



CECL Pulse Check

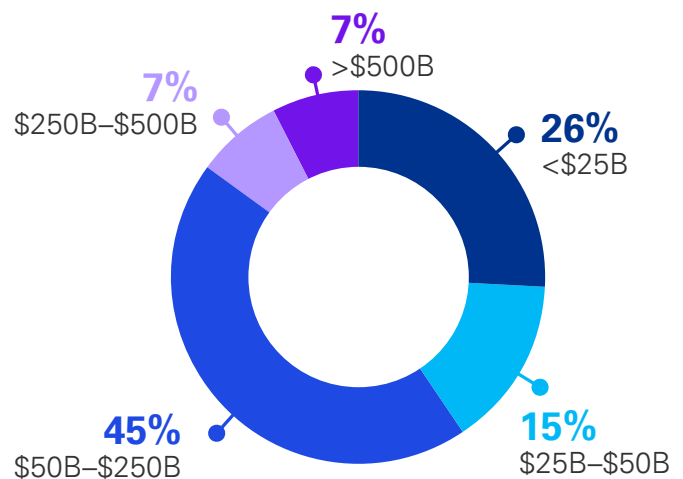
How companies are responding to economic impacts in their Q2'25 CECL estimates

During Q2'25, we surveyed companies to understand the potential impact of economic and geopolitical 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 and monetary policies, combined with the potential for tariff-induced inflation, oil price spikes, and ongoing supply chain disruptions, are complicating the economic outlook and adding new 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 June 9 and June 23, 2025. As the economic situation evolves, we expect companies to continually monitor and reassess the assumptions used in their CECL estimates.

Who we surveyed

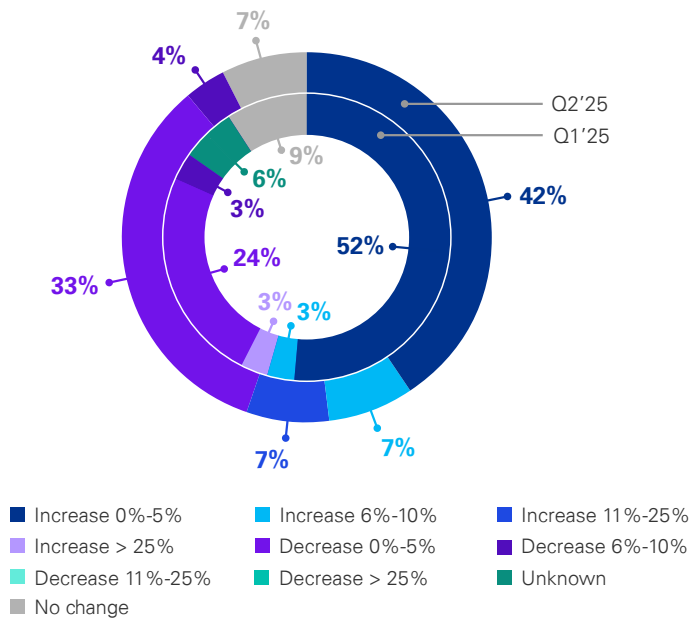
We surveyed **23 banks** and **4 finance companies** of varying asset sizes.



Responses for Q2'25 were obtained between June 9 and June 23, 2025, and reflect information known at that time.

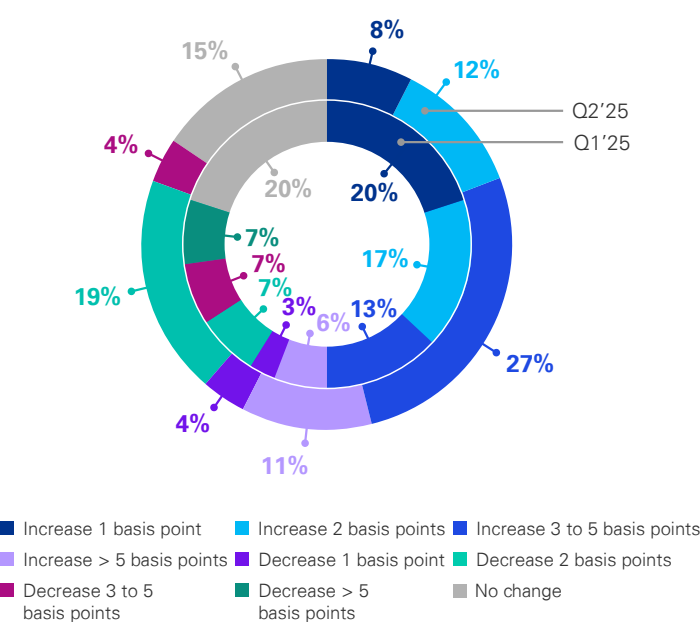
Expected impact of continued economic uncertainty on CECL methodology and results

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



In Q2'25, approximately 56 percent of respondents said they anticipate an increase in the overall ACL, down slightly from 58 percent in Q1'25. Conversely, 37 percent expect a decrease in their ACL in Q2'25, up from 27 percent in Q1'25.

2. How much do you expect the total ACL to change as a percentage of end-of-period receivables subject to ACL from March 31, 2025 to June 30, 2025?

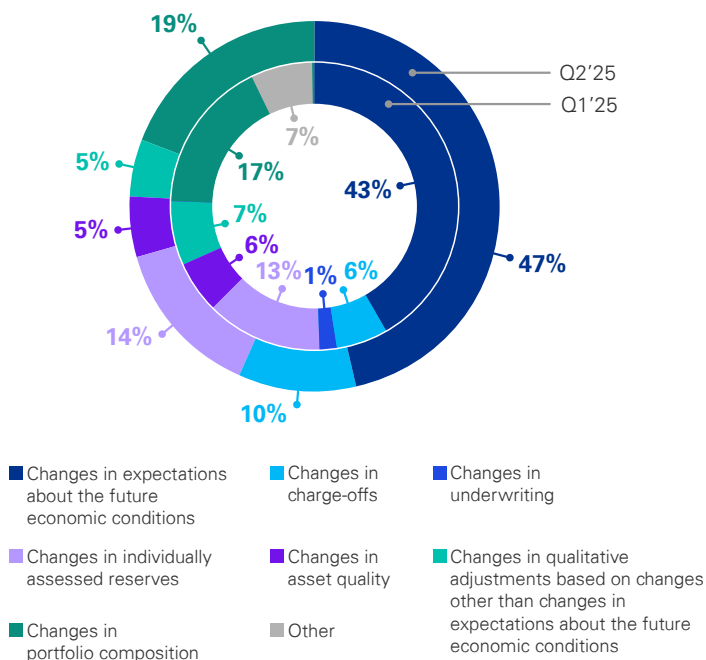


In Q2'25, 8 percent of respondents anticipate the increase in the overall ACL to be 1 basis point of total receivables assessed for ACL, down from 20 percent in Q1'25. Twelve percent expect the increase to be 2 basis points, compared to 17 percent in Q1'25, while 38 percent expect the increase to be greater than 3 basis points, up from 19 percent in Q1'25.

Conversely, 4 percent of respondents anticipate the decrease in the overall ACL to be 1 basis point, up from 3 percent in Q1'25. Nineteen percent expect the decrease to be 2 basis points, compared to 7 percent in Q1'25, and 4 percent expect a decrease of 3 or more basis points in Q2, compared to 14 percent in Q1'25.

Additionally, 15 percent of respondents in Q2'25 expect no change in ACL as a percentage of total receivables assessed for ACL, down from 20 percent in Q1'25.

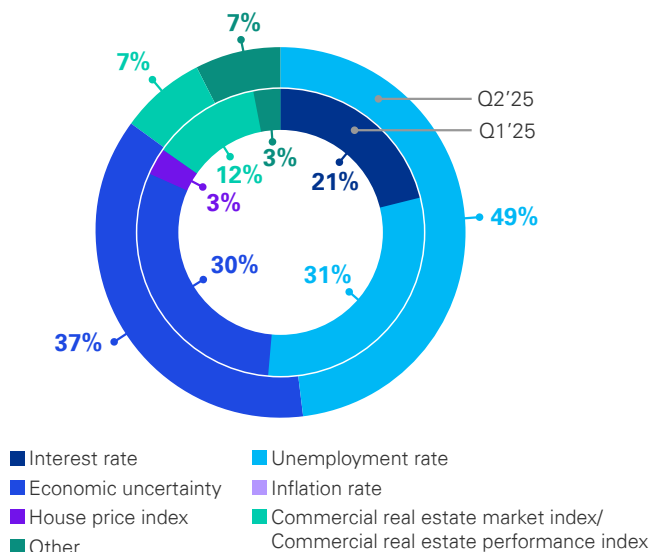
3. What do you expect the largest driver of change to be in the ACL balance excluding changes in loan volume from March 31, 2025 to June 30, 2025?



In Q2'25, the largest driver of change in the ACL, excluding loan volume fluctuations, remains changes in expectations about future economic conditions. Forty-seven percent of all respondents selected this factor, up from 43 percent in Q1'25. The second-largest driver was changes in portfolio composition, selected by 19 percent of respondents in Q2'25, up from 17 percent in Q1'25.

Other contributing factors to adjustments in the ACL included modifications in individually assessed reserves, which constituted 14 percent in Q2'25, an increase from 13 percent in Q1'25, and changes in charge-offs, which accounted for 10 percent, up from 6 percent in Q1'25.

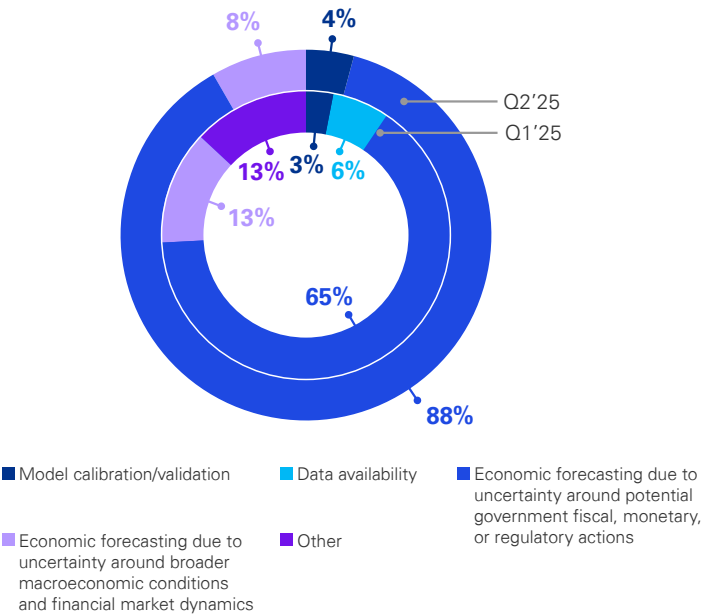
4. Which economic condition is having the greatest impact on your company's ACL estimate?



In Q2'25, approximately 49 percent of respondents identified the unemployment rate as the economic condition expected to have the greatest impact on the ACL, up from 31 percent in Q1'25. Economic uncertainty ranked second, with 37 percent of respondents selecting this factor, compared to 30 percent in Q1'25. Changes in the commercial real estate market and related performance indices were cited by 7 percent of respondents, down from 12 percent in Q1'25.

Responses for Q2'25 were obtained between June 9 and June 23, 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 Q2'25, 88 percent of respondents identified economic forecasting—driven by potential government fiscal, monetary, or regulatory actions—as the greatest challenge in determining ACL estimates, up from 65 percent in Q1'25. Another 8 percent identified economic forecasting—driven by uncertainty around broader macroeconomic conditions and financial market dynamics—as the greatest challenge, down from 13 in Q1'25. An additional 4 percent cited model calibration as the greatest challenge in determining their ACL, up from 3 percent in Q1'25.

CECL methodology components

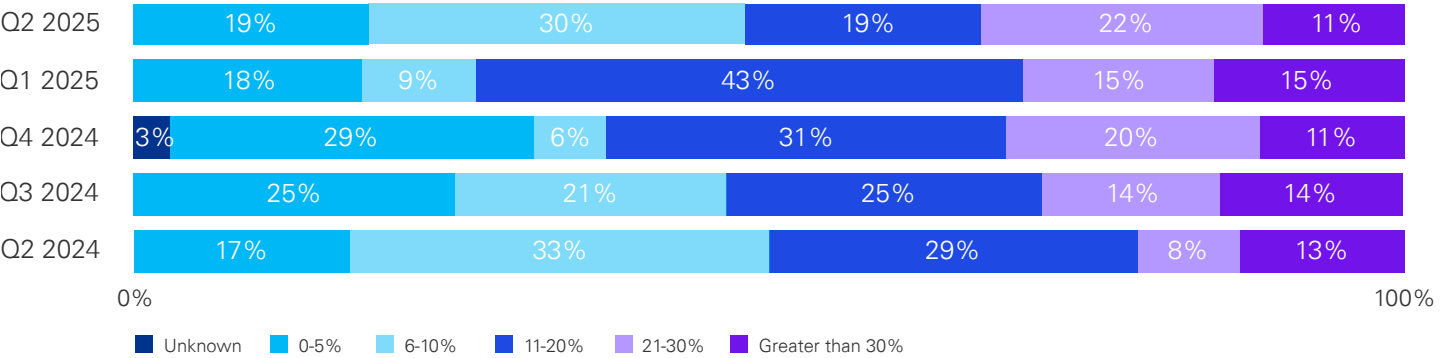
To estimate losses over the reasonable and supportable forecast period, entities are permitted to incorporate one or more economic scenarios into their ACL estimate. Accordingly, many institutions have integrated multiple economic scenarios into their ACL framework, particularly in response to economic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

For companies using 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 19 percent in Q2'25.

	Base case	Upside	Downside	Severe downside	Other
Q2'25	67%	9%	19%	3%	2%

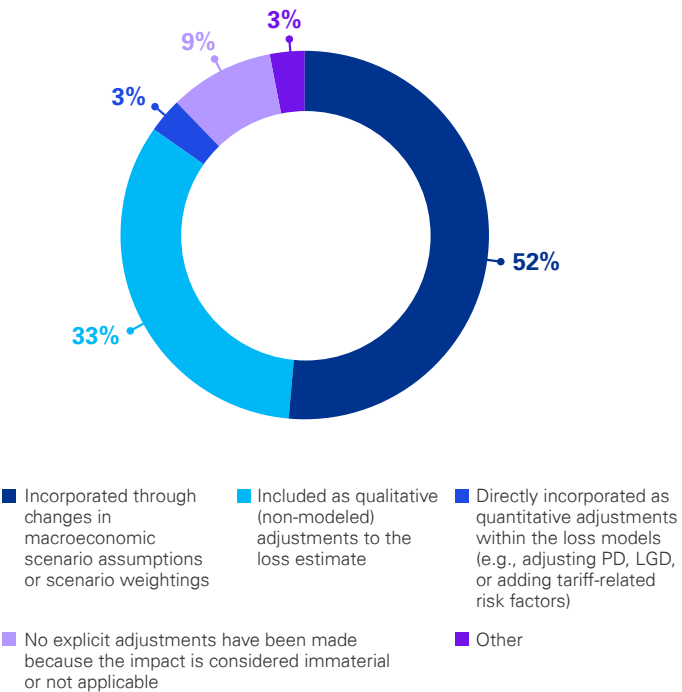
Examples of where the “Other” scenario has been selected in past quarters include specific adjustments to reflect current economic conditions and other alternate scenarios informing the loss estimate.

6. What percentage of your company’s ACL as of June 30, 2025 would you estimate to be based on qualitative factors?



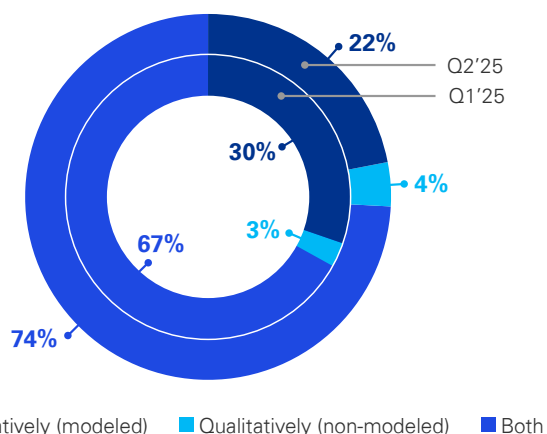
Many companies incorporate qualitative adjustments into their ACL estimate to capture changes in expectations and will continue to do so. Approximately 33 percent of respondents indicated they expect qualitative factors to comprise more than 20 percent of the total ACL estimate in Q2’25, up from 30 percent in Q1’25.

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



In Q2’25, approximately 52 percent of companies incorporated the impacts of tariffs and trade policy changes through adjustments to macroeconomic scenarios, while another 33 percent included these impacts as qualitative adjustments in their ACL estimates.

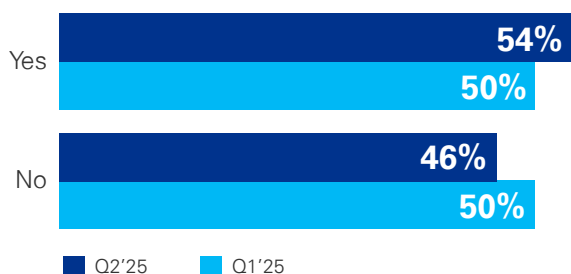
8. How are economic conditions such as changes in interest rates, unemployment rate, real estate indices, economic uncertainty, and/or other economic factors being factored into your company's ACL estimate?



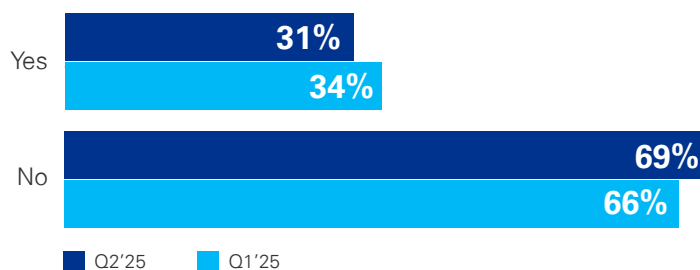
In Q2'25, approximately 74 percent of respondents indicated they are incorporating impacts from interest rate changes, the unemployment rate, real estate indices, economic uncertainty, and other economic factors into their ACL estimate using both quantitative (modeled) and qualitative (non-modeled) methods, up from 67 percent in Q1'25. In contrast, 22 percent of respondents in Q2'25 are incorporating these same factors solely through the quantitative (modeled) component of the ACL estimate, down from 30 percent in Q1'25. The remaining 4 percent of respondents in Q2'25 are incorporating these same factors solely through the qualitative (non-modeled) component of the ACL estimate, up from 3 percent in Q1'25.

Delinquencies and net charge-offs

9a. Have delinquencies increased from prior quarter end?

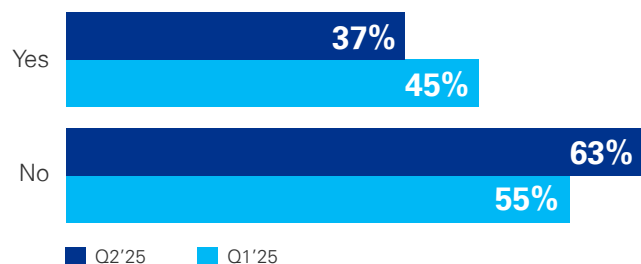


9b. Have net charge-offs increased from prior quarter end?



In Q2'25, 54 percent of respondents reported an increase in delinquencies, up from 50 percent in Q1'25. Meanwhile, 31 percent reported higher net charge-offs, a decline from 34 percent in the prior quarter.

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



Approximately 37 percent of respondents reported an increase in non-performing commercial loans in Q2'25, down from 45 percent in Q1'25.

Among those reporting an increase, 53 percent in Q2'25 identified commercial and industrial loans as the primary type of non-performing commercial loan, compared to 38 percent in Q1'25.

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 Q2'25.

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