

VENDOR PRODUCT REVIEW:

Current Expected Credit Loss (CECL) Software Solutions



ABA Endorsed Solutions: **Sageworks ALLL & MST Loan Loss Analyzer**

Provider: **Abrigo**

With a regulatory deadline for CECL implementation looming, ABA Endorsed Solutions researched companies that provide modeling and data management software developed for CECL accounting.

ABA Endorsed Solutions requested proposals from more than 30 vendors in late 2017. With the help of a consulting firm (Crowe LLP formerly known as Crowe Horwath) and ABA regulatory and accounting experts, we identified MST and Sageworks as best-in-class solutions that meet the operational needs of banks as they prepare to comply with the CECL standard.

Problem

In June 2016, the Financial Accounting Standards Board issued a new accounting standard known as ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326). The FASB standard, known as Current Expected Credit Loss, or CECL, requires banks to record credit losses at origination, based on a so-called “life of loan” loss expectation. CECL requires forecasting all future losses, a process that adds to the complexity of booking the loss reserve. The standard will be effective in 2020 for SEC registrants; 2021 for non-SEC public business entities and 2022 for non-PBEs.

FASB’s CECL standard may increase banks’ allowance, though many factors will determine the impact for individual banks. Changes in expectations of future economic conditions play a large role in CECL and can significantly affect the credit loss estimate.

CECL compliance poses significant operational challenges. Banks may need to purchase or develop costly new systems and processes to track loan performance. They also will need to rethink the procedures currently used to collect and store loan level data, segment loans for analysis and perform allowance calculations. In addition, banks will need to develop methods for forecasting future economic conditions and incorporating those forecasts into the CECL calculation.

ABA’s analysis of CECL solutions kept these challenges in mind and included evaluations of data warehouse features, peer data sets, models and implementation processes.

Solutions

Sageworks ALLL

Sageworks ALLL helps bankers streamline the reserve calculation process under current GAAP as well as future GAAP with Current Expected Credit Losses. Key attributes include:

- **Various Methodologies & Scenario Testing** – Use different loss rate methodologies by pool to best fit your institution’s loss experience, and easily test different scenarios to see the impact
- **Robust Reporting** – Quickly generate reports for the board, examiners within clicks
- **Supportable Forecasts** – Develop “reasonable and supportable” forecasts regarding the future performance of a credit or portfolio
- **Q Factor Support** – Import recent macroeconomic data to justify qualitative factors • FRED Data: information to defend economic assumptions • Sageworks Industry Data: largest database of financial information for privately held companies in the U.S.
- **Custom Integration** – Sageworks provides a dedicated integration project manager as a start-to-finish resource for fast implementation
- **ALLL Comparisons** – See what’s driving change in the allowance period to period

MST Loan Loss Analyzer

The MST Loan Loss Analyzer is a reliable, repeatable process for determining a bank’s allowance under the current incurred loss standard and as it transitions to CECL. The LLA satisfies regulatory and accounting requirements while eliminating the demands and concerns associated with manual processes. Key attributes include:

- **Model to Your Methodology** – Choose your model(s). Manage any number of methods including, but not limited to: loss rate, roll-rate, probability of default(PD) / loss given default (LGD), cohort, vintage, DCF or others you may choose
- **Loan Data Warehouse** – Compile and manage loan and loss data for current and historical periods, even for needs beyond the allowance
- **Correlation Analysis** – Calculate the relationship between economic variables and loan-level data to support forecasts
- **Adjustment Factors** – Make adjustments to your CECL calculation for current conditions and reasonable and supportable forecasts using qualitative and quantitative methodologies
- **Verifiable Audit Trail** – Verify the accuracy of the calculation so auditors and regulators can see exactly what you did and why you did it
- **Systems Integration** – Interface with your existing data systems, seamlessly gather data, and calculate the allowance according to your chosen methodology or methodologies
- **Robust Reporting** – Produce reports that serve as management tools to make sound business decisions and maximize profitability

Key Benefits to Banks

- ABA members will receive advantaged pricing; contact the vendor for more information
- Streamlined processes
- Time savings
- Confident transition from incurred to expected loss accounting

Testimonial

Susan Weber, SVP of Credit Risk Administration at Camden National Bank: “Our partnership with Sageworks has been a key factor in advancing our initiative, delivering consistent excellence in both the product and in support for our implementation. With the CECL standard being so new comes the possibility for change in its requirements and need for adjustment. We are pleased to have found a vendor as committed as we are to forward-thinking improvement. This has been and continues to be a collaborative and iterative process – hallmarks of any strong partnership.”

Nathan Kelley, SVP, Credit Risk and Reporting, United Bank: “We chose MST back in 2015 because of the dedication and focus on the allowance, but what we’ve found during our partnership is that the people at MST make all of the difference. MST hires talent. They have an incredible depth of understanding and practical knowledge of the allowance now under the incurred loss model and what it will be under the current expected loss model (CECL). If you are looking for a true partnership to implement an automated allowance software for CECL, MST is the way to go. With the complexity and high scrutiny that lenders face, you need a team approach with experts on the allowance.”

Company Background

Abrigo is a leading technology provider of compliance, credit risk, and lending solutions that banks use to manage risk and drive growth. Their software automates key processes – from anti-money laundering to fraud detection to lending solutions – empowering banks by addressing their Enterprise Risk Management needs. The company is headquartered in Austin, Texas, and owned by private equity fund Accel-KKR. Abrigo was formed by the coming together of three solution providers: Banker's Toolbox, MainStreet Technologies (MST), and Sageworks. Abrigo will continue the legacy companies' commitment to responsive customer service, innovation, and focus on U.S. financial institutions' needs.

MST and Sageworks each brought to the new company an expertise in the allowance for loan and lease losses and the transition to expected loss under the CECL standard. As Abrigo, the company offers U.S. banks both installed as well as hosted options for automating the allowance under current and future GAAP, and the company provides Advisory Services to complement the technology.

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Related Information Available on aba.com/CECL

- [ABA-CECL Backgrounder](#)
- [ABA Introduction to CECL for Bank CEOs and Boards](#)