Financial Institutions Fear Loan Loss Amidst Recession Predictions

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Encountering extreme fluctuations in the economy can be threatening to financial institutions. With the recent inflation increase due to the Federal Reserve's attempt to slow rising interest rates, we now see many concerned about a sharp slowdown. More specifically, financial institutions seem concerned about losses in loans impacting revenue, as shown in the Risk Management Association's (RMA) survey reports. The RMA's survey of over 100 lenders shows 84% expressing loan loss as a significant challenge to be expected in 2023.

A recent article shows six of the largest American lenders' expectations of profit loss and "soured loans." JPMorgan Chase & Co., Bank of America Corp., Citigroup Inc., Wells Fargo & Co., Morgan Stanley and Goldman Sachs are all preparing for the sharp slowdown. These six financial institutions have reported an expectation of a 17% average drop in net profit from 2022. In preparing for the sharp downturn, these large financial institutions have already begun preparing by laying off a percentage of employees or cutting pay. Goldman Sachs, Morgan Stanley, Citigroup and more have started laying off their employees, with Goldman Sachs planning to lay off around 6% of its workforce. These actions are expected, as recession and unemployment seem to go hand-in-hand.

In preparation, financial institutions have been increasing their Current Expected Credit Loss (CECL) reserves. While reserves have not increased to the same levels as the pandemic in 2020, they remain high compared to previous years. This indicates an economic downturn, as large financial institutions review their annual and quarterly reports and adjust based on future predictions. With these reserves being filled, large financial institutions can expect a drastic downturn. Whether the recession was delayed due to the government stimulus checks or not, it seems that economists have expected these economic fluctuations to some degree since the pandemic.

Navigating rough waters through the recession:

Designate procedures for challenging times. Have a set of implementations for your organization to follow during difficult times. This instills a routine, bringing organization and comfort to employees as you work together through difficult times.

Be transparent with your employees. Don't keep those within your organization in the dark during difficult circumstances. Being transparent will nurture trust and build loyalty among employees.

Set attainable goals. It's time to be realistic. If times are tough and business is slow, performance could suffer. Keep up to date on the economy and market, and set attainable goals, allowing there to be success within the company still.

Identify weaknesses before they become damaging. Be proactive, not reactive. When we encounter severe economic fluctuations, we are better off preparing before the extreme lows rather than trying to pick up the pieces during and after.

While recession can be a threatening term, as it's often associated with job loss or pay cuts, preparations are available to your financial institution. Remain diligent in your goals, transparent and attentive. To get ahead, use a tool like TriVerity's GAP Analysis checklist to identify weak spots within your financial institution's workflow.

Wendy Elieff has over 23 years of experience in the financial services industry. Wendy oversees the success of the client service and marketing teams at TriVerity, where she is responsible for developing, implementing *and monitoring cohesive marketing strategies to increase brand awareness. She is also responsible for building and maintaining client relationships by staying abreast of and responding to changes in the marketplace.*

TriVerity is a full-service collection agency managing non-performing and charged-off loans with a comprehensive menu of third-party collection services. Since 1990, TriVerity has worked with over 2,700 financial institutions nationwide and is a leading industry expert for financial institution collections of all loan types. The Loan Service Center (TLSC) provides first-party delinquency management to minimize loan loss by managing early-stage delinquency. TriVerity and TLSC's broad spectrum of collection resources and extensive training programs help financial institutions manage and mitigate loan delinquency rates. Our agents work under the direction and procedures of financial institution collection departments.