VIRTUAL ECONOMIST

Estimating the allowance under CECL will include assessing the impact of economic factors and trends. CECL will require financial institutions to look into the future and assign value to prospective economic trends. Financial institutions will need access to data and intelligence from which to draw conclusions.

Judging the potential for economic impact and translating it into an appropriate, compliant allowance will be challenging for credit unions and banks other than the largest financial institutions, which have staff economists to gauge the influence of economic trends. Not only are most financial institutions without staff economists, their portfolios typically do not provide sufficient data for econometric modeling. Further, community bank and credit union loan portfolios are more idiosyncratic than large banks', and are therefore likely more exposed to local economic sways. Economic data will play a greater role in their portfolio performance and therefore in their CECL estimates.

MST developed the ***MST Virtual Economist,*** to address that challenge.

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 economic data sources, including the Federal Reserve Economic Database (FRED), which maintains more than 247,000 economic series from 79 different sources. In applying FRED, the financial 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 forecasts from six months to five years out, leveraging data from the Federal Open Market Committee (FOMC) and the Philadelphia Federal Reserve's State Leading and State Coincident Indexes.

The MST Virtual Economist gives the institution 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 make adjustments to its allowance accordingly.

Under CECL each institution will be required to consider economic factors in determining future expected loan losses. The MST Virtual Economist provides an efficient method 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 allows the institution to compare the loan portfolio to a variety of economic indicators to determine which ones matter.

> “Under CECL you will be required to consider economic factors in determining future expected loan losses. The MST Virtual Economist is an efficient, automated way to evaluate qualitative economic factors and project their impact on the institution’s loss rate, find new variables that impact the loss rate or determine the relevance of the economic factors you are already using to make qualitative adjustments.”

Tom Cunningham
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