GAAP Loan Accounting: Why Bank CFO Organizations Need Their Own Loan Accounting System

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Why Is Loan Accounting Such a Challenge for Banks?

Many financial institutions struggle to keep pace with, implement and report against ever changing and successively more complex accounting pronouncements. These newer pronouncements tend to be complex not only from an accounting perspective but doubly so due to their reliance on fair-value and valuation concepts, generally involving modeling and pricing processes that are data intensive and reliant on data sources which are less familiar to the finance department. Current state practices of developing manual processes which are heavily dependent on the use of spreadsheets are untenable in this data intensive environment. Existing operational systems are also ill-equipped to handle modern pronouncements and their usage of valuation results as inputs.

Unfortunately in-house solutions built on generic middleware technology can be particularly expensive and difficult to effectuate. The internal team often struggles with a need for domain expertise in both accounting and risk management coupled with a need to build scalable and flexible software that operates under the stress of constant change and large data volumes. Banks need to re-define their loan accounting and reporting architecture to meet the current demands and future growth needs of their organizations. This paper will discuss the critical components of a recommended architecture with particular focus on how this architecture satisfies current challenges with bank acquisitions and future challenges of changing regulations.
Why Can’t My Operational Systems Handle GAAP Accounting?

Over the past 30+ years, financial institutions have become more specialized, reflecting the continued growth in the diversity of financial products available in the marketplace to meet the breadth of demands of bank customers, both corporate and consumer, who have become more financially sophisticated over time. Most banks are organized according to product offerings and further segmented across functional areas. In response to such organizational structures, the technology / software industry developed specialized systems in similar alignment: lending systems, servicing / operational systems, Treasury systems, and loss mitigation systems. Certain cross-functional areas, such as Treasury, ALM, Finance and Reporting, are typically centralized in a bank’s organization, with potential de-centralized line-of-business specialists for larger organizations. The below diagram illustrates this structure and shows how each area typically maintains its own system capabilities that are tailored towards its product / function make-up (the cylinders represent stand-alone processes).

This traditional model resulted in a workflow that is heavily dependent on system-to-system movement of data. In addition, each system required a different set of data to complete its function. In focusing on the Finance function, the CFO organization typically controlled the overall general ledger and external reporting processes / systems. This function focused primarily on aggregation, reconciliation, and support for upstream processing of transactions. From a systems perspective, Finance resources rely heavily on upstream operational systems for transaction processing, journal entry creation for activity and accruals, and overall maintenance of the subsidiary ledger. This process served its purpose as long as the accounting rules conformed to the transactional processing within the operational systems. So what are these GAAP pronouncements that have recently challenged this assumption?

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Summary of the GAAP Accounting Rules that Stress the Traditional Business Model

Accounting for loans under GAAP continues to conceptually diverge from the transactional processing capabilities inherent in traditional servicing systems. Servicing systems align with product types due to the unique transactional nature across different loan products:

- Commercial servicing systems handle commercial loan structures that may not exist on the consumer side (facilities, syndications, participation, equity attachments, carve-outs, balance transfers, renewals, etc.);
- Consumer / mortgage servicing systems handle specific consumer structures / repayment terms; and
- Specialty servicing systems handle other types of products specific to their unique structures (e.g., multi-family loans, education loans, credit cards, auto loans, leases).

For large organizations with multiple credit offerings, this typically results in numerous operational systems. For smaller institutions with fewer and less complex product offerings, such transaction processing functions may be handled by one core banking system. So as the complexity and size of an institution grows, the challenges of transactional and accounting systems mirror the same growth curve.

GAAP accounting is “product agnostic.” Most GAAP rules governing loans apply to all loans and are not structured differently for commercial vs. consumer loans. This compounds the challenge of implementing GAAP changes as these changes must be proliferated across multiple operational systems. It is unlikely and impractical that operational vendors could make consistent changes to accommodate for the required functionality.

Further compounding the difficulty of implementing these accounting changes is the current trend in US GAAP rules introducing fair value concepts which have traditionally not been handled within servicing applications that have been architected to focus on cash and operational transactions. Fair value concepts are dependent on pricing and modeling concepts which deal with economic inputs and projections. These concepts require a different breed of application that can accommodate data and more complex computations.

Implementing new accounting pronouncements has typically been a challenge for financial institutions. The challenges emanate from (1) interpretation of transactions for the purpose of accounting treatment, (2) differences in global standards, (3) inconsistent interpretation across similar entities, and (4) technology- and cost-intensive nature of implementing certain rules. Examples described below include: (1) Accounting for FAS 141R / SOP 03-3, (2) Compliance with FAS 91, (3) FAS 65 LOCOM and Re-designations, and (4) Sales / Securitization under FAS 140 and FIN 46(R).

FAS 141R / SOP 03-3

Given recent market turmoil, industry consolidation has increased either due to strategic acquisition or, more notably, FDIC-assisted purchases of failed/troubled banks. FAS 141R governs business combinations and replaces FAS 141. For loans, the primary difference is that all acquired loans are initially measured at their fair value, which includes estimation of life-of-loan credit loss. This means that the reserve on the acquiree’s books is not transferred to the acquirer’s balance sheet. For “Day Two” accounting (accounting for the loans after financial close date of the business combination), FAS 141R points to two standards already in existence:

- **SOP 03-3 (ASC 310-30):** For those loans that are considered “credit impaired” at the time of
purchase, banks must apply SOP 03-3 treatment on a go-forward basis.

• **FAS 91 (ASC 310-20):** For those loans not considered “credit impaired” at the time of purchase, banks can apply traditional FAS 91 accounting and potentially book incremental reserves to the extent calculated pool reserves exceed the unamortized credit mark established at financial close date on the loans.*

*Note: The AICPA recently announced that banks can elect to apply SOP 03-3 or FAS 91 to the non-credit impaired portfolio.*

Focusing in on the SOP 03-3 standard, it is feasible for banks to acquire a $100 loan that may be accruing within the servicing system at an 8 percent interest rate, whereby, the acquirer determines that it only expects to collect $80 over the life of the loan. When discounted to the present, the gross $80 amount represents a $75 fair value, or Day One basis in the loan. The $5 difference represents the accretable yield and will be recognized into income on a level yield basis based on the timing of the estimated cash flow stream. The $20 plus the contractual interest that won’t be collected represents the non-accretable difference, which will be disclosed in the footnotes of the financial statements. So although the servicing system may be processing payments and recognizing income based on the contractual terms of the loan, the true GAAP accounting needs to adjust such processing based on the newly established SOP 03-3 accretion schedule.

The SOP 03-3 accretion schedule, which governs how income is recognized and principal is reduced in the new basis, is established based on estimated cash flows and can change every quarter with new sets of estimations. The data needed to accomplish this function is not in servicing systems. This is an example of where banks have typically employed spreadsheets to address the GAAP requirements. This situation can get even more complex as you start to think about:

• Impact of loan modifications (troubled debt restructurings),

• Other loss mitigation efforts (short sales, REO transfers),

• Pooling vs. loan level accounting (banks are allowed to combine homogeneous loans to treat as a single unit of accounting),

• Handling of complex structures under an estimated cash flow rule (e.g., advances, revolving facilities, balance transfers),

• Treatment of indemnification provisions by the FDIC,

• Interaction between the Day One credit mark for loans treated under FAS 91 and the Day Two FAS 5 reserving process, and

• More complex reporting requirements from external stakeholders.

As you can see, although servicing systems will maintain customer balance, or traditional book balance, of the loans, the GAAP accounting under the above treatments will generate a different basis in the loan for financial reporting purposes. Banks need insight into both balances. The servicing system maintains the “operational” basis in the loan, and banks need a separate system to maintain the “GAAP” basis in the loan with the necessary information to reconcile between the two.
Compliance with FAS 91

Many financial institutions continue to struggle with implementing the effective interest rate (or “level yield”) method under FAS 91 and IAS 39. Numerous institutions employ proxies, such as “declining UPB” or even straight-line methods, and are then required to demonstrate the immateriality of the difference to their auditors. In addition, most servicing platforms, which claim to be FAS 91 compliant fall short of being able to handle many of the nuances required under the standard (e.g., loan modification testing, fee pro-rata). Bank Finance Groups must be able to perform various level yield methods for all products at the loan level and take into account multiple fee types.

Level yield amortization is different under GAAP and IAS 39. The differences are primarily with (1) scope of deferred fees, and (2) use of estimated cash flows. IAS 39 tends to be more restrictive about the capitalization of acquisition costs for loans (e.g., internal costs, financing costs). In addition, IAS 39 measures the effective interest rate based on estimated cash flows over the expected life of the asset, while US GAAP is generally based on contractual cash flows over the asset’s contractual life. Generation of estimated cash flows relies on the institution’s ability to reliably forecast prepayments for groups of homogeneous loans, which represents an added element of complexity to the accounting process.

As you can see, FAS 91 is more than just the level yield calculation. As banks become more fee-based and as loan modifications become more prevalent, the materiality of applying the appropriate amortization method and automating the loan modification testing rules becomes more significant.

FAS 65 LOCOM and Re-designations

Given recent market turmoil, banks have experienced a significant increase in (1) the number of loans receiving fair value adjustments under lower-of-cost-or-market (“LOCOM”) and (2) the number of loans being re-designated from held-for-sale (“HFS”) to held-for-investment (“HFI”) due to the inability to sell into the secondary or capital markets for certain products. For banks that maintain significant HFS portfolios, most LOCOM processing and intent re-designations must be processed off-line due to the inability of servicing systems to recognize and process the GAAP accounting associated with such events.

Sales/Securitizations

Sales and securitizations can be complicated for many financial institutions that may not fully understand those situations requiring sales treatment versus financing treatment. More recently, these rules have been modified in FAS 166/167. Regardless of the specific rules, there will be instances where loans that were part of securitizations remain on the accounting books of the bank although they may not be on the servicing records. This is an example of where there can be a difference between the operational loan population vs. the accounting loan population. It is important that banks maintain two distinct views of these populations.

Overall Trend in the Accounting Methods

The above summaries represent examples of current GAAP rules that (1) result in a different basis in the loan than what is currently maintained in upstream transaction systems, and (2) force functionality and data requirements that cannot be addressed by servicing systems. This is not an aberration that will eventually disappear. The trend in the FASB’s basic tenets for international convergence stipulate continued movement towards rule changes that will expand this divergence from servicing system functionality. It is imperative that banks stay ahead of this and understand
where they may need to alter their business model to appropriately address these changes.

**What Type of Business Architecture do I need to Satisfy GAAP Loan Accounting and Reporting?**

**The Current State Business Model**

As stated in the previous section, the current challenge for banks is: accounting and overall regulatory rules continue to diverge from traditional customer balance and/or amortized cost as the basis of representation for external stakeholders. Traditionally, accountants were responsible for representing what happened. New accounting rules are now focused on representing what banks think will happen, regardless of the contractual terms of the loans. This trend puts less emphasis on income recognition based on contractual terms. Accountants now must be in a position to estimate expected cash flows, expected losses, and other characteristics more akin to fair value concepts. This type of functionality and the data required to accomplish these functions are not resident within operational systems. The more and more banks are subjected to these accounting rules, the greater the reliance on spreadsheets / databases within the CFO organization to accomplish these functions. The following diagram illustrates this typical flow.

The flow (below) puts Bank CFO Organizations in an unsustainable position that is not scalable and provides little in the way of value-added information required by today’s CFOs. Financial institutions will experience the following:

- Greater volume of top-side / adjusting entries;
- Greater restatement risk associated with using EUCs (end-user computing systems);
- Disaggregation of a loan’s true GAAP basis (UPB in one system with GAAP adjustments in spreadsheets);
- Greater risk of reporting errors due to disaggregated source data;
- Lack of transparency and ability to analyze results;
- Increased scrutiny from regulators, shareholders and auditors;
- Accountants spending 90 percent of their time processing and only 10 percent analyzing;
- An inability to capitalize on growth opportunities due to operational constraints (i.e., this business model cannot scale).
The above challenges are not limited to just accountants. As the accounting rules move more towards fair value based concepts, the traditional separation between Finance and Credit Risk and Treasury groups is disappearing. As shown in the business flow above, most banks typically rely on a centralized credit group to determine required FAS 5 reserves that have been incurred in the loan population but cannot be individually identified. In some cases, where certain credits are large enough or when incurred losses can be identified at the loan level for non-performing loans, banks must establish specific reserves under FAS 114. As long as the Finance Group and the Credit Group work with the same loan population, the overlap in functions and skill-sets was limited.

The FAS 5 model is an incurred loss model, relying on Credit groups to execute traditional credit loss analytics towards loans. The FAS 114 model relies more on estimated collections and employs discounting of such future cash flows for determination of specific reserves. FASB did institute new rules, specifically Statement of Position (“SOP”) 03-3 (or ASC 310-30 as it is now referred to), to address basis and income recognition for purchased loans that were credit impaired at the date of purchase. Back when SOP 03-3 was published, it did not pose a material impact to bank’s financial results during favorable economic conditions. In today’s stressed markets, SOP 03-3 has a significant impact on bank’s financial results.

SOP 03-3 carries forward some concepts of FAS 114. The processing complexity inherent in SOP 03-3 is in two main areas: (1) the standard forces banks to establish the initial measurement of the loan’s basis to reflect the fair value of the loan (or the present value of expected cash collections), which results in a portion of that discount being accretive and portion that is non-accretive, and (2) banks are required to re-estimate cash flows on a periodic basis, which can result in either provision or changes to the prospective accretable yield. This merges two concepts that traditionally resided in two different organizations. Level yield accretion for income recognition is familiar to accountants, and provision driven by deterioration in estimated collections is familiar to credit personnel. However, it is unchartered waters to combine the two concepts. Accountants are not used to accretion schedules that are based on expected cash flows and that potentially change every quarter based on changes to those estimated cash flows. Credit groups are not used to having an accounting standard that incorporates life of loan loss assumptions and may be handled by the Finance organization having a potentially significant impact on their Allowance for Loan Loss account. This underscores the importance for re-thinking the business model of how banks apply true GAAP accounting.

The Recommended Business Model

Before identifying a better architecture, we first need to re-define objectives for the Finance function of a bank. The Finance function cannot be viewed as a separate overhead group, but more as partners with all strategic elements of the Bank as enablers of growth. With the recent consolidation in the industry, the Finance function must be in a position to scale efficiently, work with other Bank functions on risk management and measurement, and quickly adapt to changing GRC (Governance, Risk, Compliance) requirements and accounting rules. In addition, further regulations are going to demand greater reporting and analytics from CFOs, requiring access to loan level data and increased contextual analytical capabilities.

The following objectives should be set forth by Bank Finance Organizations:
1. Satisfy and comply with all current GAAP accounting, tax requirements, and regulatory rules;

2. Minimize risk of re-statements through the establishment of effective controls and elimination of end-user computing systems;

3. Maintain an ability to explain results, conduct analyses, satisfy internal / external reporting requirement, and report at any and all levels, including loan level;

4. Employ technology to automate processes to enable employees to focus on analyzing;

5. Be in a position to quickly scale and adapt to future volume and rule changes in a controlled manner; and

6. Improve the transparency and relevance of financial and accounting information to management and all stakeholders within the Bank in direct response to greater scrutiny of financial results and risk oversight.

To satisfy the above objectives, it becomes clearer that Finance organizations need to maintain a subsidiary system that addresses the processing specific to accounting and tax rules, separate from the operational systems that focus on transactions. This forces the Finance function in between operational systems and the GL, where traditionally, Finance functions would normally start their process post-GL in order to apply adjustments directly to the ledger. This presents new challenges for Finance organizations, such as:

• **Data**: Finance organizations are not used to potentially managing loan level transactional and risk data that may be feeding GAAP rules.

• **Systems**: Besides the GL, Finance organizations may not be used to maintaining an automated GAAP / Tax application designed for loan level processing.

• **Processing**: An automated process at the loan level that requires integration among data inputs, systems responsible for processing, and reporting capabilities, all within an accounting close cycle, may differ from how current accounting close procedures occur.

• **Analytics**: Accounting rules rely more on fair value tenets that includes more management judgment and requires a different type of analysis than accountants may be accustomed to.

Primatics has worked with numerous financial institutions of all sizes. The below architecture embeds concepts that have been applied by many of our clients in response to satisfying the objectives set forth above. The primary components of the architecture include:

1. Data Staging / Management Function
2. Accounting / Tax Modules
3. Centralized Accounting / Tax Sub-Ledger
4. Reporting and Analytical Framework
5. Centralized Accounting Platform

**Data Staging / Management Function**

“If it’s not about the data, then it’s about the data.” This is certainly a well understood concept for bank operations and Finance personnel. Like any other process that sits downstream, it is imperative to institute a smart and flexible way to manage data flow into your processes. This function could be managed separately for each source system, or an institution could establish a centralized data staging area (or “operational data store”). The reason a centralized data staging area may make sense for some institutions is because most servicing systems maintain different types of transaction codes, different
data elements, and may be used differently across the segmented operational areas. As discussed earlier, the accounting rules are product agnostic, therefore, the inputs required will significantly overlap.

In addition, the users of the results emanating from this process will all have different requirements. For example, SEC Disclosures want to see accounting basis broken down by product types, while the FDIC may want to see customer balance by line-of-business. The various regulatory bodies, investors, and internal stakeholders will all want to see the results in different ways. Banks should consolidate the various reporting requirements, identify the “least common denominator” of facts required and dimensions to segment, in order to ensure such data (facts / dimensions) are staged appropriately upfront. This ensures one golden copy of results (facts) that can be sliced and diced (across dimensions) to satisfy everyone’s needs.

In summary, the purpose of the centralized data staging / management area function would include the following:
• Serve as the central repository functional area for managing all inputs and reporting elements that will feed downstream accounting, tax, and regulatory needs for loans;

• Centralize and apply all transformation rules necessary to feed accounting and tax systems;

• Serve as the primary reconciliation point between upstream operational systems and downstream GAAP and Tax subsidiary systems; and

• Serve as a controlled area for trouble-shooting and/or enhancing data required for accounting and tax processing.

**Accounting / Tax Modules**

The automation of GAAP and even tax rules should rely upon an “event-based” processing concept. For GAAP functions, this means that servicing system transaction codes should be translated into “GAAP accounting events.” For example, take the SOP 03-3 loan we introduced in the earlier section that is now being accreted at a different rate and for a different amount than what is represented in the servicing system. The servicing system will process transactions, such as a payment, by applying a portion of that payment to relieve an interest accrual amount with the remainder of that payment reducing the customer principal balance of the loan. At the same time, the servicing system would likely book an interest accrual for income earned this period but not yet paid until next period. If the loan is a SOP 03-3 loan, the GAAP system would take the servicing transaction and knows that it needs to accomplish two things:

1. Adjust the income recognition booked by the servicing to reflect the accretion per the SOP 03-3 accretion schedule that is maintained in the GAAP system (i.e., either incrementally adjust the servicing system entry, or reverse the entry and re-book the GAAP accretion); and

2. Adjust the principal reduction booked by the servicing system to reflect the amount required in the SOP 03-3 schedule.

This same concept could be applied to the extent the servicing system was not properly generating contractual level yield at the loan level under FAS 91. The architecture promotes this event-based concept because we recognize that accounting rules are (1) interpreted differently across institutions, (2) will likely change in the future, and (3) embed certain elections that banks can make in applying the standard.

Accounting can become very complex because the rules are typically inter-dependent. For example, applying FAS 91 to a deferred fee in and of itself may not seem that complicated. But what happens if:

• Loan goes non-accrual,

• Then, loan is modified slightly and returns to accrual status (modification deemed as minor under FAS 91),

• Then, loan goes non-accrual again and is subject to a troubled-debt restructuring (subject to FAS 114 accounting Day Two), is later sold with recourse, but treated as secured borrowing.

The interplay of events drive different application of the standards, therefore the architecture of the GAAP system must be smart enough to string events together in a manner that ensures proper compliance with the applicable standard. This event-based architecture applies similarly to tax rules that perhaps apply different treatment than GAAP to the same transaction. The tax logic would have a different automated rule being applied to the same event.

In summary, the purpose of the accounting / tax modules would include the following:

• Automated GAAP and tax rules in conformance with internal bank policy;
• Ability to apply such automated rules at the loan level in scalable fashion;

• Enable specific accounting and tax elections in a controlled and automated way; and

• Ability to flexibly make adaptations and additions to overall set of modules based on new and revised rules.

Centralized Accounting / Tax Sub-Ledger

The ultimate goal of this architecture is to have a centralized sub-ledger maintaining the lowest level of results across multiple bases. The purpose of the sub-ledger is to not only centralize results, but to also apply posting logic to the lowest level results in order roll-up to the bank’s GL chart-of-accounts, thus forcing efficient GL-to-sub-ledger reconciliations. The architecture implies the ability to maintain “posting rules” that can be managed centrally and in a controlled manner to facilitate an efficient close process.

Reporting and Analytical Framework

Many banks tend to leverage the GL for reporting needs, which can be effective for top-level reports, but very ineffective for drill-downs and analytical reporting needs. Servicing systems provide much of the regulatory reporting needs that focus on customer balance information, but to the extent accounting results are required, the servicing data would need supplemented. At the same time, the entire accounting process has become very data intensive --- not only requiring loan level activity in the servicing system, but potentially large amounts of expected cash flow data and other risk attributes. This poses both a challenge and an opportunity for banks.

The challenge needs to be satisfied through the processing architecture and platform (see next topic). Once the processing challenge is satisfied, there is an opportunity to organize results in a manner that not only automates all required external reporting needs, but also enables the type of analytics that CFOs can use for critical decision-making. This framework helps banks satisfy the objective of converting their processing-oriented personnel into more analytically-oriented personnel. This drives value.

To further illustrate this, let’s take an example of a bank that recently acquired another bank (either FDIC-assisted or a strategic acquisition). The first objective is to satisfy the accounting results under FAS 141R and SOP 03-3. The resulting journal entries get processed on a monthly basis, including those associated with quarterly re-estimation of cash flows for SOP 03-3 loans. Now the following question comes from the CFO: “I noticed we have generated impairment on one of the consumer SOP 03-3 pools for this quarter…can you explain to me what drove the impairment?"

This would be an obvious question for any CFO; however, strictly looking at accounting results would not enable anyone to appropriately answer the question. As part of performing SOP 03-3 impairment testing, the GAAP modules would require inputs regarding new cash flows, which could be supplemented by the risk attributes that would drive such cash flow revisions (e.g., new FICO scores, changed assumption for future HPI --- house price index). This contextual information can be used to segment the results by these attributes in order to better understand the drivers of impairment. The same would hold true if the CFO was asking about why the accretable yield increased. More and more institutions, as they progress further along in satisfying the processing challenges of compliance, are focusing heavily on the analytical capabilities within their organization.

Centralized Accounting Platform

Most Finance organizations are not used to thinking about “platform requirements.” It is critical for banks not to view individual accounting challenges in an
isolated fashion. For example, many banks who are participating in FDIC-assisted acquisitions are struggling to satisfy the GAAP, tax and specific FDIC reporting requirements. No question that there needs to be a solution for this, but this solution should be evaluated in the context of both short-term vs. long-term strategic needs for a sustainable solution. This long term solution must be provided for on a robust platform that positions the bank for future growth and enables the institution to quickly adapt to the changing accounting landscape.

When thinking about this platform, we have to come to grips with some realities regarding accounting close cycles and the overall accounting industry:

1. You will likely not receive all required data timely;
2. You will likely need to make corrections to prior periods that have already closed;
3. The industry will likely put forth additional guidance / enhancements that may force you to amend certain accounting elections mid-stream;
4. Auditors will likely ask to see more granular information than what may be required to satisfy the accounting entry; and
5. At various points in the future, there will likely be additional rules and revisions to rules that require you to look back to impacts in prior periods.

The recommended architecture does not assume away the above, but acknowledges this reality. The key attributes of a solid platform should include the following:

1. Enterprise-grade: ability to operate in a fully automated “lights out” production environment as part of the bank’s overall accounting close process.
2. Scalability: ability to scale to performance to accommodate very large data volumes and highly compute intensive estimation processes.
3. Flexibility / Integration: ability to consume / process incomplete data, deal with data corrections for prior periods in an automated manner, and integrate efficiently with upstream and downstream systems / sources.
4. Transparency: ability to view, export, and store low level data and results to support drill-down analytics and audit support needs.
5. Security: satisfies all control objectives in compliance with applicable security standards.
6. Operational Ease-of-Use: ability to view progress of executions with limited involvement from administrators (including ability to automatically trouble-shoot certain failures).

How Do I Get to this New Model?

How Primatics is Enabling Banks to Pursue this Architecture

Primatics’ flagship product, the Evolv Loan Accounting Platform (“Evolv”), was built with the architectural tenets described above in mind. It empowers CFOs to adapt quickly to their growing and changing needs without the constraints of operational systems that were not built for this new dynamic. The below diagram illustrates where Evolv would fit within the recommended architecture (the software could be installed or hosted externally):

As a software and services company, Primatics invests in the continued enhancements to its software products and is committed to staying current with future regulatory changes (including IFRS). This enables banks to view Primatics as a trusted partner in satisfying future needs.

The software is immediately relevant in today’s market with its ability to handle short-term needs,
such as FAS 141R / SOP 03-3 associated with acquisitions. Evolv is a proven, mature solution and its FAS 141R module has gone through more production accounting cycles than any other solution in the current market.

In addition, to accommodate the rapid close time on FDIC acquisitions, Primatics has pre-installed instances of the software available for immediate deployment at a third party Type II SAS 70 certified partner hosting facility. This enables acquiring banks a very short set-up time to get up-and-running. Many banks have already leveraged this option to satisfy the very short-term demands associated with FDIC-assisted transactions. At the same time, they receive the robustness of the platform and set themselves up for future scalability and adaptation to the ever-changing environment.
**Why Can’t I just Build this Functionality Internally?**

For institutions with very limited exposure to such GAAP pronouncements and who believe that such exposure will continue to be immaterial, an in-house build may suffice. For others, building these capabilities is challenging for the following reasons:

1. **Cost and Complexity**: Applications such as these are more onerous to build because of the mixed business skill set required (accounting, risk) in conjunction with the need to build flexible, yet scalable software.

2. **Support**: General best practice is to buy and not build because of ongoing support concerns and the advantage of defraying the costs of i) support and ii) keeping up with new accounting pronouncements.

3. **Common Practice Compliance**: Unlike other IT investments, GAAP loan accounting and tax contributes to compliance and hence does not provide a direct competitive advantage that needs to be protected. Companies can reduce risk with compliance software that is tried and tested in the marketplace.

**Conclusion**

As banks continue to consolidate, accounting requirements continue to adopt more fair value based tenets, and regulatory requirements continue to require more in-depth reporting and analysis, Finance organizations must re-define their business architecture to satisfy current demands and to position the organization for future changes. The fundamental component of this architecture is a true subsidiary system that is designed specifically for accounting processes and can serve as the centralized platform for Finance organizations to succeed in their objectives.

This fundamental shift in business architecture may appear daunting, however, Primatics has designed a platform that will enable banks to implement such an architecture quickly and empower CFOs with the information necessary to compete in the marketplace.