



## Solving CECL once and for all

Regulators say CECL compliance shouldn't be as difficult as community bankers believe. Here's how one solution proves the regulators right.

Recently, the Financial Accounting Standards Board (FASB) issued a proposal to give most community banks until January 2023 to comply with the Current Expected Credit Loss (CECL) standard.

Although community banks may welcome a delay that provides more time to prepare, they really don't need it, and here's why.



### The major CECL challenge

For many banks, the primary hurdle to implementing CECL is about relinquishing a well-understood process, even though regulators have repeatedly emphasized that the change doesn't have to be difficult. We can confirm that our QwickAnalytics CECLSolver tool gives you the ability to meet expectations via a process that's simple and efficient for the bank.

### Where to start

Regulators say the sophistication of a bank's CECL solution should mirror the complexity of its loan portfolio. They fully expect to see a wide range of solutions for calculating loss reserves. For banks with simple loan portfolios and/or few recent

losses, there's little benefit to overengineering. Their loss forecasts tend to be based on qualitative adjustments, not quantitative fine-tuning.

### A model to evolve over time

The ideal solution will get the bank started today and then scale up to more precise calculations if needed. For example, we advise banks to gather three years of electronic loan data by 2023 to feed the CECL solution. Monthly or quarterly collections should begin now, via the Interagency Loan Data Request (ILDR) form. We can help with both the data creation and migration. In addition, collectability of cash flows caused bankers considerable stress when regulators mentioned it in April. But it shouldn't. Banks should continue to utilize the current qualitative adjustments performed in their incurred loss calculation, and then also consider other factors (housing prices, unemployment, scenarios, etc.) that could affect future collections.

### Qualitative challenges

Addressing qualitative factors is another challenge. The goal is to be directionally accurate—understanding how influences are trending and how reversals could affect the portfolio. Using our solution, banks can update their current qualitative adjustment to generate reasonable and supportable forecasts. While using a complex set of future variables may seem impressive, it won't improve your forecasts directionally, and the approach is still just an educated guess. Don't pay for unnecessary precision.

### Added value on the horizon

Our portfolio-level CECLSolver solution is currently based on public data. QwickAnalytics will soon offer an enhancement to incorporate more institution-specific analysis at the loan-loss level, should your bank require it in the future. This is one of several exciting introductions planned for the credit arena.

Remember, CECL is as complicated as bankers want to make it. But as time moves closer to implementation, delaying the inevitable isn't the wisest strategy. Our approach is to start, monitor and, if necessary, adjust. Contact us today to get started with CECLSolver.