August 2018

Economic Update

The Fed voted unanimously to keep the target range for its benchmark rate at 1.75% to 2.0% in August, indicating a rate increase in both September and December will be consistent with sustained economic expansion, strong labor market conditions, and inflation near the 2% target. The national unemployment rate remained a low 3.9%, with solid job growth of 157,000 for July.

Accounting Standards Update 2016-13: Part 2, What Data Needs to Be Gathered for Current Expected Credit Loss (CECL)

Unless you haven't opened your email in the last year, you've no doubt heard about CECL and are preparing for it's implementation. Most larger credit unions have already engaged with a third party to assist with its CECL compliance, but is that necessary for all credit unions? According to Alison Clark, NCUA's Acting Chief Accountant, "complex modeling is not required, a spreadsheet model can work" she stated in her presentation on supervisory expectations at the CUNA CECL eSchool this year. That was good news for the 3,200+ credit unions with assets less than $50 million.

Data can come from several sources: Core processors; ALM software; off balance sheet loan processors; and even Call Report data. An effective CECL model can be built from your current Allowance for Loan Loss evaluation methodology by including data that is usually available. Here's how you can leverage your current model to become CECL compliant using Vintage/Static Pool Analysis:

Existing Methodology Data Gathering	Additional Data Needed for CECL
• Charge-offs by date and pool	• Loans originated by date and pool
• Recoveries by date and pool	• Ending loan balances by date and pool
• Impaired loans analysis	• Forecast impact of Q&E factors
• Qualitative and environmental factors (Q&E)	

CECL compliance is obtainable without unwarranted cost and time. Using the data gathered above, 1) calculate the loss rate by origination year and pool (past events), 2) apply that loss rate to current ending balances by origination year and pool, 3) include an impaired loans analysis and other Q & E factors, and 4) incorporate a reasonable and supportable forecast that is expected to impact the calculated life of loan loss ratio.

The transition to CECL will increase the loss reserve requirement because CECL estimates loan losses over the life of the loan (past performance plus future expected losses) – think of it as if you closed business today and you needed to calculate what your losses would be. Reserve requirements should lessen and stabilize going forward unless the loan portfolio or Q&E factors shift significantly.

Click here for my one-page CECL terms and methods at a glance: http://www.cucfo.com/CECL-terms.pdf

Other News

I attended an accounting and finance show last month in Los Angeles. I was delighted to hear that virtual CFO and other virtual accounting services were the fastest growing areas of the profession. After providing these services over the last eleven years myself, its great to see the increasing acceptance of virtual services and its cost-effective delivery to growing businesses who need technical and strategic accounting support the most.

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CFO in a Box

Debra Taylor Templin, CPA has more than 25 years' experience within the credit union industry, including ten years as Chief Financial Officer and seven years as Chief Executive Officer. As a virtual CFO, Debra is able to deliver high level results that blend traditional values with progressive needs.