

Solvast | ALLL+™

Technology that helps banks and credit unions address allowance for loan and lease losses and prepare for FASB's new current expected credit loss model



A challenge

Since the financial downturn, regulatory and audit scrutiny of banks' and credit unions' allowance processes have increased. Further, complying with the new Financial Accounting Standards Board's (FASB) current expected credit loss (CECL) standard is becoming more complex because it requires changes across numerous facets of a bank's operations, including accounting/finance, credit, IT, risk, and business units.

Affected institutions will need a well-thought-out tactical plan to identify the intersection in requirements between financial and regulatory reporting for estimating expected credit losses that capitalizes on interdependencies, which can allow a financial institution to gain operational efficiencies and facilitate a lean implementation program. Additionally, a well-thought-out integrated approach can help drive convergence between allowance estimates and estimates generated for stress testing and other strategic purposes.









Solvast | ALLL+ supports high volumes of loan data from multiple servicing systems, enabling financial executives to improve quality and efficiency, reduce operational risks, and gain a deeper insight into their allowance process from a single platform.

More than a credit loss model

Much more than a credit loss model, Solvast | ALLL+™ provides an end-to-end view of the allowance process that begins with broad data integration controls and continues through data analysis, credit modeling, accounting, and financial statement disclosure. The platform provides analytical report documentation in support of allowance estimates and has the scalability to help prepare financial institutions for an efficient transition to the CECL standard. Data collection, credit modeling, business analytics, and custom reporting are the hallmarks of the Solvast | ALLL+ platform.

Built on experience

With over 25 years of experience in delivering technology solutions, Deloitte Risk and Financial Advisory's Financial Technology™ practice has completed more than 250 client implementations with over 100 dedicated technology and business professionals. This collective experience has culminated in the creation of Solvast | ALLL+ and includes the following:

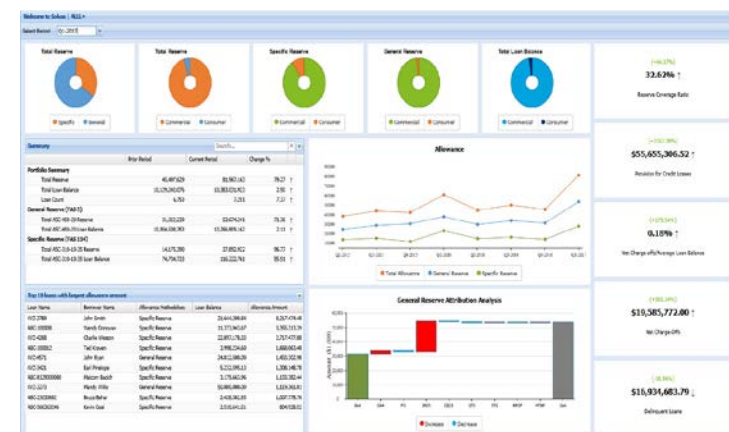
| Holistic platform approach  | Credit data  | Credit modeling—incurred approach  | Credit modeling—transition to CECL  |
|--|---|--|---|
| <p>Solvast ALLL+ helps with the calculation of allowance estimates under the current incurred loss model and expected loss approach:</p> <ul style="list-style-type: none"> FAS 5 as codified in ASC 450-20 FAS 114 as codified in ASC 310-10-35 The new CECL model as codified in ASC 326-20* | <p>The Solvast platform serves as the system of record for loan level credit data and the calculation of allowance estimates:</p> <ul style="list-style-type: none"> Import loan level data and from multiple sources Perform data verification and validation Apply data quality rules and perform edits Reconcile loan data to the general ledger | <p>Solvast ALLL+ enables the estimation of the allowance using historical loss rates or an expected loss approach:</p> <ul style="list-style-type: none"> The expected loss approach is implemented in a probability of default (PD) and loss given default (LGD) framework with PD developed on the basis of transition matrices and LGD developed on the basis of a non-parametric vintage "loss curve" methodology Credit loss estimates can be seamlessly developed over desired time horizons and applied at a loan level A range of specific reserve methodologies is supported | <p>The expected loss model is scalable and transitions efficiently to a CECL-compatible approach:</p> <ul style="list-style-type: none"> Loss parameters developed under the incurred loss approach are informed by reasonable and supportable (R&S) forecasts and can be applied in the R&S, reversion and post-reversion loan life phases Exposure at default is determined on the basis of individual loan terms and prepayment assumptions over the life of loan Prepayments assumptions can be based on portfolio specific historical prepayment experience or on other management analyses |
| Data with insights  | What if scenarios  | Benchmarking tools  | Technology framework  |
| <p>Solvast ALLL+ enables financial institutions to identify changes and gain insights between allowance periods:</p> <ul style="list-style-type: none"> Real-time view of historical metrics and trends with period to period comparisons Analytics reports and dashboard metrics Custom reports through point and click queries Access to model results and loan level data On-demand analytical report creation | <p>Create a sandbox environment to evaluate what if scenarios.</p> <ul style="list-style-type: none"> Evaluate the sensitivity of model estimates to changes in assumptions, qualitative factors or other configurable settings Perform data analysis and compile documentation to support model changes | <p>Solvast ALLL+ enables access and side-by-side comparisons of allowance related metrics:</p> <ul style="list-style-type: none"> Benchmarking comparisons based on selected peer bank data Pool-level view of changes in the allowance resulting from credit state downgrades and upgrades Evaluation of model results through economic data and forecasts of national and state level indices | <p>Access controls can be established through user-defined groups:</p> <ul style="list-style-type: none"> Workflow events and user activities can be viewed and tracked through the platform's audit trail Implement Solvast ALLL+ either as a hosted solution or an on-premise installation Credit modeling and loss estimates are calculated entirely in the solution's software code |

* The CECL standard will generally become effective in 2020 for SEC registrants and 2021 for non-SEC registrants.

Solvas|ALLL+™

The simplicity of the solution's workflow—combined with the integration it helps facilitate across an institution's credit, accounting, finance, and risk functions—strengthens the efficiency, effectiveness, and transparency of the allowance process. www.deloitte.com/ft.

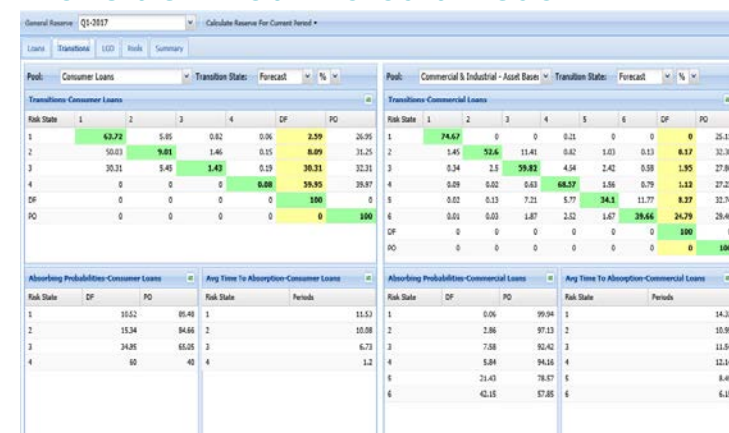
Allowance dashboard



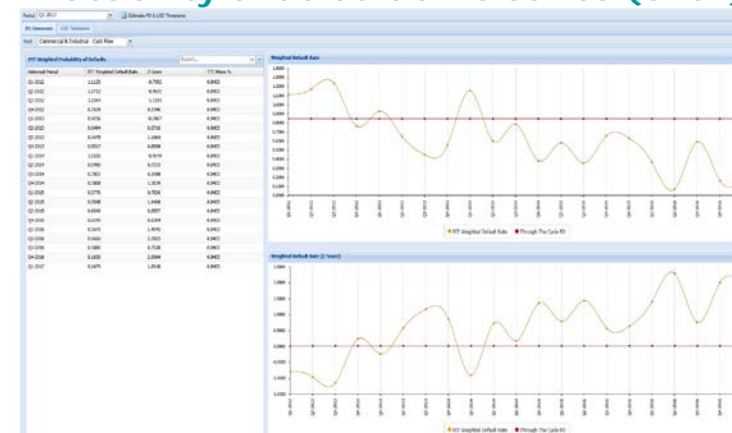
Data analytics and custom reporting



Transition matrix credit model



Probability of default time series (CECL)



Contacts

To arrange a demonstration, please contact:

Hillel Caplan

Partner | Deloitte Risk and Financial Advisory
Deloitte & Touche LLP
+1 212 436 5387
hcaplan@deloitte.com

Harvey Plante

Senior Manager | Deloitte Risk and Financial Advisory
Deloitte & Touche LLP
+1 212 436 2695
hplante@deloitte.com

Deloitte Risk and Financial Advisory's CECL Services

Modeling



- Assess and advise regarding credit risk modeling options, scenario generation, prepayment estimation, securities, and other related CECL modeling considerations and assumptions
- Assess the potential for convergence of existing expected credit loss models and process components for CECL

Engine, data & assumptions



- Assist in determining current engine capabilities
- Identify potential opportunities to leverage existing data and systems
- Help design the business requirements for data & systems to obtain additional data requirements

Accounting advisory



- Assist with analysis and documentation of implementation issues
- Provide advice on financial reporting and disclosure requirements
- Provide sector-specific insights and leverage experience advising on IFRS 9 adoption

Governance & Internal Controls



- Advise on the design of incremental governance frameworks and controls
- Help establish the organizational design that supports the incremental governance frameworks and controls

Transition



- Identify potential gaps resulting from new disclosure requirements
- Assist with development of transition plan and advise on parallel runs
- Provide advisory services related to responding to regulatory inquiries

Understanding the issues:

2017 US Current Expected Credit Loss (CECL) survey

Explore implications of the FASB's new credit impairment standard

Deloitte's 2017 US CECL survey (conducted in 2016) polled senior executives at 31 US banks to assess how they are planning to implement CECL and the operational and financial impacts they expect.

More than 90 percent of surveyed banks agree that the stakeholders involved will include not only credit modeling and the finance/controllers group, but also risk and compliance, IT/systems, the Securities and Exchange Commission/financial reporting group, the Comprehensive Capital Analysis and Review/Dodd-Frank Act Stress Testing reporting groups, and the lines of business.

Learn more:

To learn how to design a comprehensive CECL program, download the report.

<https://www2.deloitte.com/us/en/pages/financial-services/articles/us-current-expected-credit-losses-cecl-survey.html>

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