Updated CECL FAQs Provide More Information

regulatory CECL risk management

Summary: There is never a dull moment with #CECL. Get the latest FAQs published by the FDIC compiled based on ongoing questions, new developments and recent updates.

One major problem with poorly designed surveys is that they can be so dull they produce very weak results. Researchers find that back in 2007 participation rates for surveys ran at about 15% vs. only about 8% now. To increase your chances for a higher response when sending a survey to customers: keep the survey short, be sure the topic is relevant, make questions easy to answer and don't send out too many surveys too often.

While some surveys can be dull, bankers know there is never a dull moment with CECL. Things are moving quickly and the timeline is getting closer.

To update you, here are the latest FAQs published by the FDIC and compiled by the FRB, FDIC, NCUA and the OCC. We note that it has been 2Ys since CECL was announced and these new FAQs have been compiled based on ongoing questions, new developments and recent updates. The document is the most comprehensive to date, and it provides answers to new questions while incorporating some of the most useful standard questions and answers provided on the previous FAQs. The FAQ also provides links with additional information.

Some of the highlights include discussion around: collateral-dependent loans; reasonable and supportable forecasts; internal control considerations related to data; and the continued relevance of concepts, processes, and practices in existing supervisory guidance on the allowance for loan and lease losses.

We suggest your CECL preparation leader and team check it out to speed your implementation. One point specifically pointed out in the FAQ is that there is a lot of data that must be gathered. Some internal controls for new data collection may not yet be in place at your bank, so knowing this should help as you prepare.

A continuing theme from the agencies is that while modeling doesn't need to be complex, the inputs will need to be modified from the current ALLL reserve calculation approach.

While the FAQ doesn't provide banks with a straightforward method or methods to choose, it is clear that extensive resources and efforts are needed to test loan portfolios and types effectively.

Interestingly, the FAQ also acknowledges that with the earlier recognition of credit losses under CECL, allowance levels will likely go up and the retained earnings element of equity will likely go down. That would lower common equity tier 1 capital for regulatory capital purposes. But, it goes on to state that the exact degree of impact will rely on several factors, including economic conditions, portfolio mix, geography, underwriting practices, etc.

When planning the timeframe for CECL calculations, the agencies note that while a specific timeframe isn't stated, management needs to be diligent in supporting its forecast period. Using a stress testing process timeframe may be a good starting point, but the CECL forecast timeframe needs to be documented independent from any other regulatory timeframe. Further, the FAQ notes that while stress test models can be leveraged; there are definite differences that necessitate further work.

While there are challenges in preparing for CECL, agencies expect "good faith efforts" to establish it based on solid calculations and assumptions in a "sound and reasonable manner." If you find yourself stumbling or needing extra help, we are here to help, so contact us today.

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