FEDERAL RESERVE BANK
OF SAN FRANCISCO

FIRST GLANCE 12L

Economic and Banking Performance in the Twelfth Federal Reserve District

COVID-19: FROM HEADWIND TO HURRICANE

1Q20 | JULY 2, 2020

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Summary & Contents

Executive Summary

Through 1Q20, District banks' earnings sank as net interest margins narrowed in response to sharply lower interest rates and provision expenses surged. Earnings impacts were greatest among larger publicly-traded banks, which adopted new loan loss allowance accounting rules during the quarter. Problem loan levels were affected only mildly, in part because the severe phase of the COVID-19 pandemic did not begin until late in 1Q20. Subsequent borrower accommodations and federal stimulus will likely moderate near-term impacts on delinquency and loss rates. On-balance sheet liquidity improved as cash from jittery investors and proceeds from pre-emptive draws on lines of credit were deposited into banks. The resulting balance sheet growth, combined with continued dividend payouts amid weaker earnings pressured bank capital ratios.

The District's annual job growth rate, which decelerated in March and plummeted in April, recovered only slightly in May. Home prices held steady or increased amid much lower sales volumes in April, but lender optimism about future home price growth fell sharply. Likewise, third-party forecasts suggested that demand for, and pricing of, commercial real estate will come under pressure. The virus that initially seemed like a distant threat to the United States triggered a sudden and severe global recession. Notwithstanding significant fiscal and monetary stimulus, the future path of the recovery remains uncertain.

Table of Contents

Twelfth District Overview
"COVID-19: From Headwind to Hurricane"

The COVID-19 pandemic and oil/gas price plunge led to a national recession and a historic collapse of Western labor markets by April, with only a minor recovery in May. Districtwide, nonfarm payrolls contracted by 13% year-over-year in April, after growing nearly 2% as recently as February. Payrolls recovered slightly in May, with the year-over-year contraction easing to 12%. All major sectors cut jobs, with leisure/hospitality payrolls falling by an astonishing 41% year-over-year. Month-over-month, most sectors re-gained jobs in May, but the government, transportation/utilities, and information sectors (22% of total District jobs) deteriorated further. The Districtwide unemployment rate jumped from 5.2% in March to 16.2% in April, and then eased to 15.1% in May. Jobless rates rose into double digits in six District states, topping 20% in Nevada and Hawaii (see table). Job cuts in Arizona, Idaho, and Utah were less severe given lower virus activity and earlier re-openings. However, community transmission accelerated in all three states in June after social distancing eased. In aggregate, the District has made little progress in containing the pandemic, with case counts recently increasing in may states and fatalities hovering around 100 deaths per day, which may jeopardize the economic recovery.

Home prices held firm despite a sharp decline in sales, but mortgage lenders' outlook for home prices dimmed. Shelter-in-place restrictions prompted the volume of existing single-family home sales to sink in April and May, trailing the monthly trough set during the 2008-09 Global Financial Crisis (GFC). However, pending home sales data hinted at a forthcoming bounce in transactions. Home price growth remained steady-to-accelerating in most District states through April. Still, mortgage lender expectations for home prices deteriorated sharply by mid-May, with 42% expecting prices to fall over the coming year. Homebuilder optimism swung back into positive territory in June as states reopened and buyer traffic rebounded.

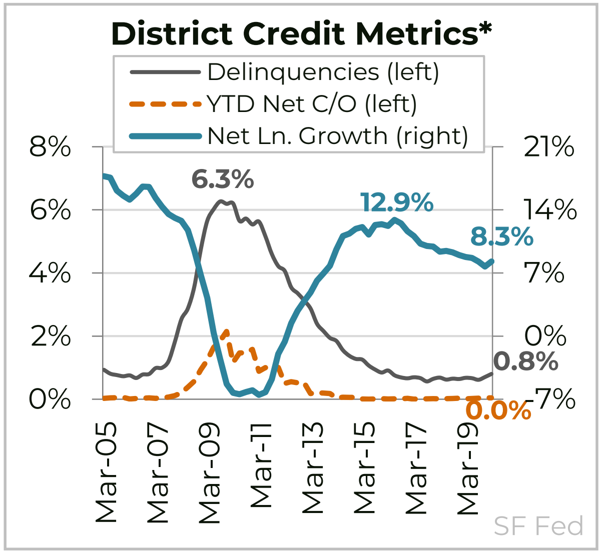
Analysts expect commercial real estate (CRE) markets in the District to deteriorate across property types, but most severely in the hotel and retail sectors. CBRE-EA forecasts that CRE vacancy rates will rise sharply across the District during 2020. In aggregate, retail vacancies among the District's major markets are expected to approach 12% by 1Q21—rivaling the peak during the GFC. CRE property values are also forecasted to decline, with retail properties expected to lose nearly 20% of their value, by 1Q21 (relative to 1Q20) before recovering. In contrast, industrial property values are expected to dip less than 2%. CBRE-EA projected that apartment and office property values would also slide, but less so than retail. The forecast reflects expected deterioration in rents and vacancies, as well as higher capitalization rates.

Nonfarm Job Growth & Unemployment

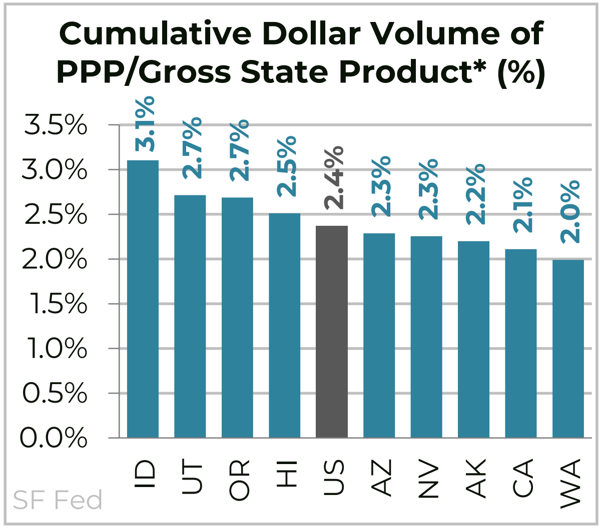
	Job Growth (Y-o-Y %)		Unemploy. Rate	
	12 Mo.	May-20	12 Mo.	May-20
NV		-17.3%		25.3%
HI		-20.1%		22.6%
CA		-13.0%		16.3%
WA		-11.8%		15.1%
OR		-11.7%		14.2%
AK		-12.4%		12.6%
AZ		-5.7%		8.9%
ID		-5.9%		8.9%
UT		-4.8%		8.5%
US		-11.7%		13.3%

Seasonally adjusted; subject to annual benchmark revision.
Source: Bureau of Labor Statistics via Haver Analytics.

SF Fed



*Delinquent = 30+ days past due or nonaccrual; C/O = chargeoff (year-to-date annualized); trimmed means.



*4Q19 GSP at seasonally adjusted annual rate; approvals through June 20, net of repayments.

Bank earnings sank year-over-year and quarter-over-quarter. District banks' average one-quarter annualized ROAA ratio was 0.84%, down 39 bps and 27 bps from 1Q19 and 4Q19, respectively (adjusted for Subchapter S tax filers). Interest rate declines and a partly-seasonal shift in asset mix fed net interest margin compression. Meanwhile, rapidly weakening credit prospects fueled large provisions for credit losses. Mid- to large-sized publicly traded banks, which adopted new accounting rules for current expected credit losses (CECL) in 1Q20, booked especially large provisions. Some banks also incurred large writedowns on servicing assets and/or goodwill. Although yield-enhancing fees on Paycheck Protection Program (PPP) loans may help profits in 2Q20, persistent net interest margin and provision expense pressures will pose offsets.

The unfolding pandemic may have lifted delinquencies and loan growth slightly. Loans past-due 30 days or more or in nonaccrual status inched higher to 0.80%, but remained well below GFC peaks in 2009 (see chart, upper left). Problem loan levels were affected only mildly, in part because the severe phase of the COVID-19 pandemic did not begin until late in 1Q20. Subsequent borrower accommodations and federal stimulus will likely moderate near-term impacts on delinquency and loss rates. By March 2020, District banks' average annual net loan growth rate edged up 56 bps to 8.28%. Growth was fueled by pre-pandemic originations as well as borrowers' precautionary draws on lines of credit. The April 2020 Federal Reserve *Senior Loan Officer Opinion Survey* noted growing weariness among lenders by April, and executives surveyed by Promontory Interfinancial Network expressed concern over lending, capital, and economic prospects. Subsequent PPP activity is expected to boost C&I loan growth in 2Q20. Through June 20, borrowers in the District received nearly one million PPP loans totaling $110 billion. California dominated District aggregates, but PPP represented a larger share of gross state product in most other states and covered a majority of small businesses districtwide (see chart at left and "Spotlight" feature).

On-balance sheet liquidity improved slightly, but capital pressures increased. District banks' average quarterly deposit growth accelerated to an annualized rate of 8.21%, the fastest average first quarter pace of increase since 2016. Growth was fueled by funds from investors fleeing the stock market and re-deposited loan proceeds from pre-emptive draws on lines of credit. Flight-to-safety Inflows were initially diverted into liquid instruments, benefitting on-balance sheet liquidity. However, the resulting asset growth, combined with weakening earnings and dividend payouts, pressured capital ratios. Many firms suspended share repurchase plans beginning in March, which may ease bank dividend pressures. The impact of CECL adoption on regulatory capital was minimal as most adopters took advantage of capital delay rules.

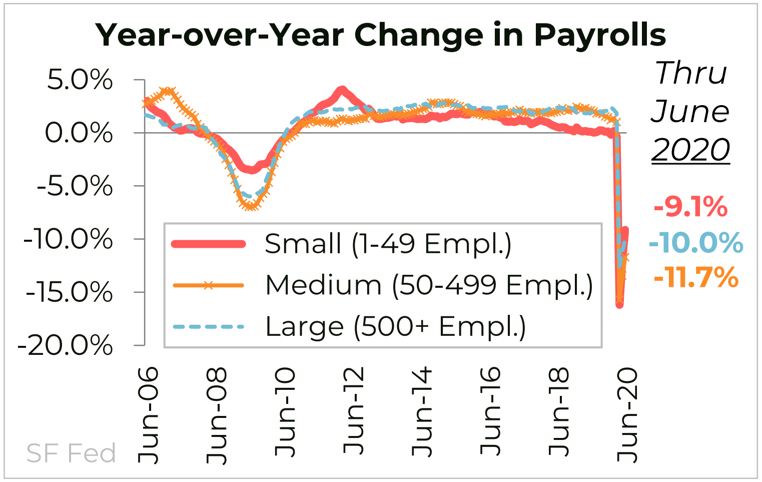
Section 1
Spotlight Feature & Hot Topics

Small-to-Medium Enterprise Credit Landscape

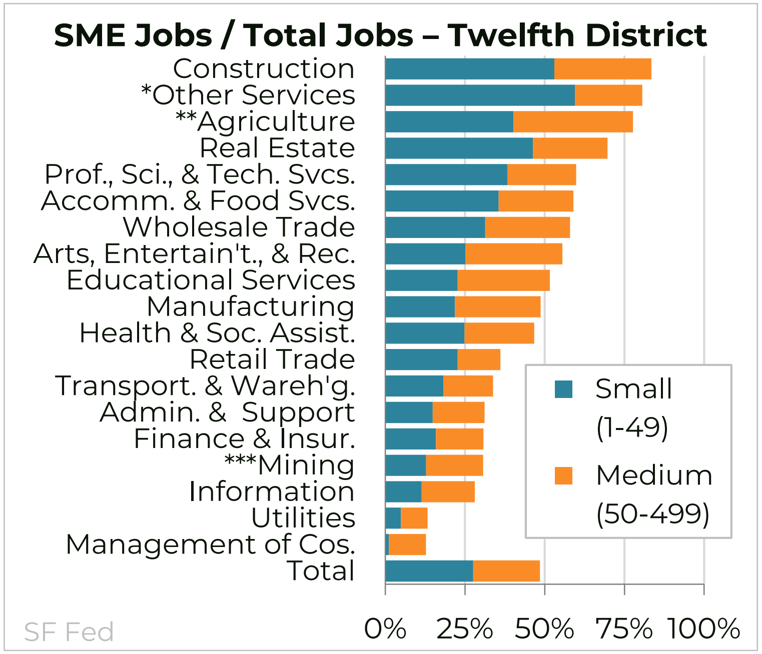
Hot Topics We Are Monitoring Most Closely

Spotlight: Small-to-Medium Enterprise Credit Landscape

- *The COVID-19 crisis has impacted small-to-medium enterprises (SMEs) acutely this cycle.* Employment statistics from ADP, a payroll processing firm, highlight the difference in scale and scope of job losses relative to the 2008-09 GFC period. Over the twelve months ending April 2020, small- and medium-sized firms shed more than 15% of their employees, only some of which were recovered through June (see chart, top right).[1] In contrast, during the GFC, layoffs were more significant among medium-to-large firms than small businesses. The pace of losses eased through June as firms re-hired some staff.
- *SMEs provided just under half of all jobs among Twelfth District employer firms and accounted for a disproportionate share of jobs in some hard-hit sectors.* For instance, employees in the accommodation and food services and “other” services (e.g., hair/nail salons, spas, and repair shops) sectors, which were severely hampered by social distancing mandates, were more likely than not to be employed by an SME (see chart, bottom right). Job losses were symptomatic of the stresses facing these firms.
- *Even before the pandemic, many SMEs were operating with thin financial cushions.* The New York Fed’s Survey of Small Business Credit, conducted during the second half of 2019, noted that two-thirds of surveyed employer SMEs faced financial challenges in the prior year.[2] Within the District, a notable share of surveyed firms reported difficulties paying operating expenses/wages (48%), securing credit (39%), making debt payments (33%), or purchasing inventory or supplies to fulfill contracts (23%) before COVID-19. Further, 17% of surveyed District SMEs indicated they would have to close or sell the business if they experienced a two-month loss in revenues. The Paycheck Protection and Main Street Lending Programs may help bridge the gap; however, some SMEs may ultimately liquidate or pursue reorganization under “Subchapter V” of the bankruptcy code, created under the *Small Business Reorganization Act of 2019*.



Source: ADP



*includes hair/nail salons, spas, auto repair, etc.; ** includes forestry, fishing, and hunting; ***includes oil and gas.
Source: Census Bureau Statistics of U.S. Businesses (2017)

[1] For purposes of this analysis, small businesses are generally defined as those having fewer than 50 employees; medium firms are those with 50 to 499 employees; large businesses have at least 500 employees.
[2] Employer firms are those that have 1 to 499 employees; self-employed individuals are excluded from this data.

Spotlight: SME Credit Landscape, Continued

- *Small Business Administration (SBA) emergency programs had a slow start in the District, but coverage improved over time.* [Small Business Pulse Survey](#) data from the Census Bureau suggests that less than half of District SMEs had received Paycheck Protection Program (PPP) assistance by early May, lower than the nationwide average (see table, top right). This was despite the fact that nearly three quarters had applied for PPP loans by that point. However, by June 20, nearly 70% of surveyed District SMEs had received PPP money, and roughly 22% had obtained Economic Injury Disaster Loans (EIDLs).[3]

- *Borrowers became more reticent during the second round of PPP funding*. An initial $349 billion appropriated for PPP was deployed within the first two weeks of April and was oversubscribed. Demand in response to a second round introduced in late April was initially robust, but then stalled (see chart, bottom right). Nationwide, more than $128 billion remained available as of June 20. Given persistent re-opening limitations, borrowers became reluctant to apply for or even spend PPP funds for fear that they would not be able to meet forgiveness provisions. In early June, program requirements were eased to provide a 24-rather than 8-week spending window and reduce the payroll spending threshold from 75% to 60%, with partial forgiveness possible. For new loans, the maximum repayment term for unforgiven portions was extended from two years to five.

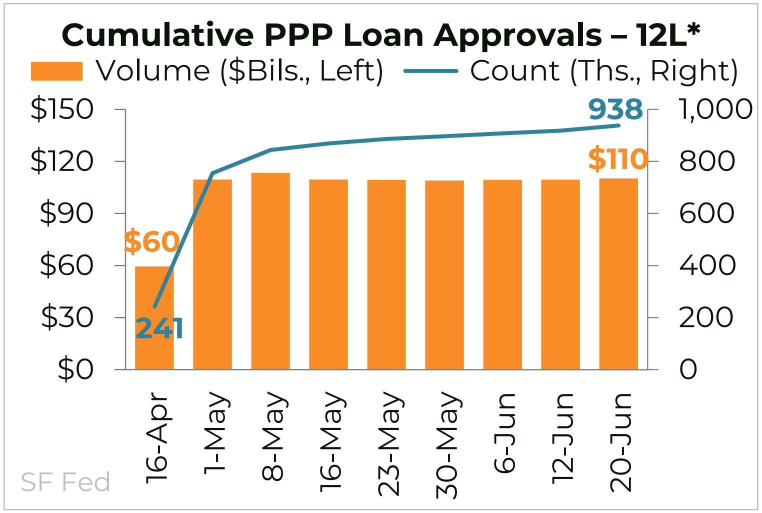
- *PPP has not been without its risks.* It is hoped that many of the loans will be forgiven and that any subsequent defaults will be covered by SBA guarantees. Because of the rapid roll out of the program, however, there is potential for compliance, fraud, and litigation risks. As banks quickly expanded their participation in PPP to include non-customers, following Know Your Customer (KYC) rules became difficult, especially given pandemic-related constraints. This also increased the risk that some loan requests would be obtained or used fraudulently. Already, some banks have been sued for exclusion of or disparate prioritization among customers and for nonpayment of agent fees by parties that facilitated borrower loan applications.

[3] The Small Business Pulse Survey targets non-farm, single-location employer businesses with business receipts of at least $1,000 but 500 or fewer employees.

% of SMEs Receiving SBA Funds

SF Fed	PPP Received by 5/9	PPP Received by 6/20	EIDL Received by 5/9	EIDL Received by 6/20
AK	48%	63%	14%	19%
AZ	47%	63%	16%	18%
CA	45%	71%	16%	24%
HI	61%	64%	18%	25%
ID	53%	78%	14%	18%
NV	46%	64%	14%	19%
OR	46%	63%	14%	20%
UT	56%	67%	8%	19%
WA	47%	69%	16%	21%
12L*	46%	69%	15%	22%
Nation	55%	72%	14%	21%

*SME firm count from *2017 County Business Pattern Survey* was used to weight 12L average; all other data from 2020 *Small Business Pulse Surveys*. Source: Census Bureau.



Excludes outlying Pacific islands; *May 1 and May 8 estimated as Round 1 on April 16 plus Round 2 as of each date; while SBA reporting for subsequent dates was aggregated across both rounds, net of repayments. Source: SBA.

Hot Topics: Areas We Are Monitoring Most Closely

The following areas are drawing heightened monitoring within the Twelfth District:

- *Cyberthreats*. Attackers prey on the vulnerability of humans as well as systems, leaving bank networks, their employees, and their clients targets for cyberattacks. Threats have increased in 2020, both because of pandemic-related opportunists, more widespread remote work among bank employees, and a surge in mobile banking application usage among customers. According to Symantec's 1Q20 *Threat Landscape Trends* report, malicious emails sent under the guise of coronavirus skyrocketed in March. The firm also noted increased phishing rates, likely related to the surge in pandemic-themed email attacks. Formjacking activity also edged higher, affecting an estimated 27% of U.S. websites. Business email compromise scams persisted in 1Q20 after causing losses exceeding $1.7 billion in 2019 according to the FBI's 2019 *Internet Crime Report*. Thieves also continued to exploit unpatched software vulnerabilities. Attacks have affected both depository institutions as well as their third party service providers. Strong staff and customer training, ongoing patch management, and effective vendor management remain important risk mitigants.
- *Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance*. Even though the volume of BSA/AML-related supervisory criticisms at District institutions has moderated, monitoring remains heightened because of the District's role in the global economy, the array of activities being conducted by supervised institutions, and the expanding scope of cannabis legalization. In April 2020, the FFIEC issued a revised BSA/AML examination manual. Of note, revisions emphasized and enhanced the agencies' risk-focused approach but did not establish new requirements (see Federal Reserve SR letter 20-11).
- *Consumer compliance change management*. Although the federal bank regulatory agencies had recently issued a number of new rules to reduce regulatory burden (e.g., revision of the "savings deposit" definition, increased thresholds for HMDA-data reporting, and increased safe harbor threshold for remittance transfers), the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and other pandemic responses created new compliance requirements and responsibilities for financial institutions. For instance, the CARES Act modified credit reporting standards and established mortgage forbearance requirements. In addition, the grace period for renewing National Flood Insurance Policies was extended from 30 to 120 days. All of these changes have required banks to adjust various processes and procedures in a very short timeframe. As the pandemic is expected to continue for the foreseeable future, there may be additional pandemic-related adjustments to rules and guidance, and it will be important for banks to respond to these changes as they occur.
- *Evolving financial technology (fintech) opportunities and risks*. Fintech includes a broad range of technologies and services involving digitization of lending and servicing, payments, wealth management, data aggregation, and other areas. Banks have increasingly partnered with or expressed interest in acquiring fintech firms, and have leveraged advanced technologies to perform processes. The ramp-up of PPP lending likely accelerated such partnerships, especially within lending, as banks sought to quickly expand underwriting capacity and access alternative data such as payroll information to meet forgiveness and eligibility requirements. Shelter-in-place and remote work environments likely complicated vendor on-boarding and control processes. Fintech can add to the credit, operational, reputational, legal, and/or compliance risks faced by financial institutions. Also of concern is the fact that most fintech firms and their models are not recession-tested and many fintech lenders face liquidity constraints due to a lack of access to stable funding such as deposits.

Hot Topics: Areas We Are Monitoring Most Closely, Cont'd.

- *CRE lending concentrations*. Nonowner-occupied CRE loan concentrations entered the current recession below pre-GFC peaks because of lower C&LD lending volumes. However, they remained above the U.S. average across most District states (see table at right). Concentration levels, combined with mounting pandemic-related pressures on CRE vacancies, rents, and capitalization rates, heighten regulatory concern. The shift in financing conditions and job markets could pressure CRE price appreciation. Risks are expected to extend to owner-occupied CRE given stress on small businesses.
- *C&I lending*. The U.S. corporate debt-to-gross domestic product ratio was already near record levels in early 2020, propelled in part by leveraged and near-subinvestment grade loans. Leverage, combined with loosened underwriting and current extreme stresses on business borrowers, are expected to amplify C&I loan losses. The impact on District banks could be significant given an average C&I loan-to-tier 1 capital and allowances ratio of 82% and the fact that C&I loans are often either unsecured or collateralized by hard-to-value assets such as accounts receivable and/or inventory.
- *Reaching for yield*. Since the GFC, banks had shifted their balance sheet mix, in part to accommodate loan demand but also to combat a persistently low interest rate environment. Examples include increased holdings of longer-term loans and securities, and pursuit of products with higher credit risk or optionality. Given recent sharp declines in interest rates and the potential for mounting credit losses, earnings pressures have increased, possibly prompting alternative profit or yield seeking strategies. These shifts may impact credit, liquidity, and interest rate risk positions.
- *Pandemic-related risk management*. Although shelter-in-place efforts averted an overwhelming surge in Twelfth District hospitalizations through May, case counts have increased in recent weeks, prompting several District states to pause or partially reverse re-opening efforts. Significant uncertainty exists around the future trajectory of the pandemic and the economy. As they resume supervisory work, regulators will be focused on institutions' ongoing assessments of and responses to the pandemic's effects on operations and financial conditions (see Federal Reserve SR Letter 20-15).
- *Global recession*. In June 2020, the International Monetary Fund (IMF) lowered its expectations for world output, projecting a contraction of 4.9% in 2020, down 1.9 and 8.2 percentage points from their April and January 2020 forecasts, respectively. In aggregate, the IMF expects advanced economies, including the U.S., will shrink 8.0% in 2020, and developing economies will contract 3.0%. The unanticipated—and still uncertain—length of lockdown periods and business recovery efforts, plus productivity losses given post-opening safety and hygiene requirements have magnified downside forecast risks.

Average CRE Loans/Tier 1 Capital + Allowances* (%)

SF Fed	2008-2020**	Mar-20
CA	299%	270.1%
WA	339%	224.9%
OR	349%	217.3%
AZ	372%	192.0%
NV	333%	184.4%
HI	169%	168.5%
AK	162%	158.9%
ID	245%	154.5%
UT	323%	120.8%
Nation	148%	126.6%

Trimmed means; excludes owner-occupied CRE; *includes loan- and lease-related allowances for losses; **Mar. 31 of each year.

◆ = trough ◆ = peak

Section 2
Economic Conditions

Pandemic Toll and Social Distancing

Job Growth

Housing Market

Commercial Real Estate

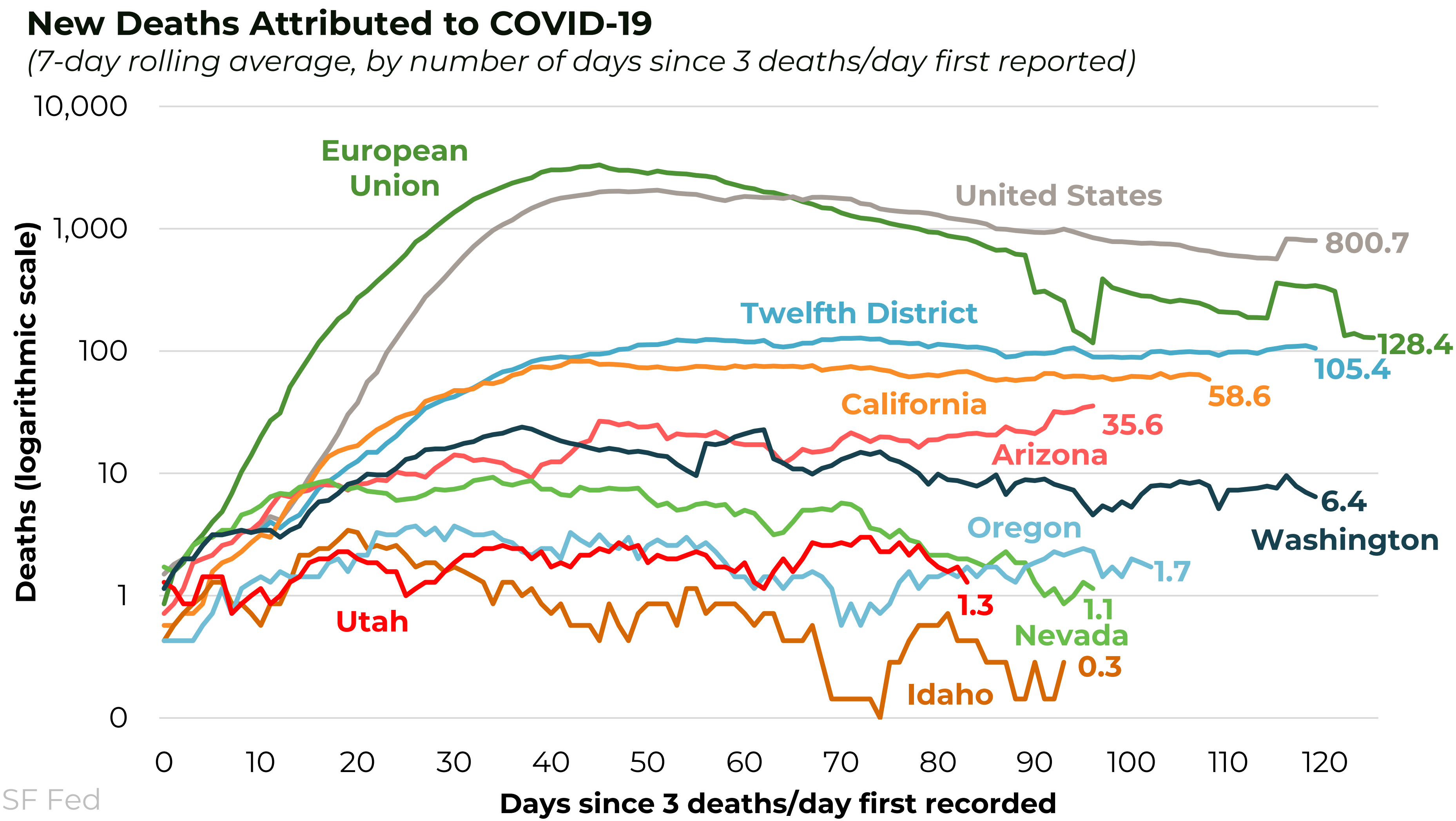
For more information on the national economy, see:

FedViews
(https://www.frbsf.org/economic-research/publications/fedviews/)

FRBSF Economic Letters
(https://www.frbsf.org/economic-research/publications/economic-letter/)

FOMC Calendar, Statements, & Minutes
(https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm)

11 Daily COVID-19 deaths in the District remained stubbornly high and may accelerate given recent increases in cases.



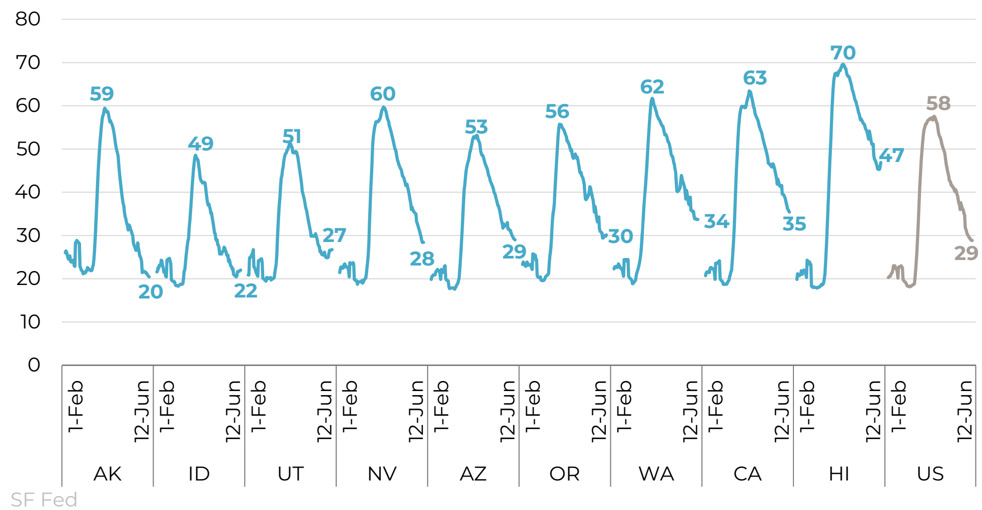
SF Fed

U.S. data through 6/28/2020; European Union data through 6/29/2020; comparisons of deaths across states and countries should be interpreted cautiously due to differing standards for what deaths are attributed to COVID-19; Alaska and Hawaii were omitted due to low/no average deaths. Discontinuity in U.S. total deaths due to reporting of probable past deaths by New Jersey on 6/25/2020; discontinuities in European Union deaths due to reporting revisions by Spain. Sources: COVID Tracking Project, European Centre for Disease Prevention and Control, accessed 6/29/2020.

12 District residents adopted social distancing measures rapidly in late March, but resumed some activities in mid-April.

Social Distancing Index

(7-day rolling average, 2/1/2020-6/12/2020, higher = more socially distanced)

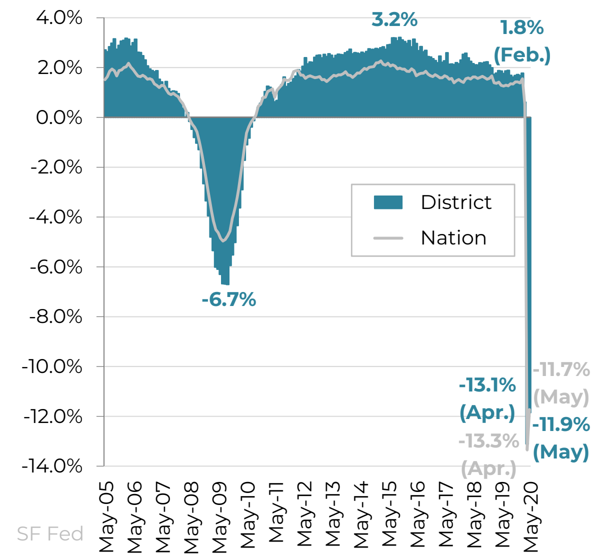


A score of "100" indicates that all residents are staying home and no visitors are entering the state; scores based on anonymized location data from phones and vehicles. Source: Maryland Transportation Institute (2020); University of Maryland COVID-19 Impact Analysis Platform, https://data.covid.umd.edu, accessed on 6/19/2020, University of Maryland, College Park, USA.

13 After a historic drop in April, District payrolls edged up in May, but govt., transport., info. sectors deteriorated further.

Nonfarm Job Growth

(Year-Over-Year % Change)



Twelfth District Jobs by Sector

Job Sector	% Change (Year-Over-Year) 12-month	% Change (Year-Over-Year) May-20
Leisure & Hospitality		-41.38%
Other Svcs.		-22.41%
Retail Trade		-12.69%
Manufacturing		-8.18%
Edu. & Health Svcs.		-7.64%
Information		-7.56%
Prof. & Business Svcs.		-7.38%
Wholesale Trade		-6.24%
Government		-6.11%
Transport. & Utilities		-5.48%
Construction		-4.56%
Mining & Logging		-3.44%
Financial Activities		-1.65%
Total Nonfarm		-11.85%

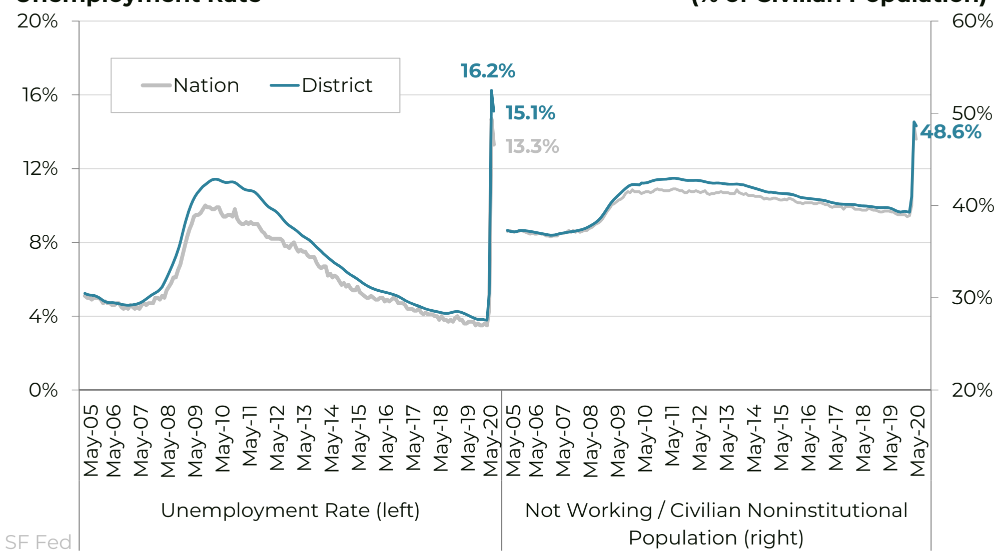
SF Fed

Seasonally adjusted; construction sector includes mining and logging in Hawaii; information sector excludes Hawaii and Nevada. Source: Bureau of Labor Statistics.

14 The unemployment rate and not working-share both rose to record highs in April, then improved slightly in May.

Unemployment Rate

Not Working (% of Civilian Population)

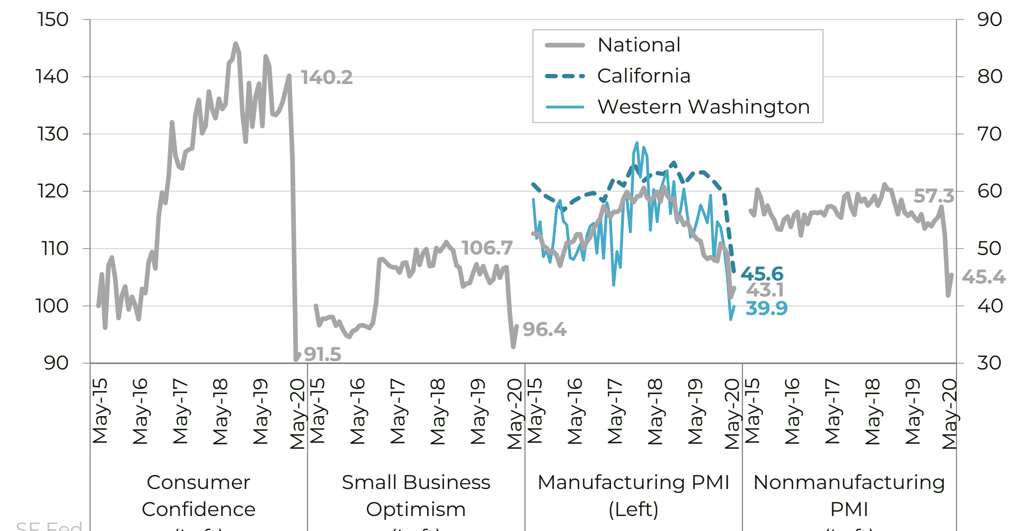


Seasonally adjusted. "Civilian Population" = noninstitutional civilian population; "Not Working" = Civilian Population minus number employed. Source: Bureau of Labor Statistics.

15 Consumer and business sentiment plunged in April, but stabilized in May.

Consumer Confidence & Small Business Optimism *(Apr-15 = 100)*

Purchasing Managers Indices (PMI) *(>50 = expansion)*

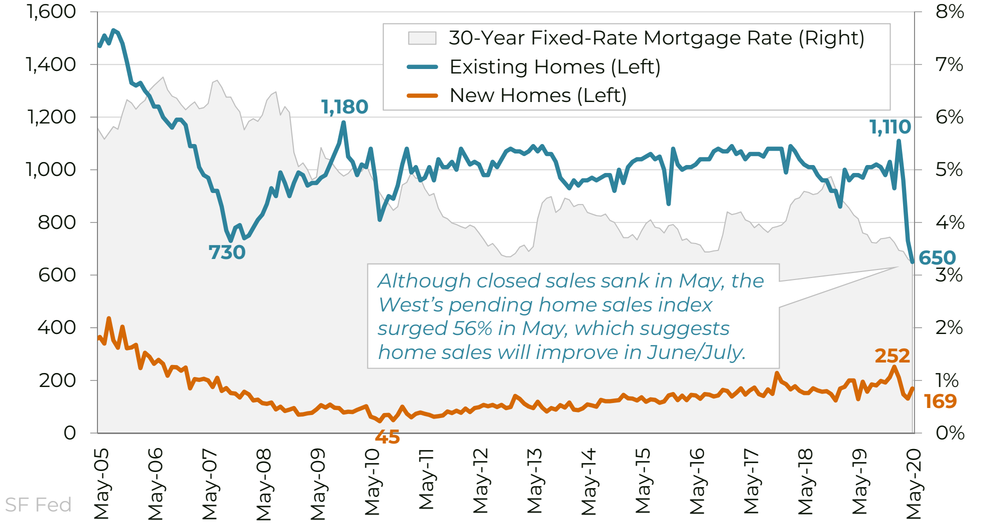


Seasonally adjusted. California PMI is quarterly, ending 2Q20; other series monthly, ending May-20. Sources: Conference Board, National Federation of Independent Business, Institute for Supply Management, Chapman University via Haver Analytics.

16 Home sales fell in response to the pandemic; pending home sales data may signal improved sales volumes ahead.

Single-Family Home Sales – West
(Seasonally Adjusted Annual Rate, Monthly, Thousands)

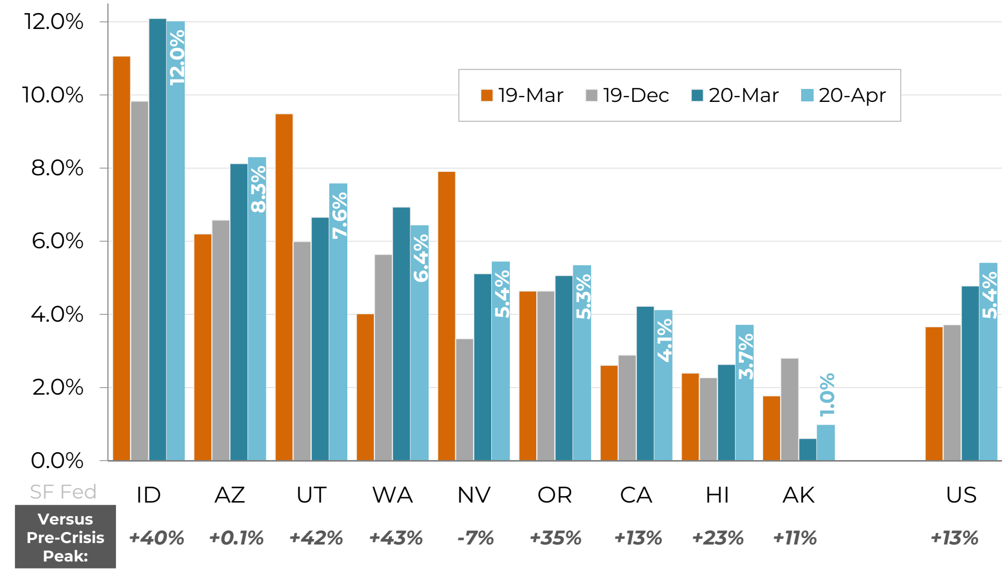
30-Year Fixed Mortgage Rate – Nation *(Monthly)*



West = Twelfth District plus CO, MT, NM, and WY. Sources: NATIONAL ASSOCIATION OF REALTORS® (existing homes), Census Bureau (new homes), and Freddie Mac (mortgage rate) via Haver Analytics. "Existing Home Sales" and "Pending Home Sales Index" copyright ©2020 *NATIONAL ASSOCIATION OF REALTORS®*; all rights reserved; reprinted with permission.

17 Low pre-pandemic inventory and declining interest rates supported home prices through April despite lower sales.

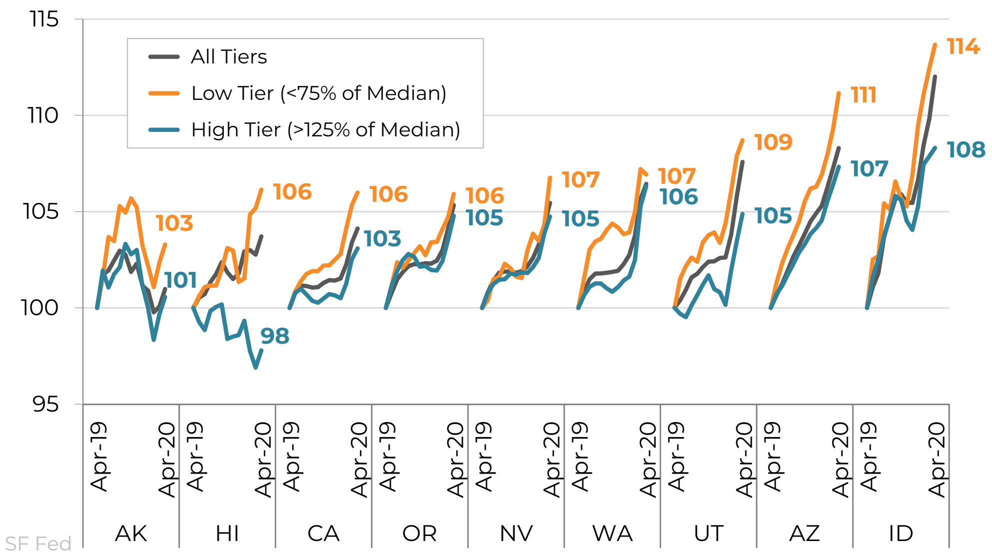
Home Price Index
(Year-Over-Year % Change)



Home price index includes all detached and attached single-family homes, including distressed sales. Source: CoreLogic.

18 Relative price increases in the 12 months ending April tended to be stronger among lower-priced homes.

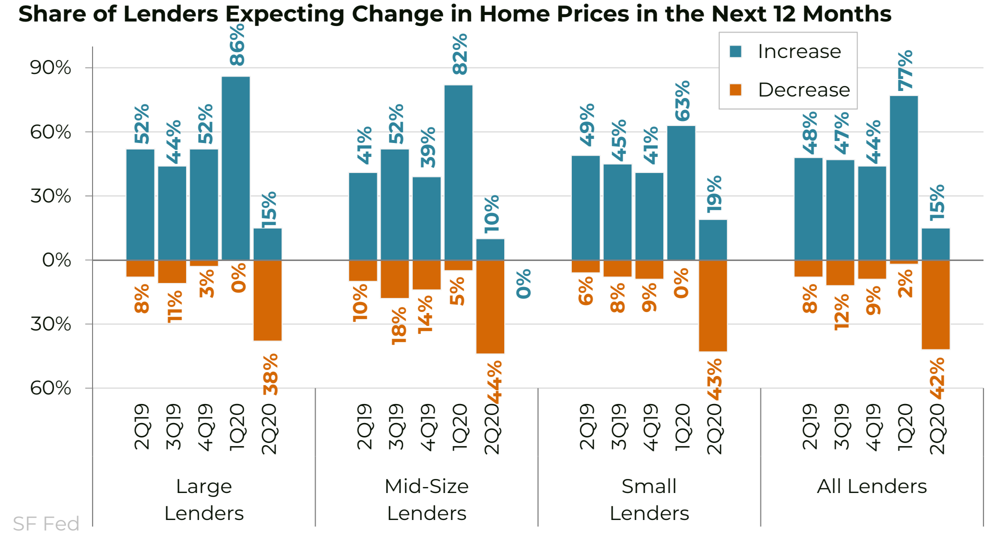
Home Price Index by Price Tier
(Apr-19 = 100)



Home price index includes all detached and attached single-family homes, including distressed sales. Source: CoreLogic.

19 After improving significantly in February (pre-pandemic), mortgage lender sentiment swung to record lows in May.

Share of Lenders Expecting Change in Home Prices in the Next 12 Months

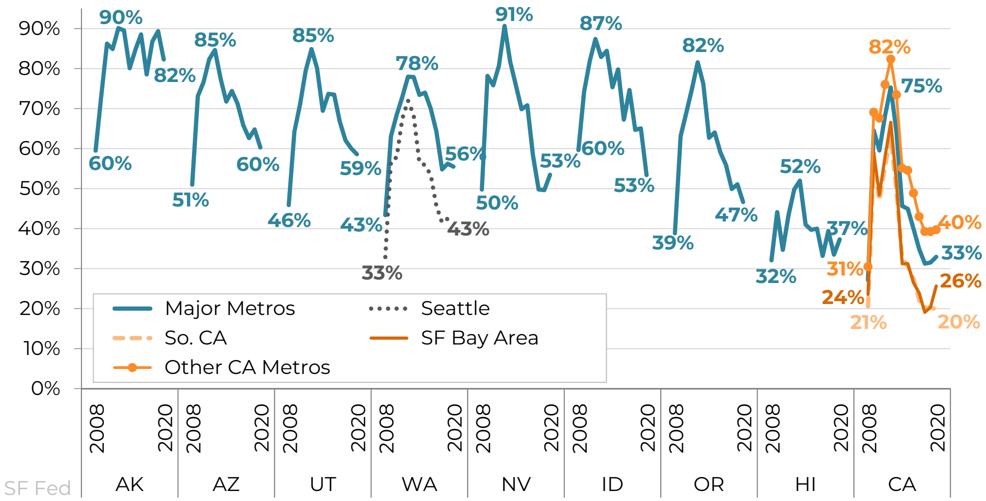


Lender size based upon prior-year total loan originations; for 2020: Large = lenders in the top 15% of lending institutions (volume above $1.25 billion); Mid-Size = lenders in the next 20% of lending institutions (volume between $379 million and $1.25 billion); Small = bottom 65% of lending institutions (volume less than $379 million); dollar thresholds for 2019 slightly lower; data for "All Lenders" is an average of the three size groupings; includes responses from nonbanks as well as banks, thrifts, and credit unions. 2Q20 survey administered May 5-18; prior surveys administered near the middle of each quarter. Source: Fannie Mae *Mortgage Lender Sentiment Survey*.

20 The benefit of lower mortgage rates was often more than offset by home price gains/possible COVID-19 income losses.

Un-weighted Average Metro Housing Opportunity Index, March Each Year

(% of Home Sales Deemed Affordable to Median Family Income; Lower Ratio = Less Affordable)

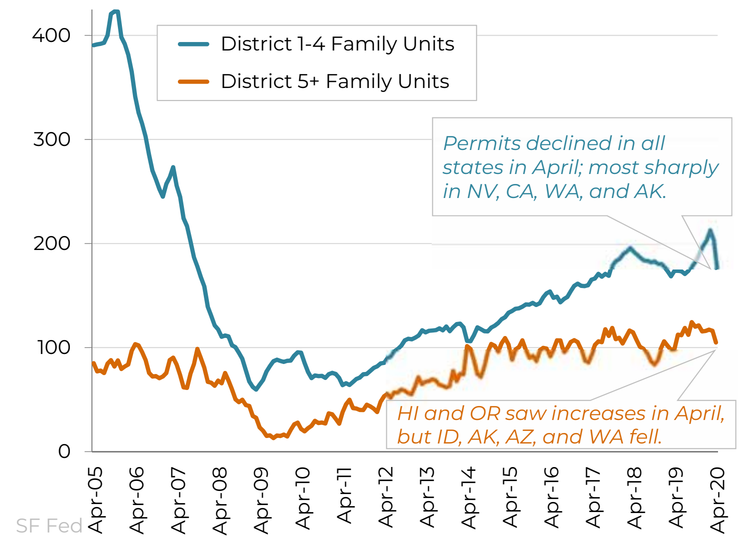


Assumes median income (minus an assumed 7% haircut in 2020), 10% down payment, ratio of income-to-housing costs (principal, interest, taxes, and hazard insurance) of 28%, and a fixed-rate, 30-year mortgage; So. CA = Los Angeles, Orange, Riverside-San Bernardino, San Diego, and Ventura metros; SF Bay Area = San Francisco, Oakland, San Jose, Napa, Vallejo, and Santa Cruz metros. Sources: National Association of Homebuilders/Wells Fargo via Haver Analytics, FRB-SF calculations.

21 Housing permits fell sharply across the District in April, although 12-month totals still edged up in most states.

Housing Permits – Twelfth District

(Seasonally Adjusted Annual Rate, 3-Month Moving Avg., Thousands)



New Authorized Housing Units

Trailing 12-Month	Level 2004-2020*	Apr-20 vs. Peak	% Multif. Apr-20
UT		109%	36%
WA		92%	46%
ID		81%	25%
OR		65%	47%
AZ		56%	29%
CA		52%	42%
HI		47%	40%
AK		46%	23%
NV		38%	31%
Dist.		63%	38%

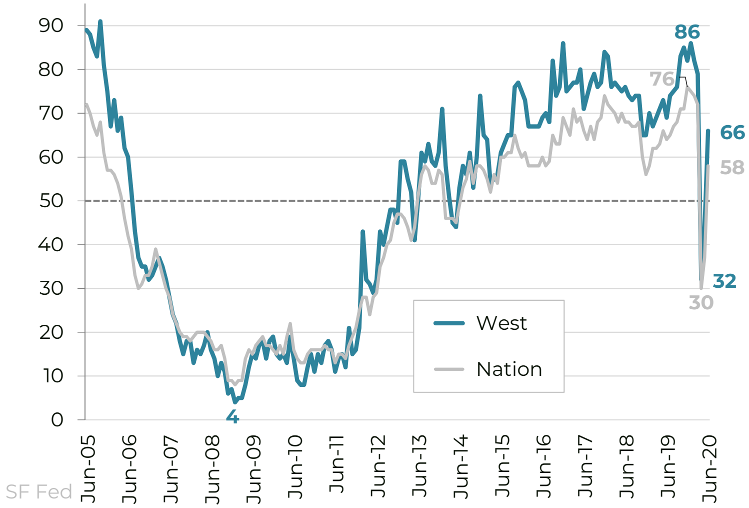
SF Fed ◆ = trough ◆ = peak

* Trend lines as of April of each year. Source: Census Bureau via Haver Analytics.

22 Homebuilder sentiment plunged in April, but rebounded in May and June as states reopened and buyer traffic doubled.

Homebuilder Diffusion Index

(Monthly, Index Above 50 Considered Positive)



Regional Home Builder Diffusion Indices

(Trailing 3 Mo. Avg.)

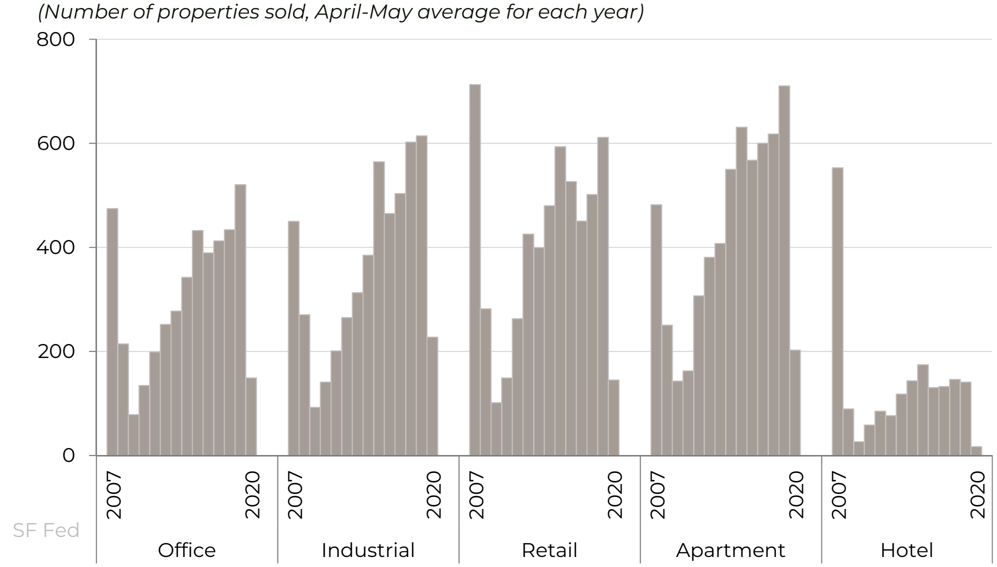
Region	Jun-19	Jun-20
West	71.0	47.3
South	67.3	46.0
Midwest	56.7	36.0
Northeast	59.7	28.0
Nation	64.3	41.7

Data are seasonally adjusted; index is a weighted average of current sales (59.2%), sales in next six months (13.6%), and traffic of prospective buyers (27.2%); West = Twelfth District plus CO, MT, NM, and WY. Source: National Association of Home Builders (NAHB)/Wells Fargo *Builders Economic Council Survey* via Haver Analytics.

23 Like homes, CRE transaction volumes sank, in some cases approaching or rivaling April-May averages during 2009-10.

National CRE Transactions

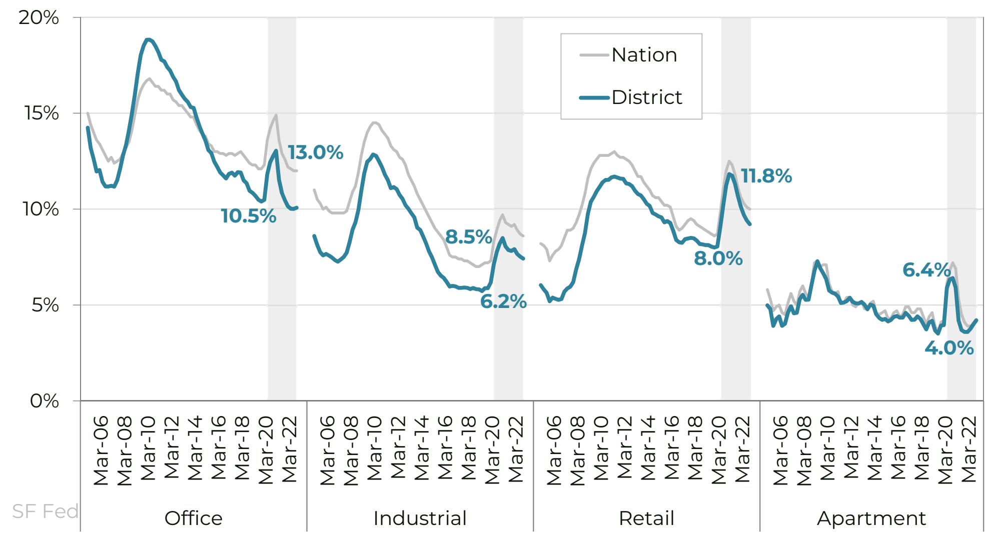
(Number of properties sold, April-May average for each year)



Includes transactions of properties valued $2.5 million and above. Source: Real Capital Analytics.

24 CBRE-EA expects CRE vacancy rates to increase in 2020, particularly the retail & apartment sectors.

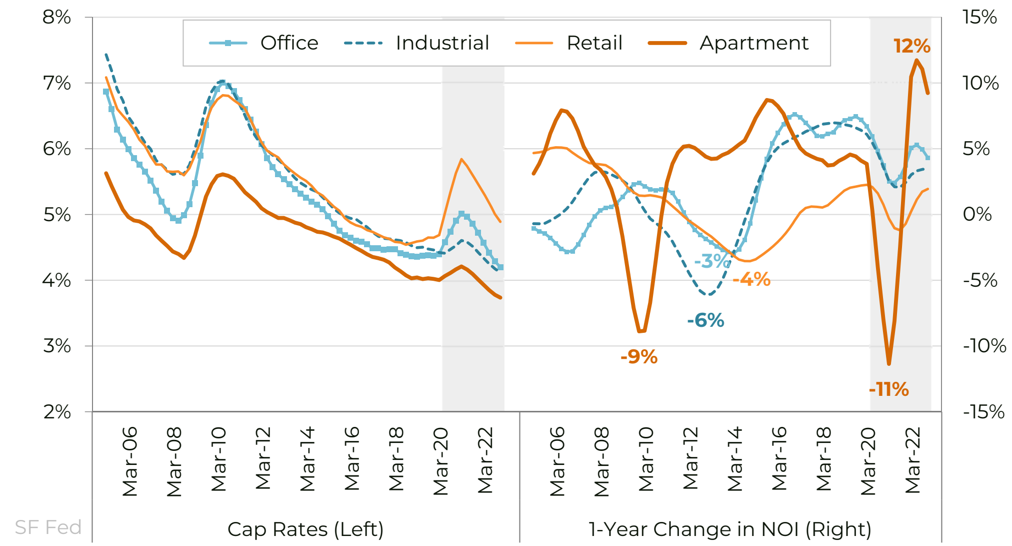
CRE Vacancy Rates
(Historical from 1Q05 through 1Q20, forecast from 2Q20 to 4Q22)



Includes the 18 to 16 largest markets in the District, weighted by stock; baseline forecasts as of 1Q20; "Nation" = sum of markets; shaded area = forecast. Source: CBRE-EA.

25 Per CBRE-EA, cap rates will increase; apartment NOI slump will be large but quick.

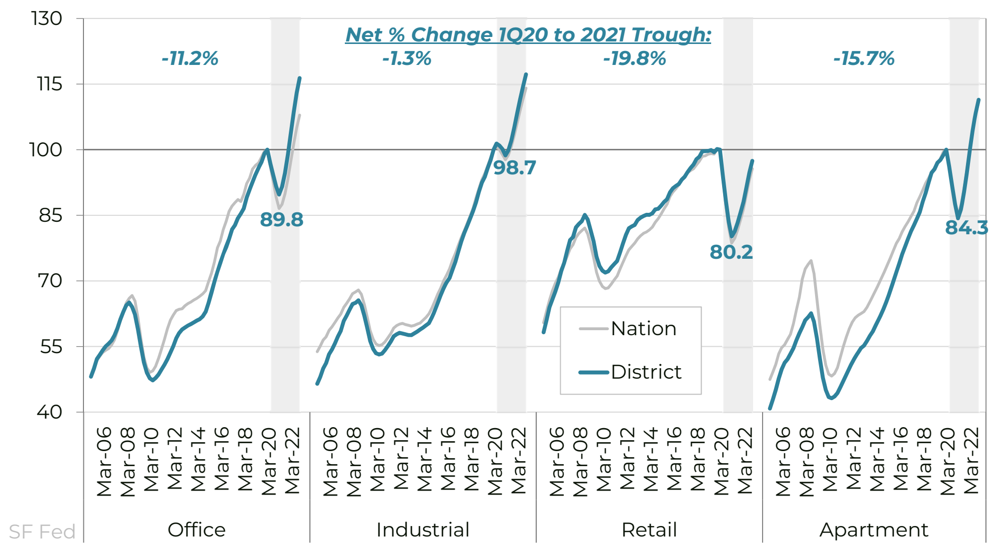
CRE Capitalization Rates **1-Year Change in NOI Index**
(Historical from 1Q05 through 1Q20, forecast from 2Q20 to 4Q22)



Includes the 18 to 16 largest markets in the District, weighted by stock; baseline forecasts as of 1Q20; shaded area = forecast; NOI = net operating income. Source: CBRE-EA.

26 Combined, capitalization rate and NOI shifts could reduce average District CRE property values, especially retail.

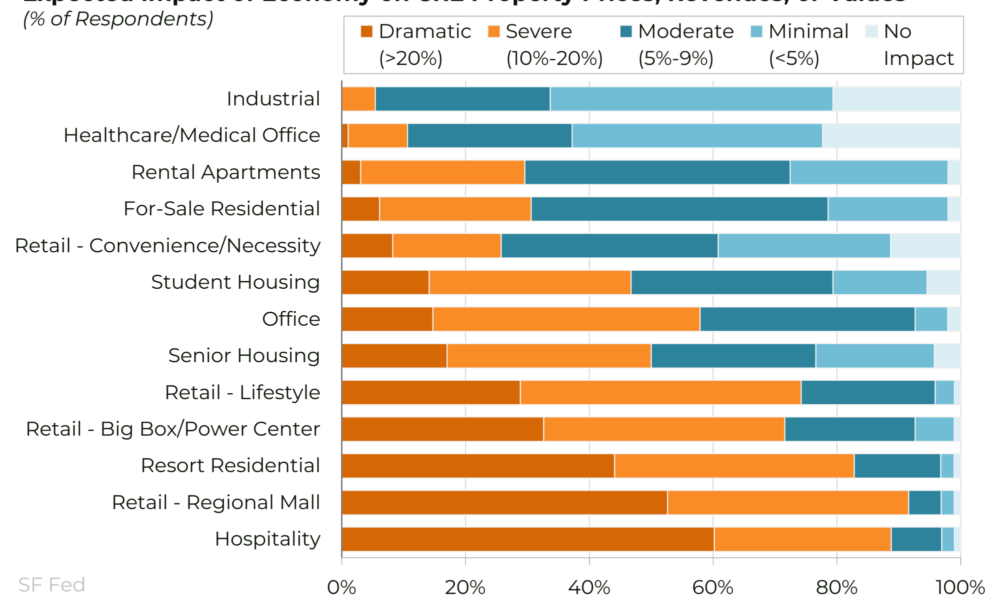
CRE Property Value Indices
(1Q20 = 100; historical from 1Q05 through 1Q20, forecast from 2Q20 to 4Q22)



Includes the 18 to 16 largest markets in the District, weighted by stock; baseline forecasts as of 1Q20; "Nation" = sum of markets; shaded area = forecast. Source: CBRE-EA.

27 CRE market participants expect hospitality and retail to fare the worst; industrial viewed as least affected.

Expected Impact of Economy on CRE Property Prices, Revenues, or Values
(% of Respondents)



Survey data was collected April 13-17; values below 10% not labeled. Source: RCLCO Real Estate Advisors.

Section 3
Commercial Bank Performance

Earnings

Credit Quality

Loan Growth and Concentrations

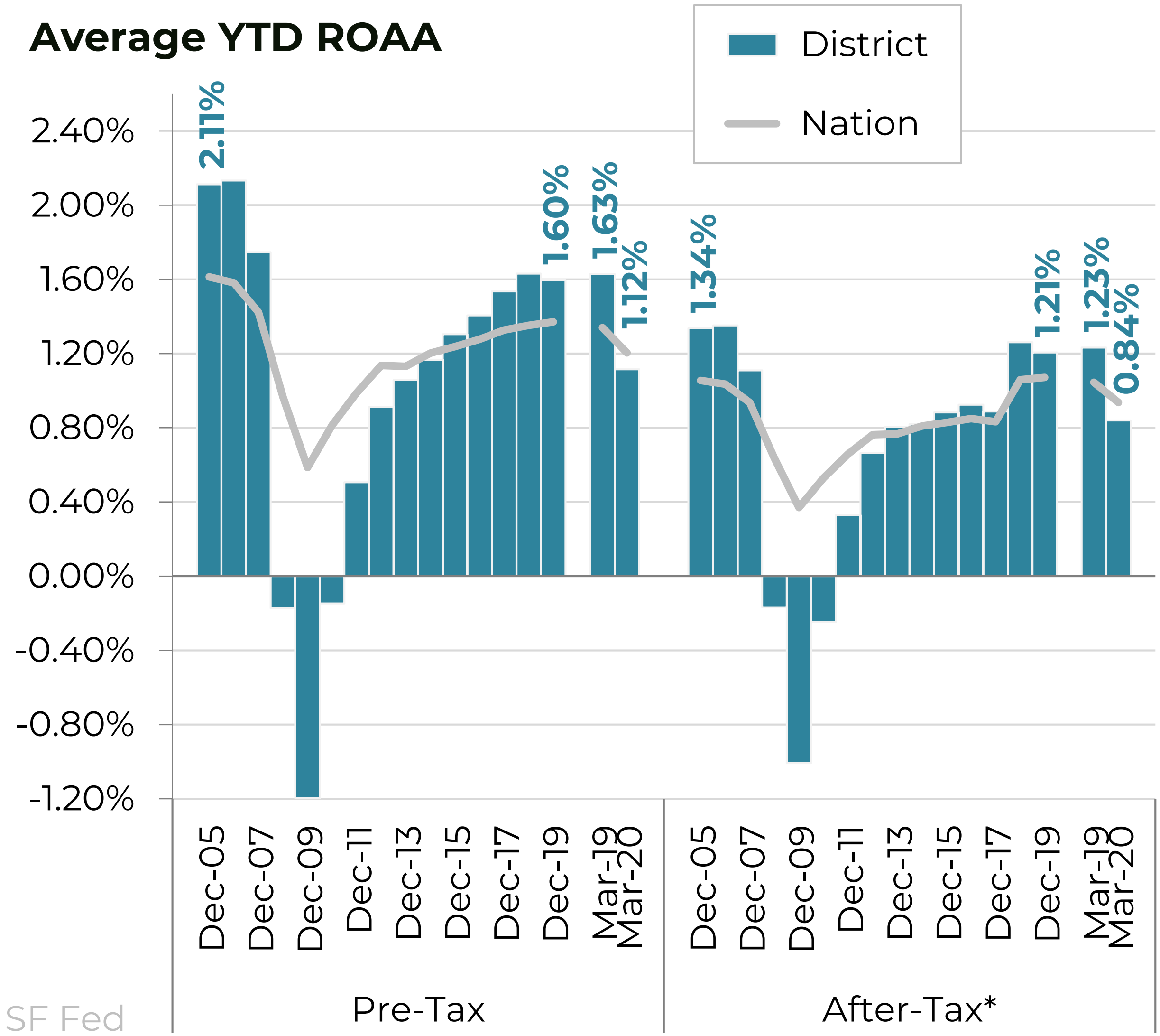
Liquidity and Interest Rate Risk

Capital

For ongoing supervisory perspectives and guidance on COVID-19, please visit [*https://www.federalreserve.gov/covid-19.htm*](https://www.federalreserve.gov/covid-19.htm)

Note: Bank size groups are defined by total assets as "Very Small" (< $1B), "Small" ($1B - $10B), "Mid-Sized" ($10B - $50B), and "Large" (> $50B), which, for analytical reasons, differ slightly from supervisory asset thresholds. The "Large" bank group covers banks based nationwide—given their broader geographic footprint and to afford a larger statistical sample—while the other three groups include banks headquartered in the Twelfth District.

The District's average 1Q ROAA ratio sank, hurt by weaker net interest income and surging provision expense ratios.

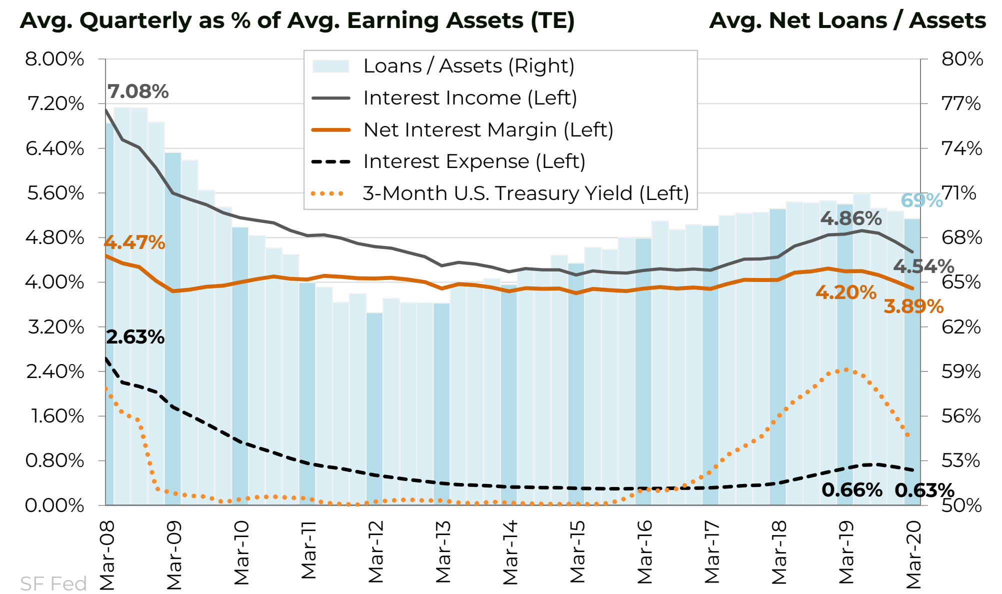


Average YTD as % of Average Assets Twelfth District
(Expenses = Negative Values)

Profit Component	Mar-19	Mar-20
Int. Inc. (TE)	4.61%	4.30%
Int. Exp.	-0.63%	-0.60%
Net Int. Inc. (TE)	3.99%	3.68%
Nonint. Inc.	0.53%	0.51%
Nonint. Exp.	-2.90%	-2.89%
Provision Exp.	-0.06%	-0.27%
Tax Exp. (TE)	-0.36%	-0.24%

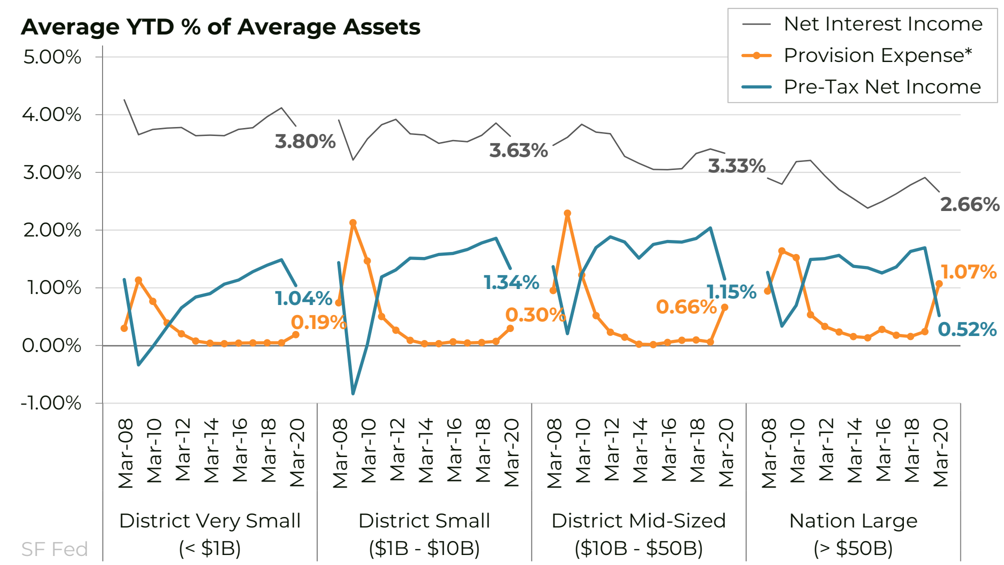
Average = trimmed mean; YTD = year-to-date (annualized); ROAA = return on average assets (net income/average assets); *theoretical tax expense deducted from Subchapter S filers for after-tax ratio; TE = tax equivalent (yields and applicable tax expense adjusted for tax-exempt revenues).

30 Declining short-term interest rates and lower loan-to-asset ratios weighed on asset yields and quarterly margins.



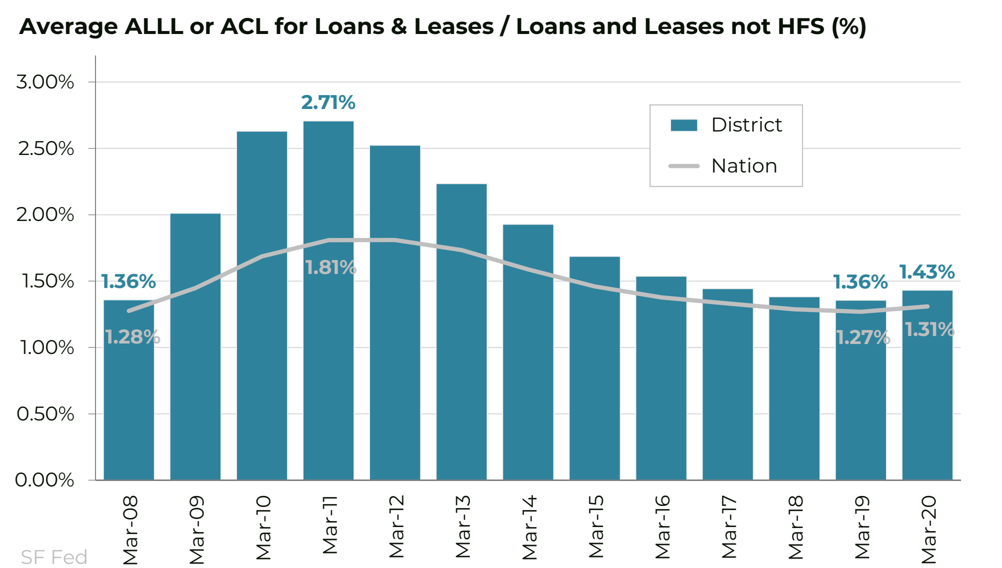
Average = trimmed mean (Twelfth District banks only); one-quarter annualized data; TE = tax equivalent. Source (quarterly average of 3-month U.S. Treasury rate at constant maturity): Federal Reserve via Haver Analytics.

31 Provisioning hurt profits at mid- and large-sized banks in particular, which typically adopted CECL in 1Q20.



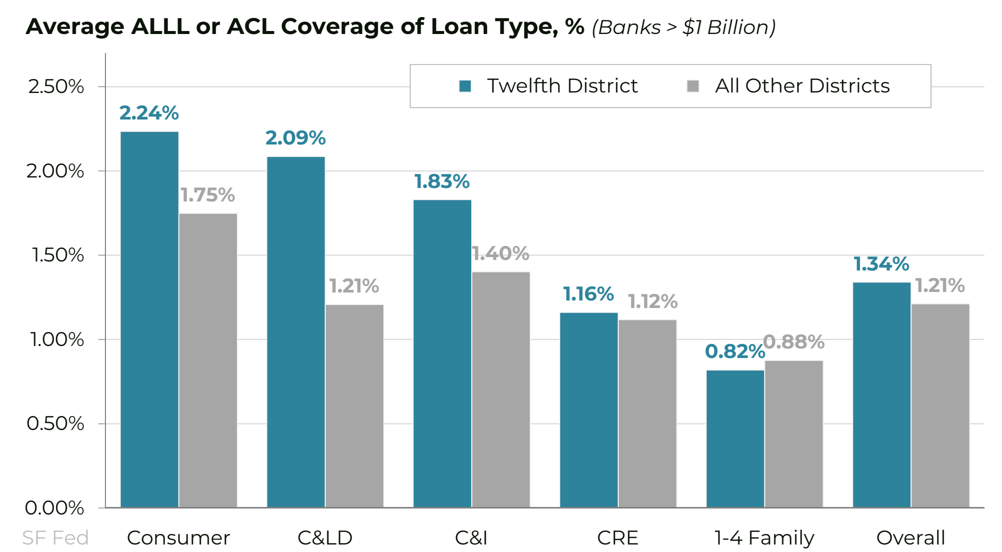
Average = trimmed mean; YTD = year-to-date (annualized); CECL (current expected credit loss) requires lenders to consider potential credit losses over the life of a loan, which is often a longer time horizon than considered under the prior "incurred loss" allowance methodology; many publicly-traded firms adopted CECL in 1Q20; *among CECL adopters, provision expense includes provisions for credit losses on all financial assets that fall within the standard, not just loans and leases.

32 Pandemic-driven provisions, plus initial CECL adjustments, contributed to increases in allowances for credit losses.



Average = trimmed mean; ALLL = allowance for loans and leases (per incurred loss method); ACL = allowance for credit losses related to loans and leases (per CECL); HFS = held for sale; CECL = current expected credit losses (ASU 2016-13); most, but not all mid- and large-sized banks adopted CECL in 1Q20 (e.g., some had not yet adopted the standard because of non-calendar fiscal years; some opted to defer adoption as permitted under the CARES Act; some were not U.S. SEC filing firms).

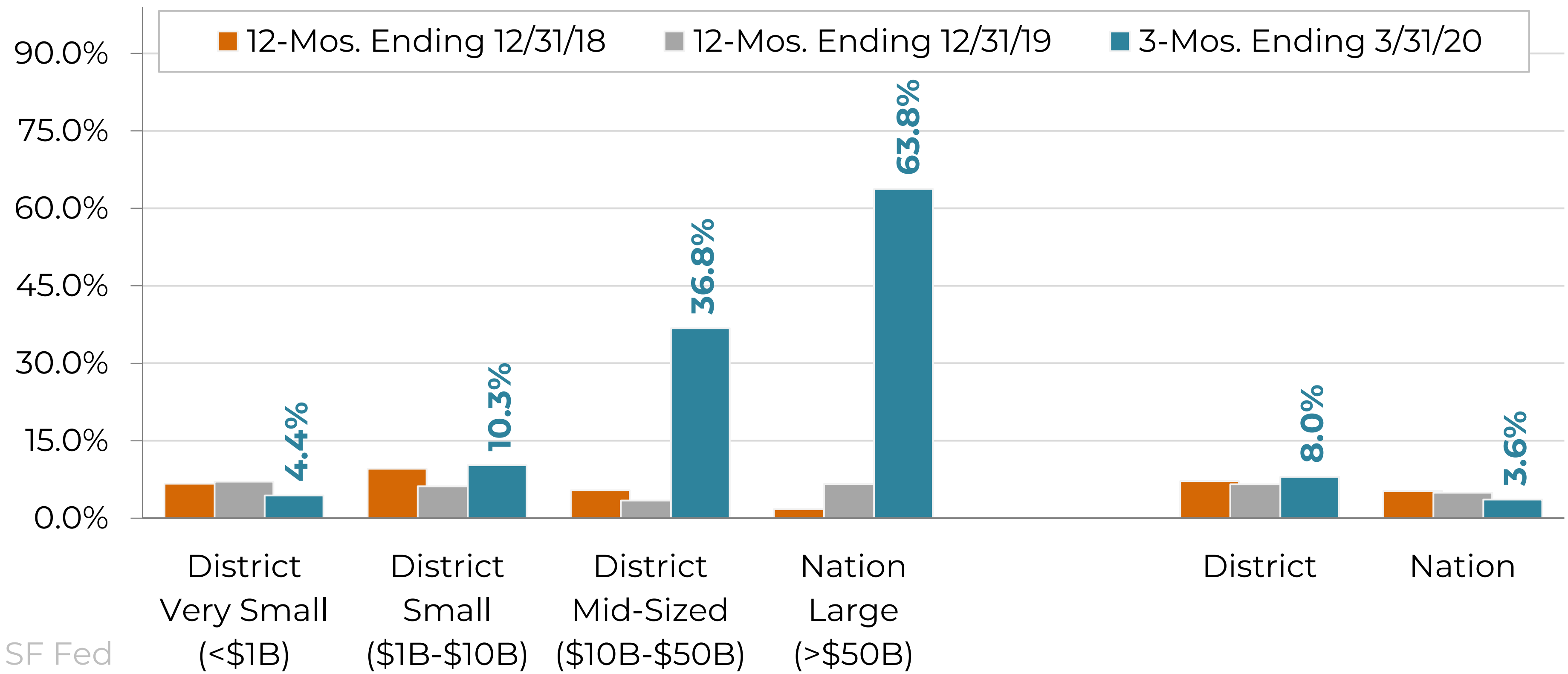
33 District banks were more likely to hold higher allowances for credit losses against consumer, C&LD, and C&I loans.



Average = trimmed mean; ALLL = allowance for loans and leases (per incurred loss method); ACL = allowance for credit losses related to loans and leases (per CECL); C&LD = construction and land development; C&I = commercial and industrial; CRE = commercial real estate, including multifamily and nonfarm nonresidential mortgages; limited to banks with total assets above $1 billion that itemized disaggregated ALLL or ACL data, including 68 banks based in the Twelfth District and 427 headquartered elsewhere in the nation.

34 Mid-Sized to Large banks, which were most likely to adopt CECL in 1Q20, reported especially large increases in ACLs.

Average Change in ALLL or ACL for Loans & Leases (%)

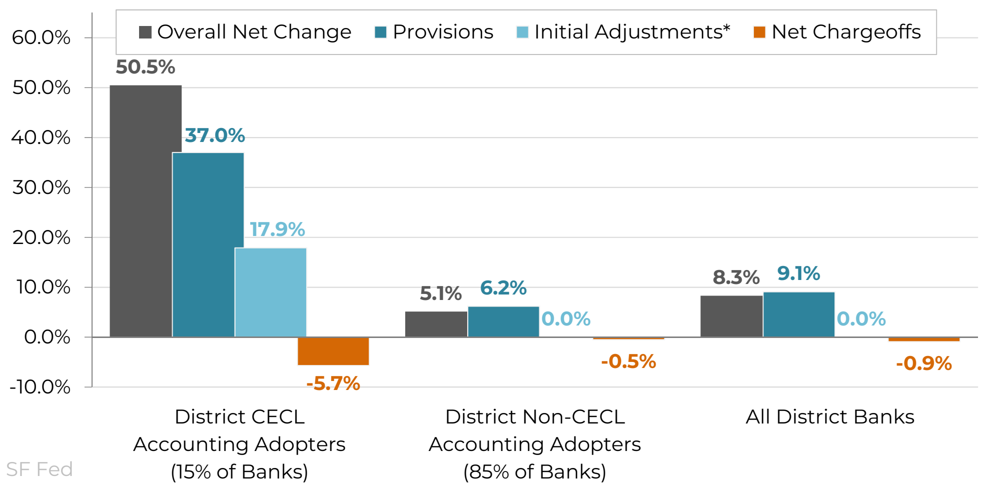


Estimated Share of Banks Adopting CECL in 1Q20					
2%	21%	75%	90%	15%	5%

Average = trimmed mean; ALLL = allowance for loans and leases (per incurred loss method); ACL = allowance for credit losses related to loans and leases (per CECL); CECL = current expected credit losses (ASU 2016-13); most, but not all mid- and large-sized banks adopted CECL in 1Q20 (e.g., some had not yet adopted the standard because of non-calendar fiscal years; some opted to defer adoption as permitted under the CARES Act; some were not U.S. SEC filing firms); excludes banks that lacked ALLLs or ACLs.

35 Growth in CECL allowances were driven partly by "Day 1" adjustments, but mainly by pandemic-driven provisions.

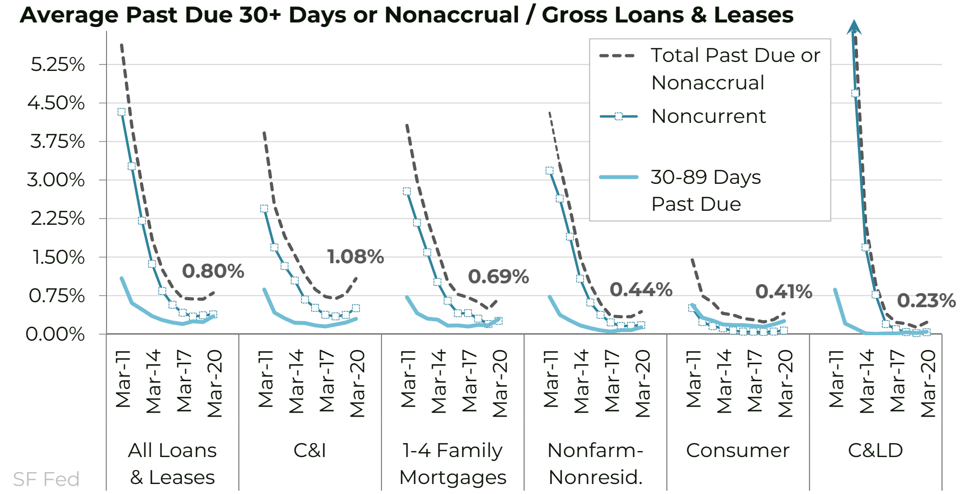
Average Change in ALLL or ACL for Loans & Leases / Beginning Balance, 1Q20



Average = trimmed mean; ALLL = allowance for loans and leases (per incurred loss method); ACL = allowance for credit losses related to loans and leases (per CECL); CECL = current expected credit losses (ASU 2016-13); *initial adjustments includes the "Day 1" impact of CECL adoption, generally on 1/1/2020, as well as other re-statements; most, but not all mid- and large-sized banks adopted CECL in 1Q20 (e.g., some had not yet adopted the standard because of non-calendar fiscal years; some opted to defer adoption as permitted under the CARES Act; some were not U.S. SEC filing firms); excludes banks that lacked ALLLs or ACLs.

36 Delinquency ratios edged up year-over-year, but timing and relief measures precluded significant increases by March 31.

Average Past Due 30+ Days or Nonaccrual / Gross Loans & Leases



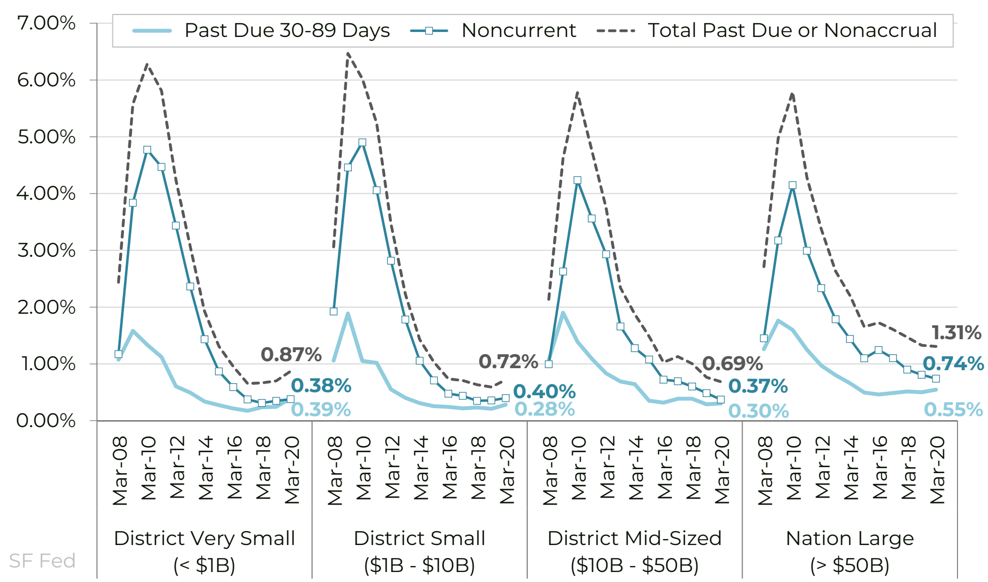
Average Share of Gross Loans & Leases, 3/31/2020

	All Loans & Leases	C&I	1-4 Family Mortgages	Nonfarm-Nonresid.	Consumer	C&LD
District	100.0%	14.3%	13.2%	43.6%	1.3%	5.7%
Nation	100.0%	12.5%	24.1%	24.4%	3.9%	5.4%

Average = trimmed mean; C&I = commercial & industrial; C&LD = construction & land development; noncurrent = 90+ days past due or in nonaccrual status; average loan mix will not sum to 100% because of trimmed average properties and because not all loan categories are itemized above.

37 The District's community banks were more likely to report year-over-year increases in average past due loan rates.

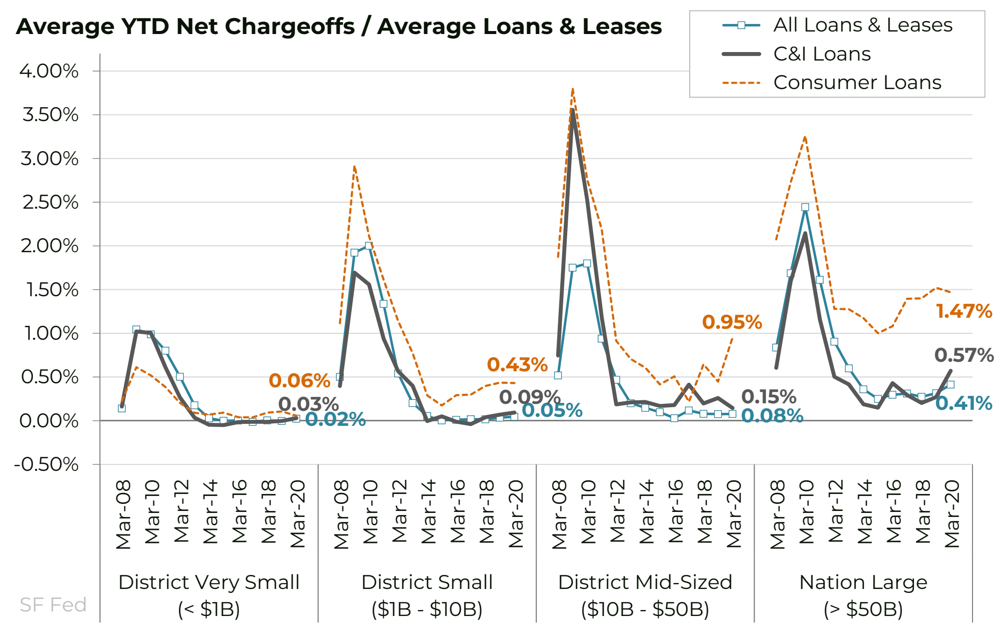
Average Past Due 30+ Days or Nonaccrual / Gross Loans & Leases



Average = trimmed mean; YTD = year-to-date (annualized); noncurrent = past due 90+ days or in nonaccrual status.

38 Overall net chargeoff rates remained low; consumer and C&I losses spiked at mid- and large-sized banks, respectively.

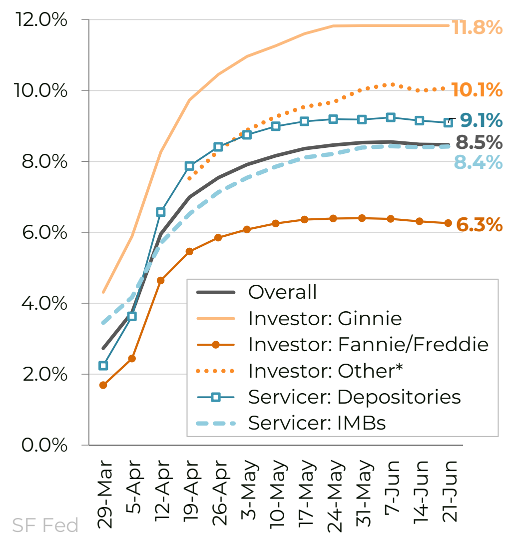
Average YTD Net Chargeoffs / Average Loans & Leases



Average = trimmed mean; YTD = year-to-date (annualized); C&I = commercial and industrial.

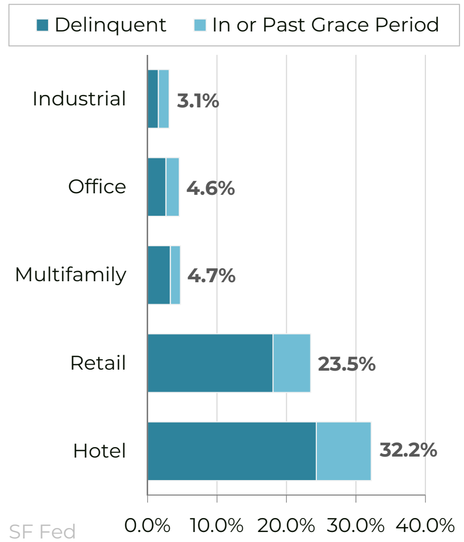
39 Lenders pivoted to working with borrowers; credit stress through June varied by product, collateral, and location.

1-4 Family Mortgages in Forbearance (%)



*Other = private-label MBS and portfolio; IMB = independent mortgage bank; based upon count of loans. Source: Mortgage Bankers Association *Forbearance and Call Volume Surveys*.

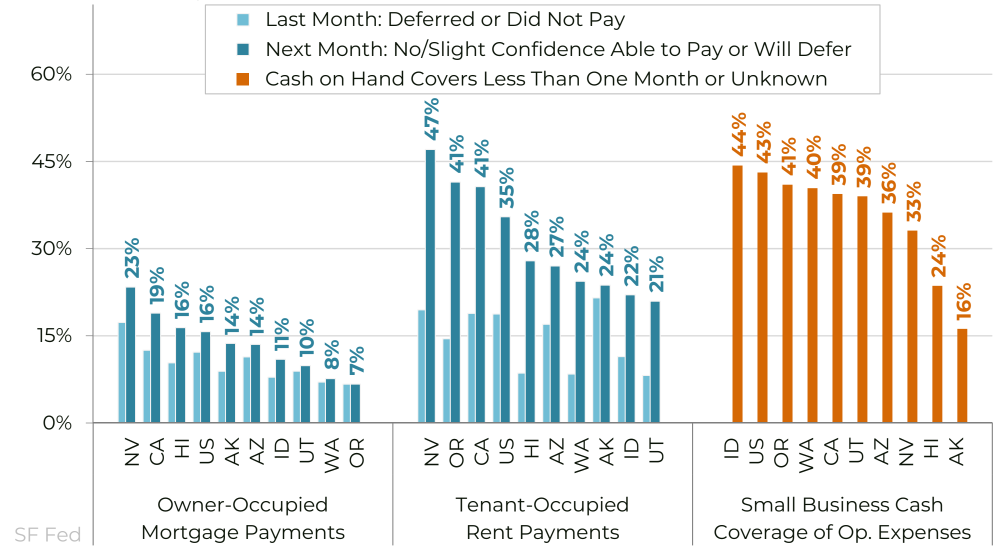
CMBS Loans by Status, June 2020 (%)



CMBS = commercial mortgage-backed securities. Source: Trepp.

40 Cash strains and uncertainty among borrowers could lead to higher delinquencies once federal stimulus fades.

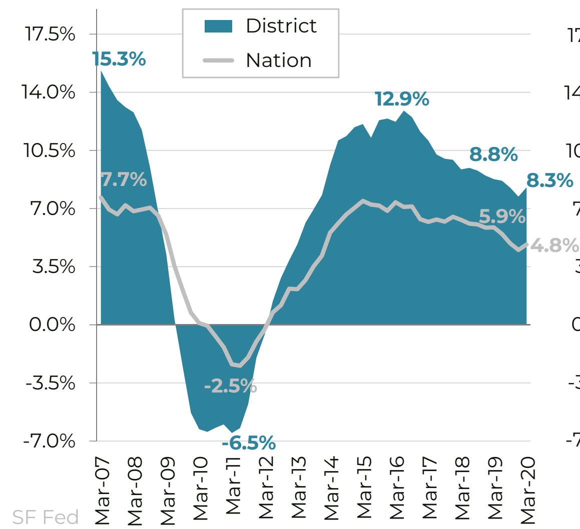
Share of Surveyed Owners, Renters, or Small Businesses



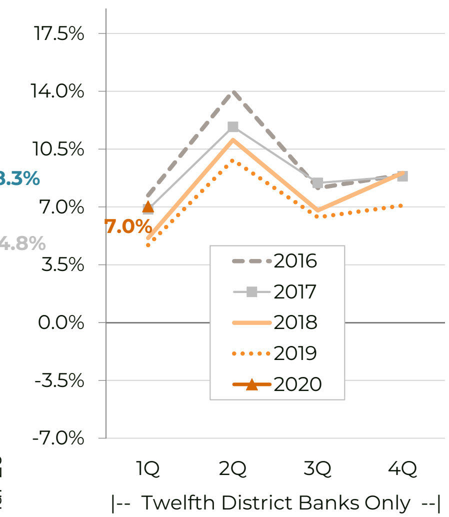
Homeowner and renter responses collected between June 18 and June 23 (shown as a share of responses for which payment status/confidence was specified); small business responses collected June 14 to June 20. Source: Census Bureau *Household Pulse Survey* and *Small Business Pulse Survey*.

41 Average annual growth in net loans and leases accelerated; 2020 had the strongest first quarter growth rate since 2016.

Average Year-over-Year Net Loan & Lease Growth



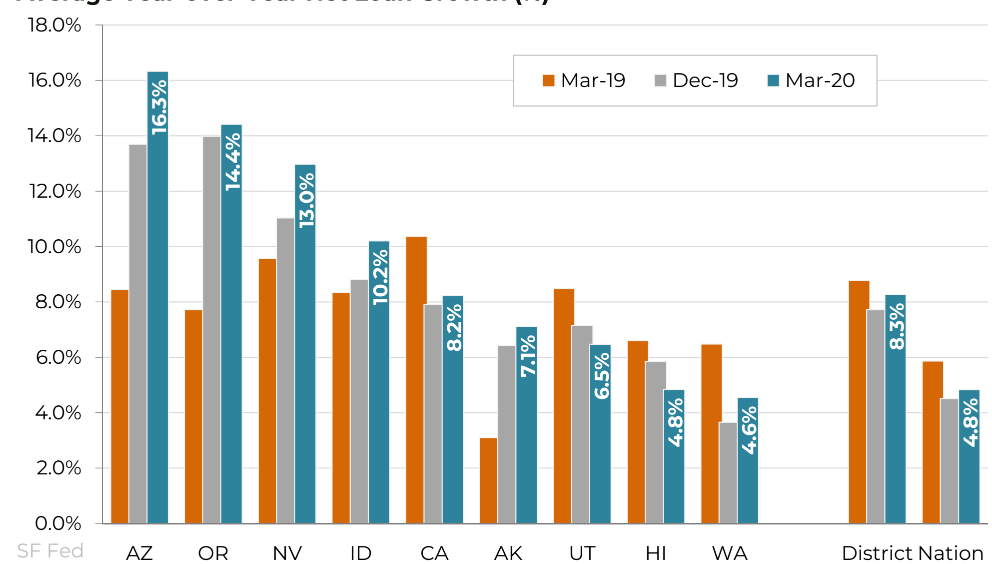
Average Quarter-over-Quarter Net Loan & Lease Growth *(Annual'd.)*



Average = trimmed mean; growth rates are not merger-adjusted; includes loans and leases held for sale and for investment, net of allowances for loan and lease losses or allowances for credit losses.

42 Average annual loan growth at banks quickened across most District states compared with 4Q19.

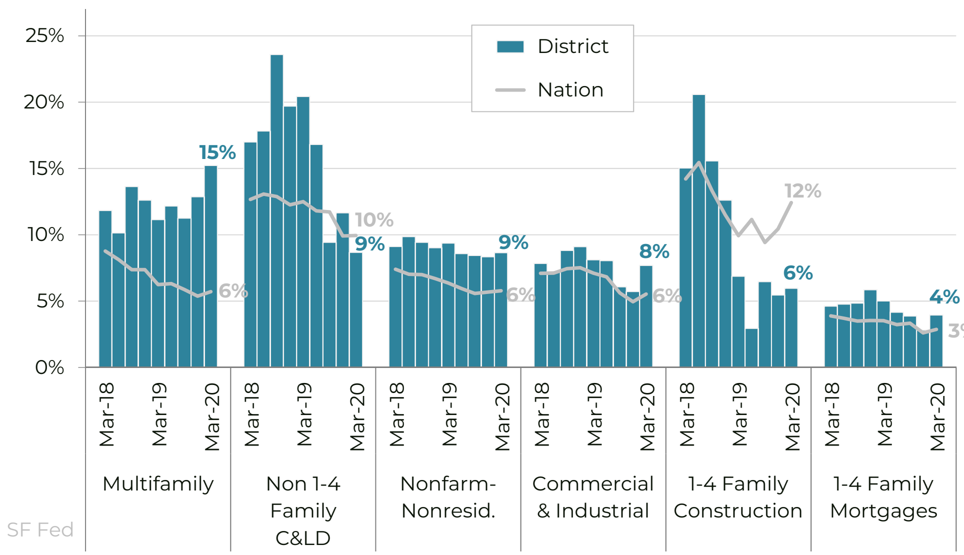
Average Year-over-Year Net Loan Growth (%)



Average = trimmed mean; NV excludes zero loan and credit card banks; includes loans and leases held for sale and for investment, net of allowances for loan and lease losses or allowances for credit losses; rates are not merger-adjusted.

43 Multifamily and C&I portfolio growth rates moved sharply higher year-over-year; NFNR also accelerated.

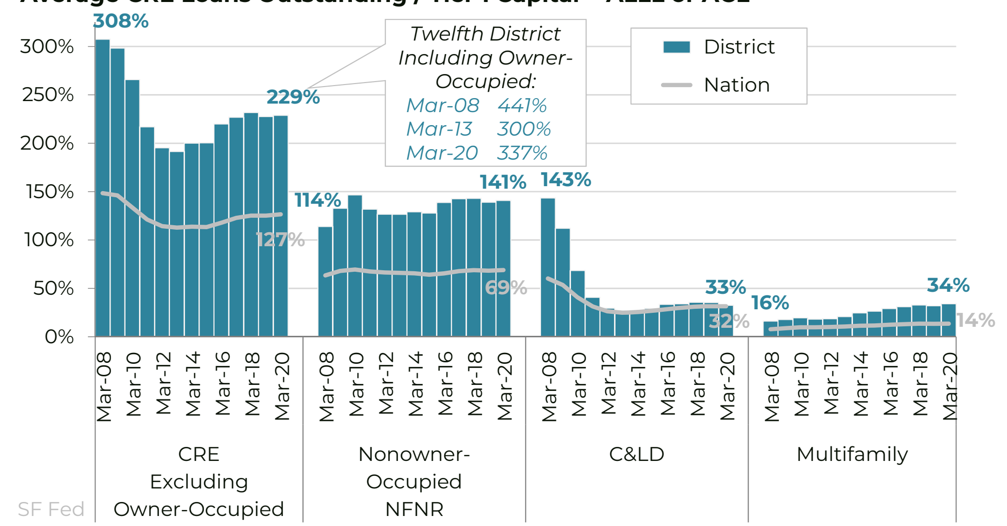
Average Year-over-Year Loan Growth, Selected Loan Categories



Average = trimmed mean; growth rates are not merger-adjusted; C&I = commercial and industrial; nonfarm-nonresidential (NFNR) includes mortgages with owner-occupied collateral; C&LD = construction and land development.

44 CRE loan concentration ratios remained high but relatively stable compared with 1Q19.

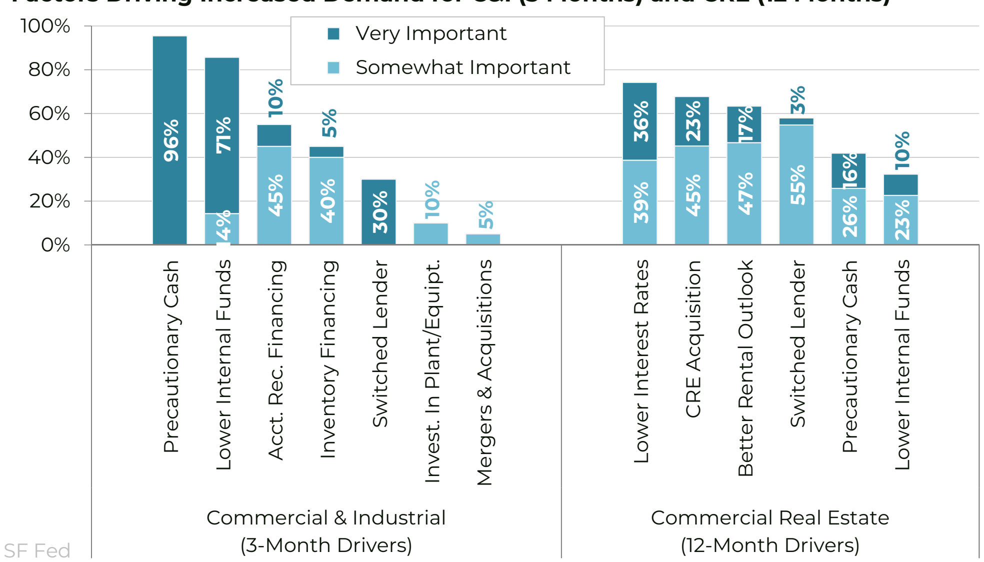
Average CRE Loans Outstanding / Tier 1 Capital + ALLL or ACL



Average = trimmed mean; ALLL = allowance for loans and leases (per incurred loss method); ACL = allowance for credit losses related to loans and leases (per CECL); Commercial Real Estate (CRE) Excluding Owner-Occupied = nonowner-occupied nonfarm-nonresidential (NFNR), construction and land development (C&LD), multifamily, and other CRE-purpose loans; components will not sum to overall CRE concentration because of trimmed average properties and other CRE-purpose loans not itemized here.

45 Precautionary cash needs fueled C&I growth in 1Q20; interest rates and property turnover led annual CRE loan growth.

Factors Driving Increased Demand for C&I (3 Months) and CRE (12 Months)

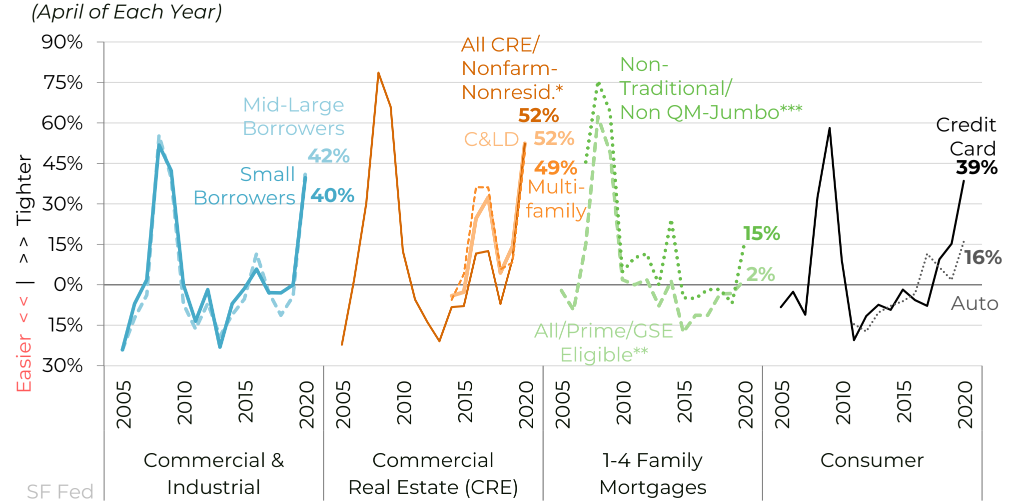


Based on national sample of 20+ commercial and industrial (C&I) lenders and 31 commercial real estate (CRE) lenders; Source: Federal Reserve *Senior Loan Officer Opinion Survey*, April 2020.

46 Surveyed lenders tightened standards considerably across most loan types as COVID-19 transmission spread.

Net % of Lenders Reporting Tighter (Easier) Loan Standards during Quarter

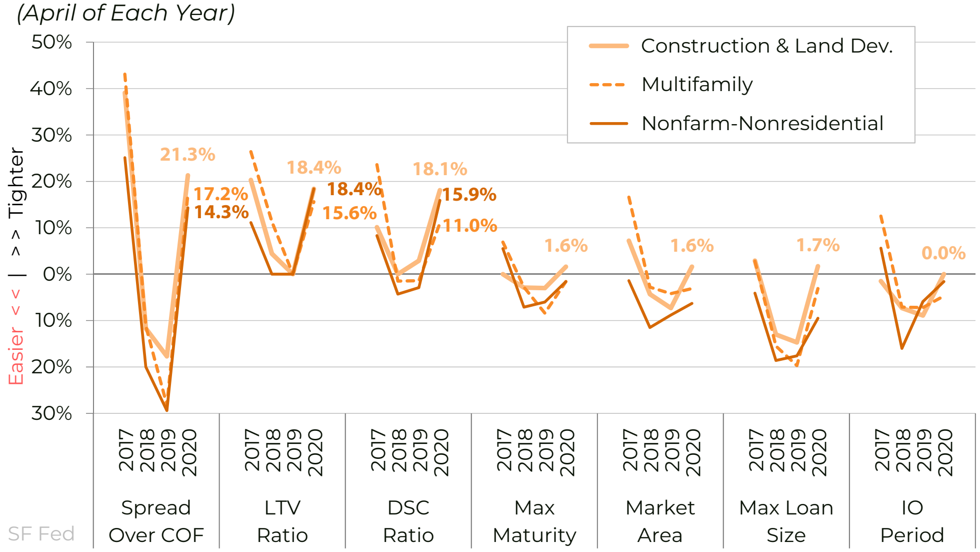
(April of Each Year)



Based on a sample of 70+/- loan officers at domestic banks (number varies by period and loan type); C&LD = construction and land development; *includes all CRE loans prior to Oct-13; **includes all residential mortgages prior to Apr-07, "prime" mortgages Apr-07 to Oct-14, and GSE-Eligible starting Jan-15; ***includes "nontraditional" mortgages Apr-07 to Oct-14 and Non QM Jumbo mortgages starting Jan-15. Source: Federal Reserve *Senior Loan Officer Opinion Survey*, (https://www.federalreserve.gov/data/sloos.htm) via Haver Analytics.

47 Year-over-year, CRE lenders were most likely to tighten pricing spreads and requirements for DSC and LTV.

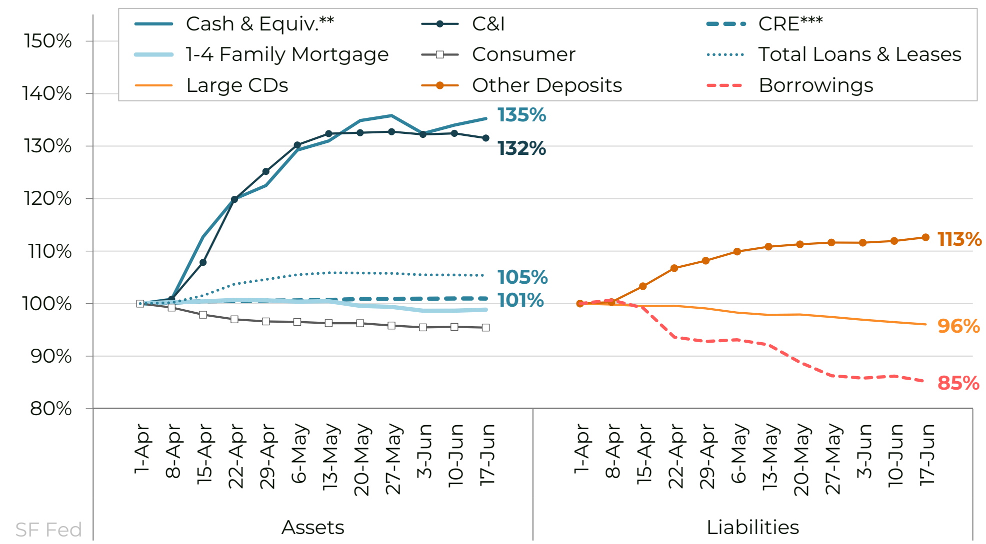
Net % of Lenders Tightening (Easing) CRE Standards During Prior 12 Mos.
(April of Each Year)



Based on sample 70+/- senior lenders; COF = cost of funds; IO = interest only; DSC = debt service coverage; LTV = loan-to-value. Source: Federal Reserve *Senior Loan Officer Opinion Survey*, April of each year.

48 Despite lender reservations, C&I loans, deposits, and cash, surged after 1Q20, fueled by PPP loans and stimulus deposits.

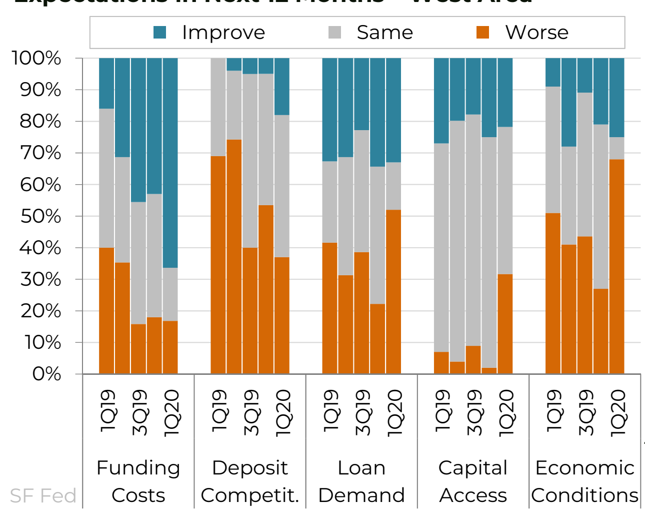
Aggregate Balances at Commercial Banks* *(Seasonally Adjusted, 4/1/2020 = 100%)*



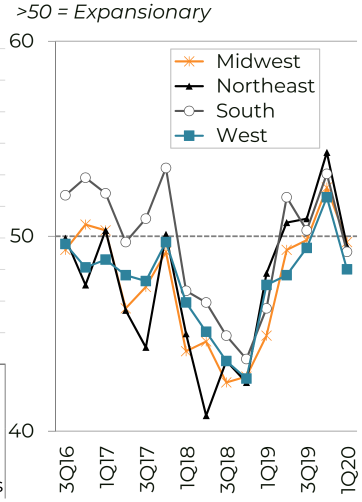
*Extrapolated based upon a weekly, nationwide sampling of "small" domestic commercial banks (excludes 25 largest banks); **includes cash, due from accounts, federal funds sold, and reverse repurchase agreements; ***commercial real estate (CRE) includes nonfarm nonresidential, multifamily, and construction & land development mortgages. Source: Federal Reserve H.8.

49 In early April, bankers' optimism for prospective loan demand, capital access, and economic conditions dimmed.

Expectations in Next 12 Months – West Area



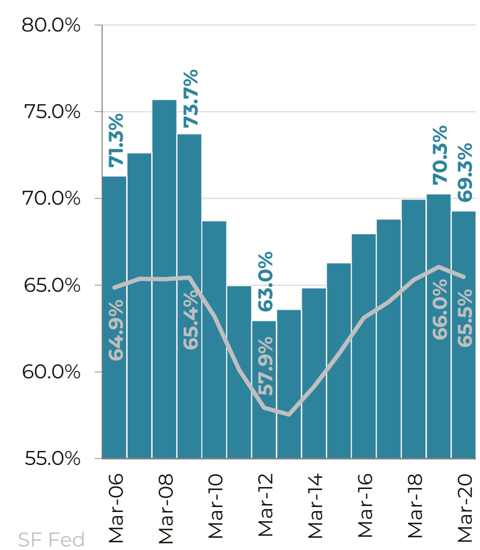
Bank Confidence Index
>50 = Expansionary



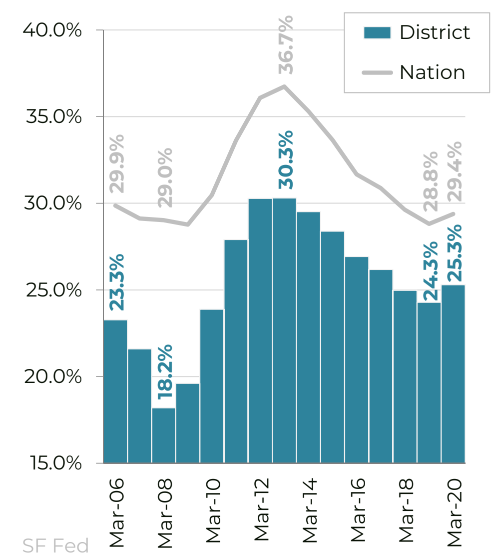
1Q20 data based on a nationwide survey of bank chief executive officers, chief financial officers, and presidents at 515 institutions, queried between April 2 and April 15, 2020; confidence was scored based on perceptions of funding costs, deposit competition, loan demand, and access to capital (but not economic conditions); West = Kansas City/San Francisco Districts; Midwest = Chicago/Cleveland/Minneapolis/St. Louis Districts; South = Atlanta/Dallas/Richmond Districts; Northeast = Boston/New York/Philadelphia Districts. Source: Promontory Interfinancial Network *Bank Executive Business Outlook Surveys*.

50 Year-over-year, bank balance sheet mix shifted away from loans and towards more liquid instruments.

Avg. Net Loans and Leases/Assets

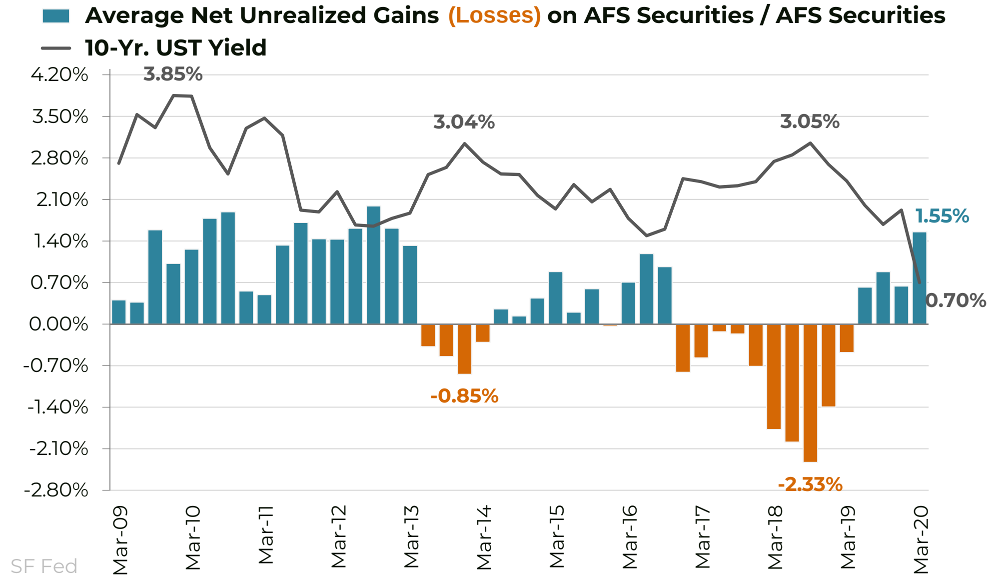


Avg. Securities & Liquid Invest./Assets



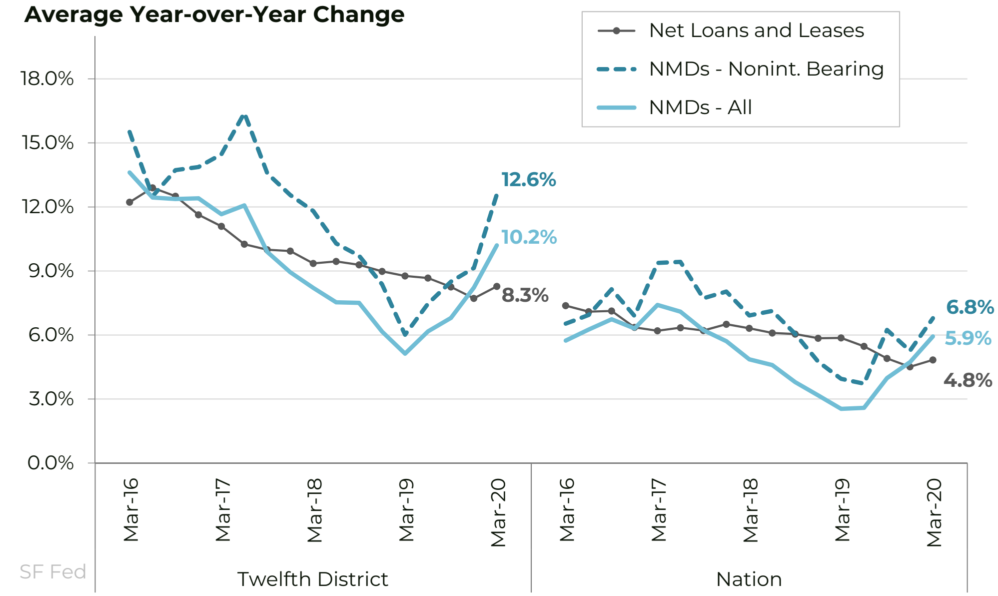
*All data are averages (trimmed means); net loans and leases = loans and leases held for sale and for investment, net of allowances for loan and lease losses; liquid investments = cash, due from balances, interest bearing balances, and federal funds sold & securities purchased under agreements to resell.

51 As long-term interest rates sank, bond portfolio values increased, lifting net unrealized gains at District banks.



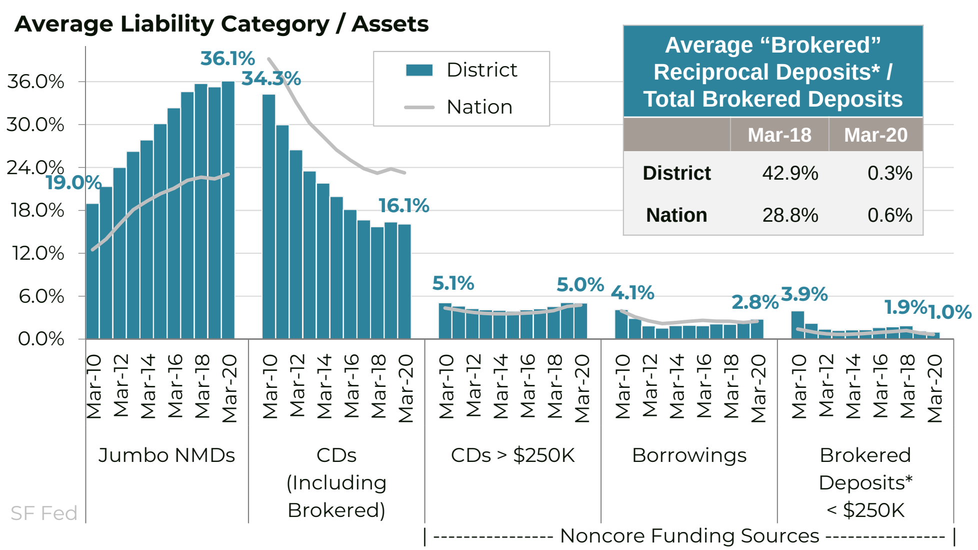
Average = trimmed mean (Twelfth District banks only); AFS = available-for-sale; changes in valuation reported net of deferred tax effects; UST = end of period U.S. Treasury yield at a constant maturity (from Federal Reserve via Haver Analytics); AFS securities excludes equities beginning with the March 2018 Call Report.

52 Growth in NMDs, especially noninterest-bearing accounts accelerated as interest rates declined and markets skidded.



Average = trimmed mean; net loans and leases = loans and leases held for sale and for investment, net of allowances for loan and lease losses; growth rates are not merger-adjusted.

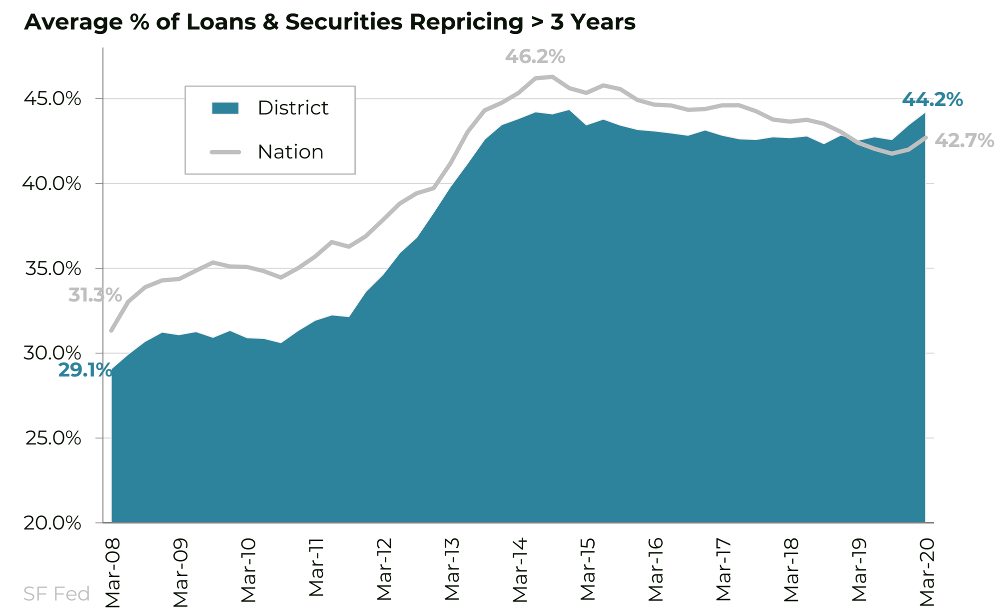
53 Noncore funding levels were stable; District banks continued to report an above-average reliance on jumbo NMDs.



Average "Brokered" Reciprocal Deposits* / Total Brokered Deposits	Mar-18	Mar-20
District	42.9%	0.3%
Nation	28.8%	0.6%

Average = trimmed mean; jumbo = greater than $250K; NMD = nonmaturity deposit; CD = certificate of deposit; borrowings = federal funds purchased, repurchase agreements, and other borrowed money; *beginning with the June 2018 Call Reports, qualifying (generally well-rated and well-capitalized) banks could discontinue reporting reciprocal deposits as brokered so long as they aggregated less than $5 billion or 20% of total liabilities, as permitted under the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) of 2018.

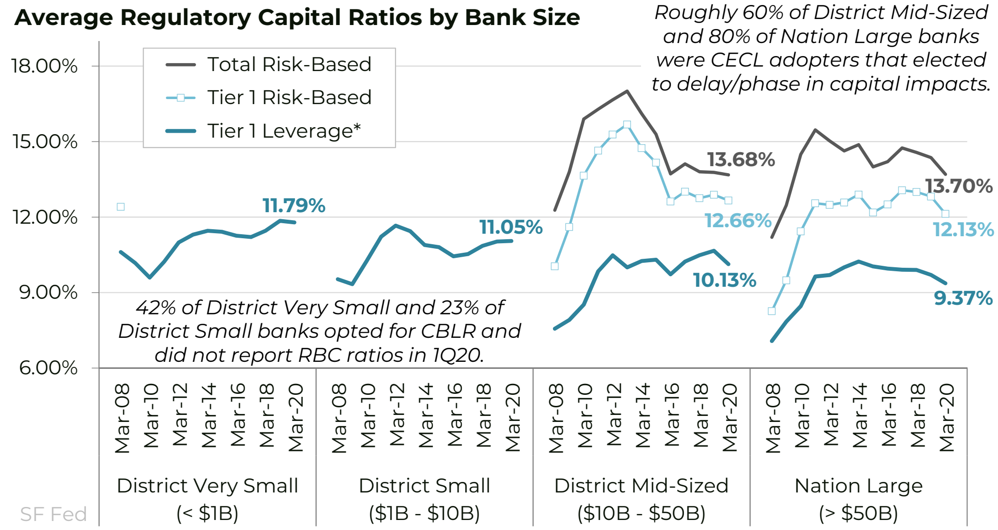
54 Negligible short-term interest rates likely contributed to further asset lengthening in 1Q20.



Average = trimmed mean.

55 The introduction of CBLR and CECL accounting in 1Q20 complicated capital comparisons with prior periods.

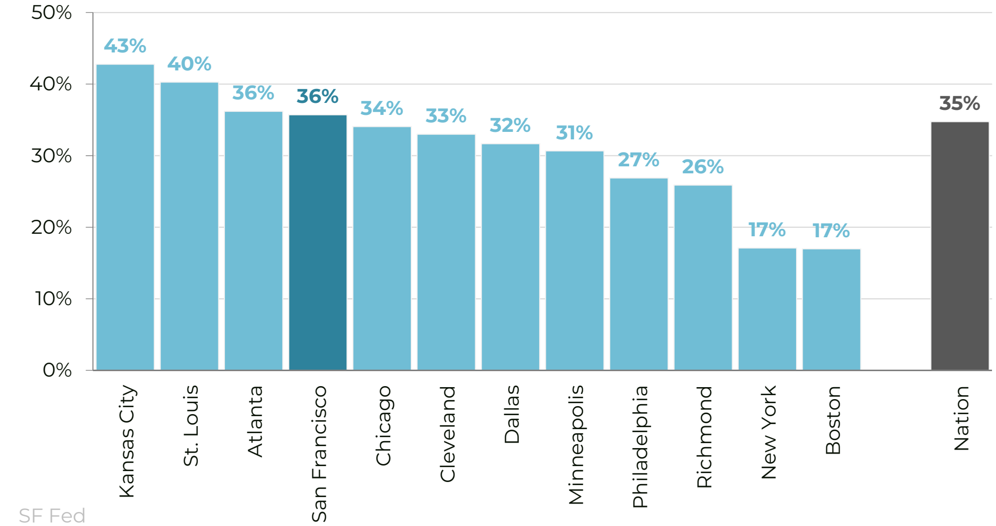
Average Regulatory Capital Ratios by Bank Size



Average = trimmed mean; *based upon community bank leverage ratio (CBLR) or tier 1 leverage ratio; beginning 1Q20, risk-based capital (RBC) averages became unavailable for banks under $10B that adopted CBLR, which limited the utility of RBC time series comparisons; beginning 1Q15 for most banks (1Q14 for some larger/more complex banks) some capital instruments were phased out and higher risk weights were applied to some asset and off-balance sheet commitment categories; beginning 2Q18, banks could opt to implement changes to the definition of high volatility commercial real estate, which may have reduced risk weightings for a generally small subset of assets previously weighted at 150%.

56 Overall, about one-third of District community banks opted for the community bank leverage ratio framework in 1Q20.

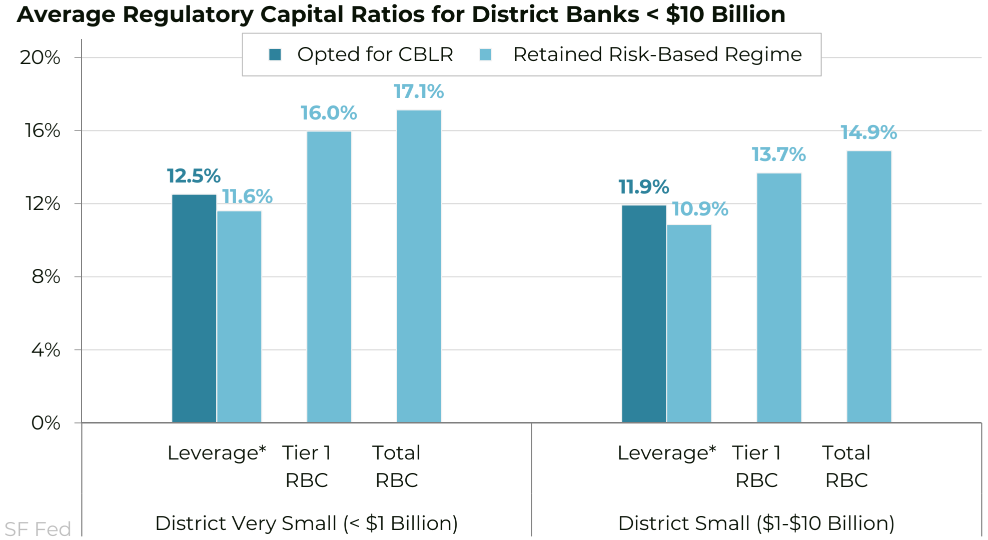
Share of Banks < $10 Billion Opting In to CBLR Framework



Average = trimmed mean; beginning 1Q20, institutions with total assets below $10 billion could opt into the CBLR framework if they met qualifying criteria, such as limits on off balance sheet exposures and trading activity and a minimum leverage ratio (initially set at 9% but reduced under the CARES Act to a phased-in minimum starting at 8%); CBLR eliminates risk-based capital (RBC) requirements provided criteria are maintained, subject to a two-quarter grace period.

57 Community banks that opted for CBLR treatment had higher leverage ratios on average than non-CBLR banks.

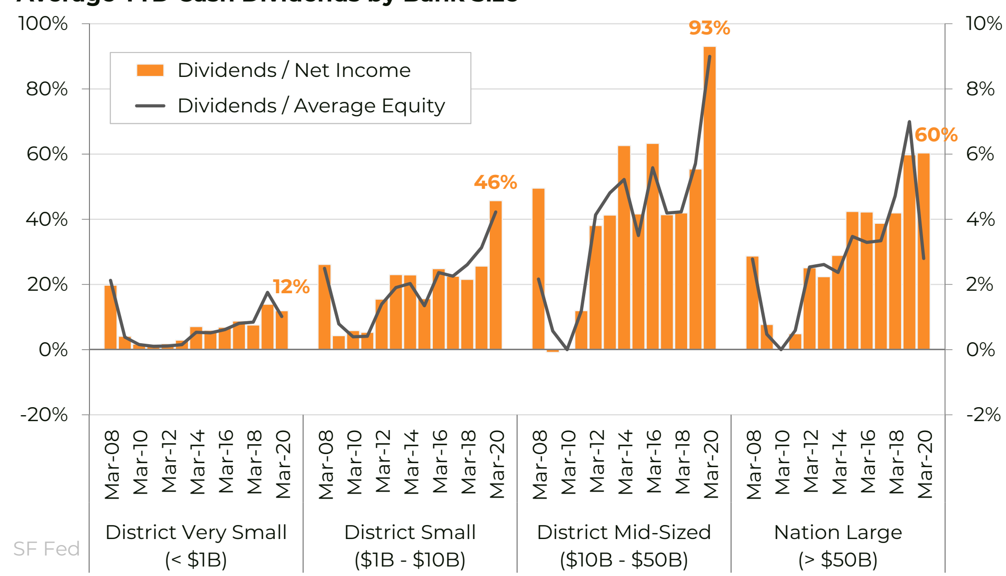
Average Regulatory Capital Ratios for District Banks < $10 Billion



Average = trimmed mean; *based upon community bank leverage ratio (CBLR) or tier 1 leverage ratio; beginning 1Q20, institutions with total assets below $10 billion could opt for the CBLR framework if they met qualifying criteria, such as limits on off balance sheet exposures and trading activity and a minimum leverage ratio (initially set at 9% but reduced under the CARES Act to a phased-in minimum starting at 8%); CBLR eliminates risk-based capital (RBC) requirements provided criteria are maintained, subject to a two-quarter grace period.

58 Dividend payout ratios surged among some banks, reflecting higher dividends amid weaker net income.

Average YTD Cash Dividends by Bank Size



Average = trimmed mean; YTD = year-to-date (annualized); as of 1Q20, roughly 18% of District very small banks, 4% of District small banks, and none of the mid-sized or large banks were Subchapter S tax filers.

Appendices

Summary of Institutions

Technical Information

Commonly Used Abbreviations

Appendix 1: Summary of Institutions

Area	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Mar-19	*Mar-20*	*Mar-19*	*Mar-20*	*Mar-19*	*Mar-20*
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	15 (0)	13 (0)	-	-	-	-
CA	139 (2)	131 (2)	3 (0)	3 (0)	11 (0)	10 (0)
GU	2 (0)	2 (0)	-	-	1 (0)	1 (0)
HI	5 (0)	5 (0)	1 (0)	1 (0)	2 (0)	2 (0)
ID	12 (0)	10 (0)	-	-	1 (0)	1 (0)
NV	10 (0)	10 (1)	4 (0)	4 (0)	4 (1)	2 (1)
OR	15 (0)	14 (0)	-	-	2 (0)	2 (0)
UT	25 (0)	24 (0)	14 (0)	14 (0)	1 (0)	1 (0)
WA	32 (0)	32 (0)	-	-	9 (0)	9 (0)
12L	259 (2)	245 (3)	22 (0)	22 (0)	32 (1)	29 (1)
U.S.	4,653 (13)	4,415 (28)	24 (0)	24 (0)	682 (1)	645 (1)

Based on preliminary 1Q20 data.

Appendix 2: Technical Information & Abbreviations

General: This report focuses on the financial trends and performance of commercial banks headquartered within the Twelfth Federal Reserve District ("12L"). 12L includes nine western states: AK, AZ, CA, HI, ID, NV, OR, UT, and WA, as well as Guam.

Banking Statistics: Unless otherwise noted, all data are for commercial banks based upon headquarters location. Averages are calculated on a "trimmed" basis by removing the highest 10% and lowest 10% of ratio values prior to averaging to prevent distortion from outliers. Earnings figures are presented on an annualized year-to-date or quarterly basis, as noted. Growth rates are not adjusted for mergers. The latest quarter of data is considered preliminary. Other than the table to the left, most graphics exclude "De Novo" banks (i.e., less than five years old) and industrial banks and savings institutions, which have different operating characteristics.

Groups by Asset Size: "Very Small," "Small," and "Mid-Sized" bank groups are based on total asset ranges of <$1 billion, $1-$10 billion, and $10-$50 billion, respectively. The "Large" bank group uses banks with assets >$50 billion nationwide because these banks typically operate beyond the District's geographic footprint and a larger statistical population is preferred for trimmed means.

Commonly Used Abbreviations:

AFS	Available for sale	**HFS**	Held for sale
ACL	Allowance for credit losses	**MBS**	Mortgage-backed security
ALLL	Allowance for loan and lease losses	**MMDA**	Money market deposit account
BSA/ AML	Bank Secrecy Act / Anti-Money Laundering	**NFNR**	Nonfarm-nonresidential
C&I	Commercial & industrial	**NMD**	Nonmaturity deposit
C&LD	Construction & land development	**ROAA**	Return on average assets
CD	Certificate of deposit	**TE**	Tax equivalent
CRE	Commercial real estate	**YTD**	Year-to-date