Inaugural CECL Reserving and Credit Benchmarking Study

SECOND QUARTER 2020

COVID-19's adverse impact on loan performance and current Coronavirus Aid, Relief, and Economic Security (CARES) Act financial reporting and disclosure relief arrived simultaneous to the implementation of the controversial Current Expected Credit Losses (CECL) accounting standard for loan-loss reserving. Analysis and comparisons would have been difficult under any of these circumstances. However, the interplay of all three factors has made analyzing bank loan performance and reserving levels even more difficult.

In an effort to provide financial statement preparers and users more insightful information to better benchmark activity across a representative cross-section of banks (given asset size, geographic location, and business mix), Berkeley Research Group's (BRG) Financial Institutions Advisory practice has commenced a quarterly *CECL Reserving and Credit Benchmarking Study*. The study compares allowance levels, charge-offs, nonperforming loans (based on CARES Act classification/reporting relief), COVID deferrals, and other key credit metrics across multiple predominately domestic US institutions.

This inaugural study selected twelve representative banks with total assets as of June 30, 2020, ranging from $31 billion to $459 billion (and includes a $97 billion median).

Key observations from this survey include:

- Allowance coverage ratios vary widely, with a difference of more than four times the lowest and highest bank in our survey (from 0.6 percent to 2.55 percent).[1]
- Most, but not all, banks increased their allowance coverage ratios significantly over the last two quarters; some decreased, possibly due to increases in Paycheck Protection Program (PPP) loans.
- Most banks disclose COVID deferrals at least in total (however, not all break out by key portfolio categories), and amounts vary widely across institutions (from 3.7 percent to 11.7 percent).
- Commercial real estate portfolios are most impacted by COVID deferrals, where median amounts are two times other portfolios
- Comparison of nonperforming assets is not yet meaningful given CARES Act relief, which precludes COVID deferrals from being included in this category.
- Charge-off ratios are still benign given only recent credit deterioration, but upticks in percentages were noted at select institutions.

1 The second-quarter median for sixty-one banks with assets over $1 billion regulated by the Office of the Comptroller of the Currency was 1.36 percent per a September 15, 2020, presentation by the agency at the American Institute of Certified Public Accountants National Conference on Banks & Savings Institutions.

Detailed Data Comparisons

Coverage Ratios as of June 30, 2020

	Low	Median	Average	High
Loan Allowance to Loan Portfolio	0.58%	1.62%	1.66%	2.30%
Total Allowance *(including for off-balance commitments)* to Loan Portfolio	0.60%	1.74%	1.79%	2.55%
Commercial Allowance Coverage Ratio	0.88%	1.58%	1.67%	2.78%
Consumer Allowance Coverage Ratio	0.34%	1.93%	1.82%	3.26%

Increase in Total Allowance Coverage Ratios

	Low	Median	Average	High
Loan Allowance – 2Q to 1Q	–0.33%	0.17%	0.17%	0.81%
Loan Allowance – 2Q to 4Q *(post CECL)*	–0.20%	0.50%	0.47%	1.15%
Total Allowance – 2Q to 1Q	–0.34%	0.19%	0.19%	0.89%
Total Allowance – 2Q to 4Q *(post CECL)*	–0.22%	0.54%	0.52%	1.28%

Change in Commercial Loan Portfolio
(possible PPP impact on denominator above)

	Low	Median	Average	High
Increase in Total Commercial Loans – 2Q to 1Q	–15.9%	0.4%	–0.4%	9.3%
Increase in Total Commercial Loans – 2Q to 4Q	–15.8%	2.2%	0.8%	10.1%

Disclosure of COVID Deferrals

- Eleven of twelve banks disclosed total COVID deferrals.
- One bank disclosed Consumer COVID deferrals only.
- Seven of twelve banks broke out COVID deferrals by primary portfolio areas.
- One of twelve banks broke out total COVID deferrals by one portfolio area only.

COVID Deferral Statistics *(as of June 30, 2020)*

	Low	Median	Average	High
Commercial and Industrial Loans	1.06%	3.42%	5.20%	12.29%
Commercial Real Estate Loans	1.10%	8.79%	10.30%	25.20%
Equipment Lease Financing	3.63%	4.02%	7.18%	13.90%
Consumer Loans	2.09%	4.79%	6.02%	14.52%
Total COVID Deferrals	**3.67%**	**6.61%**	**6.95%**	**11.68%**

Nonperforming Loan Statistics
(clearly impacted by CARES Act reporting relief)

	Low	Median	Average	High
Commercial and Industrial Loans	0.01%	0.65%	0.66%	1.49%
Commercial Real Estate Loans	0.15%	0.49%	0.55%	1.46%
Equipment Lease Financing	0.00%	0.50%	1.06%	3.25%
Consumer Loans	0.01%	0.44%	0.75%	3.31%
OREO and Foreclosed Assets	0.00%	0.04%	0.10%	0.56%
Total Nonperforming Loans *(as of June 30, 2020)*	**0.17%**	**0.69%**	**0.69%**	**1.17%**
Allowance for Loan and Leases to Total Nonperforming Loans *(as of June 30, 2020)*	**0.00%**	**0.37%**	**0.36%**	**0.94%**
Change in nonperformers – 2Q to 1Q	-0.06%	0.05%	0.06%	0.17%
Change in nonperformers – 2Q to 4Q	-0.27%	0.12%	0.10%	0.35%

Net Charge-Off Metrics

	Low	Median	Average	High
Commercial Charge-Offs to Avg. Loans (annualized)	0.00%	0.30%	0.33%	0.90%
Consumer Charge-Offs to Avg. Loans (annualized)	0.00%	0.10%	0.17%	0.52%
Total Net Charge-Offs to Avg. Loans (annualized)	**0.00%**	**0.37%**	**0.36%**	**0.94%**
Number of Quarters of Charge-Off in Allowance*	7	21	34	148
Change in Charge-off % - 2Q to 1Q	-0.11%	-0.02%	-0.01%	0.19%
Change in Charge-off % - 2Q to 4Q	-0.22%	0.00%	0.07%	0.60%

** Excludes two banks with 0.00% charge-offs.*

Change in Provision for Credit Losses

	Low	Median	Average	High
Percentage Increase in Provision – 2Q to 1Q	–82%	–24%	20%	315%
Percentage Increase in Provision – 2Q to 4Q#	86%	462%	836%	4158%

 # Pre-CECL (therefore under incurred loss model)

Methodology

All amounts were obtained from publicly available information contained on the banks' websites, including:

- ✓ Securities and Exchange Commission Forms 10-Q and 10-K
- ✓ Press releases
- ✓ Earnings presentations
- ✓ Supplemental quarterly financial data

✓ PNC	✓ South State	✓ TCF
✓ Citizens	✓ Prosperity	✓ Huntington
✓ Fifth-Third	✓ First Republic	✓ Key
✓ Sterling	✓ Zions	✓ Frost

Underlying data with respective sourcing is available from BRG upon request and includes breakouts by portfolio category where presented.

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About BRG

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