

CRI CECL VALIDATION SERVICES



The Interagency Policy Statement on Allowance for Credit Losses indicates that “management should periodically validate the loss estimation process, and any changes to the process, to confirm that the process remains appropriate for the institution’s size, complexity, and risk profile.”

It is expected that financial institution regulators will “verify that models used in the loss estimation process, if any, are subject to initial and ongoing validation activities.”

Existing regulatory guidance on model risk management identifies the following as key elements of an effective validation framework:

- Evaluation of conceptual soundness, including developmental evidence
- Ongoing monitoring, including process verification and benchmarking
- Outcomes analysis, including back-testing

While regulatory guidance does not require a third party to perform CECL validation procedures, there is an expectation that such validations will be performed by someone independent of the loss estimation and model risk management processes.

CRI’s CECL validation methodology is designed to meet the needs of community financial institutions and their stakeholders cost-effectively. Our risk-based framework is both scalable and adaptable and includes a review and evaluation of policies, procedures, personnel, and control systems, including:

POLICIES AND PROCESSES

- Historical Losses
- Segmentation
- Contractual Term
- Credit Loss Measurement
- Reasonable and Supportable Forecasts
- Reversion
- Qualitative Factors
- Loan Charge-offs and Recoveries

CONTROL SYSTEMS

- Governance
- Credit Risk Review
- Model Risk Management
- Performance Analysis
- Data Controls
- Third-Party Risk Management

Relevant stakeholders in the CECL validation process include the board of directors, senior management, financial institution regulators, and independent auditors. CRI’s CECL validation framework is designed to meet the needs of all such parties while adding value to community financial institutions.

Contact us today for a free CECL validation consultation at CECL@cricpa.com.

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