IDENTIFYING ISSUES - LOAN LEVEL ANALYSIS

Perspective of CECL

CECL FOUNDATION

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DAYS HOURS MINUTES SECONDS

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LOAN LEVEL ANALYSIS AND CECL AUDITING

Following the global financial crisis of 2007–09, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016–13, also known as Current Expected Credit Loss (CECL). Using CECL, banks can proactively react to actual and anticipated changes in the credit environment by detecting expected credit losses early. The social and economic impacts of the 2020 recession were felt throughout markets, resulting in higher credit losses and a reduction in earnings and capital for financial institutions.

Such turbulent times call for increased loan-level analysis of the CECL process and methodologies. This auditing process has become challenging with auditors focused on loan data, expected credit loss results, and the methods used to arrive at these results. It, therefore, becomes imperative for lending institutions to monitor their loan pools regularly so that they have the relevant data ready for auditing purposes. They have to compare CECL results from one period to another to locate and rectify any issues.

Factors that can affect a loan pool are discussed below:

1. When a pool involves significant product, industry, region, or borrower risk, allowance can be highly sensitive to changes in the credit environment and can result in credit losses

2. Unexpected economic events such as the COVID-19 pandemic, which had a massive impact on economic activity

3. Many financial institutions experienced a hike in allowance because of their exposure to the likes of dine-in restaurants, hotels, and oil exploration industries

4. Credit scores are important indicators of credit risk and play a vital part in determining the interest rates for a loan

5. Debt to Income (DTI) is an important indicator of risks that exist for residential loan portfolios as it has implications regarding the ability of a borrower to repay the debt based on their existing expenses versus current income

6. The borrower's payment history over a certain period of the loan can affect a loan pool and its credit risks

7. Property value appreciation over life of a loan can affect the riskiness of a loan portfolio

Institutions will have to put a framework in place for the ongoing monitoring and maintenance of their loan portfolio. They can increase their profitability in the long run by pricing loans accurately at the time of origination.

The risk profile of institutions will get a boost by monitoring performance over the duration of the loan. Throughout the US, loan portfolios for most credit unions and banks have evolved over decades. The collection of data for loans can be a time-consuming task for many small institutions. Conversely, institutions can become efficient at identifying risk and then save some money.

Institutions need to have the ability to forensically take apart a loan portfolio and identify any relevant issues that might affect the CECL results. Lenders need to analyze a loan pool over its full cycle and leverage any information that their system might provide. Lenders can ensure the continued profitability of a loan portfolio by monitoring its performance.

Financial institutions need to check current and past reports and get down to the loan level to see if anything is changing with regard to it. They need to explain to an auditor, from the bottom up, about how they have achieved their CECL results.

Sometimes loans need to be individually evaluated as they no longer exhibited common risk characteristics when compared with other loans in the portfolio. CECL is an ongoing process that banks need to get right by striking the right balance between profitability and maintaining reserves for expected losses.

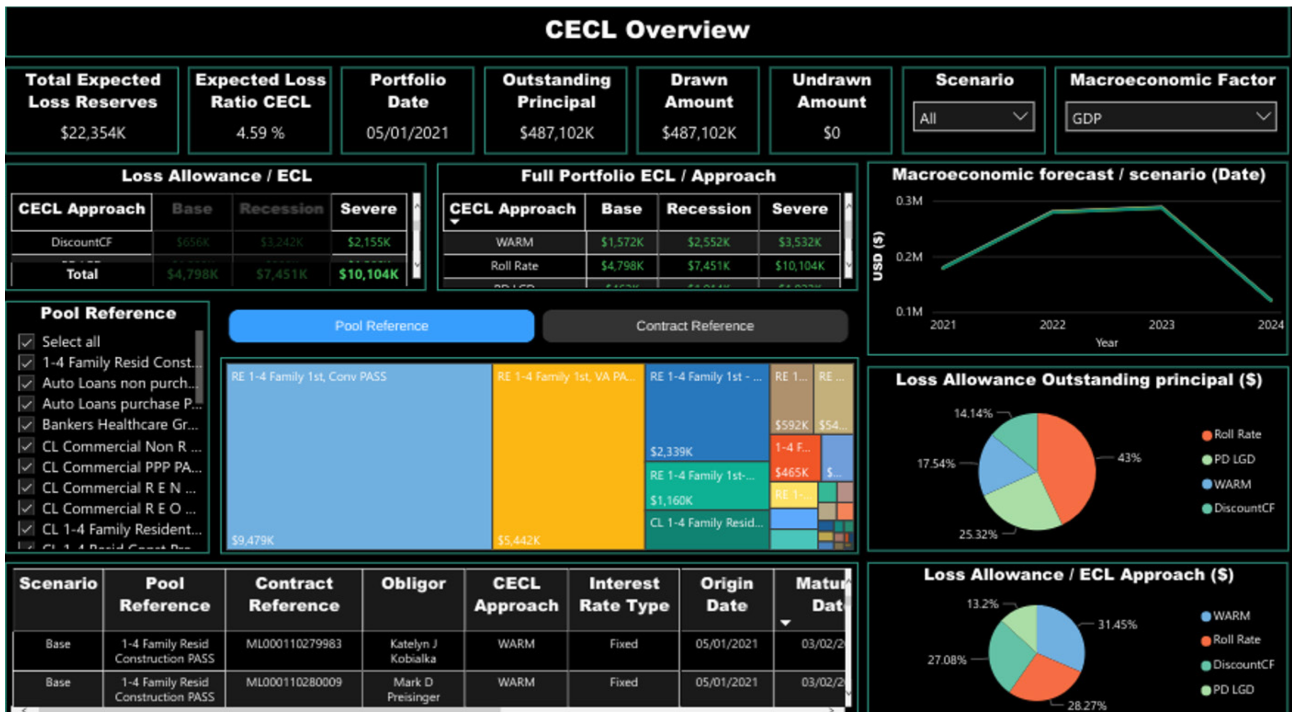
CECL Express can help...

CECL Express is a turnkey solution that fully satisfies all elements of the new CECL accounting standard. The system provides all non-loan data, including:

- Yield curves and Fed data
- Linked reports on losses from the FFIEC and NCUA
- PD and LGD curves
- Macroeconomic data

Banks and credit unions need to only provide the underlying loan details for the system to provide fully auditable ECL results for multiple calculation methods, including:

- Vintage
- Roll Rate
- Discounted Cashflow
- WARM
- PD/LGD



CECL Express provides more than valid ECL results. The system computes results for all methods and all loan pools, allowing the bank to optimize its CECL configuration and avoid the worst impacts of the new standard.

Visit ceclexpress.com for more information about the most efficient route to optimal CECL compliance.

ABOUT
CECL EXPRESS

- CECL Express is a turnkey, cloud-based solution, designed to provide banks and credit unions with optimized results and reporting that fully meet the ‘Current Expected Credit Loss’ accounting standards.
- CECL represents a major change in what is expected from financial institutions in their reporting of, and provisioning against potential credit losses.
- Smaller financial institutions are expected to implement forward-looking credit models to estimate losses they may experience.
- Selecting inappropriate ‘Expected Credit Loss’ (ECL) models will create a need to hold far more capital than is required, directly causing a loss of Profit and Loss (P&L). Data used within these models must also be reported for audit purposes.
- January 2023 will see the first official reporting period for the beginning of CECL. Banks and credit unions must have a framework in place, which is fully tested and reports results based on that data. In practice, this means selecting, implementing, and testing the system in the first half of 2022.
- For Finastra core systems, the integration has already been built. For customers with these systems, their CECL results are ready to be calculated and reported.

ABOUT
GREENPOINT FINANCIAL

- GreenPoint Financial is a division of GreenPoint Global, which provides software-enabled services, content, process and technology services, to financial institutions and related industry segments.
- GreenPoint is partnering with Finastra across multiple technology and services platforms.
- Founded in 2006, GreenPoint has grown to over 500 employees with a global footprint. Our production and management teams are in the US, India, and Israel with access to subject matter experts.
- GreenPoint has a stable client base that ranges from small and medium-sized organizations to Fortune 1000 companies worldwide. We serve our clients through our deep resource pool of subject matter experts and process specialists across several domains.
- As an ISO certified company by TÜV Nord, GreenPoint rigorously complies with ISO 9001:2015, ISO 27001:2013, and ISO 27701:2019 standards.

Marcus Cree

MANAGING DIRECTOR AND
HEAD OF FINANCIAL TECHNOLOGY AND SERVICES

Marcus has spent 25 years in financial risk management, working on both the buy and sell side of the industry. He has also worked on risk management projects in over 50 countries, gaining a unique perspective on the nuances and differences across regulatory regimes around the world.

As Managing Director, Marcus heads GreenPoint Financial Technology and Services and has been central in the initial design of GreenPoint products in the loan book risk area, including CECL and sustainability risk. This follows his extensive experience in the Finastra Risk Practice and as US Head of Risk Solutions for FIS. Marcus has also been a prolific conference speaker and writer on risk management, principally market, credit and liquidity risk. More recently, he has written and published papers on sustainability and green finance.

Marcus graduated from Leicester University in the UK, after studing Pure Mathematics, Phycology and Astronomy. Since graduation, Marcus has continually gained risk specific qualifications including the FRM (GARP's Financial Risk Manager) and the SCR(GARP's Sustainability and Climate Risk). Marcus's latest academic initiative is creating and teaching a course on Green Finance and Risk Management at NYU Tandon School of Engineering.

Sanjay Sharma, PhD

FOUNDER AND CHAIRMAN

Sanjay provides strategic and tactical guidance to GreenPoint senior management and serves as client ombudsman. His career in the financial services industry spans three decades during which he has held investment banking and C-level risk management positions at Royal Bank of Canada (RBC) Goldman Sachs, Merrill Lynch, Citigroup, Moody's, and Natixis. Sanjay is the author of "Risk Transparency" (Risk Books, 2013), Data Privacy and GDPR Handbook (Wiley, 2019), and co-author of "The Fundamental Review of Trading Book (or FRTB) - Impact and Implementation" (Risk Books, 2018).

Sanjay was the Founding Director of the RBC/Hass Fellowship Program at the University of California at Berkeley and has served as an advisor and a member of the Board of Directors of UPS Capital (a Division of UPS). He has also served on the Global Board of Directors for Professional Risk International Association (PRMIA).

Sanjay holds a PhD in Finance and International Business from New York University and an MBA from the Wharton School of Business and has undergraduate degrees in Physics and Marine Engineering. As well as being a regular speaker at conferences, Sanjay actively teaches postgraduate level courses in business and quantitative finance at EDHEC (NICE, France), Fordham, and Columbia Universities.