

# Calculating Your Institution's CECL Allowance

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,  
an SEC-registered investment advisor



**We promise** to *know you and help you.*

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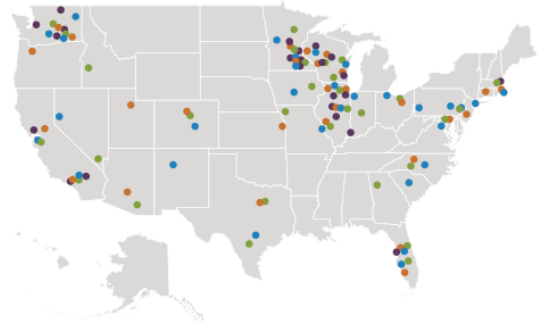


# Housekeeping

- If you are experiencing technical difficulties, please dial: **800-422-3623**.
- **Q&A session will be held at the end of the presentation.**
  - Your questions can be submitted via the **Questions Function at any time during the presentation.**
- The **PowerPoint presentation**, as well as the **webinar recording**, will be sent to you within the next 10 business days.
- Please complete our online survey.

# About CliftonLarsonAllen

- A professional services firm with three distinct business lines
  - Wealth Advisory
  - Outsourcing
  - Audit, Tax, and Consulting
- More than 5,400 employees
- Offices coast to coast
- Serve 1,500+ financial institutions



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# About Spotlight Financial

- Software development company that serves banks, credit unions, and their advisors
- Dashboard reports help streamline financial analysis
- Work with 400+ FIs across the country
- Wholly-owned subsidiary of Informa Financial

# Speaker Introductions

- Josh Juergensen, Principal, CLA
  - Connect with Josh on [LinkedIn](#)
- David Heneke, Principal, CLA
  - Connect with David on [LinkedIn](#)
- Michael Stinson, CEO, Spotlight Financial
  - Connect with Michael on [LinkedIn](#)
- Reid TenKley, President, Spotlight Financial
  - Connect with Reid on [LinkedIn](#)



# Overview

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### CLA Financial Institutions Group

*CLA exists to create opportunities for our clients, our people and our communities. We do this by extending and living the CLA Promise – we promise to know you and to help you.*

- We serve more than 1,500 clients
- 33 Financial Institution Principals
- More than 240 total FI staff



# Current Expected Credit Loss Rate

Step 1: What methodology are you going to use to calculate the number?

Historical Lifetime Loss Rate



Step 2: How are we going to adjust our qualitative factors and narratives to the new standard?

Qualitative Factors



Step 3: What is our forecast period and how are we going to adjust our history?

Forecast Adjustments

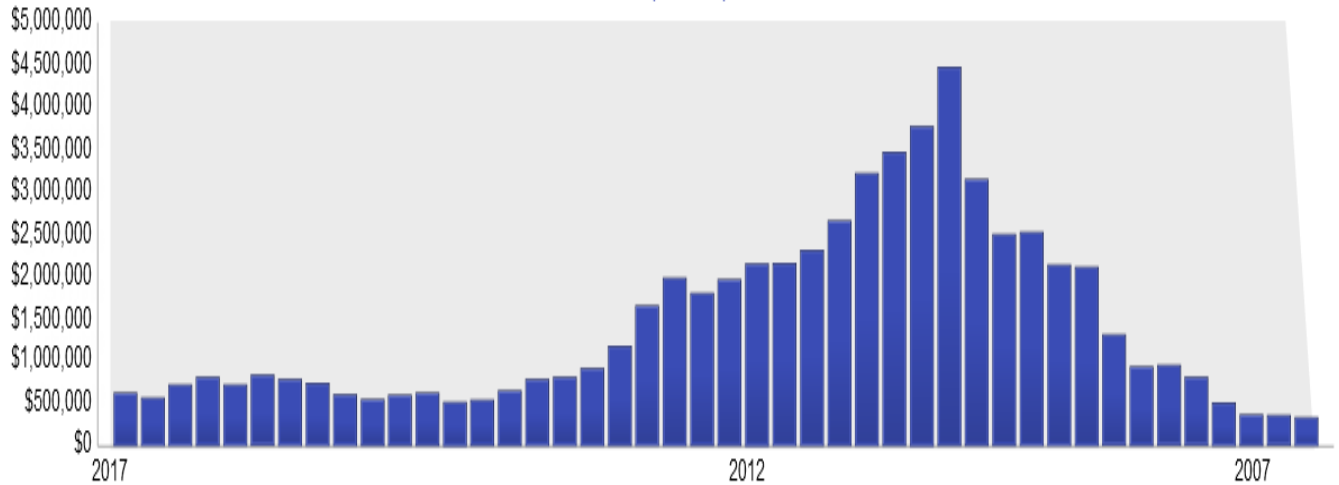


Current Expected Lifetime Loss Rate

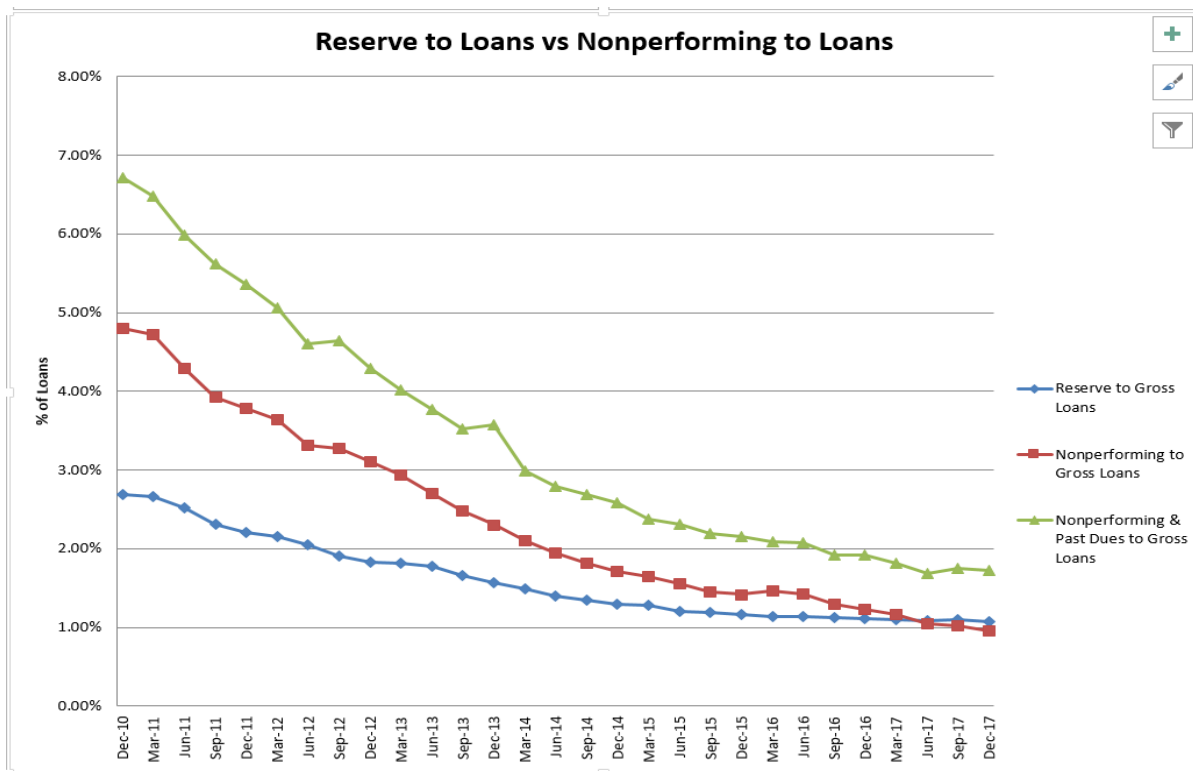


We have to start here, until we can compute our historic lifetime losses, we cannot start adjusting them to current expectations

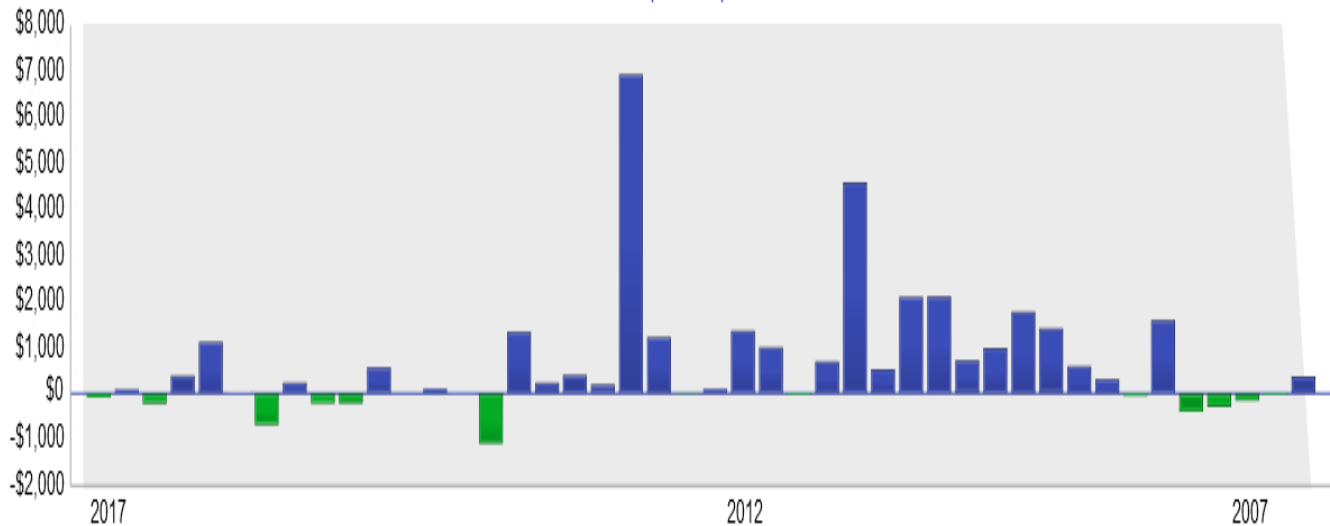
# Large Institution Charge-Off Curve



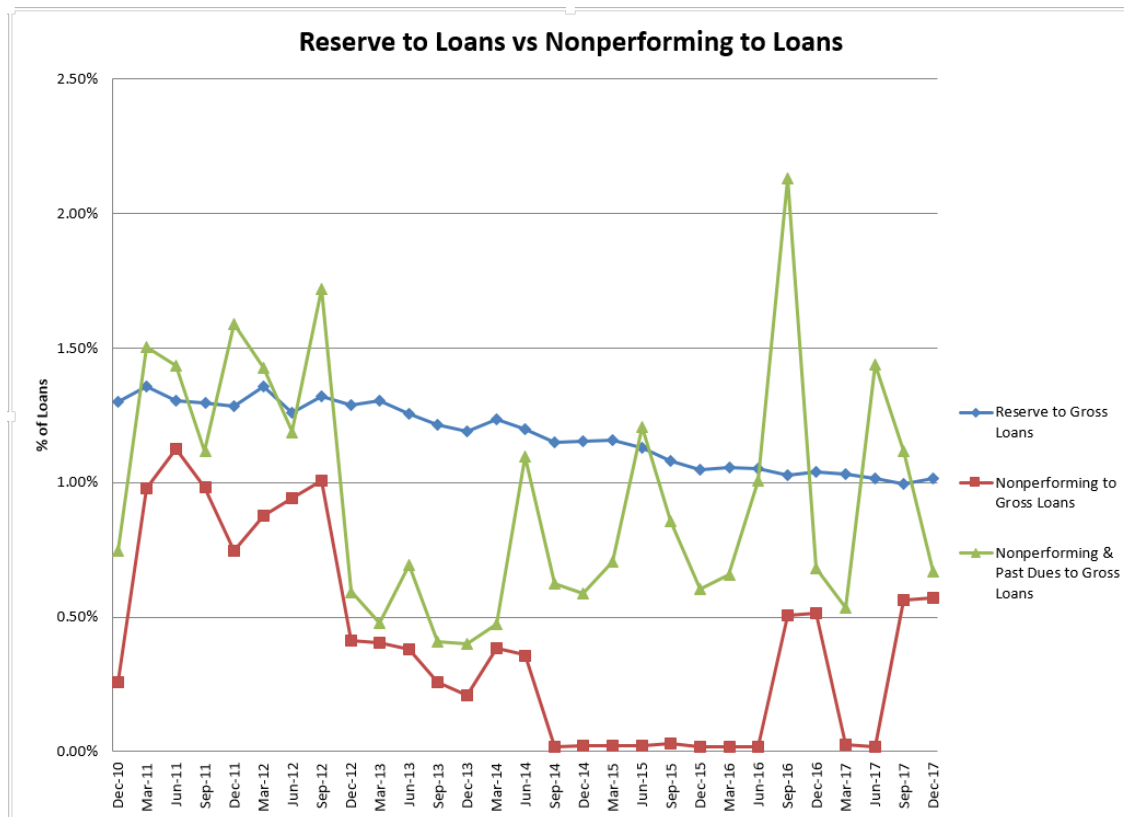
# Large Institution Trend Analysis



# Community Institution Charge-Off Curve



# Community Institution Trend Analysis





# Remaining Maturity Method

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# CECL Methodologies

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

- Remaining maturity analysis (Demo today)
- Loss-rate methods
- Probability of default and loss given default
- Snapshot analysis
- Migration analysis
- Vintage analysis
- Discounted cash flow analysis

# Preparation

- Communication with stakeholders
- Standard is designed to be scalable
- Methodology should fit the complexity of your loan portfolio and charge-off history



# Mapping CECL to Current ALLL

- Remaining Maturity
  - Change how we are applying annual loss rate to the principal balance of the loans, i.e. applying the annual loss rate over the lifetime of the loan as opposed to at a point in time
- All Other Methods
  - Change how we calculate the loss rate (i.e. lifetime loss rate as opposed to annual loss rate) that we apply to the principal balance of the loans



# Share Screen

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# Other Items

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# Benefits of Consulting

- Utilize tool for model validation if institution uses a more complex methodology
- Teach leaders in your institution how to use the CECL allowance calculator
- Help management or board members understand CECL concepts
- Evaluate CECL models, including data requirement identification and retention
- Access our CECL resources to help create a plan to meet the compliance requirements
- Assist in computation of inputs for various methodologies

# Closing Thoughts

## Overall impact on the industry

- Initial diversity in application of standard will result in hazy comparatives after implementation
- Expected diversities in practice
  - Reasonable and supportable periods
  - Methodologies for certain loan types
  - Examiner expectations and auditor expectations
  - Simplifying assumptions
- The standard is intended to be scalable, as the complexity of your models should reflect the complexity of your loan portfolio

# Questions



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