BOARD OF GOVERNORS *of the* FEDERAL RESERVE SYSTEM

CECL Discussion

Agenda

- 2020 Implementation Observations
- COVID Relief
- Future CECL Adopters

2020 Implementation Observations

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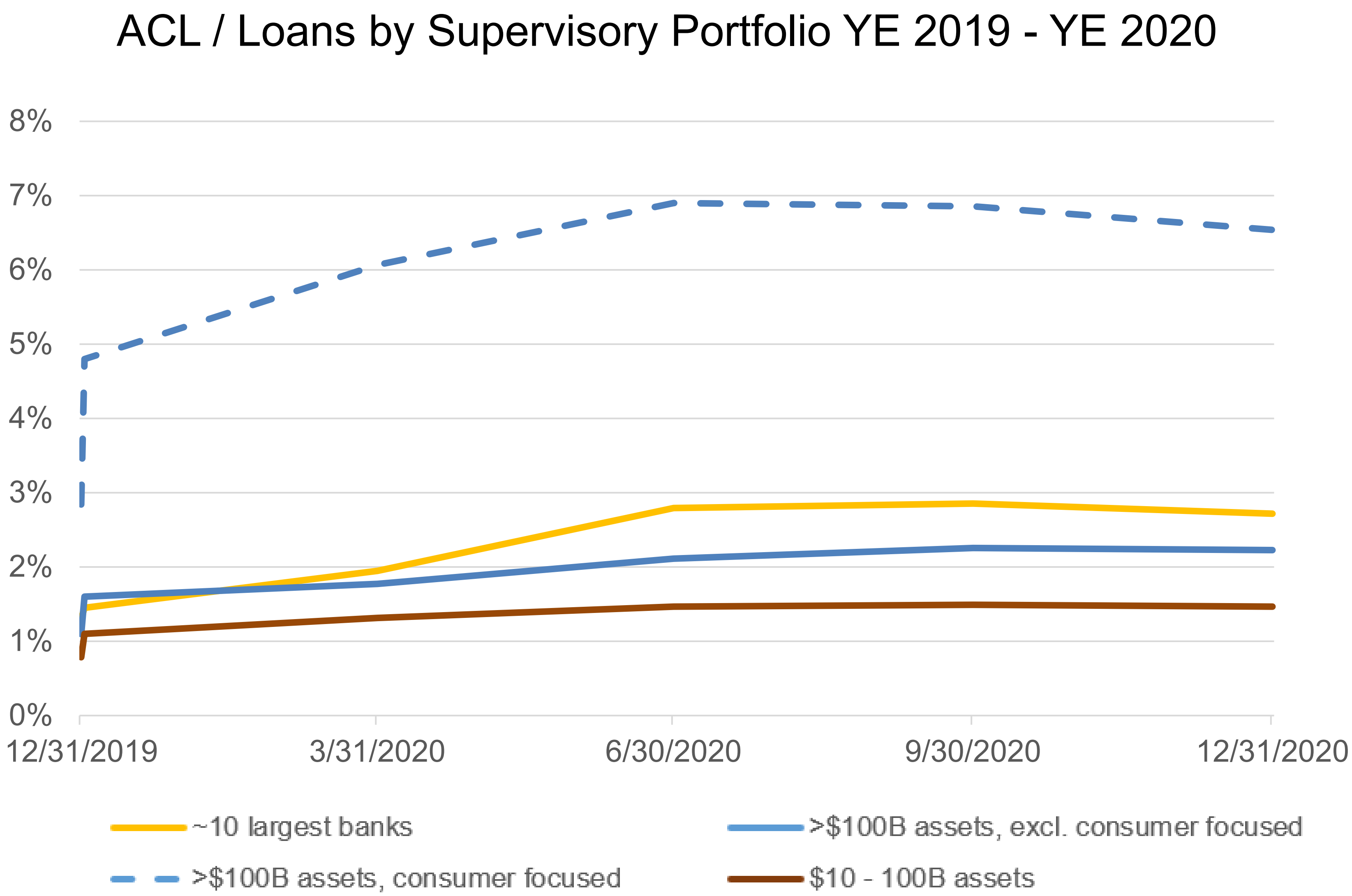
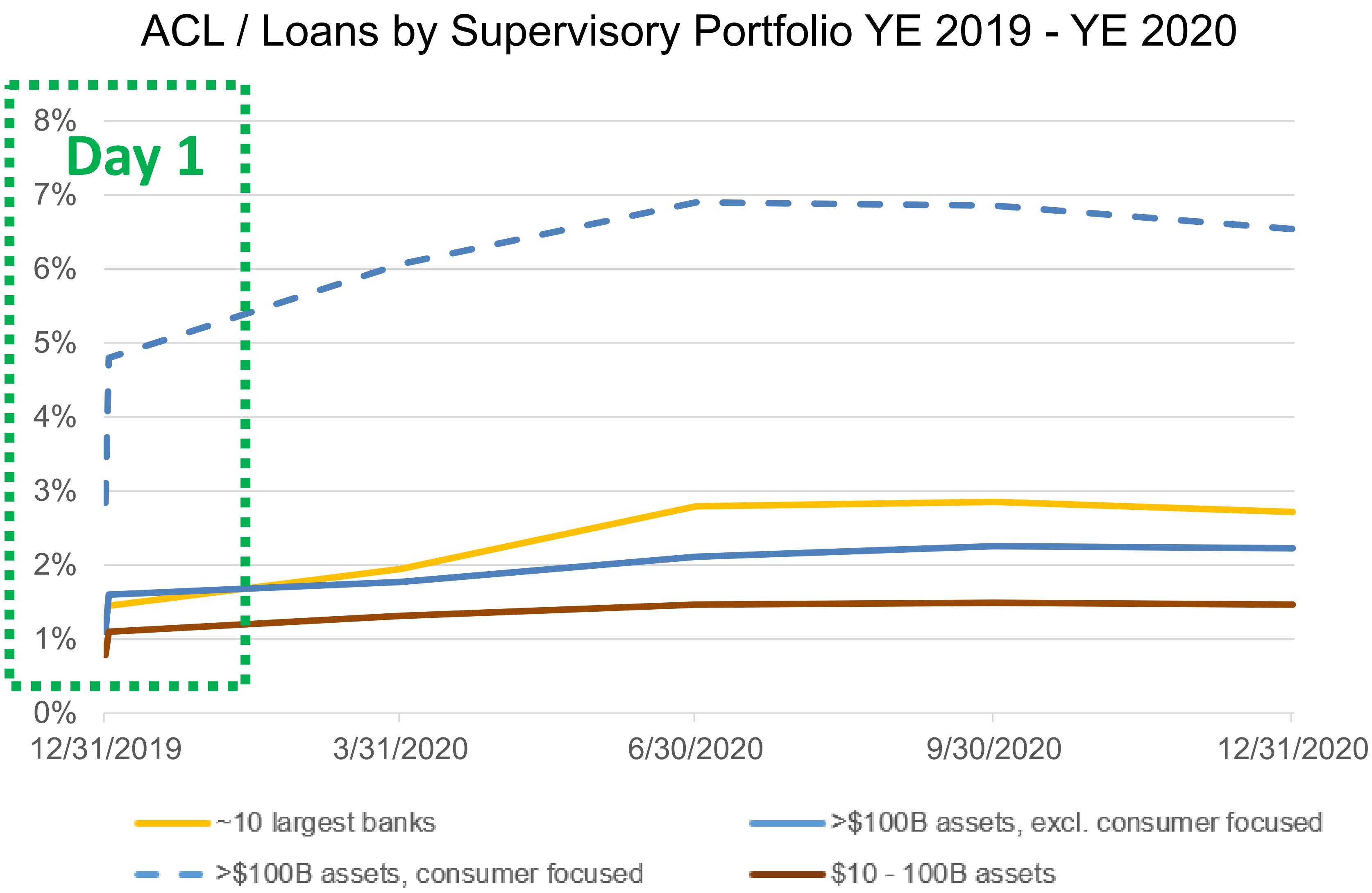
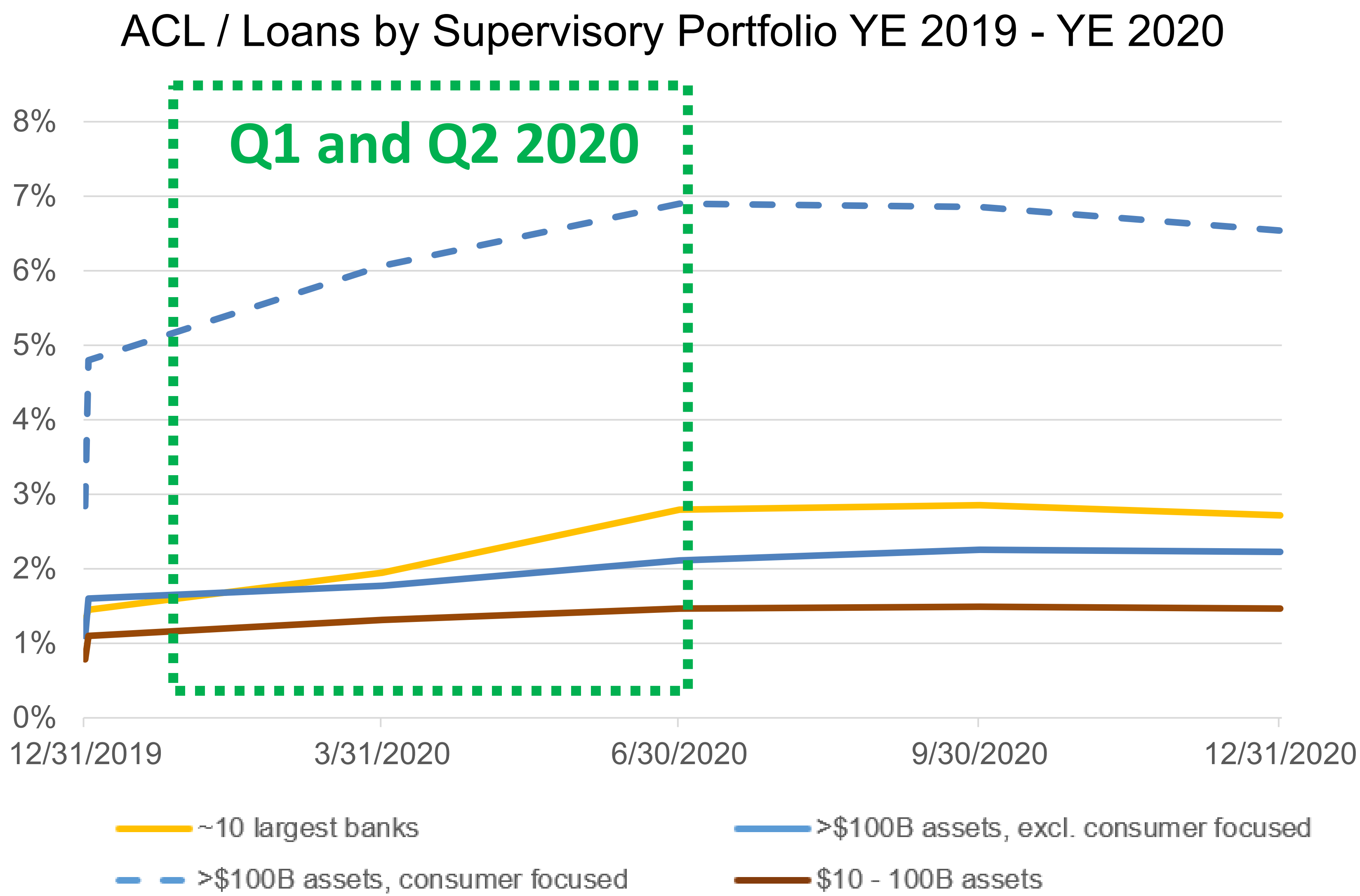


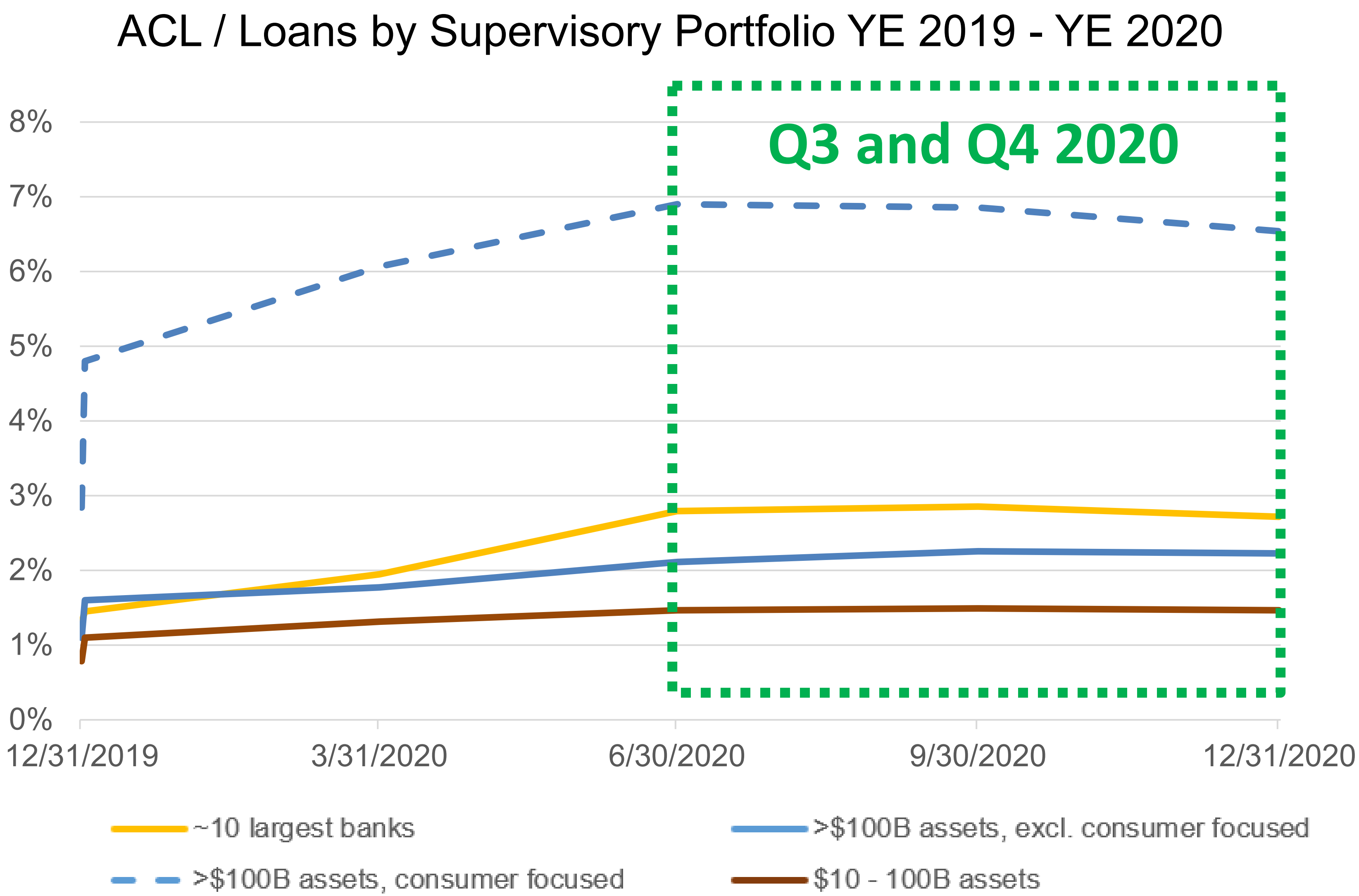
2020 Implementation Observations



2020 Implementation Observations

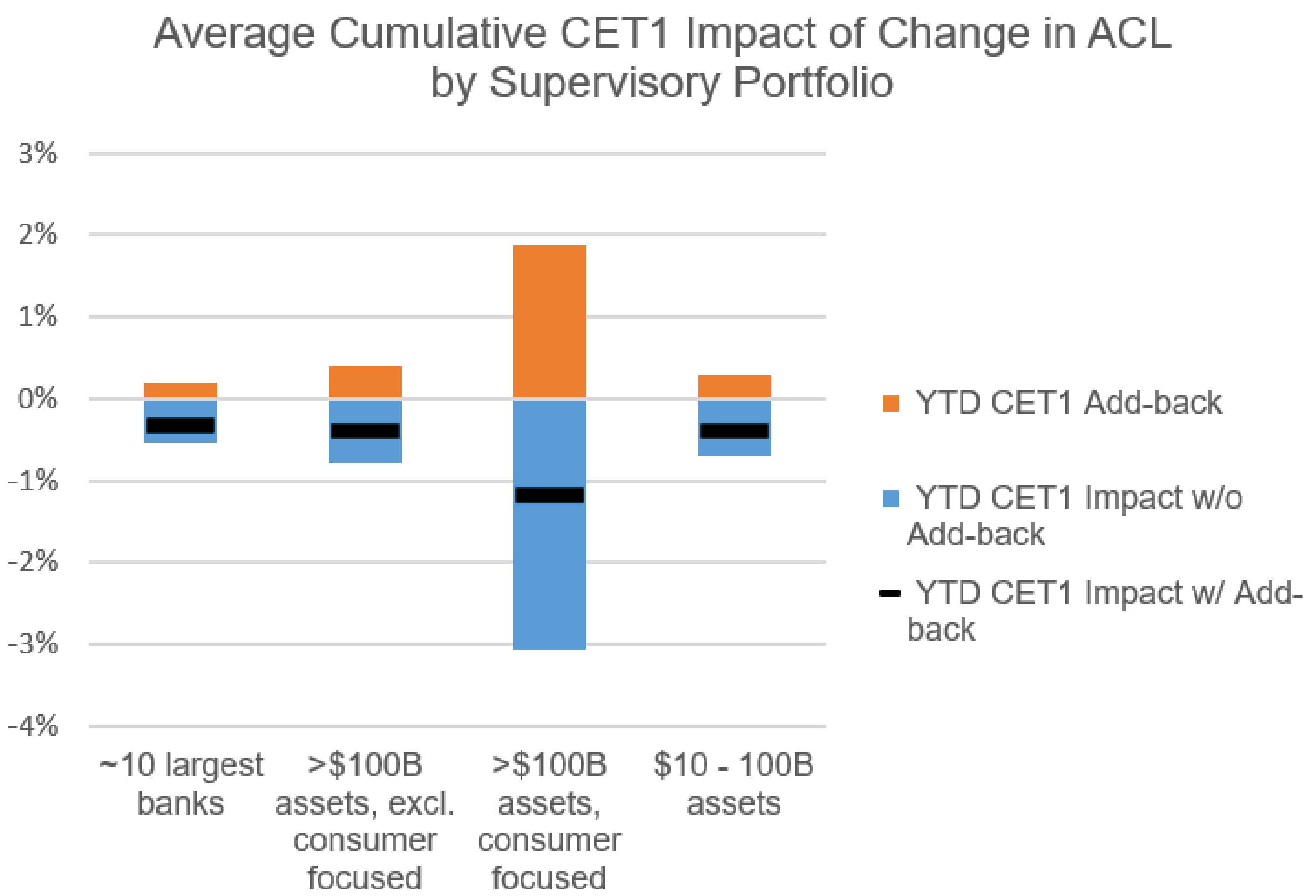


2020 Implementation Observations



2020 Implementation Observations

CET1 Impact

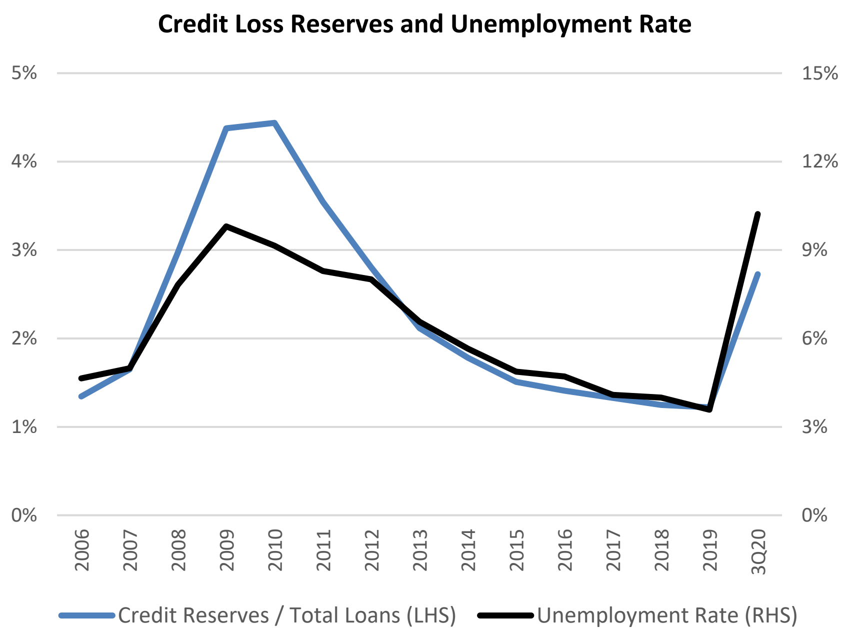


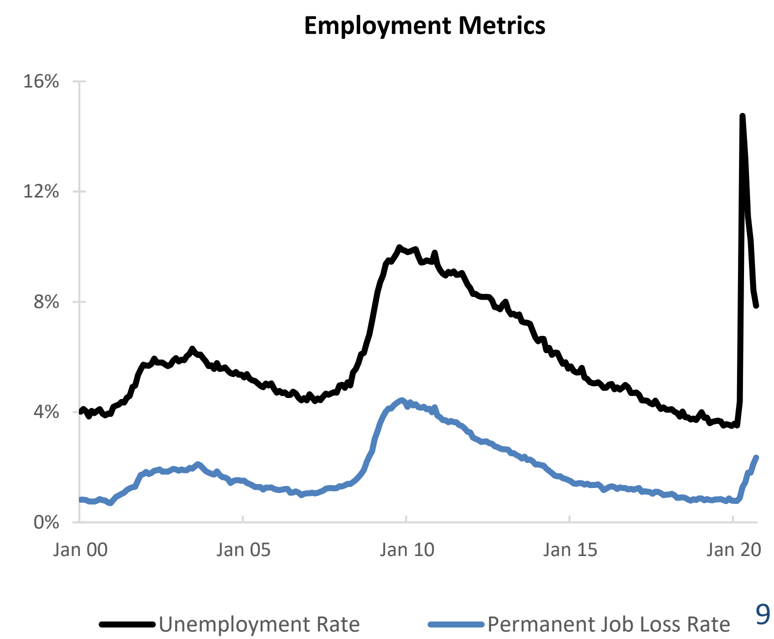
Source: Public disclosure of Q1 – Q4, 2020 earnings information.

2020 Implementation Observations

Unemployment and the Economic Environment

- Allowance-to-loan levels have double on average across retail and wholesale.
  - Retail reserves have been driven by unemployment; wholesale reserves driven by internal rating downgrades.
- Reserving has been challenged by historic economic shock of uncertain depth/duration
  - Unemployment jumped to a historic high but has sharply retraced, while the permanent job loss rate has been more contained (chart right)

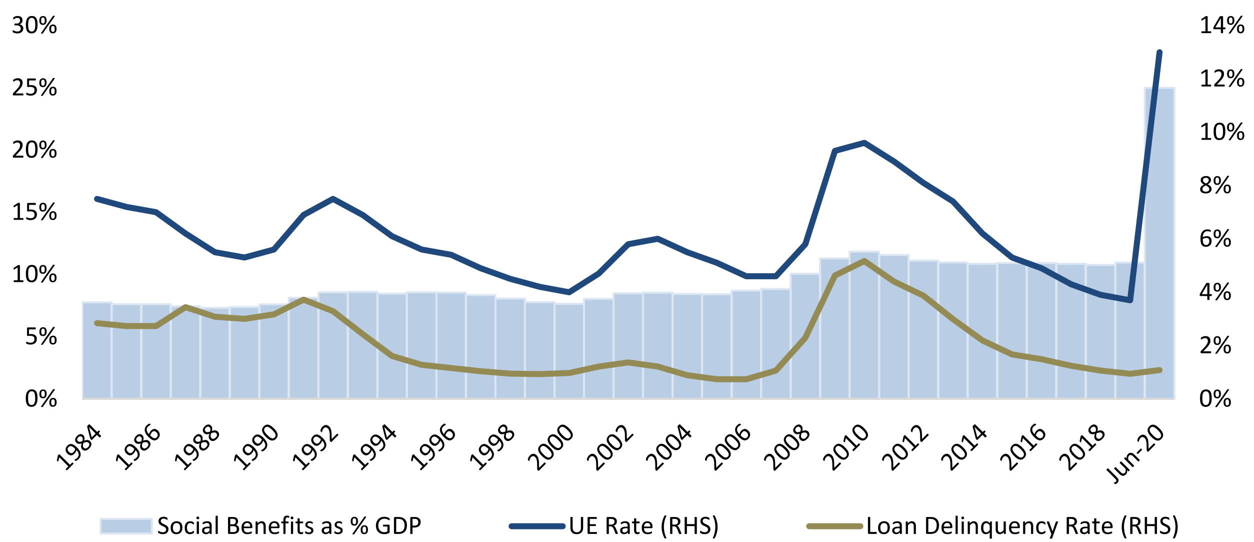




Fiscal Support and Loan Performance

- Historical relationship between noncurrent loan and unemployment rate driven by:
  - Extraordinary fiscal support (chart left)
  - Delinquencies have remained well-contained, despite fiscal impasse and roll-off of borrowers from loss mitigation (chart right).
  - Future behavior of loss mitigation balances a key watch point

Fiscal Support Vs. Unemployment (UE) and Loan Delinquency Rate



2020 Implementation Observations

Reserve Releases Under CECL

- CECL vs. Incurred Loss
- Realization of expected losses vs. changes in loss estimates
- Examiner training and considerations

See ‘Examiner Review of ACLs’ section within Interagency Policy Statement on the Allowance for Credit Losses (SR 20-12).

2020 Implementation Observations

Effective Internal Controls and Governance

Quantitative

Qualitative

Third parties

See Interagency Policy Statement on the Allowance for Credit Losses (SR 20-12)

COVID Relief

CARES Act Section 4013: TDR Relief

- The CARES Act gives the **OPTION** to suspend GAAP
- Institution can elect that a modification does NOT result in a TDR if:
  - The modification is COVID-19 related;
  - The loan was current (not more than 30 days past due) as of 12/31/19; AND
  - The modification was executed between 3/1/20 and the earlier of **1/1/22** or 60 days after the national emergency ends
- By law, the bank is not required to designate such a loan as a TDR
- There is no limit to the length of a modification that can qualify
- Multiple modifications can qualify if they continue to meet the criteria

CARES Act Amendments

Apart from date extensions, existing guidance remains applicable and unchanged:

	Original CARES Act Language	As Amended
TDR Relief (Section 4013)	A financial institution can elect to not classify as a TDR COVID related modifications to borrowers not more than 30 days past due as of 12/31/19	Unchanged
Eligibility window	Modifications executed between March 1, 2020 and the earlier of (A) 60 days after the end of the national emergency, or (B) **December 31, 2020**	Modifications executed between March 1, 2020 and the earlier of (A) 60 days after the end of the national emergency, or (B) **January 1, 2022**
Eligible institutions	Financial institutions	Financial institutions, including insurance companies
CECL Relief (Section 4014)	No eligible institution shall be required to comply with CECL during the applicable period	Unchanged
Applicable period	Beginning on March 27, 2020, and ending on the earlier of (1) the date the national emergency ends or (2) **December 31, 2020**	Beginning on March 27, 2020, and ending on the earlier of (1) the first day of the fiscal year of an eligible institution that begins after the national emergency ends or (2) **January 1, 2022**
Eligible institutions	Insured depository institution, bank holding company, or affiliate	Unchanged

See Federal Reserve Board COVID-19 Supervisory and Regulatory FAQs, under topic Loan Modification Accounting and Reporting Issues

COVID Relief

Reminders for COVID Modified Loans:

Past due status	• Determine in accordance with loan's payment terms, or if modified, loan's modified payment terms • Payment deferrals and forbearances may result in "frozen" past due status during deferral period
TDR Relief is NOT relief from:	• An adequate allowance • A risk rating that reflects the borrower's current ability to repay the loan
Nonaccrual	• When collection of full principal and interest is not expected • May not be able to rely on historical mechanical triggers

See April and August 2020 Interagency Statements on COVID modified loans

Future CECL Adopters

Future CECL Adopters

CECL Adopters by Portfolio

Snapshot as of Q3 2020:

Institution Size	Total	Adopted CECL		Using ILM	
		Using transition	No transition	Using CARES delay	CECL not required yet
>$100B assets	39	24	6	0	9
$10 - 100B assets	105	70	12	4	19
<$10B assets	4,771	50	17	40	4,604
Total	**4,915**	**144**	**35**	**44**	**4,632**

Sources: FR Y9C and FFIEC Call Reports *Five firms adopted CECL after Q1 2020

Questions?