Do Not Delay On CECL Activities

CECL risk management

Summary: As you analyze the risk of CECL and its impact, we offer our final AICPA article covering the key message--don't delay.

As you ponder where to get lunch today, know that the government warns people most at risk for getting food poisoning, according to the data, are those who have kids 5Ys or younger, have immune systems weakened by illness, are 65Ys or older, or are pregnant. Be careful out there.

As you analyze the risk of CECL and its impact, we offer our third and final article covering the AICPA's main points from their CECL practice aid. If you would like to read the previous articles, Management's Role When Outsourcing CECL or Taking a Fresh Start With CECL, we welcome you.

The AICPA's message around CECL implementation bubbles around making sure you don't delay. While FASB has pushed out the transition dates for many banks, this gives you time that should not be wasted. Both FASB and the AICPA are clear that they are doing so to give people more time to figure things out. Banks won't know how CECL will affect the business and reserves until then. Other considerations:

Data. You need to use a boat-load of reliable and complete data for CECL. If you have new data, which we have noted in the previous articles that most bankers will be using, internal controls must also be added to ensure and demonstrate accuracy and relevancy. Of course, if you are using third-party data, that data needs validation and controls too.

Consistency. Not only does your CECL data need to be reliable and complete, but it also needs to be consistent throughout your bank. Your Q Factor assumptions need to be the same for strategic planning and forecasting, for instance. While this may seem obvious, tight coordination with the relevant departments needs to happen to get this done right.

Testing. Once data has been gathered, you will need to segment and test it. By doing this, you will start seeing similarities and differences in these segments. The greater the number of differences, the greater the likelihood that more work needs to be done. If you have more complex CRE loans, for instance, you may need to use multiple methods, based on various characteristics (such as prepayments). Validation of methods takes time, so if you add or subtract methods along the way, these steps also need to be repeated.

Vendor selection. Given all of the work needed in gathering data and testing, you may opt to outsource. Vendors can offer various services, making your life easier or more difficult. It is vital to do due diligence on vendors you are considering. Vendors are not created equally, and CECL is complicated, so give your team more time to do the workand follow up on any red flags that may surface.

Running in parallel. Most experts now say that you need to run in parallel with both your current loan loss reserve approach and the updated CECL methodology for at least a year. That gives your team time to understand the intricacies of how the data works and what happens when market rates and other factors move around. You can then adjust assumptions and forecast as you dial in the final reserve and understand how changes over time affect the provision.

CECL is still unproven. As such, be sure to give yourself time so that you can pace things without rushing. You will then have the luxury of tweaking or pivoting, if needed, for the most appropriate reserve. Our CECL FIT solution and our team of bankers are standing by to help you with this.

CECL FIT^{TM} - WITH YOU, EVERY STEP OF THE WAY

CECL is one of the biggest challenges for community bankers these days. CECL FIT gives you a powerful, web-based intuitive solution with experts available as little or as much needed. Learn more about our CECL solution.