TOP 8 TIPS FOR CECL SUCCESS

Regulators, auditors, and industry professionals are all urging financial institutions (FIs) to begin now to prepare for the new **current expected credit loss (CECL) standards**, even though the effective date is over two years away. If you haven't already, make this the year your FI begins the planning and vendor selection process for your CECL modeling. **Don't risk regulatory scrutiny or incomplete data – start your CECL preparations *now*!**

Here's how ...

01 Form A Committee

A successful transition to CECL requires the active involvement of a CECL committee, including representation from finance, loan underwriting, loan operations, IT, line personnel, and senior management.

Not having a broad set of team members can also result in poor internal communication and a lack of clarity of roles, which can elongate your timeline and risk non-compliance by your adoption date.

02 Evaluate CECL Model Needs

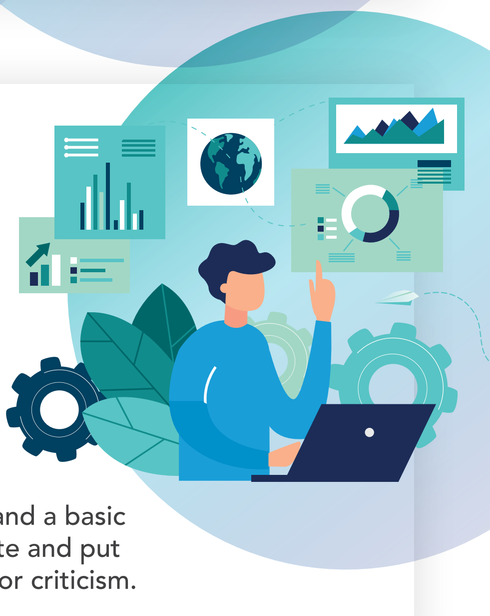
While CECL does not mandate any single model approach, and there are many different modeling options available, making a good, informed decision is a critical step in the process.

Selecting the wrong CECL model can expose you to regulatory scrutiny and cause you to start over in your CECL model selection process, which can be costly and time consuming.

03 Review/Select Model & Partner

It is essential to review and select a CECL model that can accurately assess your credit risk, is able to forecast changing economic conditions, and lets you see the impact on your reserves.

Not all models are created equal, and a basic model could be deemed inadequate and put your organization at risk of regulator criticism.



04 Start Capturing Data

For effective modeling, you should have at least three years of data. Starting the collection process now and working with a data provider that can help you build the CECL history you'll need is vital.

The two biggest data issues are an inadequate amount of history (less than one year) or poor data quality within your loan extracts. Both of these issues can affect the ability to accurately predict reserves and losses.

05 Assess Initial Results

Regulators suggest reviewing your CECL model results "early and often". Better still: Getting your results at the portfolio, product, and account levels is key to completely understanding your new CECL reserve amounts.

Not assessing your CECL requirements at the product and account levels can lead to bad pricing decisions on new business, negatively affecting your profitability after CECL adoption.

06 Refine CECL Results

Understanding your CECL reserves can help you determine the "gap" between your current ALLL and the new CECL requirement. And the sooner you know the gap, the better you can plan for it!

Late or bad modeling gives you a false sense of security and can result in a negative hit to your capital on your adoption date.

07 Go Live with CECL

By completing steps 1-6 now, you will be well prepared to implement CECL by your required adoption date. Monthly reports will then help you see how your reserves are changing going forward.

By taking a proactive view toward CECL and the effective compliance date, you can be assured that you have picked the right solution, effectively scrubbed your data, and have a strong model that will pass regulatory scrutiny!

08 Once Compliant, Take the Next Step!

Integrating the data you've gathered to be CECL compliant also benefits your institution by helping you price loans, monitor portfolios, perform stress tests, update risk ratings, and drive overall profitability.

A disparate CECL model that doesn't feed your budgeting, profitability, and pricing applications can add significantextra effort. Don't settle for an inefficient process!

Don't Forget Annual Validation

Going forward, FIs should conduct annual model validations to recalibrate their model and ensure ongoing accuracy in predicting potential credit losses. In addition to model recalibrations, models should also be independently verified by an outside party.

Having unbiased parties conduct these annual validations and check outputs helps ensure accuracy. And by adhering to this process, you will enhance the credibility of your institution's model when it is reviewed by examiners.

Questions? | Ask the CECL Experts ...

For more information about CECL solutions from ProfitStars® and how we can help your bank or credit union become compliant, visit **profitstars.com/fps**.

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