



CECL Pulse Check

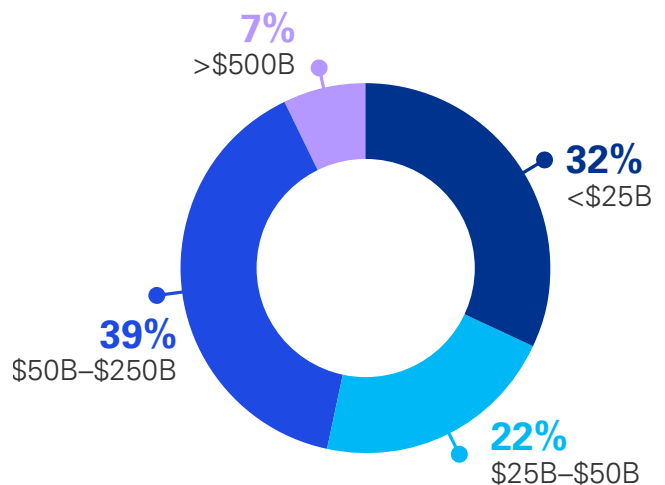
How companies are responding to economic impacts in their Q3'25 CECL estimates

During Q3'25, 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.

The economic environment has grown increasingly complex, shaped by elevated tariffs, fragile supply chains, and signs of cooling in the labor market—all unfolding as the Federal Reserve works to balance the competing demands of its dual mandate. Against this backdrop, companies face mounting challenges to accurate 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 September 8 and September 19, 2025. As the economic situation evolves, we expect companies to monitor and reassess the assumptions used in their CECL estimates as they complete their estimation process.

Who we surveyed

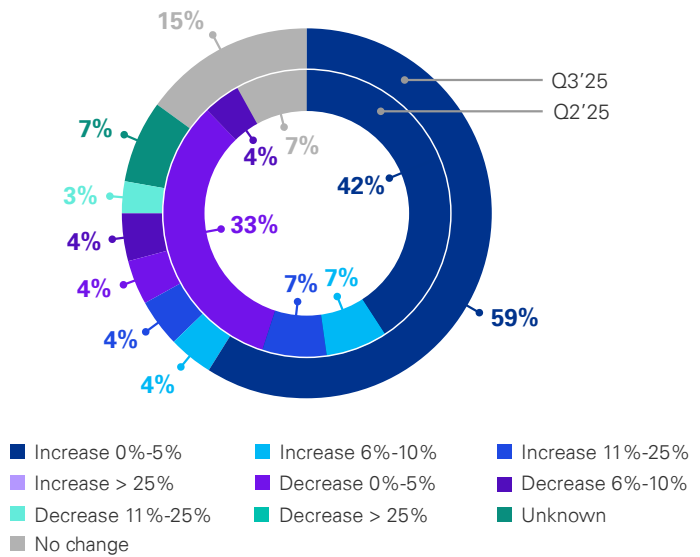
We surveyed **24 banks** and **4 finance companies** with varying asset sizes.



Responses for Q3'25 were obtained between September 8 and September 19, 2025, and reflect information known at that time.

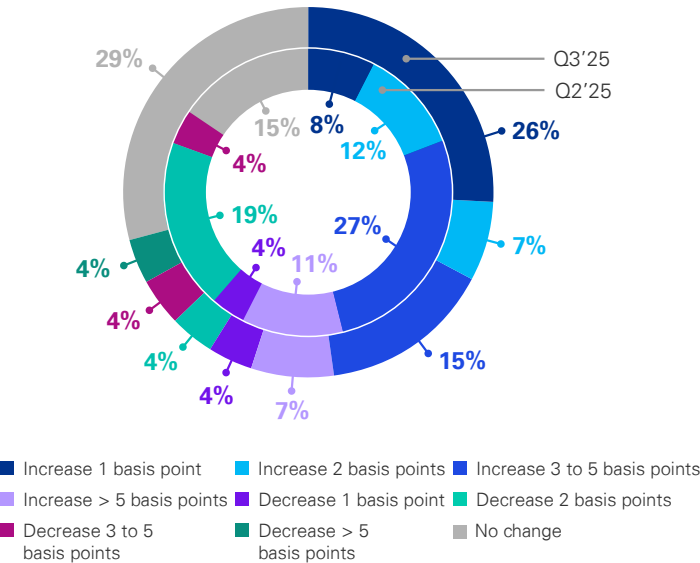
Expected impact of continued economic uncertainty on CECL methodology and results

1. How much do you expect the allowance for expected credit losses (ACL) to change from June 30, 2025 to September 30, 2025?



In Q3'25, approximately 67 percent of respondents said they anticipate an increase in the overall ACL, up from 56 percent in Q2'25. Conversely, only 11 percent expect a decrease in the ACL in Q3'25, down from 37 percent in Q2'25.

2. How much do you expect the total ACL to change as a percentage of end-of-period receivables subject to ACL from June 30, 2025 to September 30, 2025?

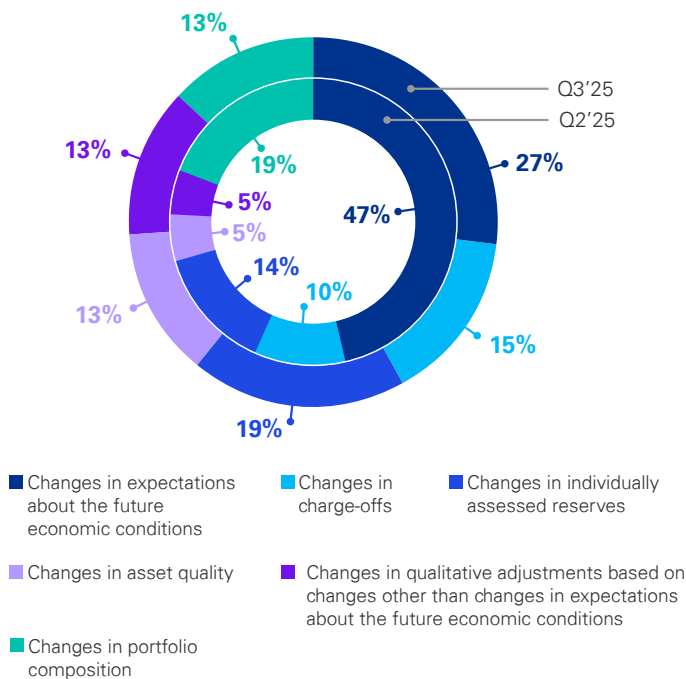


In Q3'25, 26 percent of respondents anticipate the increase in the overall ACL to be 1 basis point of total receivables assessed for ACL, up from 8 percent in Q2'25. Seven percent expect the increase to be 2 basis points, compared to 12 percent in Q2'25, while 22 percent expect the increase to be greater than 3 basis points, down from 38 percent in Q2'25.

Conversely, 4 percent of respondents anticipate the decrease in the overall ACL to be 1 basis point, consistent with Q2'25. Four percent expect the decrease to be 2 basis points, compared to 19 percent in Q2'25, and 8 percent expect a decrease of 3 or more basis points this quarter, compared to 4 percent in Q2'25.

Additionally, 29 percent of respondents in Q3'25 expect no change in ACL as a percentage of total receivables assessed for ACL, nearly double the amount who expected the same in Q2'25.

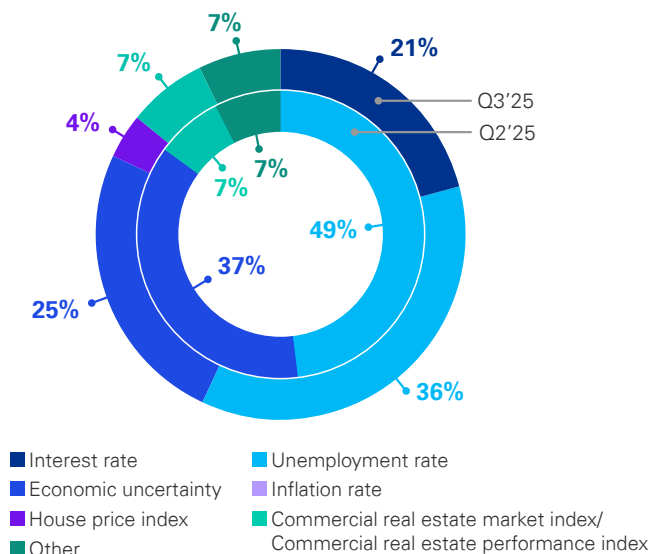
3. What do you expect the largest driver of change to be in the ACL balance excluding changes in loan volume from June 30, 2025 to September 30, 2025?



In Q3'25, the largest driver of change in the ACL, excluding loan volume fluctuations, remains changes in expectations about future economic conditions. Twenty-seven percent of all respondents selected this factor, down from 47 percent in Q2'25. The second-largest driver was changes in individually assessed reserves, selected by 19 percent of respondents in Q3'25, up from 14 percent in Q2'25.

Another common factor influencing ACL changes included changes in charge offs, selected by 15 percent of respondents in Q3'25, up from 10 percent in Q2'25.

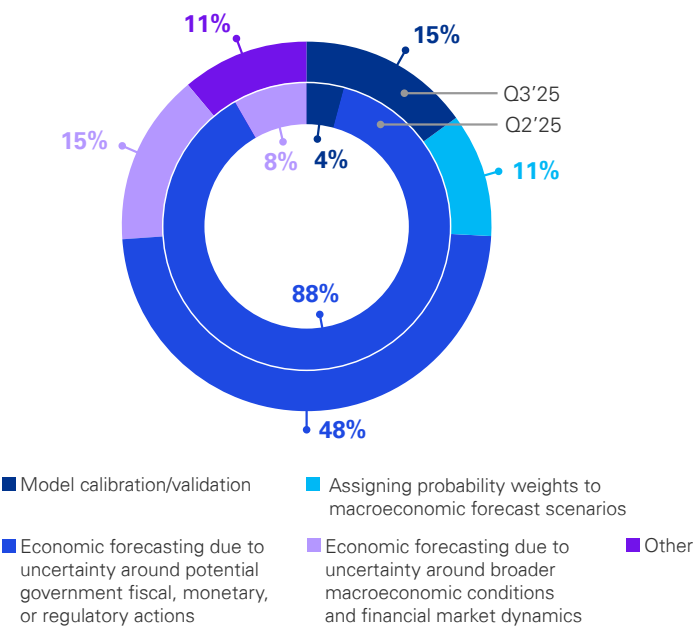
4. Which economic condition is having the greatest impact on your company's ACL estimate?



In Q3'25, approximately 36 percent of respondents identified the unemployment rate as the economic condition expected to have the greatest impact on the ACL, down from 49 percent in Q2'25. Economic uncertainty ranked second, with 25 percent of respondents selecting this factor, compared to 37 percent in Q2'25. In Q3'25 interest rates were cited by 21 percent of respondents as having the greatest impact after not being mentioned in Q2'25.

Responses for Q3'25 were obtained between September 8 and September 19, 2025, 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?



In Q3'25, 48 percent of respondents identified economic forecasting—driven by potential government fiscal, monetary, or regulatory actions—as the greatest challenge in determining ACL estimates, down from 88 percent in Q2'25. Another 15 percent identified economic forecasting—driven by uncertainty around broader macroeconomic conditions and financial market dynamics—as the greatest challenge, up from 8 percent in Q2'25. An additional 15 percent cited model calibration as the greatest challenge in determining their ACL, up from 4 percent in Q2'25.

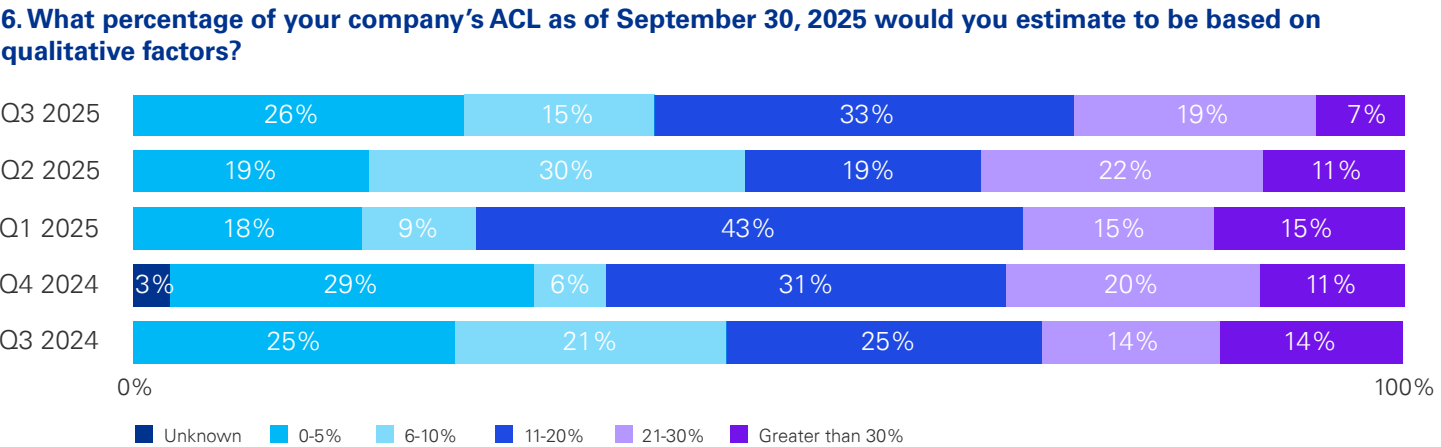
CECL methodology components

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 volatility, and potential shifts in unemployment.

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 factoring in respondents who assigned zero probability to the “Downside” scenario, the average probability for “Downside” was 30 percent in Q3'25.

	Base case	Upside	Downside	Severe downside	Other
Q3'25	58%	8%	30%	1%	3%

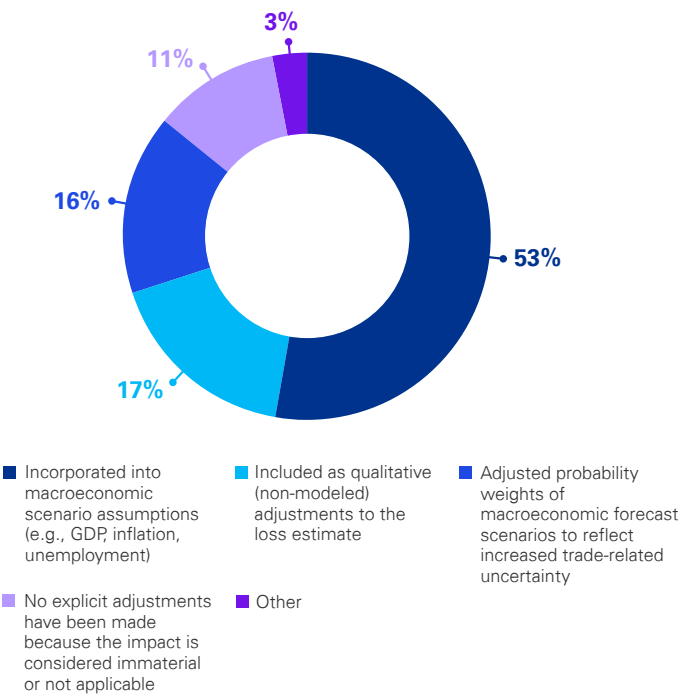
The “Other” scenario reflects alternate macroeconomic conditions that inform the loss estimate such as stagflation or long-term below-trend growth projections.



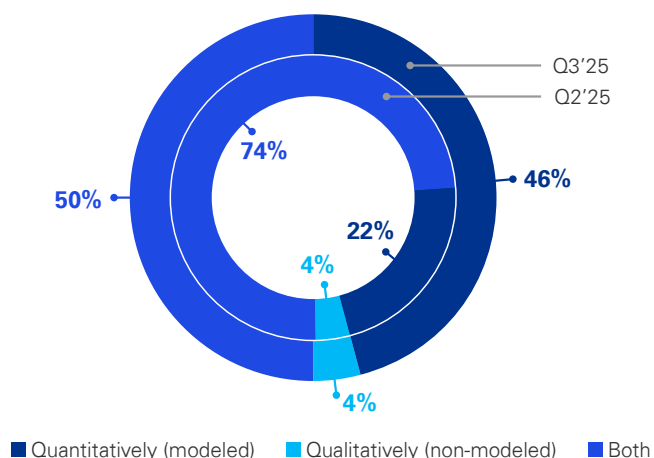
Many companies incorporate qualitative adjustments into their ACL estimate to capture changes in expectations and will continue to do so. Approximately 26 percent of respondents indicated they expect qualitative factors to comprise more than 20 percent of the total ACL estimate in Q3'25, down from 33 percent in Q2'25.

7. How has your Company incorporated the impacts of tariffs or trade policy changes into its ACL estimate at September 30, 2025?

In Q3'25, approximately 53 percent of companies incorporated the impacts of tariffs and trade policy changes through adjustments to macroeconomic scenarios. Another 17 percent included these impacts as qualitative adjustments in their ACL.



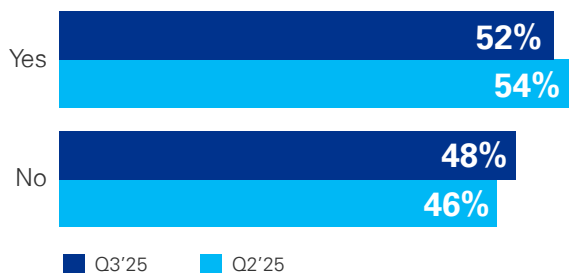
8. How are economic conditions such as changes in interest rates, unemployment rate, real estate indices, economic uncertainty, and/ or other economic factors being factored into your company's ACL estimate?



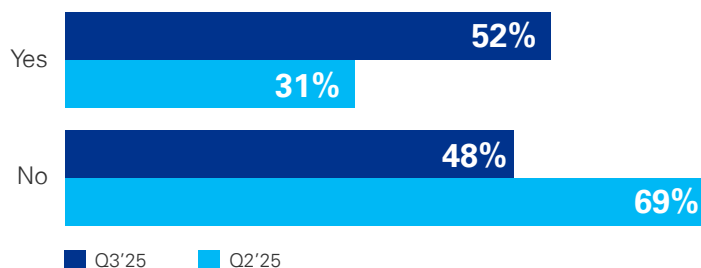
In Q3'25, approximately 50 percent of respondents indicated they are incorporating impacts from interest rate changes, the unemployment rate, real estate indices, economic uncertainty, and other economic factors into their ACL estimate using both quantitative (modeled) and qualitative (non-modeled) methods, down from 74 percent in Q2'25. In contrast, 46 percent of respondents in Q3'25 are incorporating these same factors solely through the quantitative (modeled) component of the ACL estimate, up from 22 percent in Q2'25. The remaining 4 percent of respondents in Q3'25 are incorporating these same factors solely through the qualitative (non-modeled) component of the ACL estimate, consistent with Q2'25.

Delinquencies and net charge-offs

9a. Have delinquencies increased from prior quarter end?

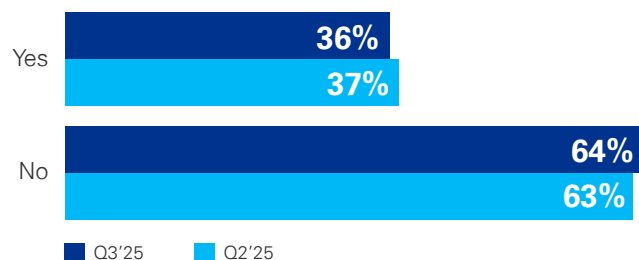


9b. Have net charge-offs increased from prior quarter end?



In Q3'25, 52 percent of respondents reported an increase in delinquencies, down from 54 percent in Q2'25. Meanwhile, 52 percent reported higher net charge-offs, an increase from 31 percent in the prior quarter.

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



Approximately 36 percent of respondents reported an increase in non-performing commercial loans in Q3'25, down from 37 percent in Q2'25. Among those reporting an increase, 27 percent in Q3'25 identified commercial and industrial loans as the primary type of non-performing commercial loan, compared to 53 percent in Q2'25.

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 Q3'25.

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