

Roadmap to CECIL for 2023 Filers

NOVEMBER 2, 2021



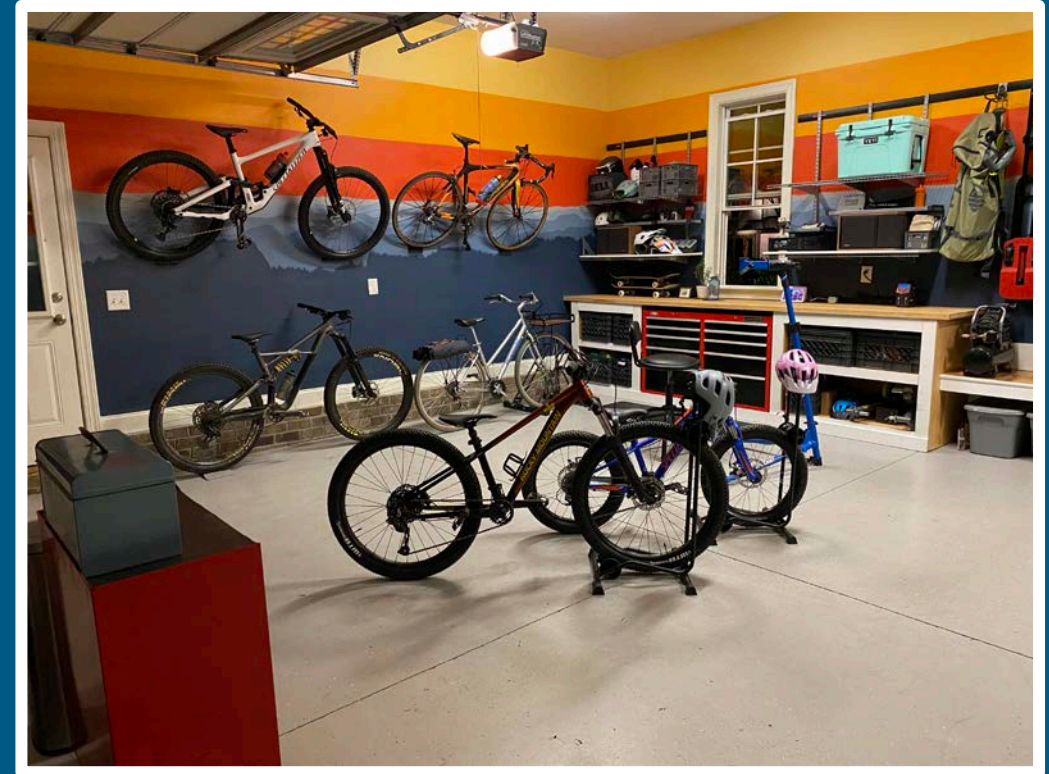
Today's Presenters



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Abrigo
CECL solution endorsed
by the ABA



Presentation Agenda

1

Lessons Learned

We've seen this movie before

2

Timeline

Where are we? Where are we going?

3

Readiness Expectations

Take action – very specific action

4

Questions

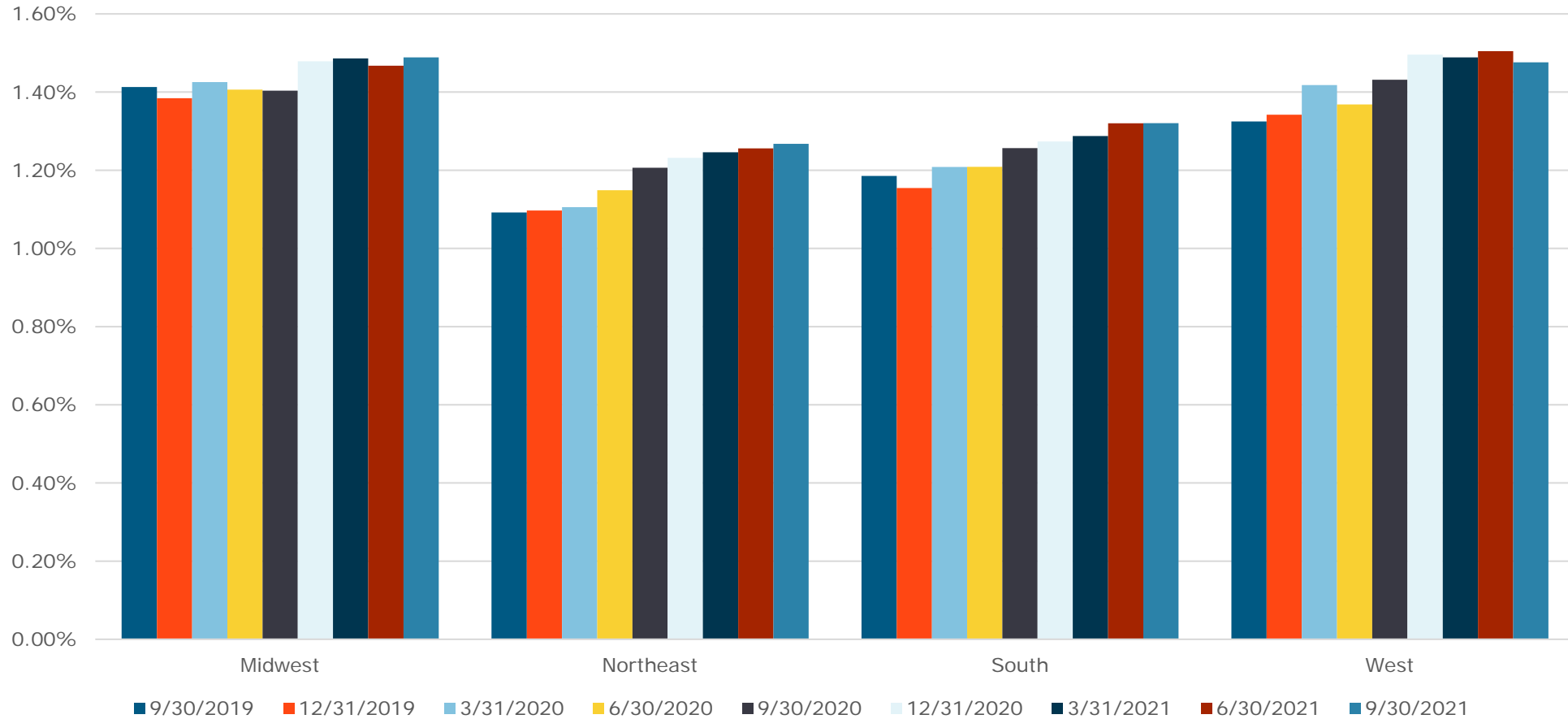
Q&A

Lessons Learned

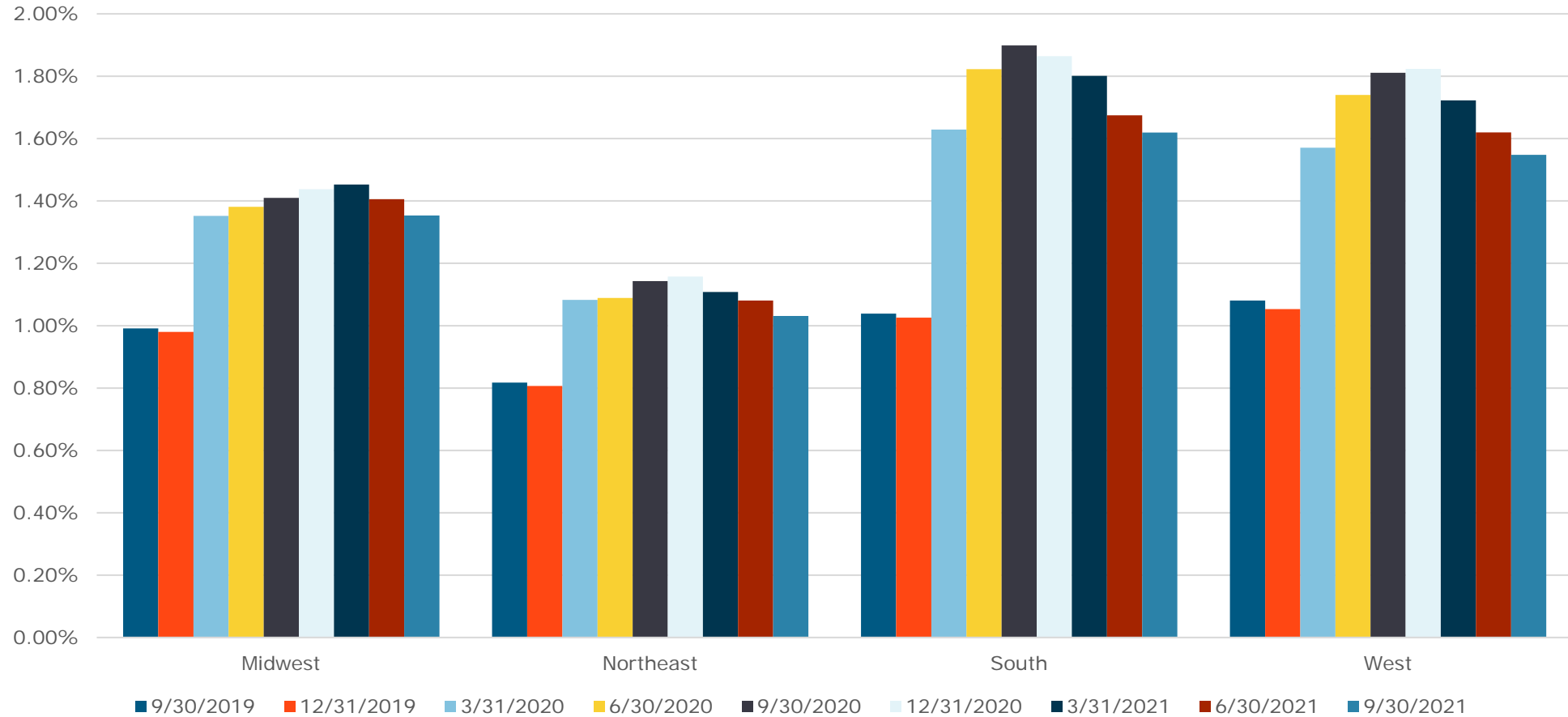


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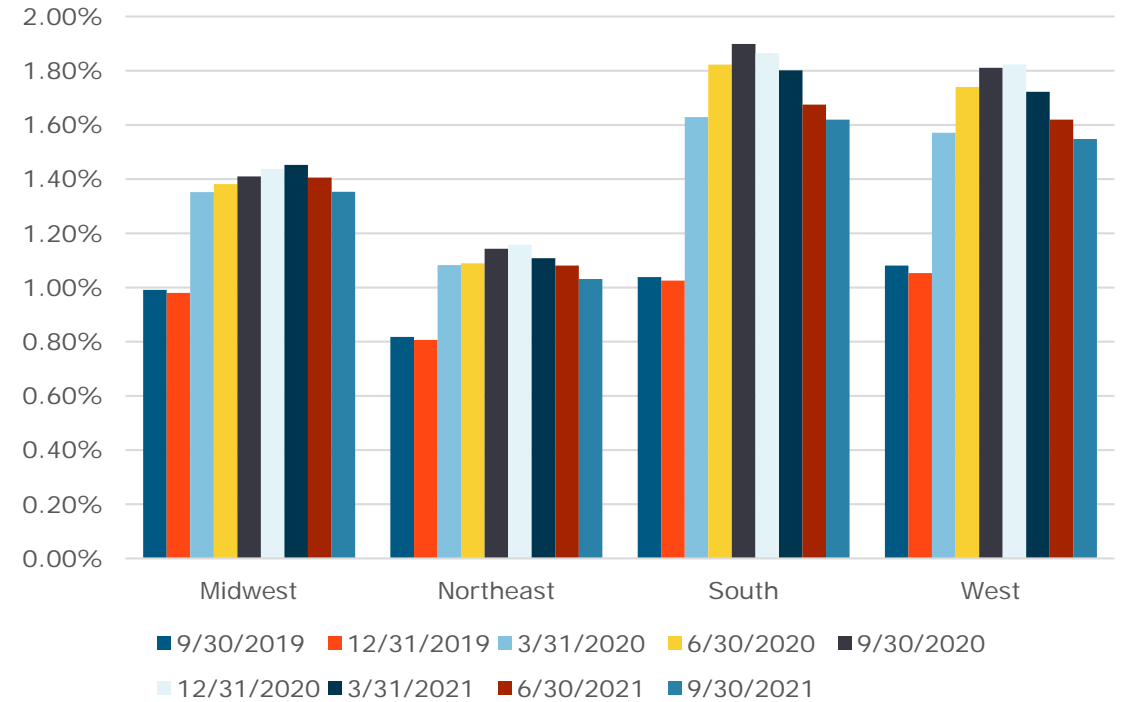
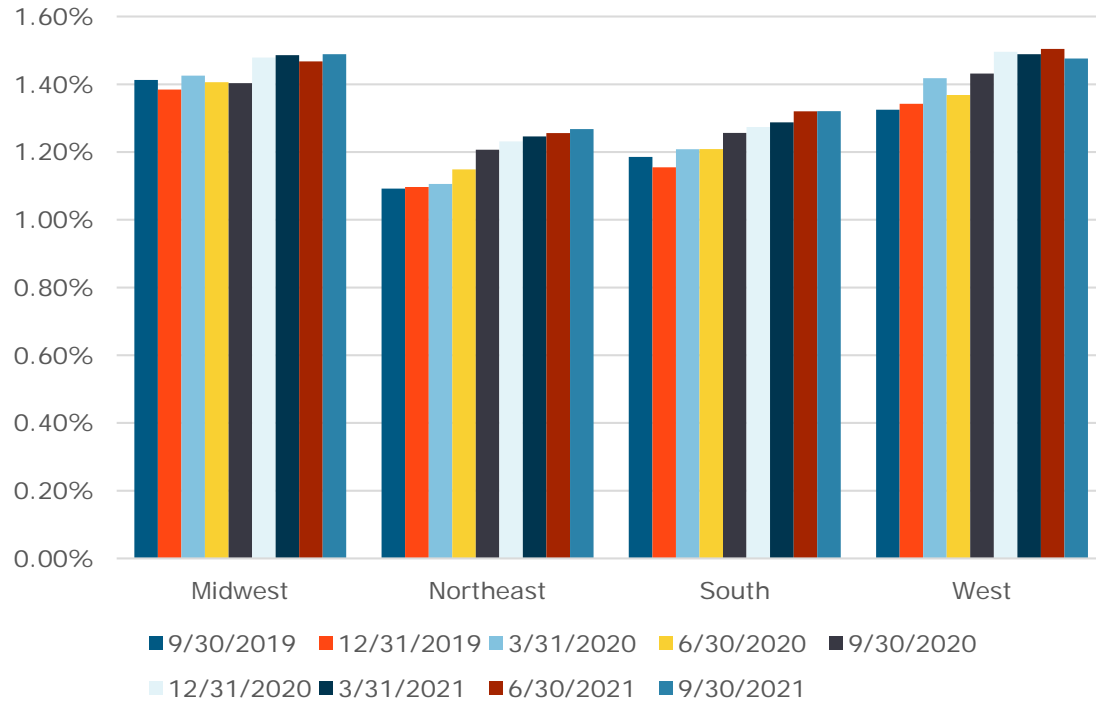
Allowance – Percent of Balance



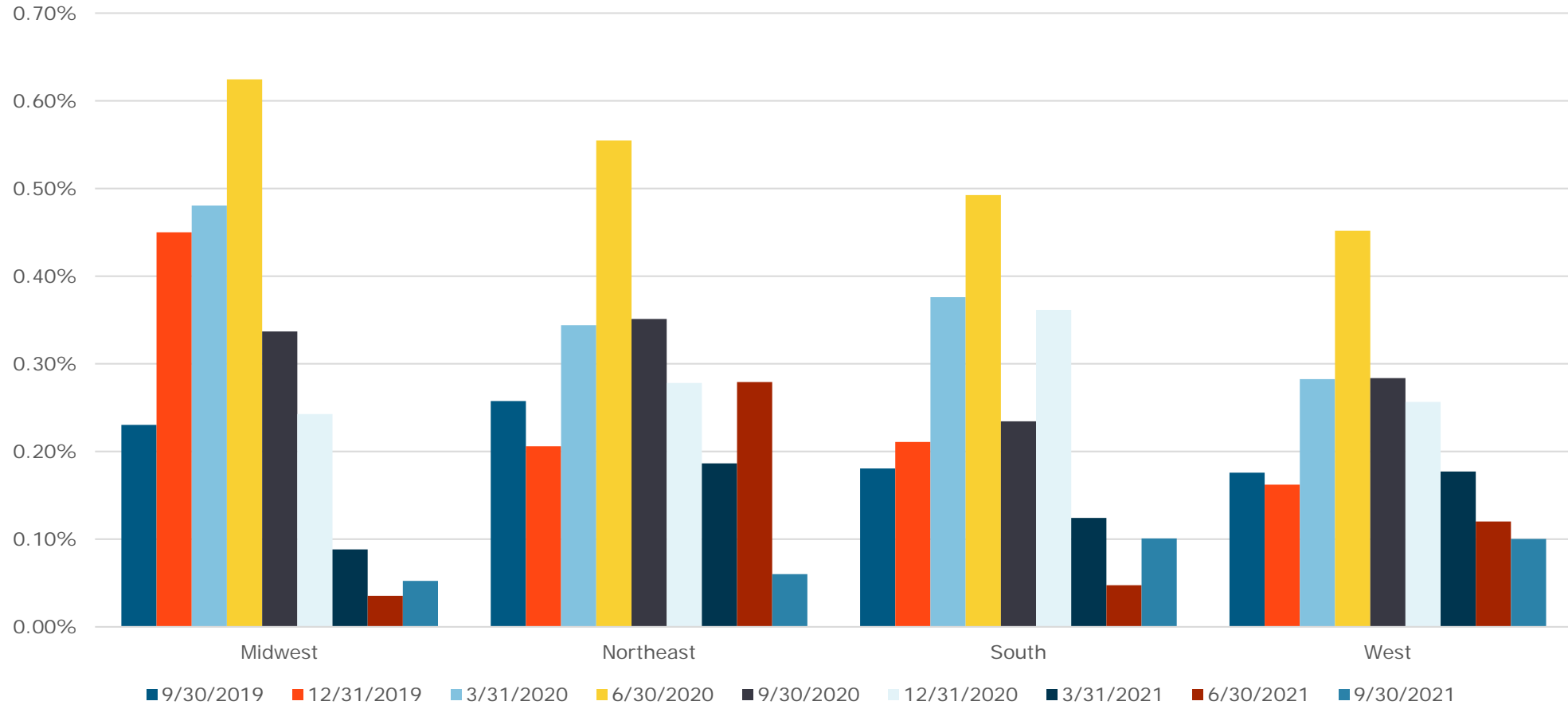
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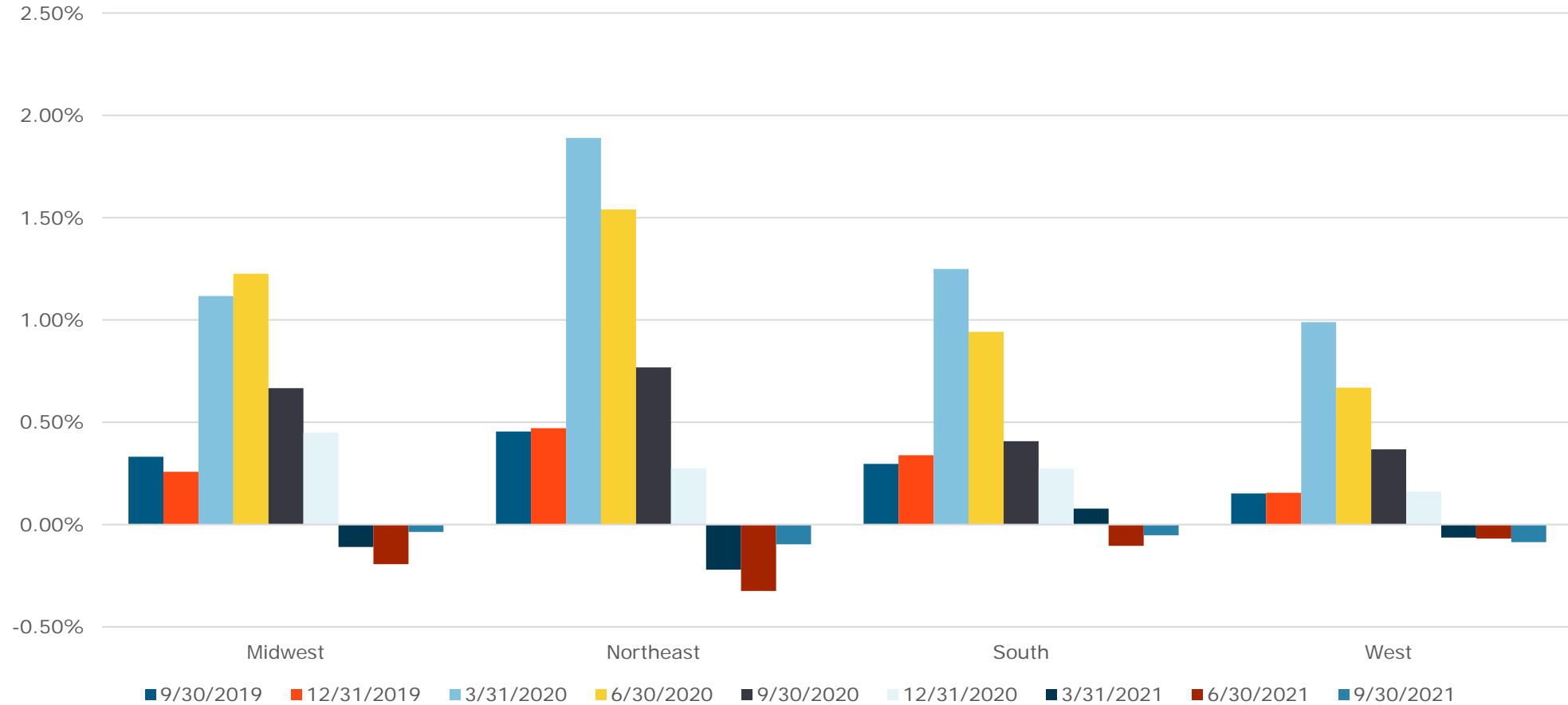
Allowance – Percent of Balance



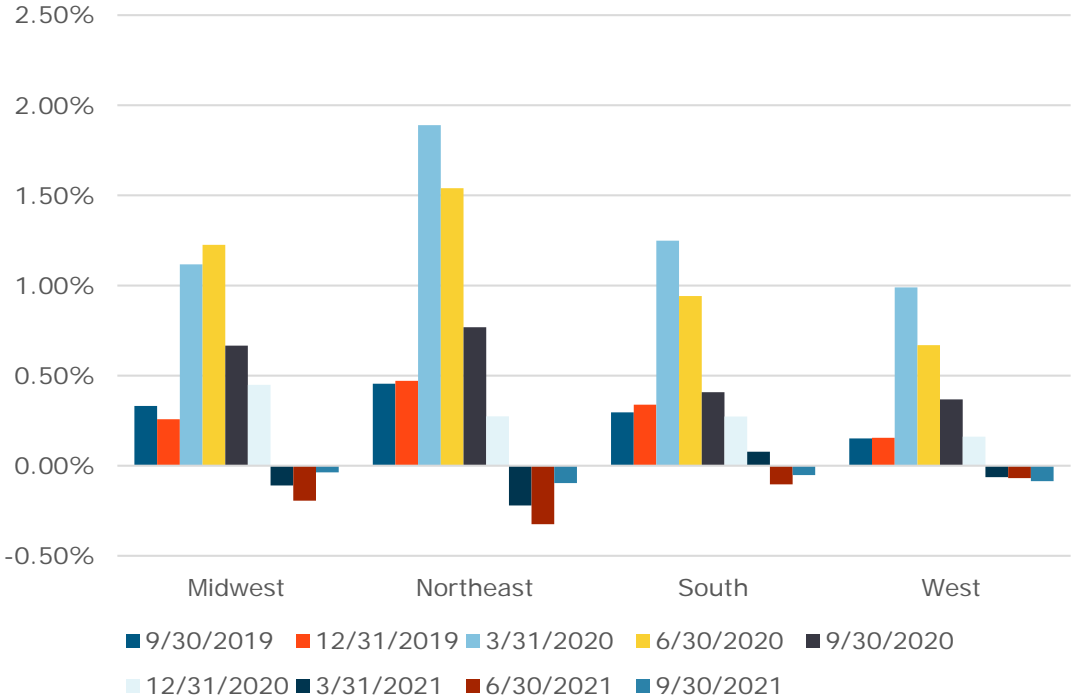
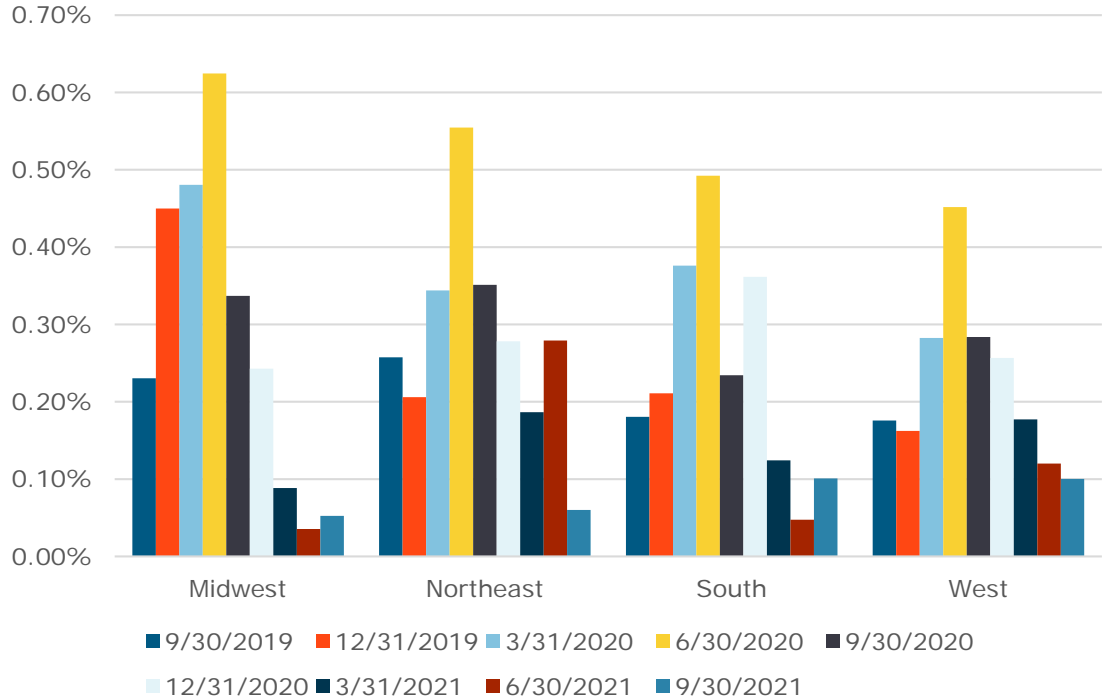
Provision – Percent of Balance



Provision – Percent of Balance

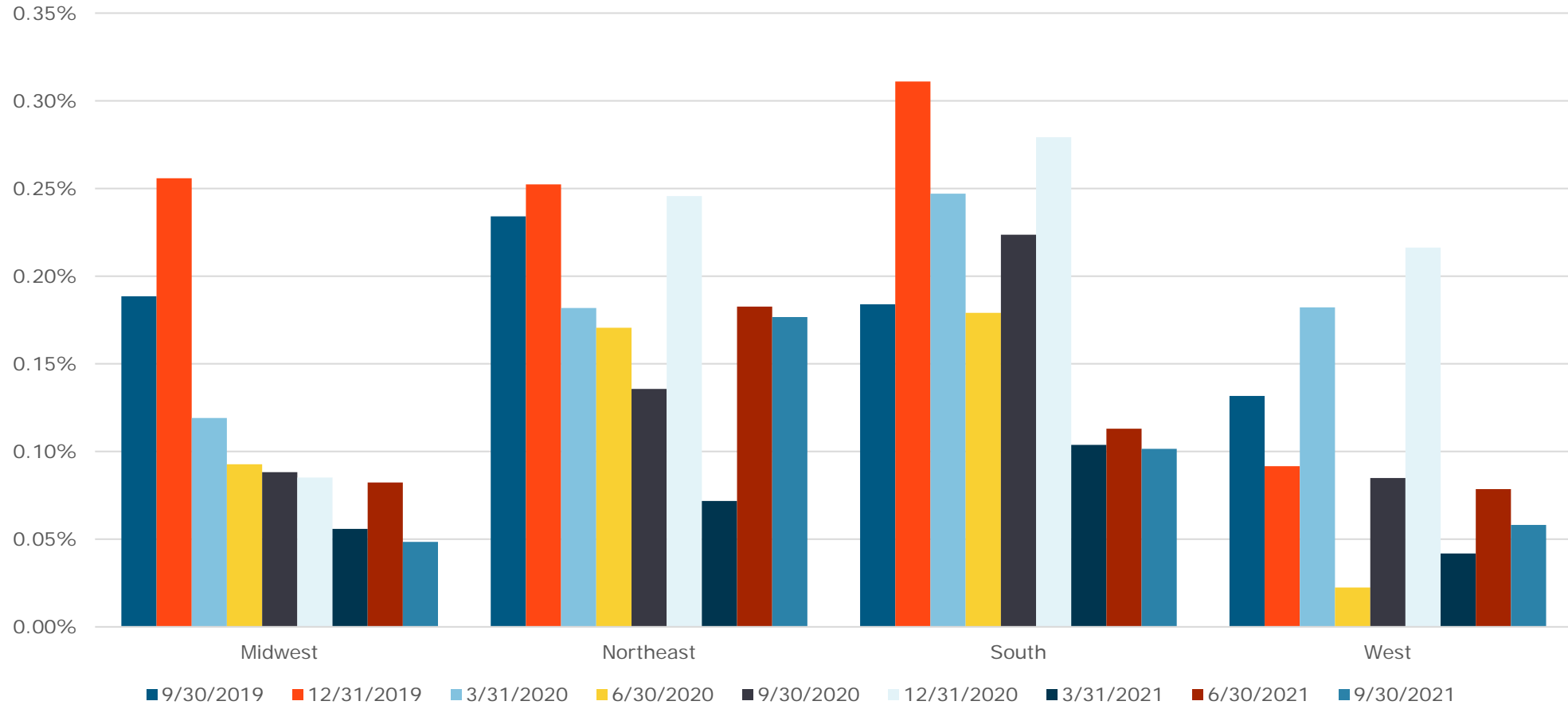


Provision – Percent of Balance

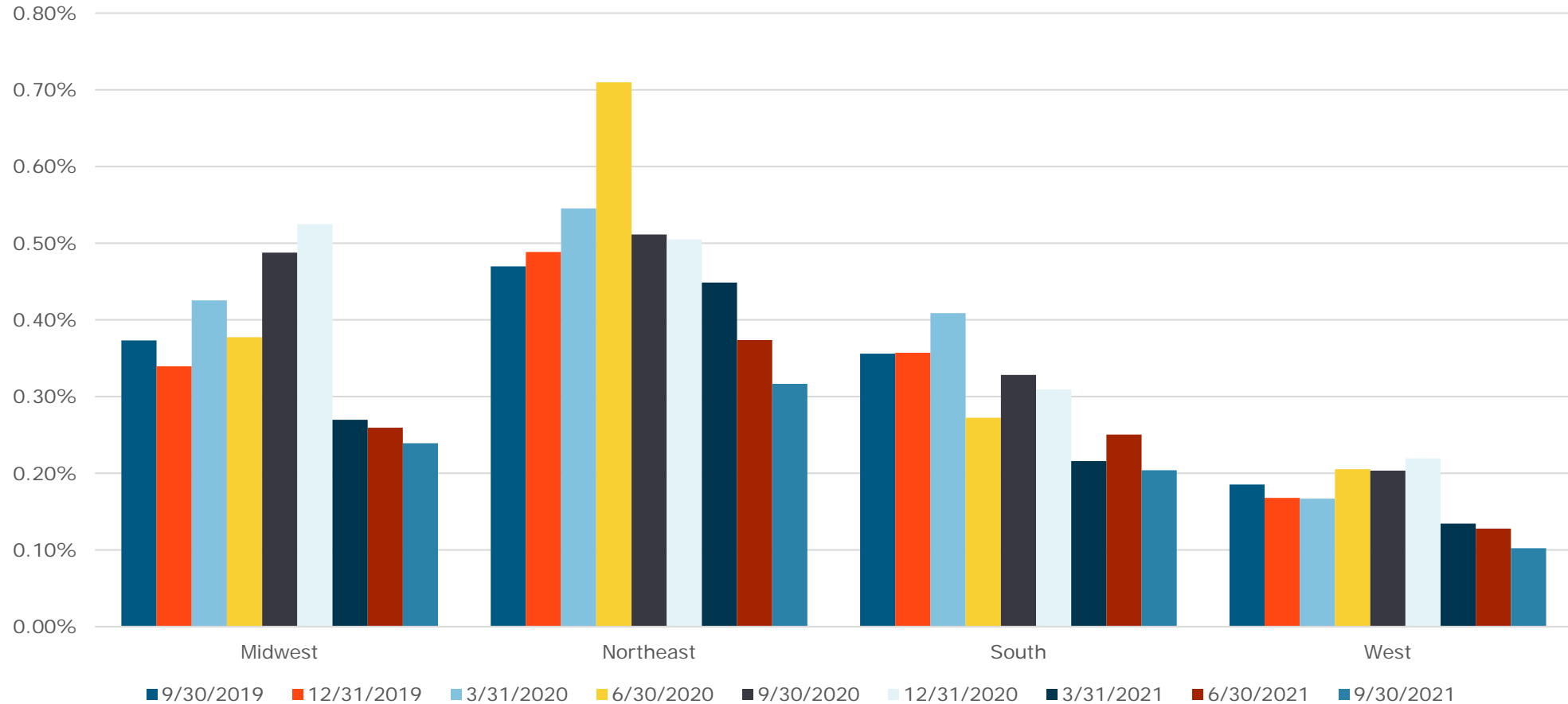


U.S. Banks 250MM-2.5B (left) / U.S. Banks 5B-50B (right)

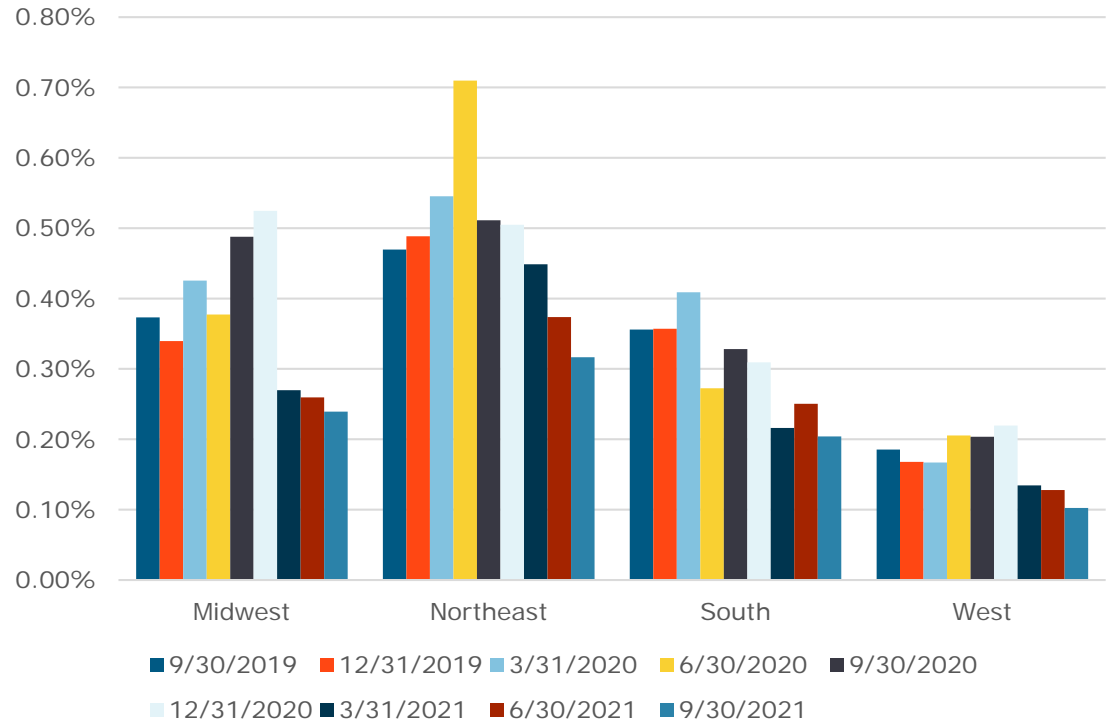
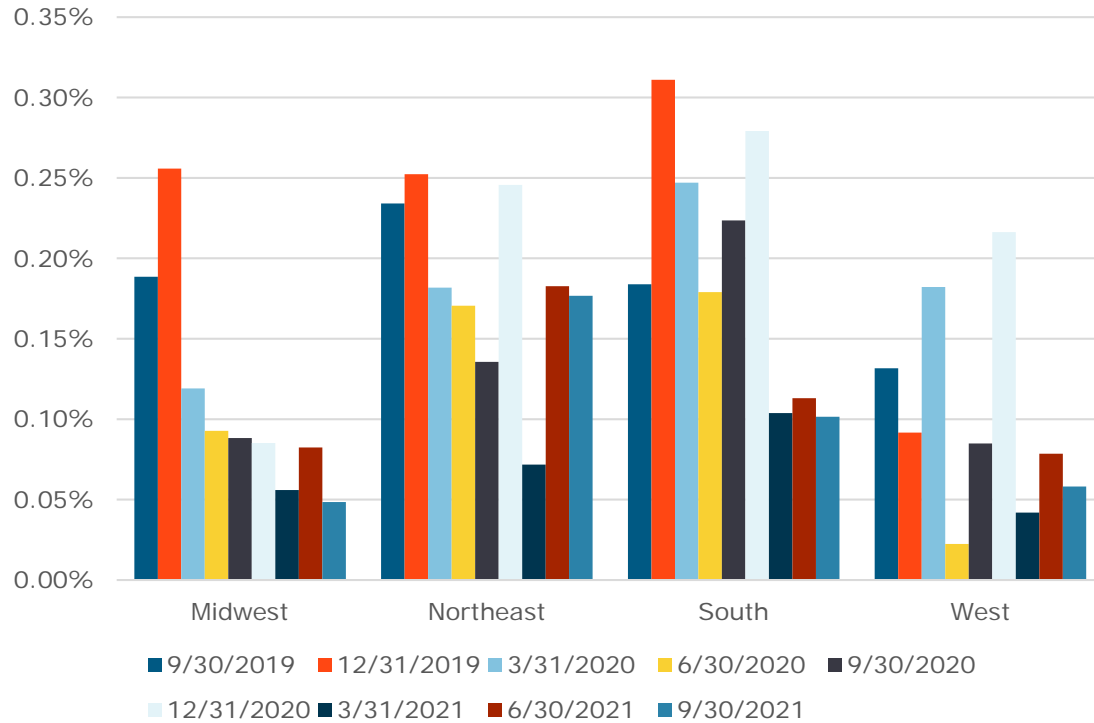
Chargeoff – Percent of Balance



Chargeoff – Percent of Balance

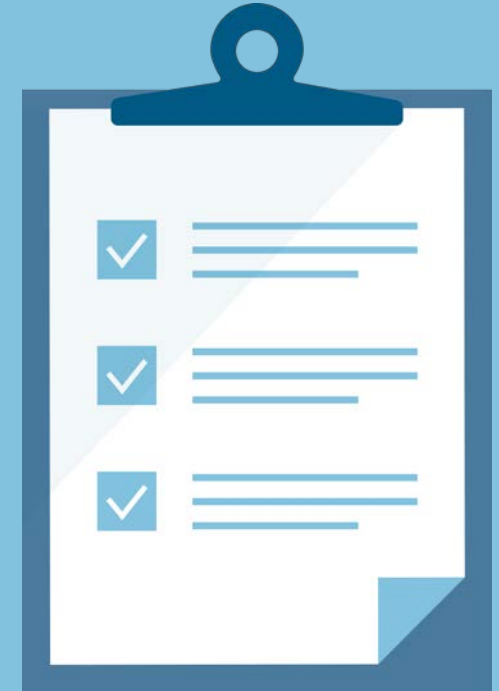


Chargeoff – Percent of Balance



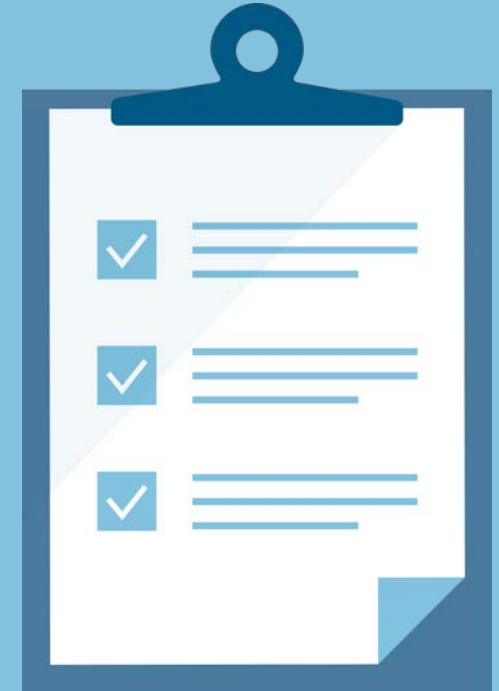
Lessons Learned

- ✓ Easy isn't simple
- ✓ Document
- ✓ Relevancy matters



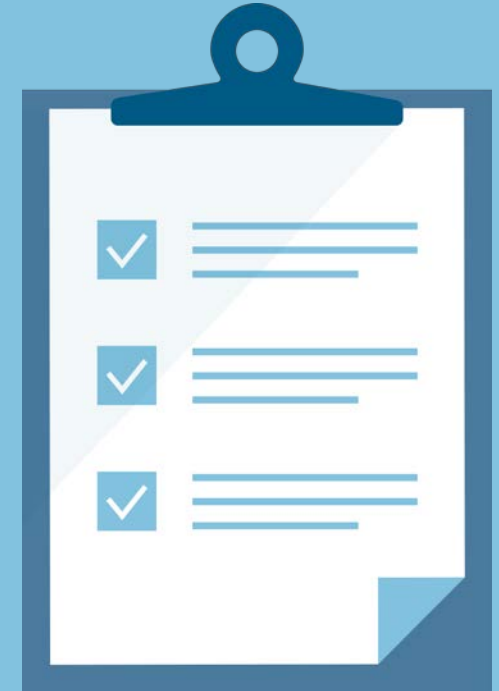
Lessons Learned

- ✓ Easy isn't simple (**manual processes**)
- ✓ Document
- ✓ Relevancy matters



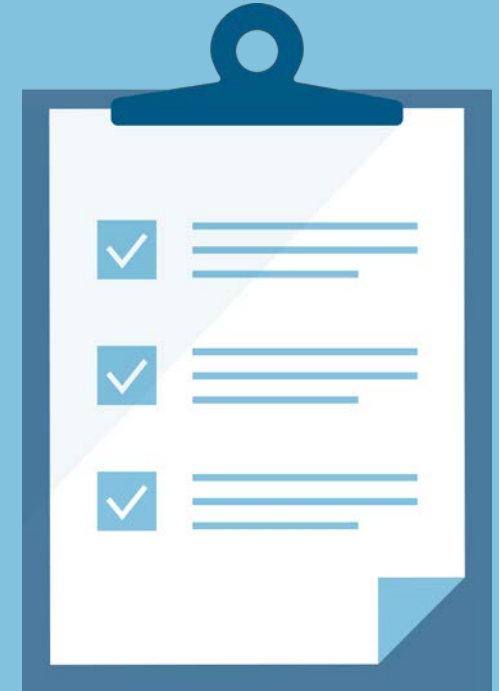
Lessons Learned

- ✓ Easy isn't simple
- ✓ Document (**a 'calculator' is just a start**)
- ✓ Relevancy matters



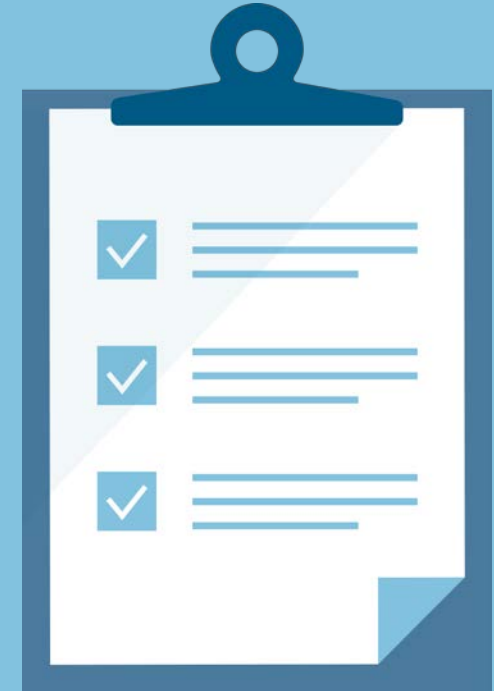
Lessons Learned

- ✓ Easy isn't simple
- ✓ Document
- ✓ Relevancy matters (**support peer data**)



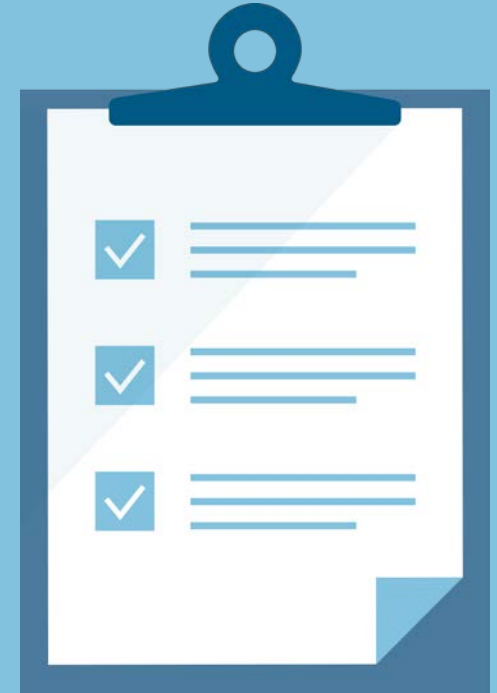
Lessons Learned

- ✓ Acquisition accounting
- ✓ Unfunded commitments
- ✓ Data – internal AND external



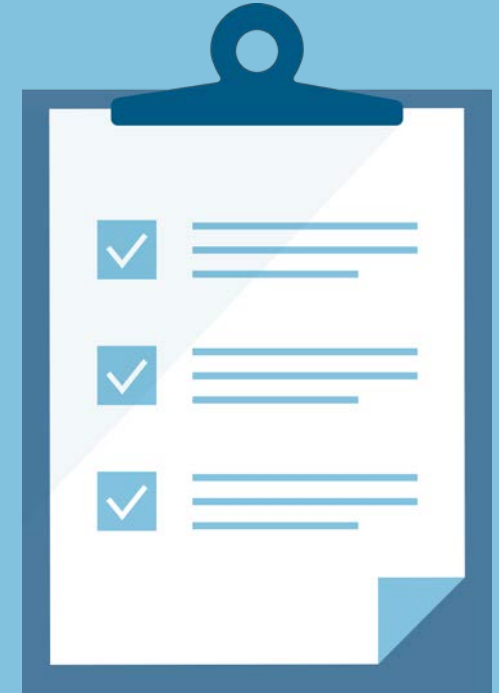
Lessons Learned

- ✓ Acquisition accounting (**new/different**)
- ✓ Unfunded commitments
- ✓ Data – internal AND external



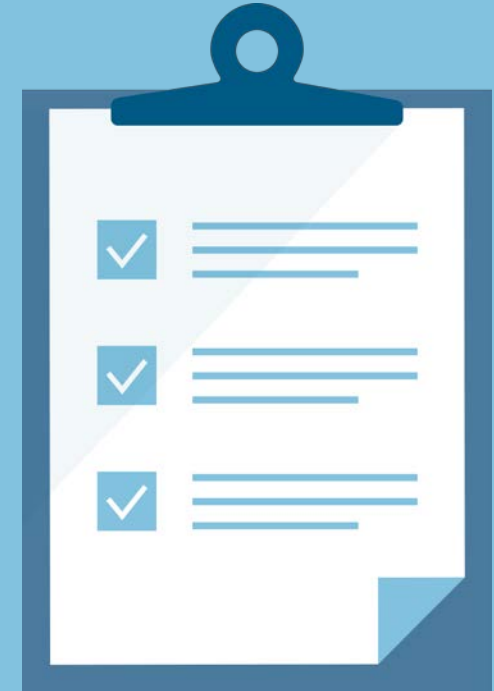
Lessons Learned

- ✓ Acquisition accounting
- ✓ Unfunded commitments (**significant**)
- ✓ Data – internal AND external



Lessons Learned

- ✓ Acquisition accounting
- ✓ Unfunded commitments
- ✓ Data – internal AND external (**source**)



Poll Question



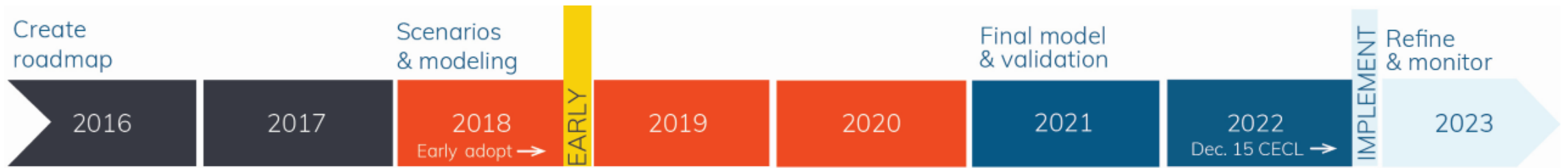
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Timeline



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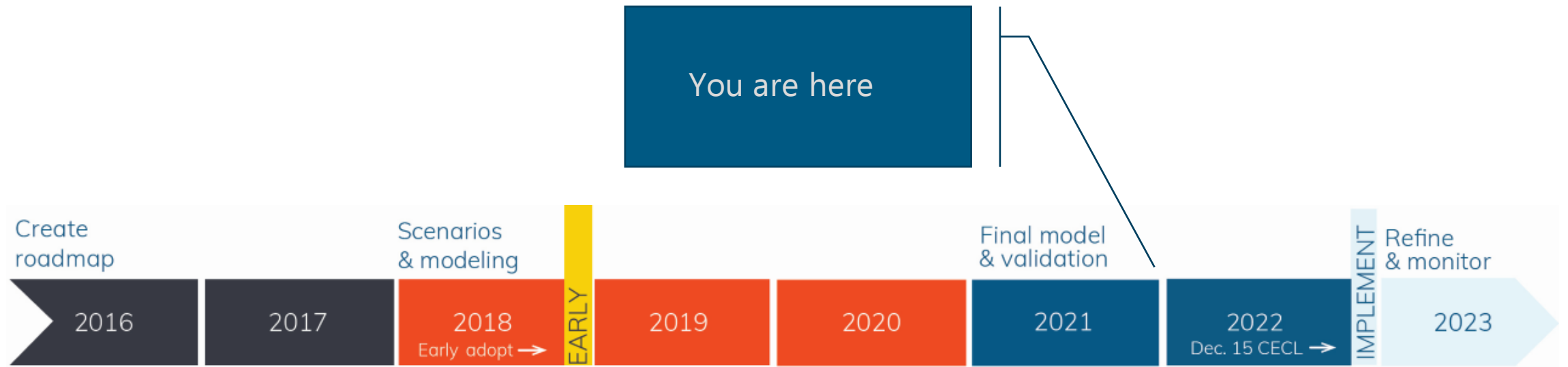
Timeline



**Effective for fiscal years beginning after Dec. 15, 2022.



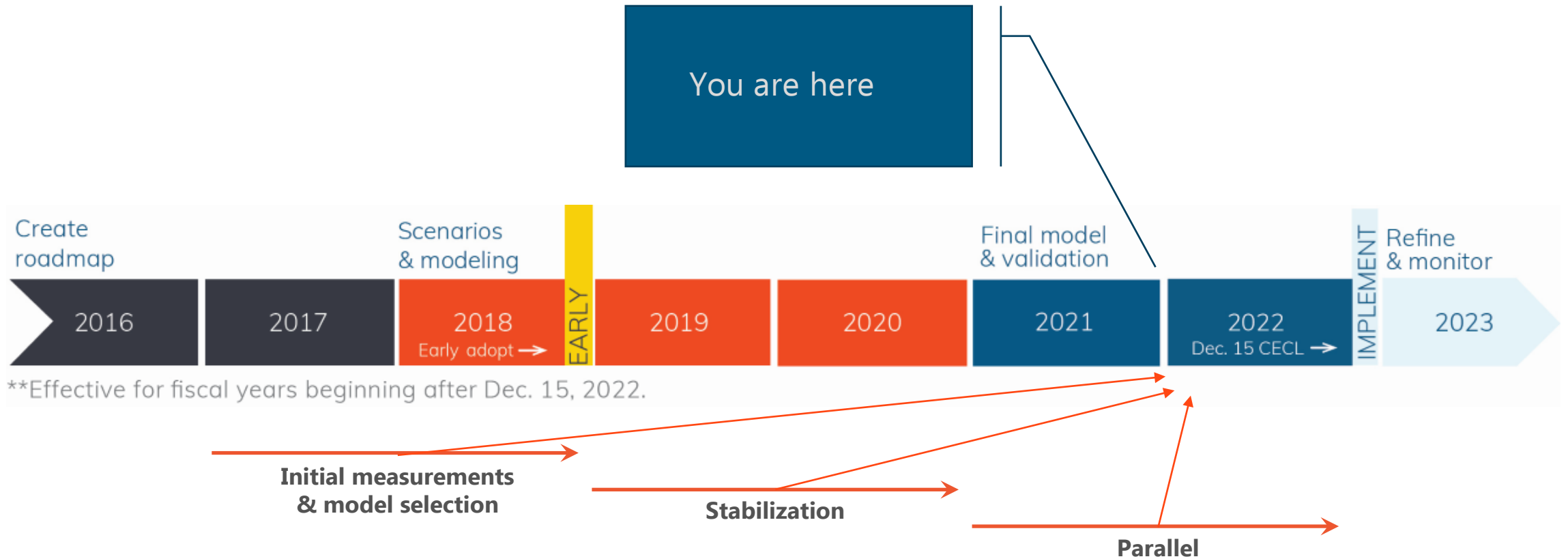
Timeline



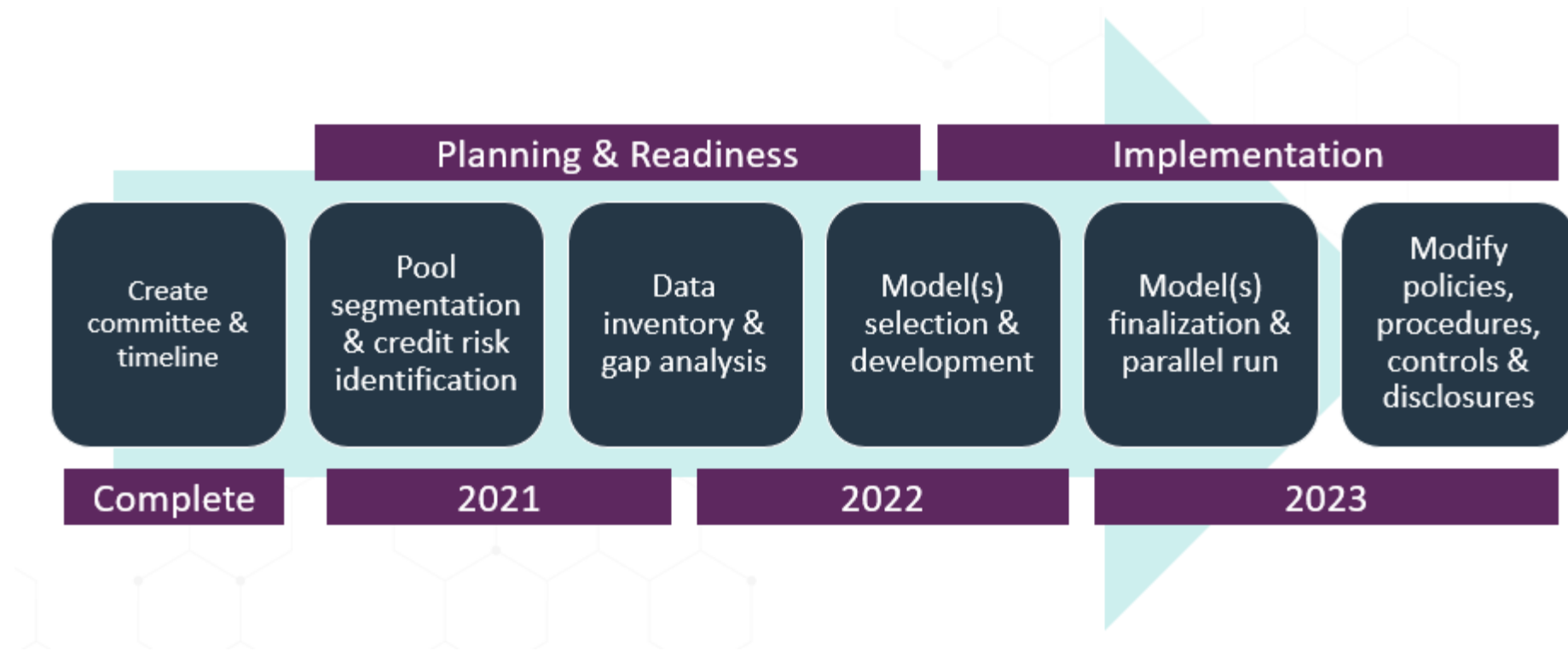
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Timeline



Timeline



Poll Question



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Readiness Expectations



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Readiness Expectations

✓ 326-20-30-6

An entity shall estimate expected credit losses over the contractual term of the financial asset...

...an entity shall consider prepayments as a separate input in the method or prepayments may be embedded in the credit loss information

FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2016-13
June 2016

Financial Instruments—Credit Losses
(Topic 326)

Measurement of Credit Losses on Financial Instruments

An Amendment of the FASB Accounting Standards Codification®

Financial Accounting Standards Board

Readiness Expectations

✓ 326-20-30-9

An entity **shall not** rely solely on past events to estimate expected credit losses. When an entity uses historical loss information, it shall consider the need to adjust historical information to reflect current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated.

Readiness Expectations

✓ 326-20-30-11

In estimating expected credit losses for off-balance-sheet credit exposures, an entity shall estimate expected credit losses on the basis of the guidance in this Subtopic over the contractual period in which the entity is exposed to credit risk via a present contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the issuer

FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2016-13
June 2016

Financial Instruments—Credit Losses
(Topic 326)

Measurement of Credit Losses on Financial Instruments

An Amendment of the FASB Accounting Standards Codification®

Financial Accounting Standards Board

Readiness Expectations – Method?

Loan Balance	1,000	A
Allowance % Recorded for Banks > \$1B	1.15%	B
Allowance \$	11.50	A x B
Adjustments?	?	C
Final Allowance	?	A x B +/- C

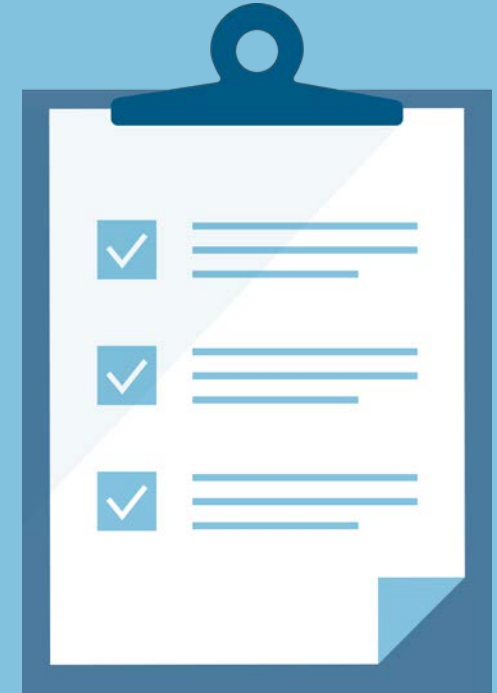
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Allowance \$	11.50	A x B
Adjustments?	?	C
Final Allowance	?	A x B +/- C

Includes:
Quantitative
Qualitative
Specific Reserves
PCD & Non-PCD

Lessons Learned

- ✓ Easy isn't simple (**manual processes**)



Readiness Expectations – Method?

Period	Loan Balance	Loss Rate	Loss Amount	
Year 1	1,000.00	0.10%	1.00	Forecast (Expected Next 12 Months)
Year 2	800.00	0.25%	2.00	Reversion (Long Term Avg.)
Year 3	750.00	0.25%	1.88	Reversion (Long Term Avg.)
Year 4	500.00	0.25%	1.25	Reversion (Long Term Avg.)
Year 5	400.00	0.25%	1.00	Reversion (Long Term Avg.)
Year 6	350.00	0.25%	0.88	Reversion (Long Term Avg.)
Year 7	300.00	0.25%	0.75	Reversion (Long Term Avg.)
Year 8	250.00	0.25%	0.63	Reversion (Long Term Avg.)
Year 9	100.00	0.25%	0.25	Reversion (Long Term Avg.)
Year 10	50.00	0.25%	0.13	Reversion (Long Term Avg.)
Year 11	-	0.25%	-	Reversion (Long Term Avg.)
Total Quantitative			9.75	
Total Qualitative			1.75	Factors Effectively Remain the Same
Total Allowance \$			11.50	
Total Allowance %			1.15%	

Readiness Expectations – Method?

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Total Quantitative			9.75	
Total Qualitative			1.75	Factors Effectively Remain the Same
Total Allowance \$			11.50	
Total Allowance %			1.15%	

Loss Rate:
 May include named peer loss experience; not just allowance level

Poll Question



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Readiness Expectations



Methodology selection is not the same as final model selection



Increased use of predictive statistical models (linear & logistic regression)



Typically not seeing more than 2 different methodologies used



Significant increase in diversity in estimation methods used compared to incurred loss approaches today (PD/LGD & DCF)

Readiness Expectations

Vendor Model Lessons Learned

- ✓ Understand how the model is working
- ✓ Understand the assumptions built into the model by the vendor
- ✓ Still a significant amount of time getting data into vendor's database

Readiness Expectations

In-house Model Lessons Learned

- ✓ Likely will create limitations on the types of models you can use due to data processing/statistical analysis resources available
- ✓ Time to update calculation typically goes up & involves more input from departments
- ✓ Running parallel for several quarters is more important to fully develop model

Question and Answer



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