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CECL Q3 Results Amid COVID-19

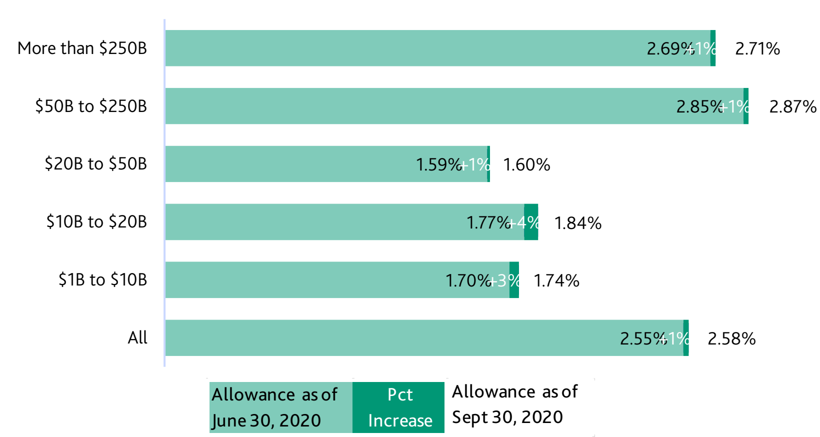
As US financial institutions have filed their CECL estimates in Q3 2020, we have compiled results from banks that have adopted CECL to inform you of the various impacts primarily due to the continued economic deterioration from COVID-19.

We track each institution's allowance for loan loss estimates and amortized cost as reported in the FDIC Call Report (RI-C schedule) that have adopted CECL. Off-balance sheet exposures and reserves for unfunded commitments are excluded from this analysis. The ratio of the allowance for loan losses and amortized cost is the allowance percentage and is computed for Q2 and Q3 2020 with the percent difference being the allowance percentage build (or release) in Q3. The majority of institutions continued to build their overall allowance in Q3, though less substantially than in Q1 and Q2. Commercial real estate and construction experienced allowance builds this quarter whereas residential lending and other consumer portfolios experienced allowance releases.

We summarize the banks' weighted average allowance results by the following categories based on total asset size as of September 30, 2020 (Figure 1).

- More than $250B—13 banks with total assets greater than $250 billion
- $50B to $250B—28 banks with total assets between $50 billion and $250 billion
- $20B to $50B—33 banks with total assets between $20 billion and $50 billion
- $10B to $20B—38 banks with total assets between $10 billion and $20 billion
- $1B to $10B—89 banks with total assets between $1 billion and $10 billion

Figure 1 Total allowance for Q2 and Q3 and percentage change



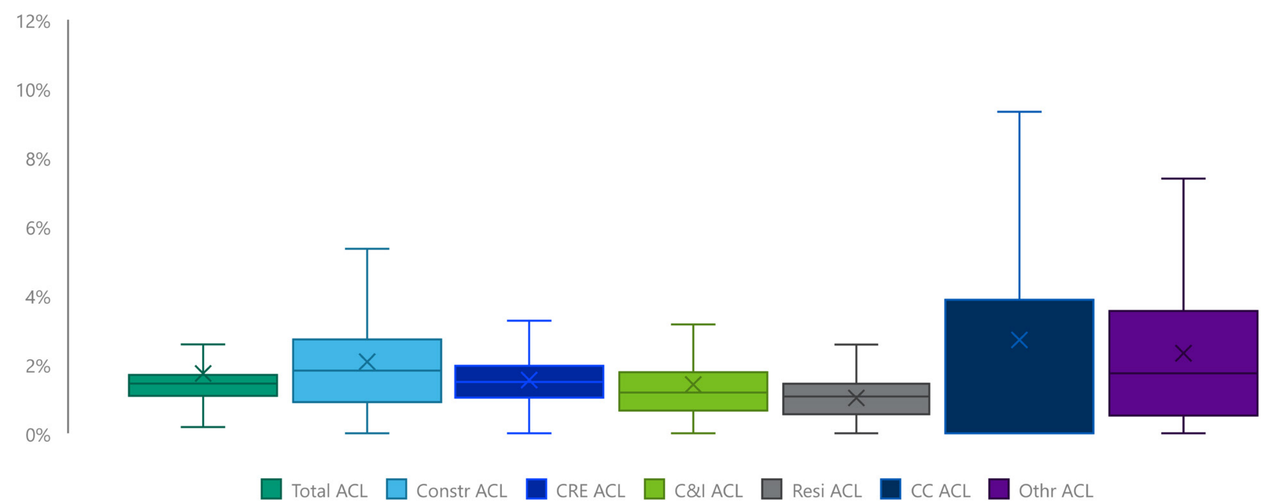
In total, banks increased their allowance for loan losses from 2.55% in Q2 to 2.58% in Q3 for a 1% increase (Figure 1). This can be broken down by the bank category, where the $10B to $20B banks had the highest percentage build at 4%, and the $50B to $250B banks had the highest Q2 ending allowance at 2.87%.

Distribution of allowance rates

The 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. We further break down the allowance into the six reported product types: construction, commercial real estate, commercial, residential real estate, credit cards, and other consumer loans.

We depict the distribution of allowance for loan loss rates by product type for all banks (Figure 2). Product types that are considered as riskier—for example, credit cards, other consumer loans, and construction loans—have a wider range or dispersion of allowance estimates across institutions.

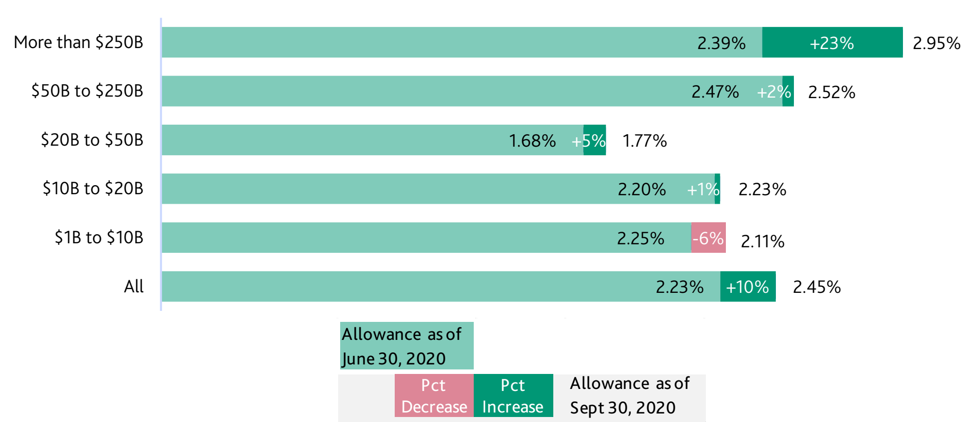
Figure 2 Distribution of allowance rates



Construction loans

The banks in our assessment increased their construction (Constr) allowance from 2.23% in Q2 to 2.45% in Q3 for a 10% gain (Figure 3). The More than $250B bank category had the highest percentage build at 23%, followed by $20B to $50B banks at 5%, $50B to $250B banks at 2%, and $10B to $20B banks at 1%. $1B to $10B banks declined -6%.

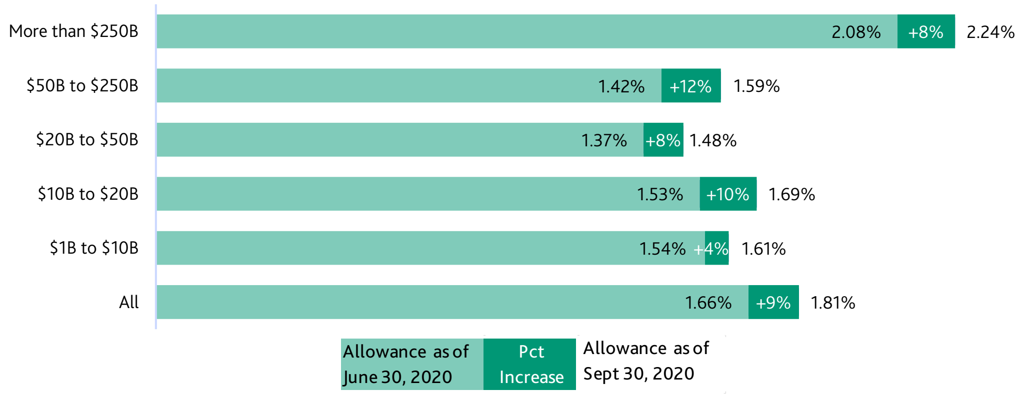
Figure 3 Construction allowance for Q2 and Q3 and percentage change



Commercial real estate loans

For non-construction or permanent commercial real estate (CRE) lending, the allowance jumped from 1.66% to 1.81% in Q3 for a 9% increase (Figure 4). The $50B to $250B bank category had the highest percentage build at 12%, followed by $10B to $20B banks at 10%, More than $250B banks at 8%, $20B to $50B banks at 8%, and $1B to $10B banks at 4%.

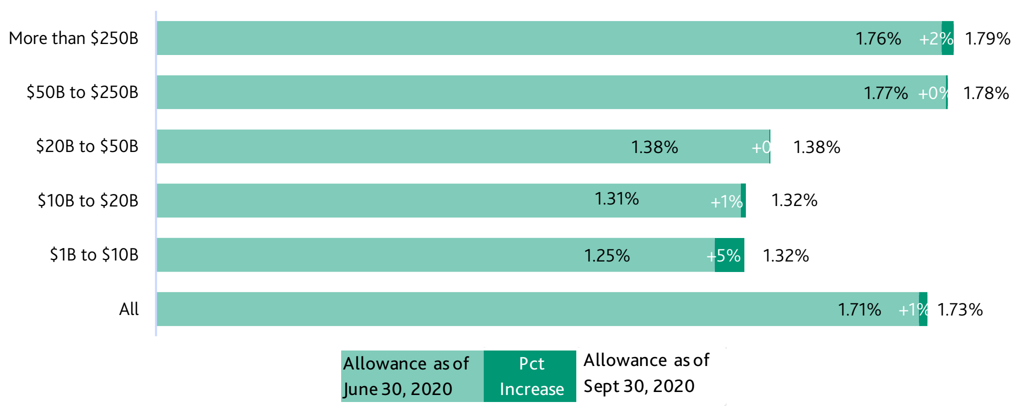
Figure 4 Commercial real estate allowance for Q2 and Q3 and percentage change



Commercial loans

Commercial (C&I) allowance grew slightly from 1.71% to 1.73% in Q3 for a 1% increase (Figure 5). The $1B to $10B bank category had the highest percentage build at 5%. The institutions in the groups above $10 billion had nominal increases in commercial allowance.

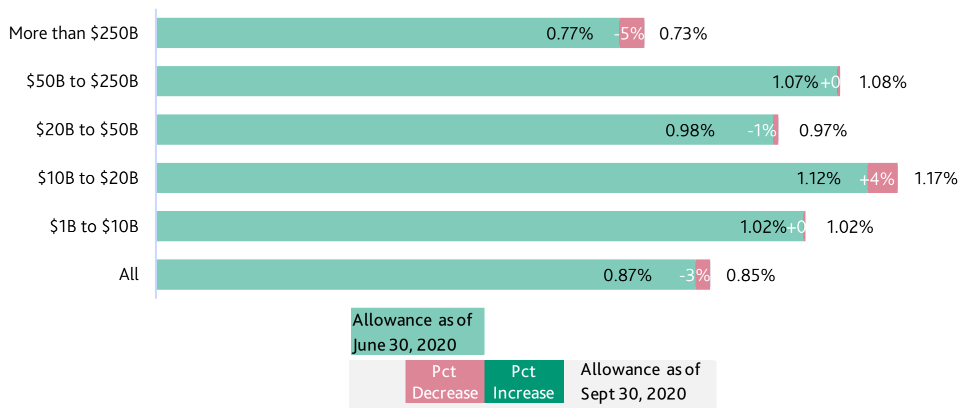
Figure 5 Commercial allowance for Q2 and Q3 and percentage change



Residential real estate loans

Residential real estate (Resi) allowance went from 0.87% to 0.85% in Q3, for a 3% decrease (Figure 6). The More than $250B bank category had the highest percentage decline at -5%, followed by $10B to $20B banks at -4%. The institutions in the other groups had nominal changes.

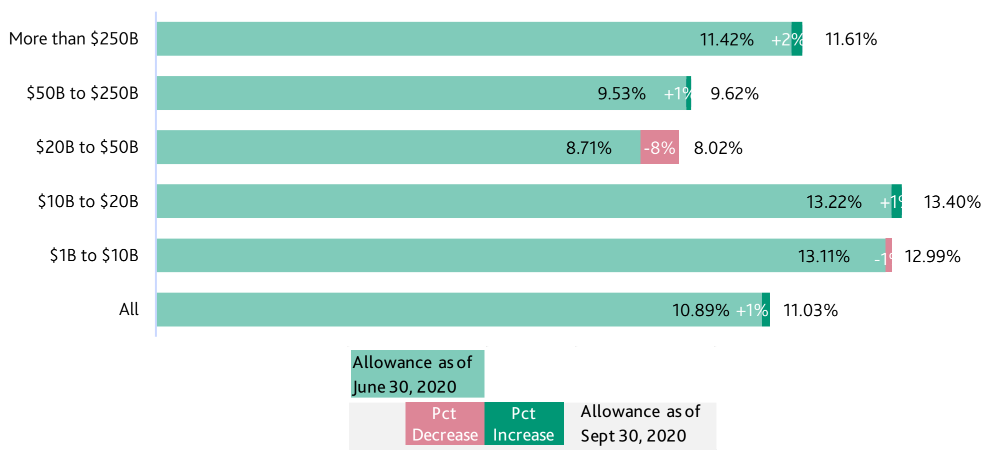
Figure 6 Residential real estate allowance for Q2 and Q3 and percentage change



Credit cards

Credit card (CC) allowance saw a 1% increase from 10.89% to 11.03% in Q3 (Figure 7). The More than $250B bank category had the highest percentage build at 2%, while the $20B to $50B banks declined -8%. The institutions in the other groups had nominal changes.

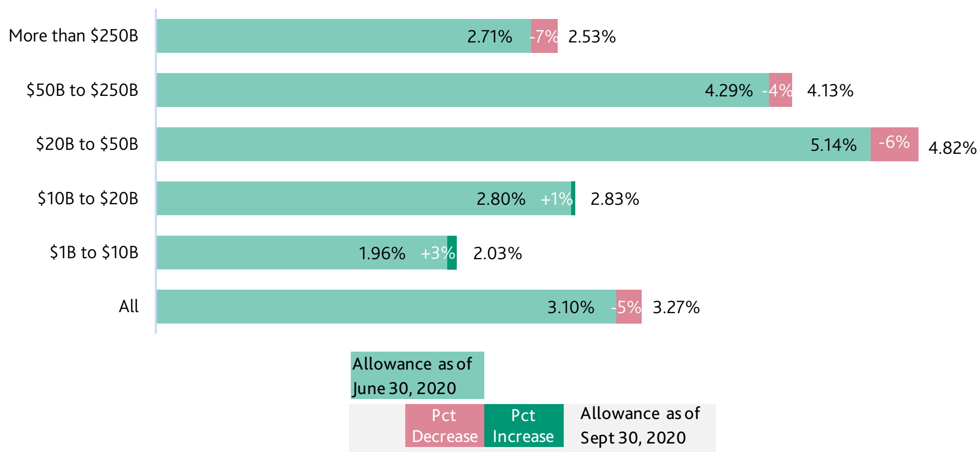
Figure 7 Credit card allowance for Q2 and Q3 and percentage change



Other consumer loans

Other consumer lending (Othr) allowance declined from 3.27% to 3.10% in Q3 for a 5% decrease (Figure 8). The More than $250B bank category had the highest percentage decline at -7%, followed by $20B to $50B banks at -6%, and $50B to $250B banks at -4%. However, the $1B to $10B bank category had a 3% increase, and the $10B to $20B banks saw an increase of 1%.

Figure 8 Other consumer allowance for Q2 and Q3 and percentage change



Bank results

Individual financial institution results are available. Contact Phillip Lai (Phillip.Lai@moodys.com) or Jeff Young (Jeff.Young@moodys.com) for detailed breakouts of the bank-level results.

Additional resources from Moody's and Moody's Analytics

» Moody's Topic Page on COVID-19

» Moody's Analytics – CECL Benchmark Q3 2020

» Moody's Analytics – CECL Q2 Results Amid COVID-19