5 Questions You Need to Answer Before Making a Decision on CECL

Thursday, August 11, 2016
Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>TABLE OF CONTENTS</td>
<td>II</td>
</tr>
<tr>
<td>SPEAKER &amp; ABA STAFF LISTING</td>
<td>III</td>
</tr>
<tr>
<td>SPEAKER BIOGRAPHY</td>
<td>IV</td>
</tr>
<tr>
<td>PROGRAM OUTLINE</td>
<td>V</td>
</tr>
<tr>
<td>CONTINUING EDUCATION CREDITS INFORMATION</td>
<td>VI</td>
</tr>
<tr>
<td>CPA SIGN-IN/SIGN-OUT SHEET</td>
<td>VII</td>
</tr>
<tr>
<td>INSTRUCTIONS FOR RECEIVING CERTIFICATES OF ATTENDANCE</td>
<td>VIII</td>
</tr>
<tr>
<td>PROGRAM INFORMATION</td>
<td>ENCLOSED</td>
</tr>
</tbody>
</table>

PLEASE READ ALL ENCLOSED MATERIAL PRIOR TO BRIEFING. THANK YOU.

The Evaluation Survey Questionnaire is available online. Please complete and submit the questionnaire at:

https://aba.qualtrics.com/SE/?SID=SV_54mjT6cvmUCTKS1

Thank you for your feedback.
American Bankers Association
5 Questions You Need to Answer Before Making a Decision on CECL
Thursday, August 11, 2016 • 2:00 – 3:30 p.m. ET

Speaker and ABA Staff Listing

Moderator

MICHAEL L. GULLETTE
Vice President
Accounting and Financial Management
American Bankers Association
(202) 663-4986
mgullett@aba.com

CHAD KELLAR
Crowe Horwath LLP
3815 River Crossing Parkway
Suite 300
Indianapolis, IN  46240-0977
(317) 208-2431
chad.kellar@crowehorwath.com

ABA Briefing Staff

CARI HEARN
Senior Manager
(202) 663-5393
chearn@aba.com

LINDA M. SHEPARD
Senior Manager
(202) 663-5499
lshepard@aba.com

American Bankers Association
1120 Connecticut Avenue, NW
Washington, DC 20036
www.aba.com
Speaker Biographies

MICHAEL L. GULLETT

Arriving to the American Bankers Association in February 2009, Mike works with the Financial Accounting Standards Board, the International Accounting Standards Board, and the U.S. banking regulators in helping bankers understand and implement policies and regulations related to accounting, financial reporting, internal controls, and capital management. Mike brings to the ABA over twenty-five years of experience in the financial services industries. Mike started his career as a Senior Manager for Ernst & Young, where he concentrated on financial institutions such as banks, savings and loans, and insurance companies. He has been controller of a life insurance company and chief financial and investment officer of an international charity. Prior to coming to the ABA, however, Mike was a director of accounting policy implementation at Freddie Mac, where he dealt with issues such as securitizations, loan and guarantee accounting, and structured transactions.

A graduate of the University of Virginia, Mike is a Certified Public Accountant, and holds various other professional designations, including Certified Financial Planner and Certified Information Systems Auditor.

CHAD KELLAR

Chad is a partner in Crowe’s Advisory Services business unit focusing primarily on transaction advisory, valuation, and model validation services in the financial services industry. In addition to his experience with Advisory Services, Chad has extensive experience leading financial statement audits for public and private financial institutions. Chad is a subject matter expert on the valuation and accounting for financial instruments and is in-charge of Crowe’s CECL Implementation Services.

Chad is a graduate of Indiana University and is a certified public accountant. He is a member of the American Institute of CPAs and the Indiana CPA Society.
## PROGRAM OUTLINE

<table>
<thead>
<tr>
<th>TIMES</th>
<th>SESSION AND SPEAKERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1:45 – 2:00 p.m. ET</td>
<td><strong>Pre-Seminar Countdown</strong></td>
</tr>
<tr>
<td>2:00 – 2:02 p.m.</td>
<td><strong>Welcome and Introduction</strong></td>
</tr>
<tr>
<td></td>
<td>• Speaker Introductions</td>
</tr>
<tr>
<td></td>
<td>1Source International</td>
</tr>
<tr>
<td>2:02 – 2:30 p.m.</td>
<td>• Why this webinar?</td>
</tr>
<tr>
<td></td>
<td>• General introduction to CECL</td>
</tr>
<tr>
<td></td>
<td>• Qualitative Credit Analysis</td>
</tr>
<tr>
<td></td>
<td><strong>Michael Gullette, American Bankers Association</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Chad Kellar, Crowe Horwath, LLP</strong></td>
</tr>
<tr>
<td>2:30 – 3:15 p.m.</td>
<td><strong>The Five Questions that Banks Need to Answer</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Michael Gullette, American Bankers Association</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Chad Kellar, Crowe Horwath, LLP</strong></td>
</tr>
<tr>
<td>3:15 – 3:30 p.m.</td>
<td><strong>Wrap-up and Final Questions &amp; Answers</strong></td>
</tr>
</tbody>
</table>
American Bankers Association
5 Questions You Need to Answer Before Making a Decision on CECL
Thursday, August 11, 2016 • 2:00 – 3:30 p.m. ET

Continuing Education Credits Information

The Institute of Certified Bankers™ (ICB) is dedicated to promoting the highest standards of performance and ethics within the financial services industry.

The ABA Briefing, “5 Questions You need to Answer Before Making a Decision on CECL” has been approved for 2.0 continuing education credits towards the CLBB designation.

To claim these continuing education credits, ICB members should visit the Member Services page of the ICB Website at http://www.icbmembers.org/login.aspx. You will need your member ID and password to access your personal information. If you have difficulty accessing the Website and/or do not recall your member ID and password, please contact ICB at ICB@aba.com or 202-663-5092.

American Bankers Association is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: www.learningmarket.org.

1.5 CPE credit hours (Accounting) will be awarded for attending this group-live Briefing.

Participants eligible to receive CPE credits must sign in and out of the group-live Briefing on the CPA Required Sign-in/Sign-out Sheet included in these handout materials. A CPA/CPE Certificate of Completion Request Form also must be completed online. See enclosed instructions.

Continuing Legal Education Credits

This ABA Briefing is not pre-approved for continuing legal education (CLE) credits. However, it may be possible to work with your state bar to obtain these credits. Many states will approve telephone/ audio programs for CLE credits; some states require proof of attendance and some require application fees. Please contact your state bar for specific requirements and submission instructions.
CPA Required Sign-in/Sign-out Sheet

CPAs may receive up to 1.5 hours of Continuing Professional Education (CPE) credit for participating in this group-live Briefing.

INSTRUCTIONS:
1. Each participating CPA must sign-in when he/she enters the room and sign-out when he/she leaves the room.
2. Name and signature must be legible for validation of attendance purposes as required by NASBA.
3. Unscheduled breaks must be noted in the space provided.
4. Each participating CPA must complete an online CPA/CPE Certificate of Completion Request Form (instructions found on next page).
5. Individuals who do not complete both forms and submit them to ABA will not receive their Certificate of Completion.

This CPE Sign In/Out Sheet must be uploaded with the CPE / CPA Request for Certificate of Completion form in order for the CPA to receive his/her Certificate of Completion.

<table>
<thead>
<tr>
<th>FULL NAME (PLEASE PRINT LEGIBLY)</th>
<th>SIGNATURE</th>
<th>TIME IN</th>
<th>TIME OUT</th>
<th>UNSCHEDULED BREAKS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Instructions for Receiving Certificates of Completion

CPA/CPE Certificate of Completion

Submission of a sign-in/sign-out sheet AND request for a Certificate of Completion are required for the validation process to be completed.

**NASBA requires ABA to validate your attendance** in order for you to receive your Certificate of Completion.

1. **COMPLETE** a CPA / CPE Certificate of Completion Request Form online at: https://aba.desk.com/customer/portal/emails/new?t=546545

2. **SCAN AND UPLOAD** the completed CPE / CPA Required Sign-in/Sign-out Sheet (enclosed) and attach it to the REQUEST for CPE/CPA Certificate of Completion form found in Step 1.

3. **SUBMIT** completed Request Form and Sign-in/out Sheet

4. **VALIDATION** ABA will VALIDATE your attendance within 10 business days from receipt of Request Form and Sign-in/out Sheet

5. A personalized certificate of completion will be emailed to you once your attendance is validated

6. **QUESTIONS** about your certificate of completion? Contact us at briefingcertificates@aba.com.

General / Participant’s Certificate of Completion

1. **REQUEST** a General Certificate of Completion at: https://aba.desk.com/customer/portal/emails/new?t=546530

2. A personalized certificate of completion will be emailed to you within 10 business days of your request.

3. **QUESTIONS** about your certificate of completion? Contact us at briefingcertificates@aba.com.
Five Questions You Need to Answer Before Making a Decision on CECL

August 11, 2016

Chad Kellar, Crowe Horwath, LLP
Mike Gullette, ABA

DISCLAIMER

This Briefing will be recorded with permission and is furnished for informational use only. Neither the speakers, contributors nor ABA is engaged in rendering legal nor other expert professional services, for which outside competent professionals should be sought.

All statements and opinions contained herein are the sole opinion of the speakers and subject to change without notice. Receipt of this information constitutes your acceptance of these terms and conditions.
Your Presenters

Chad Kellar
- Crowe Horwath, LLP
- Financial Institutions Practice - Valuation
- FASB Roundtable and Workshop Participant
- CECL Implementation Lead - (www.crowehorwath.com/cecl)

Mike Gullette
- ABA
- FASB Roundtable and Workshop Participant
- Former Controller

Transitioning to 2020/21

Governance

Scoping
- Measurement Analysis & Metrics

Data
- Processes & Optimize

Engage External Parties

SEC: 2020
Rest: 2021
The CECL Decision: Invest or Not?

• Potential Impact on Financial Statements
  – Higher/earlier ALLL
  – More volatile ALLL

• Potential Impact on Operations
  – Loan origination data entry/control
  – Risk/Forecasting
  – Analysis/Modelling
  – IT
  – Third Party Management

Credit Analysis and Reporting Under CECL

Regression and Q Factor Analysis

Loss rate

Vintage

Migration

PD/LGD

DCF

Current Metrics vs. Forecasts of the Future

Less Detail
Less Complex

More Detail
More Complex
**Agenda**

1. Basics of CECL  
2. Basics of Qualitative Credit Analysis  
3. The Five Questions You Need to Answer  
4. Q&A

---

**Polling Question #1**

What is your level of knowledge of CECL?

1. No real knowledge of CECL  
2. Familiar with CECL and life of loan loss concept, but have limited knowledge of CECL details.  
3. Good knowledge of CECL: I understand most of the requirements, but want to learn unique things about a CECL system implementation.  
4. Excellent knowledge of CECL and just want to ask questions that will make the presenters look bad.
CECL: Current Expected Credit Loss

- Impacts Allowance for Loan and Lease Losses (ALLL) and credit loss provision expense.
- Applies to loans, loan commitments, and “Held To Maturity” securities.
- Effective 1/1/2020 for SEC registrants
  - 1/1/2021 for non-SEC Public Business Entities (PBEs)
  - 12/31/2021 for non-SEC non-PBEs
    - 1/1/2021 opening CECL balance still required for income statement purposes.
    - FASB PBE definition may scope in many banks not thought of as “public.”

CECL Model: Expected credit losses over life of loan or portfolio

- Life of Loan (LOL) loss expectation (pool basis) effectively recorded at origination
- Forecast of the future to LOL required
- LOL includes prepayments, TDRs, not renewals
- Historic averages of “life of loan” losses
  - Used as starting point for estimates
  - Applied to periods beyond “forecastable future.”
- Loans purchased with credit deterioration
  - Recorded “gross”, ALLL recorded at acquisition.
Current incurred loss estimate process

- Included in current process:
  - Historical loss experience
  - Adj. for past events/current conditions

- Qualitative Factor Analysis

- Incurred credit losses

Forecasting Life of Loan Losses

- Included in current process:
  - Historical loss experience
  - Adj. for past events/current conditions
  - Forecasts of future

- New:
  - Expected credit losses

- Qualitative Factor Analysis
To adjust loss rates for the difference between conditions that existed over the Loss Accumulation Period to the Measurement Date end of the contractual term.

Qualitative Credit Analysis: Q Factors

- Lending Policies (Underwriting, collection, charge-off, recovery)
- Nature/volume/terms of the portfolio
- Economic/business conditions
- Value of underlying collateral
- Vol/severity of past due loans, etc.
- Experience/ability/depth of mgmt
- Quality of loan review
- Existence/effect of concentrations
- Other external factors (competition/legal/regulatory)
Q Factor Challenges

Break out Segments?
Apply different history?

Q factor analysis

Additional Q Factors Under CECL

- Length of term
- Maturity date
- Fixed rate vs. variable
- Credit rating
- Vintages
- Economic cycle

✓ Lending Policies (Underwriting, collection, charge-off, recovery)
✓ Nature/volume/terms of the portfolio
✓ Economic/business conditions
✓ Value of underlying collateral
✓ Vol/severity of past due loans, etc.
✓ Experience/ability of mgmt
✓ Quality of loan review
✓ Concentrations
CECL Q Factor Issues

- Q factors no longer directionally consistent
  - Past due/delinquencies up, provisions down

- Reduced comparability between companies
  - Individual forecasted assumptions
  - Large possible ranges

- Sensitivity of assumptions
  - Large movement to small changes to assumptions

Polling Question #2

How do you currently estimate your ALLL?

1. Spreadsheets with narratives of Q factor adjustments
2. Spreadsheets with narratives and quantitative analysis in quantifying some Q factor adjustments
3. Third party solution assisting our spreadsheet analysis
4. Outsourced to third party solution.
5 Questions: Management Perspective

- Size of the ALLL/Available Capital
- Volatility/Predictability of the ALLL
- Communicability/Understandability of the ALLL

5 Questions to Answer Before Making a Decision

1. Question 1: What are your future plans for the bank?
2. Question 2: How will you run your bank?
3. Question 3: What relationship do you have with your Board/investors and auditors/examiners?
4. Question 4: What kinds of preliminary analysis should I consider (and why)?
5. Question 5: What costs do you need to consider?
Question 1: What are your future plans for your bank?

- Growth?
- Merger?
- Stay the Same?
- Raising Capital?

Question 2: How will you run your bank?

- Compliance function vs. business driver
- Risk management
- Profitability
- Pricing
- Stress testing
Polling Survey Question 3

Where are you in your roadmap to converting to CECL?

1. We have not started CECL planning
2. We have made a general timeline, but that’s about it.
3. We have started planning and are investigating processing alternatives.
4. We have begun collecting data and performing preliminary estimates.

Question 3: What relationship do you have with your Board/investors and auditors/examiners?

- Expectation management
  - Risk management strategies
  - Governance
  - Audit committee
  - Assumptions and sensitivity

- Capital position
  - Dividends
  - Incentive compensation
  - Raising capital
Question 4: What kinds of preliminary analysis should I consider (and why)?

- Risk Identification Framework
- Loans vs. securities
- Off-balance sheet
- Products
- Forecasting methods
- Short-term vs. Long-term needs

Making the CECL Transition

Risk Identification
Understanding portfolio characteristics and key drivers of portfolio performance, including lending attributes, loan structures, prepayment risks, and changes in the macroeconomic environment. This component will enable the bank to appropriately segment and model the portfolios based on common drivers of risk.

Data Inventory
Understanding the availability and limitations of data required to develop and maintain an effective CECL model. This includes the reliability and accuracy of data elements in addition to the historical time horizon of data availability.

Resource Capabilities
Understanding the capabilities and limitations of the human resources identified to develop and execute on the CECL model.

Accounting and Regulatory Alignment
Assesses the ability of the CECL model to meet accounting and regulatory needs and objectives.

Governance and Oversight
Understanding risk management practices surrounding the development, execution, and maintenance of the CECL model. This includes established roles and responsibilities of the board and senior management, as well as policies and procedures in place to articulate the expectations of the CECL model and ongoing execution of the model.

Enabling Technology
Understanding the existing systems, including the capabilities and limitations of those systems that may support the execution of the CECL model. This includes source systems, data warehouses, modeling systems, financial statement spreading software, and vendor technology specially designed for CECL.
Question 5:
What costs do you need to consider?

- Additional Data
  - Internal
  - External
- Core servicer
- Warehousing
- Spreadsheet vs. Database
- Buy vs. build?
- Talent needs

Polling Survey Question 4

How much do you think CECL will affect your ALLL?

1. CECL will decrease our ALLL
2. CECL will have very little impact on our ALLL
3. CECL will increase our ALLL some
4. CECL will increase our ALLL by a lot
Questions and Answers

If you are participating on the Web:
Enter your Question in the Box Below
and Press ENTER / SUBMIT.

If you are participating by Phone:
Email your Question to: aba@1source-intl.net

Crowe Resources: Credit Losses

- Adapting to CECL, Part 2: Taking stock of the data requirements
  - July 2016
- Adapting to CECL, Part I: Identifying portfolio risks
  - June 2016
- Here’s CECL: FASB Issues Final Standard for Credit Losses
  - June 2016
- Credit Data Management: Looking Beyond DFAST, Basel, and CECL
  - Oct. 2015
- FASB’s CECL Model: Navigating the Changes: Planning for Current Expected Credit Losses (CECL)
  - Dec. 2014 (update coming in August)

http://www.crowehorwath.com/cecl
ABA Resources on ABA.com

- ABA CECL Backgrounder and FAQ Documents
- ABA Discussion Paper: CECL Challenges: The Life of Loan Concept
- Fintellix Cost Analysis of ALLL Process
- ABA Accounting Committee mailing list or receive ABA e-newsletters
  - Tax and Accounting Newsbytes
  - ABA FYI for CFOs
- Join ABA CECL implementation groups
  - By product
  - By bank size
- Send message to mdockery@aba.com to sign up.

ABA Webinars and Training

- Upcoming ABA training Webinar
  - August 23: CECL Measurement Methods: Advantages and Challenges
- ABA CFO Exchange Workshop:
  - Sept 19 in Charleston, SC
CECL Measurement Methods: Advantages and Challenges

Tuesday, August 23, 2016 · 2:00 – 3:30 p.m. ET*

Many bankers think complex model is required to run CECL, some say a few tweaks to their existing processes will do the trick. With that in mind, ABA wants to let you decide by evaluating the different methods that bankers may use when performing CECL credit loss analysis. What are those methods? What kind of data and processes do they need? And what kind of intelligence do they give you?

Mike Gullette, VP of Accounting and Financial Management of ABA and Regan Camp, Principal Consultant at SS&C Primatics will lead you through the key measurement methods that bankers should consider in CECL and how they may achieve (or detract from) your operational objectives in a CECL implementation.

This Briefing will focus on:

- Key concepts in assessing credit risk
- CECL measurement methods, data, and intelligence provided by each method
- Day to day use of the different measurement methods

Speakers:

- Regan Camp, Principal Consultant, SS&C Primatics
- Michael L. Gullette, Vice President, Accounting and Financial Management, American Bankers Association (Speaker/Moderator)

Who Should Attend?

- Risk Managers
- Auditors
- Operations Managers
- Strategic Planners
- Senior Bank Managers
- CEOs and CFOs
- CSOPs, CRCMs, CFSSPs
- CPAs

REGISTRATION FEES
ABA/ICB/Service Member
$235 per registration per briefing
Nonmember
$365 per registration per briefing

Live registration provides a connection for one room where unlimited listeners can be present, and streaming recording access FREE for 7 days.

2 EASY WAYS TO REGISTER
Online: aba.com/briefings
Call: 1-800-BANKERS

GET THE CREDIT YOU DESERVE!
This group-live briefing/webinar has been approved for 2.0 CLBB continuing education credits.

American Bankers Association is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: www.learningmarket.org

*This ABA Briefing/Webcast includes streaming audio over the Internet. Audio over the telephone can be provided as an alternative. Any transmission, retransmission or publishing of the audio portion of this briefing is strictly prohibited.