

Optimizing CECL

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Agenda

- ▲ **1** Experience summary
- ▲ **2** CECL landscape
- ▲ **3** Benchmarks
- ▲ **4** Gaps and pain points
- ▲ **5** Model risk and change management
- ▲ **6** Post-adoption shift
- ▲ **7** Future



Learning objectives



- ▲ Understand and benchmark results, gaps, and opportunities
- ▲ Consider the shift from CECL implementation to optimization
- ▲ Build a plan for managing CECL long-term



Experience overview

CECL model validation and consulting

- ▲ Launched in 2022
- ▲ Clients in 21 of 50 states and growing
- ▲ Community-based institutions
- ▲ All methods
- ▲ Variety of software and tools (15+)
- ▲ Resource library: articles, podcasts, templates, tools
- ▲ Board education
- ▲ Staff and audit team education
- ▲ Conferences and presentations

CECL landscape

- As of 12/31/2023, all institutions on the same standard
- Prolific use of loss-rate based methods and DCF
- 25+ marketed solutions and tools
- Validators and auditors leading the rigor of review
- Common forecast sources: FOMC or Moody's



ELE and SCALE tools



New England benchmarks

- ▲ Wide range of “Day 1” adjustments
- ▲ Off-balance sheet universally larger
- ▲ Minimal investment reserves
- ▲ Fairly consistent ACL ratios since adoption



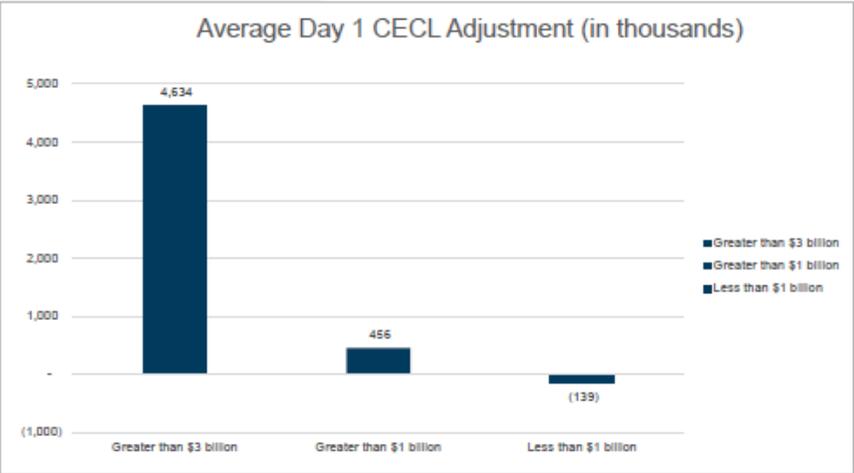
[CECL Allowance Analysis | BerryDunn](#)



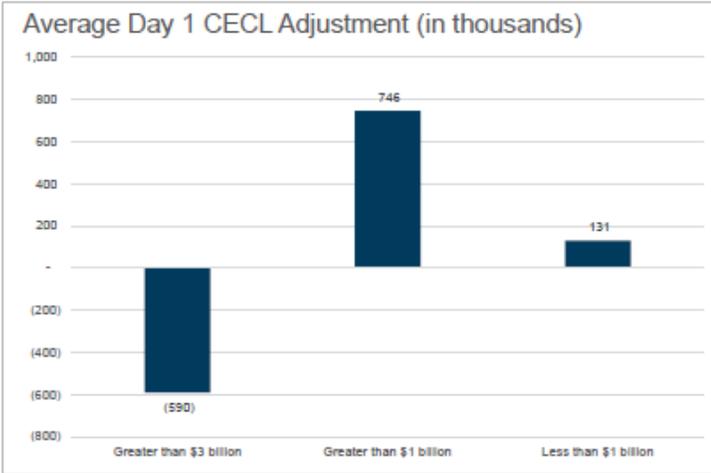
New England benchmarks

Day 1

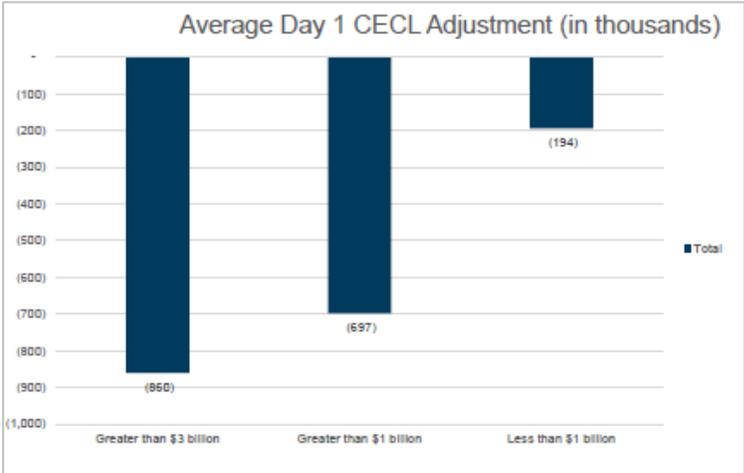
Connecticut



Maine



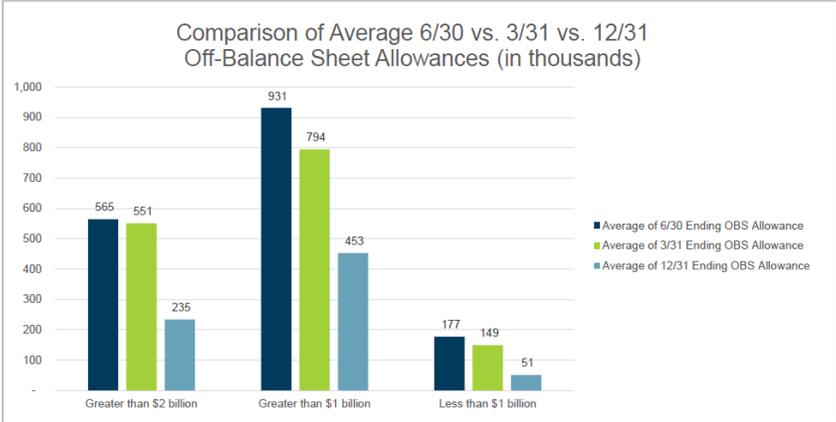
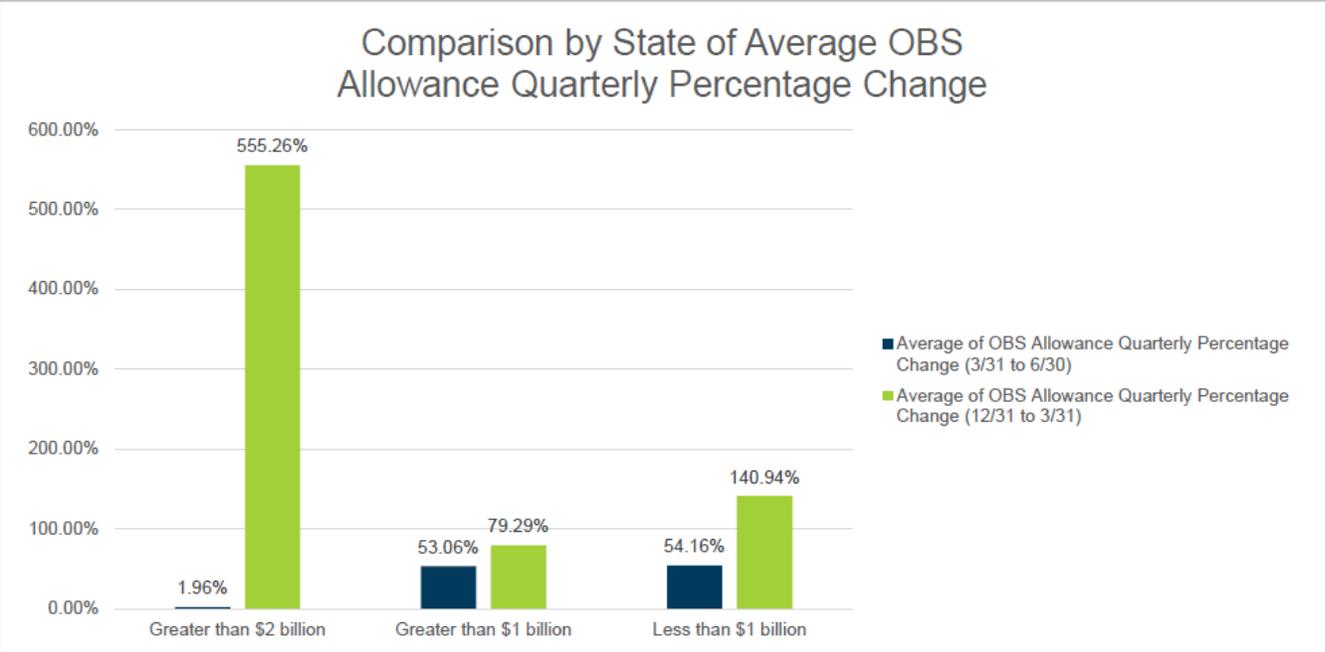
Massachusetts



New England benchmarks

Off Balance Sheet (OBS)

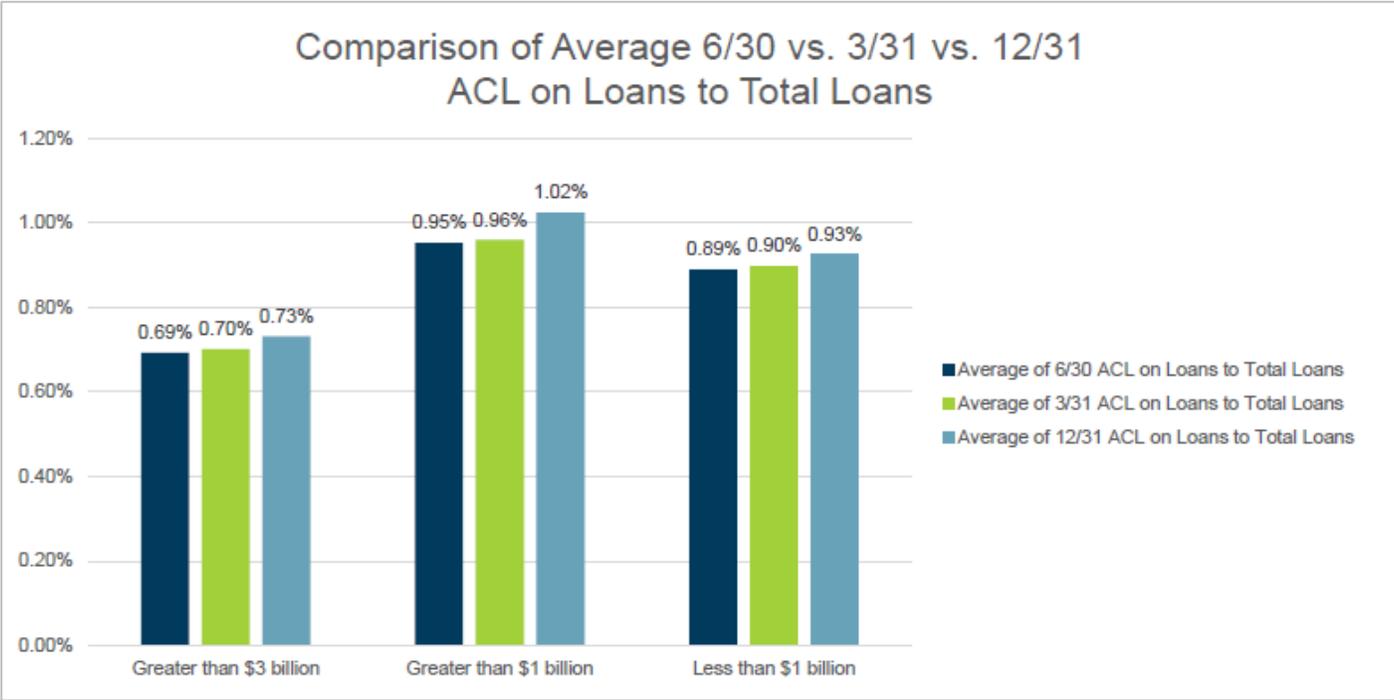
New Hampshire



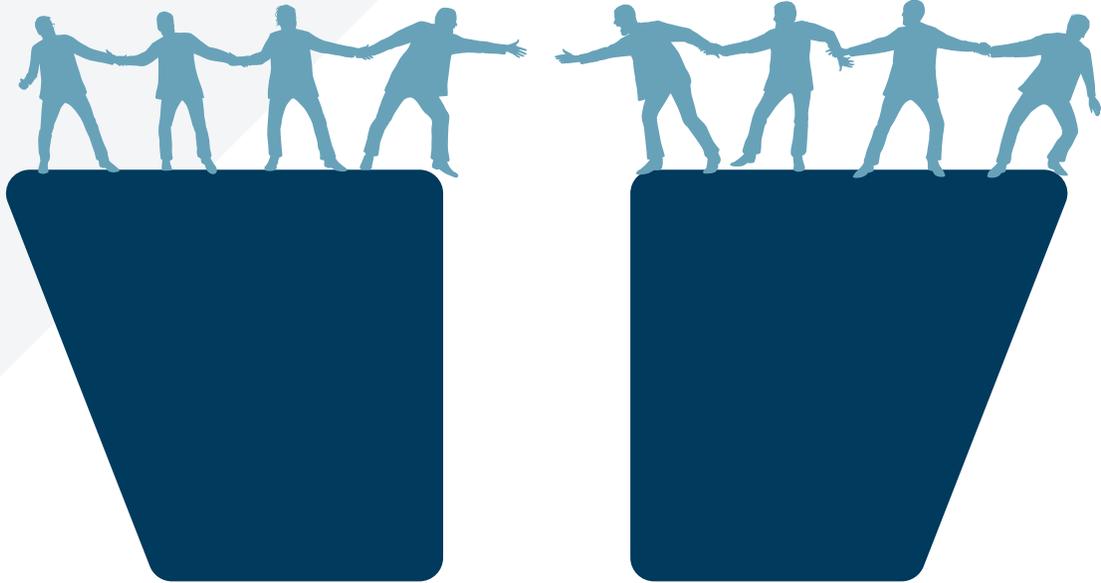
New England benchmarks

ACL ratio

Massachusetts



Gaps and pain points

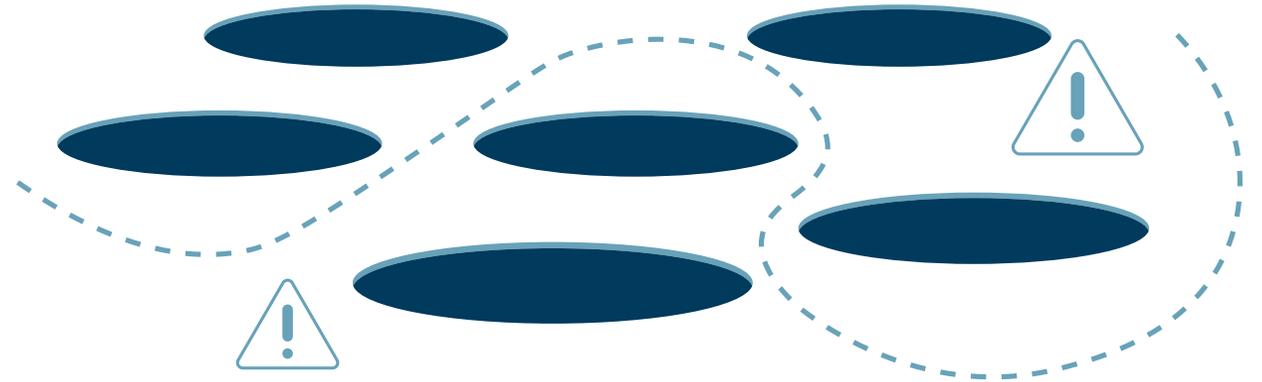


- ▲ Focus shift
- ▲ Resources and cross-training
- ▲ Ongoing costs
- ▲ Top four commented areas:
 - Documentation
 - Qualitative (Q Factor) support
 - Vendor risk
 - Model risk and change management

Opportunity: Take stock, cover the gaps, and simplify

Model risk and change management

- ▲ Formal, clear, controlled, with evidence
 - Monitoring/test plan
 - Evaluating model performance
 - Level of review, approval, disclosure
 - Timeliness of change implementation
- ▲ Monitoring schedule (checklist)
- ▲ Approval form and log (evidence)
- ▲ Institution and vendor changes



Polling question #1





If I had an hour to solve a problem, I'd spend 55 minutes thinking about the problem and 5 minutes thinking about solutions.

Albert Einstein

Optimize

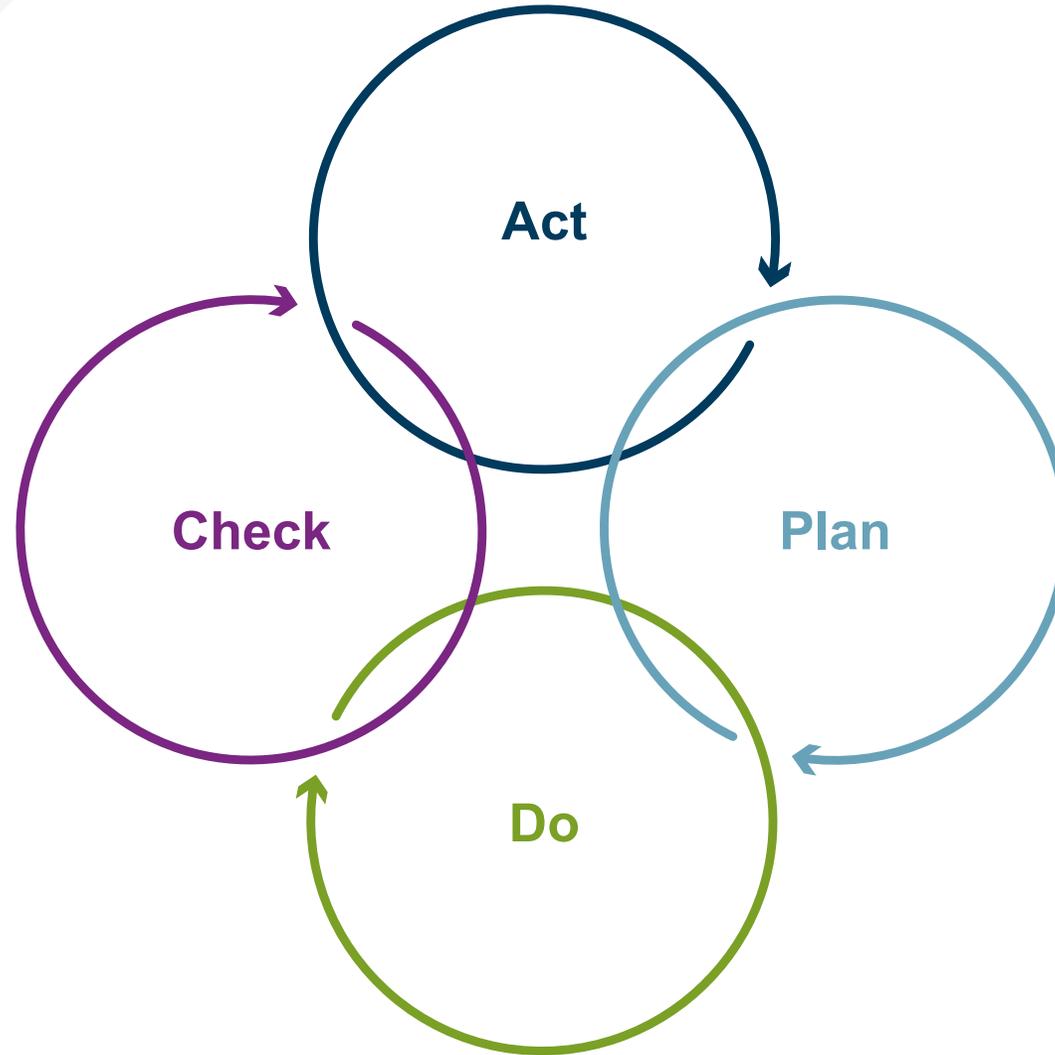
verb

1. to make as perfect, effective, or functional as possible
2. to make the most of
3. to take the full advantage of

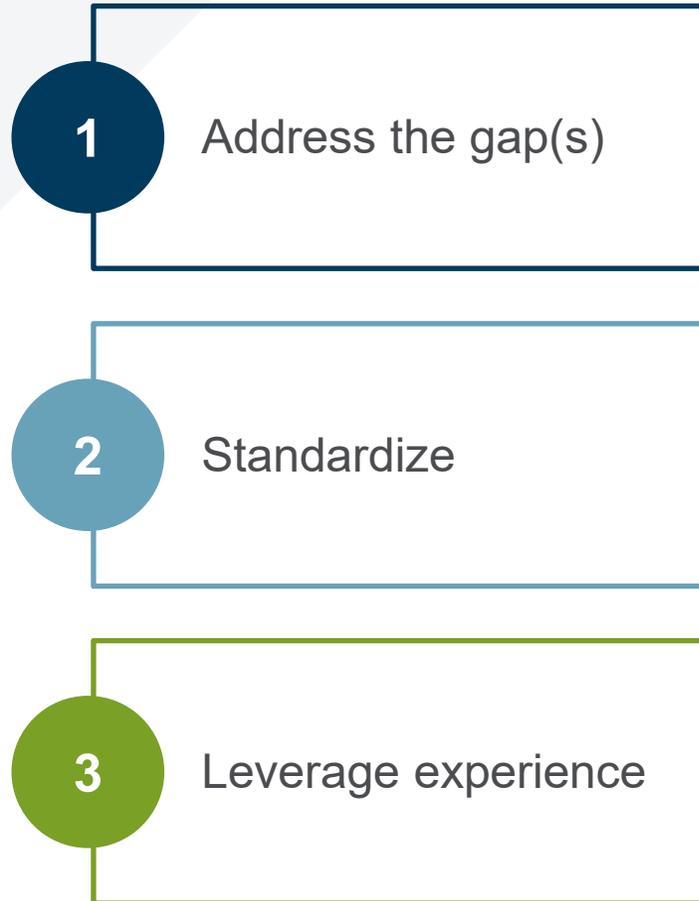
Sources: Merriam-Webster, American Heritage Dictionary, Collins English Dictionary



Post-Adoption Shift



Year 2 opportunities



Ask each stakeholder or group what is:

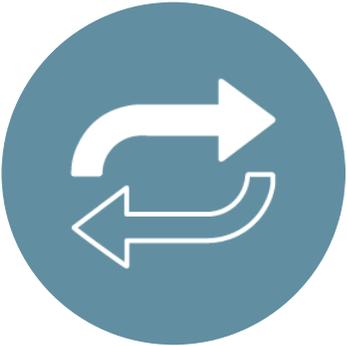
- ▲ Working well
- ▲ Taking the most time
- ▲ Confusing
- ▲ Getting in the way

Future

Strategic position: proactive or reactive



Evolution of methodology



Vendor consolidation, replacement



Enhanced guidance



Maximizing anticipated benefits



CECL's anticipated benefits

- ▲ Disclosure clarity
- ▲ Proactive reserving
 - Increased communication and collaboration among staff, departments
 - Better understanding and monitoring of the nature of risk in the portfolio
- ▲ Loan pricing commensurate with risk, costs
- ▲ Maximize portfolio mix

Polling question #2



Questions?

Access our CECL resources at
berrydunn.com/implement

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