



# CECL Pulse Check

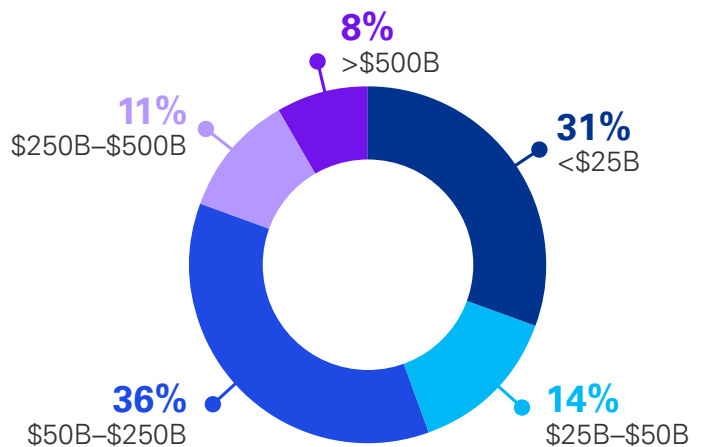
## How companies are responding to economic impacts in their CECL estimates in Q4'24

During the fourth quarter of 2024, we surveyed companies to understand the potential impact of current economic conditions on their Current Expected Credit Losses (CECL) process. Our questions focused on the ongoing economic effects of the macroeconomic environment and their likely influence on CECL allowances.

Economic uncertainty continued in the fourth quarter of 2024, with rates expected to remain elevated into 2025 due to ongoing economic strength and stubborn inflation. KPMG LLP (KPMG) surveyed commercial and consumer lenders, including banks and finance companies, to understand how companies are dealing with these issues and their impact on CECL estimates. The survey results were obtained between December 9 and December 18, 2024, and reflect information known at that time. As the economic situation evolves, we expect companies will continue to monitor and reassess the assumptions used in their CECL estimates up to the reporting date.

### Who we surveyed

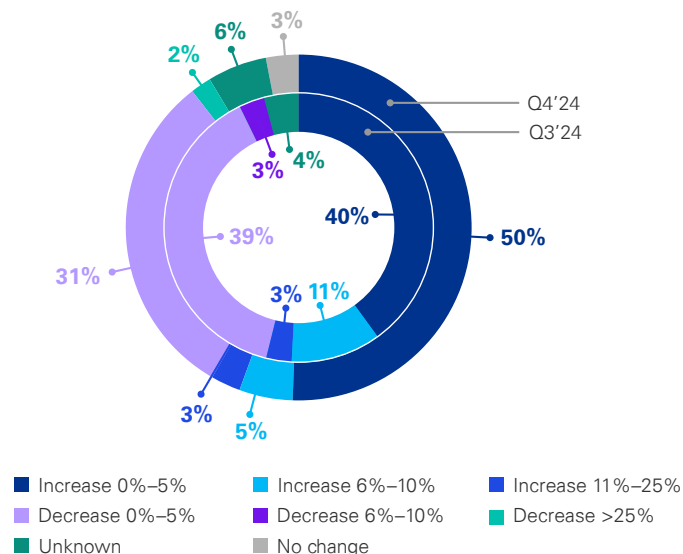
We surveyed **28 banks** and **8 finance companies** with varying asset sizes.



Responses for Q4'24 were obtained between December 9 and December 18, 2024, and reflect information known at that time.

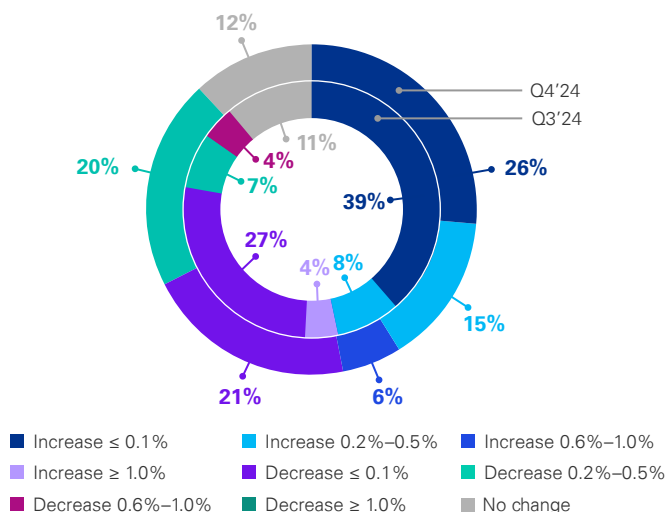
# Expected impact of continued economic uncertainty on CECL methodology and results

## 1. How much do you expect the allowance for expected credit losses (ACL) to change from September 30, 2024 to December 31, 2024?



In Q4'24, approximately 58 percent of respondents expect the overall ACL to increase, compared with 54 percent in Q3'24. In contrast, 33 percent of respondents expect a decrease in their ACL in Q4'24, compared with 42 percent in Q3'24.

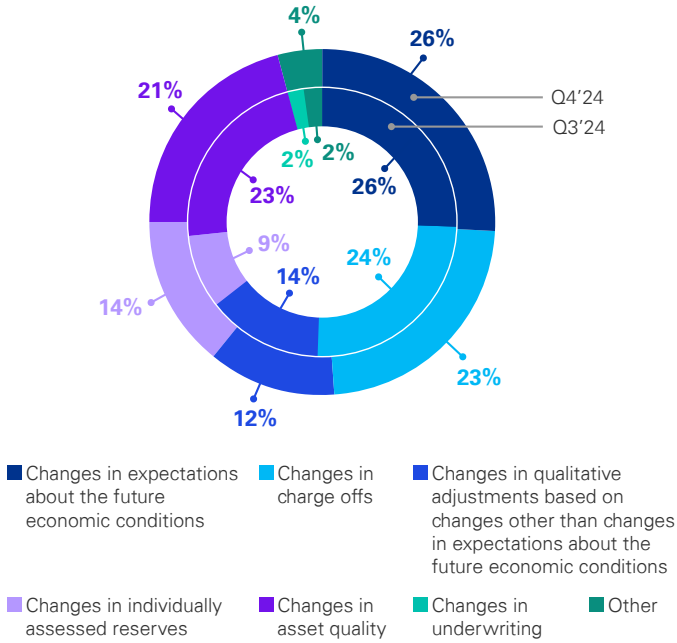
## 2. How much do you expect the total ACL to change as a percentage of end of period receivables subject to ACL from September 30, 2024 to December 31, 2024?



In Q4'24, approximately 26 percent of respondents who expect the overall ACL to increase expect the increase as a percentage of total receivables assessed for ACL to represent 0.1 percent or less compared to 39 percent in Q3'24. Approximately 15 percent of respondents expect the increase to represent 0.2 percent to 0.5 percent compared to 8 percent in Q3'24. Approximately 6 percent of respondents expect the increase to represent 0.6 percent to 1 percent compared to zero percent in Q3'24. In contrast, 21 percent of respondents expect the decrease as a percentage of total receivables assessed for ACL to represent 0.1 percent or less compared to 27 percent in Q3'24. Approximately 20 percent of respondents expect the decrease to represent 0.2 percent to 0.5 percent compared to 7 percent in Q3'24.

Approximately 12 percent of respondents in Q4'24 expect no change in the overall ACL as a percentage of total receivables assessed for ACL compared to 11 percent in Q3'24.

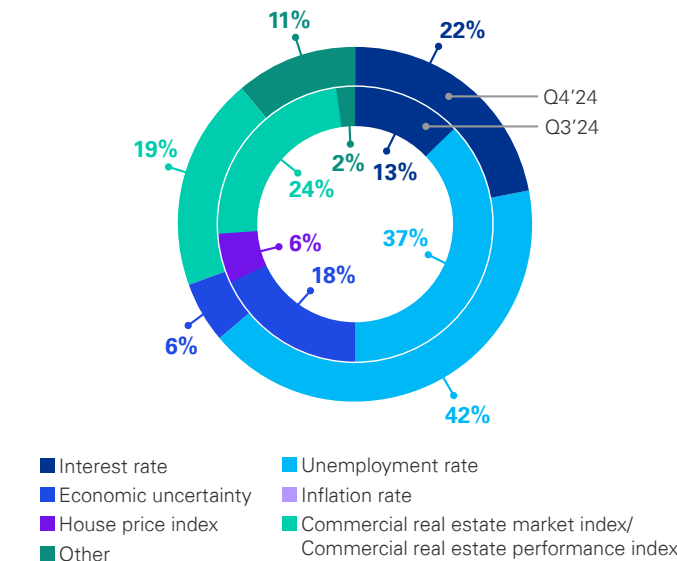
**3. What do you expect the largest driver of change to be in the ACL balance excluding changes in loan volume from September 30, 2024 to December 31, 2024?**



The largest driver of ACL change, excluding changes in loan volume, is changes in expectations about future economic conditions. Approximately 26 percent of respondents in Q4'24 selected this driver, consistent with Q3'24. This was followed by changes in charge offs, with 23 percent of respondents in Q4'24 selecting this driver compared to 24 percent in Q3'24.

Other drivers of ACL change included changes in asset quality (21 percent in Q4'24 compared to 9 percent in Q3'24), changes in individually assessed reserves (14 percent in Q4'24 compared to 14 percent in Q3'24), and changes in qualitative adjustments based on changes other than changes in expectations related to future economic conditions (12 percent in Q4'24 compared to 12 percent in Q3'24).

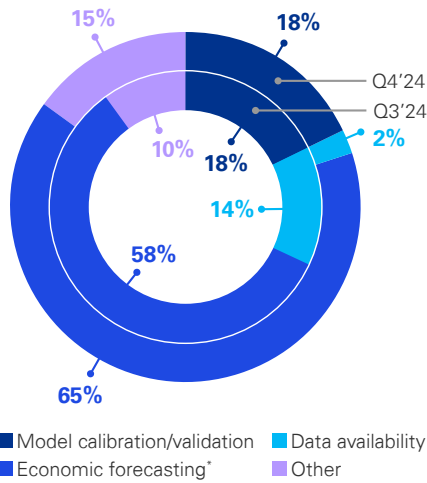
**4. Which economic condition is having the greatest impact on your Company's ACL estimate?**



Approximately 42 percent of respondents in Q4'24 cited the unemployment rate as the economic condition expected to have the greatest impact on ACL, compared to 37 percent in Q3'24. Interest rate changes were the second most significant economic condition in Q4'24, with approximately 22 percent of respondents selecting this condition, compared to 13 percent in Q3'24. Changes in the commercial real estate market and performance indices were the third most significant economic condition with approximately 19 percent of respondents selecting it compared to 24 percent in Q3'24. Approximately six percent of respondents selected economic uncertainty in Q4'24 compared to 18 percent in Q3'24.

Responses for Q4'24 were obtained between December 9 and December 18, 2024, and reflect information known at that time. The economic conditions selected may not reflect the impact of more recent market events.

## 5. What is the greatest challenge you are experiencing in determining your Company's ACL estimate?



Approximately 65 percent of respondents in Q4'24 stated that economic forecasting as a result of changes in interest rates, unemployment rate, real estate indices, economic uncertainty, and/or other economic factors continues to be the greatest challenge in determining ACL estimates compared to 58 percent in Q3'24. Approximately 18 percent of respondents in Q4'24, consistent with Q3'24, cited model calibration/validation as the greatest challenge in determining their ACL.

\*Economic forecasting as a result of changes in interest rates, unemployment rate, house price and commercial real estate indices, economic uncertainty, and/ or other economic factors.

## CECL methodology components

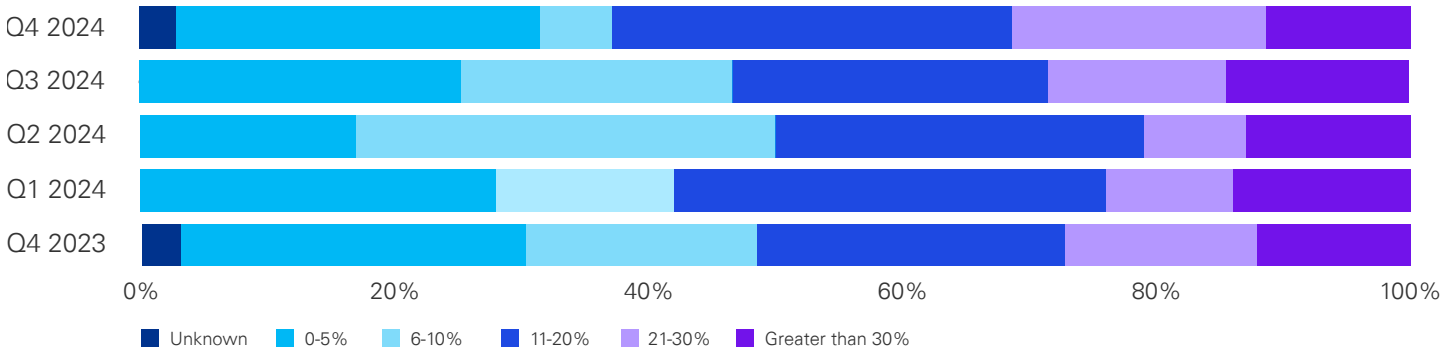
To estimate losses over the reasonable and supportable forecast period, entities are permitted to incorporate one or more economic scenarios into their ACL estimate. Accordingly, many institutions have incorporated multiple economic scenarios into their ACL framework, particularly in response to economic uncertainty, interest rate changes, and possible change in the unemployment rate.

For companies that use percentage probability weights in their macroeconomic scenarios as part of their methodology, we have summarized the average percentage probability for each scenario below, including all respondents in the calculation. For example, even when including respondents who assigned no probability to the 'Downside' scenario, the average probability for 'Downside' was 18% in Q4'24.

|       | Base case | Upside | Moderate downside | Downside | Severe downside | Other |
|-------|-----------|--------|-------------------|----------|-----------------|-------|
| Q4'24 | 60%       | 10%    | 9%                | 18%      | 2%              | 1%    |

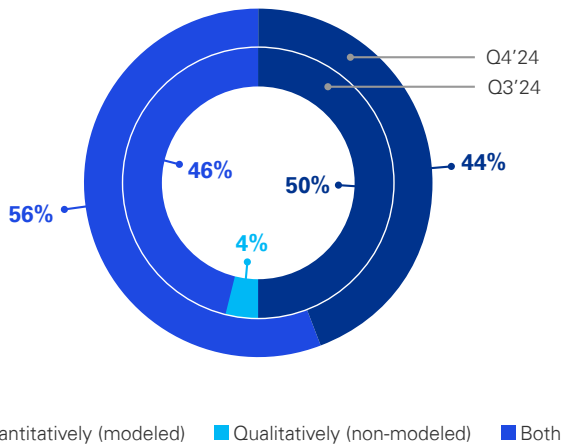
Examples of where the "Other" scenario has been selected include specific adjustments to reflect current economic conditions and other alternate scenarios informing the loss estimate.

**6. What percentage of your Company's ACL as of December 31, 2024 would you estimate to be based on qualitative factors?**



Many companies incorporate qualitative adjustments into their ACL estimate to capture changes in expectations, and we understand they will continue to do so. Approximately 31 percent of respondents indicated they expect qualitative factors to comprise more than 20 percent of the total ACL estimate in Q4'24 compared to 28 percent in Q3'24.

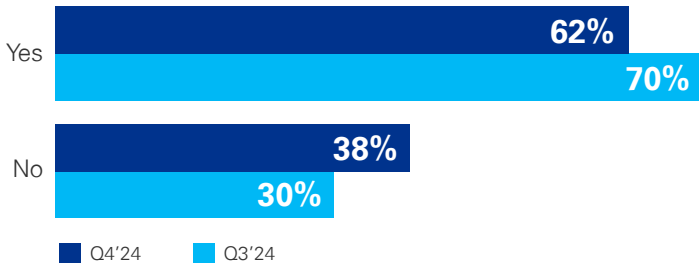
**7. How are economic conditions such as changes in interest rates, unemployment rate, real estate indices, economic uncertainty, and/or other economic factors being factored into your Company's ACL estimate?**



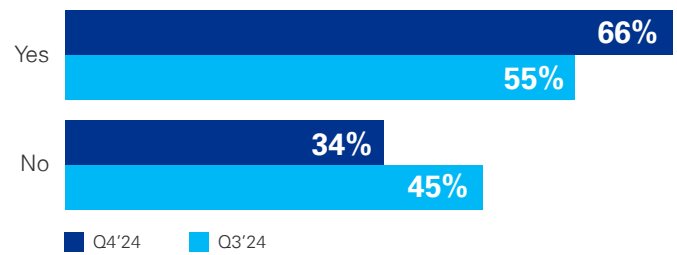
In Q4'24, approximately 56 percent of respondents say they are factoring in impacts from interest rate changes, the unemployment rate, real estate indices, economic uncertainty, and/or other economic factors within their ACL estimate both quantitatively (modeled) and qualitatively (non-modeled) compared to 46 percent in Q3'24. In contrast, 44 percent of respondents in Q4'24 are factoring in these same impacts solely via the quantitative (modeled) component of the ACL estimate compared to 50 percent in Q3'24.

# Delinquencies and net charge-offs

## 8. Have delinquencies increased from prior quarter end?

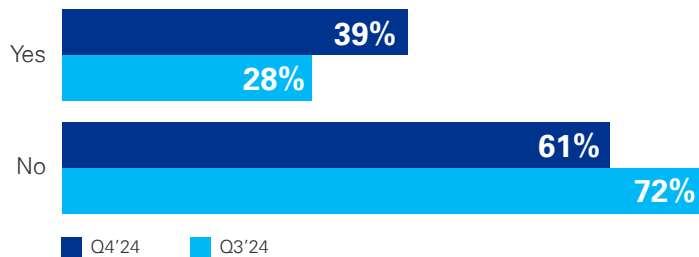


## 9. Have net charge-offs increased from prior quarter end?



We surveyed companies about delinquency and net charge-off trends and approximately 62 percent of respondents cited that delinquencies have increased in Q4'24 compared to 70 percent in Q3'24. Approximately 66 percent of respondents cited that net charge-offs also increased in Q4'24 compared to 55 percent in Q3'24.

## 10. Have non-performing commercial loans increased from prior quarter end?



Approximately 39 percent of respondents cited that non-performing commercial loans have increased in Q4'24 compared to 28 percent in Q3'24. Of those who responded, 52 percent in Q4'24 identified commercial and industrial loans as being the primary non-performing commercial loan type compared to 40 percent in Q3'24.

## Conclusion

Uncertainty surrounding the current macroeconomic environment continues to be a challenge in determining CECL estimates. Analysts and investors will want to understand the key drivers behind the CECL estimates, which include a significant level of estimation and judgment. Companies will need to explain and support their assumptions and estimates of the CECL methodology components, including quantitative models and qualitative factors. We encourage companies to work closely with their boards of directors, auditors, and advisors as they prepare for reporting in the fourth quarter of 2024.

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