How CECL for Credit Unions can be Simple, Practical, Affordable

August 2020
Introductions

Shawn O’Brien
President, QwickRate

Leads the strategy for the premier non-brokered CD marketplace and accompanying products
Serves on the Board of Directors – National Bank of St. Anne
Former Owner & President of QR Lending
Co-founder of QwickAnalytics

Steve Huntington
Director of Bank Analytics

Expertise in financial analysis of community banks and thrifts has been central to development of QwickAnalytics
14 years working solely with community financial institutions – public and private
Experience in strategic planning, valuation-related services, shareholder relations, M&A advisory, capital planning
What Are You Trying to Accomplish With Your CECL Solution?

- What is your goal?
- What are you trying to accomplish?
- Are you satisfied with your current reserve?
  - Is your examiner? Auditor?
  - Life of Loan Qualitative Factor
  - Qualitative Factors are still necessary
- Are you confusing Precision over Accuracy?
  - Directionally Correct
  - 100 indicators or 5?
- What type of process?
  - Difficult or manageable?
  - Similarity to current ALLL process?
Timing of Implementation – Now 2023

- **DEC 15 2018**: Early Adoption permitted
- **MAR 31 2019**: Regulatory reporting for early adopters
- **DEC 15 2019**: Effective Date: Regulatory reporting for SEC filers
- **MAR 31 2020**: Effective Date: Regulatory reporting for Non-SEC filers
- **DEC 15 2020**: Regulatory reporting for SEC filers
- **MAR 31 2021**: Regulatory reporting for Non-SEC filers

What is CECL?
What is CECL?

New FASB standard
ASU 2016-13, Topic 326

Current Expected Credit Loss

- Loan-by-loan / Similar Pools
- Forecasted / Forward Looking
- Life-of-loan
- Expected Losses
Current Expected Credit Loss

Per Loan Analysis:
• Discounted Cash Flows
• Forward Roll-Rate
• Probability of Default / Loss Given Default

AKA Crystal Ball Credit Loss Estimations
Current U.S. GAAP

Annual
- Unadjusted historical charge-off experience
  + Qualitative adjustments
  - Loss emergence period
  - Loan category balance
  = ASC 450 (FAS 5) ALLL

Current Conditions

CECL

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

Current & Forecast

GAAP vs CECL
GAAP vs CECL

Current U.S. GAAP

Annual
Unadjusted historical charge-off experience

Current Conditions
Qualitative adjustments
Loss emergence period
Loan category balance
ASC 450 (FAS 5) ALLL

Current & Forecast
Unadjusted historical charge-off experience
Qualitative adjustments
Loss emergence period
Loan category balance
CECL ACL (ASC 326)

Lifetime

Today
Not Today
There is no mandatory CECL method: it is your choice.

• No black and white, pre-ordained methodology required
• You choose your path
• Be prepared to defend it to your regulators

Credit Unions (<$1B) will NOT need to engage in highly complex and expensive modeling to satisfy the CECL requirements.

• Some may need to: for instance, any SEC filer (primarily publicly-traded companies)
• But if you are a typical credit union simple, call-report driven methodologies may be perfectly sufficient
What is CECL?

New FASB standard
ASU 2016-13, Topic 326

Current Expected Credit Loss

Concepts
• Loan-by-loan / Similar Pools
• Forecasted / Forward Looking
• Life-of-loan
• Expected losses

Practice
• Can get as complicated as you want to make them
• Don’t mistake PRECISION for ACCURACY!
Loss Rate Methods

Three methods offered by Federal Regulators as acceptable methods to calculate the “unadjusted historical charge-off experience”

1. **Snapshot / Open Pool Method**
2. **Remaining Life Method (WARM)**
3. **Vintage Method**

**Real World Observation:**
- All three begin with Snapshot / Open Pool
- Snapshot / Open Pool is the **ONLY one you can actually do today** if you haven’t already been gathering data for several years
- Remaining Life can be estimated today and methodology can be simple assumptions
Why we introduced our CECLSolver™

- Make CECL compliance effortless
- Applicable to credit unions of all sizes
- Practical and understandable approach to CECL
- Can be done by the CU or prepared by IntelliCredit
- Tailored to the unique characteristics of your Credit Union
- We don’t believe you need to be an expert to prepare
- We can help with your implementation
- We can grow as your needs do or your regulator asks for more
IntelliCredit CECLSolver:
Easy to Implement and Extremely Effective

• **Foundation: Snapshot / Open Pool Method + Weighted Average Remaining Maturity (WARM) Method**

• **Purpose:**
  • Provides credit unions with a credible and defensible CECL calculation
  • Utilizes ACTUAL detailed historical results, for your CU and peers

• **Substantial relevant data - at your fingertips**
  • Gathers actual historical data by loan pool, for ALL banks
  • Permits user customization on:
    • Loan pool Weighted Average Life
    • Historical Comparison Period
    • Same data for peer group comparisons
  • All designed to inform Q factors to estimate CECL
CECL requires estimate of expected credit losses to be based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets’ remaining contractual cash flows.

Qualitative factors remain relevant under CECL.
STAFF Q&A

TOPIC 326, NO. 1

WHETHER THE WEIGHTED-AVERAGE REMAINING MATURITY METHOD IS AN ACCEPTABLE METHOD TO ESTIMATE EXPECTED CREDIT LOSSES
Based on Snapshot / Open Pool Method/ WARM

Intent:
• Give your bank an estimate of potential variance from ALLL
• Initiate the CECL process

Designed to be easy to implement
• Gathers actual historical data by loan pool
• Permits user customization on loan pool weighted average life
• Permits user to add adjustments and notes
• Allows for time to receive further clarification of expectations by the Examiners ($$)
Resources to Understand and Help

CECL Resources

Please review the following relevant resources to assist you in determining your CECL approach and analysis:

- CECLSolver™ User Guide
- CECLSolver™ Methodology
- CECL White Paper
- Customer draft implementation letter
- Regulatory Webinar – Practical Starting Points for CECL (2/27/2018)
- FDIC Webinar on CECL for Community Banks (7/30/2018)
- FDIC Webinar transcript (7/30/2018)
- FDIC CECL Status Update (9/27/2018)
- FASB staff Q&A re: CECL WARM methodology for community banks (January 2019)
## CECLSolver

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Weighted Avg Remaining Maturity</th>
<th>Average Balance over Life of Loan</th>
<th>Aggregate Net Chargeoffs over Life of Loan</th>
<th>Life of Loan Net Chargeoff Rate: (A) + (B) x (C)</th>
<th>Credit Union Historical Rate</th>
<th>Peer Weighted Average</th>
<th>User Adjustment for Qualitative (&quot;Q&quot;) Factors</th>
<th>Expected Future Loss Rate (c)</th>
<th>Loan Population Used for CECL Analysis (d)</th>
<th>Implied CECL</th>
<th>User Notes for Q-Factors</th>
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<tbody>
<tr>
<td>Unsecured Credit Card Loans</td>
<td>5.00</td>
<td>$45,208,708</td>
<td>$2,040,622</td>
<td>10.48%</td>
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<td>81.68%</td>
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<td>$142,427,151</td>
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<td>5.00</td>
<td>$43,052,475</td>
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<td>Total 1st Mtg RE Loans/Lines</td>
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<td>$4,448,948,997</td>
<td>$4,537,246</td>
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- Loads 5 year AWM
- Loads actual loss experience over that period
- Loads current loan balances
- Calculates CECL
- Compares to current ALLL
**Customize AWM**

- Re-loads actual loss experience over that period
- Loads current loan balances
- Calculates CECL
- Compares to current ALLL

### CECLSolver

#### Historical Analysis

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<td>0</td>
<td>NA</td>
<td>0.38%</td>
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**Summary Results**

| Current Peer ALL/L&Oans         | 0.79%                                    | ALL/L&Oans                         | 0.15%                                   | Current ALLL               | $6,828,244 |

- **CECL Shortfall for Unfunded Commitments** ($177,858)
- **Total CECL Surplus** $2,468,856
### CECLSolver

**Customize Expected Losses**
- Loads actual loss experience over that period
- Loads current loan balances
- Re-Calculates CECL
- Compares to current ALLL

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**Unfunded Commitments**

- Current Peer ALLL/Loans: 0.79%
- ALLL/Loans: 0.15%
- Current ALLL: $6,828,244
- CECL Shortfall for Unfunded Commitments: ($177,858)
- Total CECL Surplus: $2,468,856
Live Demo of CECLSolver
• Unique loan identifier (i.e., account or loan number, borrower number)
• Loan product type
• Origination date
• Origination amount
• Maturity date
• Portfolio segmentation identifier
• Beginning and ending balances of a portfolio segment
• Periodic & cumulative charge-off & recovery amounts by date and unique loan identifier
• Paydown by unique loan identifier (scheduled payment and prepayments)
• Collateral/asset type
• Performance status (i.e., current, past due, reperforming)
• Other relevant credit risk metrics (e.g., LTV, credit scores, geographic location)
• Renewal and/or modification date
• Credit quality risk tracking
• Any data necessary to make current conditions and reasonable & supportable forecast adjustments
Thank You For Attending!

• Sign up for a Free 90-Day Trial of CECLSolver
  • Review your Data

Telephone: 800.285.8626
Email: cuceclsolver@intellicredit.com