

# Independent Banker

MARCH 2022  
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**UDAAP update**  
Enforcement  
changes ahead?

**Lessons in  
leadership**  
Three community  
bankers' advice

## The future is now

Incoming ICBA  
chairman **Brad Bolton**  
wants you to identify  
the next generation  
of leaders today

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HOW TO  
SOURCE GREAT  
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REVIEWS



## Beating the CECL Deadline — Without Analysis Paralysis

by Shawn O'Brien, President, QwickRate®



**A**fter years of anticipating CECL, January 2023 is within sight. And the compliance deadline won't be moving.

For many banks, the biggest challenge is simply adopting an unfamiliar process for calculating reserves. Fortunately, regulators have made strides toward minimizing possible disruptions. In fact, they've addressed many concerns head on.

### Where should banks start?

Regulators believe a bank's CECL solution should equal the sophistication of its loan portfolio. So they expect different banks to use different solutions to calculate reserves. For banks with fewer losses, overly engineered solutions add no value — one reason solutions based on call report data are popular.

Process complexity can vary greatly among methodologies. When evaluating solutions, don't mistake precision for accuracy. No current or past losses to work with? Future loss forecasts more often come from qualitative adjustments than from quantitative adjustments.

Methodologies such as loss rate, remaining life, migration or vintages are less complicated, but generally less precise. Likewise, other methodologies (i.e., probability of default, discounted cash flows) are more precise, but more difficult to develop. Is it worth the extra work? Many banks say no, preferring to continue using their Q factors to support or defend CECL, as they did for their ALLL reserve.

So where can you turn for practical assistance?

### What to do?

QwickAnalytics® CECLSolver™ was developed with community banks and their challenges in mind. Getting started is simple and the tool is easy to use.

CECLSolver utilizes a weighted average remaining maturity (WARM) focus to automatically display historical losses over WARM periods. This eliminates the need to compile past information, enabling

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**“QwickAnalytics is by far one of the best solutions we use with regards to our CECL modeling, Stress Testing, and UBPR comparisons.”**

— Ryan D. Thomas, CRC, Assistant Vice President, Community Bank of Louisiana

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quick, easy analysis of different loss scenarios. CECLSolver also displays loss histories of selected peer groups (UPBR/ state/custom) for identical periods. We'll help you with WARM calculations whether they're performed by your team (if data is available) or by ours.

We expect that banks will continue to address qualitative factors. Regulatory statements in regards to assessing the collectability of cash flows have caused many banks to stress — and there's no need to. We believe banks should continue to utilize qualitative adjustments

currently conducted as part of their incurred loss calculation. They've been doing this successfully for years. Furthermore, you and your regulators are familiar with and believe in the process.

As for the CECL “forecasting” element, bankers should focus on what might cause future portfolio losses and diminish your ability to collect on loans. Document and quantify your answers, again not mistaking precision for accuracy. Focus on being directionally accurate, considering your portfolio plus possible scenarios. If your mortgage portfolio is significant, consider housing prices, unemployment levels, etc. Understand how they're trending and the potential negative effect of reversals. We can help you update current qualitative adjustments to reflect forward-looking perspectives.

### Designed for community banks

CECLSolver provides banks with a portfolio-level solution based on call report information — plus the ability to perform more complex loan-level analysis as required. Our approach is to start, monitor and if necessary, adjust.

CECL compliance is as complicated as you want to make it — but delaying the inevitable isn't the wisest strategy. Schedule a demo today to see your historical numbers and how CECLSolver can help.

*Shawn O'Brien is President of QwickRate, providing practical and affordable solutions for community banks for more than 30 years. An ICBA Preferred Service Provider.*

**Request a demo with your data.** Find out why hundreds of community banks are already using CECLSolver to become compliant. [info@qwickrate.com](mailto:info@qwickrate.com)