Can CECL Make Your Institution More Efficient?

CECL risk management

Summary: When bankers think of CECL, greater efficiencies may not come to mind immediately. Yet, as community financial institutions work through the CECL implementation they are realizing that CECL gives them an opportunity to achieve greater efficiencies for the future. In our podcast, Banking Out Loud, Andy Hines of Bank of Glen Burnie brought this up and we explore this topic further today.

It is Seafood Bisque Day today. If you haven't made this soup before and you feel like trying, you will have to do some research first. We found over 50 recipes that take as little as 20 minutes and as long as 2 hours and 45 minutes. Sometimes, when you take more time in the process, you end up with a better outcome, or in this case, with a better seafood bisque. But, we will let you decide!

For CECL, that is definitely true. For most institutions, CECL implementation needs to be completed by January 2023 and these financial institutions are in varying stages of CECL readiness. But, taking the time to organize your data properly upfront is critical not only for an accurate reserve, but also for your institution's future efficiencies.

In one of our recent Banking Out Loud podcast episodes, we spoke to Andy Hines of Bank of Glen Burnie on his CECL experiences. Andy noted that if you organize your data in the way regulators look at your data — either in Call Report or UBPR format — CECL becomes easier. "*When you look at your CECL distribution of accounts... it's instantly recognizable because you see the same thing on the call report, basically. That's a good way to be because you become more efficient.*" For the complete podcast, listen here.

Today, we delve a little deeper into the idea of organizing data for CECL and share three steps to achieve greater long-term efficiencies, based on our discussions with Andy.

Get the data right. CECL makes big demands on community financial institutions (CFIs) and one of the biggest is on the large amount of data to review and process. Data needs to not only be reviewed, correctly categorized, scrubbed, and linked to all business areas within the CFI, but also linked to other reports and tools. Furthermore, the assumptions and notes need to follow the data all the way through to these reports and tools. As Andy mentioned in the podcast, "*If you get it set up correctly on the data side, as that data goes in, then it's a functional tool for everybody in the bank. And CECL's just one part of it. ALM [and] everything else feeds off of it.*"

Coordinate business units. The organizing of data is essential, but without the coordination of the various departments, your institution's efficiencies can't be maximized. Speak with the stakeholders in each business unit early about the benefits of working together on CECL – and use CECL as an excuse to get your institution focused on data organization. Focusing on data needs for CECL, and the upcoming deadlines, should reduce prior resistance to breaking down data silos. Coordinating with the various business units over the timeframe of the implementation can be labor-intensive, especially since everyone is busy with their everyday work. One way to smooth over any rough edges could be to have internal "CECL advocates" that can help remind staff why it is important and how their job will be made easier in the long-term with their support now.

Stay consistent. When the appropriate stakeholders have visibility to more confidently manage the institution's data assets with consistency, new credit products can easily get folded into existing models. Everyone is on the same page. Furthermore, data acquired through mergers and acquisitions will require less time to integrate into existing models. With consistent data and reports to regulators, auditors, and bank management, all stakeholders are in sync, efficiencies are gained, and time can be spent on revenue-generating actions instead of cost-center activities.

When financial institutions think of CECL, efficiency doesn't likely come to mind. Yet, as institutions work their way through the process focusing on structural data, they can gain long-term benefits, such as greater efficiencies. Driving future efficiencies through CECL allows CFIs more time for retaining and gaining customers to increase business.

CECL: THREE TIERS TO FIT YOUR NEEDS

ECONOMY & RATES

Rates As Of: 10/20/2021 05:26AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.05	0.01	-0.04
6M	0.06	0.01	-0.03
1Y	0.11	0.02	0.00
2Y	0.40	0.12	0.28
5Y	1.15	0.19	0.79
10Y	1.63	0.14	0.71
30Y	2.08	0.04	0.44

FF Market	FF Disc	IORB
0.08	0.25	0.15
SOFR	**Prime**	**OBFR**
0.03	3.25	0.07