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CENTRAL TO AMERICA'S ECONOMY®

FAQs on the CECL SCALE Method and Tool

August 26, 2021

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Questions

- During the call, you can submit questions several ways.
 - **Via webinar chat:** You can submit a question via the **Ask Question** button in the webinar tool. Your question will only be seen by our presenters.
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Today's Presenters

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Disclaimer

The opinions expressed in the presentations are intended for informational purposes and are not formal opinions of, nor binding on the Federal Reserve Bank of St. Louis or the Board of Governors of the Federal Reserve System.

SCALE Method: What Is It?

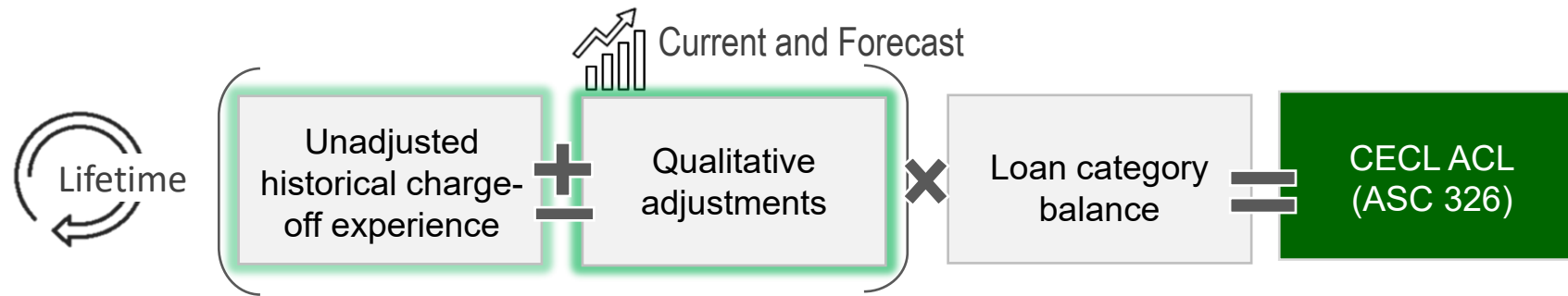
- One of many acceptable methods of applying CECL
- Designed for smaller, less complex institutions (not designed for larger institutions)
- SCALE tool leverages peer data from publicly available regulatory reports as a starting block.
- Like all other CECL methods, each institution **MUST** individually determine whether this method is appropriate based on its own unique facts and circumstances.

SCALE Method: What It Is *Not*

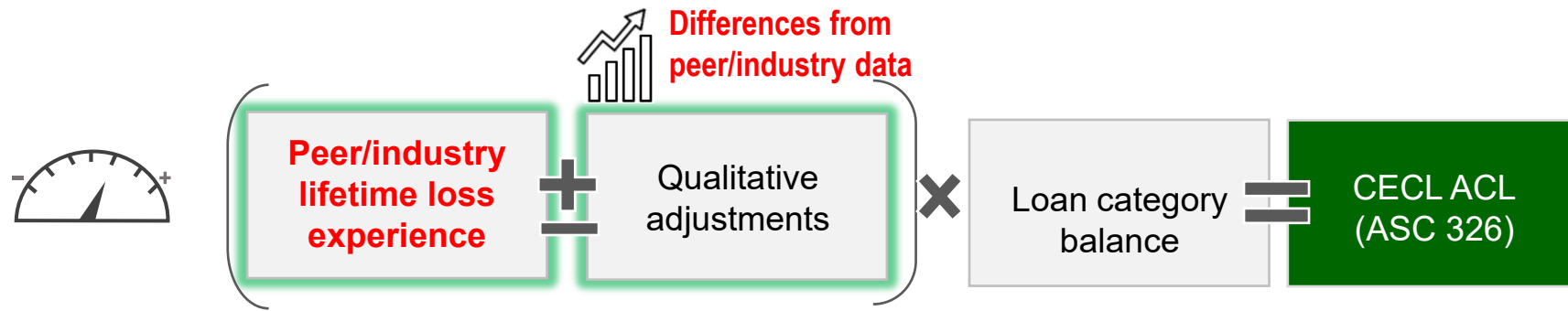
- Not a regulator-preferred method
- Does not ensure compliance with U.S. GAAP without proper management adjustments uniquely determined by each institution
- Not a safe harbor methodology; examiners will continue to review the overall ACL process.
- SCALE tool cannot be used by institutions with assets greater than \$1 billion.

SCALE Method: Overview

CECL



SCALE Method



SCALE Tool: Example

Portfolio Segment	End of Period Loan Balance	From Tab 2 Loans Assessed on Individual Basis	Calculated Loans Assessed on Pooled Basis	CECL ACL Lifetime Loss Rate	From Tab 3 Adj. for Qualitative Factors	Calculated Life of Loan Loss Rate	Calculated CECL ACL
Real Estate - Construction	\$ 14,960	\$ -	\$ 14,960	1.7407%	0.0500%	1.7907%	\$ 268
Real Estate - Commercial	\$ 79,473	\$ 697	\$ 78,776	1.5314%	0.0500%	1.5814%	\$ 1,246
Real Estate - Residential	\$ 51,063	\$ 361	\$ 50,702	0.8228%	0.0500%	0.8728%	\$ 443
Commercial	\$ 46,568	\$ 211	\$ 46,357	1.2572%	0.1000%	1.3572%	\$ 629
Credit Cards	\$ 294	\$ -	\$ 294	12.0382%	0.0000%	12.0382%	\$ 35
Other Consumer	\$ 7,644	\$ 243	\$ 7,401	1.7409%	0.1000%	1.8409%	\$ 136
Additional Segments	\$ -	\$ -	\$ -	0.0000%	0.0000%	0.0000%	\$ -
Total	\$ 200,001		\$ 198,489				\$ 2,757
Adjustment for Historical Loss Experience					From Tab 4	-0.1214%	\$ (241)
Expected Losses on Loans Assessed on Individual Basis						From Tab 2	\$ 429
Total Expected Losses on Loans							\$ 2,945
Ending Loss Rate (1.47%)				ACL/Total Loans			
				1.47%			

SCALE: FAQs

1. What are the supervisory expectations for banks that elect to use the SCALE tool?
2. Is SCALE right for my institution?
3. What are the other banking regulators' responses to SCALE?

SCALE: FAQs (continued)

4. Where could institutions find aggregated Schedule RI-C data in order to determine the proxy expected lifetime loss rate?
5. Is a bank that uses the SCALE tool limited to using the loan segments reported on Schedule RI-C of the Call Report?
6. Are qualitative factors still relevant when using the SCALE method for estimating the ACLs?

Questions



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Resources

To access more information on the SCALE method and tool, visit www.supervisionoutreach.org/cecl/scale.

The website includes a link to the archived Ask the Fed® webinar that provides more details on the SCALE model and tool. The website also provides supporting materials, including the SCALE Tool, SCALE Tool Instructions, and SCALE Tool Frequently Asked Questions.

Appendix

- ACL – Allowance for Credit Losses
- ASC – Accounting Standards Codification
- CECL – Current Expected Credit Losses
- GAAP – Generally Accepted Accounting Principles
- SCALE – Scaled CECL Allowance for Losses Estimator