

Don't Let CECL Catch You Off Guard

By Shana Richardson, CEO, Ser Tech

Credit unions and community banks have an extra year to comply with CECL, Current Expected Credit Losses, compared to financial institutions registered with the Securities and Exchange Commission. We must jump on the issue right now and take advantage of that year before we're scurrying last minute to comply.

Community banks and credit unions that have a solid plan in place and are executing against it should be in good shape. These institutions are performing the required due diligence and preparation for the open-ended approach to reserving for loan loss and capital required by CECL. As the head of a company that markets preapprovals and crunches data analytics for portfolio risk management, CECL seems a level-headed approach and the sooner financial institutions get it implemented, the better.



I recently spoke on a panel at the Cornerstone Credit Union League to educate attendees on CECL. In preparation for the session, I spoke with credit unions of all sizes to better understand if they will adjust their balance sheet or loan mix to prepare for CECL. Most said they didn't expect any changes to their balance sheet nor their approach to lending prior to implementation; they simply see CECL as a change in accounting practice that will require stronger oversight.

But credit unions' ability to price loans will be a crucial factor in the aftermath of CECL. "One of the most significant impacts of CECL, in my view, is that loans will need to be allowed for from time they are funded," one CEO of an audit firm explained. "This means that loan promotions must consider the impact of new loans on the allowance as part of program viability. Pricing will be critical, so, if a loan is inadequately priced loan yield will suffer, and ROA will be reduced. This situation could cause credit unions to rethink, the types and grades of loans they are approving and funding."

A Southern California credit union CEO shared, "My biggest concern is not the implementation of CECL, but rather the documentation and expectation of proof, policies, methodologies, etc., from NCUA, DBO and auditors. I fully expect examiners to ramp up expectations year after year, similar to changes in regulation. I am concerned about the additional bottom line costs, especially in the first year. If this becomes a lingering new challenge to our capital strength efforts (with risk-based capital coming our way also) I may want to consider changing strategies

in lending risk. That will be difficult to do because our credit union works a lot with the underserved.”



The CPAs in attendance of the Cornerstone event said it is critical for financial institutions to include their accountants early and often in reviewing their modeling and methodologies. They also shared that it’s important for the accountants to work closely with the institutions’ boards to ensure everyone understands the changes, why they’re being made and their impact, as well as the examiners so the financial institution can be assured its forging the right path to compliance. CPAs must be involved from initiation through implementation of the project.

“My contention is that CECL won’t necessarily be as difficult as expected,” a credit union CFO said. “By definition the ALLL balance is an estimate and we will need to have backup for our calculations but there is no necessarily ‘right’ answer. A lot of the work will be to understand how you have estimated and be able to convince the CPAs you have a valid estimate and know what you are doing. I believe it will be more important to convince the CPAs than the examiners and I expect examiners will depend on the CPAs.”

In preparation, financial institutions must ensure they have clean credit data and the right data. Ensuring you have the right team in place is also important, whether outside contractors or adding staff, to make sure you have the necessary expertise. Finally, plan and test and test – and test some more. CECL is one of the biggest changes to financial institutions’ accounting practices in decades, and you can’t afford to miss the boat.

Ser Tech can help get your data where it needs to be. [Contact us to learn more!](#)