CECL Model Implementation Demo
Webinar Questions
March 31, 2022

1. Have you considered using quarterly information instead of annual, or why did you choose annual? *Our model is designed to be updated monthly or quarterly; however, certain key inputs will require only an annual update. Given the impact of qualitative and forecasting factors, we believe annual updates of average annual loss rates will generally be sufficient for evaluating losses under a weighted-average remaining maturity (WARM) model. We also don't anticipate prepayment assumptions to change significantly from period to period, such that annual updates will be sufficient. In periods of significant volatility, however, it may be appropriate to use the override cells built into our model to make appropriate adjustments.*

2. I have seen some information in the past stating that the CECL historical lookback period should encompass an entire economic cycle (effectively from the beginning of the most recent economic recession to now). We currently use a 3-year lookback for our ALLL calculation. Do you have a recommendation for what specifically to use for this lookback period? *The WARM methodology is distinct from most other methodologies in that it uses an average annual loss rate as opposed to calculating a new lifetime loss rate. As a result, utilizing a lookback period that covers a full economic cycle is less relevant for a WARM calculation. Our general suggestion is that institutions utilize the same lookback period under a WARM calculation as they are using for their current allowance calculation. If current and expected future conditions are expected to differ from the conditions in place during the lookback period, those adjustments should be factored into the qualitative and forecasting adjustments.*

3. Do you envision (as auditors) that the entries from a timing standpoint will be calculated and entered at Q end via a backdated transaction? I assume we can insert a tab to include Q Factors? CECL does not require individual evaluations for impairment. Why are you including? Has this model passed regulatory scrutiny/is it in place at banks already? *(a) With the exception of the year-end update to expected paydown percentage, we anticipate our model will not require a significant level of preparation time. We don't believe the calculation will need to be completed significantly past month-/quarter-end, such that backdating entries would be necessary. (b) Documentation of qualitative factors is flexible. These factors can be calculated outside the model and simply entered into the "Input" tab. Alternatively, additional tabs can be created to include the institution's existing qualitative analysis directly into our model spreadsheet. (c) You are correct that CECL does not require individual impairment evaluations. However, loans with unique risk characteristics will still need to be pulled out of the pool and evaluated individually. From what we have seen, most institutions are anticipating that most impaired loans will meet the definition of loans that should be evaluated individually. Potentially, other nonimpaired loans could meet this definition as well. (d) This model specifically has not been reviewed by regulators. However, the WARM methodology utilized by our model has been approved by both bank and credit union regulators. We are working with a number of institutions on this model; however, none are 100% implemented at this time.*

4. How do you track how the loan balances are paid down each year from the new loans that are added to that pool during the year? *If possible, we obtain complete loan downloads going back multiple years. Balances are tracked year over year to determine paydown percentages. Particular attention is given to loan maturity dates to ensure these loans are deemed paid off at the maturity date, even if the loan is renewed and stays on the system using the loan number.*

   This is the most time-intensive element of the calculation and is something we would perform for the institution as part of our service.

5. If the unemployment rate is closer to zero for your institution, what other variables do you consider making that calculation "good" to use? *We have generally found that unemployment provides a reasonable correlation to charge-off rates, but for some institutions, there may not be adequate correlation. If unemployment doesn't provide strong correlation, we would work with the institution to identify other economic indicators that might provide a stronger level of correlation.*

6. Does the model provide for expected losses in the bond portfolio? If not, how are you recommending that be addressed? *No, our model is designed specifically for loan portfolios. Held-to-maturity securities are required to be evaluated under a CECL model, but our model is not designed for such evaluations.*

7. How do you determine/support your utilization rate for unfunded commitments? *The level of analysis of unfunded commitments should be based on the significance of such amounts. If the institution has already analyzed utilization of commitment amounts, that may be sufficient for the CECL calculation. If commitment amounts are significant, calculation of the utilization rate may involve looking at history, similar to the paydown analysis on funded loans.*

8. How would single-pay loans get analyzed for an average maturity within the loan types? *Expected paydown percentages are tracked on a loan pool basis and based on historical paydown history for that pool. If a loan type has significant numbers of single-pay loans, that will be reflected in the paydown history and impact the projections of expected future payments. The expected paydown percentages for a specific pool will not accurately reflect expected paydowns for each specific loan but should provide a reasonable estimate at the pool level.*

9. Where is the individual loan evaluations information entered into the model? It also looks like those loans are double counted in the normal calculation as it appears to include the individual evaluated loans the loan totals. *Evaluation of impairment on loans evaluated individually is calculated outside the model and entered on the "Inputs" tab. The balance of the loan pools evaluated collectively is reduced by any amounts evaluated individually to ensure there is no double counting, as you can see in this screenshot from the model:*

ACL for Loans Individually Evaluated	
Current pool balance	165,099
Loans individually evaluated	24,473
ACL - individually evaluated	412
Loans to be evaluated in pool	140,626

10. What are you seeing as best practices that only one method utilized or a couple? Does asset size impact on what type of method that is used? *It is acceptable to utilize different CECL methodologies for different loan pools. We have seen different software packages that allow institutions to pick and choose which methodology best fits the various loan types. There is a general expectation that the sophistication of your CECL model be commensurate with the complexity of your loan portfolio. This likely means that regulators may have greater expectations for larger institutions related to their*

CECL calculation. We believe the WARM model is probably best suited for institutions under $1 billion in assets or larger institutions with limited loan complexity. If you believe your loan portfolio has different loan types that should be evaluated differently, our model is probably not the best fit for you.

11. Did i understand that this is now only reviewed annually instead of quarterly as we do now? *No, the calculation should be updated every reporting period. This could be quarterly for call reporting or even monthly for monthly financial reporting. However, only certain information is expected to be updated regularly; this is included in the "Inputs" worksheet. Other pool information may need to be updated only annually.*

12. In a six-bank holding company, the cost is the estimate per Bank so a total of $72,000? *The estimated cost is applicable for each model setup that is required. So if each bank will be setting up its own model, each bank will have to incur a cost for the model and for setup. However, if the banks use similar core systems, have similar reporting, etc., there may be opportunities to gain some efficiencies, so the per-bank cost could be less than $12,000. As we discussed during the webinar, the cost for the model is not fixed and depends on the needs of the institution, the complexity of the setup, how much effort it will take to set up the model, etc.*

13. Is the reserve on the Unfunded Commitments maintained in a separate GL? *Yes, the reserve for unfunded commitments is **not** a part of the allowance for credit losses, since the commitment has not been funded yet. It should be recognized as a liability that may be titled "Reserve for unfunded commitments."*

14. How often should the utilization rate on the unfunded commitment tab be updated? *We believe the utilization rate should be updated annually. However, certain institutions may find a need to update the utilization rate more frequently.*

15. What are your thoughts on the SCALE method? *We believe this may be an appropriate model for certain institutions. However, there are some challenges that institutions will need to consider when using the SCALE model, including that it is easy to double count certain losses and that the "peer" group used in the model does not always resemble the institution. For more of our thoughts on the SCALE model and other CECL models, please see our CECL whitepaper at Summary of Fed's new CECL model, the SCALE method | Wipfli.*

16. Do you pull in peer data at all? *The WARM methodology in general does not consider peer data, and the Wipfli WARM model is specifically built to account for peer data. If there is a scenario in which peer data would be important to consider, it would likely have to be entered in a particular pool worksheet – for example, to calculate the base historical loss rate.*

17. Can you define a non-cancelable commitment? *The definition in ASC 326-20 is a loan commitment that is **not** "unconditionally cancellable by the institution."*

18. Is the unfunded commitments tab updated at same time we might be updating the inputs tab, such as quarterly? *The outstanding amount of noncancellable commitments should be updated at each reporting date. The utilization may need to be updated only annually.*

19. How do you handle balloon notes in this model? *Balloon notes should be treated as maturating on the balloon maturity date. This should be included in the projection of future principal balances in each pool. We caution institutions to make sure this is carefully analyzed when pulling data from loan systems, since we have found that many times a balloon note is rewritten at maturity, the same loan number is used for the new note, and the maturity date is simply extended inside the loan system. Additional work may be necessary to identify loans for which the maturity date has been extended in this manner, since this could distort the actual projected balances in the pool.*