How To Use The Extra Time For CECL

regulatory CECL risk management

Summary: While CECL is delayed, that's not a reason for your financial institution to sit on its hands.

Strange things have often been sighted in Las Vegas. But, did you hear about the pigeons that were sporting cowboy hats? This happened for a week in mid-December. No one seems to know why or who. One with a red hat was named Cluck Norris and another with a pink hat became Coo-Lamity Jane. I guess Las Vegas is still entertaining the masses in unique ways these days!

After you finish looking for the video footage of these cowboy pigeons, we bring your attention to a topic that is more realistic--CECL and the latest news on the timing.

The Financial Accounting Standards Board has officially put off the effective date for CECL until January 1, 2023, for all but the largest financial institutions, and the ABA is pushing to have the standard set aside. But that's not a reason for your financial institution to sit on its hands. The delay gives you more time to get your data in order, a process that can provide you with other benefits, including taking your strategic planning to a higher level.

Many financial institutions haven't yet captured the data they'll need for CECL compliance, and those that do may find that the data is corrupt or lodged in multiple systems that can't be integrated. Start now to capture the correct data and ensure good data quality.

That process typically involves cleaning up the data you already have, to establish a clear starting point. Consider hiring a database administrator or a data business analyst for this process. Identify gaps in existing credit data or areas with inconsistently captured data. Make sure that you're collecting the right CECL data, and design data capture protocol that ensures you'll have the historical credit data you need, when you need it for CECL compliance.

Then, look at loan demand over time with other institutional data. Correlate that data by collateral or type--mortgages, auto loans, credit cards, and so forth. Once you have done that, you may need to divide it into smaller segments, such as geography, FICO score, cost center, or loan officer. These categories should be chosen based on what makes sense for your institution.

When you are reviewing your data, start asking yourself if the data gives you information that might help you fine-tune your strategies. Analyzing your data can help you spot trends and see how your portfolios behave in different situations. The information can point to market direction, suggest how economic changes will affect your loans, and indicate when you need to change strategies in order to protect against rising or sinking rates.

Sorted, analyzed data can help you forecast and reduce losses around interest rates, liquidity, market and regulatory capital, and credit. It can inform decisions around pricing and product offerings. Used wisely, the data you'll need for CECL compliance can also lead to lower overall risk and stronger, better-managed returns for everyone involved. So, it makes sense to use the extra time given by FASB wisely.

If you need assistance with any of this, we can help. Or you can read more on the strategic value of CECL data, to give you that jumpstart you need. Just remember to use the extra time wisely.

THREE TIERS TO FIT YOUR CECL NEEDS

CECL is one of the biggest challenges these days. CECL FIT gives you options to fit your portfolio with a web-based intuitive solution, including as little or as much expert assistance needed. Learn more about our CECL solution.