FIG Partners' Credit & CECL Survey

Analyzing The Results From The Investors We Surveyed

- We conducted a survey on Credit & CECL from January 7th through January 10th with 53 investor responses who are distinct and separate from Bank managers. Their answers to our direct questions on the credit-related topics and the pending accounting rules for Current Expected Credit Losses or "CECL" are quite informative.
- **Nearly 85% of investors feel that current accounting rules for U.S. Banks' Reserves are sufficient.** In fact, a mere 17% of the investors we surveyed agree with changing the existing reserve accounting rules. Instead, 75% disagree (or strongly disagree) on the reserve rule change, which is quite a contrast from the FASB's plans for CECL in 2020.
- 60% of investors disagree that the U.S. Banking system faces an acceleration of nonperforming credits and higher loan losses in 2019. *However, the planned CECL Reserve rule change is anticipated to be "procyclical" by 83% of the investors who participated in the FIG survey.*
- We inquired whether today's accounting rules for Bank M&A transactions distort NIM-Net Interest Margin and Loan Loss Reserves in the Banking industry. 73% of our investor responses affirmed that they see both NIM and Reserves garbled by the GAAP requirements. Could there be support for a change away from fair value accounting on M&A? A healthy majority of investors in our survey (79%) support a shift in merger accounting away from fair value. Even if this is hypothetical, it is interesting feedback to us.
- Additional opinions on credit, CECL, and related topics were requested via an open comment section on our survey. On Page 4, we share a handful of observations from investor participants. Please contact us for further background.

Research Directors: Christopher Marinac, CFA
Analysts: Kevin Fitzsimmons, David Bishop, CFA, Timothy Coffey, Brian Martin CFA, John Rodis

FIG Partners LLC
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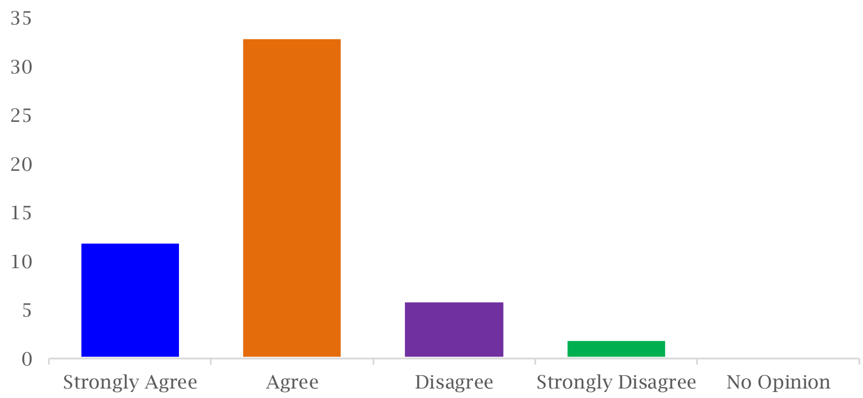
#2 *The existing accounting rules for U.S. Banks' Loan Loss Reserves are sufficient for financial institutions to address future loss expectations and current portfolio risks.*

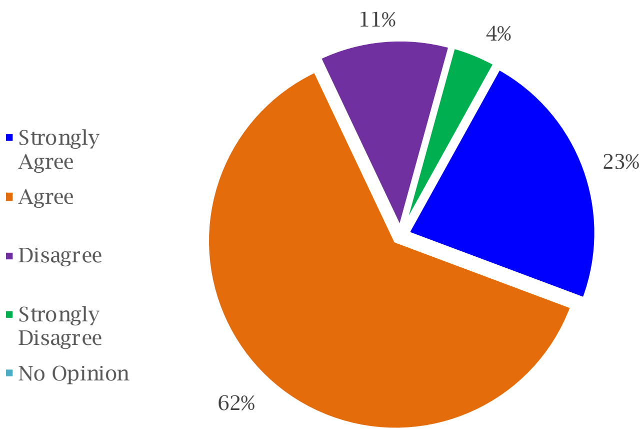


Source: FIG Partners Research, CECL Survey

About 85% of Investors feel that current accounting rules for U.S. Banks' Reserves are sufficient.

A significant investor majority supports the status quo and not CECL. How have these new reserve rules almost reached the goal line with this many investors not in favor of a change?

#3 *Tangible capital at U.S. Banks today is strong and well above the level a decade ago during the last Recession and prior to the Financial Crisis.*



Source: FIG Partners Research, CECL Survey

73% of investors feel that tangible capital is strong in U.S. Banks today.

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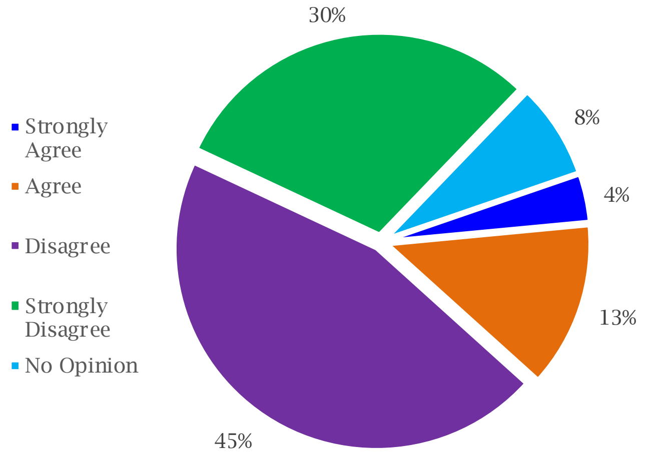
#4 *Change is necessary to the existing accounting rules that govern U.S. Banks' Loan Loss Reserves.*

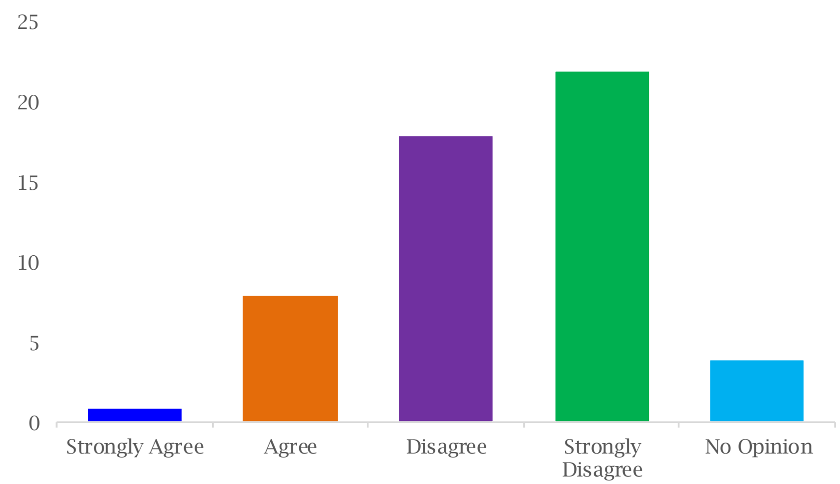


Source: FIG Partners Research, CECL Survey

A mere 17% of the Investors we surveyed agree with changing the existing reserve accounting rules.

75% disagree or strongly disagree, which is quite a contrast from the FASB's plans.

#5 *The FASB's Accounting Standard Update 2016-13 on credit losses known as Current Expected Credit Losses or "CECL" has my support for implementation in 1st Quarter 2020.*



Source: FIG Partners Research, CECL Survey

Only 17% of investors voted in favor of CECL.

The lack of support is surprising as the new reserve rule is slated for implementation in less than one year.

Participant Comments

Below are highlights from the open-ended comment section within our Credit & CECL survey. Here investors elaborated on their opinions and observations well beyond the multiple-choice answer choices within our questions.

- "New disclosures from CECL may be useful but comparability, historically and across companies seems almost certain to suffer. It does not seem to solve any problem as investors are still left to decide whether management estimates for losses are on the mark or not. And it seem likely to create new problems, including actual negative economic consequences depending on how the accounting is treated by regulators"

- "CECL is a solution in search of a problem."

- "ALLL methodology was more simple and better reserved for risk pre-2006 guidance (SR 06-17). As banks traditionally reserved 1% for pass loans and 5% special mention, 15-20% for substandard, 50% doubtful, and 100% loss. Current methodology banks are having to stretch to capture losses to give an adequate reserve and CECL too much depends on the forward outlook. If CECL does go through the regulators should give a minimum baseline which will be especially important for small community banks."

- "CECL is a highly pro-cyclical model; provisions are doubled on purchased loans; it will reduce access to or increase cost of credit to borrowers"

- "From conversations with investors who participated in the FASB outreach, many viewed the process as biased toward the implementation of CECL"

- "CECL is not well considered in a real world environment. My fear is that its effect could be to shrink credit availability."

- "Improvements can always be made, but that doesn't mean we should leap to CECL. Though the existing system may have its shortcomings, higher and higher quality capital surely put the industry in better shape than we were heading into the 2007/2008 crisis."

- "FASB needs to be more willing to test the CECL models before implementing and changing the accounting standards."

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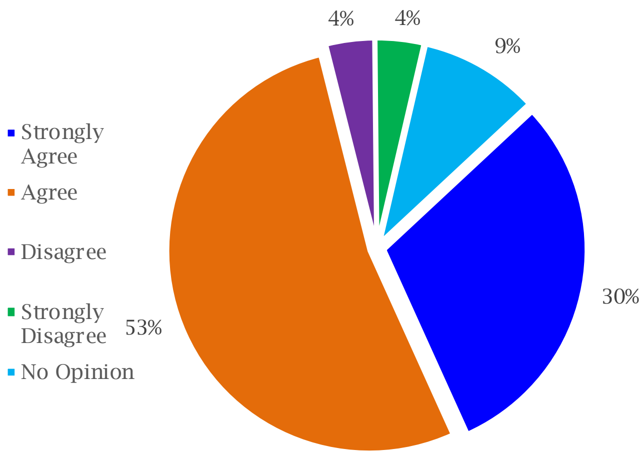
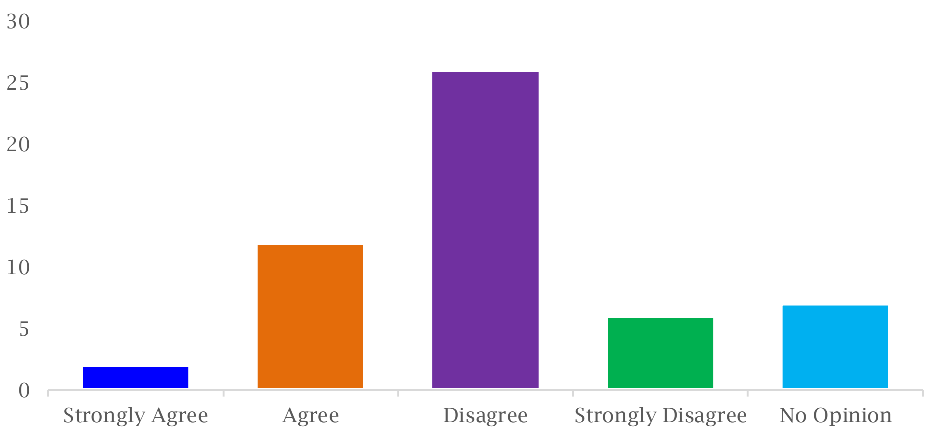
#6 The FASB's Accounting Standard Update 2016-13 on credit losses, CECL, could be procyclical and magnify the fluctuations in credit losses. This means that a positive credit outlook stays the same for an extended period and a negative loan loss expectation would remain in effect longer.



Source: FIG Partners Research, CECL Survey

83% of Investors nod-their-head when asked if CECL is "procyclical". Few disagree that the new policies magnify the fluctuations in credit losses.

#7 The U.S. Banking system faces an acceleration of nonperforming credits and higher loan losses in 2019 that require use of existing reserves and capital.



Source: FIG Partners Research, CECL Survey

60% of Investors disagree that the U.S. Banking system faces an acceleration of nonperforming credits and higher loan losses in 2019.

27% of our responses agreed that higher problems will occur this year. The remainder had no opinion.

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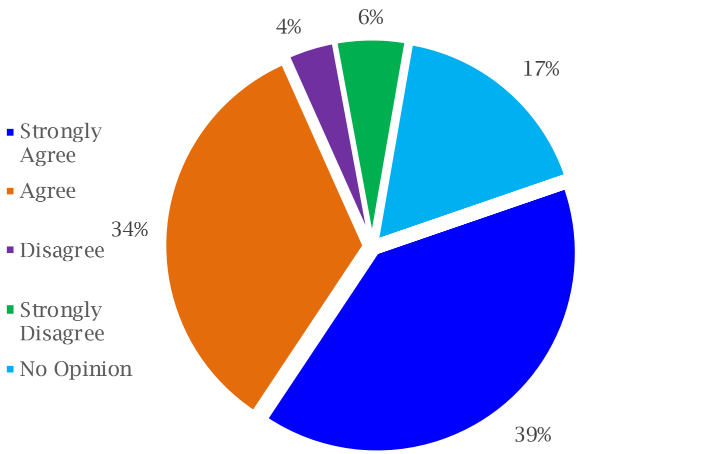
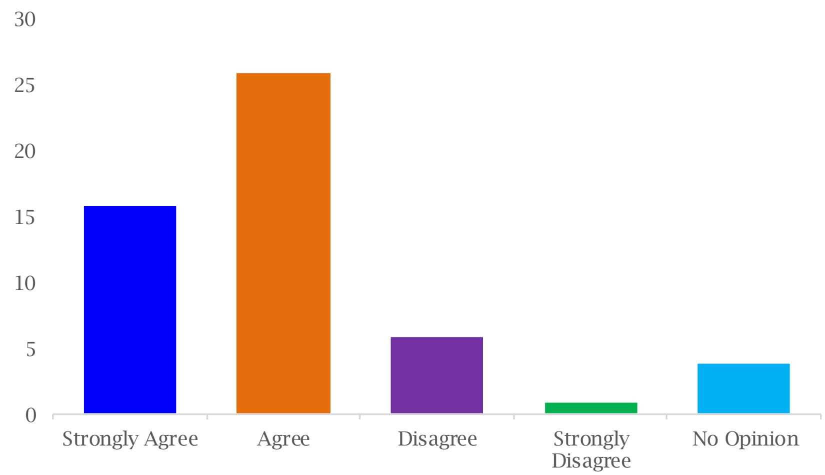
#11 *Current accounting rules for Bank M&A transactions distort NIM-Net Interest Margin and Loan Loss Reserves in the Banking industry.*



Source: FIG Partners Research, CECL Survey

73% of Investors acknowledge that the accounting rules for Bank M&A transactions distort NIM and Loan Loss Reserves.

#12 *I would prefer simpler accounting rules without fair value marks for Bank M&A transactions, especially when 100% stock consideration occurs.*



Source: FIG Partners Research, CECL Survey

80% of our investor responses concur that more simple rules would improve mergers in the Bank industry.

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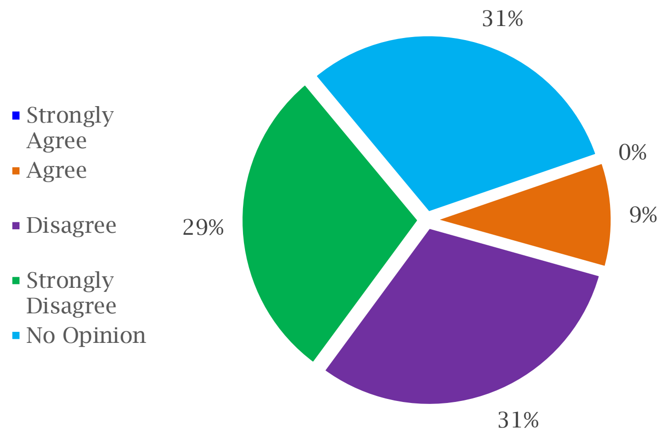
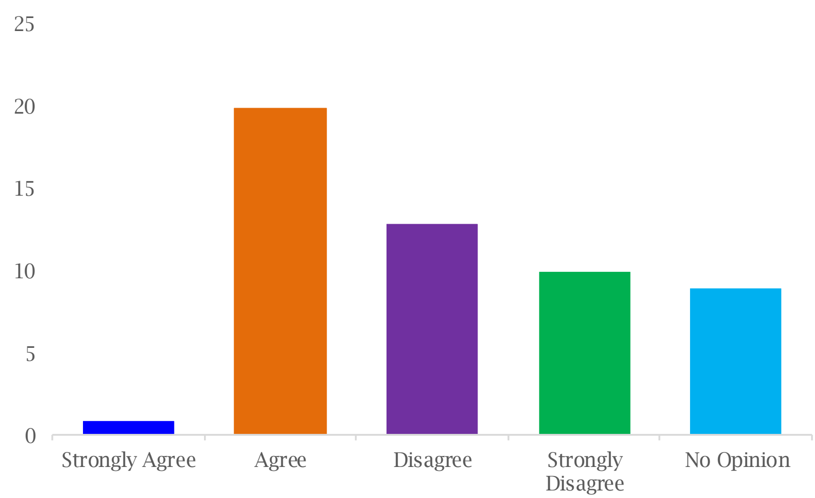
***#13** Within the FASB's Rules of Procedure is the Guiding Principle "to actively solicit and carefully weigh the views of stakeholders." My views have been effectively considered as it pertains to Accounting Standard Update 2016-13 on credit losses, CECL, being implemented in 2020.*



Source: FIG Partners Research, CECL Survey

While 31% of Investors had "No Opinion" here, a high 60% of responses felt their views were <u>not considered</u> as the FASB constructed and now prepares to implement CECL. Somehow this seems to be a significant disconnect.

***#14** Within the FASB's Rules of Procedure is the Guiding Principle to "issue standards only when the expected benefits justify the perceived costs." I understand the benefits and costs of the Accounting Standard Update 2016-13 on credit losses, CECL, being implemented in 2020.*



Source: FIG Partners Research, CECL Survey

It was a mixed bag on whether investors understand the benefits and costs of CECL. 40% of our responses agree, but 43% disagreed. Another 17% did not have an opinion.

FIG Partners LLC Distribution of Ratings

	Buy / Outperform	Hold / Market-Perform	Sell / Underperform
% Rated	51.1%	48.9%	0.0%
IB Client % in Category	23.9%	17.2%	0.0%

Equity Rating System as of July 1, 2003

Buy/Outperform — FIG expects that total return of the subject stock will outperform the industry benchmark (BIX) over the next 12 months

Hold/Market-Perform — FIG expects that total return of the subject stock will perform inline with the industry benchmark (BIX) over the next 12 months

Sell/Underperform — FIG expects that total return of the subject stock will under perform the industry benchmark (BIX) over the next 12 months

For purposes of FINRA rule 2711, outperform is classified as a buy, market-perform is a hold and underperform is a sell. The industry benchmark that used is the S&P Bank Index, referred to as the "BIX."

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