

## **The Perfect CECL Solution for Community Banks**

Asset Management Group, Inc. (AMG) is a wholly owned subsidiary of Country Club Bank and has been serving community banks since 1995. AMG offers a range of asset/liability management services designed to meet regulatory expectations while also managing risk and improving margins. AMG has a simple and cost effective CECL solution for community banks. Today I will summarize how this tool works and its key points.

Clients that contract with AMG for their Asset/Liability Reporting upload their data to AMG's secure web-based portal through our website, [www.bancpath.com](http://www.bancpath.com). The data for AMG's CECL calculator is transmitted to AMG in the same manner. However, it is not necessary for Banks to be clients on AMG's BancPath system for AL reporting to contract for the CECL solution.

There are some extra fields in the loan data file that are needed for CECL vs. AMG's standard loan file format but most, if not all of the extra fields are generally available on banks core systems. AMG provides file format templates to clients for guidance on file construction. AMG can review data files for completeness prior to client upload and is always available to answer data questions that the client may have. The system is also flexible for data fields that are currently missing. Some banks keep their charge-offs outside of their core system. If this is the case, AMG provides a template that the bank can use to upload these separately into the website.

The AMG CECL calculator is in Excel format which was selected so that all formulas would be available for review and auditing. While the calculator worksheet does have many cells that are hidden, this is done for presentation purposes and to improve the ease of navigation of the calculator worksheet and there are options throughout the calculator to unhide cells so that all formulas can be viewed. There is also the option to switch the cells back to hidden again.

When the loan file is uploaded by the client, AMG will process it within 24 to 48 hours. After processing is complete, the calculator will be populated with the client's own data and the client will be notified via email that the calculator is available for down load as an Excel file from the AMG website.

Once the client downloads the calculator, they can begin determining the qualitative and economic factors that they believe will best explain and defend the future expected performance of the portfolio. The calculator is loaded with a listing of the nine qualitative factors outlined in the CECL guidance where costs can be assigned to each factor one by one. There are cells provided so that documentation can be added for each factor.

The nine qualitative factors are changes in 1) loan policies & procedures; 2) the nature and volume of loans; 3) staffing; 4) volume and severity of past due loans; 5) quality of the loan review process; 6) concentration of credit; 7) the legal and regulatory environment; 8) the value of underlying collateral and 9) national, regional and local economic conditions.

The calculator is loaded with national, regional and local economic statistics so correlations can be run between these data sets and the client's loan performance to help determine, justify and document which economic factors may correlate with the banks specific loan performance and help banks to form a reasonable and supportable forecast as required by CECL. Performance data for all banks nationally is also provided to give some perspective on the banks specific loan performance vs. bank performance for the entire U.S.

There are six different methods for CECL calculations provided as follows: 1) Vintage, 2) Open Pool, 3) WARM, 4) Risk Migration Rating, 5) Risk Migration Roll, and 6) PD\_LGD. A 7<sup>th</sup> method calculates the average of the above 6 methods. A custom option allows for using any of the 7 methods for each loan category.

Management then determines which method is the most accurate and best fit for each loan category. Having all methods run for all loan types, even if not used for determining final accounting numbers, will be useful documentation for potential future questions regarding whether all methods were considered in the decision making process. Also, keep in mind that the client will have a calculator worksheet for each quarter to keep for their records so historical runs can always be referenced if needed.

Once management has determined the most appropriate and accurate numbers, the calculator is saved. There is one tab in the calculator that the client loads back into the AMG website. This records into the AMG system all the changes made to the calculator for that quarter. This step ensures that when the next quarter comes along, all the settings for qualitative factors, economic factors, method choices and documentation from the previous quarter are automatically included for the next quarter when the new file is downloaded. This way all the decisions that were made the prior quarter do not have to be redone and rethought. They just have to be addressed again for accuracy and relevance and only updated if there is a change.

Since the AMG CECL calculator is in Excel, there is a change log for auditing and control purposes included in the calculator which records every change made within the calculator. There is also a print option built into the calculator where each page can be selected for print to generate reports for loan committee, ALCO, the board, auditors and examiners.

For further information on our CECL calculator and to set up a free demo of the product, please to reach out to your Capital Markets Group Investment Sales Representative or contact AMG directly at 800-226-1923 or [AMG@CountryClubBank.com](mailto:AMG@CountryClubBank.com).

Thank you for your time today.

David Farris  
Asset Management Group  
816-859-7527

