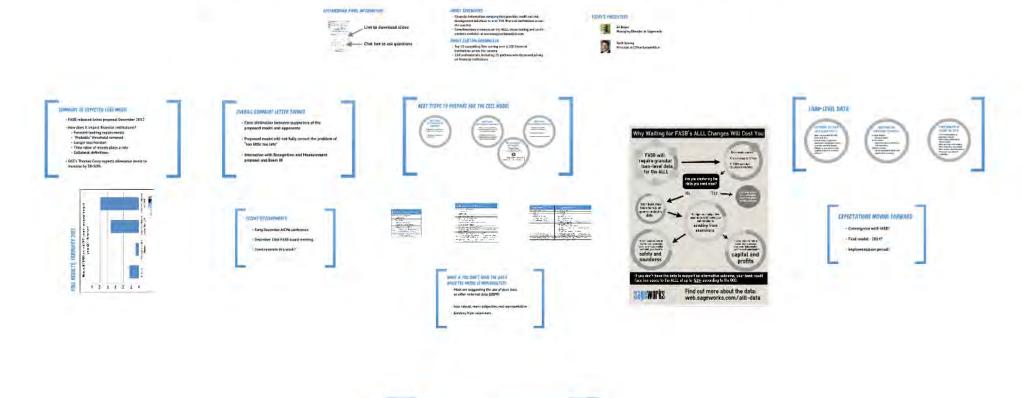
FASB's CECL Model: Why Waiting for Changes May Cost You



CONTACT INFO & ADDITIONAL RESOURCES

Todd Sprang, CliftonLarsonAllen Ed Bayer, Sageworks

ed.bayer@sageworks.com

(919) 851-7474 x698

todd.sprang@claconnect.com

Next Webinar: Backtesting Your ALLL, March 21
Register: web.sageworks.com/backtesting
Linkedin Group: ALLL Forum for Bankers
Additional ALLL resources: sageworksanalyst.com

(630) 954-8175

ABOUT SAGEWORKS

- Financial information company that provides credit and risk management solutions to over 700 financial institutions across the country
- Complimentary resources on the ALLL, stress testing and credit analysis available at www.sageworksanalyst.com

ABOUT CLIFTONLARSONALLEN

- Top 10 accounting firm serving over 1,100 financial institutions across the country
- 200 professionals, including 25 partners who focus exclusively on financial institutions

TODAY'S PRESENTERS



Ed Bayer Managing Director at Sageworks

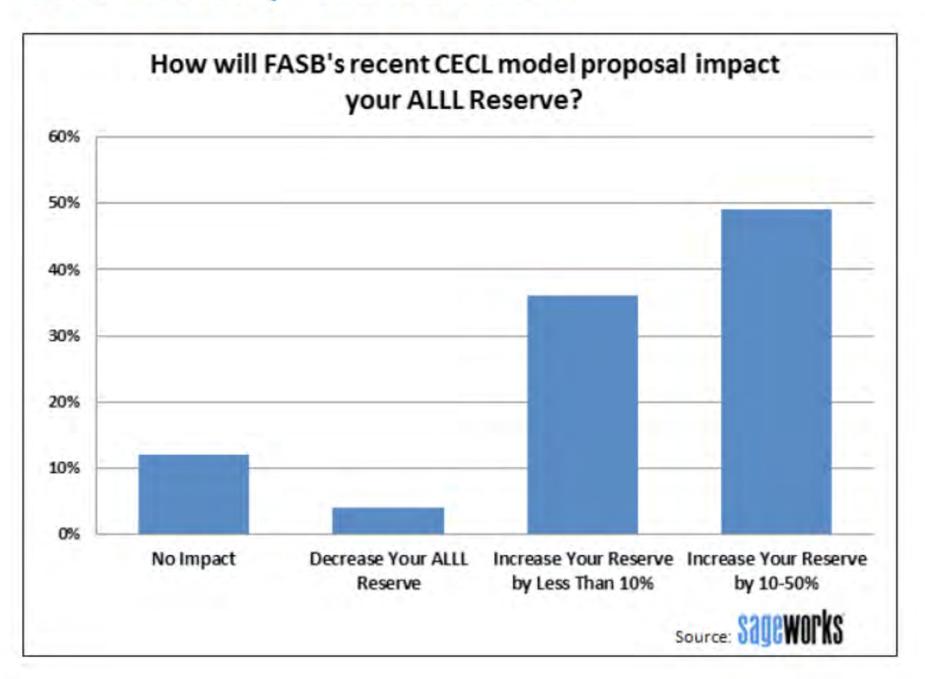


Todd Sprang
Principal at CliftonLarsonAllen

SUMMARY OF EXPECTED LOSS MODEL

- FASB released latest proposal December 2012
- How does it impact financial institutions?
 - Forward-looking requirements
 - "Probable" threshold removed
 - Longer loss horizon
 - · Time value of money plays a role
 - Collateral definitions
- OCC's Thomas Curry expects allowance levels to increase by 30-50%

POLL RESULTS, FEBRUARY 2013



OVERALL COMMENT LETTER THEMES

- Clear distinction between supporters of the proposed model and opponents
- Proposed model will not fully correct the problem of "too little too late"
- Interaction with Recognition and Measurement proposal and Basel III

RECENT DEVELOPMENTS

- Early December AICPA conference
- December 18th FASB board meeting
- Developments this week?

NEXT STEPS TO PREPARE FOR THE CECL MODEL

WHAT SHOULD INSTITUTIONS NOT BE DOING NOW?

- Building a projected model based on the current proposal
- 2. "Nothing, I'm waiting for final guidance"

WHAT SHOULD INSTITUTIONS BE DOING NOW?

First, we need to understand a key requirement with which most community banks struggle:

Capturing, archiving and incorporating loan-level data into the ALLL calculation

WHAT SHOULD INSTITUTIONS BE DOING NOW?

- Understand needed data components of new model
- · Increase data integrity
- · Improve data collection processes

WHY IS LOAN-LEVEL DATA NEEDED?

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WHY IS LOAN-LEVEL DATA NEEDED?

ALLL = Charge-Offs - Recoveries * 4

Average Period Balance * 4

Example: 8 pools * 5 fields * 12 periods = 480 Fields of Data



ALLL = Charge-Offs - Recoveries
Average Period Balance

(For avg lifetime of each risk rating in each Pool)

Example: 2,000 loans * 10 fields * (7 years * 4 quarters) = 560,000 Fields of Data

WHAT SHOULD INSTITUTIONS BE DOING NOW?

- Understand needed data components of new model
- Increase data integrity
- Improve data collection processes

Current Historical Loss Rates

Data required each quarter:

Charge-Offs

Recoveries

Aggregate Pool Data

Beginning Balance of Pool

Ending Balance of Pool

ALLL = Charge-Offs - Recoveries * 4

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Beginning Balance of Pool

Ending Balance of Pool

Risk Rating by Individual Loan **New**

Loan Duration **New**

Individual Loan Balance **New**

Individual Loan Charge-Offs and Recoveries (Partial + Full) **New**

Individual Loan Segmentation **New**

ALLL = Charge-Offs - Recoveries (For avg lifetime of each risk rating in each Pool)

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Current Historical Loss Rates	Future Expected Loss Rates	
Data required each quarter:	Data required each quarter:	
Charge-Offs	Charge-Offs	
Recoveries	Recoveries	
Aggregate Pool Data	Aggregate Pool Data	
Beginning Balance of Pool	Beginning Balance of Pool	
Ending Balance of Pool	Ending Balance of Pool	
	Risk Rating by Individual Loan **New**	
	Loan Duration **New**	
	Individual Loan Balance **New**	
	Individual Loan Charge-Offs and Recoveries (Partial + Full) **New**	
	Individual Loan Segmentation **New**	
ALLL = Charge-Offs - Recoveries * 4 Average Period Balance * 4	ALLL = Charge-Offs - Recoveries (For avg lifetime of each risk rating in each Pool)	
Example: 8 pools * 5 fields * 12 periods = 480 Fields of Data	Example: 2,000 loans * 10 fields * (7 years * 4 quarters) = 560,000 Fields of Data	

Number of loans, fields and periods are approximate figures and can vary between banks.

WHAT IF YOU DON'T HAVE THE DATA WHEN THE MODEL IS IMPLEMENTED?

- Most are suggesting the use of peer data, or other external data (UBPR)
- Less robust, more subjective, not representative
- Scrutiny from examiners

Why Waiting for FASB's ALLL Changes Will Cost You Future model requires: **FASB** will A) a more complex formula require granular B) 1,000X more data, loan-level data including archived data for the ALLL Are you capturing the data you need now? You have a good data collection process in place for the changes Your bank may have to rely on peer or industry Using more subjective data peer data will leave you vulnerable to scrutiny from examiners If your reserve rate is If your reserve rate is higher than average. lower than average. your peer-data model your peer-data model will risk your bank's will impact your bank's safety and capital and soundness profits If you don't have the data to support an alternative outcome, your bank could face increases to the ALLL of up to 50% according to the OCC. Find out more about the data: **sageworks** web.sageworks.com/alll-data

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LOAN-LEVEL DATA

CAPTURING THE DATA WILL ALLOW YOU TO:

- Minimize expected 30-50% increase in ALLL
- · Prevent future subjectivity
- Objectively defend your reserve no matter the final changes
- Without it, your reserve level could be subject to examiner criticism

SOLUTIONS FOR CAPTURING THE DETAIL:

Limited method

· Use core system

Static method

 Begin storing core archives in data warehouse

Dynamic method

 Use an automated solution to capture and store data

OTHER BENEFITS OF HAVING THE DATA:

- Transitioning/applying migration analysis
- Developing probability of default model
- · More granular stress testing
- · More defensible calculations
- · More specific reporting options
- Enhanced reconciliation capabilities

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EXPECTATIONS MOVING FORWARD

Convergence with IASB?

Final model - 2014?

Implementation period?

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