Banking Conditions Improved Despite Slowdown Abroad

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This report is based upon preliminary data from 3Q2015 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.

Data Inquiries: please contact sf.bsr.publications@sf.frb.org
First Glance 12L: http://www.frbsf.org/banking/publications/first-glance-12L/
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12th District year-over-year job growth continued at a healthy clip of nearly 3.0%, outpacing the national rate of 2.0%. As a result, the District's aggregate unemployment rate improved to 5.7% by September 2015, down from a year-earlier figure of 6.8%, but still above a nationwide rate of 5.1%. State-level joblessness lingered above 6.0% in Nevada, Alaska, Arizona, and Oregon, worsening recently in the latter two states (see table at right). California and Washington reported unemployment rates towards the middle of the pack with California’s unemployment rate dipping below 6.0% for the first time since November 2011. Jobless rates in Idaho and Utah were low but may have bottomed out, and remained low and declining in Hawaii.

Demand for residential and commercial real estate remained strong. Home prices increased in the upper-single digits year-over-year in most District states. Appreciation rates accelerated in the Pacific Northwest and Mountain states especially. Price traction stimulated additional residential construction. Commercial real estate (CRE) vacancies and rents remained stable-to-improving. Foreign capital and ample credit availability kept capitalization rates low and buoyed commercial property values. Still, current and expected commercial construction could weigh on vacancies and/or rents in some sectors and markets.

Global trade challenges continued in the third quarter. Economic weakness abroad and dollar strength vis-à-vis trade partners’ currencies weighed mildly on net exports and trimmed 3 basis points from third quarter growth in gross domestic product (seasonally-adjusted annual rate). During the third quarter, the aggregate value of 12th District exports declined 2.5% year-over-year.

### Average* Year-to-Date Annualized, % of Average Assets - 12th District

<table>
<thead>
<tr>
<th>Component</th>
<th>Sep-14</th>
<th>Sep-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Income (TE)</td>
<td>3.64%</td>
<td>3.62%</td>
</tr>
<tr>
<td>Noninterest Expense</td>
<td>3.25%</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>0.06%</td>
<td>0.04%</td>
</tr>
<tr>
<td>Pretax Net Income</td>
<td>1.16%</td>
<td>1.31%</td>
</tr>
<tr>
<td>Net Income</td>
<td>0.82%</td>
<td>0.89%</td>
</tr>
</tbody>
</table>

*Trimmed Means
Bank earnings performance strengthened modestly. The District’s average year-to-date annualized return on average assets (ROAA) increased to 0.89%, up 6 basis points year-over-year, led by continued declines in overhead ratios and historically low provision expenses (see chart, prior page). On a quarterly basis, the average net interest margin dipped 2 basis points after having a small seasonal lift in second quarter.

Loan growth and performance indicators continued to improve. The average 1-year net loan growth rate accelerated to 12.3% districtwide, with each of the District’s states exceeding a national average growth rate of 7.2%. As with prior quarters, construction and land development (C&LD) and multifamily were often the fastest-growing credit segments at community banks, but larger loan categories (such as nonfarm-nonresidential and commercial and industrial) accounted for most loan growth in dollar terms. Meanwhile, the level of problem loans compared favorably to the nation (see chart at left) and credit losses were at historically low levels.

According to the Federal Reserve’s October 2015 Senior Loan Officer Survey, a small net fraction of lenders tightened standards modestly across commercial-related loan categories during the quarter. There was a notable shift in standards among commercial and industrial (C&I) loans to mid- to large-sized firms. For those borrowers, lenders reported some tightening of premiums on riskier loans, primarily in response to a less favorable economic outlook, industry-specific problems, and/or decreased liquidity in the secondary market. However, C&I loan size, maturity, pricing, and collateral requirements were somewhat looser on net.

Banks remained somewhat vulnerable to rising short-term interest rates, in particular if accompanied by a flattening yield curve. Compared with the last rate tightening cycle (2004-2006), banks reported higher exposures to longer-dated loans and securities, potentially delaying asset repricing. Meanwhile, non-maturity deposits remained elevated. Although this funding source was relatively cheap, depositors in these categories may disintermediate or shift to pricier time deposit products as rates rise.

Safety and soundness and consumer compliance ratings trends reflected the overall improvement in bank financial performance. Roughly 82% of District banks were rated satisfactory or strong for safety and soundness (see chart at left); 97% or more were rated satisfactory or better for consumer compliance and/or community reinvestment.
The following have been identified as areas of High or Elevated concern among 12th District-based, Federal Reserve-supervised institutions:

- **Cyberthreats.** Attacks continue to evolve in both complexity and frequency and expose institutions to operational, reputational, legal, and compliance risks. For institutions outsourcing core banking operations and/or security administration, vendor management programs remain critical to managing and mitigating cyberthreats. Inherent risks increase with system complexity.

- **Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance.** Although most banks in the District have satisfactory BSA compliance programs, the District’s geographic, demographic, and political characteristics, coupled with the institutional mix, continue to make BSA/AML a significant “hot topic”. BSA/AML-related criticisms noted at bank examinations most often relate to internal controls (e.g., institutional risk assessments, customer due diligence—including customer risk assessments, and suspicious activity monitoring programs). Concerns related to scarce compliance resources and ineffective independent tests are also emerging as examination themes.

- **Quality of loan growth.** The District’s average annual net loan growth has outpaced the nation’s for several years (see chart at right). While the expanding economy has likely fueled much of the growth, various banker surveys suggest some relaxation of underwriting standards and potentially aggressive loan pricing. Prior credit cycles have proven that the worst loans are underwritten during the best economic times.

- **Lengthening asset maturities.** In part because of the steep yield curve, institutions have increased their holdings of longer-dated assets over the past few years (see chart at right). In a rising interest rate environment, higher concentrations in longer-dated assets could delay asset repricing and margin expansion and/or lead to mismatches in rate-sensitive assets and liabilities if not appropriately managed.
Additionally, these areas pose “Moderate” but increasing concern:

- **Nonmaturity Deposit (NMD) reliance.** NMDs (traditionally viewed as “core” deposits) have become an increasingly important source of funding for most institutions. While these products have proven inexpensive in the current low-rate environment, there is a concern that a significant amount of these funds may disintermediate or transition to higher-cost deposit products in a rising interest rate environment. During the last rate tightening cycle (2004-2006), the mix of bank funding shifted away from NMDs and towards higher-cost time deposits and borrowings.

- **Overhead expense ratios.** Asset growth has led to some economies of scale and improved efficiency ratios have helped boost profitability. Still, some banks may not be devoting resources to back-office operations, internal controls, and compliance programs commensurate with their increasing size and complexity (see chart below).

- **Commercial real estate (CRE) lending concentrations.** Concentrations of CRE loans (i.e., nonfarm-nonresidential, multifamily, construction, and CRE-purpose loans) relative to capital have declined from pre-crisis peaks, especially for construction and land development (C&LD) credits. Nonetheless, average concentrations in most District states exceeded the nation’s and growth in some CRE-related categories, such as multifamily, have been relatively strong in some parts of the District (see table at right). During the Financial Crisis, high CRE exposures, especially C&LD, led to severe credit problems and bank failures. The increasing pipeline of new commercial construction and rising interest rates may hamper debt service coverage ratios on variable-rate commercial mortgages, and pressure capitalization rates.

### Avg. Multifamily Loans/Total Capital (%)*

<table>
<thead>
<tr>
<th>5-Years</th>
<th>Sep-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>AK</td>
<td>9.2</td>
</tr>
<tr>
<td>AZ</td>
<td>17.5</td>
</tr>
<tr>
<td>CA</td>
<td>33.5</td>
</tr>
<tr>
<td>HI</td>
<td>26.7</td>
</tr>
<tr>
<td>ID</td>
<td>10.7</td>
</tr>
<tr>
<td>NV**</td>
<td>17.4</td>
</tr>
<tr>
<td>OR</td>
<td>37.1</td>
</tr>
<tr>
<td>UT</td>
<td>9.5</td>
</tr>
<tr>
<td>WA</td>
<td>32.0</td>
</tr>
<tr>
<td>Nation</td>
<td>12.1</td>
</tr>
</tbody>
</table>

*Trimmed Means; **excludes credit card and zero-loan banks.
Section 1 - Economic Conditions

Fundamentals:
Job Growth
Housing Market Metrics
Commercial Real Estate Market Conditions
Global Developments & Currencies
District Job Growth Held at a Steady, Strong Pace

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

Home Price Appreciation Accelerated in the Pacific Northwest and Mountain States, but Slowed in California

Source: Core Logic (for market level data maps, see http://www.newyorkfed.org/home-price-index/)

Housing Starts in the West Climbed Higher, but Single-Family Construction Remained Well Below Historical Average

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

Improving job markets, ample credit availability, and strong foreign and domestic capital flows have pushed property prices higher. Should supply-demand imbalances develop or investor/lender preferences shift, capitalization rates may rise, pressuring property values.

Commercial Real Estate Prices (Indexed, 2Q 2007 = 100)

Underlying properties are institutionally held, mainly investment-grade; Source: NCREIF CRE Transaction-Based Price Indices
According to Third-Party Forecasts, Vacancy Rates May Drift Higher in Apartment and Industrial Properties

Vacancy or Availability Rate – 12th District

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

Average Annual Rent Growth – 12th District

Annual 12 month rolling rent average across 15–16 large metropolitan areas; Source: CBRE-Econometric Advisors

12th District Export Volumes Dipped in Response to a Continued Strong U.S. Dollar and Economic Slowing Abroad

Year-Over-Year Change

US$ vs. Major Currencies

Export Activity by State

GDP figures based on constant prices. Data for 2015 and 2016 are projections by International Monetary Fund; trade shares are based on 2014 figures; Sources: International Monetary Fund: World Economic Outlook Database (October 2015), US Census Bureau: U.S. International Trade in Goods and Services
Section 2
Commercial Bank Performance

Earnings
Provisions and Loan Loss Reserves
Loan Growth and Underwriting
Credit Quality
Drought Risk and Impacts
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 Outpaced Prior Year and National Levels but Still Trailed Pre-Crisis Performance

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

Based on commercial banks, excluding De Novos; year-to-date annualized trimmed means; preliminary 9/30/15 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.

Earnings Improved Among All States in the District

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

Based on commercial banks, excluding De Novos; year-to-date annualized trimmed means; preliminary 9/30/15 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.

Year-to-Date Net Interest Income Margins Slightly Trailed 2014

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

Based on commercial banks, excluding De Novos; year-to-date annualized trimmed means; preliminary 9/30/15 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.

Quarterly Yields and Margins Remained Well Below Historical Norm With Slight Seasonal Fluctuations

**Avg. Quarterly Annualized Rate (%) – 12th District**

Based on 12th District commercial banks, excluding De Novos; quarterly annualized trimmed means; preliminary 9/30/15 data; data are presented on a tax-equivalent (TE) basis; average 3-month constant maturity U.S. Treasury Rate from Federal Reserve, Haver Analytics.
Noninterest Income Ratios Slipped; Lower Noninterest Expense Ratios Drove Earnings Improvement at Most Banks

Noninterest Income / Average Assets

Noninterest Expense / Average Assets

Year-Over-Year Growth – 12th District

Avg. Staff & Assets – 12th District

Loan Loss Reserves: Half of District Banks Avoided Provisions or Released Reserves Versus One-Third Nationally

Percent of 12th District Banks with Year-to-Date Provision Expense of:

% of Banks with YTD Zero or Negative Provision Expenses

State Sep-15 Sep-15
AK 50% 25%
AZ 29% 39%
CA 51% 51%
HI 83% 80%
ID 42% 64%
NV* 50% 73%
OR 56% 50%
UT 45% 37%
WA 44% 50%
Nation 34% 33%

Low Provisioning and Strong Loan Growth Reduced ALLL-to-Loan Ratios

ALLL / Total Loans not HFS (%)  ALLL / Noncurrent Loans (X)

State Sep-03 Sep-04 Sep-05 Sep-06 Sep-07 Sep-08 Sep-09 Sep-10 Sep-11 Sep-12 Sep-13 Sep-14 Sep-15
AK 1.5X 3.6X 7.1X 1.3X 0.7X 0.6X 2.6% 3.4X
AZ 1.0X 2.0X 6.7X 1.6X 0.9X 1.8X 1.0X 1.4X
CA 1.2X 2.5X 7.1X 1.6X 1.1X 1.0X 1.0X 1.4X
HI 3.2X 5.5X 12.0X 2.9X 2.5X 2.0X 2.1X 1.8X
ID 1.5X 2.0X 5.5X 1.6X 1.1X 1.2X 1.1X 1.4X
NV 1.1X 1.8X 4.9X 1.4X 1.0X 1.1X 1.0X 1.4X
OR 1.2X 2.0X 5.4X 1.6X 1.1X 1.0X 1.1X 1.4X
UT 3.5X 5.5X 12.0X 2.9X 2.5X 2.0X 2.1X 1.8X
WA 1.5X 2.0X 5.2X 1.6X 1.1X 1.2X 1.1X 1.4X
Nation 1.4X 2.0X 5.4X 1.8X 1.1X 1.1X 1.1X 1.4X

Based on commercial banks, excluding De Novos; year-to-date; preliminary 9/30/15 data; *Nevada excludes credit card and zero-loan banks

Based on commercial banks, excluding De Novos; year-to-date; preliminary 9/30/15 data; ALLL = allowance for loan and lease losses; HFS = held for sale
Year-Over-Year Average Net Loan Growth

- District: 18.6%
- Nation: 7.2%

Year-Over-Year Average Net Loan Growth by State

- CA: 14.4%
- UT: 11.3%
- AZ: 11.0%
- NV*: 10.6%
- OR: 10.4%
- ID: 9.9%
- WA: 8.8%
- AK: 8.1%
- HI: 8.1%
- 12th Dist.: 12.3%
- Nation: 7.2%

Multifamily, C&LD, and Specialty Segment Growth Rates Were High but Were Not Primary Drivers of Overall Loan Growth

<table>
<thead>
<tr>
<th>Loan Segment</th>
<th>Segment Level Year-Over-Year Growth Rate</th>
<th>% Point Contribution to Loan Growth</th>
<th>% of Total Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonfarm Nonresidential</td>
<td>11.0%</td>
<td>4.4%</td>
<td>39.7%</td>
</tr>
<tr>
<td>Commercial &amp; Industrial</td>
<td>10.0%</td>
<td>1.7%</td>
<td>17.0%</td>
</tr>
<tr>
<td>Consumer Loans</td>
<td>13.8%</td>
<td>1.5%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Closed-End 1-4 First Liens</td>
<td>11.4%</td>
<td>1.3%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Multifamily</td>
<td>21.0%</td>
<td>1.3%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Construction &amp; Land Dev.</td>
<td>22.3%</td>
<td>1.0%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Other Loans*</td>
<td>14.5%</td>
<td>0.3%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Agricultural and Farmland</td>
<td>12.3%</td>
<td>0.4%</td>
<td>3.4%</td>
</tr>
<tr>
<td>HELOC + Closed-End 1-4 Jr. Liens</td>
<td>5.0%</td>
<td>0.2%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Total Loans</td>
<td>12.2%</td>
<td>8.0%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

Based on a panel of commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 9/30/15 data; NV: excludes credit card and zero-loan banks.

On Net, Lenders Reported Modest Tightening of Standards on Commercial & Industrial and Commercial Real Estate Loans

Net Percentage Reporting Tightening (Loosening) Standards During 3 Mos.

Based on a sample of loan officers at 70 +/- domestic banks (number varies by period and loan type); beginning January 2015, two categories were replaced with six based on GSE eligibility, qualifying mortgage (QM) status, and size (making comparisons imperfect); C&LD = construction and land development; Source: Federal Reserve Senior Loan Officer Opinion Survey (http://www.federalreserve.gov/BoardDocs/snloansurvey/)
Supervisory commercial real estate (CRE) thresholds include construction and land development loans (C&LD) => 100% of total capital or total CRE loans => 300% of total capital and total CRE loan growth of => 50% during the prior 3 years. Total CRE loans include C&LD, multifamily, owner-occupied nonfarm-nonresidential mortgages and CRE purpose loans not secured by real estate.

Percentage of Banks Exceeding Supervisory Commercial Real Estate Concentration Thresholds* Ticked Up

Credit Quality: Nonperforming Assets Dipped Further Relative to Capital and Reserves

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

Average Texas Ratios in Arizona, Idaho, and Washington Continued to Exceed the National Average

Extreme Drought Remained Ongoing in Several States; Severe Drought More Recent in Parts of Pacific Northwest

Problem assets relative to capital and reserves are again well below the national average.

Bank Size

<table>
<thead>
<tr>
<th>District Small (&lt;$10B)</th>
<th>Sep-2009</th>
<th>Sep-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Mid-Sized ($10B-$50B)</td>
<td>31.2%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Nation Large (&gt;=$50B)</td>
<td>19.7%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

California’s More Drought and/or Agriculture-Exposed Banks* Reported Declining Delinquencies, but Worsening Earnings

Comparative Statistics

- Loans Past-Due 30+ Days or Nonaccrual, %
- Year-to-Date Net Income / Avg. Assets, %

Ag.-Related Loans / Total Capital
- CA Drought/Ag Banks*
- All CA Banks**
- Ratio: 44.0% 7.8%
- CRE Loans / Total Capital: 310.3% 358.1%
- 1-Year Asset Growth: 10.4% 12.5%
- Noncurrent Lns. + ORE / Lns. + ORE: 1.1% 0.8%

CA Drought/Ag Banks* vs. All CA Banks**

Overhead ratios declined but not enough to offset net interest margin compression.

Net Chargeoffs / Average Loans and Leases

- California’s More Drought and/or Agriculture-Exposed Banks* Reported Declining Delinquencies, but Worsening Earnings
- Overhead ratios declined but not enough to offset net interest margin compression.

Reliance on Noncore Funding Remained Moderate, Especially Among Small Banks

- Average Net Noncore Funds Dependence by Bank Size
- Net noncore funding ratio turns negative if CDs between $100K and $250K are excluded.

Average District Net Chargeoff Rate Was Near Zero; Banks in California and Arizona Reported Net Recoveries

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

Net Noncore Funds Dependence Ratio

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

Based on commercial banks, excluding De Novos; year-to-date annualized trimmed means; preliminary 9/30/15 data; *Nevada excludes credit card and zero-loan banks
Interest Rate Risk: Long-Term Interest Rates May Not Rise in Lockstep with Short Term Rates (a la 2004-2006)

The current steep yield curve has provided financial incentive to fund short-term and lend long-term. All else equal, a flattening yield curve could pressure net interest margins among banks that have developed significant re-pricing imbalances. During the last major rate tightening cycle (2004-2006), many banks increased concentrations in short-term, high-yielding C&L loans to help offset rising funding costs. However, that increased credit risk, especially during the subsequent recession.

Accumulated Other Comprehensive Income (AOCI)* / Tier 1 Cap. – 12th District

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/15 data; accumulated other comprehensive income* is comprised mainly of net unrealized gains and losses on available-for-sale securities; Constant Maturity (CM) Treasury Rate from Federal Reserve, Haver Analytics

Non-Maturity Deposits Could Ebb as Rates Rise (as in 2004-2006)

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/15 data; non-maturity includes demand, money market, and savings; Constant Maturity (CM) Treasury Rate from Federal Reserve, Haver Analytics

Risk-Based Capital Ratios Eased as Assets Shifted and Basel III’s Higher Risk-Weight Buckets Were Implemented

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/15 data; new risk-based capital reporting became effective March 2014 for advanced approach adopters and March 2015 for others
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 Continued to Outpace Downgrades in Third Quarter**

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

- **% Upgrades:** 12%
- **% Downgrades:** 3%

Includes any change in composite CAMELS rating for commercial banks; quarterly data based on examination completion dates (mail dates); preliminary third quarter 2015 data updated through 11/16/15.

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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”:** 61%
- **12th Dist. - Composite “4”:** 39%
- **12th Dist. - Composite “5”:** 32%
- **Nation - Composite “3”, “4”, “5”**

Trends for all commercial banks based on examination completion dates (mail dates); preliminary third quarter 2015 data updated through 11/16/15.

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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)

- **Recession:** 3.4
- **Earnings and Management:** 3.2
- **Asset Quality:** 2.9
- **Capital:** 2.5
- **Sensitivity:** 2.3
- **Liquidity:** 2.1

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

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**Consumer Compliance Ratings Improved While While CRA Ratings Remained Steady**

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

- **Consumer CRA:** 27%

Trends for all commercial banks based on examination completion dates (mail dates); CRA = Community Reinvestment Act; preliminary third quarter 2015 data updated through 11/16/15.
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></td>
<td>Sep-14 Sep-15</td>
<td>Sep-14 Sep-15</td>
<td>Sep-14 Sep-15</td>
</tr>
<tr>
<td>AK</td>
<td>4 (0) 4 (0)</td>
<td>- -</td>
<td>1 (0) 1 (0)</td>
</tr>
<tr>
<td>AZ</td>
<td>21 (0) 18 (0)</td>
<td>- -</td>
<td>1 (0) 1 (0)</td>
</tr>
<tr>
<td>CA</td>
<td>196 (1) 183 (0)</td>
<td>5 (0) 3 (0)</td>
<td>14 (0) 12 (0)</td>
</tr>
<tr>
<td>GU</td>
<td>2 (0) 2 (0)</td>
<td>- -</td>
<td>1 (0) 1 (0)</td>
</tr>
<tr>
<td>HI</td>
<td>6 (0) 5 (0)</td>
<td>1 (0) 1 (0)</td>
<td>2 (0) 2 (0)</td>
</tr>
<tr>
<td>ID</td>
<td>12 (0) 11 (0)</td>
<td>- -</td>
<td>1 (0) 1 (0)</td>
</tr>
<tr>
<td>NV</td>
<td>12 (0) 12 (0)</td>
<td>4 (0) 4 (0)</td>
<td>2 (0) 2 (0)</td>
</tr>
<tr>
<td>OR</td>
<td>25 (0) 22 (0)</td>
<td>- -</td>
<td>3 (0) 3 (0)</td>
</tr>
<tr>
<td>UT</td>
<td>31 (0) 30 (0)</td>
<td>18 (0) 16 (0)</td>
<td>4 (0) 4 (0)</td>
</tr>
<tr>
<td>WA</td>
<td>48 (0) 44 (0)</td>
<td>- -</td>
<td>12 (0) 12 (0)</td>
</tr>
<tr>
<td>12L</td>
<td>357 (1) 331 (0)</td>
<td>28 (0) 24 (0)</td>
<td>41 (0) 39 (0)</td>
</tr>
<tr>
<td>US</td>
<td>5,637 (14) 5,381 (7)</td>
<td>30 (0) 26 (0)</td>
<td>919 (2) 860 (1)</td>
</tr>
</tbody>
</table>

Based on preliminary 9/30/15 data.