

ARTICLE

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CECL Adoption and Q1 Results Amid COVID-19

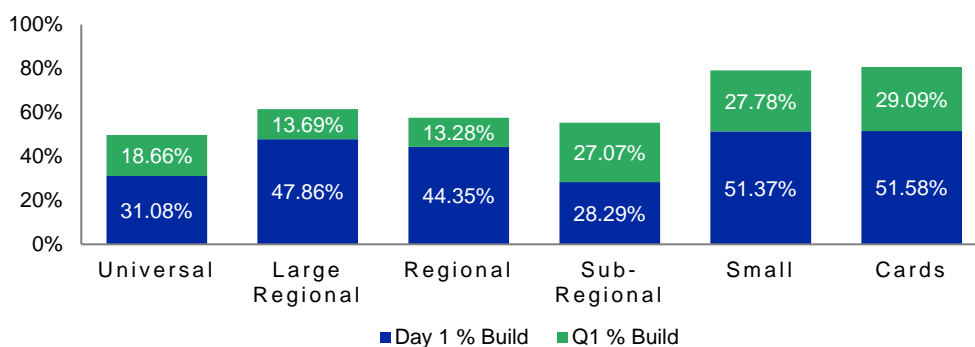
As US financial institutions have disclosed their CECL estimates in Q1 2020, we have compiled results from a select number of firms to inform you of the various impacts due to the adoption of CECL and the subsequent economic downturn from COVID-19. We categorize institutions primarily according to asset size.

We track each institution's allowance for loan loss estimates and total loans reported in Q1 compared to what they had reported in Q4 2019 and Day 1. The ratio of the two figures is the allowance percentage. The allowance percentage build (or release) between Q4 2019 and Day 1 captures the impact of the CECL accounting guidance adoption that shifted from an incurred loss model to an expected loss model. According to their Q1 filings, the change in allowance from Day 1 to Q1 2020 was primarily to reflect increased expected losses caused by the economic downturn due to COVID-19. Some institutions also referenced low prices and weakening demand in the oil sector.

We summarize the banks' results by the following categories and take the simple average of percentage change in allowance (Figure 1):

- » The Universal category consists of six globally systemically important banks (G-SIBs) based in the United States with assets over \$100 billion.
- » The Large Regional category consists of 10 banks with assets over \$100 billion that were not included in the Universal category.
- » The Regional category consists of a sample of 10 banks with assets between \$50 billion to \$100 billion.
- » The Sub-Regional category consists of a sample of 25 banks with assets between \$20 billion to \$50 billion.
- » The Small category consists of a sample of 25 banks with assets under \$20 billion.
- » The Cards category consists of four financial institutions that were primarily credit card issuers.

Figure 1 Percentage change in allowance



The change in allowance ranges across institutions due to a multitude of factors, including but not limited to portfolio composition, asset quality, loan contractual terms, scenario assumptions, mean reversion methodology, and management judgment.

Result details by category

For the Universal banks, the average Day 1 allowance build for the adoption of CECL was 31.08%. The average Q1 allowance build from Day 1 to end of Q1 2020 was 18.66% (Figure 2). Outlier institutions such as BNY Mellon and State Street were excluded because of a lending portfolio composition that was different than the traditional banks in this category.

Figure 2 Percentage change in allowance – Universal banks

BANK NAME	DAY 1 ALLOWANCE CHANGE	Q1 ALLOWANCE CHANGE
JPMorgan Chase Bank	30.20%	19.59%
Bank of America	30.93%	18.90%
Wells Fargo	(12.84%)	17.89%
Citi	32.79%	19.75%
Goldman Sachs	64.84%	18.48%
Morgan Stanley	41.38%	9.76%
Average of Universal Banks	31.08%	18.66%

For the Large Regional banks, the average Day 1 allowance build for the adoption of CECL was 50.41% (Figure 3). The average Q1 allowance build from Day 1 to end of Q1 2020 was 14.04%.

Figure 3 Percentage change in allowance – Large Regional banks

BANK NAME	DAY 1 ALLOWANCE CHANGE	Q1 ALLOWANCE CHANGE
U.S. Bank	36.76%	4.84%
Truist	201.92%	2.55%
PNC Bank	21.93%	7.19%
Fifth Third	53.64%	17.75%
Ally	105.05%	25.12%
Citizens	36.19%	18.88%
KeyBank	23.16%	12.82%
Regions	50.48%	12.03%
M & T	12.07%	13.08%
Huntington	50.19%	23.56%
Average of Large Regional Banks	50.41%	14.04%

For the Regional banks, the average Day 1 allowance build for the adoption of CECL was 44.35% (Figure 4). The average Q1 allowance build from Day 1 to end of Q1 2020 was 13.28%.

Figure 4 Percentage change in allowance – Regional banks

BANK NAME	DAY 1 ALLOWANCE CHANGE	Q1 ALLOWANCE CHANGE
Wintrust	27.12%	4.00%
BBVA	20.14%	15.61%
Santander Consumer Bank, USA	67.00%	7.33%
Comerica	(2.36%)	37.90%
Zions	1.96%	40.38%
SVB	7.69%	56.12%
New York Community	2.86%	5.56%
People's United	31.58%	2.67%
Signature	18.75%	14.47%
Synovus	38.16%	22.86%
Average of Regional Banks	44.35%	13.28%

For the Sub-Regional banks, the average Day 1 allowance build for the adoption of CECL was 28.29% (Figure 5). The average Q1 allowance build from Day 1 to end of Q1 2020 was 27.07%. For the Small banks, the average Day 1 allowance build for the adoption of CECL was 51.37% (Figure 6). The average Q1 allowance build from Day 1 to end of Q1 2020 was 27.78%. Note that unfunded commitments and off-balance sheet reserves that may affect the overall allowance for credit loss estimates are excluded from this paper.

Figure 5 Figure 5: Percentage change in allowance – Sub-Regional banks

BANK NAME	DAY 1 ALLOWANCE CHANGE	Q1 ALLOWANCE CHANGE
Associated Bank	55.68%	1.46%
Bank OZK	35.48%	55.95%
BankUnited	25.53%	83.05%
BOKF	9.28%	32.08%
CIT Bank	46.15%	26.32%
Commerce	(12.84%)	20.00%
East West	34.95%	11.51%
First Hawaiian	0.00%	25.25%
Flagstar	20.24%	(9.90%)
FNB	53.57%	11.63%
Frost	(1.11%)	93.26%
Fulton	27.84%	12.90%
Iberiabank	55.74%	22.11%
Investors	(1.90%)	10.68%
Old National	75.56%	8.86%
Pacific Western	1.35%	49.33%
Pinnacle	39.58%	62.69%
Sterling National	86.00%	61.29%
TCF	182.05%	21.40%
Texas Capital	5.06%	19.28%
UMB	8.43%	50.00%
Umpqua	35.14%	37.00%
Valley National	61.82%	4.49%
Webster	23.83%	24.24%
Western Alliance	11.25%	14.61%
Average of Sub-Regional Banks	28.29%	27.07%

Figure 6 Percentage change in allowance – Small banks

BANK NAME	DAY 1 ALLOWANCE CHANGE	Q1 ALLOWANCE CHANGE
Ameris	203.33%	25.27%
Atlantic Union Bank	108.82%	54.93%
Banc of California	17.53%	27.19%
BancorpSouth	52.06%	18.38%
Bank of Hawaii	35.62%	23.23%
Bank of Hope	27.27%	17.35%
Brookline Bank	9.89%	66.00%
Cadence	63.04%	22.00%
CenterState	183.63%	37.14%
Citizens Business Bank	2.20%	19.35%
Customers	141.25%	8.81%
Eagle Bank	11.22%	12.84%
First Midwest	69.05%	10.56%
FirstBank	79.75%	37.32%
FirstBank Puerto Rico	51.74%	24.14%
Hilltop Holdings	20.62%	43.70%
NBT Bankcorp	4.90%	28.97%
Northwest Bank (PA)	18.55%	34.29%
Pacific Premier	179.27%	15.28%
People's Bank	26.85%	54.51%
Seacoast National Bank	58.82%	49.07%
Simmons	223.40%	11.18%
SouthSide Bank	21.74%	77.38%
Stifel	(12.24%)	18.60%
United	75.00%	14.29%
Average of Small Banks	51.37%	27.78%

For the Cards, the average Day 1 allowance build for the adoption of CECL was 51.58% (Figure 7). The average Q1 allowance build from Day 1 to end of Q1 2020 was 29.09%.

Figure 7 Percentage change in allowance – Cards

BANK NAME	DAY 1 ALLOWANCE CHANGE	Q1 ALLOWANCE CHANGE
AMEX	70.37%	33.41%
Capital One	47.60%	33.75%
Discover	72.52%	22.17%
Synchrony	33.85%	29.53%
Average of Cards	51.58%	29.09%

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