IDENTIFYING ISSUES - THE NEED TO STORE ALL DATA USED FOR ANALYSIS

Perspective of CECL

CECL FOUNDATION

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DAYS HOURS MINUTES SECONDS

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CECL COUNTDOWN SERIES

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HISTORICAL DATA AND CECL

Most financial institutions have, by now, developed a Current Expected Credit Losses (CECL) implementation plan. If any institution is lacking a comprehensive historical data set, they need to start focusing on gathering data in order to use bottom-up historical loss data effectively in the future. Relevant historical loss data helps banks gain insight into the performance of their loan portfolios historically across different economic scenarios. Institutions that have relied on market data for their CECL calculations need to start using their own data to come up with expected credit loss calculations.

CECL demands a lifetime loss rate, which necessitates the surveillance of a loan portfolio throughout the course of the full economic life cycle. While solutions that use peer group data or market indexes to compensate for the lack of institution-specific data exist, those data sets may not fully represent a bank's own portfolio composition, risk characteristics, or geographic presence.

The importance of relevant historical data to banks and financial institutions for implementing and monitoring the CECL framework is explained below:

1. Once organizations have the required historical data in place to calculate CECL results, they have to then focus on maintaining, documenting, and storing all this data for audit analysis and internal review purposes
2. A loan portfolio's profitability and risk over the life of a loan needs to be originated, maintained, and monitored by using clean, relevant, data
3. As organizations try to implement and comply with CECL, they may struggle to defend their CECL models and results in front of auditors due to a lack of relevant historical data
4. Every piece of data that goes into a CECL calculation needs to be stored historically
5. As best practice, institutions should start comparing their CECL results between reporting periods to identify issues within loan portfolios

6. Issues within the loan portfolios can only be identified if the right data has been stored so that, during audits, auditors can explore a particular loan pool or specific loan

7. Lenders should consider data over the full lifecycle of the loan, and then leverage as much of the information as their systems will allow

8. The portfolio of loans needs to be continually monitored throughout its life cycle by using relevant data to ensure profitability

9. Lending institutions that are more data-driven are more successful in navigating CECL

10. Lenders such as banks can be more profitable by pricing their loans accurately at origination using the same information needed to comply with CECL

11. A comprehensive data history of the loan is required to estimate the full cost of a loan at origination

Besides the above points, several other factors come into play post CECL implementation that would affect credit within a portfolio. If there is enough data, then banks are able to price the loan accurately. For example, for a residential mortgage portfolio, even after origination, institutions need to periodically monitor loan rate determinants such as:

1. FICO score validity
2. Loan-to-value (LTV) data
3. Debt to income (DTI) data
5. Past due status
6. Payment history and ability to pay in the future

The importance of the above determinants became all too clear for the residential mortgage market during the 2008 financial crisis. That is one of the prime reasons why, through CECL, institutions should compare loan data of every reporting period to understand any major fluctuations that could turn out to be detrimental to their portfolio in the long run. Other than the points listed above, there are other factors of importance to a credit officer such as:

- Occupancy
- Purpose Occupation
- Location of the property, and
- Cash reserves at closing

Any fluctuations in the above data points, if ignored, could dramatically alter the CECL reserve calculations and affect the ability of an institution to channel capital to the markets, thereby affecting profit margins.

Each loan deal follows its own unique pattern of negotiation between the borrower and the lender. These lending deals are based on several data factors, such as:

1. Size of the deal
2. Client history
3. If the borrower has other loans with the lender
5. Deposits made by the borrower
6. Property location and property type

When a framework is put into place by banks to compare and analyze data for each reporting period, it becomes that much easier for them to spot risks and avoid capital loss. The soundness and safety of a financial institution are ensured when they get into the practice of regularly evaluating the credit of their portfolio using well-sourced and well-researched historical data.

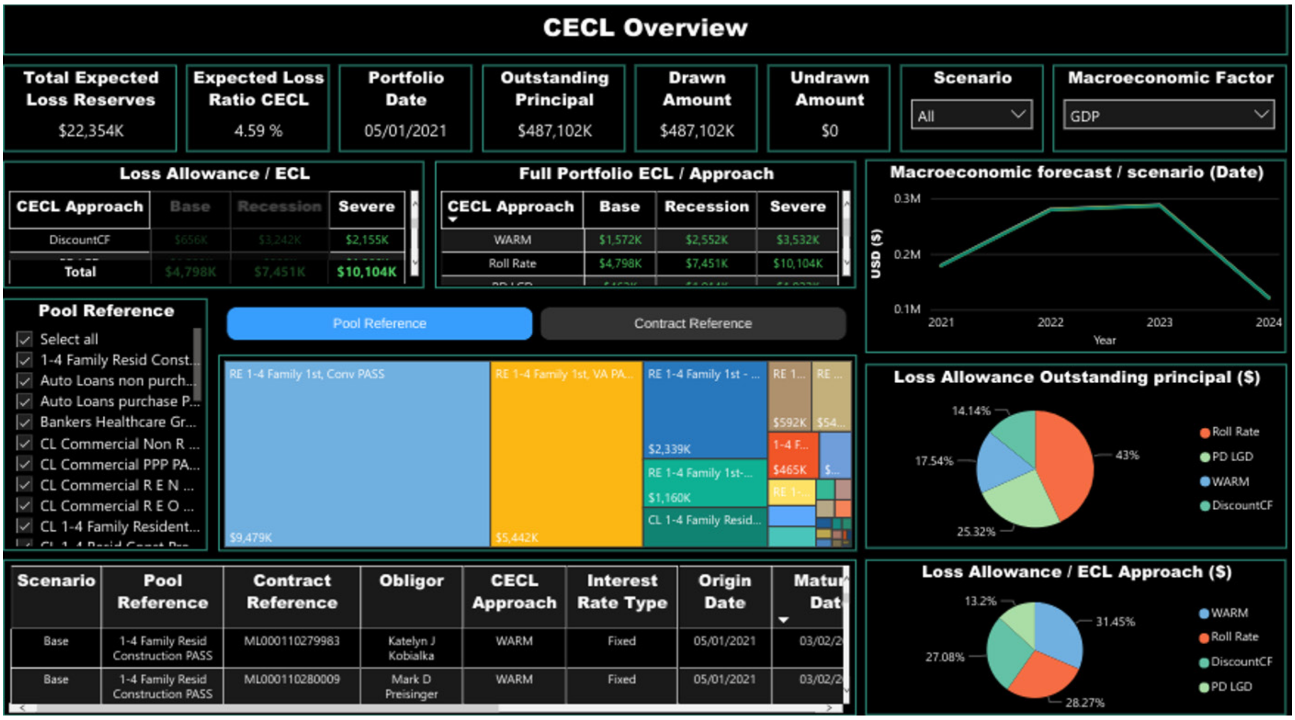
CECL Express can help...

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.