

CECL Reserving and Credit Benchmarking Study

FIRST-QUARTER 2021



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 a continuing effort to provide financial statement preparers and users more insightful information to benchmark activity better across a representative cross-section of banks (given asset size, geographic location, and business mix), Berkeley Research Group's (BRG) Financial Institution Advisory practice created the 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 fourth study in our series continues to analyze the same twelve representative banks that appeared in our first three studies. These banks have total assets as of March 31, 2021, ranging from \$30 billion to \$474 billion (and a \$104 billion median).

Key observations from this first-quarter study include:

- ✓ Coverage ratios continued to fall during Q1 2021 (7 basis points on average) when compared to Q4 2020, but are still, on average, 42 basis points (bp) higher than pre-pandemic levels.
- ✓ Allowance coverage ratios continue to vary widely, with a difference of more than four times the lowest and highest bank in our survey.
- ✓ Commercial loans still are up over 9% on average from year-end 2019 levels due to COVID Paycheck Protection Program (PPP) lending, but they did decrease 51 bp on average during Q1 2021.
- ✓ COVID deferral amounts continued to decrease significantly this period, falling (in total) 32% from that observed at year-end and 93% from the second-quarter 2020 high. In fact, we observed more limited disclosure of COVID deferrals this period and would not be surprised to see this disclosure item completely drop in the second or third quarter of 2021.
- ✓ For those reporting this information, COVID deferrals as a percentage of loans now range from 26 bp to 1.38%.
- ✓ Commercial real estate COVID deferrals continue to be the most pronounced areas of stress, with ranges of 41 bp to 2.02% of the portfolio deferred.
- ✓ As noted in the Q4 2020, consumer COVID deferrals are continuing to challenge commercial real estate as the most pronounced area, with ranges from 6 bp to 1.88% of the portfolio deferred.
- ✓ Eight of twelve banks in our survey released provisions during Q1 2021, and one recorded a provision of zero. This compares to three and one, respectively, in the prior quarter.
- ✓ Nonperforming loans decreased slightly during the quarter: 3 bp on average. However, the low balance stayed essentially flat (down 1 bp), while the high balance decreased 10 bp from Q1 2021 to Q4 2020.
- ✓ Charge-off ratios continue to be benign, with a 6 bp quarterly reduction on the average ratio noted. In addition, the range between the institutions with the low and high amounts narrowed significantly during the quarter.

Detailed Data Comparisons

Coverage Ratios as of March 31, 2021¹

	Low	Median	Average	High
Loan Allowance to Loan Portfolio	0.53%	1.55%	1.61%	2.26%
Total Allowance (including for off-balance commitments) to Loan Portfolio	0.55%	1.67%	1.71%	2.54%
Commercial Allowance Coverage Ratio	1.19%	1.80%	1.78%	2.55%
Consumer Allowance Coverage Ratio	0.21%	1.39%	1.48%	2.64%

Increase in Total Allowance Coverage Ratios²

	Low	Median	Average	High
Loan Allowance – 1Q '21 to 4Q '20	-0.03%	-0.01%	-0.07%	0.01%
Loan Allowance – 1Q '21 to 3Q '20	-0.06%	-0.07%	-0.09%	-0.06%
Loan Allowance – 1Q '21 to 2Q '20	-0.06%	-0.08%	0.05%	-0.04%
Loan Allowance – 1Q '21 to 1Q '20	-0.04%	0.05%	0.13%	0.28%
Loan Allowance – 1Q '21 to 4Q '19 (post-CECL)	-0.02%	0.43%	0.42%	0.52%
Total Allowance – 1Q '21 to 4Q '20	-0.04%	-0.09%	-0.11%	0.09%
Total Allowance – 1Q '21 to 3Q '20	-0.05%	-0.12%	-0.13%	-0.04%
Total Allowance – 1Q '21 to 2Q '20	-0.05%	-0.07%	-0.08%	-0.01%
Total Allowance – 1Q '21 to 1Q '20	-0.03%	0.06%	0.12%	0.41%
Total Allowance – 1Q '21 to 4Q '19 (post-CECL)	-0.01%	0.46%	0.43%	0.64%

Change in Commercial Loan Portfolio

(impact of PPP loans)

	Low	Median	Average	High
Increase in Total Commercial Loans – 1Q '21 [^] to 4Q '20	-4.31%	-0.63%	-0.51%	3.57%
Increase in Total Commercial Loans – 1Q '21 [^] to 3Q '20	-8.04%	-3.12%	-2.15%	10.47%
Increase in Total Commercial Loans – 1Q '21 [^] to 2Q '20	-9.42%	-3.23%	-3.63%	11.80%
Increase in Total Commercial Loans – 1Q '21 [^] to 1Q '20*	-11.50%	1.26%	1.71%	18.61%
Increase in Total Commercial Loans – 1Q '21 [^] to 4Q '19*	-1.33%	4.97%	9.33%	25.60%

[^] - Excludes TCF for 1Q 2021 due to the acquisition of BB&T Commercial Equipment Capital, Corp as of January 29, 2021.

* Excludes South State for 1Q 2020 and 4Q 2019 due to the acquisition of CenterState Bank as of June 7, 2020.

Disclosure of COVID Deferrals

- ✓ Nine of twelve banks disclosed some level of COVID deferral information, down from eleven last quarter.
- ✓ Four banks presented detail breakouts by primary portfolio areas.
- ✓ Four banks only presented amounts in total.
- ✓ One bank presented consumer COVID deferral information but not total deferrals.

1 The first-quarter median for sixty-eight banks with assets over \$1 billion regulated by the Office of the Comptroller of the Currency (OCC) was 1.22% at March 31, 2021, down 15 bp from that observed at December 31, 2020. Information obtained from Jeffrey Geer, Associate Chief Accountant, OCC.

2 Represents the actual change in the low-, median-, average-, and high-coverage ratio from one period to the other (therefore, 2.00% in Q4 to 1.50% in Q4 = 0.50% decrease). Some individual banks may have larger or smaller movements than that noted above.

COVID Deferral Statistics

(as of March 31, 2021)

	Low	Median	Average	High
Commercial and Industrial Loans	0.00%	0.06%	0.21%	0.73%
Commercial Real Estate Loans	0.41%	0.71%	1.05%	2.02%
Equipment Lease Financing	0.21%	0.21%	0.21%	0.21%
Consumer Loans*	0.06%	1.11%	0.94%	1.88%
Total COVID Deferrals	0.26%	0.94%	0.77%	1.38%

* Excludes Sterling, which has a relatively small consumer portfolio but high COVID deferrals of 4.95%.

Change in COVID Deferrals

(detail from March 31, 2021)³

	Low	Median	Average	High
Commercial and Industrial Loans	-100%	-79%	-60%	-66%
Commercial Real Estate Loans	-40%	-9%	-11%	-23%
Equipment Lease Financing	36%	36%	36%	36%
Consumer Loans	-3%	-14%	-11%	-17%
Total COVID Deferrals – 1Q '21 to 4Q '20	-77%	-33%	-32%	-40%
Total COVID Deferrals – 1Q '21 to 3Q '20	-89%	-65%	-72%	-78%
Total COVID Deferrals – 1Q '21 to 2Q '20	-99%	-89%	-93%	-95%

* Excludes Sterling, which has a relatively small consumer portfolio but high COVID deferrals of 4.95%.

Nonperforming Loan Statistics⁴

	Low	Median	Average	High
Commercial and Industrial Loans	0.00%	0.63%	0.64%	1.87%
Commercial Real Estate Loans	0.11%	0.45%	0.59%	1.91%
Equipment Lease Financing	0.06%	0.23%	0.98%	3.18%
Consumer Loans	0.15%	0.81%	0.90%	2.00%
OREO and Foreclosed Assets	0.00%	0.02%	0.04%	0.18%
Total Nonperforming Loans (as of March 31, 2021)	0.15%	0.70%	0.72%	1.96%
Allowance for Loan and Leases to Total Nonperforming Loans (as of March 31, 2020)	78%	272%	316%	709%
Change in nonperformers – 1Q '21 to 4Q '20	-0.01%	-0.03%	-0.03%	-0.10%
Change in nonperformers – 1Q '21 to 3Q '20	-0.01%	-0.09%	0.00%	0.76%
Change in nonperformers – 1Q '21 to 2Q '20	-0.02%	0.00%	0.04%	0.79%
Change in nonperformers – 1Q '21 to 1Q '20	0.01%	0.08%	0.11%	0.74%
Change in nonperformers – 1Q '21 to 4Q '19	-0.01%	0.08%	0.16%	1.07%

³ Represents the percentage change in the ratio of COVID deferrals from one period to the other (therefore, 2.00% in Q2 to 0.50% in Q3 = 75% reduction) for low, median, average, and high categories. Some individual banks may have larger or smaller movements than that noted above.

⁴ Change in nonperformers represents the actual change in the coverage ratio from one period to the other (therefore, 1.50% in Q2 to 2.00% in Q3 = 0.50% increase) for the low, median, average, and high categories. Some individual banks may have larger or smaller movements than that noted above.

Net Quarterly Charge-Off Metrics

	Low	Median	Average	High
Commercial Charge-Offs to Avg Loans (annualized)	0.00%	0.17%	0.25%	0.69%
Consumer Charge-Offs to Avg Loans (annualized)	-0.10%	0.14%	0.18%	0.53%
Total Net Charge-Offs to Avg Loans (annualized)	0.00%	0.26%	0.27%	0.52%
Number of Quarters of Charge-Off in Allowance*	14	33	37	96
Change in Charge-off % - 1Q '21 to 4Q '20	-0.01%	-0.14%	-0.06%	-0.09%
Change in Charge-off % - 1Q '21 to 3Q '20	-0.01%	-0.06%	-0.13%	-0.75%
Change in Charge-off % - 1Q '21 to 2Q '20	0.00%	-0.08%	-0.06%	-0.42%
Change in Charge-off % - 1Q '21 to 1Q '20	-0.01%	0.02%	-0.03%	-0.52%
Change in Charge-off % - 1Q '21 to 4Q '19	0.00%	0.00%	0.01%	-0.24%

* Excludes First Republic, South State, and Frost, which have outlier balances (given low denominator).

Change in Provision for Credit Losses

	Banks Releasing	Zero Provision	Banks Adding
1Q '21	8	1	3
4Q '20	3	1	8
3Q '20	1	0	11
2Q '20	0	0	12
1Q '20	0	1	11

Analysis of Provision Change

(for the Quarter-Ended March 31, 2021)

	Low	Median	Average	High
Percentage of Prior Quarter-End Allowance Released	2.20%	5.92%	7.40%	15.81%
Percentage of Prior Quarter-End Allowance Added	3.07%	3.74%	4.38%	6.34%

Methodology

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

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

Benchmarked Banks

✓ 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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