Debra Taylor Templin, CPA
310-963-3374
www.cucfo.com
CFO in a Box

CECL Terms & Methods at a Glance

CECL stands for Current Expected Credit Loss, the new "expected loss" standard that will replace the existing "incurred loss" method of allowance for loan and leases loss evaluation. CECL is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of a portfolio of loans and available for sale debt securities. While the same amount of loss will ultimately be recorded, CECL changes the timing of loss recognition. ASU 2016-13, the new accounting standard, does not mandate which method may be used, however credit unions should select the method(s) that is most appropriate. Here are some common terms and modeling techniques:

Method/Term	Description
Discounted Cash Flow Model	Forecasting cash flows at the loan level over the contractual term using the effective rate (compounded, time value).
Vintage/Static Pool Model	Loans are segregated into groups/pools by year of origination. This method is well suited for portfolios with predictable behavior but may pose a challenge when losses are minimal, historical data is lacking, or portfolios are volatile.
Loss Rate Analysis	Calculating the loss rate for different classifications or groups to generate an estimated loss.
Roll-Rate Analysis	Calculating the delinquency – those that maintain their current delinquency status, those that improve, and those that get worse or "roll forward" into the next delinquency bucket.
Probability of Default (PD)	Likelihood that a loan will default.
Loss Given Default (LGD)	Amount of expected loss if a loan defaults.
Probability of Default Model	Internal or external models that predict default % and amount of expected losses (loss given default) to determine expected credit losses. This method may be useful when insufficient internal historical data is available.
Cohort Analysis	Data is segregated into groups that share common characteristics (homogeneous).
Migration Analysis	Incorporating FICO score changes during the life of individual loans to determine risk
Credit Quality Indicators	Risk characteristics such as FICO, loan to value, debt to income, collateral, and payment terms.
Q-Factors	Subjective qualitative and environmental (internal and external) factors that are relevant and impact the collectability of a loan portfolio such as industry, geographical, economic, and political factors.

Further information is available at: www.cucfo.com/Resources.html

__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.

 © Copyright 2018 by Debra Taylor Templin, CPA