Disclaimer

This template demonstrates how the Scaled CECL Allowance for Losses Estimator (SCALE) method may be used by institutions with assets of less than $1 billion to estimate the allowances for credit losses (ACLs). The SCALE tool is intended to serve as an example of the potential implementation of the SCALE method. Each institution's management remains solely responsible for selecting and implementing an appropriate method to calculate the ACLs given the unique facts and circumstances of their institution.

The SCALE tool should be used with appropriate caution. By using the SCALE tool, you assume all risks related to your use of the SCALE tool, including your use of any updates. The Federal Reserve is providing the SCALE tool "as is" and the Federal Reserve expressly disclaims all warranties, express or implied, including any implied warranties of merchantability and fitness for a particular purpose. In no event will the Federal Reserve be liable to you or to any third party for any direct, indirect, incidental, consequential, special or exemplary damages or lost profit related to an institution's use of the SCALE tool. Users may not use or modify the SCALE tool and then present it as official government material.

An institution is permitted to utilize a different method for estimating its ACLs and management is not precluded from selecting a different method when it determines the method will result in a better estimate of an institution's ACLs. The selected method(s) should be appropriate for the financial assets being evaluated, consistent with the institution's size and complexity and should be well documented, with clear explanations of the supporting analyses and rationale.

Background

Financial Accounting Standards Board (FASB) Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* as well as the amendments issued since June 2016 (ASU 2016-13), are codified in Accounting Standards Codification (ASC) Topic 326, *Financial Instruments – Credit Losses* (FASB ASC Topic 326. FASB ASC Topic 326 was developed to be operably, scalable and flexible. The approach presented in this tool may be appropriate for institutions with assets of less than $1 billion. Because the approach presented in this tool leverages data from Schedule RI-C of the Call Report (Schedule RI-C), it is not appropriate for institutions with assets over $1 billion. ASC 326-20-30-7 states "[w]hen developing an estimate of expected credit losses on financial asset(s), an entity shall consider available information relevant to assessing the collectibility of cash flows. This information may include internal information, external information, or a combination of both…" It also says that in lieu of internal data, institutions may utilize (with appropriate adjustments) data produced from external sources [ASC 326-20-30-8] when assessing expected losses on a pooled basis.

Aggregated data reported on Schedule RI-C may be used to derive a proxy expected lifetime loss rate by dividing the aggregated allowance balance (per reporting pool) by the aggregated amortized cost of loans. This equation (ACLs divided by amortized cost of loans for each pool) could serve as the starting point for management's estimate of expected losses under the approach presented in this tool. The data reported in Schedule RI-C requires institutions with $1 billion or more in total assets to report disaggregated information by portfolio category on the amortized cost basis of held-for-investment loans and leases and the related balance in the allowance for credit losses at the end of each quarter in accordance with ASU 2016-13.

When estimating expected credit losses, FASB ASC Topic 326 requires management to consider forward-looking information that is both reasonable and supportable and relevant to assessing the collectibility of cash flows. FASB ASC Topic 326 also requires an institution to measure estimated expected credit losses over the contractual term of its financial assets, considering expected prepayments. Thus, management may employ industry and peer expected lifetime loss rates, reported on Schedule RI-C, as a starting point for estimating its ACLs. Management should then consider the need for adjustments to this information for differences in current asset specific risk characteristics [ASC 326-20-30-8], as well as institution specific forecasts of economic conditions [ASC 326-20-30-9]. These adjustments may be qualitative in nature. Institution management is responsible for ensuring these adjustments are relevant to the institution as of the reporting date, have sufficient supporting documentation, and are subject to appropriate internal controls and governance. (See the Interagency Policy Statement on the Allowances for Credit Losses[1] for further discussion of qualitative factor adjustments.)

Reporting aggregated ACLs data on Schedule RI-C is required for all institutions with total assets greater than $1 billion. These institutions are subject to annual independent audits and assessments of internal controls over financial reporting. The proxy expected lifetime loss rates would be generated using reported data from institutions that management believes have credit risk characteristics similar to its own. This data is available free of charge from the FFIEC's website at https://cdr.ffiec.gov/public/PWS/DownloadBulkData.aspx.

Utilizing the SCALE tool may not be appropriate for all institutions with total assets less than $1 billion. Determining whether the SCALE tool is appropriate for any particular financial institution is the responsibility of management, and the use of this tool does not by itself ensure compliance with U.S. Generally Accepted Accounting Principles (GAAP) or any other requirement. While ASC 326 allows entities to use judgment in determining the relevant information and estimation methods that are appropriate in their circumstances, institution management is responsible for ensuring that the ACLs conforms with GAAP and adequately covers credit risk.

A Frequent Asked Questions (FAQs) document has been prepared to further support institutions with implementation of the SCALE tool. These FAQs can be accessed at this link.

[1] https://www.federalreserve.gov/supervisionreg/srletters/SR2012.htm

Tab 1 – Summary

Use this tab to calculate the CECL ACLs for loans. Institutions are responsible for entering CECL ACLs lifetime loss rate information, which may be derived from internal or external data.

One possible source of external data can be derived from Schedule RI-C, Part II, of the Call Report. This approach calculates proxy expected lifetime loss rates by dividing the aggregate allowance balance by the aggregate amortized cost for each reported loan category. Institutions should use judgment when determining which peer group to incorporate from Schedule RI-C, Part II, and when determining how their institution differs from the peer group.

Cell Title	Description	More Information
Portfolio Segment	Enter the name of each portfolio segment to estimate ACLs.	Segmenting the portfolio by Call Report category may be sufficient, but more granular segments may be desired/necessary based on an institution's portfolio and credit risk management practices. Note: If management elects to further segment its portfolio, management will also need to identify an appropriate proxy expected lifetime loss rate for that segment.
End of Period Loan Balance	Enter the balance for each portfolio segment at the end of the reporting period.	
Loans Assessed on Individual Basis	Total loan balance for each portfolio segment for which loan losses were measured on an individual basis is *automatically populated* upon completion of tab 2. Refer to instructions for “Tab 2 – Individually Assessed.” ***Total loan balance cannot be below zero.***	Financial assets on which expected credit losses are measured on an individual basis should not also be included in a collective assessment of expected credit losses. Total loan balance of loans that are to be evaluated on individual basis should be subtracted from the total loan balance.

Cell Title	Description	More Information
Loans Assessed on Pooled Basis	Total loan balance of loans assessed on an individual basis is subtracted from total loan balance at the end of the period for each portfolio segment to *automatically populate* the total of loans assessed on pooled basis based on the formula in the spreadsheet.	
CECL ACL Lifetime Loss Rate	<u>Enter</u> proxy expected lifetime loss rates, e.g., rates as reported on Schedule RI-C of the Call Report from the latest reporting period available. ***CECL ACL Lifetime Loss Rate cannot be below zero.***	The data reported in Schedule RI-C requires institutions with $1 billion or more in total assets to report disaggregated information by portfolio category on the amortized cost basis of held-for-investment loans and leases and the related balance in the allowance for credit losses at the end of reporting period. ACL rates, derived from this schedule, already include the reporting institutions' assumptions related to reasonable and supportable forecasts, prepayments and some qualitative adjustments. Institution management is responsible for determining the appropriate proxy expected lifetime loss rate(s) to use. This includes deciding the population of institutions that should be included and whether it is appropriate to use an aggregated national loss rate or to segregate the information by a certain region, district or more customized peer group. Note: If management elects to further segment its portfolio, management will also need to identify an appropriate proxy expected lifetime loss rate for that segment.

Cell Title	Description	More Information
Adj for Qualitative Factors	Adjustment for qualitative factors for each portfolio segment is *automatically populated* upon completion of tab 3. Refer to instructions for "Tab 3 – Qualitative Adjustments."	Institution management is responsible for determining the necessary adjustments to account for the differences in asset specific characteristics and the institution's specific forecasts of economic conditions that may be unique to the institution.
Life of Loan Loss Rate	CECL ACL lifetime loss rate adjusted for qualitive factors is *automatically populated* for each portfolio segment based on the formula in the spreadsheet. ***Life of Loan Loss Rate cannot be below zero.***	
CECL ACL	Balance of loans assessed on pooled loan basis multiplied by life of loan loss rate for each portfolio segment is *automatically populated* based on the formula in the spreadsheet. ***CECL ACL balance cannot be below zero.***	
Adjustment for Historical Loss Experience	Adjustment for historical loss experience is *automatically populated* upon completion of tab 4. Refer to instructions for "Tab 4 – Adj. to Loss Rate." Total balance of loans assessed on a pooled loan basis multiplied by adjustment for historical loss experience is *automatically populated* based on the formula in the spreadsheet.	Institution management is responsible for determining the necessary adjustments to account for the differences in its historical performance and that of its peers that is not captured in the aggregated lifetime loss rate of its peers or industry.

Cell Title	Description	More Information
Expected Losses on Loans Assessed on Individual Basis	Expected loan losses on loans assessed on individual basis are *automatically populated* upon completion of tab 2. Refer to instructions for "Tab 2 – Individually Assessed." ***The balance of total expected losses cannot be below zero.***	
Total Expected Losses on Loans	Total expected losses on loans is based on the sum of total ACL balance for loans assessed on pooled and individual basis adjusted for historical loss experience and is *automatically populated* based on the formula in the spreadsheet.	
ACL/Total Loans	ACL balance divided by total loan balance is *automatically populated* based on the formula in the spreadsheet.	

Tab 2 – Individually Assessed

Use this tab to enter information for loans assessed for expected losses on an individual basis.

If a financial asset does not share risk characteristics with other financial assets, CECL accounting standard requires the expected credit losses on that asset to be measured on an individual asset basis. Financial assets on which expected credit losses are measured on an individual basis should not be included in a collective assessment of expected credit losses. The total loan balance of loans that are to be evaluated on an individual basis should be subtracted from the total loan balance in Tab 1. It would not be appropriate to apply proxy expected lifetime loss rates derived from Schedule RI-C data to individually assessed loans. Institution management is responsible for separately determining and inputting expected credit losses for individually assessed loans.

Cell Title	Description	More Information
Borrower/Relationship Name	Enter the name of each borrower/relationship for which loan losses are measured on individual basis.	
Note Number	Enter the note number for the respective borrower/relationship for which loan losses are measured on individual basis.	
Loan Balance by Portfolio Segment	Enter the total loan balance for the borrower/relationship for which loan losses are measured on individual basis by the portfolio segment.	Segmenting the portfolio by Call Report category may be sufficient, but more granular segments may be desired/necessary based on an institution's portfolio and credit risk management practices.
Amount expected to be Collected	Enter the total amount expected to be collected for each borrower/relationship for which loan losses are measured on individual basis.	Institution management is responsible for documenting its determination of loans that are required to be individually assessed and the amount expected to be collected.
CECL ACL	Amount expected to be collected is subtracted from the loan balance for each borrower/relationship to	The total CECL ACL balance on tab 2 is subtracted from total loan balance on tab 1 to arrive at the loan balance that

Cell Title	Description	More Information
	automatically populate CECL ACL balance, based on the formulas in the spreadsheet.	will be assessed for credit losses on a pool basis.

Tab 3 – Qualitative Adjustments

Use this table to enter qualitative adjustments that capture information not already incorporated in the expected loss rates.

Institution management should consider all qualitative factors that are relevant to the institution as of the reporting date, which may include but are not limited to:

- The nature and volume of the institution's financial assets;
- The existence, growth, and effect of any concentrations of credit;
- The volume and severity of past due financial assets, the volume of nonaccrual assets, and the volume and severity of adversely classified or graded assets;
- The value of the underlying collateral for loans that are not collateral-dependent;
- The institution's lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries;
- The quality of the institution's credit review function;
- The experience, ability, and depth of the institution's lending, investment, collection, and other relevant management and staff;
- The effect of other external factors such as the regulatory, legal, and technological environments; competition; and events such as natural disasters; and
- Actual and expected changes in international, national, regional, and local economic and business conditions and developments in which the institution operates that affect the collectability of financial assets.

Institution management is also responsible for maintaining appropriate documentation over qualitative adjustments. For reference, the Interagency Policy Statement on the Allowance for Credit Losses[2] contains a more detailed discussion of the application of qualitative factors and related documentation.

[2] https://www.federalreserve.gov/supervisionreg/srletters/SR2012.htm

Cell Title	Description	More Information
Adjustment	Enter an adjustment to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated and that management believes the condition is not already captured in the proxy expected lifetime loss rate derived from Schedule RI-C for each portfolio segment.	The institution should continue to consider all significant factors relevant to determining the expected collectability of financial assets as of each reporting date. Institution management is responsible for determining appropriate qualitative adjustments given the facts and circumstances of the institution. These qualitative factor adjustments may increase or decrease management's estimate of expected credit losses. The qualitative adjustment will increase/decrease CECL ACL Lifetime Loss Rate for loans assessed on pooled basis on "Tab 1 – Summary."
Comments	Enter summary comments and source of supporting analysis/narrative.	Institution management is responsible for documenting and supporting its qualitative adjustments.

Tab 4 – Adjustment to Proxy Expected Lifetime Loss Rate to Reflect Institution's Historical Performance

Use this tab to calculate adjustment to proxy expected lifetime loss rates to reflect an institution's historical performance.

Proxy expected lifetime loss rates derived from Schedule RI-C data must be adjusted to more accurately reflect an institution's own historical loss experience. One possible way to accomplish this is by adjusting for historical net charge-off performance (relative to peer) over an appropriate timeframe. Other approaches, such as making segment-specific adjustments, may also be appropriate based on management judgement.

Cell Title	Description	More Information
Peer Net Loss to Average Total LNLS	Enter annual net charge off rate for selected peer group.	Historical peer net charge-off rates can be found on page 7 of the Uniform Bank Performance Report (UBPR).[3] Note: Management is responsible for selecting the appropriate timeframe and peer group when making this adjustment.
Average	Average institution and peer net loss to average total is *automatically calculated* based on the information entered.	
Adjustment	Adjustment to external loss rate is *automatically calculated* as the difference between the average institution and peer net loss rates based on the formula in the spreadsheet.	The adjustment for historical loss experience will increase/decrease the total ACL balance for loans assessed on pooled basis on "Tab 1 – Summary."

[3] https://www.ffiec.gov/ubpr.htm