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CECL Model Validation and Reserve Optimization

OVERVIEW



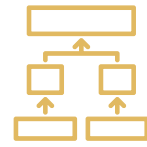
CHALLENGE

The bank required a validation of its Current Expected Credit Losses (CECL) model in line with supervisory guidance, industry practices, and the bank's internal policies. The validation needed to include a review of the control framework and assessment of the methodology.



SOLUTION

Treliant performed a comprehensive validation of the bank's implementation of a vended model in line with SR11-7, including data validation, benchmarking, and a final report with findings and recommendations for the bank to improve its CECL model and processes.



APPROACH

Treliant reviewed data and documentation, conducted interviews with bank personnel, compared results and approaches to peer institutions, and assessed the bank's methodology given the risk profile of the exposures, regulatory expectations, and industry practices.

RESULTS AND BENEFITS

- ✓ The report included key recommendations to assist the bank with its CECL model and processes such as, the inclusion of multiple scenarios and sensitivity testing to assist management with the assessment of the bank's credit reserve and associated capital implications and the development of control inventories and validation monitoring plans to ensure the model is appropriately controlled and has an ongoing assessment of the reasonableness of the model.
- ✓ Customized and right-sized elements of the bank's reserve based on a scenario-driven approach to hot spots and potential areas for increased future risk, idiosyncratic to their portfolio(s).
- ✓ Optimized the overall reserve using a range of different scenarios including a worst case, best case, and base case—thereby providing executive management and the board with proper transparency to make decisions.
- ✓ Demonstrated to the regulators that the bank's CECL model and approach are robust, well documented, and performing appropriately, with adequate controls in place to mitigate potential regulatory risk.

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