



How CECL Affects Bank Investors

regulatory CECL risk management

Summary: Investors are already making adjustments to market valuations, based on how much they project CECL will affect the loan portfolio. Be prepared.

Some of the basics when investing are: 1) set investment goals; 2) look at your finances; 3) diversify your investments; 4) keep informed. Some of the same ideas are used by bank investors as well.

We bring up investors because another change for banks ties into planning for CECL. Investors and analysts are already making adjustments to market valuations, based on how much they project CECL will affect the loan portfolio. This could also be a reason to start early with CECL for some banks too.

Consider that investors want to project future earnings and the impact of CECL will affect those numbers. To do your own calculations before investors appear, you can get more time to restructure loans if needed once you fully understand the impact of CECL. Doing so will also give you a leg up and more clarity if this is your path.

One risk for those who don't go to instrument level analysis is an average calculation is likely to be used. This could put smaller banks at a distinct disadvantage. So, you may want to start crunching your numbers to give investors more realistic ones. After all, community banks don't usually have high levels of consumer loans that larger banks do, so you should fare much better than those with auto loans or mortgages. If you have done the work, investors can use it and it should also make them more confident about zeroing in on market valuation.

If you are on the other side of the equation and are more interested in acquiring another financial institution, this can have benefits too. The goal is to understand what you might be buying as you price it fairly for risk. CECL is going to happen soon, so knowing upfront what you will need to do to the reserve or mark to market with an acquisition helps you more accurately price the deal as well. If you don't have the expected CECL impact when going through the buying process, you could get hit with a bigger reserve overall once implementation happens.

One example of this is WesBanco, a \$15B financial institution. It recently reported that it expected to increase its CECL allowance up to 60%. It had previously predicted an increase of only 30%. This big increase was the result of a recent acquisition of Old Line Bancshares Inc. in November, where it had not added CECL reserves for that portfolio.

Whether you are a buyer or a seller or just a bank with a desire to have a decent market valuation for your shareholders, you should consider starting to work on CECL.

For our readers that may be wondering -- yes, we have a CECL solution and yes, we have experts to help too. We can help you get the information you need and provide insights quickly. That way you can leverage it to match your strategy and eliminate potential issues -- no matter whether you are a buyer, seller, or just interested in starting the process and understanding more.

WHITE PAPER: CECL AND PREPAYMENTS

CECL creates many new challenges for bankers. One of them is prepayments, especially with a diversified portfolio. To learn more about the effects of prepayments on your CECL reserve, download our white paper, "[CECL Challenges: Prepayments and Diversification](#)" now.

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.