The Economist for Institutions Without One

If your institution doesn't have an economist, the MST Virtual Economist will help you identify and correlate the economic data you'll need to estimate your allowance under CECL.

Under CECL (Current Expected Credit Loss), financial institutions calculating their quarterly allowances will be required to consider a wide range of forward-looking information in order to project future losses. That information won't only come from internal sources like historical loan performance, but will necessarily include external forces. What happens if unemployment rates rise or interest rates soar or there's a recession? Estimating the allowance under CECL will include assessing the impact of economic factors and trends, national and local.

Community bank and credit union loan portfolios are more idiosyncratic than large banks', so they are potentially more exposed to local economic sways. A decline in a dominant industry or the closing of a large business in a small community could create a local credit crisis and wreak havoc on a loan portfolio.

Not only can economic factors impact a smaller institution more quickly and deeply, judging the potential for economic impact and translating it into an appropriate, compliant allowance becomes more challenging for community banks and credit unions under CECL. The biggest banks staff economists to gauge the influence of economic trends. The portfolios of most other financial institutions don't provide sufficient data for econometric modeling, nor typically do community banks and credit unions staff economists.

Still CECL will require an institution to look into the future and assign value to prospective economic trends. Institutions will need access to data and intelligence from which to draw their conclusions.

The *MST Virtual Economist* gives the institution an easy way to look at a wide set of economic variables and understand how relevant metrics will influence portfolio performance. The *MST Virtual Economist* links the institution to the Federal Reserve Economic Database (FRED), which maintains more than 247,000 economic series from 79 different sources – not that the institution will want or need to sort through a quarter-million data points. In applying FRED, the institution can compare selected national data to institutional data: internally generated, from the FFIEC and from peer banks.

The *MST Virtual Economist* allows the institution to select and track the economic data relevant to its own locale and portfolio, then understand how its loan experience correlates to those economic trends.

The *MST Virtual Economist* allows the institution to match and correlate economic data specific to each loan segment for the most relevant analysis.

The *MST Virtual Economist* visually displays the correlations to demonstrate the strength of each metric and delivers a correlation coefficient that reveals the potential impact of the economic data on that segment of the portfolio.

The *MST Virtual Economist* allows the institution to consider trends relative to some variables as far out as three years.

Under CECL, institutions will be required to consider economic factors in determining future expected loan losses. The *MST Virtual Economist* is an efficient way to evaluate economic factors and project their impact on the institution's loss rate, find new variables that impact the institution's loss rate and determine the relevance of the economic factors the institution already uses to make qualitative adjustments. The *MST Virtual Economist* gives the bank an automated solution for selecting economic factors relevant to its community and portfolio, access data relative to those factors, match the data to its own as well as external historical loan loss data it has gathered, analyze the impact of the selected economic trends on future loan losses and adjust its allowance accordingly.

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