



# IMPACT 2022

CORNERSTONE ANNUAL MEETING & COUNCIL FORUM

## Financial Services

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Everyone needs a trusted advisor. Who's yours?

Presented by Cameron Baghvardani  
**BKD CPA's and Advisors**

# 2023 CECL Implementation – Am I on the right path?

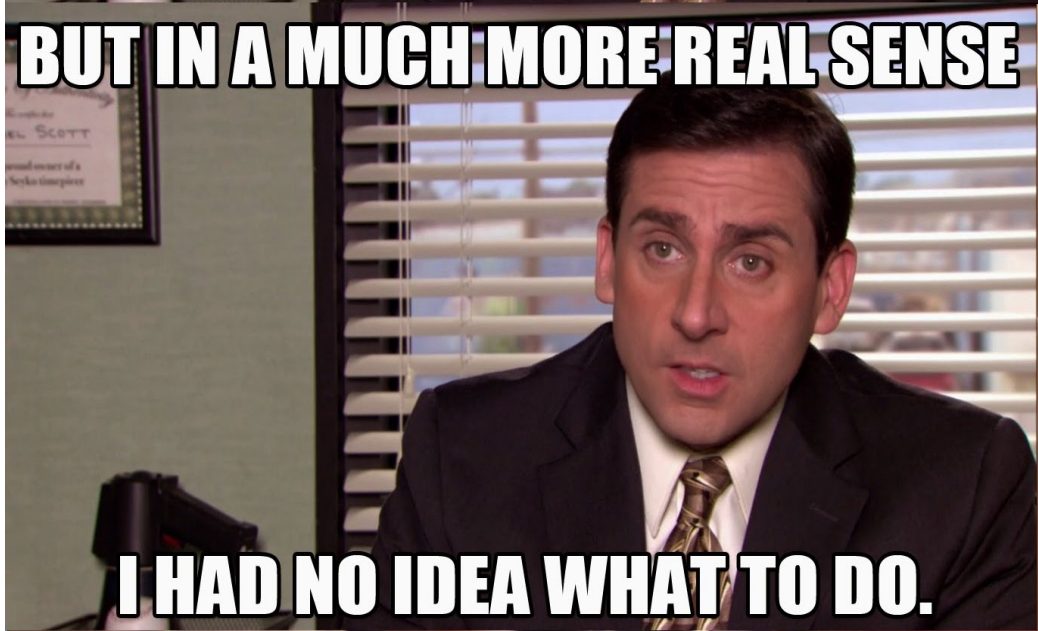
April 20, 2022

# Presenter



**Cameron Baghvardani, CPA**  
Director

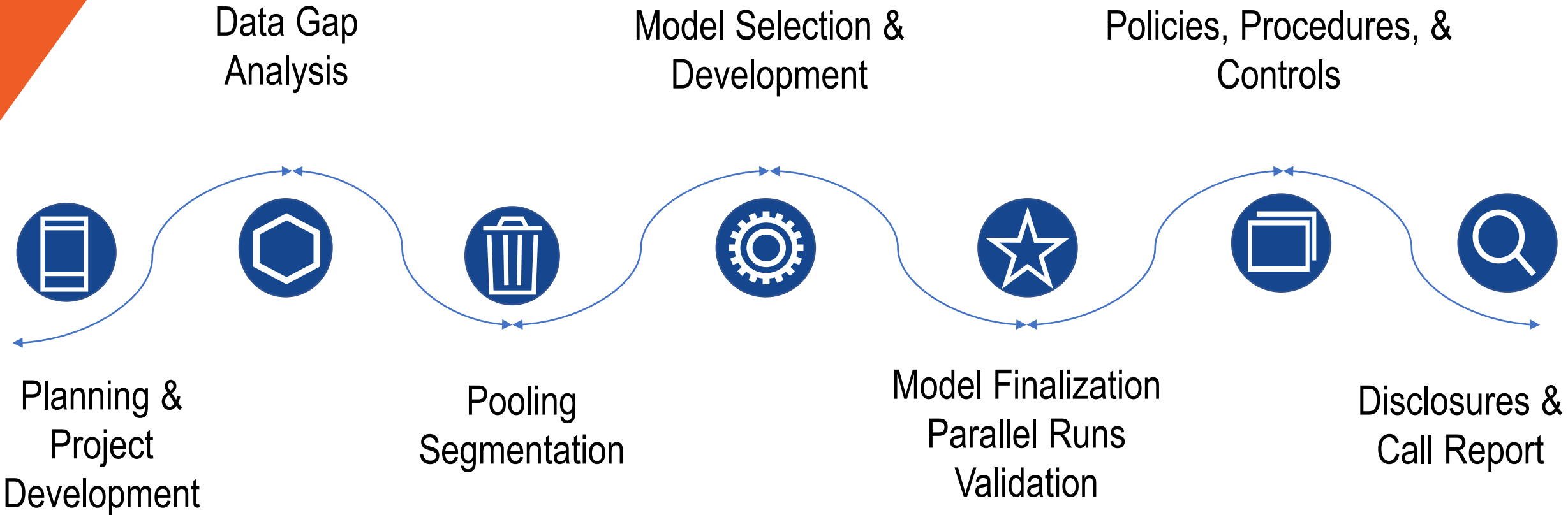
[cbaghvardani@bkd.com](mailto:cbaghvardani@bkd.com)



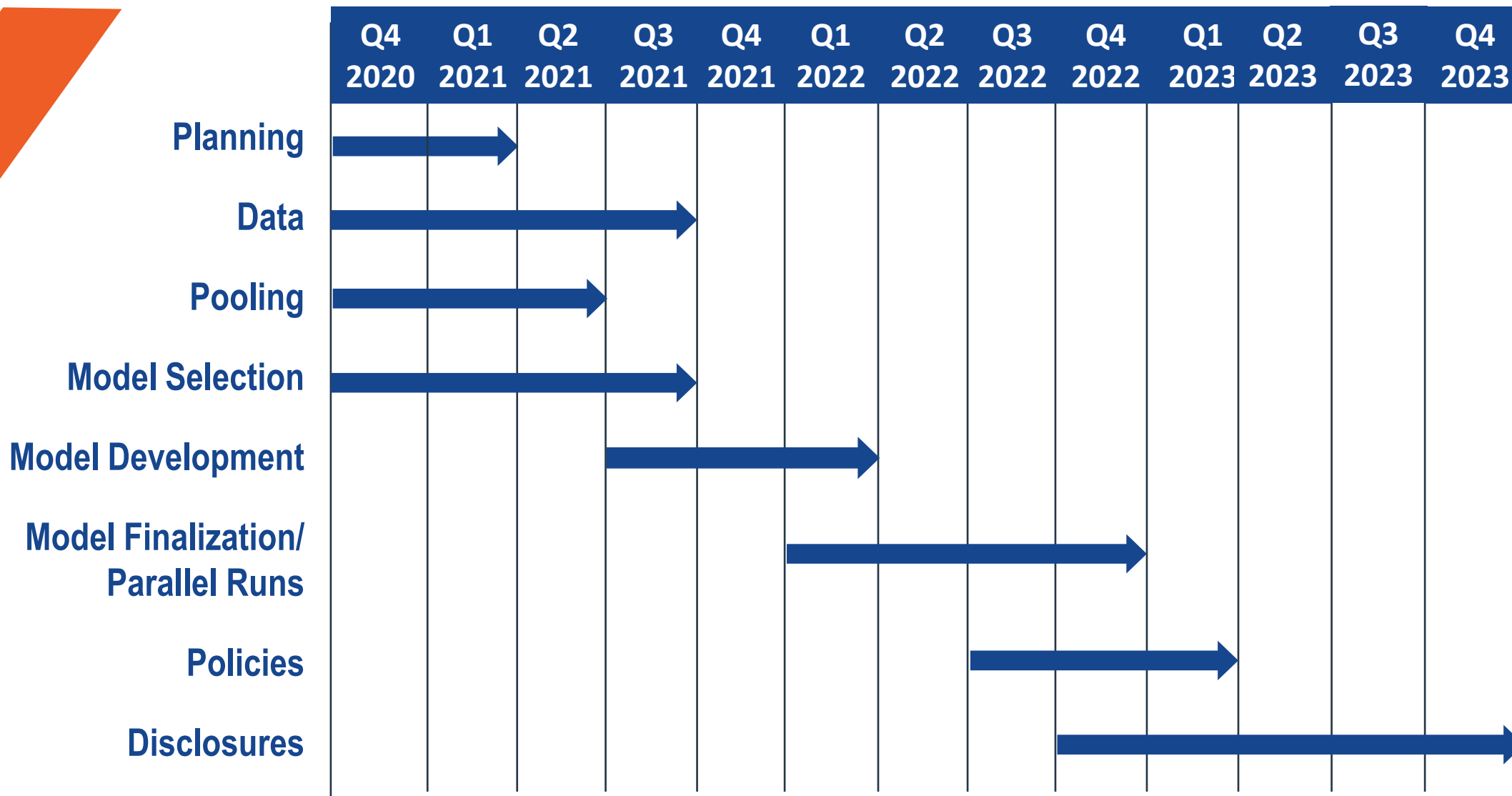


1. CECL Road Map & Key Decisions
2. Where Should 2023 Adopters Be Today?
3. Common Roadblocks to CECL Adoption
4. Lessons 2023 Adopters Can Learn from 2020 Adopters
5. COVID-19 Impacts on CECL

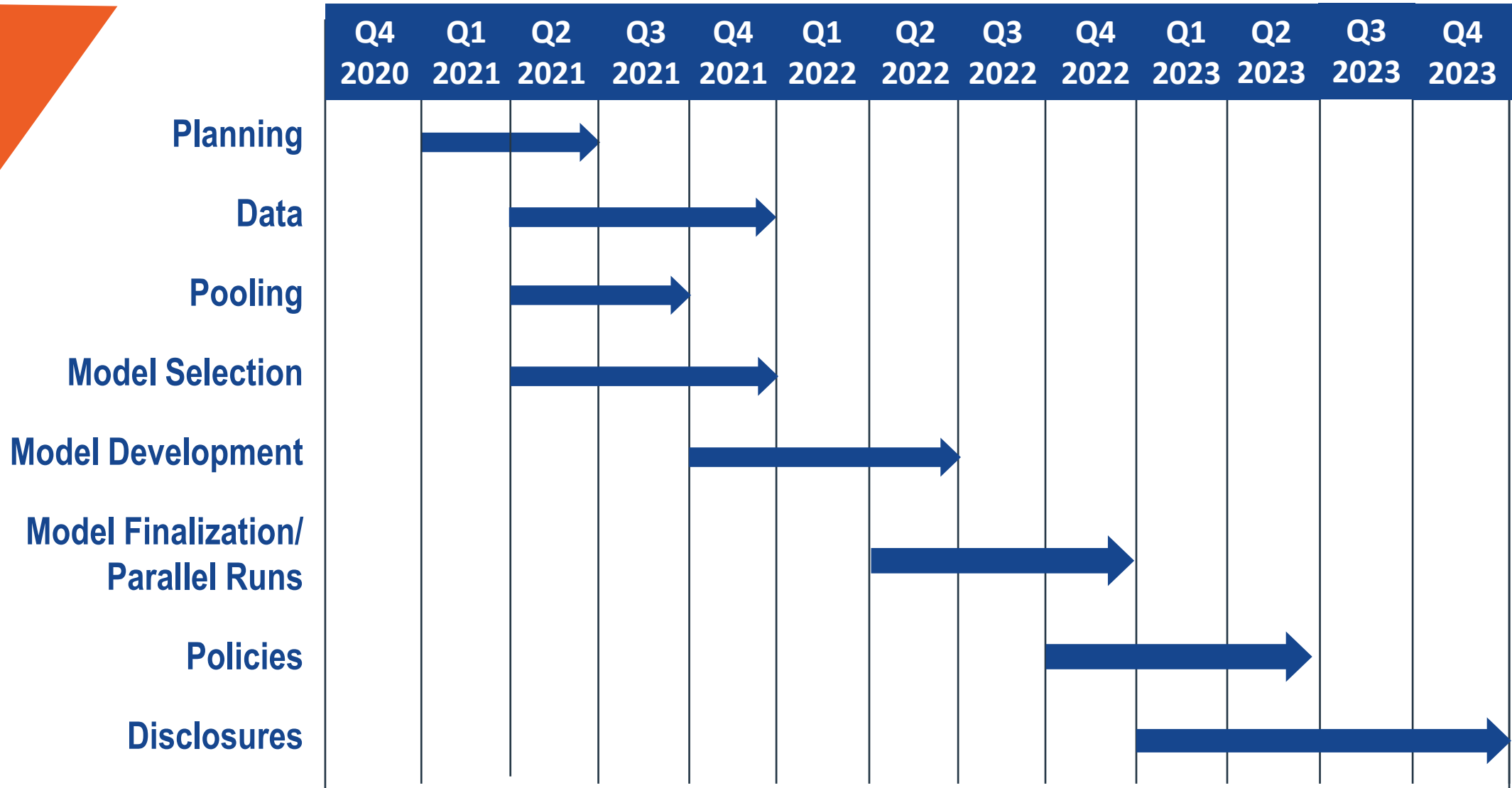
# CECL Road Map



# 2023 Timeline – “Already on the Road”

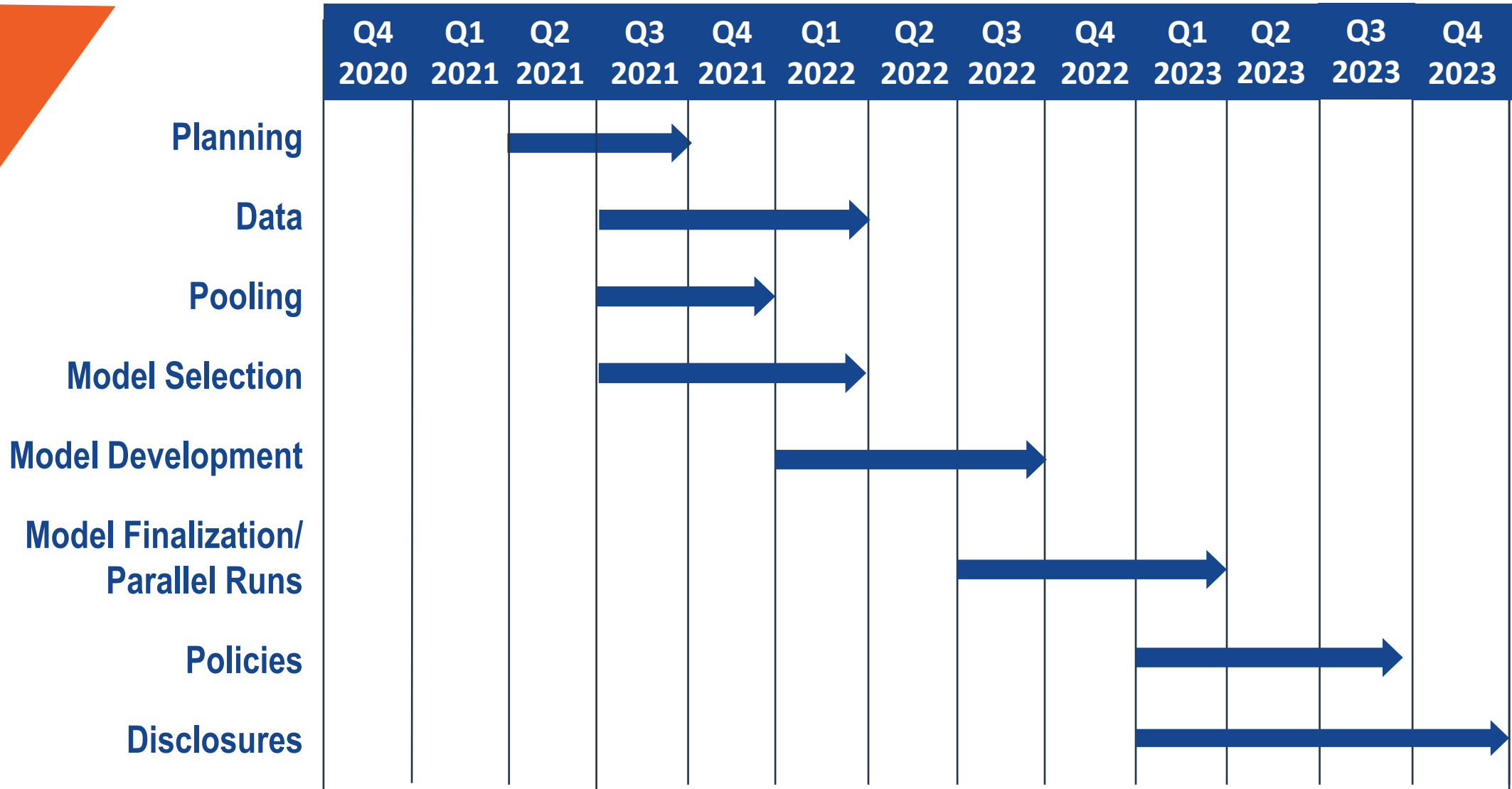


# 2023 Timeline – “Stopped For Gas”





# 2023 Timeline – “Get In The Car, Kids!”



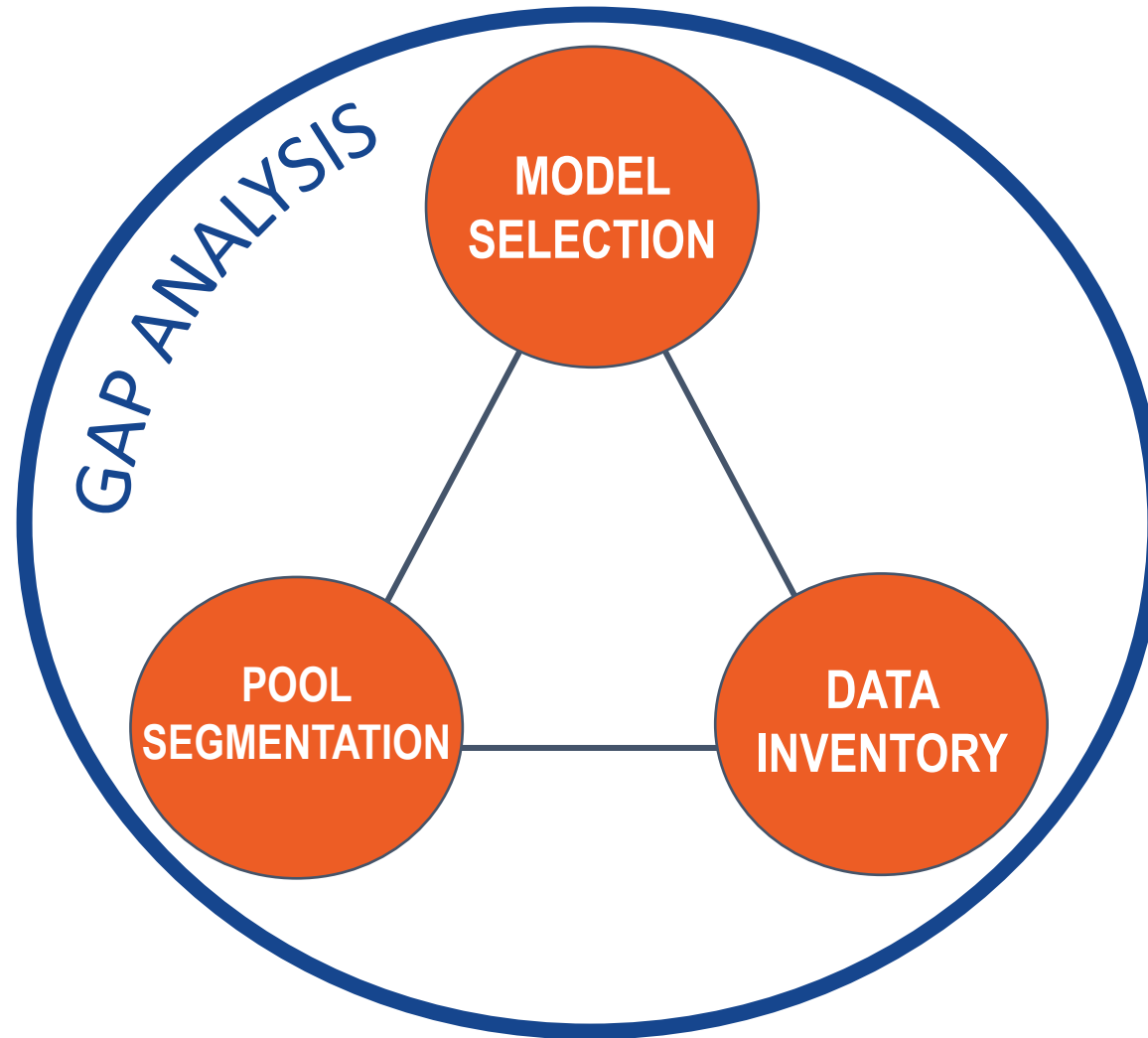
# Where Should 2023 Adopters Be Today?

To allow adequate time for parallel runs & documentation, the following should be substantially complete:

- Planning
- Data gap analysis
- Pooling segmentation
- Model selection



# CECL – Three Key Components



# Common Roadblocks to CECL Adoption (by phase)

## 1. Planning & Project Development

- Unrealistic timelines
- Lack of resources with necessary experience
- Missing pieces of the implementation road map
  - Integration of third-party software
  - Building accounting policies/audit documentation
  - Validation
  - Disclosures
  - Non-loan related impacts



# Common Roadblocks to CECL Adoption (by phase)

## 2. Data Gap Analysis

- Performed without consideration of model selection & segmentation
- Impact of life of loan assumption data fields
- Not considering needs outside of the “models”
  - Forecast data
  - Q-factor adjustments
  - Disclosures



# Common Roadblocks to CECL Adoption (by phase)

## 3. Pooling Segmentation

- Not focusing on credit risk/loss experience of pools
- Getting too granular
- Not considering model limitations related to pooling



# Common Roadblocks to CECL Adoption (by phase)

## 4. Model Selection

- Looking for the perfect model
- Trying to compare too many models
- Not considering data limitations



# Common Roadblocks to CECL Adoption (by phase)

## 5. Model Development

- Not originally considering impact of unfunded commitments
- Waiting to build out q-factor framework
- Lacking model development documentation/understanding of third-party software





# Common Roadblocks to CECL Adoption (by phase)

## 6. Finalization/Parallel Runs

- No documented conclusions on parallel run results, including
  - Reasonableness of output & review process
  - Benchmarking
  - Any tweaks made during this process
- Entire estimate process is not truly final (q-factor/governance/financial reporting)
- Not validating, **if necessary**, prior to implementation date



# Common Roadblocks to CECL Adoption (by phase)

## 7. Policies, Procedures, & Controls

- Waiting until adoption date to update this information
- Not performing an inventory of impacted policies procedures & controls
  - Debt securities (formerly OTTI)
  - IT (change management & user access)
- Incomplete implementation documentation



# Common Roadblocks to CECL Adoption (by phase)

## 8. Disclosures & Call Report

- Lack of understanding on GAAP disclosure changes
- Not building enough time for review prior to go live date
  - Call report – Q1 2023
  - 10Q (if applicable) – Q1 2023
  - Annual financial statements – Q1 2024
- Understanding call report changes





# Lessons 2023 Adopters Can Learn from 2020 Adopters...

# Adoption Date Impacts & Trends

**Impact was varied, although the following trends were present:**

- Most institutions had an overall increase in ACL
- Acquired loans had significant impact
- Duration of portfolio tended to be a key impact for increases or decreases
- Q-factors tend to make up less of the allowance
- Unfunded commitments had a significant impact for many
- Debt securities impact was almost nothing
- Disclosure changes were impactful

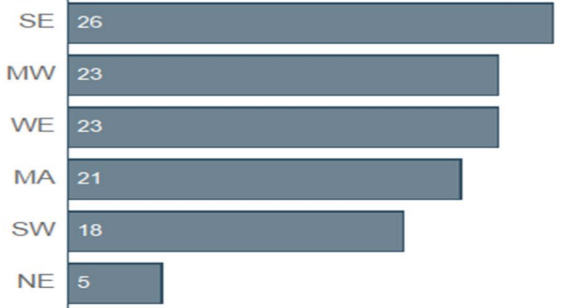
# ACL CECL IMPACT

[Click to filter dashboard](#)

## Total Assets



## Regions



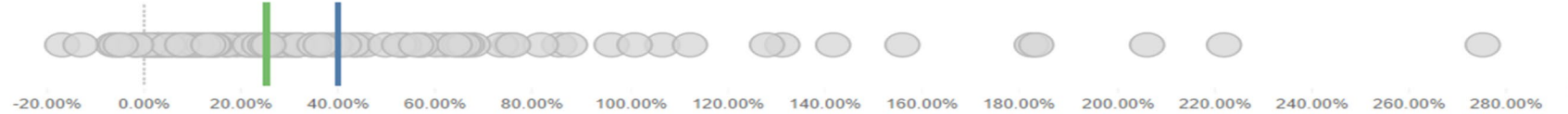
## PCI to PCD Loans



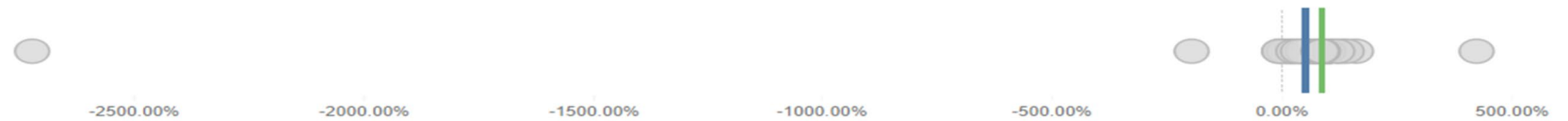
Median Average

Select Company

## CECL Loan ACL Percentage Change at Adoption



## Loan ACL Impact / all ACL Impacts



## Unfunded Commitment ACL Impact / all ACL Impacts



## Debt Securities ACL Impact / all ACL Impacts



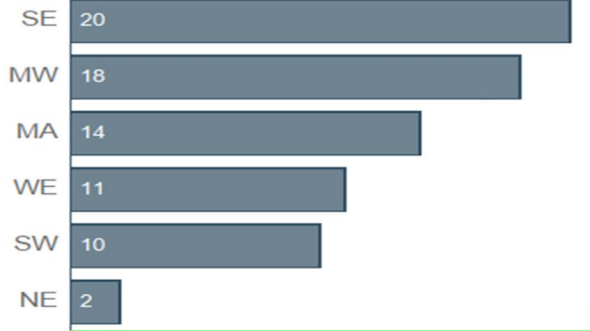
# ACL CECL IMPACT

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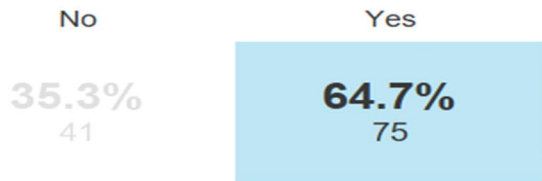
## Total Assets



## Regions



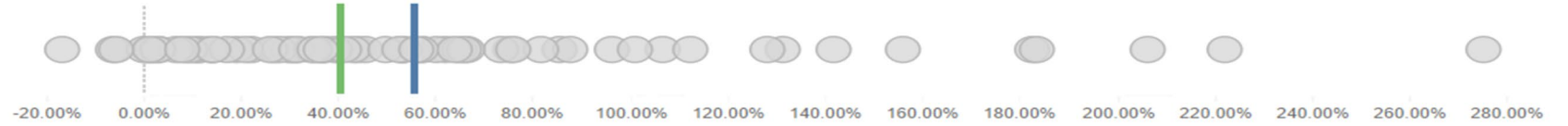
## PCI to PCD Loans



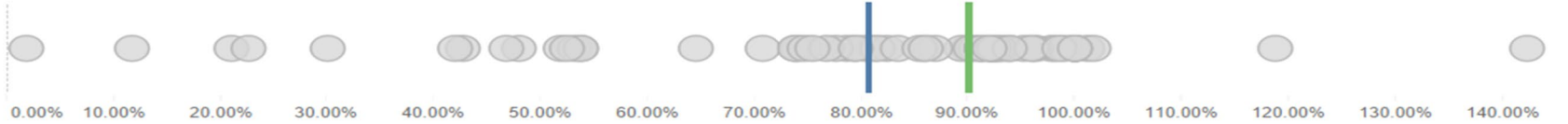
Median Average

Select Company

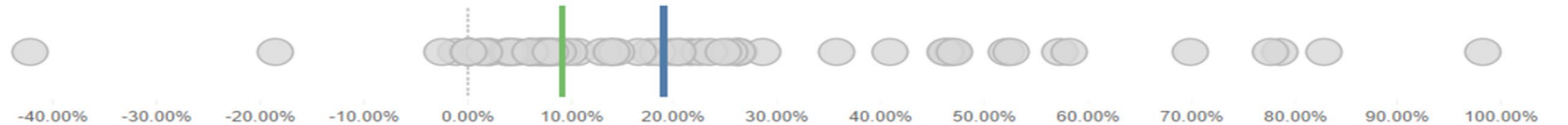
## CECL Loan ACL Percentage Change at Adoption



## Loan ACL Impact / all ACL Impacts



## Unfunded Commitment ACL Impact / all ACL Impacts



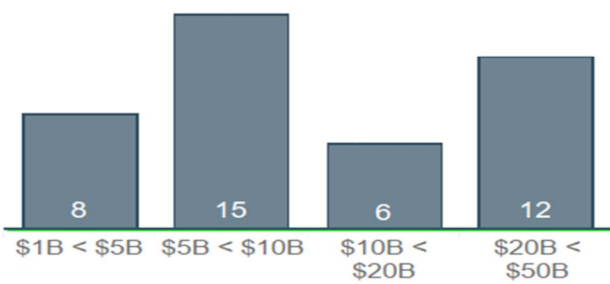
## Debt Securities ACL Impact / all ACL Impacts



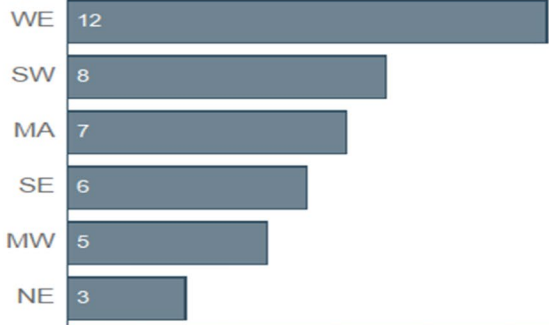
# ACL CECL IMPACT

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## Total Assets



## Regions



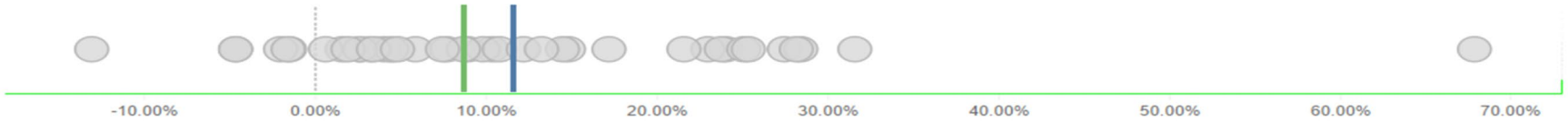
## PCI to PCD Loans



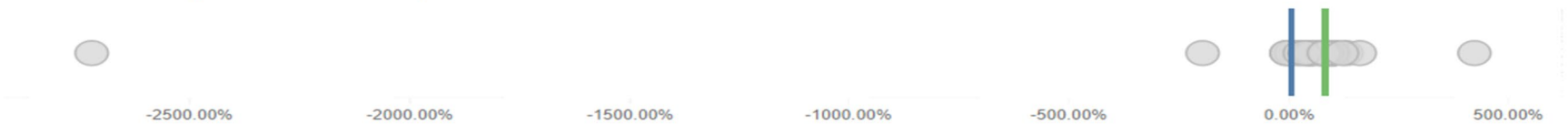
Median Average

Select Company

## CECL Loan ACL Percentage Change at Adoption



## Loan ACL Impact / all ACL Impacts



## Unfunded Commitment ACL Impact / all ACL Impacts



## Debt Securities ACL Impact / all ACL Impacts



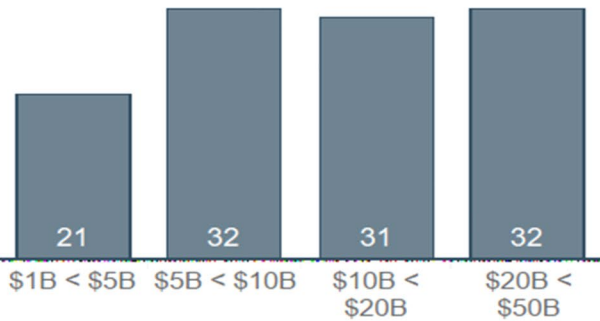
Source: 3/31 Call Report & 10Q Data



# CECL UNFUNDED COMMITMENT IMPACT

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## Total Assets



## Regions



## PCI to PCD Loans



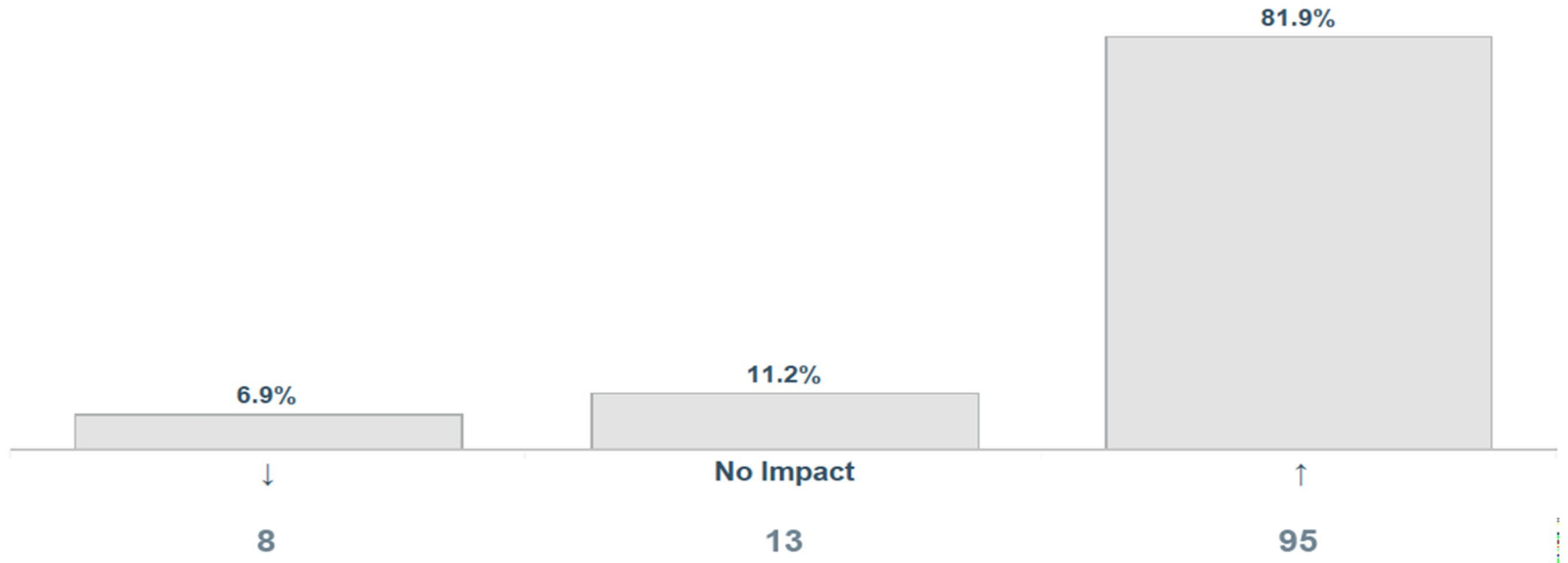
## Unfunded commitment Impact

### Unfunded ACL Impact > Loan

False 92 True 24



### Unfunded Commitment ACL Impact / all ACL Impacts



# 2020 Adopter Methodology Disclosure

PD/LGD – 65

Loss Rate – 46

- Static Pool/Cohort – 12
- WARM – 11
- Vintage – 11

DCF – 35

# Economic Variables, Forecast, & Reversion Lesson Learned

**Economic variables being considered varies; however, the following are most used:**

- State/national unemployment
- State/national GDP
- Real estate price indices, *e.g.*, HPI & CPPI
- Interest rates

**For 2020 adopters, at least some of the impact of changes in economic variables are included in quantitative model outputs (input level forecast)**

# Economic Variables, Forecast, & Reversion Lesson Learned

Most common sources for economic data is the St. Louis Fed (FRED) & Moody's (pay subscription)

Forecast period tends to not exceed two years & most common is one year (42 banks disclosed one year, 32 disclosed two years)

Most common disclosed reversion period & method is one (44) year & straight line (52)

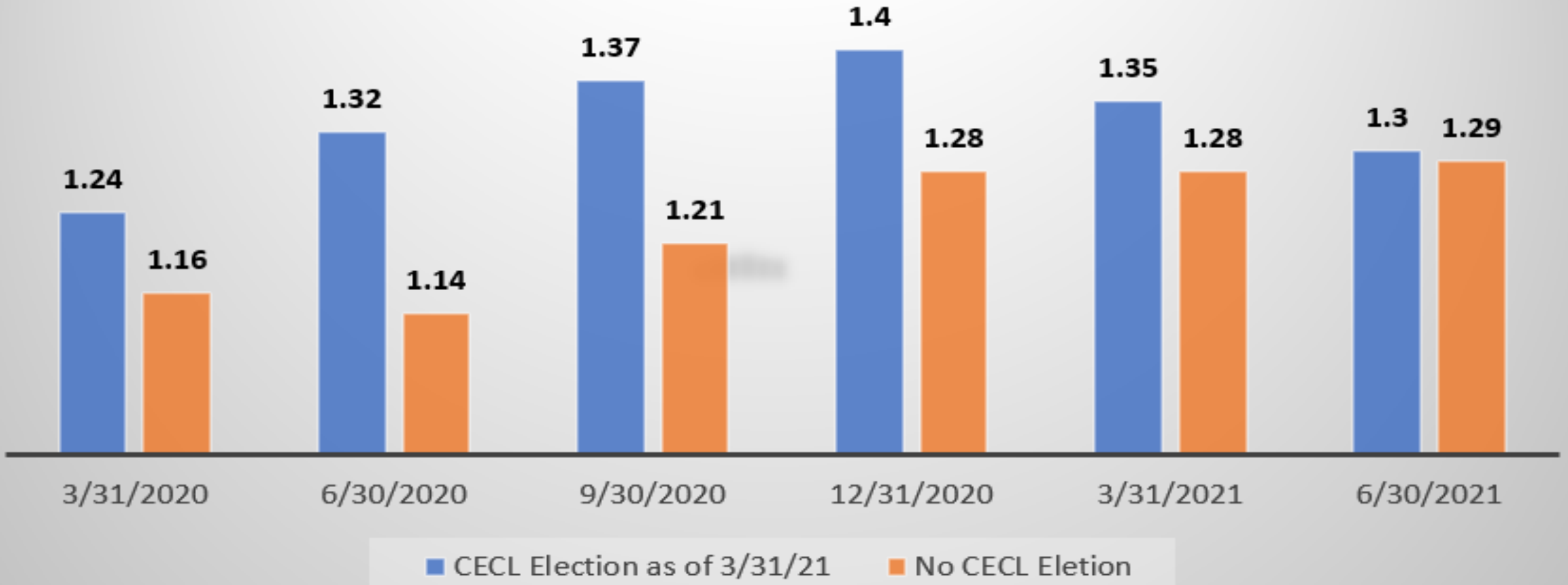


# COVID-19's Impact on CECL in 2020...

# CECL vs. Incurred 2020

## Loss Loan Reserves per Gross Loans (%)

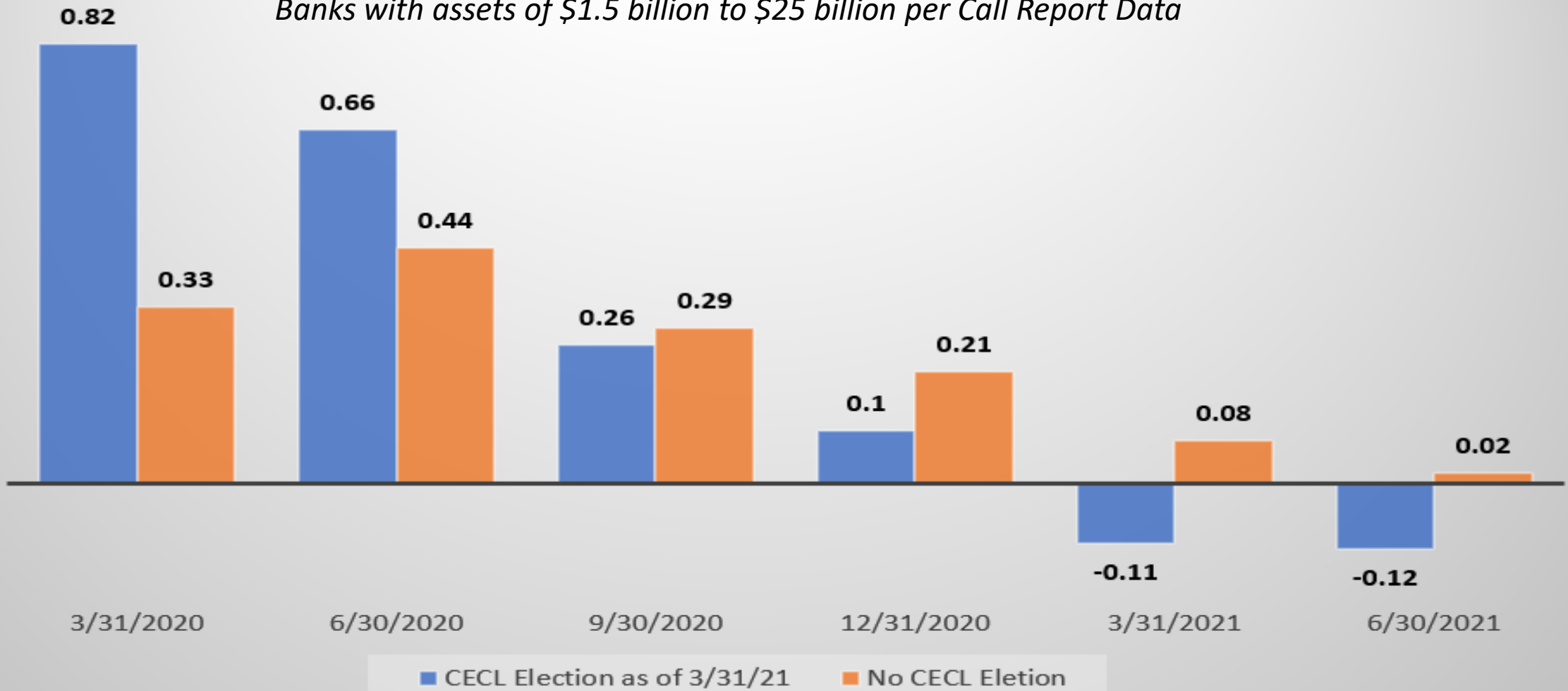
*Banks with assets of \$1.5 billion to \$25 billion per Call Report Data*



# CECL vs. Incurred 2020

## Provision Expense per Average Asset (%)

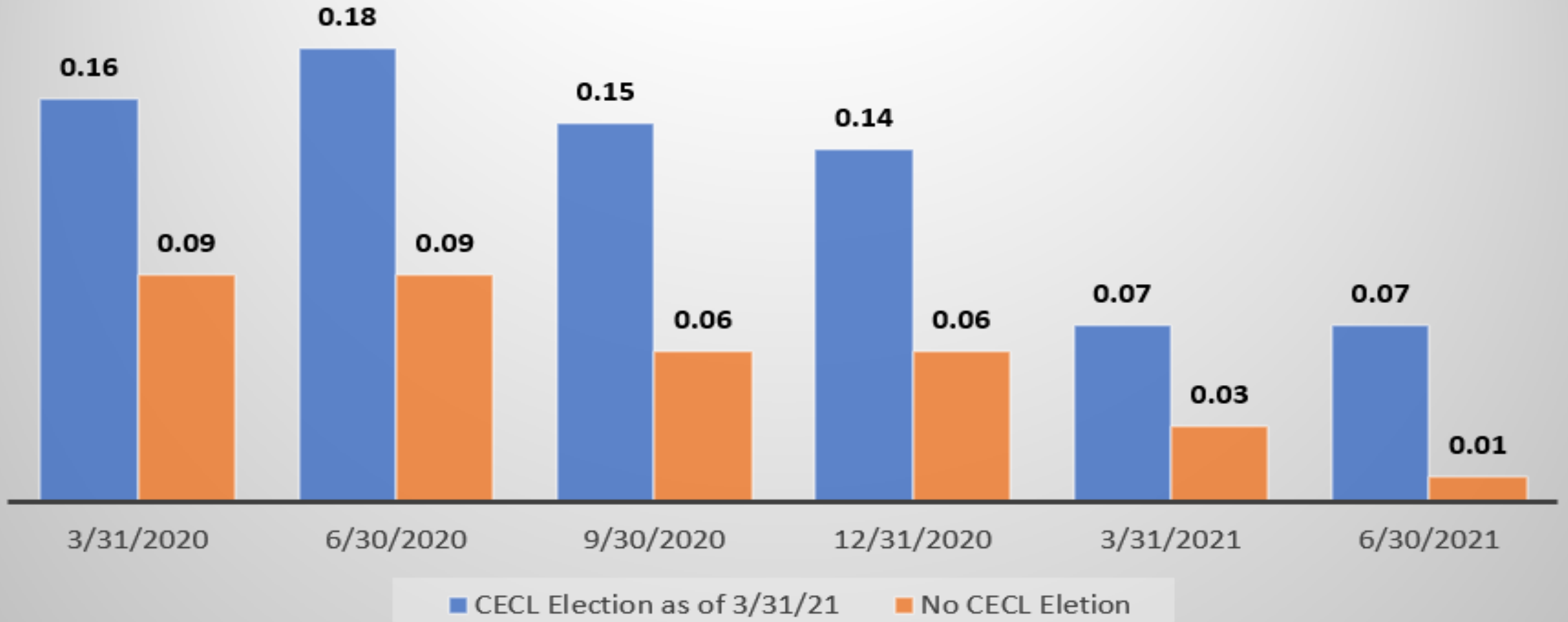
*Banks with assets of \$1.5 billion to \$25 billion per Call Report Data*



# CECL vs. Incurred 2020

## Net Charge-off per Average Loan (%)

*Banks with assets of \$1.5 billion to \$25 billion per Call Report Data*

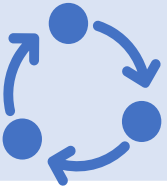




# Top 5 Lessons for 2023 Adopters



Use the time you have wisely



Don't confuse movement with progress (make decisions)



Document, Document, Document



Understand your methodology & models & what drives allowance



Allocate adequate resources & involve appropriate stakeholders

# CECL for Internal Auditors – Controls & Governance

**Considering both controls over implementation as well as ongoing controls**

- Data capture
- Data transfer
- User Access
- Review

**Controls over how management will consider and change assumptions on an ongoing basis such as:**

- Level of pooling segmentation
- Economic variables (loss drivers)
- Forecast period
- Reversion period and length

# CECL Simplified – BKD's Offering!

- Foundation of an EXCEL based WARM method
- Includes considerations for forecast factor adjustments & current condition adjustments
- Consultative approach – we are with you from the start through final adoption
- Documentation! Documentation! Documentation!

# CECL Simplified – Documentation

- CECL has become a documentation exercise
- Our competitive advantage is providing strong documentation for assumptions and decisions made
- As part of our engagement, BKD will issue:
  - Project Plan Overview
  - Segmentation Analysis
  - Attrition Analysis
  - Model Development and Parallel Run

# QUESTIONS?

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