



CECL for Banks: Ready or Not

July 20, 2022

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CECL is Coming: What you need to know

- Timing
 - Where should you be?
- Early Adopters – What have we learned?
- Common questions we're receiving





Timing

Where should you be today?



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CECL Implementation Timeline

- If you have not started, get started NOW!
- You should have a methodology selected by now
- Q3 and Q4 – You should be running parallel with your currently methodology
- Be ready to adapt, as best practice will evolve after implementation





Early Adopters

What have we learned?



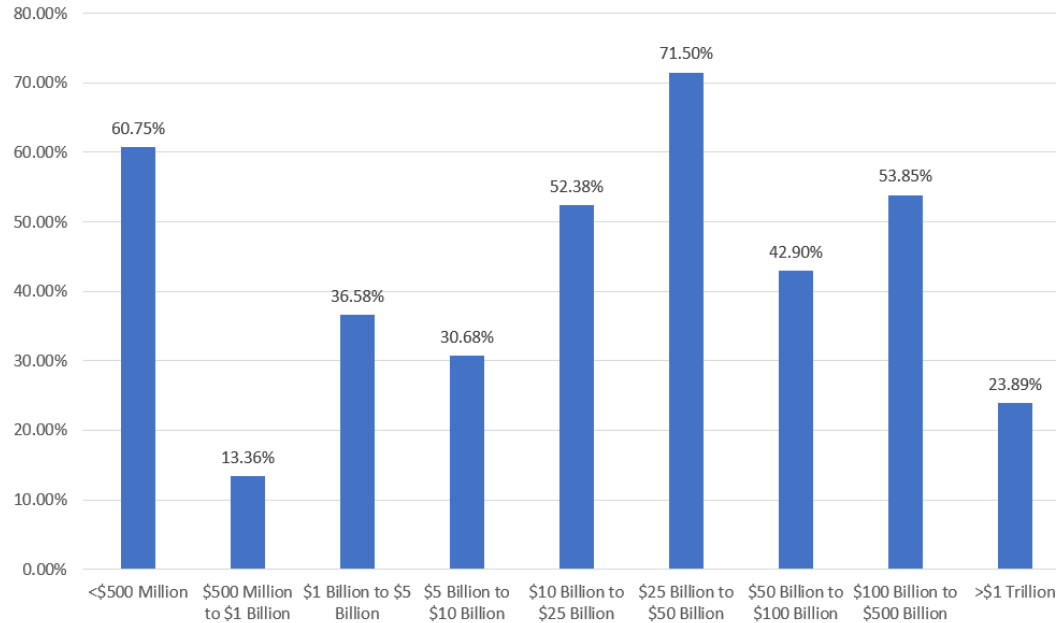
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Early Adopter Banks (Through 3/31/2022)

Sum of Adjustment to ALLL

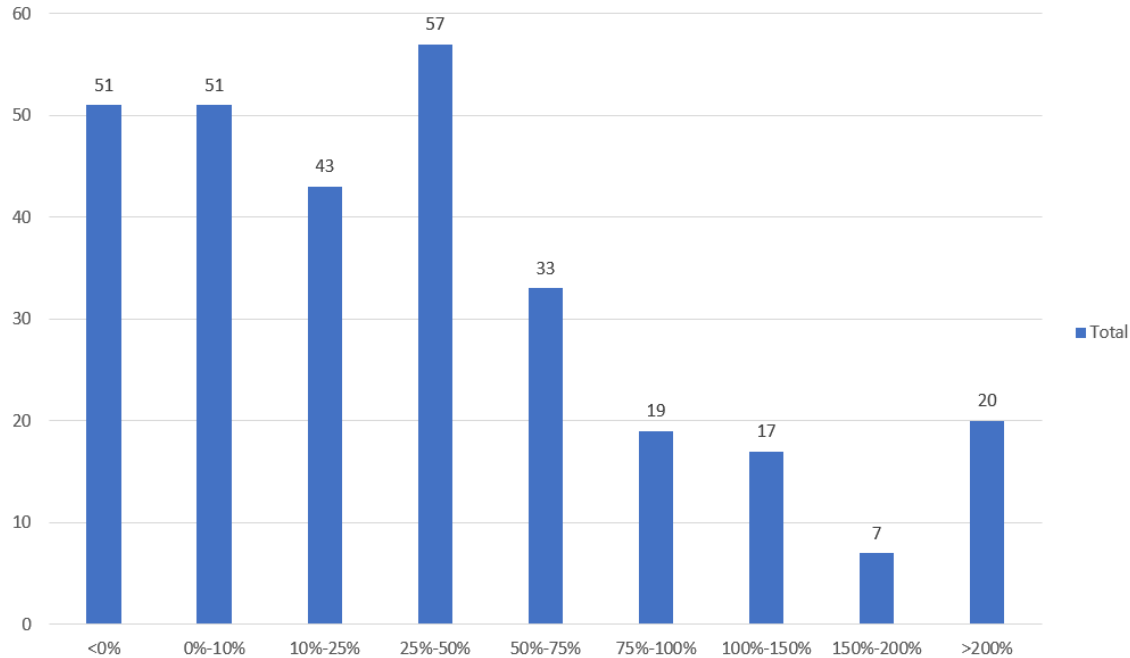
% ACL Increase Across Asset Strata



Early Adopter Banks (Through 3/31/2022)

Count of Adj Percentage

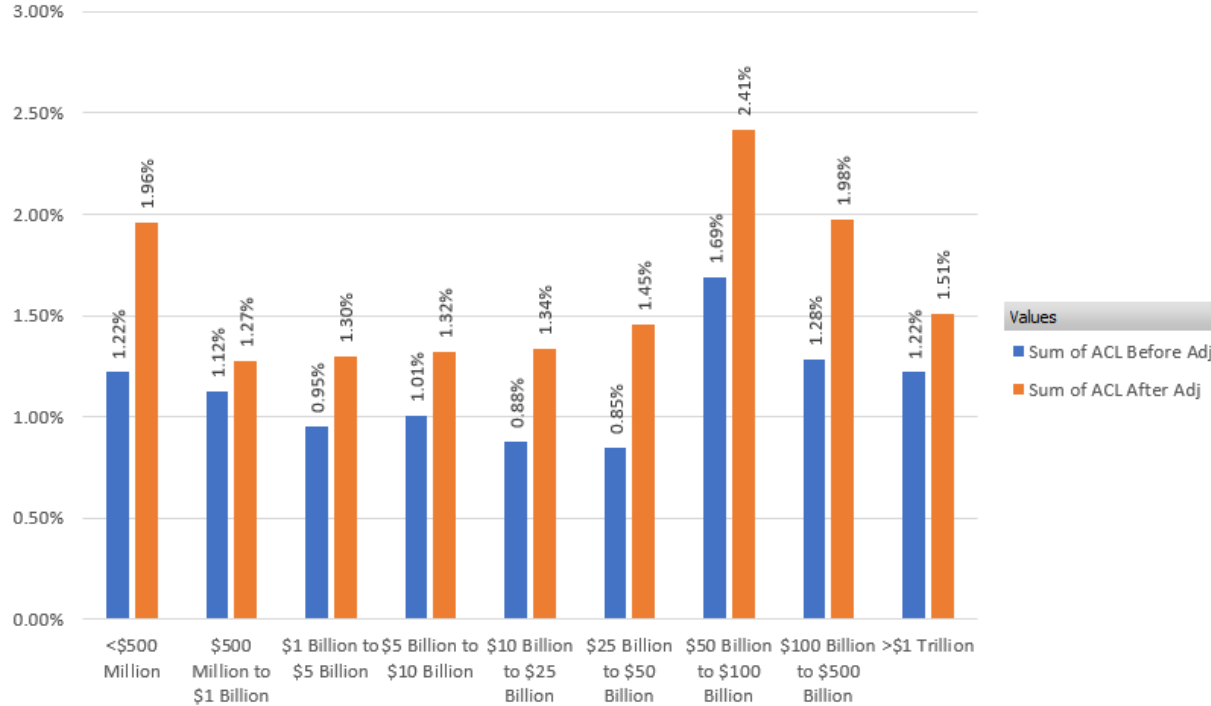
Count by % Increase in ACL



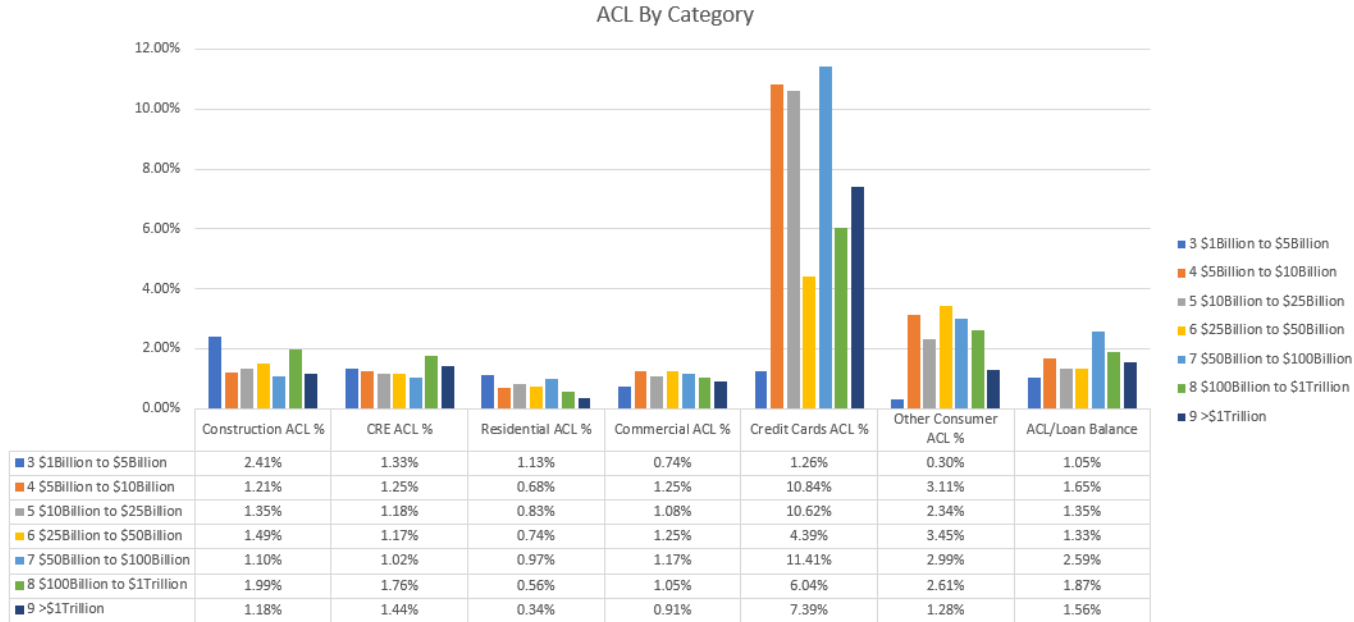
For CECL, Asset Size Matters

Sum of ACL Before Adj Sum of ACL After Adj

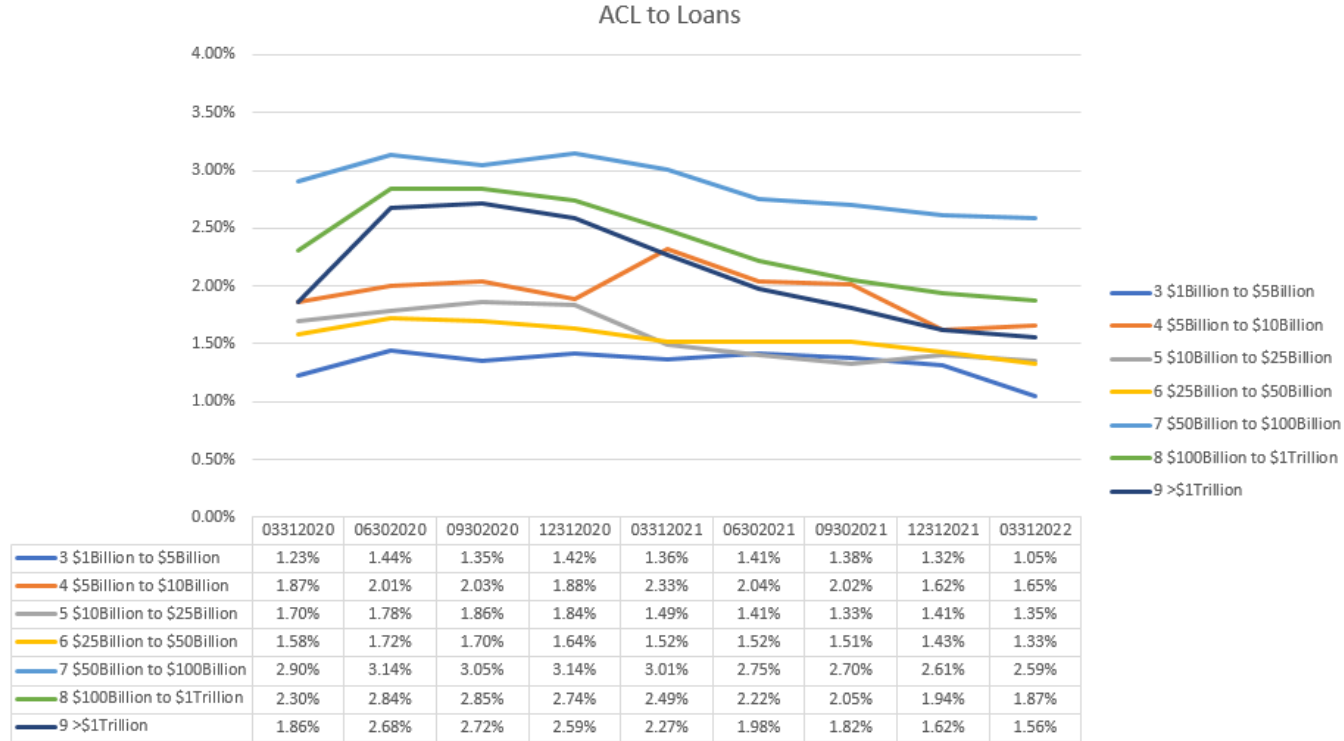
ACL as a % of Loans Before and After CECL



CECL Allowance Levels for Adopters 3/31/2022



CECL Allowance Trends





Common questions we're receiving



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Question #1 – Let's talk Q-Factors:

- Where do we begin?
- Are they going to change from what we're doing today?
- How does forecasting come into play?
- How do we support our adjustments?
- Where do we get information to support our Q-Factors?




Question #1 - Continued

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cpi

Trending Search Terms:

cpi

inflation

gdp

m2

10 year

consumer price index

unemployment rate

gold

m1

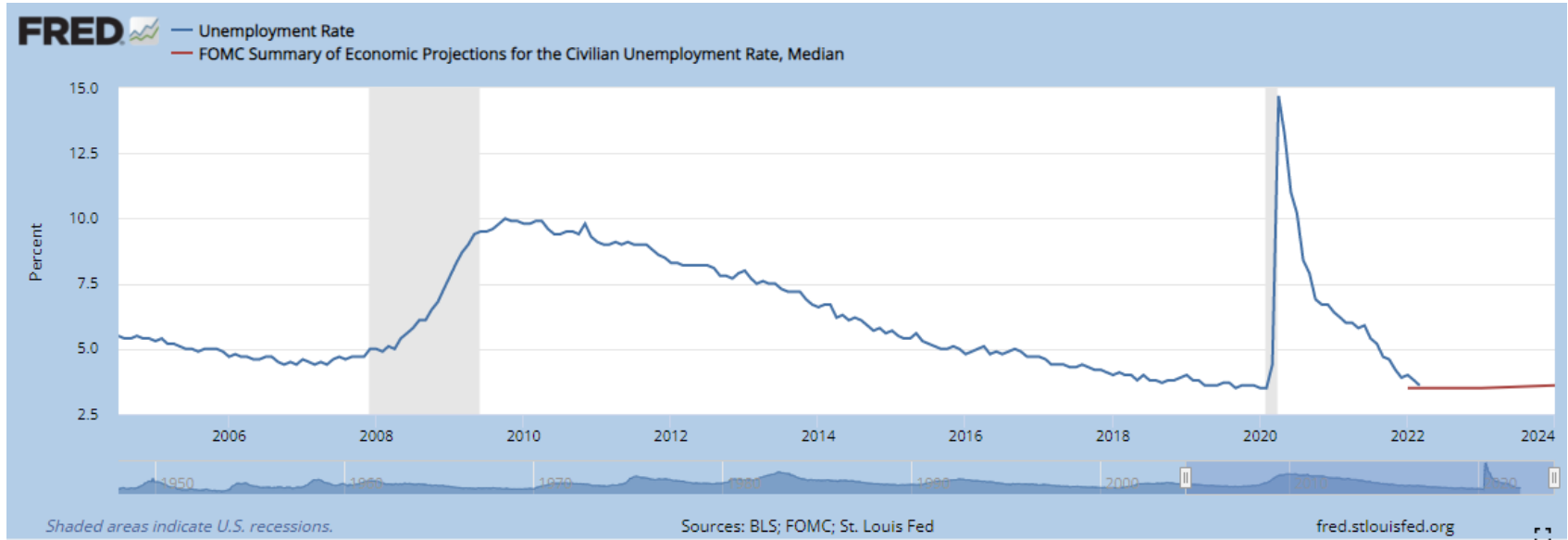
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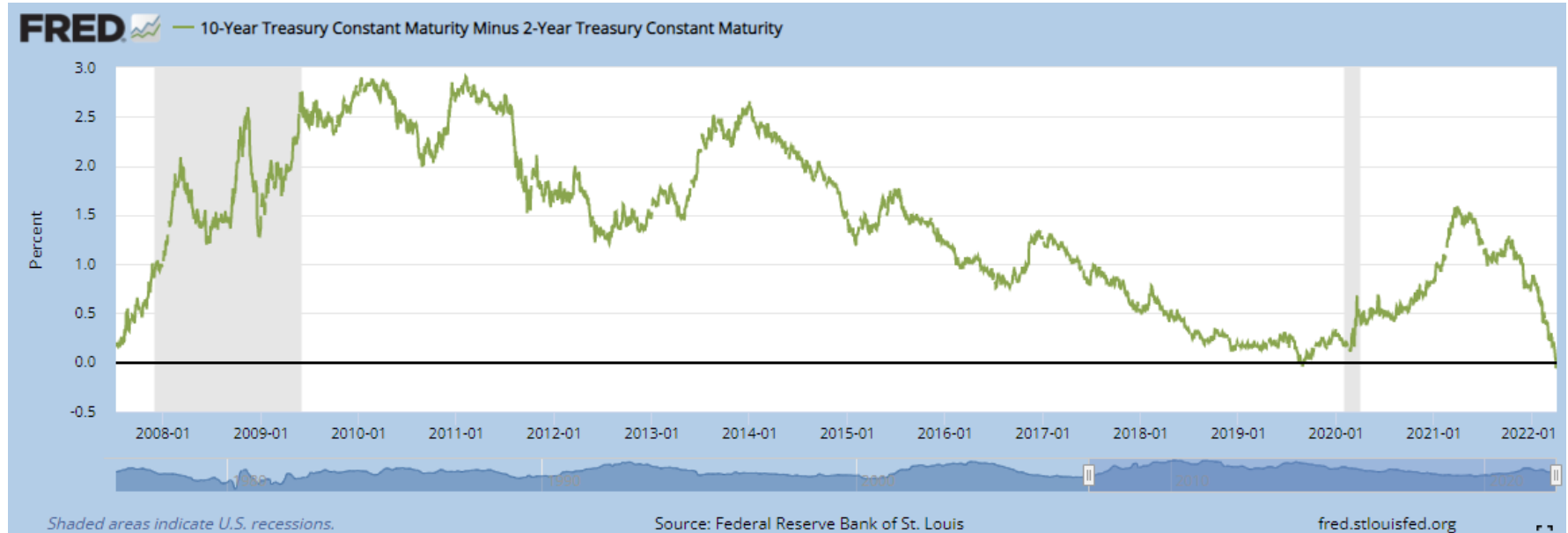
[Category](#) [Release](#) [Source](#) [Tag](#)
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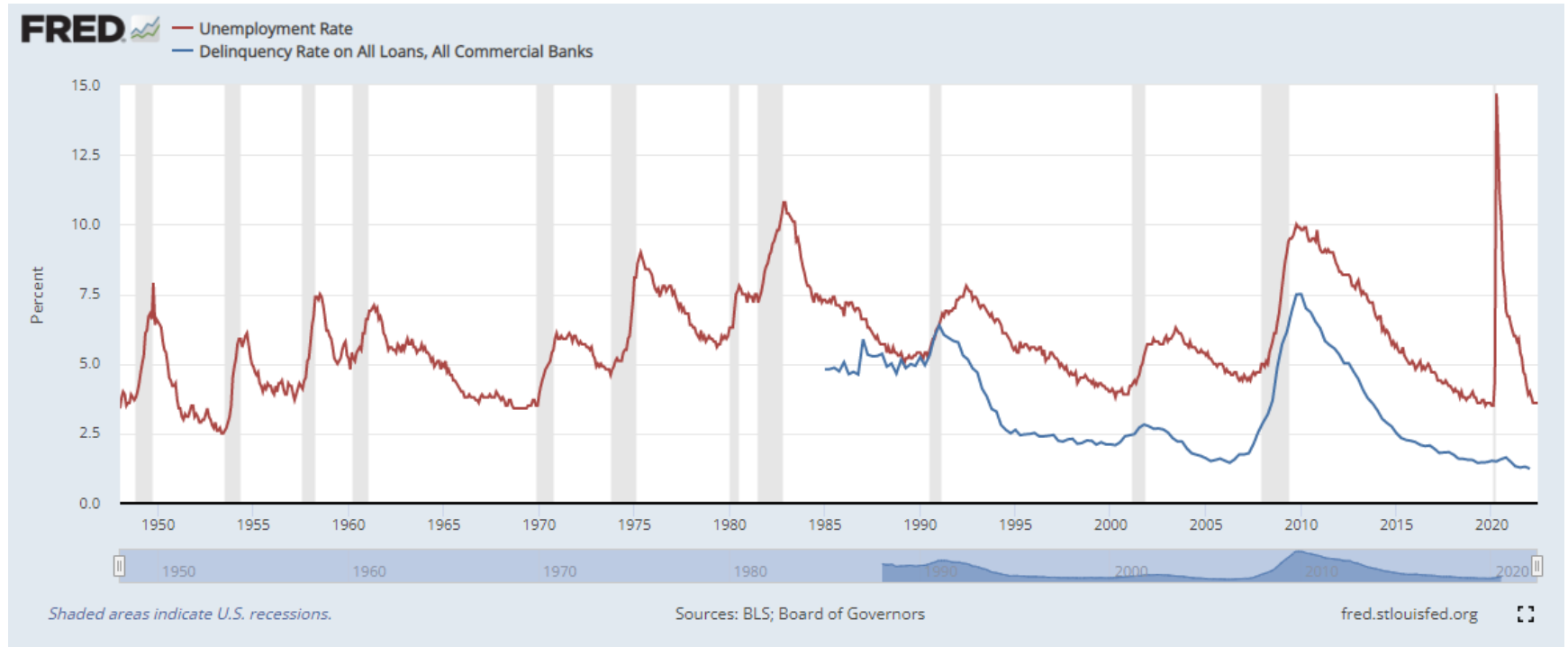
Federal Reserve Economic Data



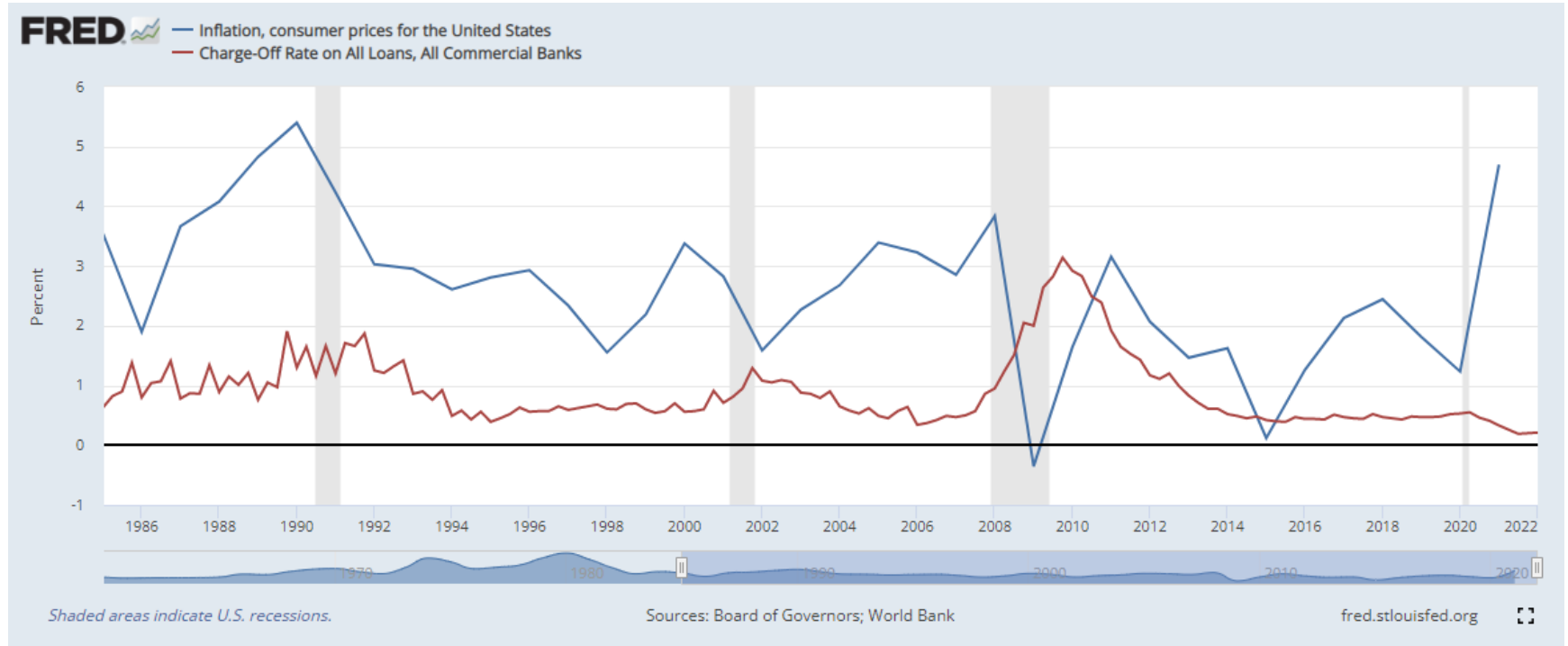
Federal Reserve Economic Data



Federal Reserve Economic Data



Federal Reserve Economic Data





Methodology Updates



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Question #2 – What methodologies are you seeing most in banking clients? What do you recommend?

Any reasonable approach or approaches may be used – guidance is not prescriptive such as

- Remaining maturity analysis
- Probability of default and loss given default
- Snapshot analysis
- Migration analysis
- Vintage analysis
- Discounted cash flow analysis



Remaining Maturity

Individually Evaluated Y/N	No										1
											Expected Chargeoffs
Row Labels	Sum of Net Active Principal Balance	Sum of WA Rate	Sum of WA Maturity	Years Remaining	Payment	Annual Loss Rates	Prepayment Assumption	Expected Lifetime Losses	% of Loan Portfolio		4/30/2022
Farmland	5,012,561	5.48%	3/2/2024	2.84	\$1,765,050.76	0.00%	10.00%	-	0.00%		-
1-4 Family Residential Closed 1s	1,535,103	5.55%	6/30/2024	3.17	484,695.48	1.22%	10.00%	37,195.69	2.42%		18,711.19
N.F.N.R - Owner Occupied	6,887,148	4.80%	3/29/2025	3.92	1,761,047.24	0.85%	10.00%	134,379.16	1.95%		58,706.62
N.F.N.R. - Non-Owner Occupied	1,835,930	4.96%	8/23/2024	3.32	553,687.97	0.66%	10.00%	24,922.01	1.36%		12,168.46
Ag Production	10,000	6.00%	5/1/2021	0.00	3,651,097.89	0.51%	10.00%	51.06	0.51%		51.06
Commercial / Industrial	20,411,834	5.17%	7/9/2024	3.20	6,393,192.49	0.45%	10.00%	182,427.03	0.89%		91,600.40
Automobile Loans	4,270,387	7.15%	11/8/2024	3.53	1,211,732.28	0.49%	10.00%	46,679.87	1.09%		21,129.13
Other Consumer Loans	6,906,484	6.84%	1/7/2024	2.69	2,568,940.25	1.91%	10.00%	239,821.93	3.47%		131,683.94
Grand Total	46,869,446	5.58%	7/19/2024								
								665,476.75	1.42%		

<u>WARM</u>			
	Principal	Allowance	% of Loans
Historical Loss Calculation	46,869,446	665,477	1.42%
Qualitative/Forecast Adjustment		185,495	0.40%
Total WARM ACL	46,869,446	850,972	1.82%
<u>Individually Evaluated Loans</u>			
Individually Evaluated Loans	6,071,193	485,340	7.99%
<u>Total ACL</u>			
Total ACL	52,940,639	1,336,312	2.52%



BankTrends WARM Methodology

For questions regarding use of the application please email:

info-bank-trends@curinos.com

For questions regarding the underlying inputs to calculate the allowance please contact:

[Your accounting advisor](#)

Consumer	Commercial	Total
2.61 1.07% 2.78%	2.61 2.24% 5.84%	2.61 2.00% 5.22%
WAL Loss Rate ALLL	WAL Loss Rate ALLL	WAL Loss Rate ALLL

\$422,529

Estimated Allowance

\$420,000

Prior Allowance

\$+2,529

Estimated allowance change from prior

1%

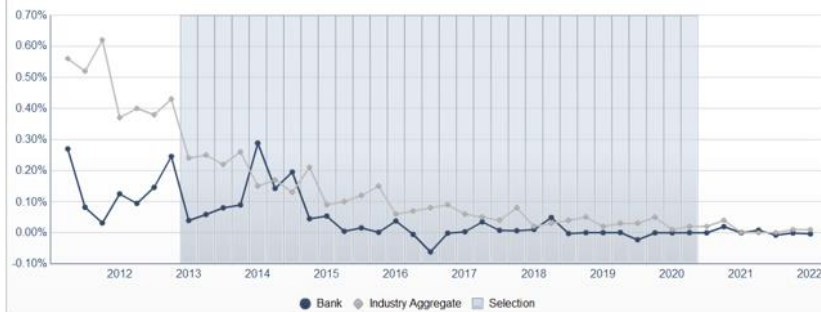
Balances	Life Inputs	NCO Analysis	NCO Inputs	Summary
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Loan Category 1-4 Family 1st Lien

Look Back Period 30 Quarters 6/30/20

	Bank	Industry
Selection	0.04%	0.10%
Full History	0.05%	0.14%

1-4 Family 1st Lien



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Balances	Life Inputs	NCO Analysis	NCO Inputs	Summary
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	WARM Balance	Portfolio %		Life Inputs			Total WAL (yrs)
		IO (%)	Amort	WARM (Qtrs)	CPR (%)	WAC (%)	
HELOCs	43,287	10	90%	20	5	3.50	2.61
1-4 Family 1st Lien	1,520,045	10	90%	20	5	3.50	2.61
1-4 Family 2nd Lien	30,154	10	90%	20	5	3.50	2.61
Credit Card	-	10	90%	20	5	3.50	2.61
Auto	5,124	10	90%	20	5	3.50	2.61
Other Consumer	24,335	10	90%	20	5	3.50	2.61
Consumer	1,622,945			20	5.0	3.50	2.61
1-4 Resi Const.	157,423	10	90%	20	5	3.50	2.61
Cml Const, A&D, Land	312,586	10	90%	20	5	3.50	2.61
Multi-Family	1,242,365	10	90%	20	5	3.50	2.61
Owner Occupied Cml	2,415,855	10	90%	20	5	3.50	2.61
Non-Owner Occ Cml	801,426	10	90%	20	5	3.50	2.61
C&I	1,200,014	10	90%	20	5	3.50	2.61
To Depository Institutions	-	10	90%	20	5	3.50	2.61
Agricultural Production	10,546	10	90%	20	5	3.50	2.61
All Other	325,689	10	90%	20	5	3.50	2.61
Commercial	6,465,904			20	5.0	3.50	2.61
Total Portfolio	8,088,849			20	5.0	3.50	2.61

Notes
All inputs are the responsibility of management. Any items pre-populated by Curinos are not recommendations nor are they based on industry averages.



Question #2a – What methodologies available from the regulatory agencies?

- **SCALE**
 - Scale leverages call report data for CECL adopters over \$1 billion in assets as a starting point for your CECL reserves
 - Compare your results from UBPR to that of peers
 - Qualitatively adjust to your expectation
- **Expected Loss Estimator (ELE) Tool**
 - Weighted average remaining maturity (WARM) tool using loan level detail
 - Data to be supplied by the institution into the model





Other Items



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Q3 – What else are you discussing with Clients?

- Model Validation
- FASB Items
 - TDR's
 - Purchased Loans
- Unfunded Commitments
- Investments





Questions?



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