CECL Pulse Check

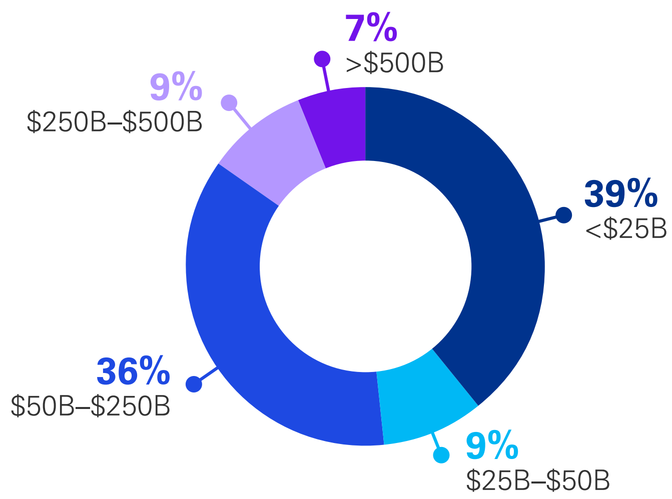
How companies are responding to economic impacts in their Q1'25 CECL estimates

During Q1'25, we surveyed companies to understand the potential impact of 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.

Persistent uncertainty around trade policies and global economic conditions led to increased market fluctuations this quarter, adding new layers of complexity to economic forecasting. 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 March 10 and March 20, 2025. As the economic situation evolves, we expect companies to monitor and reassess the assumptions used in their CECL estimates up to the reporting date.

Who we surveyed

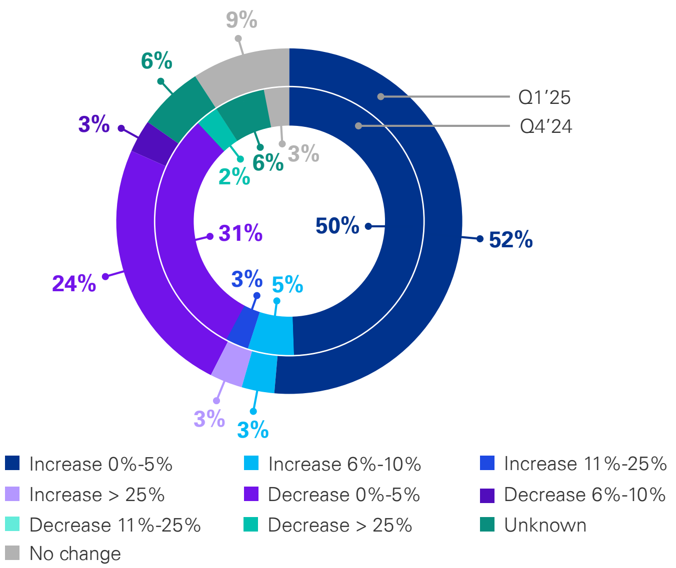
We surveyed **29 banks** and **4 finance companies** with varying asset sizes.



Responses for Q1'25 were obtained between March 10 and March 20, 2025, and reflect information known at that time.

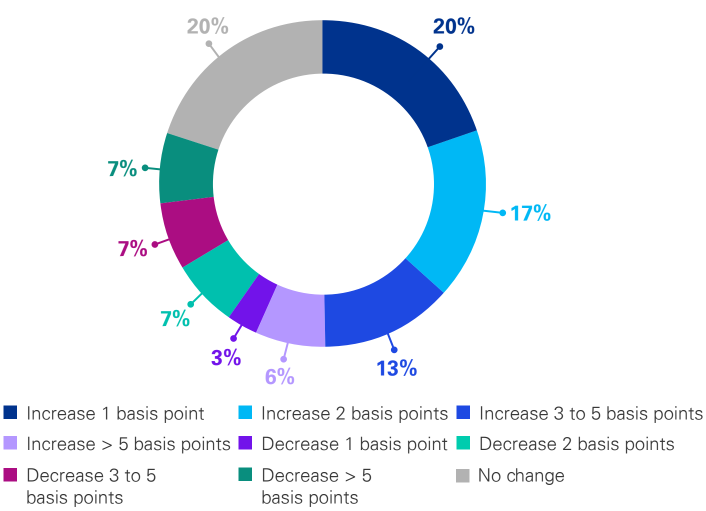
Expected impact of continued economic uncertainty on CECL methodology and results

1. How much do you expect the allowance for expected credit losses (ACL) to change from December 31, 2024 to March 31, 2025?



In Q1’25, approximately 58 percent of respondents said they anticipate an increase in the overall ACL, consistent with Q4’24. Conversely, 27 percent expect a decrease in their ACL in Q1’25, compared to 33 percent in Q4’24.

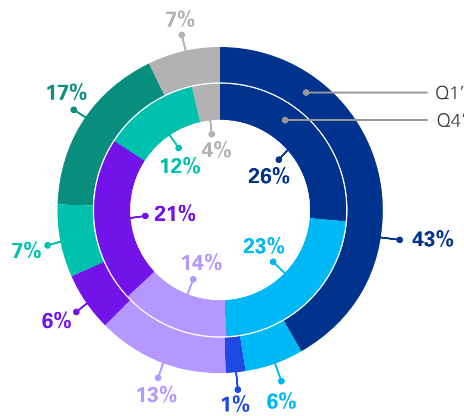
2. How much do you expect the total ACL to change as a percentage of end-of-period receivables subject to ACL from December 31, 2024 to March 31, 2025?



In Q1’25, 20 percent of respondents anticipate the increase in the overall ACL to be 1 basis point of total receivables assessed for ACL, down from 26 percent in Q4’24. Seventeen percent expect the increase to be 2 basis points while 19 percent expect the increase to be 3 basis points or greater. Conversely, 3 percent of respondents anticipate the decrease in the overall ACL to be 1 basis point, down from 21 percent in Q4’24. Fourteen percent expect the decrease to be 2 to 5 basis points, and 7 percent expect the decrease to be greater than 5 basis points.

Additionally, 20 percent of respondents in Q1’25 expect no change in ACL as a percentage of total receivables assessed for ACL, compared to 12 percent in Q4’24.

3. What do you expect the largest driver of change to be in the ACL balance excluding changes in loan volume from December 31, 2024 to March 31, 2025?

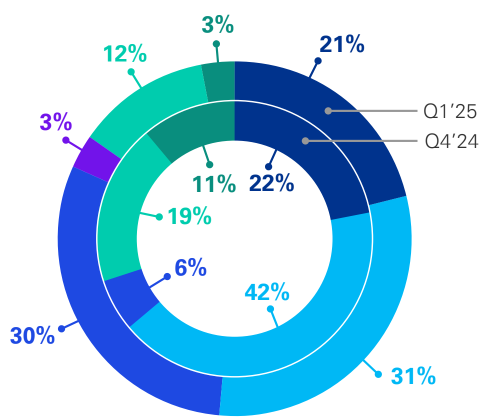


- Changes in expectations about the future economic conditions
- Changes in charge offs
- Changes in underwriting
- Changes in individually assessed reserves
- Changes in asset quality
- Changes in qualitative adjustments based on changes other than changes in expectations about the future economic conditions
- Changes in portfolio composition
- Other

In Q1’25, the largest driver of change in the ACL, excluding loan volume fluctuations, remains changes in expectations about future economic conditions. Approximately 43 percent of all respondents selected this factor, up from 26 percent in Q4’24. The second-largest driver was changes in portfolio composition, selected by 17 percent of respondents in Q1’25.

Other common factors influencing ACL changes included changes in individually assessed reserves (13 percent in Q1’25, down from 14 percent in Q4’24), and changes in qualitative adjustments not related to economic expectations (7 percent, down from 12 percent in Q4’24).

4. Which economic condition is having the greatest impact on your company’s ACL estimate?

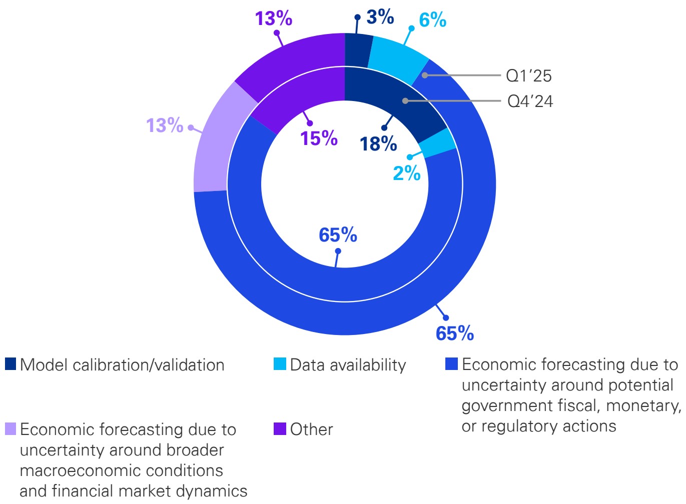


- Interest rate
- Economic uncertainty
- House price index
- Other
- Unemployment rate
- Inflation rate
- Commercial real estate market index/ Commercial real estate performance index

Responses for Q1’25 were obtained between March 10 and March 20, 2025, and reflect information known at that time. The economic conditions selected may not reflect the impact of more recent market events.

In Q1’25, approximately 31 percent of respondents identified the unemployment rate as the economic condition expected to have the greatest impact on the ACL, down from 42 percent in Q4’24. Economic uncertainty ranked second, with 30 percent of respondents selecting this factor, compared to 6 percent in Q4’24. Interest rate changes were the third most cited condition, at 21 percent, down slightly from 22 percent in Q4’24. Changes in the commercial and residential real estate market and related performance indices were cited by 15 percent of respondents, down from 19 percent in Q4’24.

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



*In Q4'24, Economic forecasting was presented as a single response.

In Q1'25, approximately 65 percent of respondents identified economic forecasting—driven by potential government fiscal, monetary, or regulatory actions —as the greatest challenge in determining ACL estimates. Approximately 13 percent identified economic forecasting—driven by uncertainty around broader macroeconomic conditions and financial market dynamics —as the greatest challenge in determining ACL estimates. Additionally, 6 percent cited data availability as the greatest challenge in determining their ACL, up from 2 percent in Q4'24.

CECL methodology components

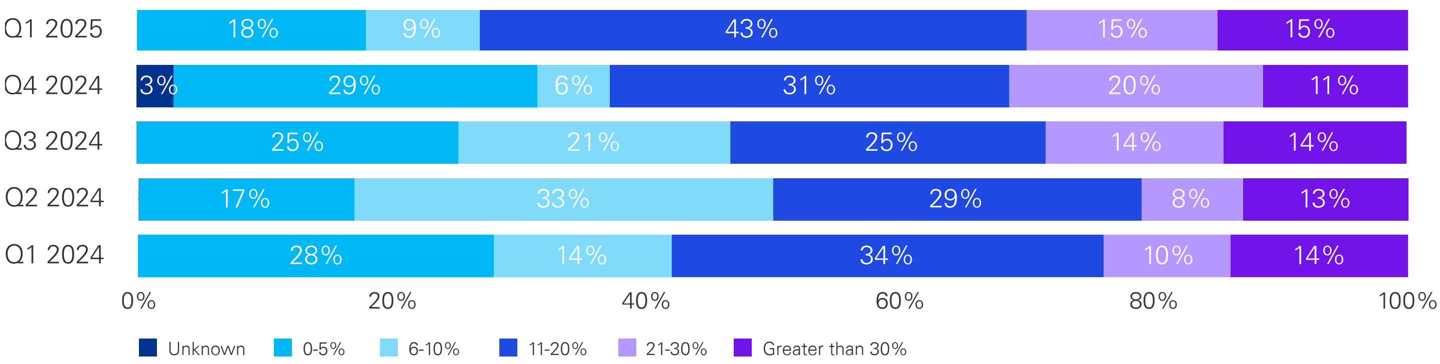
To estimate losses over the reasonable and supportable forecast period, entities are permitted to incorporate one or more economic scenarios into their ACL estimate. Accordingly, many institutions have incorporated multiple economic scenarios into their ACL framework, particularly in response to economic uncertainty, interest rate changes, and potential changes 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 20% in Q1'25.

	Base case	Upside	Moderate downside	Downside	Severe downside	Other
Q1'25	64%	9%	6%	20%	1%	0%

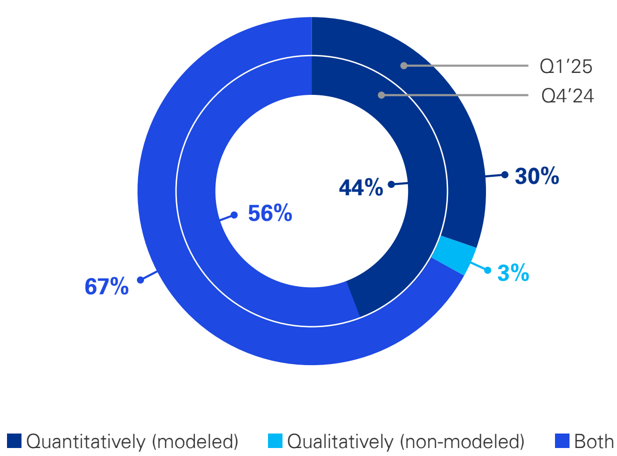
Examples of where the "other" scenario has been selected in past quarters include specific adjustments to reflect current economic conditions and other alternate scenarios informing the loss estimate.

6. What percentage of your company's ACL as of March 31, 2025 would you estimate to be based on qualitative factors?



Many companies incorporate qualitative adjustments into their ACL estimate to capture changes in expectations and will continue to do so. Approximately 30 percent of respondents indicated they expect qualitative factors to comprise more than 20 percent of the total ACL estimate in Q1'25, down from 31 percent in Q4'24.

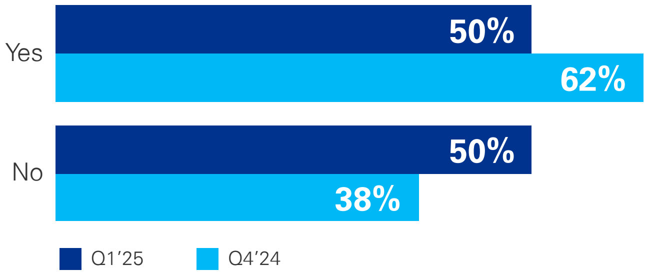
7. How are economic conditions such as changes in interest rates, unemployment rate, real estate indices, economic uncertainty, and/ or other economic factors being factored into your company's ACL estimate?



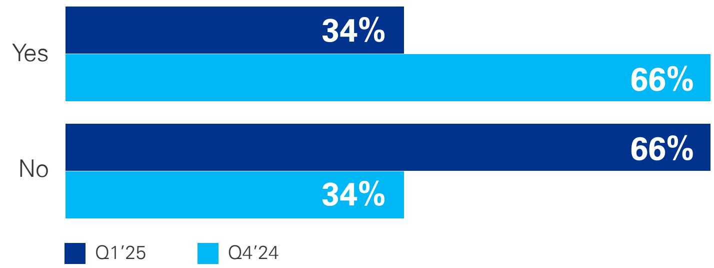
In Q1'25, approximately 67 percent of respondents indicated they are incorporating impacts from interest rate changes, the unemployment rate, real estate indices, economic uncertainty, and other economic factors into their ACL estimate using both quantitative (modeled) and qualitative (non-modeled) methods, up from 56 percent in Q4'24. In contrast, 30 percent of respondents in Q1'25 are incorporating these same factors solely through the quantitative (modeled) component of the ACL estimate, down from 44 percent in Q4'24.

Delinquencies and net charge-offs

8. Have delinquencies increased from prior quarter end?

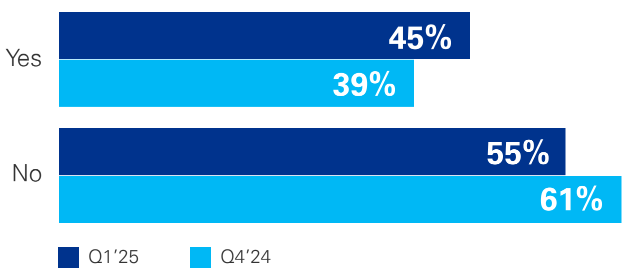


9. Have net charge-offs increased from prior quarter end?



When asked about delinquency and net charge-off trends, approximately half of respondents reported an increase in delinquencies in Q1'25, down from 62 percent in Q4'24, while only 34 percent of respondents indicated that net charge offs increased in Q1'25 compared to 66 percent in Q4'24.

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



Approximately 45 percent of respondents reported an increase in non-performing commercial loans in Q1'25, up from 39 percent in Q4'24. Among those who responded, 32 percent in Q1'25 identified commercial and industrial loans as the primary type of non-performing commercial loan, compared to 52 percent in Q4'24.

Conclusion

Uncertainty surrounding the current macroeconomic environment continues to be a challenge in determining CECL estimates. Analysts and investors will need to understand the key drivers behind the CECL estimates, which include a significant level of estimation and judgment. Companies should 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 on Q1'25.

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