ARTICLE
AUGUST 2021

Author

Laurent Birade
Senior Director, Risk & Accounting Solutions

Scott Dietz
Director, Risk & Accounting Solutions

Phillip Lai
Associate Director, Implementation Services

Contact Us

Americas
+1.212.553.1658
clientservices@moodys.com

Europe
+44.20.7772.5454
clientservices.emea@moodys.com

Asia (Excluding Japan)
+85 2 2916 1121
clientservices.asia@moodys.com

Japan
+81 3 5408 4100
clientservices.japan@moodys.com

CECL Benchmark Q2 2021

A framework to understand the extent of your allowance (updated for Q2 2021)

In this paper, we continue the research analysis that has been performed for more than a year, which lets us establish a point of view on whether banks will build, maintain, or release allowance into the next quarter. The analysis also shows where they stand on the range of preparedness compared to peers in the context of an evolving economic outlook.

In this quarter, we continue to provide the relevant charts and data for the benchmark. However, we also simplify the overall results by removing discussion around the process to develop the benchmark and encourage readers to review prior papers in this series for any needed details. Links to prior papers can be found in the appendix of this document.

For Q2 2021, we observed that our new upper- and lower-bound indexes for the peer group are respectively 2.12% and 0.70%. This compares to the prior quarter with bounds of 2.11% and 0.66%. The lack of movement in this quarter's upper and lower bounds continues to showcase that the economy has seen a leveling off when compared to the last 18 months.

The effect of this leveling within the benchmark output highlights what we are seeing from this peer group with respect to their actual reserve balances. For the past several quarters, despite an improved economic outlook it could be noted that reserve balances at the banks remained relatively steady. However, in this quarter as we noted the benchmarks holding steady, you can find in the data below that the actual reserves are starting to be released at a greater rate than in previous quarters.

Figure 1 Bank reserve ratio over the midpoint benchmark ratio[1]

NAME	ACL Q1 %	RETAIL	COMMERCIAL	CONSTRUCTION	CRE	CREDIT CARD	OTHER	OVERALL
JPM	2.39%	100.76%	242.16%	395.76%	326.92%	194.93%	165.60%	186.89%
Wells	1.83%	103.56%	244.32%	157.64%	325.42%	182.07%	140.25%	181.64%
BoA	2.03%	57.59%	225.88%	221.86%	324.96%	190.92%	119.77%	151.99%
Citi	3.05%	73.15%	137.84%	47.47%	142.84%	142.27%	88.01%	112.32%
USB	2.15%	113.94%	225.33%	156.41%	373.46%	164.02%	146.12%	159.02%
Truist	1.66%	103.16%	220.55%	37.06%	179.51%	161.01%	169.75%	150.73%
PNC	2.00%	78.44%	248.67%	89.41%	360.63%	184.87%	228.23%	190.31%
Citizens	1.78%	97.08%	155.67%	274.53%	156.38%	116.36%	158.55%	135.78%
Regions	2.82%	149.63%	177.89%	87.41%	188.89%	193.87%	180.70%	158.72%
Huntington	2.03%	131.14%	218.03%	351.03%	328.50%	277.48%	194.86%	203.83%
Fifth Third	1.45%	155.98%	174.81%	126.40%	195.40%	136.33%	132.26%	145.39%
M&T	1.66%	200.37%	331.63%	284.69%	315.60%	176.74%	279.85%	274.68%
Key	2.33%	132.68%	118.65%	91.42%	126.37%	130.38%	104.40%	112.23%
Ally	2.13%	20.96%	222.67%	22.08%	343.34%		217.35%	161.54%

[1] The higher the ratio, the more reserve coverage a given bank has with respect to its own midpoint benchmark—giving a relative view of the bank's reserve levels based on its own historical experience.

Table of Contents

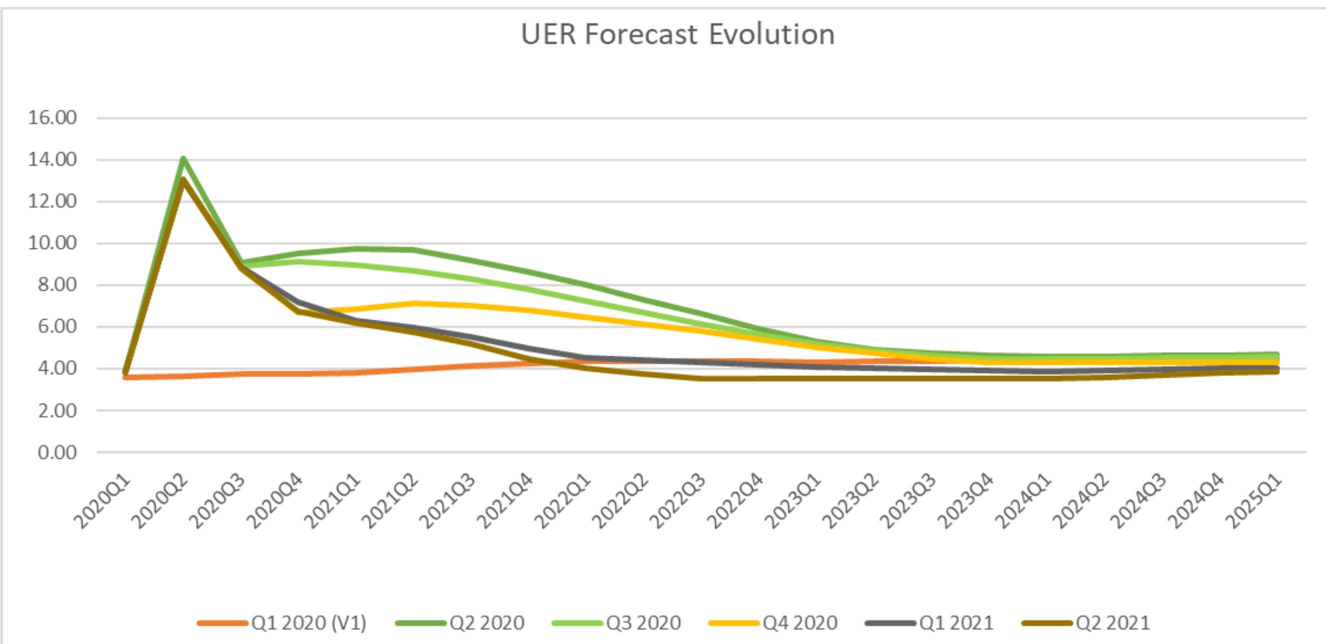
Introduction

Our benchmark analysis began March 31, 2020 and has continued on a quarterly basis throughout the past year. As we move through 2021, the focus of the study has been whether the time has come to begin releasing the reserves that were built up in 2020; including the level of release and which product types are seeing the most change.

Overall, the storyline of the economic scenarios in this quarter includes a continued leveling of many of the variables that had been so volatile the past 18 months, as shown in Figure 2. Based upon this overall effect, one of the significant changes we observe this quarter is that both the upper and lower bounds hold steady moving just a couple of basis points each. The peer group average for the lower bound is 0.70% and the upper-bound average was 2.12%, compared to 0.66% and 2.11% from the prior quarter's analysis. While a metric holding steady would normally not be considered a 'significant change', given the volatility within the economy and this analysis since the beginning of the pandemic, a steadying of the result is significant.

The result of this leveling of the outlook appears to be driving banks in this peer group to be gaining comfort in releasing some of the reserve built up in 2020. Further discussion below will highlight this trend as in nearly each product segment, all banks in the peer group are not only releasing reserves but doing so at a greater rate than the prior quarter. Economic variables continue to stabilize and as a result, banks should begin moving closer and closer to the mid-point reserve levels of the benchmark. Given that each of the banks in this peer group have current reserve levels that are at or above even the upper bound limits of the study, one should expect additional reserve releases upcoming over the next several quarters.

Figure 2 Scenario evolution from Q1 2020 to November 2020 – unemployment rates



Source: Moody's Analytics

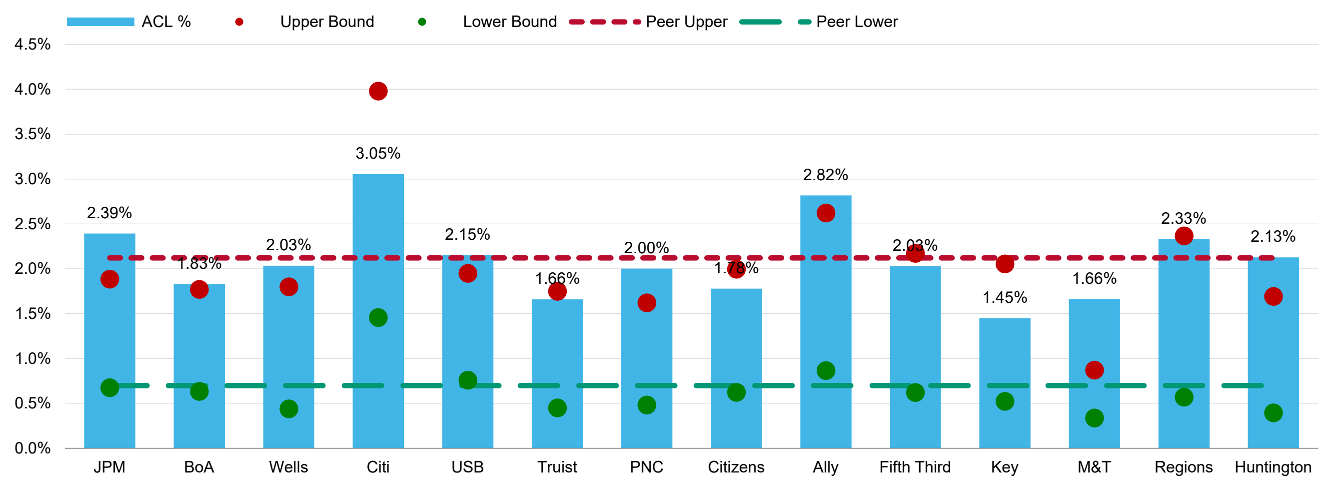
For a summary review of the methodology used to generate this benchmark study, see our original whitepaper.[2] In this paper, we will show the overall results of our benchmark study at a portfolio level and based on asset type as well as add commentary about the results.

[2] "CECL Build – Is it Enough?" https://www.moodysanalytics.com/-/media/article/2020/cecl%20build%20-%20is%20it%20enough.pdf

Comparison of results – portfolio averages

The intent of the updated study is to help gauge what the reserves level will be for Q2 and beyond. As previously mentioned, the stabilization in the economy and economic variables appears to have provided banks in this peer group with additional support to begin releasing reserves at a greater rate than prior quarters. Figure 4 below highlights that drop in the column marked 'Q4 to Q1 % change'.

Figure 3 Triangulation of ACL estimates



Source: Moody's Analytics and FDIC Call Report data

Figure 4 Top 14 banks – upper- and lower-bound bank-specific range[3] estimates Q1 2021 versus Q4 2020

Name	ACL Q4 %	ACL Q1 %	Q4 to Q1 % change	Upper Bound	Mid-Point	Lower Bound	% Lower Bound	Most Reserved / Over reserved
JPM	2.91%	2.39%	-17.89%	1.89%	1.28%	0.68%	254.08%	186.89%
BoA	2.05%	1.83%	-10.98%	1.77%	1.20%	0.63%	188.10%	151.99%
Wells	2.13%	2.03%	-4.51%	1.80%	1.12%	0.44%	361.77%	181.64%
Citi	3.46%	3.05%	-11.82%	3.98%	2.72%	1.46%	109.69%	112.32%
USB	2.46%	2.15%	-12.31%	1.95%	1.35%	0.76%	183.55%	159.02%
Truist	1.67%	1.66%	-0.90%	1.75%	1.10%	0.45%	267.55%	150.73%
PNC	2.23%	2.00%	-10.16%	1.62%	1.05%	0.48%	314.83%	190.31%
Citizens	1.97%	1.78%	-9.54%	2.00%	1.31%	0.62%	185.06%	135.78%
Ally	2.80%	2.82%	0.80%	2.62%	1.74%	0.87%	225.13%	161.54%
Fifth Third	2.26%	2.03%	-10.04%	2.17%	1.40%	0.62%	227.00%	145.39%
Key	1.63%	1.45%	-11.30%	2.06%	1.29%	0.52%	176.16%	112.23%
M&T	1.78%	1.66%	-6.67%	0.87%	0.61%	0.34%	390.35%	274.68%
Regions	2.54%	2.33%	-8.26%	2.37%	1.47%	0.57%	309.03%	158.72%
Huntington	2.23%	2.13%	-4.48%	1.69%	1.04%	0.39%	439.54%	203.83%

Source: Moody's Analytics and FDIC Call Report data

As previously mentioned, based on our triangulation index and the improving economic forecast, it would appear that additional reserve releases are upcoming. This can be evidenced using Figure 4 above and noting that the ACL balances at most of the peer banks remain above the upper bound limits per our study and all appear to be over-reserved per the last column in Figure 4. Until these ranges push closer to the Mid-Point, additional releases will remain the expectation. In Q1, the rate of release for these 14 banks was 13% on a weighted average basis for total assets.

[3] Note: the upper and lower bound were estimated based on Q4 Call Report data.

Comparison of results – results per asset type

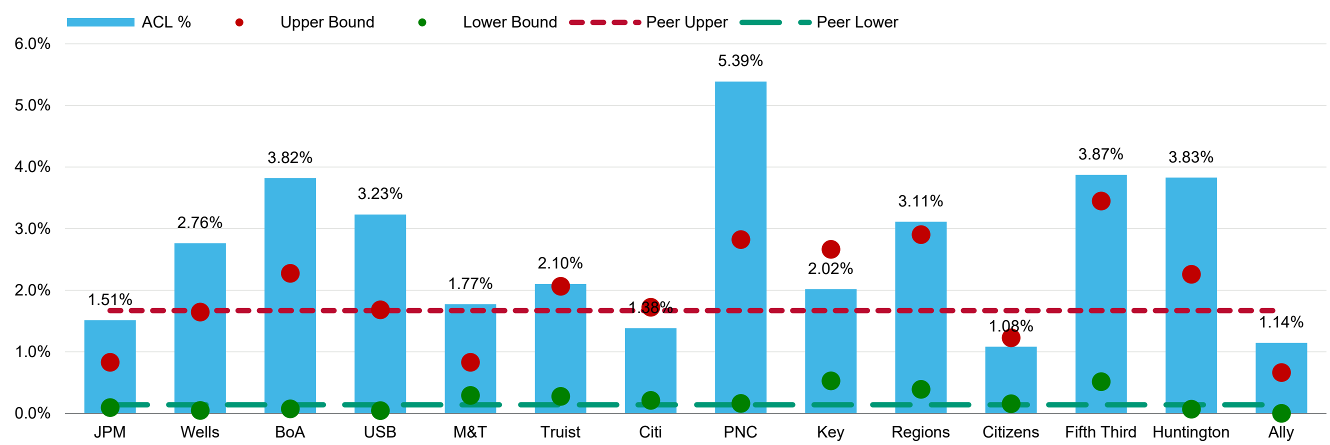
In each of the following sections, we present the peer group upper and lower bound graphed against each bank's Q1 2021 ACL reserves, and then show the Q4 2020 to Q1 2021 changes as well as the bank's own upper and lower bound. By reviewing these metrics at the product segment level, we can build expectations for reserve changes at a more granular level when considering individual bank investment profiles.

Commercial real estate

The CRE portfolio has garnered the most attention since the beginning of the COVID-19 pandemic. Business closures, empty offices, and hotels shutdowns have made these portfolios susceptible to increased credit deterioration. However, some property types and locations have fared relatively well, and the government has provided much-needed support that trickles down to the net operating income of CRE properties.

Figure 5 and Figure 6 both paint a picture of how the peer group is still not prepared to release reserves in this asset class at the same level as others. This can be most evidenced by the amount at which all banks are over reserved per the study (see final column of Figure 6). If the economic outlook for the CRE portfolio can continue to strengthen in the coming quarters, this may represent an opportunity for material reserve releases in the future.

Figure 5 Q1 2021 peer benchmark for CRE portfolio



Source: Moody's Analytics and FDIC Call Report data

Figure 6 ACL metrics for peer group – CRE

Name	ACL Q4 %	ACL Q1 %	Q4 to Q1 % change	Upper Bound	Mid-Point	Lower Bound	% Lower Bound	Most Reserved / Over reserved
JPM	1.47%	1.51%	3.32%	0.83%	0.46%	0.10%	1481.20%	326.92%
Wells	2.73%	2.76%	1.04%	1.65%	0.85%	0.05%	5407.68%	325.42%
BoA	3.77%	3.82%	1.26%	2.28%	1.18%	0.08%	4933.97%	324.96%
USB	3.12%	3.23%	3.32%	1.68%	0.86%	0.05%	6815.62%	373.46%
M&T	1.62%	1.77%	9.16%	0.83%	0.56%	0.29%	503.61%	315.60%
Truist	2.15%	2.10%	-2.51%	2.06%	1.17%	0.28%	660.56%	179.51%
Citi	1.28%	1.38%	7.88%	1.72%	0.97%	0.21%	547.57%	142.84%
PNC	4.23%	5.39%	27.40%	2.82%	1.49%	0.16%	3176.41%	360.63%
Key	2.58%	2.02%	-21.82%	2.66%	1.60%	0.53%	280.91%	126.37%
Regions	3.68%	3.11%	-15.48%	2.90%	1.65%	0.39%	694.49%	188.89%
Citizens	1.84%	1.08%	-41.07%	1.23%	0.69%	0.16%	582.74%	156.38%
Fifth Third	3.94%	3.87%	-1.59%	3.45%	1.98%	0.52%	650.83%	195.40%
Huntington	3.63%	3.83%	5.48%	2.26%	1.17%	0.07%	5310.51%	328.50%
Ally	1.36%	1.14%	-15.64%	0.66%	0.33%	0.00%	50995.01%	343.34%

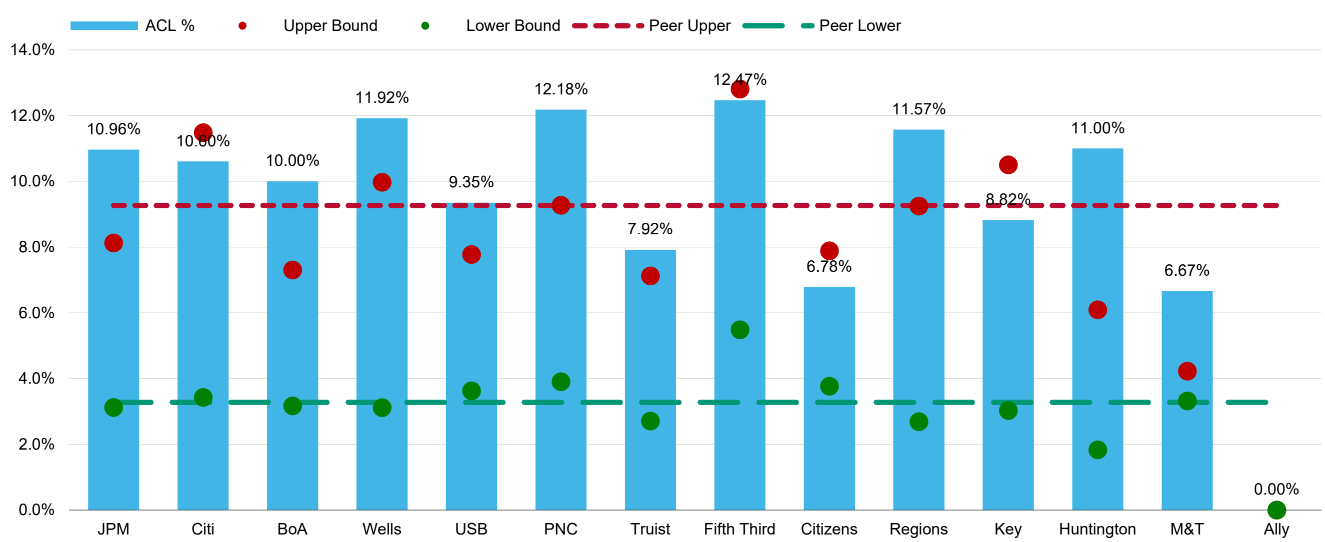
Source: Moody's Analytics and FDIC Call Report data

Credit cards

The credit card portfolio is one where reserves were hiked very early in the pandemic when we saw unemployment and job losses skyrocket. Because they are unsecured, credit cards usually experience much higher levels of defaults—and we observed a reserve build commensurate with that expected behavior.

Figures 7 and 8 illustrate the peer group's current ACL reserve ratios for Q1 2021, as well as comparisons to their peer group's and their own upper and lower bounds. Both figures highlight that, similar to the commercial real estate market, banks are still maintaining reserves at conservative levels. In addition, while reserves are being released it is not occurring (on a percentage basis) at the level of the CRE portfolio. This lends itself to an asset type that may see significant releases in the coming quarters if the economic outlook can remain steady.

Figure 7 Q1 2021 peer benchmark for credit card portfolio



Source: Moody's Analytics and FDIC Call Report data

Figure 8 ACL metrics for peer group – credit cards

Name	ACL Q4 %	ACL Q1 %	Q4 to Q1 % change	Upper Bound	Mid-Point	Lower Bound	% Lower Bound	Most Reserved / Over reserved
JPM	12.36%	10.96%	-11.29%	8.13%	5.62%	3.12%	251.20%	194.93%
Citi	10.82%	10.60%	-2.03%	11.48%	7.45%	3.43%	209.32%	142.27%
BoA	10.70%	10.00%	-6.53%	7.30%	5.24%	3.17%	215.43%	190.92%
Wells	11.13%	11.92%	7.08%	9.97%	6.55%	3.12%	282.17%	182.07%
USB	10.54%	9.35%	-11.28%	7.77%	5.70%	3.63%	157.68%	164.02%
PNC	13.11%	12.18%	-7.08%	9.27%	6.59%	3.91%	211.80%	184.87%
Truist	7.42%	7.92%	6.71%	7.13%	4.92%	2.71%	192.28%	161.01%
Fifth Third	12.56%	12.47%	-0.73%	12.81%	9.15%	5.48%	127.38%	136.33%
Citizens	9.16%	6.78%	-25.93%	7.89%	5.83%	3.77%	79.93%	116.36%
Regions	11.11%	11.57%	4.14%	9.25%	5.97%	2.69%	330.56%	193.87%
Key	8.78%	8.82%	0.52%	10.50%	6.77%	3.03%	191.05%	130.38%
Huntington	11.00%	11.00%	-0.04%	6.09%	3.96%	1.83%	500.43%	277.48%
M&T	7.37%	6.67%	-9.53%	4.23%	3.77%	3.32%	100.90%	176.74%
Ally	0.00%	0.00%		0.00%	0.00%	0.00%		

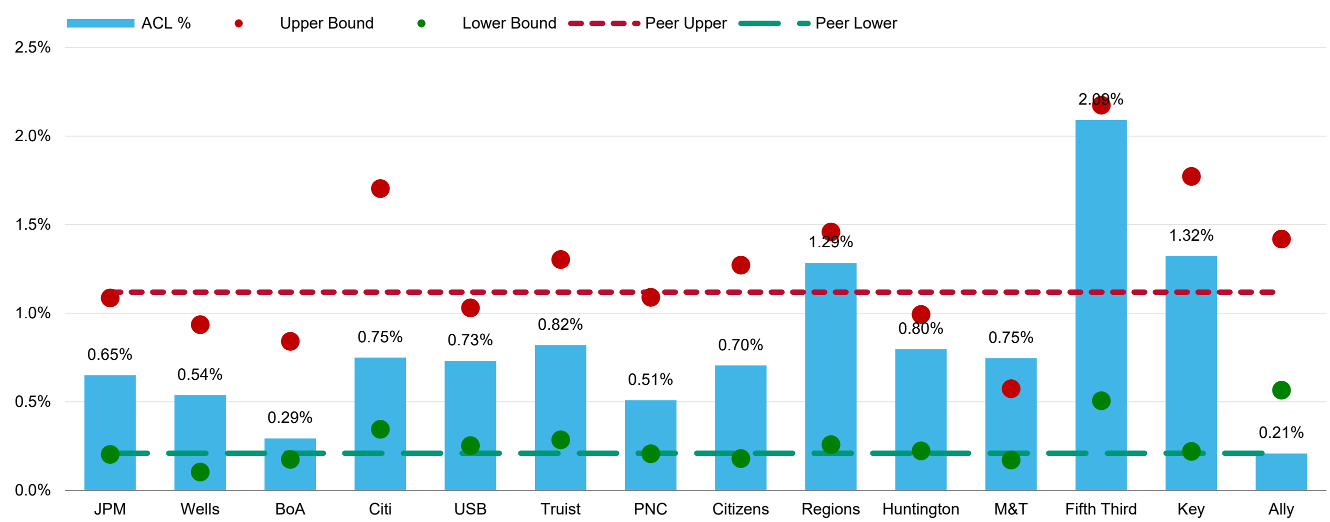
Source: Moody's Analytics and FDIC Call Report data

Mortgage

Contrary to the credit card portfolio analysis above, residential mortgages has been a portfolio where reserves stayed relatively low throughout the pandemic. Despite unemployment spikes and significant job losses that remain at heightened levels even now, other factors have remained steady, leaving this industry without the loss projections others have seen. In particular, strong, consistent house prices and house price projections have kept this market stable in terms of loss projections. In addition, various government and regulatory initiatives have helped leave delinquency and default levels for this market at near record lows.

Figures 9 and 10 depict a similar message to what was seen in the CRE market with sizeable releases from a percentage basis in this asset type. The difference for this group however is that the reserve levels were already fairly low and therefore the releases are not as significant overall. In addition, given the lower starting point, the expectation of releases in future quarters will not be as significant as other asset types. The mortgage portfolio graph below is probably a good representation of where the other asset classes will eventually migrate to given the majority in benign times should be close to the mid or lower bound.

Figure 9 Q1 2021 peer benchmark for residential mortgage portfolios



Source: Moody's Analytics and FDIC Call Report data

Figure 10 ACL metrics for peer group – mortgage

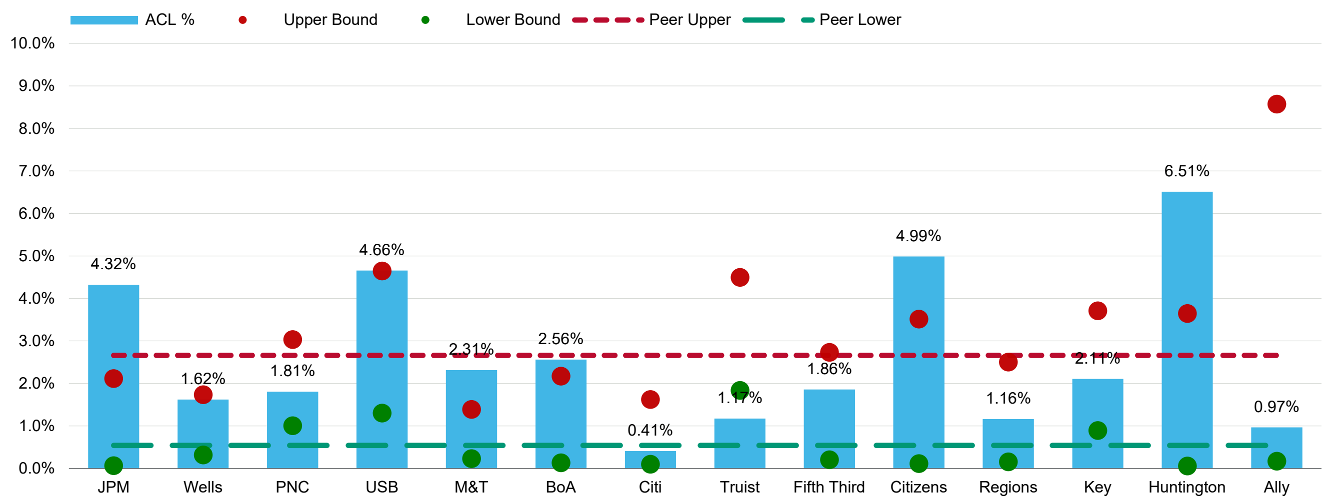
Name	ACL Q4 %	ACL Q1 %	Q4 to Q1 % change	Upper Bound	Mid-Point	Lower Bound	% Lower Bound	Most Reserved / Over reserved
JPM	0.91%	0.65%	-28.60%	1.09%	0.64%	0.20%	219.71%	100.76%
Wells	0.68%	0.54%	-21.24%	0.94%	0.52%	0.10%	415.99%	103.56%
BoA	0.33%	0.29%	-12.52%	0.84%	0.51%	0.18%	66.99%	57.59%
Citi	0.95%	0.75%	-21.29%	1.70%	1.02%	0.35%	117.07%	73.15%
USB	0.75%	0.73%	-2.68%	1.03%	0.64%	0.25%	188.90%	113.94%
Truist	0.83%	0.82%	-0.64%	1.30%	0.79%	0.29%	186.99%	103.16%
PNC	0.76%	0.51%	-33.21%	1.09%	0.65%	0.21%	145.82%	78.44%
Citizens	0.84%	0.70%	-15.88%	1.27%	0.73%	0.18%	292.30%	97.08%
Regions	1.30%	1.29%	-1.17%	1.46%	0.86%	0.26%	397.80%	149.63%
Huntington	0.98%	0.80%	-18.67%	0.99%	0.61%	0.22%	257.69%	131.14%
M&T	0.90%	0.75%	-17.12%	0.57%	0.37%	0.17%	334.95%	200.37%
Fifth Third	2.44%	2.09%	-14.25%	2.18%	1.34%	0.51%	313.02%	155.98%
Key	1.46%	1.32%	-9.56%	1.77%	1.00%	0.22%	500.28%	132.68%
Ally	0.22%	0.21%	-6.98%	1.42%	0.99%	0.57%	-63.24%	20.96%

Source: Moody's Analytics and FDIC Call Report data

CRE construction

CRE construction portfolios saw relatively large increases in reserves on a percentage basis early in 2020 as the construction industry was hit hard by the pandemic overall. Delays in construction projects, supply chain issues and continued uncertainty in the future of the CRE market has continued through early 2021. As a result this product group continues to see volatility in the reserving levels beyond what the other products have shown. Contrary to other asset classes, the CRE construction loans have even had increases in reserves over the past quarter. Figures 11 and 12 present this picture for the peer group's current ACL reserve ratios and perhaps is best evidenced by the difference in directional changes of PNC and Bank of America.

Figure 11 Q1 2021 peer benchmark for construction portfolio



Source: Moody's Analytics and FDIC Call Report data

Figure 12 ACL metrics for peer group – construction

Name	ACL Q4 %	ACL Q1 %	Q4 to Q1 % change	Upper Bound	Mid-Point	Lower Bound	% Lower Bound	Most Reserved / Over reserved
JPM	4.45%	4.32%	-2.80%	2.12%	1.09%	0.07%	6341.07%	395.76%
Wells	1.78%	1.62%	-8.89%	1.74%	1.03%	0.32%	408.33%	157.64%
PNC	1.27%	1.81%	42.48%	3.04%	2.02%	1.01%	79.47%	89.41%
USB	5.09%	4.66%	-8.44%	4.65%	2.98%	1.31%	256.85%	156.41%
M&T	2.26%	2.31%	2.12%	1.39%	0.81%	0.23%	894.69%	284.69%
BoA	3.89%	2.56%	-34.10%	2.17%	1.15%	0.14%	1787.88%	221.86%
Citi	0.62%	0.41%	-34.00%	1.63%	0.86%	0.10%	307.55%	47.47%
Truist	1.25%	1.17%	-5.92%	4.50%	3.17%	1.84%	-36.12%	37.06%
Fifth Third	2.21%	1.86%	-16.03%	2.73%	1.47%	0.21%	800.49%	126.40%
Citizens	3.71%	4.99%	34.31%	3.52%	1.82%	0.12%	4190.33%	274.53%
Regions	1.24%	1.16%	-5.81%	2.51%	1.33%	0.16%	642.58%	87.41%
Key	2.35%	2.11%	-10.20%	3.71%	2.31%	0.90%	135.15%	91.42%
Huntington	5.10%	6.51%	27.54%	3.65%	1.85%	0.06%	10485.07%	351.03%
Ally	1.18%	0.97%	-17.87%	8.58%	4.38%	0.17%	454.18%	22.08%

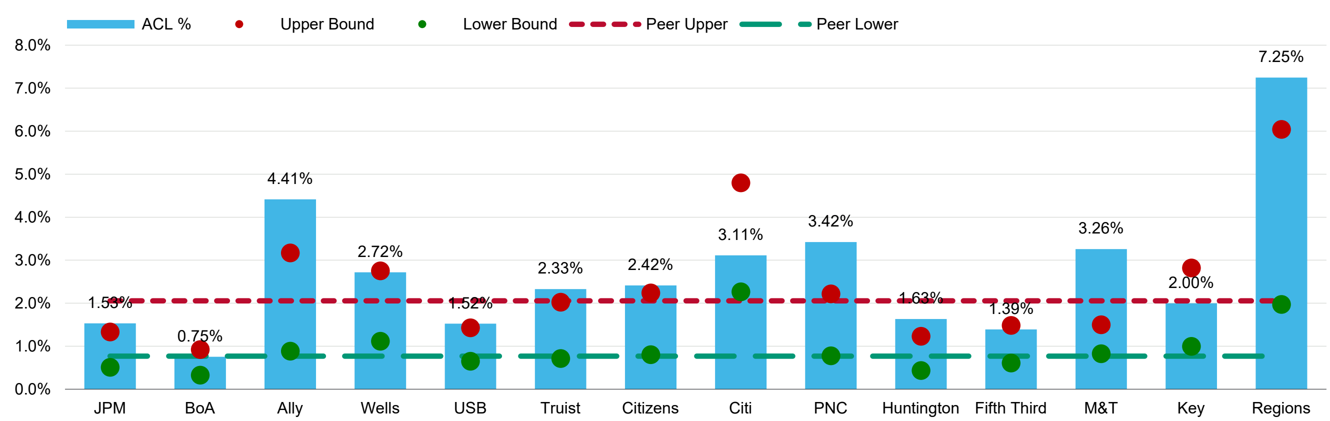
Source: Moody's Analytics and FDIC Call Report data

Other retail

As expected, other consumer or retail loans continue to find their reserving thresholds ranging somewhere between residential mortgages and credit cards. We also find that given the large variety of loan structures and collateral types that underlie this category, there are larger variations in both the benchmark and allowance rates per bank. For example, banks in which this portfolio comprises mostly auto loans will see different results from the study as banks with mostly short-term lending. The variety of loan types in this category can also make finding one or two key drivers of change or differences a bit more challenging. However, similar to residential mortgages, despite reserves in this portfolio being on the lower end the peer group still almost unanimously released reserves over the past quarter.

Figures 13 and 14 depict the peer group's current ACL reserve ratios, and the change in reserving levels over the quarter show the varying levels of releases among the peer banks. Despite both low reserve levels for the product and recent releases, the banks within the peer group still remain reserved well above the mid-point of their benchmark. Given this current level of reserving, further releases are expected but at relatively low levels when compared to other asset types. In addition, the volatility noted in the past quarters will most likely continue as specific loan types within this asset class are affected differently by economic changes.

Figure 13 Q1 2021 peer benchmark for other retail loan portfolios



Source: Moody's Analytics and FDIC Call Report data

Figure 14 ACL metrics for peer group – other retail

Name	ACL Q4 %	ACL Q1 %	Q4 to Q1 % change	Upper Bound	Mid-Point	Lower Bound	% Lower Bound	Most Reserved / Over reserved
JPM	1.87%	1.53%	-18.28%	1.34%	0.92%	0.51%	198.87%	165.60%
BoA	0.90%	0.75%	-16.13%	0.93%	0.63%	0.33%	127.27%	119.77%
Ally	4.59%	4.41%	-3.93%	3.17%	2.03%	0.89%	396.06%	217.35%
Wells	3.10%	2.72%	-12.18%	2.76%	1.94%	1.12%	142.82%	140.25%
USB	1.73%	1.52%	-11.81%	1.43%	1.04%	0.65%	133.51%	146.12%
Truist	2.41%	2.33%	-3.25%	2.03%	1.37%	0.72%	225.32%	169.75%
Citizens	2.64%	2.42%	-8.63%	2.24%	1.52%	0.80%	200.14%	158.55%
Citi	3.27%	3.11%	-4.89%	4.80%	3.54%	2.27%	37.10%	88.01%
PNC	3.97%	3.42%	-13.68%	2.22%	1.50%	0.78%	339.17%	228.23%
Huntington	1.77%	1.63%	-7.65%	1.23%	0.84%	0.44%	271.79%	194.86%
Fifth Third	1.51%	1.39%	-7.93%	1.49%	1.05%	0.61%	126.64%	132.26%
M&T	3.64%	3.26%	-10.41%	1.50%	1.16%	0.83%	293.97%	279.85%
Key	1.98%	2.00%	0.57%	2.82%	1.91%	1.00%	99.70%	104.40%
Regions	7.27%	7.25%	-0.38%	6.05%	4.01%	1.97%	267.10%	180.70%

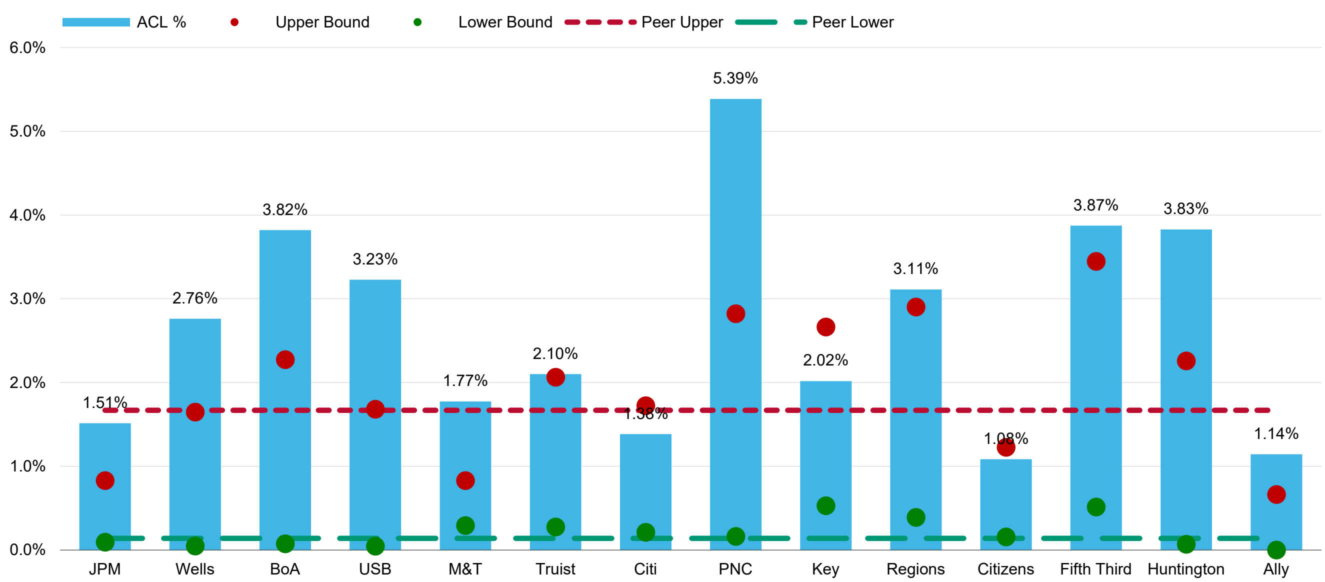
Source: Moody's Analytics and FDIC Call Report data

Commercial and industrial

Commercial and industrial (C&I) portfolios saw increases in reserves in the first half of 2020, as smaller businesses were especially hard hit by the pandemic. Despite economic conditions improving in the latter half of the year, it was not until Q4 that we started seeing significant reserve releases in this asset type, and Q1 2021 continued this trend.

Figures 15 and 16 show this trend in the peer group's current ACL reserve ratios, while also showing that most banks in the peer group remain reserved well above their benchmark upper bounds. As a result, the expectation in future quarters will be a continuous release of reserves at material levels.

Figure 15 Q1 peer benchmark for commercial and industrial portfolio



Source: Moody's Analytics and FDIC Call Report data

Figure 16 ACL metrics for peer group – C&I

Name	ACL Q4 %	ACL Q1 %	Q4 to Q1 % change	Upper Bound	Mid-Point	Lower Bound	% Lower Bound	Most Reserved / Over reserved
JPM	1.47%	1.51%	3.32%	0.83%	0.46%	0.10%	1481.20%	326.92%
Wells	2.73%	2.76%	1.04%	1.65%	0.85%	0.05%	5407.68%	325.42%
BoA	3.77%	3.82%	1.26%	2.28%	1.18%	0.08%	4933.97%	324.96%
USB	3.12%	3.23%	3.32%	1.68%	0.86%	0.05%	6815.62%	373.46%
M&T	1.62%	1.77%	9.16%	0.83%	0.56%	0.29%	503.61%	315.60%
Truist	2.15%	2.10%	-2.51%	2.06%	1.17%	0.28%	660.56%	179.51%
Citi	1.28%	1.38%	7.88%	1.72%	0.97%	0.21%	547.57%	142.84%
PNC	4.23%	5.39%	27.40%	2.82%	1.49%	0.16%	3176.41%	360.63%
Key	2.58%	2.02%	-21.82%	2.66%	1.60%	0.53%	280.91%	126.37%
Regions	3.68%	3.11%	-15.48%	2.90%	1.65%	0.39%	694.49%	188.89%
Citizens	1.84%	1.08%	-41.07%	1.23%	0.69%	0.16%	582.74%	156.38%
Fifth Third	3.94%	3.87%	-1.59%	3.45%	1.98%	0.52%	650.83%	195.40%
Huntington	3.63%	3.83%	5.48%	2.26%	1.17%	0.07%	5310.51%	328.50%
Ally	1.36%	1.14%	-15.64%	0.66%	0.33%	0.00%	50995.01%	343.34%

Source: Moody's Analytics and FDIC Call Report data

Summary and takeaways

The main reason for undertaking this research was to understand if there was a practical way to produce an upper- and lower-bound index that could provide a reasonable indicator of the level of reserves across a set of peer banks. This sixth paper in the benchmark series shows that a triangulation index built on different heuristic measures for both a peer group and a bank can give management the necessary guardrails to understand where they are relative to peers in their reserve practices.

Comparing ACLs from different call reports and historical experiences during the Great Recession is almost impossible given the underlying assumptions that remain undisclosed (that is, weighted average portfolio life) and the difference in portfolio composition. Furthermore, economic environmental uncertainty, lack of clarity on the timing of NCOs, and the impact of government support continue to affect different banks in various ways. Thus, it is vital to understand the parameters of your allowance and know where you stand with respect to your peer group, whether you are above the upper bound or below the lower bound. Such knowledge is crucial for management teams.

We have now automated the process of building the triangulation index based on the outlined measures. This means that we can conduct this analysis on any peer group and at a portfolio level within days. If you have tried to find a reliable benchmark range for you and your peers, feel free to contact us. We offer executive management a view on the array of possible results, especially when internal model reliance is brought into question.

Additional resources from Moody's and Moody's Analytics

» Moody's Topic Page on COVID-19

» CECL Build – Is it Enough?

» CECL Benchmark Q1 2021

» CECL Benchmark Q4 2020

» CECL Benchmark Q3 2020

» CECL Benchmark Q2 2020

» CECL Adoption and Q1 Results Amid COVID-19

» Pre-COVID-19 Health of Small Businesses

» EDF Report September 2020 for North American Corporate Firms