

- Management's reporting objectives have been met
- Management practices and procedures safeguard members' assets

Ask this question to your credit union:

- What are we doing about CECL?

Contact Information & Questions.

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CECL Prep: Data Guide: web.sageworks.com/CECL-Prep-Guide-Data/

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