

CECL Pulse Check

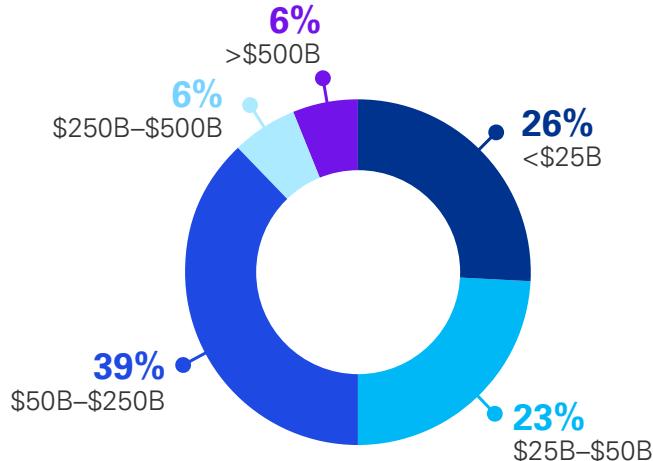
How companies are responding to economic impacts in their Q4'25 CECL estimates

During Q4'25, 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, a cooling labor market, and significant AI-driven investment—all while the Federal Reserve seeks 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 December 2 and December 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

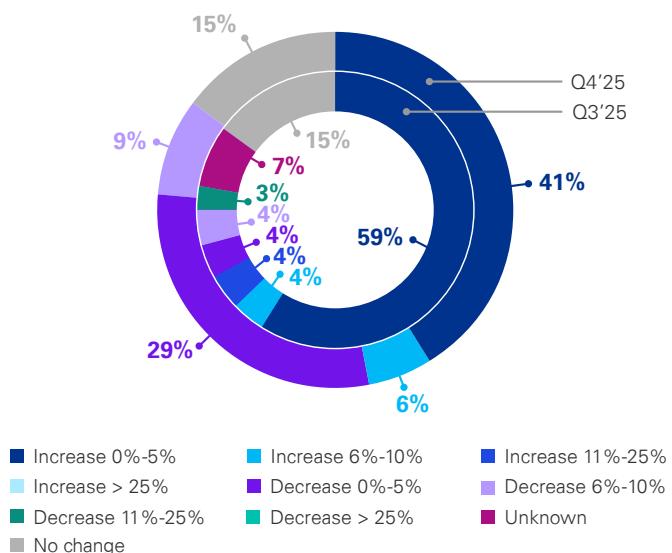
We surveyed **29 banks** and **5 finance companies** with varying asset sizes.



Responses for Q4'25 were obtained between December 2 and December 19, 2025, and reflect information known at that time.

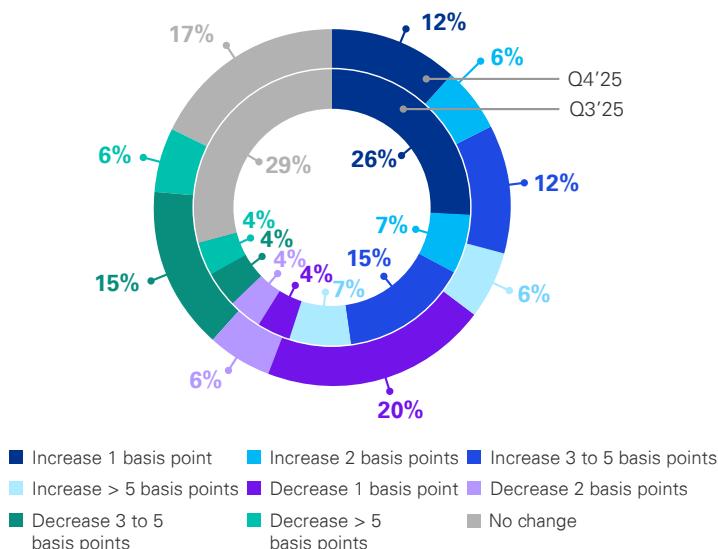
Expected impact of continued economic uncertainty on CECL methodology and results

1. How much do you expect the allowance for expected credit losses (ACL) to change from September 30, 2025 to December 31, 2025?



In Q4'25, approximately 47 percent of respondents said they anticipate an increase in the overall ACL, down from 67 percent in Q3'25. Conversely, 38 percent expect a decrease in the ACL in Q4'25, up from 11 percent in Q3'25. Fifteen percent expect no change in Q4'25, the same as Q3'25.

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, 2025 to December 31, 2025?

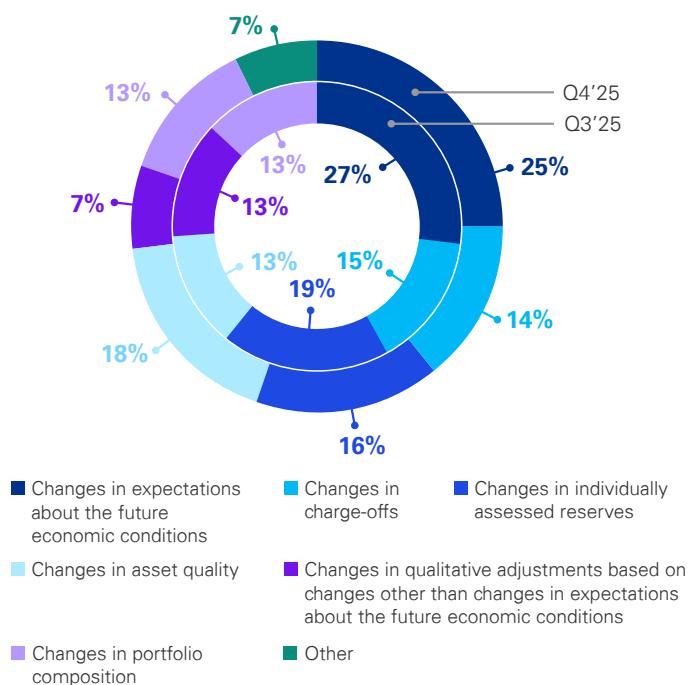


In Q4'25, 12 percent of respondents anticipate the increase in the overall ACL to be 1 basis point of total receivables assessed for ACL, down from 26 percent in Q3'25. Six percent expect the increase to be 2 basis points, compared to 7 percent in Q3'25, while 18 percent expect the increase to be greater than 3 basis points, down from 22 percent in Q3'25.

Conversely, 20 percent of respondents anticipate the decrease in the overall ACL to be 1 basis point, up from 4 percent in Q3'25. Six percent expect the decrease to be 2 basis points, compared to 4 percent in Q3'25, and 21 percent expect a decrease of 3 or more basis points this quarter, compared to 8 percent in Q3'25.

Additionally, 17 percent of respondents in Q4'25 expect no change in ACL as a percentage of total receivables assessed for ACL, down from 29 percent who expected the same in Q3'25.

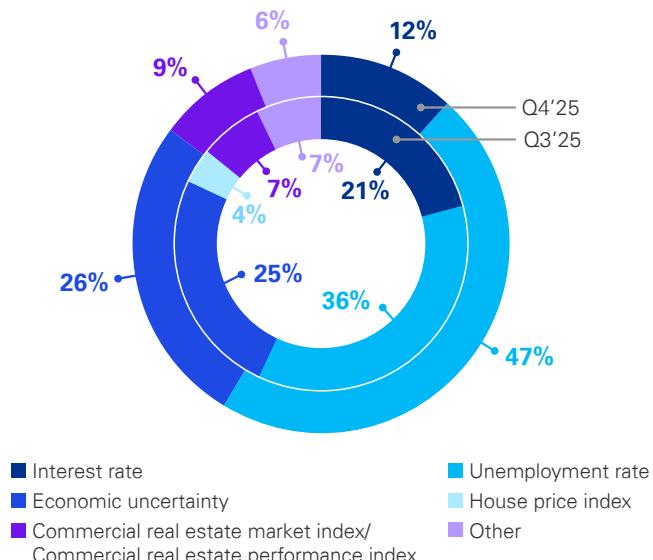
3. What do you expect the largest driver of change to be in the ACL balance excluding changes in loan volume from September 30, 2025 to December 31, 2025?



In Q4'25, the largest driver of change in the ACL, excluding loan volume fluctuations, remains changes in expectations about future economic conditions. Twenty-five percent of all respondents selected this factor, similar to the 27 percent who selected it in Q3'25. The second-largest driver was changes in asset quality, selected by 18 percent of respondents in Q4'25, up from 13 percent in Q3'25.

Another common factor influencing ACL changes included changes in individually assessed reserves, selected by 16 percent of respondents in Q4'25, down from 19 percent in Q3'25.

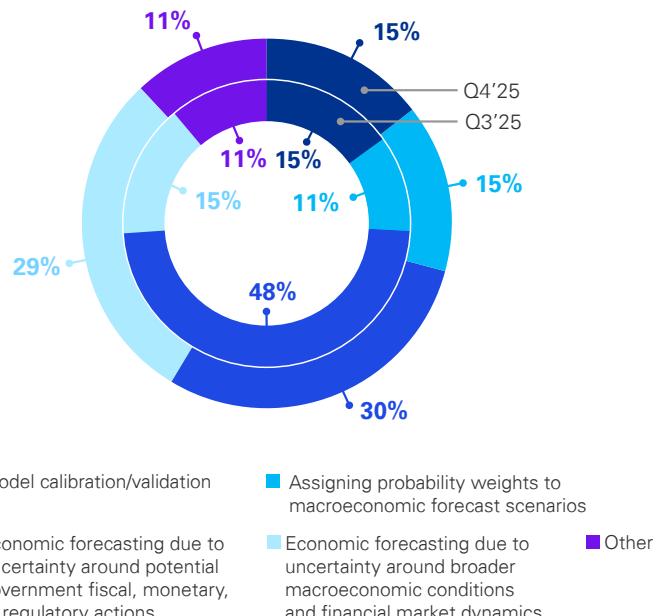
4. Which economic condition is having the greatest impact on your company's ACL estimate?



In Q4'25, approximately 47 percent of respondents identified the unemployment rate as the economic condition expected to have the greatest impact on the ACL, up from 36 percent in Q3'25. Economic uncertainty ranked second, with 26 percent of respondents selecting this factor, compared to 25 percent in Q3'25. Changes in interest rates were cited by another 12 percent of respondents, down from 21 percent in Q3'25.

Responses for Q4'25 were obtained between December 2 and December 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 Q4'25, 30 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 48 percent in Q3'25. Twenty-nine percent identified economic forecasting—driven by uncertainty around broader macroeconomic conditions and financial market dynamics—as the greatest challenge, up from 15 percent in Q3'25. Fifteen percent cited model calibration as the greatest challenge in determining their ACL, the same as in Q3'25. Another 15 percent identified assigning probability weights to macroeconomic forecast scenarios as the greatest challenge, up from 11 percent in Q3'25.

CECL methodology components

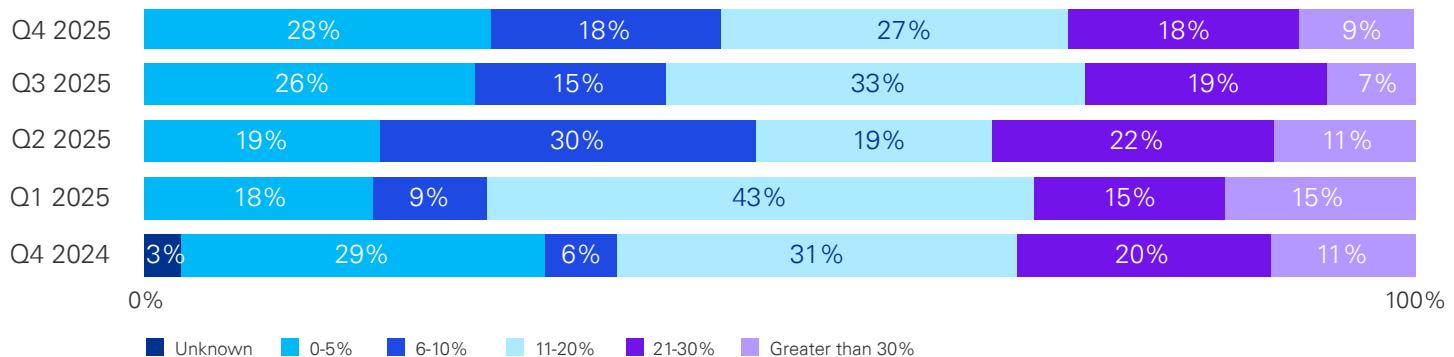
To estimate losses over the reasonable and supportable forecast period, entities are permitted to incorporate one or more economic scenarios into their ACL estimate. Accordingly, many institutions have incorporated multiple economic scenarios into their ACL framework, particularly in response to economic 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 25 percent in Q4'25.

| | Base case | Upside | Downside | Severe downside | Other |
|-------|-----------|--------|----------|-----------------|-------|
| Q4'25 | 64% | 9% | 25% | 2% | 0% |

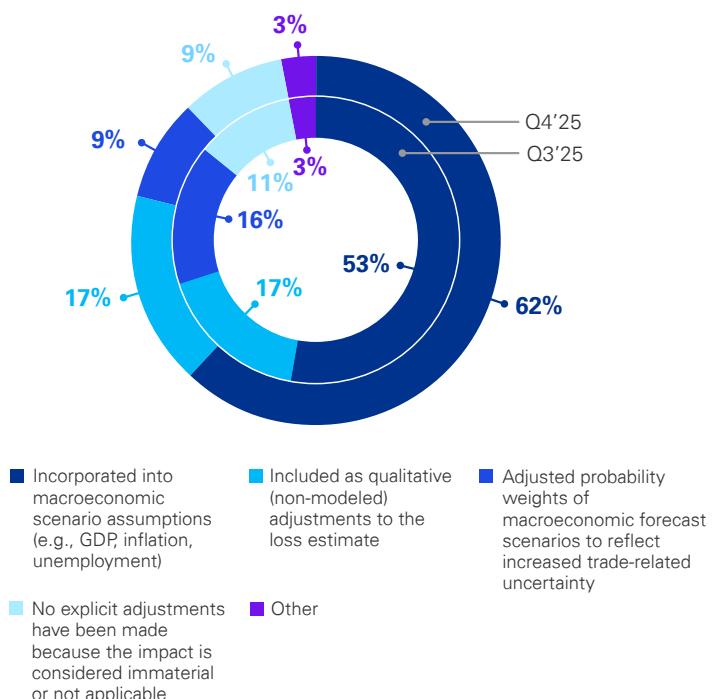
In prior quarters, the “Other” scenario has been selected to reflect alternate macroeconomic conditions informing the loss estimate, such as stagflation or projections of long-term growth below trend.

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



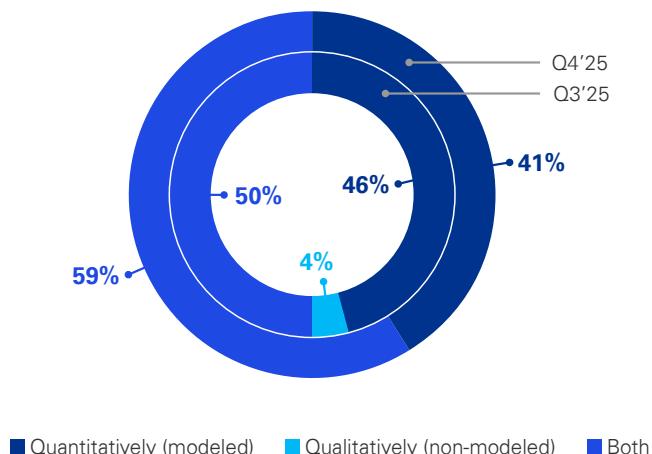
Many companies incorporate qualitative adjustments into their ACL estimate to capture changes in expectations and will continue to do so. Approximately 27 percent of respondents indicated they expect qualitative factors to comprise more than 20 percent of the total ACL estimate in Q4'25, similar to the 26 percent in Q3'25.

7. How has your Company incorporated the impacts of tariffs or trade policy changes into its ACL estimate at December 31, 2025?



In Q4'25, approximately 62 percent of companies incorporated the impacts of tariffs and trade policy changes through adjustments to macroeconomic scenarios, up from 53 percent in Q3'25. Another 17 percent included these impacts as qualitative adjustments in their ACL estimates, the same as in Q3'25.

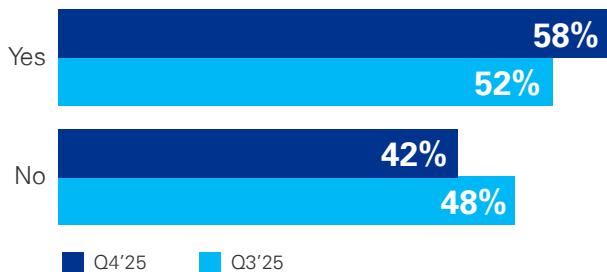
8. How are economic conditions such as changes in interest rates, unemployment rate, real estate indices, economic uncertainty, and/ or other economic factors being factored into your company's ACL estimate?



In Q4'25, approximately 59 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 50 percent in Q3'25. In contrast, 41 percent of respondents in Q4'25 are incorporating these same factors solely through the quantitative (modeled) component of the ACL estimate, down from 46 percent in Q3'25. None of respondents in Q4'25 are incorporating these same factors solely through the qualitative (non-modeled) component of the ACL estimate, compared to 4 percent in Q3'25.

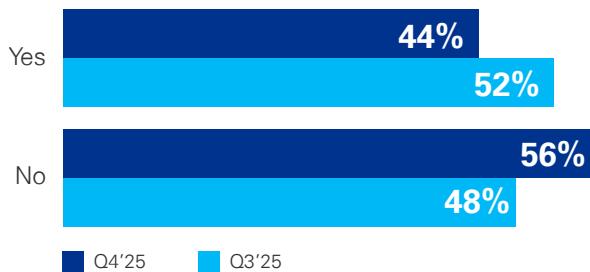
Delinquencies and net charge-offs

9a. Have delinquencies increased from prior quarter end?

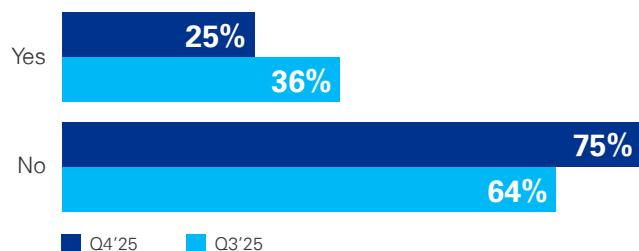


In Q4'25, 58 percent of respondents reported an increase in delinquencies, up from 52 percent in Q3'25. Meanwhile, 44 percent reported higher net charge-offs, a decrease from 52 percent in the prior quarter.

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



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



Approximately 25 percent of respondents reported an increase in non-performing commercial loans in Q4'25, down from 37 percent in Q3'25. Among those reporting an increase, 50 percent in Q4'25 identified commercial and industrial loans as the primary type of non-performing commercial loan, compared to 27 percent in Q3'25.

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 Q4'25.

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