CECL Prep: Data.
Ensuring data adequacy and quality

IN THIS GUIDE

- Summary of CECL data requirements
- List of data points by methodology
- Important characteristics of data
- Handy data checklists
    - Data adequacy checklist
    - Third-party vendor checklist

INTRODUCTION

The Financial Accounting Standards Board (FASB) issued the final standard of the current expected credit loss (CECL) model on June 16, 2016.

The CECL model is a change in guidance for the allowance for loan and lease losses (ALLL) that will include, among other provisions, forward-looking requirements, the removal of the "probable loss" threshold, a longer loss horizon and, depending on methodology considerations, the need for accessible, loan-level data. Some industry experts have asserted that the CECL model may be the biggest change ever made to financial institution accounting.

For institutions who wish to have flexibility in methodologies to consider in scenario planning for the new regulatory guidance, it is important to have the proper loan-level data in order to run more robust and forward-looking calculations. Capturing this data is a prerequisite for testing methodology changes and planning for potential capital adjustments.

Transitioning to CECL will be challenging for many institutions, and the first step — capturing and archiving loan-level data — presents its own unique set of challenges. This guide outlines some of the challenges and objectives for your institution to consider while identifying, assessing and addressing your data needs in preparation for the FASB's CECL model.

CECL Data Requirements.

Now

HISTORICAL LOSS RATES

- Charge-offs
- Recoveries
- Aggregate pool data
- Beginning balance of pool
- Ending balance of pool

Future

EXPECTED LOSS RATES

- Charge-offs
- Recoveries
- Aggregate pool data
- Beginning balance of pool
- Ending balance of pool

- Risk rating by individual loan
- Loan duration
- Individual loan balance
- Individual loan charge-offs and recoveries (partial and full)
- Individual loan segmentation

new

Data points by methodology

The CECL guidance is intentionally non-prescriptive, meaning institutions will have some flexibility in deciding what methodology or methodologies work best for their portfolio or segments of their portfolio. To ensure flexibility in the methodologies available to incorporate into CECL scenario building, it is important to capture a wide range of data points.

Appropriate methodologies:
- 🟦 Historical loss
- 🟧 Migration analysis
- 🟩 Vintage analysis

Data points:
- Individual loan charge-offs 🟦🟧🟩
- Individual loan recoveries 🟦🟧🟩
- Individual loan balances 🟦🟧🟩
- Individual loan pool segmentation 🟦🟧🟩
- Individual loan duration 🟦🟧🟩
- Individual loan risk classification 🟧
- Migration of loans between classifications 🟧
- Individual loan origination dates 🟩
- Individual loan origination amounts 🟩

**Probability of default /
Loss given default (PD/LGD):**

$$PD \times LGD \times EAD = \text{Exp. Loss}$$

(PD) data points:
- Days past due
- Accrual/restructure status
- Charge-off activity
- Bankruptcy

(LGD) data points:
- Product/loan type
- Industry/geography
- Collateral type

(EAD) data point:
- Loan balance

**These data points provide a high-level overview of data needed for basic calculations. Certain methodologies may require additional, conditional considerations. For more information, speak with an ALLL specialist.

Evaluating Data Adequacy.

IMPORTANT DATA CHARACTERISTICS

Transparency	Understand how and where data is stored. Having a clear process will help minimize confusion. If using a third-party vendor, ensure accountability.
Granularity	CECL will require more data. Ensure the database can handle the increased volume as well as accounting for the entire life of loans.
Accessibility	Ensure data is readily available in usable formats. Storing info across disparate systems or in unusable formats (PDFs) can cause efficiency challenges.
Holistic	Ensure that data is stored for the whole portfolio and not just for losses.
Frequency	Ensure data is updated frequently to accommodate institution needs (process daily, archive monthly).
Security	Ensure that the database is secure. • If integrated with other solutions, ensure that data transferred between a core system and the vendor is secure. • Data should be backed up frequently and have redundancy to minimize risk.

Data adequacy checklist

Use the list below to check the general adequacy of data stored within the institution.

☐ The data is labeled appropriately (headers consistently applied and are understandable)

☐ Data does not contain duplicates (fields, rows or entities)

☐ There are no inconsistencies in values (e.g., truncated by 000's vs not truncated)

☐ Data is stored in the right format (e.g., numbers stored as numbers, zip codes stored as text)

☐ The file extracted from the core system is stored as the right file type

☐ File creation is automated; not requiring manual file creation

☐ Data is reliable and standardized throughout the institution, across all departments

☐ Data fields are standardized and governed to ensure consistency going forward

☐ Data storage does not have an archiving time limit (e.g., 13 months)

☐ Data is accessible (i.e., in a usable format like exportable Excel files, integrated with other solutions)

☐ Archiving function captures data points required to perform range of robust methodologies

HOW TO FIX DATA INADEQUACY

If found that the institution's data capturing and storage solutions do not meet the more robust requirements of the proposed CECL model, consider the following options:

Contact core provider & inquire about data archiving

Work with IT department to create an in-house solution

Partner with a third-party, trusted vendor

Third-party vendor checklist

NOT ALL SOLUTIONS ARE CREATED EQUAL

Many institutions can't take on the burden of implementing and maintaining internal data storage systems for many reasons, including a lack of expertise in data management, the cost of increased IT investment or the risks of ensuring standardization, redundancy and security.
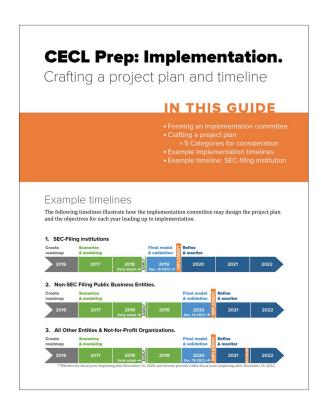
In evaluating third-party vendors, here are a few criteria to consider:

- ☐ The vendor integrates data from any core provider without relying on another third-party vendor

- ☐ The vendor integrates data from multiple data storage locations or databases

- ☐ The data storage solution provides one point of data entry

- ☐ The solution extracts data to be sent to external databases

- ☐ The vendor offers a dedicated Data Integration Specialist

- ☐ The vendor has experience across core systems and recommended best practices

- ☐ The vendor offers translation services in case you need to change segmentation criteria

- ☐ It is transparent how the vendor uses data extracts to build reports or calculations (no black box)

- ☐ The vendor provides automated data validation checks

CECL Prep: Implementation

CECL Prep: Implementation.
Crafting a project plan and timeline

IN THIS GUIDE
• Forming an implementation committee
• Crafting a project plan
  » 5 Categories for consideration
• Example implementation timelines
• Example timeline: SEC-filing institution

The FASB has issued the final CECL guidance. This CECL implementation prep guide covers basic tips for implementation planning to help you begin preparation. Download at the link below.

DOWNLOAD THE GUIDE TO LEARN

• How to form a CECL implementation committee

• Key considerations for your implementation project plan

• What example CECL implementation timelines may look like

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