CSBS Takes an Early Look at Q4 2020 Bank Performance

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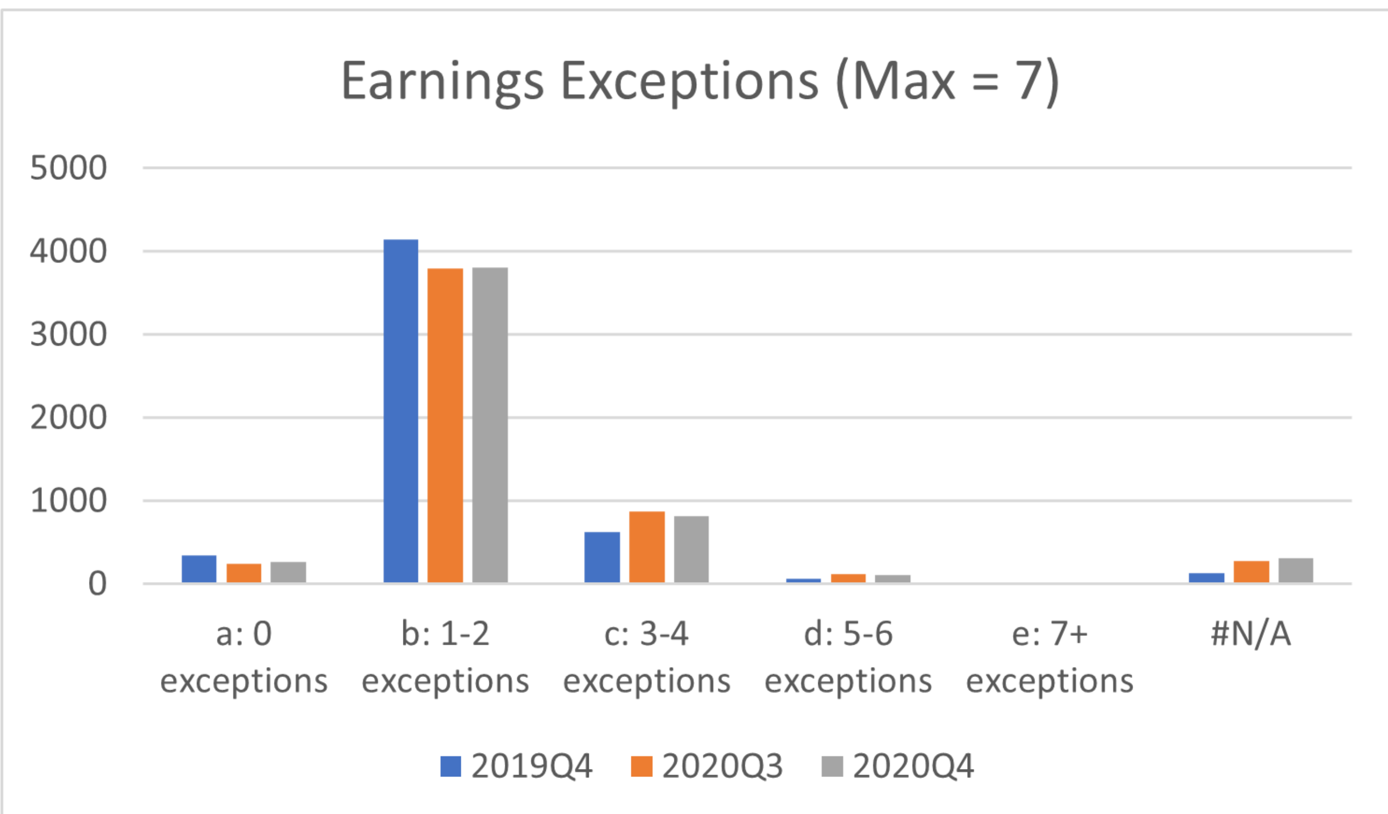
While the industry spent much of 2020 helping their consumer and commercial customers navigate the economic shutdown, industry observers have held their economic breath waiting to see how the effects will show in quarterly results. Early indications from the fourth quarter call report filings show performance is holding up, at least for now, according to CSBS findings.

By applying data from our analytic tools, CSBS has provided an early look into bank performance for both state chartered and national banks. The tools are designed to help financial regulators better understand the risk profiles of their supervised institutions.

A CSBS model assigns “exception scores” to banks if they breach high-risk thresholds of key ratios for capital, asset quality, earnings and liquidity. The score is determined by tallying the number of exceptions for each category. The thresholds were set by a group of analytics experts from the state system. Each state can adjust the thresholds based on their experience and supervisory philosophy.

The risk scoring model shows a majority of banks with three or fewer threshold exceptions for asset quality out of a potential of 11. In the earnings model, a majority have two or fewer threshold exceptions out of a potential of seven. These results are consistent with the prior two quarters. To date, banks have been able to manage their portfolios through the economic challenges without the typical flow of increased delinquency and charge-offs resulting in pressure on earnings. Time will tell if this trend can continue as we work through the ramifications of the pandemic.


Asset Quality Exceptions (Max = 11)
3000
2500
2000
1500
1000
500
0
a: 0 exceptions
b: 1-3 exceptions
c: 4-6 exceptions
d: 7-9 exceptions
e: 10+ exceptions
#N/A
2019Q4
2020Q3
2020Q4


Earnings Exceptions (Max = 7)
5000
4000
3000
2000
1000
0
a: 0 exceptions
b: 1-2 exceptions
c: 3-4 exceptions
d: 5-6 exceptions
e: 7+ exceptions
#N/A
2019Q4
2020Q3
2020Q4

For those who want to dive a little deeper into the details of the scoring framework, we invite you to read on.

The Scoring Framework: A Deeper Dive
The scoring framework looks at four capital ratios, 11 asset quality ratios, 11 liquidity ratios and seven earnings ratios. In addition to category specific scores, CSBS also sums the scores across the four categories to create a total exception score. By analyzing these exception scores in a bucket-based system, CSBS is able to better understand the performance trends that are driving banking performance on a quarter-over-quarter and year-over-year basis.

In the total exception score category, there are signs of improvement among all banks in the fourth quarter of 2020. Compared with the third quarter of 2020, there were 285 less banks with a total score of six or higher (3,064 banks had a total score of six or higher in the fourth quarter compared with 3,349 banks with a total score of six or higher in the third quarter). Of these banks, 250 moved into buckets with scores under six, while 35 moved to N/A status. N/A status means that a certain bank who was reporting data in one of the previous four quarters is no longer reporting data in most recent quarter due to mergers, acquisitions, late-reporting, or closure.

A lot of the performance in the total category was driven by meaningful declines in the asset quality exception score category where there were 245 less banks in the fourth quarter of 2020 with an asset quality score of four or higher compared with the third quarter (1,987 banks had an asset quality score of 4 or higher in the fourth quarter compared with 2,232 banks with an asset quality score of four or higher in the third quarter). A total of 205 of these banks moved into buckets with asset quality scores under four, while 40 of these banks moved to N/A status.

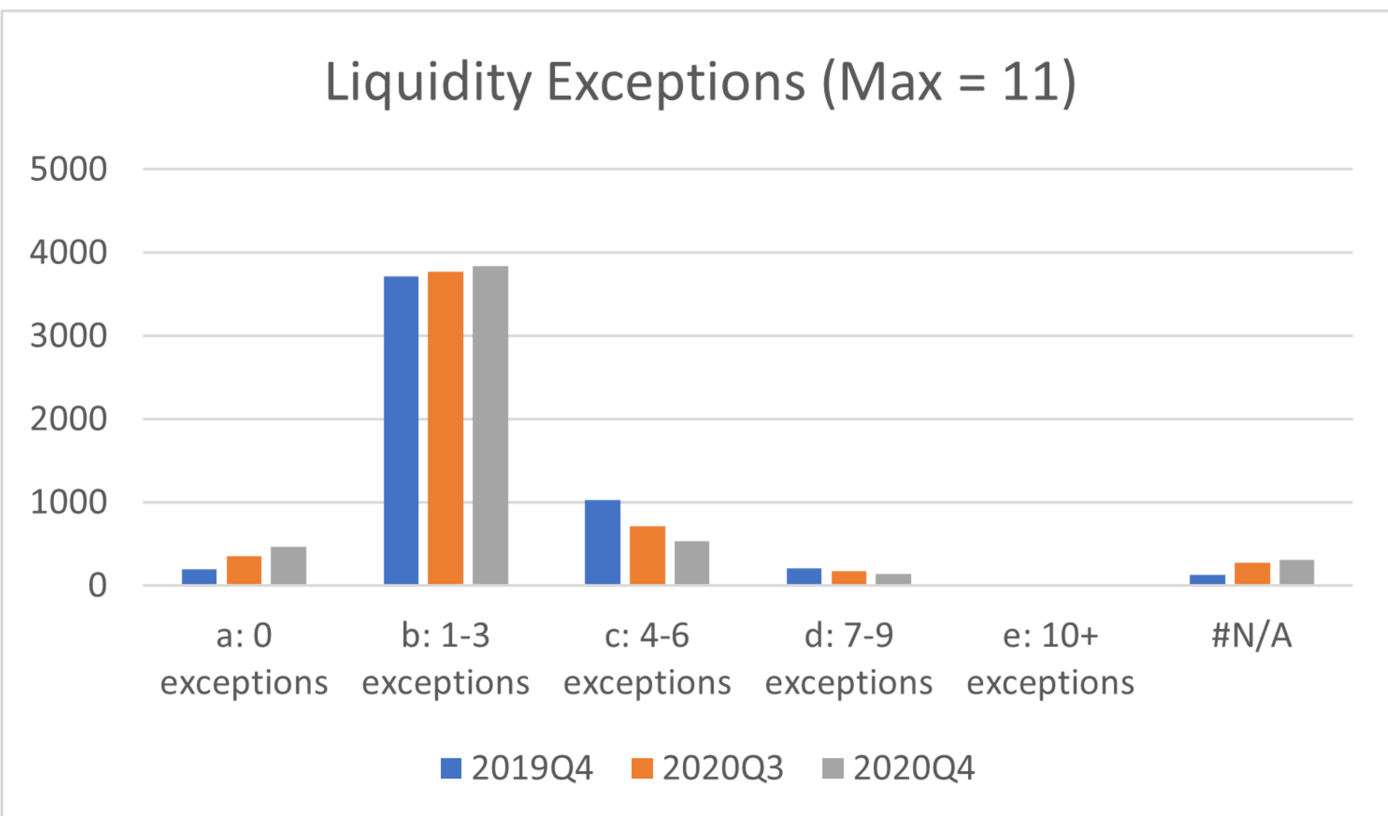
Earnings have lower maximum possible scores (in the capital category a bank can have a maximum score of four, while in the earnings category a bank can have a maximum score of seven – asset quality and liquidity both have higher possible maximum scores of

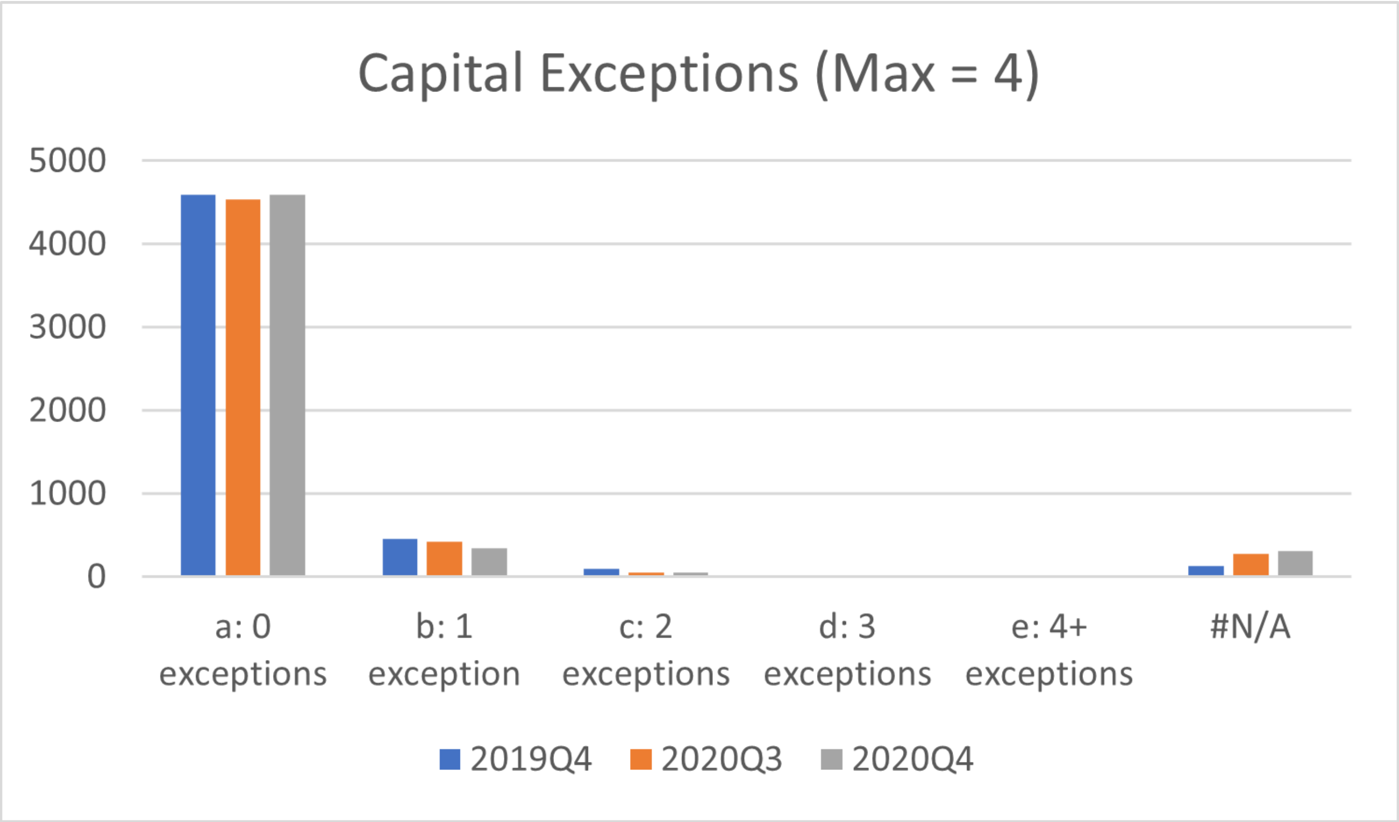
11), meaning that it is natural there will be less variability in the capital and earnings scores. Despite the smaller scale of maximum possible scores, there was still some improvement in both categories. There were 88 less banks with capital scores of one or higher in the fourth quarter and 69 less banks with earnings scores of three or higher in the fourth quarter. Thirty-four of the 69 banks with an earnings score of three or higher moved into a bucket with an earnings score of two or less (35 moved to N/A status).

The charts and graphs below visualize these trends and illustrate the banking industry performance improvements noticed in the fourth quarter of 2020. This analysis uses data from the Federal Financial Institutions Examination Council Central Data Repository, which makes call report data available as it is filed by banks. The exception scoring methodology is a theoretical framework that is intended to augment (not replace) a typical bank financial examination. It is important to note that scores are not weighted by relative importance of key ratios in each category, meaning no one performance ratio score is weighted more than another.

CSBS will continue to monitor these trends and create data analytics platforms to better inform bank examiners and supervisors. For examiners, a data-driven approach to financial supervision can help them better assess a bank’s risk profile and enhance the judgement aspect of their jobs. Effectively doing so will strengthen safety and soundness among banks, fortifying the nation’s financial system.


Total Exceptions
2,500
2,000
1,500
1,000
500
0
a: 0-2 exceptions
b: 3-5 exceptions
c: 6-9 exceptions
d: 10-14 exceptions
e: 15-19 exceptions
f: 20+ exceptions
#N/A
2019Q4
2020Q3
2020Q4


Liquidity Exceptions (Max = 11)
5000
4000
3000
2000
1000
0
a: 0 exceptions
b: 1-3 exceptions
c: 4-6 exceptions
d: 7-9 exceptions
e: 10+ exceptions
#N/A
2019Q4
2020Q3
2020Q4



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