District Conditions Were Solid Prior to August Market Rout

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This report is based upon preliminary data from 2Q2015 and prior Condition & Income Reports as well as other examination and economic sources. Data has been prepared primarily for bank supervisors and bankers. The opinions expressed in this publication are those of the authors. Opinions are intended only for informational purposes, and are not formal opinions of, nor binding on, the Federal Reserve Bank of San Francisco or the Board of Governors of the Federal Reserve System.

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In the second quarter, the District’s aggregate one-year job growth rate of nearly 3.0% continued to outpace the national rate of 2.1%. Job gains reduced the aggregate unemployment rate to 5.9% by June 2015, down from a year-earlier figure of 7.0%, and nearing the nationwide rate of 5.3%. State-level jobless rates remained better than the national average in Utah (3.5%), Idaho (4.0%), and Hawaii (4.0%). Leading index data from the Philadelphia Federal Reserve suggested growth would continue in most District states. However, the leading index remained negative in Alaska and languished in Oregon. Recent increases in Oregon’s unemployment rate and initial unemployment claims seemed to weigh on the index despite strong job growth.

Real estate markets continued to hum. District home values generally gained in the mid-single digits year-over-year (YoY), and commercial real estate (CRE) vacancies and rents were stable-to-improving. Of note, apartment property prices have recovered more strongly than other sectors, owing to solid rent growth and low and declining capitalization rates fueled by robust investor demand and ample credit availability. Growth among age cohorts that tend to rent rather than own and lower homeownership rates across age groups spurred multifamily housing demand. Still, a strong construction pipeline could weaken vacancies and/or rents in some apartment markets.

Economic slowing abroad, China’s currency devaluation, and a global stock market rout grabbed headlines following the end of the second quarter. Continued dollar strength has made imports cheaper and exports less competitive, widening the trade gap and increasing cross-border credit and liquidity risks. The U.S. yield curve flattened in late August as a “flight to safety” reduced long-term bond yields. Meanwhile, stock market swings could damp performance on margin loans, which have been a source of loan growth among larger banks in recent periods.

Avg.* Year-to-Date Annualized, % of Average Assets - 12th District Banks

<table>
<thead>
<tr>
<th>Sector</th>
<th>Jun-14</th>
<th>Jun-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Income (TE)</td>
<td>3.66%</td>
<td>3.65%</td>
</tr>
<tr>
<td>Noninterest Expense</td>
<td>3.29%</td>
<td>3.13%</td>
</tr>
<tr>
<td>Noninterest Income</td>
<td>0.66%</td>
<td>0.63%</td>
</tr>
<tr>
<td>Provision Expense</td>
<td>0.05%</td>
<td>0.04%</td>
</tr>
<tr>
<td>Pretax Net Income</td>
<td>1.10%</td>
<td>1.30%</td>
</tr>
<tr>
<td>Net Income</td>
<td>0.77%</td>
<td>0.88%</td>
</tr>
</tbody>
</table>

*Trimmed Means
Ahead of those stresses, bank financial performance improved modestly. Earnings edged higher in second quarter, led by continued declines in overhead ratios and historically low provision expenses. On a quarterly basis, net interest margins expanded, following a typical seasonal pattern. The average YoY net loan growth rate topped 11% districtwide, with each of the District’s states exceeding a national average growth rate of 7%. As with prior quarters, construction and land development (C&LD), multifamily, and specialty loans were the fastest-growing credit segments, but larger loan categories accounted for most loan growth in dollar terms.

Loosened underwriting standards likely fueled some of the growth. Per the Federal Reserve’s July 2015 Senior Loan Officer Survey, recent underwriting standards for some loan categories were easier in general than the “mid-point” over the past 10 years. Standouts in this regard were syndicated credits, C&I loans, and multifamily mortgages. Although loan-to-value and debt service coverage ratio requirements are reportedly unchanged, rising interest rates and/or tighter credit availability could alter these metrics.

Asset quality continued to improve. The District’s average nonperforming assets ratio (noncurrent loans and foreclosed real estate to assets) declined to 0.80%, the lowest mid-year reading since 2007 and slightly better than the national average (0.89%). The average District net chargeoff rate was zero, with some states recording net recoveries. Growth in allowances for loan losses lagged expanding loan portfolios, especially at mid-sized and large banks, where coverage of total and noncurrent loans both slipped in recent quarters.

We continue to monitor risks associated with rising short-term interest rates, especially if they are accompanied by a flattening yield curve (a/k/a “bear flattener scenario”). During the last bear flattener scenario (mid-2004 to mid-2006), 12th District net interest margins expanded. In comparison, banks presently face higher exposures to longer-dated loans and securities, potentially delaying asset repricing. Funding costs are currently low because of ample non-maturity deposits, but depositor preferences may shift as rates increase, compounding funding cost pressures.

Consumer compliance and safety and soundness examination ratings were stable-to-improving. At mid-year, approximately 82% of District banks earned satisfactory or strong composite safety and soundness examination ratings.
Section 1 - Economic Conditions

Fundamentals:
- Job Growth
- State Leading Index
- Housing Market Metrics
- Commercial Real Estate Market Conditions
- Drought Conditions
- Global Stock Markets & Currencies

District Job Growth Remained Strong

The Leading Economic Index Moderated for Several District States, Sank for Oregon, and Remained Weak for Alaska

The Leading Index predicts the 6-month growth rate of state’s coincident economic index. Inputs include state-level nonfarm payroll jobs, average hours worked in manufacturing, unemployment rate, wages and salaries, 1-4 family permits, initial unemployment claims, gross state product, as well as national manufacturing delivery times and the 3-mo. vs. 10-yr. Treasury yield spread. Source: Federal Reserve Bank of Philadelphia via Haver Analytics (see https://www.philadelphiafed.org/research-and-data/regional-economy/indexes/leading/)

Home Price Appreciation Continued, but At a Slower Pace in Most Markets; Washington Bucked the Trend

Year-Over-Year % Change in Home Prices by County

Source: Core Logic and Federal Reserve Bank of New York (http://www.newyorkfed.org/home-price-index/)
Single-Family Starts Inched Higher From Crisis-Era Trough; Multi-Unit Housing Starts at Highest Level in Over 20 Years

Avg. Trailing 12-Mo. Housing Starts - West (Thous. Of Units, SAAR)

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Commercial Construction in the District May Expand Significantly in 2016 According to Third-Party Forecasters

12-Month Trailing Completions / Average Stock – 12th Dist.

Apartment was the only sector forecast to have construction top pre-financial crisis highs

Trailing 12-Mo. Completions to Stock vs. Long-Term Trend - 12th District -

Property Type 2001-2016 Avg. 12-Months Ending Jun-16
Apartment 0.7% 1.3%
Retail 1.4% 0.3%
Office 1.6% 1.9%
Industrial 1.2% 1.6%

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Apartment Construction Could Put Pressure on Vacancies (Currently Very Low) and/or Rents in Several District Markets

2-Yr. Forecasted Change in Apartment Rent Index (%)

Vacancy Down & Rents Up

Per CBRE-Econometric Advisors, multifamily vacancies could rise and rents could slip in 10 of the District’s 16 major markets. In another 4 metros, rents may improve, but at the expense of higher vacancies. In Tucson and Los Angeles, both rents and vacancies are forecast to improve. Vacancy rates would generally remain below 6% in all but Tucson, however.

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Growth in Younger Age Cohorts and Declines in Homeownership Rates Have Fueled Apartment Construction

Population & Homeownership Rates:

West Census Region

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Potential Renters / 1st Time Buyers (Millennials)
Potential Move-Up Buyers (Gen X)
Established Households ( Boomers+)

Baby Boomers generally born 1946–1964 (age 50-68 as of 2014); Gen X generally born 1965–1981 (age 33-49 as of 2014); Millennials generally born 1982–2000 (age 14-32 as of 2014); West=12th District plus CO, MT, NM, and WY; Source: Census Bureau via Haver Analytics

Commercial Construction in the District May Expand Significantly in 2016 According to Third-Party Forecasters

Based on aggregates across 15-16 large metropolitan areas; apartment data based upon number of units; other property types based upon square footage; Source: CBRE-Econometric Advisors

Apartment construction could put pressure on vacancies (currently very low) and/or rents in several district markets

2-Yr. Forecasted Change in Apartment Rent Index (%)

Vacancy Up & Rents Down

Per CBRE-Econometric Advisors, multifamily vacancies could rise and rents could slip in 10 of the District’s 16 major markets. In another 4 metros, rents may improve, but at the expense of higher vacancies. In Tucson and Los Angeles, both rents and vacancies are forecast to improve. Vacancy rates would generally remain below 6% in all but Tucson, however.

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Growth in Younger Age Cohorts and Declines in Homeownership Rates Have Fueled Apartment Construction

Population & Homeownership Rates:

West Census Region

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Meanwhile, in Other Sectors, Third-Party Forecasters Expected District Vacancies to be Flat-to-Declining

### Aggregate Vacancy & Availability Rates – 12th District

<table>
<thead>
<tr>
<th>Month</th>
<th>Office</th>
<th>Industrial</th>
<th>Retail</th>
<th>Apartment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun-01</td>
<td>18.8%</td>
<td>11.2%</td>
<td>7.3%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Jun-02</td>
<td>13.1%</td>
<td>9.2%</td>
<td>5.3%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Jun-03</td>
<td>10.2%</td>
<td>7.2%</td>
<td>7.4%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Jun-04</td>
<td>8.7%</td>
<td>6.2%</td>
<td>7.3%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Jun-05</td>
<td>7.2%</td>
<td>5.2%</td>
<td>6.3%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Jun-06</td>
<td>6.3%</td>
<td>4.3%</td>
<td>5.4%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Jun-07</td>
<td>5.5%</td>
<td>3.5%</td>
<td>4.6%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Jun-08</td>
<td>4.7%</td>
<td>3.0%</td>
<td>4.1%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Jun-09</td>
<td>3.9%</td>
<td>2.5%</td>
<td>3.1%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Jun-10</td>
<td>3.1%</td>
<td>2.0%</td>
<td>2.5%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Jun-11</td>
<td>2.3%</td>
<td>1.5%</td>
<td>2.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Jun-12</td>
<td>1.5%</td>
<td>1.0%</td>
<td>1.5%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Jun-13</td>
<td>0.7%</td>
<td>0.5%</td>
<td>1.0%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Jun-14</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Jun-15</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Jun-16</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Jun-17</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Availability rates (retail and industrial) and vacancy rates (office and apartment) are aggregates across 15–16 large metropolitan areas; Source: CBRE-Econometric Advisors

### Cap Rates Were Very Low, Especially for Apartments, But Spread Above Treasury Rate Was Wider Than Pre-Crisis Period

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Jun-07</th>
<th>Jun-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>147</td>
<td>412</td>
</tr>
<tr>
<td>Office</td>
<td>148</td>
<td>410</td>
</tr>
<tr>
<td>Retail</td>
<td>123</td>
<td>385</td>
</tr>
<tr>
<td>Apartment</td>
<td>56</td>
<td>300</td>
</tr>
</tbody>
</table>

Western Region includes Central CA, East Bay, Hawaii, Inland Empire, Las Vegas, Los Angeles, Monterey, North Bay, Orange Co, Portland, Reno, Sacramento, Salt Lake City, San Diego, San Francisco, San Jose, and Seattle; Source: Real Capital Analytics

### Commercial Real Estate Prices Fully Recovered to Pre-Crisis Peaks; Apartment Resurgence Especially Strong

![Commercial Real Estate Prices (Indexed, 4Q 2007 = 100)](chart)

Nation—Apartments: 120
Nation—Office: 111
Nation—Retail: 106
Nation—Industrial: 100

Improving job markets, ample credit availability, and strong investor appetite (especially from abroad), have pushed property prices higher. Should supply-demand imbalances develop or investor/lender preferences shift, capitalization rates may rise, pressuring property values.

Underlying properties are institutionally held, mainly investment-grade; Source: NCREIF CRE Transaction-Based Price Indices

### Drought Now Severe or Worse Across More Western States; An El Niño Pattern Would Mostly Relieve Southern Portions

![Drought Monitor](map)

By mid-August, severe or worse drought conditions enveloped substantially all of Washington, Oregon, and California, roughly three quarters of Nevada, and nearly half of Idaho.

An El Niño event, should it occur, might be most beneficial to Arizona and the southern portions of California, Nevada, and Utah.

Sources: U.S. Drought Monitor (Nat’l); Drought Mitigation Center at the Univ. of Nebraska–Lincoln (U.S. Dept. of Agriculture/National Oceanic and Atmospheric Administration–NOAA); Climate Prediction Center/NOAA
MSCI Stock Market Indices (12/31/2014 = 100)

Downbeat growth prospects, panic selling, and margin calls dragged down global stock indices in late August, reversing the year’s earlier gains.

*Asia Emerging Markets includes China; **based on weights used in Federal Reserve methodology on trade weighting; Sources: MSCI Inc. (through 8/26/2015) and Federal Reserve (through 8/21/2015)
Section 2
Commercial Bank Performance

Earnings
Provisions and Loan Loss Reserves
Loan Growth and Underwriting
Credit Quality
Liquidity and Interest Rate Risk
Capital

Note: Bank size groups are defined as small (<$10B), mid-sized ($10B-$50B), and large (> $50B) banks. The large bank group covers nationwide banks (a larger statistical population), while the other two groups cover 12th District banks.

See also “Banks at a Glance,” Bank Profiles by State:
http://www.frbsf.org/banking/publications/banks-at-a-glance/
**Earnings: Average District Pretax ROAA Edged Higher and Eclipsed the Nation; Best First Half Performance Since 2007**

**Annualized Pretax Return on Average Assets (TE)**

Based on commercial banks, excluding De Novos; year-to-date annualized trimmed means; preliminary 6/30/15 data; for comparability, Pretax ROAAs are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities.

**Widespread Earnings Improvement Across the District**

**Annualized Pretax Return on Average Assets (TE) by State**

Based on commercial banks, excluding De Novos; year-to-date annualized trimmed means; preliminary 6/30/15 data; for comparability, Pretax ROAAs are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities; *NV: excludes credit card and zero-loan banks.

**Small and Mid-Sized Banks Were More Likely to Report Improvement than Large Banks**

**Pretax Return on Average Assets (TE) by Bank Size**

Based on commercial banks, excluding De Novos; year-to-date annualized trimmed means; preliminary 6/30/15 data; for comparability, Pretax ROAAs are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities.

**Year-to-Date Margins Were Relatively Stable Compared With the First Half of 2014**

**Net Interest Income (TE) / Average Earning Assets**

Based on commercial banks, excluding De Novos; year-to-date annualized trimmed means; preliminary 6/30/15 data; for comparability, net interest income is adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities.
On a Quarterly Basis, Asset Yields and Margins Edged Higher, Probably Led by Seasonal Factors

Based on 12th District commercial banks, excluding De Novos; trimmed means; preliminary 6/30/15 data; data are presented on a tax-equivalent (TE) basis; average 3-month constant maturity U.S. Treasury Rate from Federal Reserve, Haver Analytics.

Margins often dip in 1Q (triangles) and recover slightly in 2Q (dots)

Lower Overhead Ratios Continued to Drive Earnings Improvement

Based on commercial banks, excluding De Novos; year-to-date annualized trimmed means; preliminary 6/30/15 data

Loan Loss Reserves: Most District Banks Did Not Make Provisions to Loan Loss Reserves in the First Half of 2015

Percent of District Banks with Year-to-Date Provision Expense of:

- Negative
- Zero

% of Banks with YTD Zero or Negative Provision Expenses

State | Jun-14 | Jun-15
--- | --- | ---
AK | 50% | 25%
AZ | 45% | 47%
CA | 55% | 58%
HI | 67% | 80%
ID | 46% | 82%
NV* | 50% | 80%
OR | 60% | 55%
UT | 48% | 35%
WA | 48% | 53%
US | 37% | 36%

Based on commercial banks, excluding De Novos; year-to-date; preliminary 6/30/15 data; *Nevada excludes credit card and zero-loan banks

ALLL Did Not Keep Pace with Loan Growth; Coverage of Noncurrent Slipped at Mid-Sized and Large Banks

Year-Over-Year Growth – 12th District

Although ALLL growth has accelerated, it remained very low in relation to loan growth and historical trend.

Average ALLL/Noncurrent Loan Ratio by Bank Size (X)

<table>
<thead>
<tr>
<th>Bank Size</th>
<th>Jun-14</th>
<th>Jun-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Small (&lt;$10B)</td>
<td>2.5 X</td>
<td>3.1 X</td>
</tr>
<tr>
<td>District Mid-Sized ($10B-$50B)</td>
<td>1.8 X</td>
<td>1.7 X</td>
</tr>
<tr>
<td>Nation Large (&gt;$50B)</td>
<td>1.3 X</td>
<td>1.2 X</td>
</tr>
</tbody>
</table>

Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); ALLL = allowance for loan and lease losses; HFS = held for sale
District Reserve Coverage of C&LD Loans Edged Down, Now Below Consumer Loans

Allowance for Loan and Lease Losses / Total Evaluated* Loans and Leases

- 12th District ($1B-$50B)
- Nation ($1B-$50B)

Based on aggregate data for commercial banks with assets between $1 billion and $50 billion (smaller banks are not required to report this information); preliminary 6/30/15 data; *“evaluated” excludes loans accounted for at fair value or held for sale; **C&I also includes “all other” loan types not specified elsewhere.

Loan Growth: District Loan Portfolios Continued to Expand; Time Will Tell if Growth Has Plateaued

Year-Over-Year Average Net Loan Growth

Based on average nonfarm payrolls over trailing three months; Source: Bureau of Labor Statistics via Haver Analytics.

Average Net Loan Growth Topped the National Average in All District States

Year-Over-Year Average Net Loan Growth by State

4 of the top 10 states for net loan growth were in the 12th District.

Multifamily, C&LD, and Specialty Segment Growth Rates Were High but Did Not Necessarily Drive Overall Growth

Composition of Domestic Aggregate Loan Growth - 12th District Banks

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Based on a panel of commercial banks, excluding De Novos and banks with extreme growth (likely merger-related); preliminary 6/30/15 data; *includes leases as well as loans collateralized by securities (margin loans), loans extended to governments and to depository and non-depository institutions, and all other loans.

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Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 6/30/15 data; *NV: excludes credit card and zero-loan banks.

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Growth in Construction and Multifamily Helped Push Commercial Mortgage Concentrations Higher

U.S. Banks Have Led a Surge in Multifamily Mortgage Debt Nationally

CRE Mortgage Loans / Total Risk-Based Capital

U.S. Multifamily Mortgages by Holder ($Bils), March 1987 - March 2015

Credit Quality: Nonperforming Assets Continued to Decline in Relation to Capital and Reserves; Now at 2002 Levels

Standards on Syndicated, C&I, and Multifamily Looser Than 10-Year Avg.; Subprime, Jumbo 1-4, and C&L& Tighter

Nonperforming Assets / Capital + ALLL (a/k/a “Texas Ratio”)
Although Lower Year-over-Year, Average Texas Ratios Remained Elevated in Arizona, Idaho, Nevada, and Washington

Nonperforming Assets / Capital + ALLL (a/k/a "Texas Ratio") by State

Based on commercial banks, excluding De Novos; trimmed means; preliminary 6/30/15 data; *NV: excludes credit card and zero-loan banks; nonperforming assets = loans 90+ days past due or on nonaccrual plus other real estate owned

Average District Net Chargeoff Rate Was Zero; States Like California, Arizona, and Idaho Reported Net Recoveries

Liquidity: Short-Term Investments Waned Further as Banks Funded Loan Growth but Still Better Than 2008 Trough

Growth in Certificates of Deposit Continued to Lag Other Deposit Categories (i.e. Non-Maturity Deposits)

Average Annual Deposit Growth

Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 6/30/15 data
Given Mix of Deposit Growth, Reliance on Noncore Funding Remained Moderate, Especially Among Small Banks

Average Net Noncore Funds Dependence by Bank Size (Using CDs > $100K)

Net Noncore Funds Dependence Ratio

**12%**

**28%**

**8%**

**4%**

**-2%**

**10%**

**20%**

**12%**

**2%**

**0%**

**5%**

**10%**

**15%**

**20%**

**25%**

**30%**

**35%**

**40%**

**45%**

**50%**

**55%**

**60%**

**Jun-03**

**Jun-04**

**Jun-05**

**Jun-06**

**Jun-07**

**Jun-08**

**Jun-09**

**Jun-10**

**Jun-11**

**Jun-12**

**Jun-13**

**Jun-14**

**Jun-15**

Based on commercial banks, excluding De Novos; trimmed means; preliminary 6/30/15 data; *Net noncore funding ratio turns negative if CDs between $100K and $250K are excluded.*

Meanwhile, Longer-Term Asset Exposures Still Elevated at Small Banks; Dipped at Mid-Sized

Loans and Securities Maturing or Re-Pricing > 3 Years / Assets

**27%**

**44%**

**39%**

**30%**

**25%**

**20%**

**45%**

**40%**

**35%**

**30%**

**25%**

**20%**

**15%**

**10%**

**5%**

**0%**

**-5%**

**-10%**

**-15%**

**-20%**

**Jun-02**

**Jun-03**

**Jun-04**

**Jun-05**

**Jun-06**

**Jun-07**

**Jun-08**

**Jun-09**

**Jun-10**

**Jun-11**

**Jun-12**

**Jun-13**

**Jun-14**

**Jun-15**

Based on commercial banks, excluding De Novos; trimmed means; preliminary 6/30/15 data

**Interest Rate Risk: Non-Maturity Deposits Could Ebb as Rates Rise (as in 2004-2006)**

Non-Maturity Deposits / Total Assets

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</thead>
<tbody>
<tr>
<td>District Small</td>
<td>8.3%</td>
<td>7.0%</td>
</tr>
<tr>
<td>District Mid-Sized ($10B-$50B)</td>
<td>14.8%</td>
<td>13.8%</td>
</tr>
<tr>
<td>Nation Large (&gt; $50B)</td>
<td>15.5%</td>
<td>17.5%</td>
</tr>
</tbody>
</table>

**Net noncore funding ratio turns negative if CDs between $100K and $250K are excluded.**

Based on commercial banks, excluding De Novos; trimmed means; preliminary 6/30/15 data; non-maturity includes demand, money market, and savings; Constant Maturity (CM) Treasury Rate from Federal Reserve, Haver Analytics

Future Net Interest Margins May Depend on Shape of the Yield Curve; Will it Flatten as in 2004-2006?

Constant Maturity U.S. Treasury Rate (Quarterly Average)

**6.8%**

**6.2%**

**5.6%**

**4.6%**

**5.1%**

**6.0%**

**5.0%**

**4.0%**

**3.0%**

**2.0%**

**1.0%**

**0.0%**

**-1.0%**

**-2.0%**

**Jun-95**

**Jun-96**

**Jun-97**

**Jun-98**

**Jun-99**

**Jun-00**

**Jun-01**

**Jun-02**

**Jun-03**

**Jun-04**

**Jun-05**

**Jun-06**

**Jun-07**

**Jun-08**

**Jun-09**

**Jun-10**

**Jun-11**

**Jun-12**

**Jun-13**

**Jun-14**

**Jun-15**

Constant Maturity (CM) Treasury Rate from Federal Reserve, Haver Analytics

*Yield Curve Inversions (usually pre-date recession)*
During 2004-2006 Rate Cycle, Asset Yields Were Helped in Part by Asset Shift Towards C&LD Loans

An Uptick in Long-Term Interest Rates Weighed on Investment Portfolio Values

Risk-Based Capital Trends Reflected Shifts in Asset Mix And Implementation of Basel III Higher Risk-Weight Buckets

Among New Risk-Weight Buckets for On-Balance Sheet Exposures, 150% Was Most Frequently Used
Section 3 – Regulatory Ratings and Trends

Focusing on trends in examination (CAMELS) ratings assigned by regulatory agencies among commercial banks headquartered within the 12th Federal Reserve District.
**Regulatory Ratings: Upgrades Outpaced Downgrades**

Percent of 12th District Exams that Resulted in CAMELS Composite Rating Upgrade or Downgrade (downgrades shown as negative percentages)

- **% Upgrades**
- **% Downgrades**

No 12th District downgrades during quarter for the first time since at least the mid-1980s.

Includes any change in composite CAMELS rating for commercial banks; quarterly data based on examination completion dates (mail dates); preliminary second quarter 2015 data updated through 08/14/15

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**The Share of District Banks with CAMELS Composite Ratings of 3, 4, or 5 Moderated Further**

Share of Banks Rated Composite 3, 4, or 5

- **12th Dist. - Composite "3"**
- **12th Dist. - Composite "4"**
- **12th Dist. - Composite "5"**
- **Nation - Composite "3", "4", "5"**

Trends for all commercial banks based on examination completion dates (mail dates); preliminary second quarter 2015 data updated through 08/14/15

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**Earnings and Management Remained Weakest Components**

Average CAMELS Component Ratings for 12th District Banks

(1: strong; 2: satisfactory; 3-5: less-than-satisfactory)

- **Earnings and Management** often garnered weaker ratings compared with other component areas—even before the Financial Crisis

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**Consumer Compliance Ratings Were Generally Steady While CRA Ratings Improved**

Percent of 12th District Banks with Less-than-Satisfactory Ratings

- **27% Consumer**

Trends for all commercial banks based on examination completion dates (mail dates); CRA = Community Reinvestment Act; preliminary second quarter 2015 data updated through 08/14/15
Appendices

1. Summary of Institutions
2. Technical Information
This report focuses on the financial trends and performance of commercial banks headquartered within the 12th Federal Reserve District (“12L”). 12L includes 9 western states: AK, AZ, CA, HI, ID, NV, OR, UT, and WA, as well as Guam. Industrial banks and savings institutions, which have different operating characteristics, are excluded from graphics (other than the table to the left).

**De Novos:** Many of the charts exclude “De Novo” banks, or banks less than five years old.

**Groups by Asset Size:** “Small”, and “Mid-Sized” bank groups are based on 12th District community banks (<$10B) and regional banks ($10B-$50B), respectively. The “Large” bank group is based on nationwide banks with assets >$50B because a larger statistical population was needed to construct trimmed means.

**Trimmed Mean (also referred to as “average”):** Many of the charts present trends in ratio averages, adjusted for outliers. The method used is to eliminate or “trim” out the highest 10% and the lowest 10% of ratio values and average the remaining values.

**Aggregate:** In some cases, the trimmed mean method is not appropriate (e.g., when many banks have zero values for a particular ratio or for some growth rates where there may be many highly positive and highly negative values). In these cases, District aggregates sometimes are computed (i.e., summing numerator values across all District banks and dividing by the sum of all denominator values), as opposed to averaging individual bank ratios. When an aggregate is used, it is indicated on the chart.

### Appendix 1: Summary of Institutions

<table>
<thead>
<tr>
<th>Area</th>
<th>Commercial Banks (De Novos)</th>
<th>Industrial Banks (De Novos)</th>
<th>Savings Institutions (De Novos)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AK</td>
<td>4 (0)</td>
<td>4 (0)</td>
<td>-</td>
</tr>
<tr>
<td>AZ</td>
<td>22 (0)</td>
<td>19 (0)</td>
<td>-</td>
</tr>
<tr>
<td>CA</td>
<td>195 (1)</td>
<td>186 (1)</td>
<td>5 (0)</td>
</tr>
<tr>
<td>GU</td>
<td>2 (0)</td>
<td>2 (0)</td>
<td>-</td>
</tr>
<tr>
<td>HI</td>
<td>6 (0)</td>
<td>5 (0)</td>
<td>1 (0)</td>
</tr>
<tr>
<td>ID</td>
<td>13 (0)</td>
<td>11 (0)</td>
<td>-</td>
</tr>
<tr>
<td>NV</td>
<td>12 (0)</td>
<td>12 (0)</td>
<td>4 (0)</td>
</tr>
<tr>
<td>OR</td>
<td>25 (0)</td>
<td>22 (0)</td>
<td>-</td>
</tr>
<tr>
<td>UT</td>
<td>31 (0)</td>
<td>31 (0)</td>
<td>18 (0)</td>
</tr>
<tr>
<td>WA</td>
<td>48 (0)</td>
<td>45 (0)</td>
<td>-</td>
</tr>
<tr>
<td>12L</td>
<td>358 (1)</td>
<td>337 (1)</td>
<td>28 (0)</td>
</tr>
<tr>
<td>US</td>
<td>5,693 (17)</td>
<td>5,441 (10)</td>
<td>30 (0)</td>
</tr>
</tbody>
</table>

Based on preliminary 6/30/15 data.