

TOP 5 CRITERIA IN CHOOSING THE RIGHT CECL VENDOR FOR YOUR BANK

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Most bankers know the date of January 1, 2023 — the date when most community banks with assets of less than \$1 billion must implement the current expected credit loss standard (CECL). This deadline will be here before you know it.

Some institutions are doing their own CECL compliance, but it is complicated and time-consuming. Choosing the right method is just one of the many steps involved. Community banks with more complex balance sheets, insufficient in-house CECL experts, or needing to spend time on other initiatives, like M&A activities, will want to consider looking at third-party vendors. Since time is ticking, it is important to choose the right vendor the first time.

But how do you find the best vendor to help your institution become compliant while also meeting its particular needs?

In working with its CECL customers, PCBB has found **five top areas of focus** when bankers are looking for a suitable CECL vendor.

1. **Method choices.** There are multiple ways to collect and analyze loan data that are complete, accurate, relevant, and consistent. How many does the vendor have? You may start using one method, but then realize it may not be appropriate. Or you may need to use different methods for different loan portfolios. Do they have a good selection of methods to choose from so you won't be in a tight spot if you need to switch? Methods include WARM, probability of default, discounted cash flow, average charge-off, regression analysis, static pool, vintage analysis, and roll rate/migration. Make sure your vendor can explain each method and how it may or may not help your institution.
2. **Ease of use.** One of the reasons you are looking for a vendor is to make life a little easier for your CECL team. Does this vendor have experience in the industry? Will this vendor help you keep things simple by doing the heavy lifting? Does the vendor's approach make it easy to evaluate methods and their intended effects? These are a few of the questions that you should be asking yourself when evaluating CECL vendors for ease of use.
3. **Adjustability and flexibility.** Does the vendor's approach let you run hypothetical scenarios and compare approved results with proforma? Can you compare one period to another and make adjustments when loan operations run late? Is adjusting qualitative factors and forecasted future adjustments easy? How readily can you see changes in how credit balance, life, rate, and mix affect your loan reserve? Can you easily

add a new segment or adjust loss rates, even in highly volatile markets? Is moving to a lower tier of support an option, as you become more fluent in CECL? Find a vendor that has these capabilities to ensure you can test various scenarios and make changes as necessary to ensure you have the optimal loan loss reserve for your institution.

4. **Transparency.** How does the vendor suggest you evaluate methods' interactions with your data? Are you able to drill down to the note level? Can you show how the assumptions in the CECL model tie to your strategic plan and other financial reports? Regulators will want to see this alignment and transparency.
5. **Support.** Does the vendor you're considering offer support around operations, implementation, post-implementation, audit review, board presentations, and user training? Will your institution receive ongoing and operational support, help prepare for audits, implementation advice, and post-implementation services? How much will each part of this cost? Are services bundled in ways that make sense for your financial institution? Does the vendor have a track record of completing installations on time?

Ultimately, the best CECL third-party partner is the one that works best with your business to adapt the model to your institution's circumstances, achieve the new accounting standard in time to meet the deadline, and maintain the system into the future. If you need any assistance getting started with CECL, we can help.

PCBB

Dedicated to serving the needs of community banks, PCBB's comprehensive and robust set of solutions includes: cash management, international services, lending solutions, and risk management advisory services.

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