CRE Lenders 10 point checklist for CECL/IFRS9

How to avoid common pitfalls to reduce implementation risk and capture business benefits from a regulatory requirement

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Commercial Real Estate lenders: Ten point checklist for CECL/IFRS9

As we get closer to the 2020 date for implementing CECL in the US and 2018 for IRFS9 it is worth reviewing the risks and challenges so as to avoid common pitfalls. Before you start, you should ask the following questions about your proposed solution:

1. Will the CECL/IFRS9 model measure both credit and market risk?
2. Does the solution reflect the risks in our loans, not average loans? For example, is it a top-down model that will not distinguish between loans supported by strong or weaker leases?
3. Does the system to calculate Expected Losses also provide you with a solution to meet CECL/IFRS9s other requirements for data collection, validation and audit?
4. Is your vendor or internal team planning to build a model from scratch? Commercial Real Estate risk models are complex. Is your supplier able to demonstrate an existing and working system before they start?
5. Is there sufficient documentation of the methodology for model validation?
6. Can the proposed solution work with your data? Can the supplier load a sample of your loans as a demonstration?
7. Does your vendor understand your business? Does the model accurately reflect the risk in your portfolio? Before you start, can they run a sample of loans and make sure your front-line lenders agree with the analysis?
8. Does the solution use all the information you currently use to assess loan risk?
    - Rent rolls
    - Valuations
    - Market forecasts
    - Historic market data
    - Covenants, reserve accounts, LCs
    - Loan structuring, principle repayment projections
    - Tenant quality
    - Regional differences (eg legal repossession in default)
    - Current market data for comparables
9. Does the solution allow you to model construction, value added and stabilized property differently?
10. Has the business identified how it will derive bottom-line benefits to off-set the costs of implementation?
    a. Cost savings/Customer service
        i. Will you be able to redeploy staff from data entry and other administrative tasks that can now be eliminated?
        ii. Have you identified how the platform will improve data capture, remediation and quality?
        iii. Will the solution enable you to be more flexible in responding to

customer/product specific loan structures?

   iv. Will the system speed up response times and allow front-line lenders to get closer to customers?

b. Risk/Revenue benefits, will the improved ability to calculate Expected Losses enable you to:
   i. Reduce market and credit losses
   ii. Improve risk pricing
   iii. Provide measures of portfolio diversification
   iv. Lower capital (economic or regulatory)

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