Practical Methods Smaller,
Less Complex Community Banks
Can Use as a Starting Point for CECL

Speakers from:

► Board of Governors of the Federal Reserve System (FRB)
► Federal Deposit Insurance Corporation (FDIC)
► Conference of State Bank Supervisors (CSBS)
► Financial Accounting Standards Board (FASB)
► U.S. Securities and Exchange Commission (SEC)

February 27, 2018
Welcome everyone

• Today’s session
• Questions:
  – Email your question to: rapid@stls.frb.org
  or
  – Use the “Ask Question” button in the webinar tool:
• This call is being recorded and will be available immediately following the session.
  – Archived recording can be accessed using the same link as today’s webinar:
    https://www.webcaster4.com/Webcast/Page/583/24368
• A survey will be delivered via email following the call. Let us know your thoughts or ideas for future sessions.
Today’s Presenters

- **FRB**
  - Joanne Wakim, Chief Accountant
  - Sarah Chae, Senior Accounting Policy Analyst
- **FDIC**
  - Robert Storch, Chief Accountant
  - John Rieger, Deputy Chief Accountant
- **CSBS**
  - Kyle Thomas, Vice President, Supervision & Accreditation
- **FASB**
  - Shayne Kuhaneck, Assistant Director
- **SEC**
  - Sagar Teotia, Deputy Chief Accountant
Goals of Today’s Session

• Introduce various spreadsheet-based, CECL compliant loss rate methods

• Provide a starting point for institutions to estimate CECL – the first step in a multi-step process to estimate the allowance under CECL

• Share the agencies’ perspectives regarding data, process and controls

• Answer your questions
Not included in Today’s Session

- We are not providing a formula that allows institutions to continue today’s incurred loss method

- We will not be discussing
  - data management
  - qualitative adjustments
  - segmentation
Loss Rate Methods
Loss Rate Methods – Today

Current U.S. GAAP

Unadjusted historical charge-off experience ± Qualitative adjustments \( \times \) Loss emergence period \( \times \) Loan category balance = ASC 450 (FAS 5) ALLL
Loss Rate Methods – Today & Future

Current U.S. GAAP

- Unadjusted historical charge-off experience
- Qualitative adjustments
- Loss emergence period
- Loan category balance
  = ASC 450 (FAS 5) ALLL

CECL

- Unadjusted historical charge-off experience
- Qualitative adjustments
- Loss emergence
- Loan category balance
  = CECL ACL (ASC 326)
Loss Rate Methods – Today & Future

**Current U.S. GAAP**

---

**Annual**

- Unadjusted historical charge-off experience
- Qualitative adjustments
- Loss emergence period
- Loan category balance
- ASC 450 (FAS 5) ALLL

---

**Lifetime**

- Unadjusted historical charge-off experience
- Qualitative adjustments
- Loss emergence period
- Loan category balance
- CECL ACL (ASC 326)

---

**CECL**
Loss Rate Methods – Today & Future

Current U.S. GAAP

Annual
Unadjusted historical charge-off experience

Current Conditions
Qualitative adjustments

Loss emergence period

Loan category balance

ASC 450 (FAS 5) ALLL

CECL

Lifetime
Unadjusted historical charge-off experience

Current & Forecast
Qualitative adjustments

Loss emergence period

Loan category balance

CECL ACL (ASC 326)

Today’s focus!!
Loss Rate Methods – Today & Future

**Current U.S. GAAP**

- **Annual**
  - Unadjusted historical charge-off experience
  - Qualitative adjustments
  - Loss emergence period
  - Loan category balance
  - ASC 450 (FAS 5) ALLL

- **CECL**
  - Lifetime
  - Unadjusted historical charge-off experience
  - Qualitative adjustments
  - Loss emergence period
  - Loan category balance
  - CECL ACL (ASC 326)

**NOT today’s focus!!**
Refresher: Incurred Loss Calculation

<table>
<thead>
<tr>
<th>Year End</th>
<th>Amortized Cost</th>
<th>Average Balance</th>
<th>Annual Net Charge-offs</th>
<th>Annual Charge-off Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$ 9,350</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>9,398</td>
<td>$ 9,374</td>
<td>$ 32</td>
<td>0.34%</td>
</tr>
<tr>
<td>2017</td>
<td>10,779</td>
<td>10,088</td>
<td>33</td>
<td>0.33%</td>
</tr>
<tr>
<td>2018</td>
<td>11,050</td>
<td>10,914</td>
<td>50</td>
<td>0.46%</td>
</tr>
<tr>
<td>2019</td>
<td>10,738</td>
<td>10,894</td>
<td>42</td>
<td>0.39%</td>
</tr>
<tr>
<td>2020</td>
<td>10,000</td>
<td>10,369</td>
<td>31</td>
<td>0.30%</td>
</tr>
</tbody>
</table>

($ in thousands)

Totals may not sum precisely due to rounding
Key Reminders

• All loss rate methods shown today illustrate a *starting point*. Management must make necessary *adjustments* and holistically evaluate the overall result to determine the final allowance for credit losses.

• This presentation does *not* provide a complete list of loss rate methods.

• This list of CECL methods is *not* a regulator preferred or a “safe harbor” list of loss rate methods.

• Institutions may choose non-loss rate methods (e.g., PD/LGD, roll-rate, discounted cash flows).

• *There is no one method that is appropriate for every portfolio.*
Loss Rate Methods: Snapshot/Open Pool Method
What is Snapshot/Open Pool Method?

• The snapshot/open pool method takes a snapshot of a loan portfolio at a point in time in history and tracks that loan portfolio’s performance in the subsequent periods until its ultimate disposition

• Charge-offs in the subsequent periods are aggregated to derive an unadjusted lifetime historical charge-off rate

\[
\text{Lifetime historical charge-off rate associated with snapshot loan portfolio} = \frac{\text{Total charge-offs associated with snapshot loan portfolio}}{\text{Snapshot loan portfolio balance}}
\]
Example 1: Snapshot/Open Pool Method

Fact Pattern:
- Calculate the allowance for credit losses as of 12/31/2020
- CRE loan portfolio (pool with loans of similar risk characteristics)
  - Amortized cost basis of $10 million
  - Average life of 5 years (contractual term adjusted by prepayments and reasonably expected troubled debt restructuring)

Current Conditions and Forecast:
- Management expects the following in 2021 and 2022:
  - Decline in real estate values
  - Rise in unemployment
- Management cannot reasonably forecast beyond 2022
- Assume 0.25% qualitative adjustment to represent both current conditions and reasonable & supportable forecasts
Example 1: Snapshot/Open Pool Method (cont.)

<table>
<thead>
<tr>
<th>Year End</th>
<th>Amortized Cost</th>
<th>Charge-offs Associated with 2015 Snapshot Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$9,350</td>
<td></td>
</tr>
<tr>
<td>2016</td>
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<td>$32</td>
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<tr>
<td>2017</td>
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<td>$32</td>
</tr>
<tr>
<td>2018</td>
<td>11,050</td>
<td>14</td>
</tr>
<tr>
<td>2019</td>
<td>10,738</td>
<td>9</td>
</tr>
<tr>
<td>2020</td>
<td>10,000</td>
<td>2</td>
</tr>
</tbody>
</table>

($ in thousands)

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### Example 1: Snapshot/Open Pool Method (cont.)

<table>
<thead>
<tr>
<th>Year End</th>
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<th>Charge-offs Associated with 2015 Snapshot Balance</th>
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<td>2015</td>
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<tr>
<td>2019</td>
<td>10,738</td>
<td>9</td>
</tr>
<tr>
<td>2020</td>
<td>10,000</td>
<td>2</td>
</tr>
</tbody>
</table>

2015 Pool's cumulative charge-offs \(a\) $88

2015 Amort cost \(b\) $9,350

Unadjusted lifetime historical charge-off rate \(a/b\) 0.94%

Qualitative adjustments 0.25%

Total allowance for credit losses ratio as of 2020 \(c\) 1.19%

2020 Amort cost \(d\) $10,000

Total allowance for credit losses as of 2020 \(c\)\(\times\)\(d\) $119

($ in thousands)

Totals may not sum precisely due to rounding
Loss Rate Methods:
Remaining Life Method
What is Remaining Life Method?

- Remaining life method utilizes average annual charge-off rates and remaining life to estimate the allowance for credit losses
- For amortizing assets, remaining contractual life is adjusted by the expected scheduled payments and prepayments (i.e., paydowns)
- Average annual charge-off rate is applied to the amortization adjusted remaining life to determine the unadjusted lifetime historical charge-off rate

```
Avg annual charge-off rate × Amortization adjusted remaining life = Lifetime historical charge-off rate
```
Example 2: Remaining Life Method

Fact Pattern:
- Calculate the allowance for credit losses as of 12/31/2020
- CRE loan portfolio (pool with loans of similar risk characteristics)
  - Amortized cost basis of $10 million
  - Average life of 5 years (contractual term adjusted by prepayments and reasonably expected troubled debt restructuring)

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- Management expects the following in 2021 and 2022:
  - Decline in real estate values
  - Rise in unemployment
- Management cannot reasonably forecast beyond 2022
- Assume 0.25% qualitative adjustment to represent both current conditions and reasonable & supportable forecasts
## Example 2: Remaining Life Method (cont.)

### Step 1: Compute annual charge-off rate (same as incurred loss info)

($ in thousands)

<table>
<thead>
<tr>
<th>Year End</th>
<th>Amortized Cost</th>
<th>Average Balance</th>
<th>Annual Net Charge-offs</th>
<th>Annual Charge-off Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$9,350</td>
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</tr>
<tr>
<td>2020</td>
<td>10,000</td>
<td>10,369</td>
<td>31</td>
<td>0.30%</td>
</tr>
</tbody>
</table>

**Average annual charge-off rate** 0.36%

Totals may not sum precisely due to rounding
Example 2: Remaining Life Method (cont.)

Step 2: **Calculation Option 1**

<table>
<thead>
<tr>
<th>Year End</th>
<th>Est. Paydown</th>
<th>Projected Amort Cost</th>
<th>Avg Annual Charge-off Rate</th>
<th>Allowance for Credit Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>3,849</td>
<td>6,151</td>
<td>0.36%</td>
<td>36</td>
</tr>
<tr>
<td>2022</td>
<td>2,528</td>
<td>3,623</td>
<td>0.36%</td>
<td>22</td>
</tr>
<tr>
<td>2023</td>
<td>1,828</td>
<td>1,796</td>
<td>0.36%</td>
<td>13</td>
</tr>
<tr>
<td>2024</td>
<td>1,208</td>
<td>588</td>
<td>0.36%</td>
<td>7</td>
</tr>
<tr>
<td>2025</td>
<td>588</td>
<td>-</td>
<td>0.36%</td>
<td>2</td>
</tr>
</tbody>
</table>

Estimated unadjusted lifetime charge-off amount $80

Unadjusted lifetime historical charge-off rate 0.80%
Qualitative adjustments 0.25%
Total allowance for credit losses rate as of 2020 1.05%
Total allowance of credit losses as of 2020 ($10,000 x 1.05%) $105

($ in thousands)
Example 2: Remaining Life Method (cont.)

Step 2: *Calculation Option 2*

<table>
<thead>
<tr>
<th>Year End</th>
<th><em>Est. Paydown</em></th>
<th>Projected Amort Cost</th>
<th>Remg Life</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020 Actual Amortized Cost</td>
<td>10,000</td>
<td>1.00</td>
</tr>
<tr>
<td>2021</td>
<td>3,849</td>
<td>6,151</td>
<td>2.00</td>
</tr>
<tr>
<td>2022</td>
<td>2,528</td>
<td>3,623</td>
<td>3.00</td>
</tr>
<tr>
<td>2023</td>
<td>1,828</td>
<td>1,796</td>
<td>4.00</td>
</tr>
<tr>
<td>2024</td>
<td>1,208</td>
<td>588</td>
<td>5.00</td>
</tr>
<tr>
<td>2025</td>
<td>588</td>
<td>-</td>
<td>A</td>
</tr>
</tbody>
</table>

Weighted avg amortization adjusted remaining life: 2.22

- Average annual charge-off rate: 0.36%
- Unadjusted lifetime historical charge-off rate: 0.80%
- Qualitative adjustments: 0.25%

Total allowance for credit losses rate as of 2020: 1.05%

Total allowance of credit losses as of 2020 ($10,000 x 1.05%): $105

*Expected paydowns can be obtained from loan system or approximated from asset and liability management practices*
Example 2: Remaining Life Method (cont.)

Step 2: *Calculation Option 2 – Formula for 2.22 years*

<table>
<thead>
<tr>
<th>Year End</th>
<th>Paydown</th>
<th>Remg Life</th>
<th>D = BxC</th>
<th>D/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 Amort Cost</td>
<td>10,000</td>
<td>A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>3,849</td>
<td>1.00</td>
<td>3,849</td>
<td>0.38</td>
</tr>
<tr>
<td>2022</td>
<td>2,528</td>
<td>2.00</td>
<td>5,056</td>
<td>0.51</td>
</tr>
<tr>
<td>2023</td>
<td>1,828</td>
<td>3.00</td>
<td>5,484</td>
<td>0.55</td>
</tr>
<tr>
<td>2024</td>
<td>1,208</td>
<td>4.00</td>
<td>4,832</td>
<td>0.48</td>
</tr>
<tr>
<td>2025</td>
<td>588</td>
<td>5.00</td>
<td>2,940</td>
<td>0.29</td>
</tr>
</tbody>
</table>

Calc Method 1 (excel formula):

\[
2.22 = \frac{\text{Sumproduct (column B: Column C)}}{A}
\]

Calc Method 2:

\[
2.22 = \frac{\text{Sumproduct (column B: Column C)}}{A}
\]

Totals may not sum precisely due to rounding

($ \text{in thousands}$)
Loss Rate Methods:
Vintage Method
What is Vintage Method?

• “Vintage” refers to the year of origination
• Vintage method tracks all charge-offs associated with a specific vintage (i.e., origination year)
• Borrowers’ historical charge-off pattern is used to estimate future losses

\[
\text{Lifetime historical charge-off rate associated with 20XX vintage} = \frac{\text{Total charge-offs related to 20XX originations}}{\text{Total amount of 20XX originations}}
\]
Example 3: Vintage Method

Fact Pattern:
• Calculate the allowance for credit losses as of 12/31/2020
• CRE loan portfolio (pool with loans of similar risk characteristics)
  – Amortized cost basis of $10 million
  – Average life of 5 years (contractual term adjusted by prepayments and reasonably expected troubled debt restructuring)

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  – Rise in unemployment
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SAME FACT PATTERNS AS PRIOR METHODS
Example 3: Vintage Method (cont.)

Step 1: Capture and organize historical loan charge-off data

<table>
<thead>
<tr>
<th>Origination</th>
<th>Amount</th>
<th>Date</th>
<th>Period 1</th>
<th>Period 2</th>
<th>Period 3</th>
<th>Period 4</th>
<th>Period 5</th>
<th>Inception to Date Charge-offs</th>
<th>Total Lifetime Charge-offs</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>5,500</td>
<td>2015</td>
<td>2</td>
<td>19</td>
<td>14</td>
<td>8</td>
<td>2</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>$</td>
<td>5,000</td>
<td>2016</td>
<td>2</td>
<td>35</td>
<td>15</td>
<td>8</td>
<td></td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>$</td>
<td>3,500</td>
<td>2017</td>
<td>-</td>
<td>18</td>
<td></td>
<td>8</td>
<td></td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>$</td>
<td>3,100</td>
<td>2018</td>
<td>1</td>
<td>14</td>
<td></td>
<td></td>
<td></td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>$</td>
<td>3,100</td>
<td>2019</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>$</td>
<td>2,940</td>
<td>2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

($ in thousands)

Totals may not sum precisely due to rounding.
Example 3: Vintage Method (cont.)

Step 2: Compute loan charge-off rates

<table>
<thead>
<tr>
<th>Origination</th>
<th>Charge-offs (%)</th>
<th>Inception to Date Charge-offs</th>
<th>Total Lifetime Charge-offs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>Date</td>
<td>Period 1</td>
<td>Period 2</td>
</tr>
<tr>
<td>$ 5,500</td>
<td>2015</td>
<td>0.04%</td>
<td>0.35%</td>
</tr>
<tr>
<td>$ 5,000</td>
<td>2016</td>
<td>0.04%</td>
<td>0.70%</td>
</tr>
<tr>
<td>$ 3,500</td>
<td>2017</td>
<td>0.00%</td>
<td>0.50%</td>
</tr>
<tr>
<td>$ 3,100</td>
<td>2018</td>
<td>0.04%</td>
<td>0.45%</td>
</tr>
<tr>
<td>$ 3,100</td>
<td>2019</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>$ 2,940</td>
<td>2020</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Denominator is the origination amount (NOT the outstanding loan balance) used to compute loan charge-off rates under vintage analysis.
Example 3: Vintage Method (cont.)

Step 3: Determine which historical loss period is a reasonable period on which to base the expected credit loss rate calculation

<table>
<thead>
<tr>
<th>Origination</th>
<th>Charge-offs (%)</th>
<th>Remaining Lifetime Charge-offs (%)</th>
<th>Remaining Lifetime Charge-offs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>Date</td>
<td>Period 1</td>
<td>Period 2</td>
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<td>2017</td>
<td>0.00%</td>
<td>0.50%</td>
</tr>
<tr>
<td>$ 3,100</td>
<td>2018</td>
<td>0.04%</td>
<td>0.45%</td>
</tr>
<tr>
<td>$ 3,100</td>
<td>2019</td>
<td>0.02%</td>
<td>0.50%</td>
</tr>
<tr>
<td>$ 2,940</td>
<td>2020</td>
<td>0.03%</td>
<td>0.50%</td>
</tr>
</tbody>
</table>

Average charge-off rate 0.03% 0.50% 0.26% 0.15% 0.04%

($ in thousands)

Totals may not sum precisely due to rounding
### Example 3: Vintage Method (cont.)

#### Step 4: Compute allowance for credit losses: $A \times B = C$

<table>
<thead>
<tr>
<th>Amount</th>
<th>Date</th>
<th>Period 1</th>
<th>Period 2</th>
<th>Period 3</th>
<th>Period 4</th>
<th>Period 5</th>
<th>Remaining Lifetime Charge-offs (%)</th>
<th>Remaining Lifetime Charge-offs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,500</td>
<td>2015</td>
<td>0.04%</td>
<td>0.35%</td>
<td>0.25%</td>
<td>0.15%</td>
<td>0.04%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>$5,000</td>
<td>2016</td>
<td>0.04%</td>
<td>0.70%</td>
<td>0.30%</td>
<td>0.16%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>$2</td>
</tr>
<tr>
<td>$3,500</td>
<td>2017</td>
<td>0.00%</td>
<td>0.50%</td>
<td>0.23%</td>
<td>0.15%</td>
<td>0.04%</td>
<td>0.19%</td>
<td>$7</td>
</tr>
<tr>
<td>$3,100</td>
<td>2018</td>
<td>0.04%</td>
<td>0.45%</td>
<td>0.26%</td>
<td>0.15%</td>
<td>0.04%</td>
<td>0.45%</td>
<td>$14</td>
</tr>
<tr>
<td>$3,100</td>
<td>2019</td>
<td>0.02%</td>
<td>0.50%</td>
<td>0.26%</td>
<td>0.15%</td>
<td>0.04%</td>
<td>0.95%</td>
<td>$30</td>
</tr>
<tr>
<td>$2,940</td>
<td>2020</td>
<td>0.03%</td>
<td>0.50%</td>
<td>0.26%</td>
<td>0.15%</td>
<td>0.04%</td>
<td>0.98%</td>
<td>$29</td>
</tr>
</tbody>
</table>

Unadjusted lifetime historical charge-offs $810,000$ $E = \text{sum of } C$

Unadjusted lifetime historical charge-off rate $0.81%$ $D/E$

Qualitative adjustments $0.25%$

Total allowance for credit losses rate as of 2020 $1.06%$ $F$

Total allowance of credit losses as of 2020 $106,000$ $E \times F$

($\text{in thousands}$)

Totals may not sum precisely due to rounding
Key Reminders

• All loss rate methods shown today illustrate a starting point. Management must make necessary adjustments and holistically evaluate the overall result to determine the final allowance for credit losses.

• This presentation does not provide a complete list of loss rate methods.

• This list of CECL methods is not a regulator preferred or a “safe harbor” list of loss rate methods.

• Institutions may choose non-loss rate methods (e.g., PD/LGD, roll-rate, discounted cash flows).

• There is no one method that is appropriate for every portfolio.
Common Challenge for All Loss Rate Methods

• Significant adjustments are necessary when:
  – Losses are minimal
  – Losses are sporadic with no predictive patterns
  – There is a low number of loans in each pool
  – Data is only available for a short historical period
  – Today’s portfolio composition varies significantly from historical portfolios
  – There are changes in economic environment (e.g., available historical data is from a recessionary period, but today’s environment is mid-expansionary period)
Important Considerations Regarding Data
Data Needs and Sources

• CECL allowances are based on “lifetime loan losses”

• Measure CECL allowances using relevant data about past events, including historical loss experience, current conditions, and reasonable and supportable forecasts

• Data availability is a factor to consider when selecting estimation method(s)

• Systems/operations and third party vendors

• Don’t wait! Begin now!
Data in Today’s Loss Rate Examples

- Unique loan identifier (i.e., account or loan number, borrower number)
- Loan product type
- Origination date
- Origination amount
- Maturity date
- Portfolio segmentation identifier
- Beginning and ending balances of a portfolio segment
- Periodic & cumulative charge-off & recovery amounts by date and unique loan identifier
- Paydown by unique loan identifier (scheduled payment and prepayments)
Additional Relevant Data

- Collateral/asset type
- Performance status (i.e., current, past due, reperforming)
- Other relevant credit risk metrics (e.g., LTV, credit scores, geographic location)
- Renewal and/or modification date
- Credit quality risk tracking
- Any data necessary to make current conditions and reasonable & supportable forecast adjustments
Understanding Your Starting Point, Process, and Controls
Understand your Starting Point

- CECL’s Objective is to report Management’s best estimate of losses as of the reporting date
- No single required method to determine expected losses
- Understanding the data used and model selected is key
Processes and Controls

- Judgment will be necessary to develop, document, and apply a systematic methodology for determining an estimate of current expected credit losses
- Existing procedural discipline is a useful starting point
Processes and Controls

• Continued applicability of Commission guidance including SAB 102 (parallel guidance to the 2001 Interagency Policy Statement on the allowance)

• Existing guidance directs registrants to ensure methodologies:
  – Include a detailed analysis of the loan portfolio;
  – Consider all known relevant factors affecting collectibility;
  – Are applied consistently but modified when appropriate;
  – Be well documented, in writing, with clear explanations of the supporting analyses and rationale.

• SEC OCA is available and welcomes consultation
Where Do We Go from Here?
First Steps: Done!

• Get familiar and get started!!
  – Review the Accounting Standards Update 2016-13, Topic 326, Financial Instruments--Credit Losses. Core CECL guidance can be found on pages 101 through 123 of the ASU.
  – Review the Joint Statement on the New Accounting Standard (ASU) on Financial Instruments--Credit Losses from June 17, 2016 and the Interagency FAQs.
  – Create a cross-functional CECL team and a CECL project plan
  – Listen to today’s webinar!!
Next steps:

• An institution should internally discuss methods presented during today’s webinar:
  – Do any of the methods presented today seem feasible?
  – Review the existing allowance for loan and lease losses methodology and compare to today’s examples – is there a method that best aligns with your existing process?
  – Do you have the appropriate data to support any of these methods?

• An institution should consult your auditors and/or regulators on your discussions and plans
Adopt and Adapt!!

Adopt (2020/2021)

Adapt

Monitor

Must always be GAAP compliant!!
Closing Remarks
Key Reminders

- All loss rate methods shown today illustrate a **starting point**. Management must make necessary **adjustments** and holistically evaluate the overall result to determine the final allowance for credit losses.

- This presentation does **not** provide a complete list of loss rate methods.

- This list of CECL methods is **not** a regulator preferred or a “safe harbor” list of loss rate methods.

- Institutions may choose non-loss rate methods (e.g., PD/LGD, roll-rate, discounted cash flows).

- **There is no one method that is appropriate for every portfolio.**
Resources (hyperlinks embedded)

• FASB Resources
  – FASB CECL Standard (core guidance p.101-123)
  – Transition Resource Group (TRG)
  – TRG – Meeting Materials
• Interagency Guidance
  – “Frequently Asked Questions on the Current Expected Credit Losses Methodology (CECL)”
• Federal Reserve Resources (webinars)
  – CECL Update: Frequently Asked Questions, October 3, 2017
  – Current Expected Credit Loss (CECL) Update: Current Supervisory Views, October 5, 2016
• FDIC Resources
• CSBS Resources
• AICPA Accounting for Credit Losses Resources
Acronyms

- AICPA – American Institute of Certified Public Accountants
- CECL – Current Expected Credit Loss
- CRE – Commercial Real Estate
- CSBS – Conference of State Bank Supervisors
- FASB – Financial Accounting Standards Board
- FDIC – Federal Deposit Insurance Corporation
- FRB – Board of Governors of the Federal Reserve System
- GAAP – Generally Accepted Accounting Principles
- LTV – Loan to Value
- OCA – Office of the Chief Accountant
- PD/LGD – Probability of Default/Loss Given Default
- SAB – Staff Accounting Bulletin
- SEC – U.S. Securities and Exchange Commission
To ask a question:

- Email your question to: rapid@stls.frb.org
- Use the “Ask Question” button in the webinar tool
Thanks for joining us.