INSIGHTS

CECL Implementation Expected to Propel Loan Portfolio Sales in Q4 2019

As second quarter 2019 financial reporting season comes to an end, bank earnings calls have discussed strategies that will be used to address the impact of Current Expected Credit Losses (CECL), the new accounting standard addressing loan loss allowances. Although public issuers subject to CECL will implement the accounting method in the beginning of 2020, many banks are taking proactive steps to lessen the impact of the standard by rebalancing the mix of their portfolios. This effort is being accomplished through planned loan sales and changing the mix of originations to loans of shorter maturity and lower credit risk.

> Modifying the loan mix through portfolio loan sales is an effective way to manage loan reserves and the potential negative impacts caused by CECL.

MATERIAL IMPACT

Institutions are expecting materially increased reserves on day one of CECL implementation. Some banks have stated that their reserves could be 50-60% higher under the new standard.

Some of the consequential impacts on the bank may be:

1. **The need to raise additional capital on day one or in the very near term.**
2. **Banks will be required to hold unproductive capital, if they choose to offer certain loan products to their customers.**
3. **Increased procyclicality in downturns exacerbating the reserving process.**
4. **Elimination or severe restriction of the availability and offering of certain credit products and longer-duration loans.**

INSIGHTS

MAGNITUDE OF IMPLEMENTATION

While the total magnitude and impact of the additional CECL reserves are still in flux and being monitored in tandem with existing reserve methodologies, many banks with less robust levels of capital may begin to hoard cash and replenish coffers so as to not run afoul of regulators. We have been working with clients on identifying high-risk loan categories that could have the most consequential impact on operations and capital levels. Jumbo mortgages, long-dated residential and commercial mortgages, certain auto and credit card portfolios, and non-owner occupied Commercial Real Estate (CRE) should be the areas of focus for institutions looking to minimize the overall impact to their organization.

Loan categories to see increased sales activity:

JUMBO MORTGAGES	RRE & CRE	AUTO	NON-OWNER OCCUPIED CRE	CREDIT CARDS

THE ANKURA SOLUTION

Our experts can assist in the CECL journey, whether it be a reality check on model methodology, model development, model and process validation, analysis of the economic return on certain loans, or how to manage reserve exposure through execution of loan sales.

Ankura's experts are highly qualified, with industry-leading experience in loan brokering, modeling, risk, credit ratings, strategy, banking products, valuation, and operational due diligence. We have a dedicated focus on financial services companies and regularly assist clients with loan sales, M&A advisory, valuation, and risk advisory.

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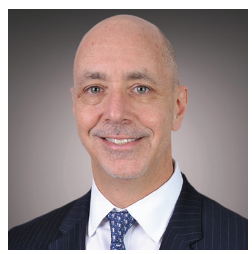

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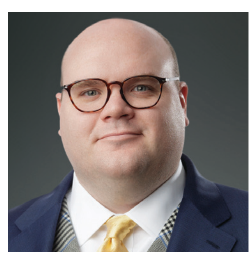

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ABOUT US

Ankura is a business advisory and expert services firm defined by *HOW* we solve challenges. Whether a client is facing an immediate business challenge, trying to increase the value of their company or protect against future risks, Ankura designs, develops, and executes tailored solutions by assembling the right combination of expertise. We build on this experience with every case, client, and situation, collaborating to create innovative, customized solutions, and strategies designed for today's ever-changing business environment. This gives our clients unparalleled insight and experience across a wide range of economic, governance, and regulatory challenges. At Ankura, we know that **collaboration drives results.**

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