FAQs on the CECL SCALE Method and Tool

August 26, 2021
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Today’s Presenters

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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

Unadjusted historical charge-off experience + Qualitative adjustments - Loan category balance = CECL ACL (ASC 326)

SCALE Method

Peer/industry lifetime loss experience + Qualitative adjustments - Loan category balance = CECL ACL (ASC 326)
### SCALE Tool: Example

<table>
<thead>
<tr>
<th>Portfolio Segment</th>
<th>End of Period Loan Balance</th>
<th>Loans Assessed on Individual Basis</th>
<th>Loans Assessed on Pooled Basis</th>
<th>CECL ACL Lifetime Loss Rate</th>
<th>Adj. for Qualitative Factors</th>
<th>Life of Loan Loss Rate</th>
<th>Calculated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate - Construction</td>
<td>$14,960</td>
<td>$-</td>
<td>$-</td>
<td>1.7407%</td>
<td>+/− 0.0500%</td>
<td>1.7907%</td>
<td>$268</td>
</tr>
<tr>
<td>Real Estate - Commercial</td>
<td>$79,473</td>
<td>$-</td>
<td>$-</td>
<td>1.5314%</td>
<td>+/− 0.0500%</td>
<td>1.5814%</td>
<td>$1,246</td>
</tr>
<tr>
<td>Real Estate - Residential</td>
<td>$51,063</td>
<td>$-</td>
<td>$-</td>
<td>0.8228%</td>
<td>+/− 0.0500%</td>
<td>0.8728%</td>
<td>$443</td>
</tr>
<tr>
<td>Commercial</td>
<td>$46,568</td>
<td>$-</td>
<td>$-</td>
<td>1.2572%</td>
<td>+/− 0.1000%</td>
<td>1.3572%</td>
<td>$629</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>$294</td>
<td>$-</td>
<td>$-</td>
<td>12.0382%</td>
<td>+/− 0.0000%</td>
<td>12.0382%</td>
<td>$35</td>
</tr>
<tr>
<td>Other Consumer</td>
<td>$7,644</td>
<td>$-</td>
<td>$-</td>
<td>1.7409%</td>
<td>+/− 0.1000%</td>
<td>1.8409%</td>
<td>$136</td>
</tr>
<tr>
<td>Additional Segments</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>0.0000%</td>
<td>+/− 0.0000%</td>
<td>0.0000%</td>
<td>$-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$200,001</strong></td>
<td><strong>$198,489</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$2,757</strong></td>
</tr>
</tbody>
</table>

#### Adjustment for Historical Loss Experience

- From Tab 4: -0.1214%  
  - Calculated: (−0.1214%)  
  - Total Expected Losses on Loans Assessed on Individual Basis: $2,945

#### Ending Loss Rate (1.47%)

- Total Expected Losses on Loans: $2,945
  - ACL/Total Loans: 1.47%

#### Calculations:

1. Expected Losses on Loans Assessed on Individual Basis: $2,945 (From Tab 2)
2. CECL ACL Lifetime Loss Rate: 1.7407% (From Tab 2)
3. Adj. for Qualitative Factors: +/− 0.0500% (From Tab 3)
4. Life of Loan Loss Rate: 1.7907% (Calculated)

Total: $2,757
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?
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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Via email: conversations@stls.frb.org
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