Community Banking Bulletin

Highlight: CECL adoption's impact on community bank allowance levels

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There is considerable variance in the average percentage change in allowance levels with adoption of the CECL model, with larger community banks seeing the biggest increases.

- Although SEC filers and early adopters were previously impacted by Accounting Standards Codification (ASC) 326, the Current Expected Credit Losses (CECL) model became effective for all remaining banks on January 1, 2023.
- CECL adoption resulted in an average increase of 3.76 percent to Allowance for Credit Losses (ACL) balances at community banking organizations[1] (CBOs); however, there was considerable variation in the degree of impact with larger CBOs reporting more substantial increases.
- CBOs with under $1 billion in total assets reported an average change in ACL of 3.08 percent compared to 7.53 percent for CBOs with assets between $1 billion and $10 billion in total assets. Of the approximately two-thirds of CBOs reporting either no change or a reduction in ACL due to CECL adoption, 91.84 percent consisted of banks with under $1 billion in total assets.
- One possible explanation for the less pronounced impact to smaller institutions was their heavier usage of qualitative factors prior to CECL implementation, which resulted in higher ACL coverage ratios. CECL's reasonable and supportable forecast component is believed to have provided more flexibility to larger organizations, which may have narrowed the coverage gap. In addition, larger CBOs tend to have more sizable consumer credit portfolios, such as credit card offerings, which have shown to be subject to larger allowance increases under the new standard.

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Endnotes

[1] Community banking organizations are defined as having less than $10 billion in total assets