



First Glance 12L (3Q18)



Financial Performance of Banks in the 12th Federal Reserve District (“12L”)

Improved Economy and Bank Profits Face Cooling Optimism

November 30, 2018

A Product of the Surveillance and Analysis and Data Analytics Units

This report is based upon preliminary data from 3Q18 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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12th District Overview

“Improved Economy and Bank Profits Face Cooling Optimism”

In 3Q18, District job growth perked up again. Year-over-year, nonfarm jobs grew by 2.4% in the 12th District (District), up slightly from 2.2% in 2Q18 and above an improving national aggregate of 1.7%. Growth rates accelerated across most District states with the exception of Idaho, where job gains were slower but still relatively strong, and Alaska, which reported worsening job losses. Meanwhile, unemployment ticked lower in most states quarter-over-quarter, with labor markets remaining especially tight in Utah, Idaho, and Hawaii.

While home price gains continued, rising interest rates dampened demand. The pace of annual home price appreciation moderated in several states, in particular the more expensive/coastal areas (e.g., Washington, California, Oregon, and Hawaii), where rising mortgage rates had a greater impact on monthly payments. Nationally, the supply of new homes for sale climbed to 7.1 months, a seven-year high, a function of both slowing sales and rising new home inventories. In response to headwinds, home construction stock indices such as the iShares ITB index were down over 28% year-to-date (YTD) through mid-November 2018. Existing home sales continued to ease year-over-year both nationally and in the West.

Industrial properties overtook apartments as the best performing commercial real estate (CRE) sector. Demand for warehouse distribution and just-in-time logistics drove the trend, leading to a District aggregate 12-month rent growth rate of 6.7% and a low availability rate of 4.0%. CRE investors surveyed by National Real Estate Investor/Marcus & Millichap expected industrial properties to outperform other sectors. Nationally, CRE price appreciation remained positive, but slowed modestly among apartment and industrial properties and dramatically among downtown office buildings as investors moved to suburban markets for yield. Although fundamentals were generally good, CoStar’s forecast data suggested that rent growth may slow across most markets and property types in the next two years, including possible pockets of rent decline among retail markets. Within the District, CoStar also expected vacancy rates to increase among 81% and 60% of apartment and industrial markets tracked, respectively.

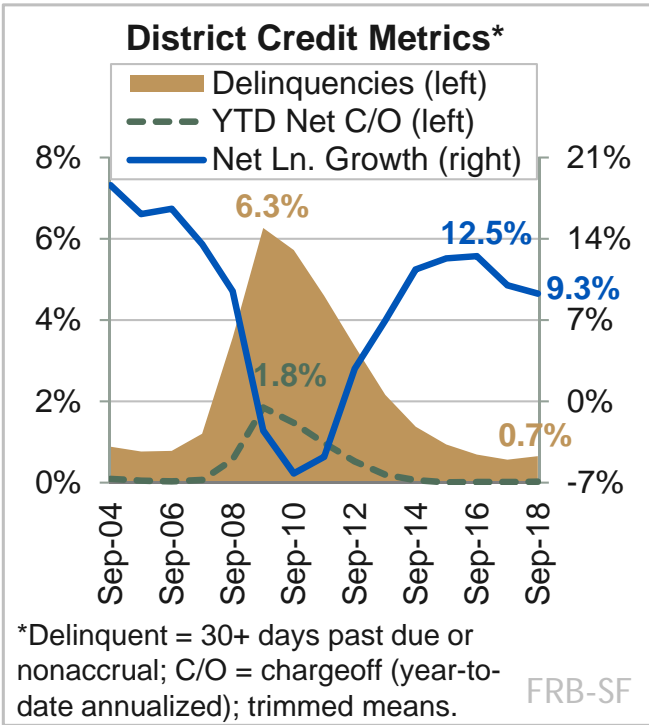
Various surveys by government and industry groups noted broad but cooling optimism. For instance, CRE-related surveys indicated that investors remained bullish about industrial properties but that interest in other property types had eased. Meanwhile, homebuilder sentiment moderated in the West and nationally, and surveys by Fannie Mae and the National Association of Realtors® indicated that a growing minority of lenders and consumers expected home prices to stabilize or possibly decline. Similarly, an increasing share of bankers queried by Promontory Interfinancial Network reported concern about future deposit competition, loan demand, and the economy.

Nonfarm Job Growth & Unemployment (%)

	Year-over-Year Job Growth		Unemp. Rate
	12 Mos.	3Q18	Sep-18
UT		3.53%	3.20%
NV		3.31%	4.50%
WA		3.20%	4.40%
ID		3.09%	2.70%
AZ		2.74%	4.60%
OR		2.47%	3.80%
HI		2.15%	2.20%
CA		1.99%	4.10%
AK		-0.74%	6.50%
US		1.67%	3.70%

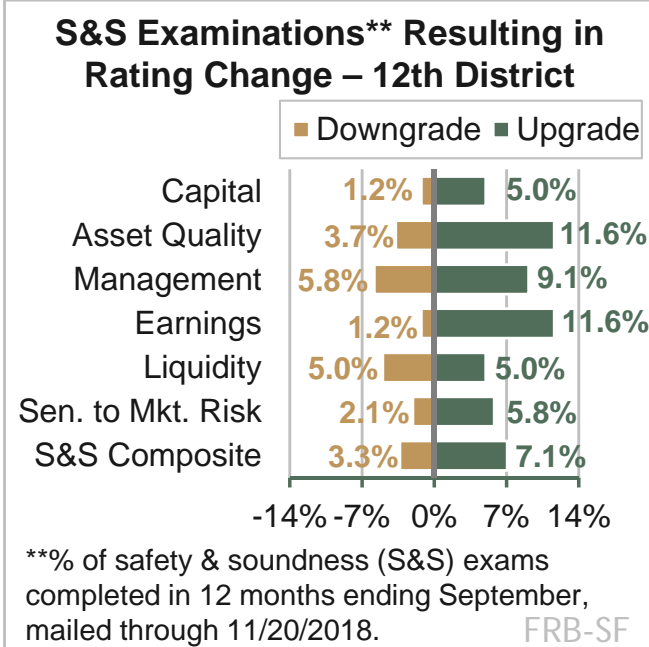
Growth based on change in 3-month moving average; all data seasonally adjusted. Source: Bureau of Labor Statistics / Haver Analytics.

12th District Overview, Continued



Stronger net interest margins and tax cuts buoyed bank profits year-over-year. District banks' average, YTD 3Q18 return on average assets (ROAA) ratio improved to 1.24%, up 3 bps from 2Q18 and 24 bps year-over-year (adjusted for Subchapter S tax filers). It also outpaced a national average of 1.08%. Roughly 9 bps of the annual improvement derived from wider net interest income ratios; tax reform added an estimated 15 bps. The pace of improvement in quarterly net interest margins tapered in 3Q18 as deposit pricing picked up steam from a low base. Intensifying deposit competition may challenge margins prospectively.

District bank loan growth eased as delinquencies edged up from a cyclical trough. The District's average annual net loan growth rate was 9.3% in 3Q18, down from 9.5% and 10.0% in the prior quarter and year, respectively. Growth continued to outpace the national average, which decelerated to 6.0%. Construction and land development (C&LD) and multifamily loans still had the fastest segment-level growth rates. A 3Q18 *Bank Executive Business Outlook* report by Promontory Interfinancial Network noted that half of respondents in the West anticipated stronger loan demand in the coming year; however, 20% expected loan demand to worsen, up steadily from 11% of respondents in 1Q18. Because of earnings-fueled capital accretion, the average District nonowner-occupied CRE loan-to-capital ratio edged down, but at 230%, remained more than 1.8 times the national average. Past-due loan and net chargeoff rates continued to be minimal (see chart on left); however, the average year-over-year change in the dollar volume of noncurrent loans turned slightly positive for the first time since 4Q10, and the pace of increase in overall past-due loan volumes accelerated.



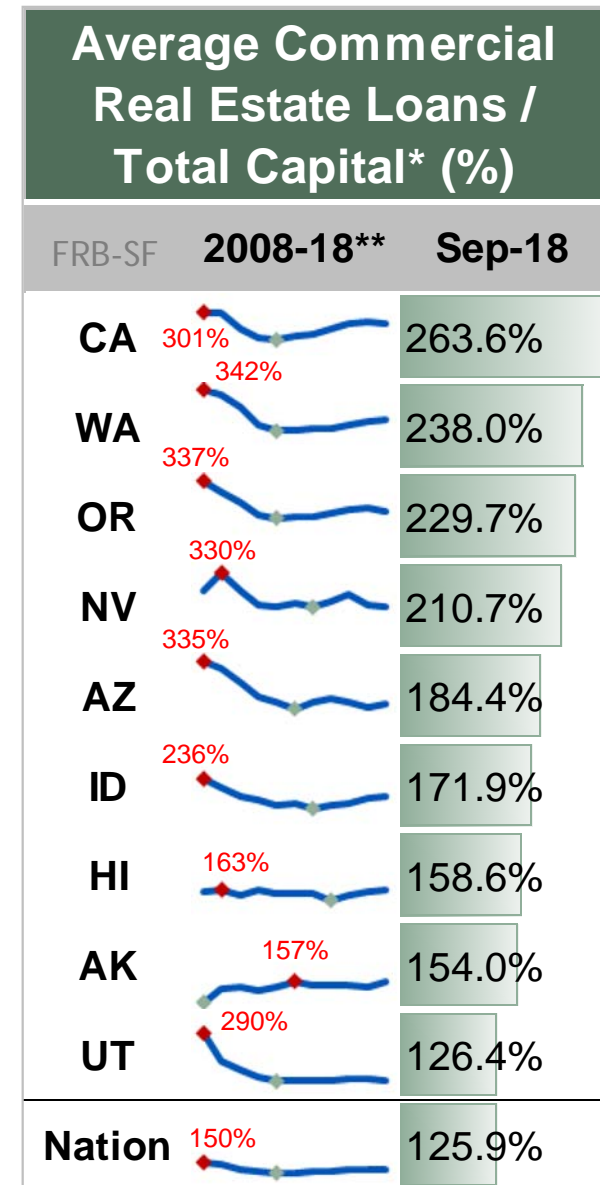
Capital ratios improved from prior quarter and year-ago levels, but deposit competition posed potential liquidity challenges. Year-over-year, District banks' average tier 1 and total capital levels expanded by 9.5% and 9.2%, respectively, the fastest pace of increase since late 2007, and higher than the average growth rates for leverage and risk-weighted assets. Nonmaturity deposit (NMD) gathering slowed, and the gap between NMD and loan growth widened. On average, this prompted an uptick in more costly, jumbo time deposits. Notwithstanding the increase, average noncore funding levels appeared to moderate year-over-year because of legislative changes in the treatment of reciprocal deposits.

Examination upgrades outpaced downgrades. In the twelve months ending September, the pace of safety and soundness upgrades matched or exceeded downgrades across components (see chart on left). Although the rate of upgrades has moderated and the pace of downgrades has ticked higher in recent quarters, more than 92% of District banks were rated satisfactory or strong for safety and soundness, compared with less than 40% in late 2010.

Hot Topics: Areas We Are Monitoring Closely

The following areas are drawing heightened supervisory attention within the 12th District based on risk exposures and metrics of Federal Reserve-supervised institutions:

- Cyberthreats.** Attackers prey on the vulnerability of humans as well as systems, leaving bank networks, their employees, and their clients targets for cyberattacks. According to Symantec's September 2018 *Monthly Threat Report*, for the global financial, insurance, and real estate sector, one in every 3,348 emails was a phishing attempt. Such statistics reinforce the need for both staff and customer training and strong vendor management programs. All firms are vulnerable, regardless of size, complexity, and scale, but a bank's inherent risk can vary depending upon these dimensions.
- Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance.** Even though related supervisory criticisms at District institutions have started to moderate, this area remains a "hot topic" due to the District's role in the global economy and the array of activities being conducted by supervised institutions. BSA/AML compliance risks also continue to garner supervisory attention as more states legalize cannabis for medical and recreational purposes, and cannabis sales in District states increase. Ensuring that BSA/AML strategies evolve to address the ever-changing risk environment remains a key factor in maintaining a satisfactory compliance program.
- CRE lending concentrations.** Elevated loan concentrations, combined with potential competitive easing of underwriting standards and elevated property prices, heighten regulatory concern. Non-owner occupied CRE loan concentrations remained at or above the U.S. average across all District states (see table at right). A rising interest rate environment could negatively impact debt service coverage ratios and pressure commercial property price appreciation, all else equal. For risk management-related guidance, see the 2015 *Interagency Statement on Prudent Risk Management for Commercial Real Estate Lending* (SR letter 15-17, available at <https://www.federalreserve.gov/supervisionreg/srletters/sr1517.htm>).
- Lengthening asset maturities.** In prior years, many banks increased their holdings of longer-term assets, driven by low short-term interest rates and a relatively steep yield curve. This trend moderated somewhat as the yield curve flattened; however, the proportion of longer-dated assets remained elevated through September 2018. In a rising interest rate environment, longer-term assets may be slower to reprice and could mute margin expansion if not appropriately matched, hedged, or managed.



*Trimmed means; excludes owner-occupied ; **September of each year.

◆ = trough ◆ = peak

Hot Topics: Areas We Are Monitoring Closely

- **Consumer compliance issues.** In addition to redlining, overdraft practices, unfair or deceptive acts or practices, and recent changes to the Home Mortgage Disclosure Act, supervisors are monitoring risks posed by increased merger and acquisition activity. Mergers can pose new consumer compliance risks by expanding business volumes; changing operations, delivery channels, and market areas; and creating new products or business lines.
- **Quality of loan growth.** The average annual net loan growth rate continued to outpace the national average in most District states. Economic expansion fostered growth; however, many loans are underpinned by historically high collateral values and some lenders loosened standards in the face of competition from both bank and non-bank lenders. If collateral values prove unsustainably high and/or rising interest rates increase debt service on variable rate loans, the risk of default and/or loss increases. Monitoring credit performance will be important as the implementation of Current Expected Credit Losses (CECL) accounting draws closer.
- **Emergent funding gap.** In recent years, strong, sustained loan growth has been supported by an influx of NMDs, especially large NMD accounts, as well as a decline in on-balance sheet liquidity. However, NMD growth has slowed, increasingly lagging asset and loan growth at banks across Districts (see table at right). Meanwhile, the share of District bank assets held in securities and liquid assets declined to its lowest third quarter level since 2009, and the market value of bond portfolios deteriorated. Banks may be near or at an inflection point, with the above trends serving as an impetus for banks to seek pricier noncore funding to fill the gap.
- **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, and other areas. Banks have increasingly partnered with fintech firms, and with marketplace lenders in particular. Given the different origination and underwriting methods that fintech lenders may use, and since credit decisions may involve nontraditional data sources, banks should closely evaluate transactions for credit risk, fair lending, and unfair/deceptive acts or practices.
- **Systemic issues.** In November 2018, the Federal Reserve released its inaugural *Financial Stability Report*, which noted systemic vulnerabilities from elevated stock, bond, and real estate values and investor risk appetites; adverse trends in high-yield bond and leveraged loan underwriting; and scale and interconnectedness of some central counterparties. It also noted near-term risks posed by Brexit and euro-area fiscal challenges, developments in China and other emerging markets, and trade tensions and geopolitical uncertainty. The report is available at <https://www.federalreserve.gov/publications/files/financial-stability-report-201811.pdf>.

Average Year-over-Year Growth Rate by Federal Reserve District

District	Net Loans	NMDs
San Francisco	9.3%	7.5%
Richmond	8.2%	6.7%
New York	8.1%	3.6%
Atlanta	7.5%	5.0%
Cleveland	6.8%	3.4%
Philadelphia	6.6%	4.7%
Boston	6.1%	3.8%
Dallas	5.7%	5.5%
St. Louis	5.7%	2.8%
Chicago	5.3%	2.6%
Minneapolis	5.1%	2.5%
Kansas City	4.9%	3.4%

*Trimmed means; loan growth net of allowance for loan and lease losses; NMDs = nonmaturity deposits.

Section 1

Economic Conditions

Job Growth

Housing Market

Commercial Real Estate

For more information on the District's real estate markets and economy, see:

Real Estate Lending Risks Monitor

(<https://www.frbsf.org/banking/publications/real-estate-lending-risks-monitor/>)

Banks at a Glance

(<https://www.frbsf.org/banking/publications/banks-at-a-glance/>)

For more information on the national economy, see:

FRBSF FedViews

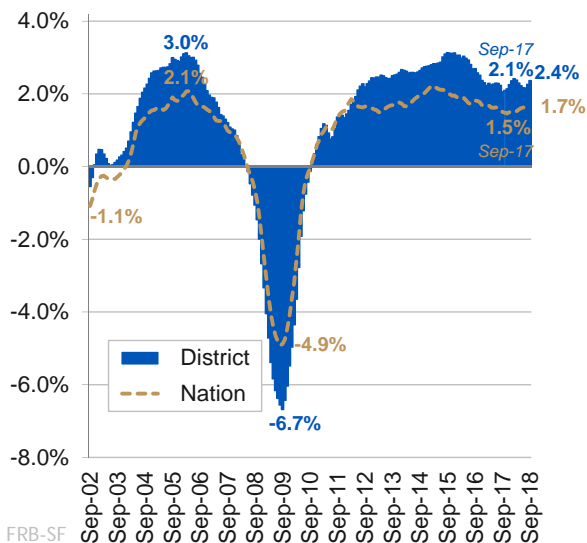
(<https://www.frbsf.org/economic-research/publications/fedviews/>)

FOMC Calendar, Statements, & Minutes

(<https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm>)

8 District Hiring Perked Up from 2Q18 Pace; Construction Remained the Fastest Growing Sector

Year-over-Year Nonfarm Job Growth



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Based on average nonfarm payroll levels over trailing three months; data are preliminary estimates; *year-over-year change trend lines in sector table as of third quarter of each year. Source: Bureau of Labor Statistics via Haver Analytics.

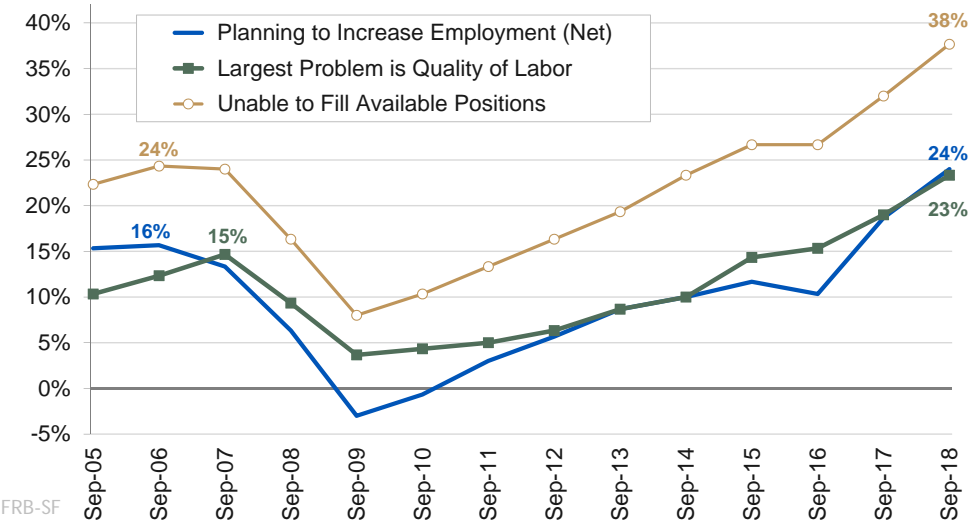
Year-over-Year Growth by Sector 12th District Jobs

Job Sector	Percentage Change	
	2008-18*	3Q 2018
Construction	5.58%	5.58%
Transport. & Utilities	3.60%	3.60%
Educ. & Health Svcs.	3.37%	3.37%
Leisure & Hospitality	3.02%	3.02%
Prof. & Business Svcs.	2.96%	2.96%
Information	2.57%	2.57%
Manufacturing	1.66%	1.66%
Financial Activities	1.47%	1.47%
Retail Trade	1.47%	1.47%
Government	1.04%	1.04%
Wholesale Trade	0.97%	0.97%
Other Private	0.30%	0.30%
Total	2.36%	2.36%

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9 NFIB Survey: Many Businesses Planned to Add Jobs, but Labor Quality and Availability a Growing Concern

Share of Small Business Respondents (Trailing 3-Month Moving Average)

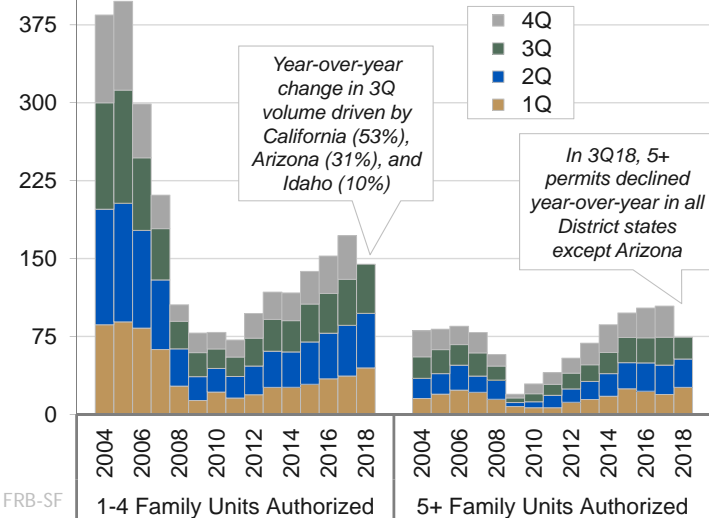


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Net share planning to increase employment and share unable to fill available positions are seasonally-adjusted. Sources: National Federation of Independent Businesses *Small Business Economic Trends Report* via Haver Analytics.

10 1-4 Family Permit Volumes Trended Higher as Multifamily Activity Cooled

Housing Permits – 12th District (Thousands Of Units, Not Seasonally Adjusted)



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*Year-over-year change trend lines as of Sept. of each year. Source: Census Bureau/Haver Analytics.

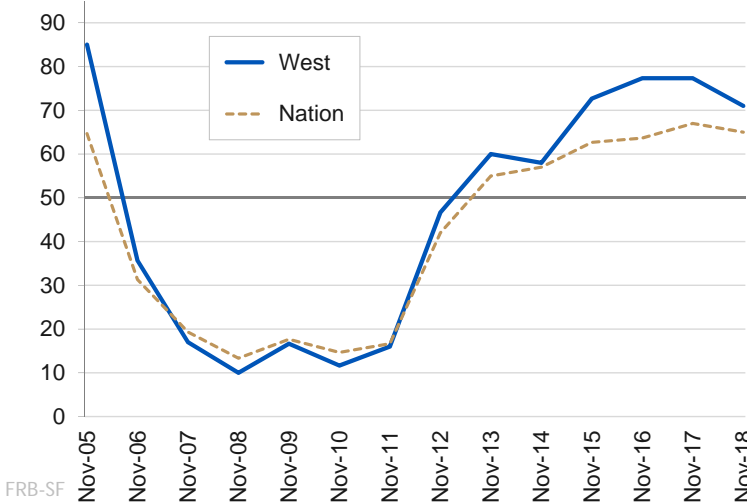
New Authorized Housing Units

FRB-SF	Trailing 12-Month Totals		
	Level 2005-2018*	Sep-18 vs. Sep-06	% Multif. Sep-18
UT	101%	25%	
WA	87%	43%	
ID	78%	18%	
CA	72%	42%	
OR	66%	43%	
AZ	56%	25%	
HI	56%	41%	
AK	53%	17%	
NV	43%	25%	
Dist.	69%	36%	

◆ = trough ◆ = peak

11 NAHB Survey: Homebuilders in the West Were Generally Positive, but Less Upbeat than in Late 2017

Homebuilder Diffusion Index (Trailing 3-Mo. Moving Avg.) Index Above 50 Considered Positive



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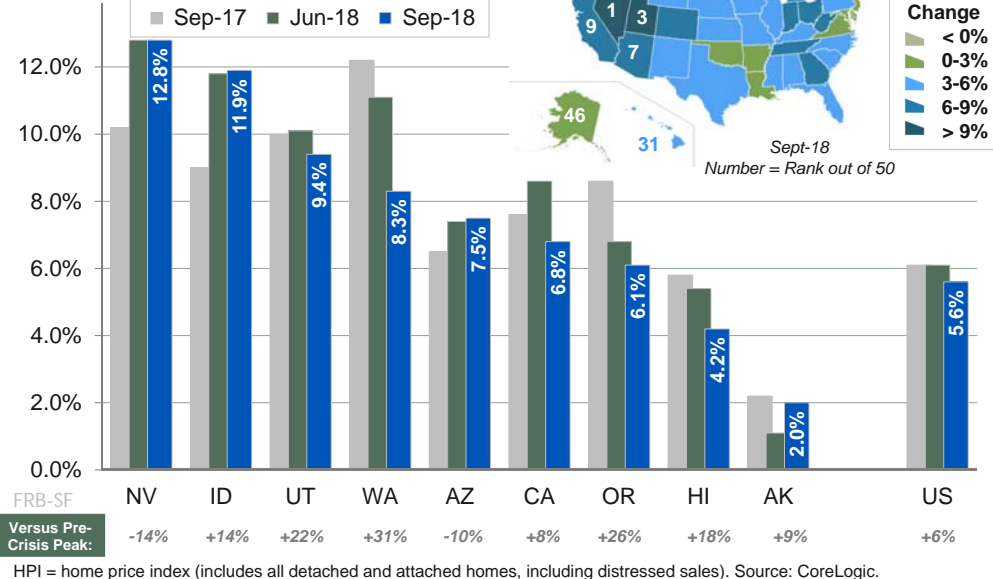
Data are seasonally adjusted; index is a weighted average of current sales (59.2%), sales in next six months (13.6%), and traffic of prospective buyers (27.2%). Source: National Association of Home Builders (NAHB)/Wells Fargo *Builders Economic Council Survey* via Haver Analytics.

Regional Home Builder Diffusion Indices (Trailing 3 Mo. Avg.)

Region	Nov-17	Nov-18
West	77.3	71.0
South	68.7	68.0
Northeast	53.3	57.7
Midwest	63.3	56.7
Nation	67.0	65.0

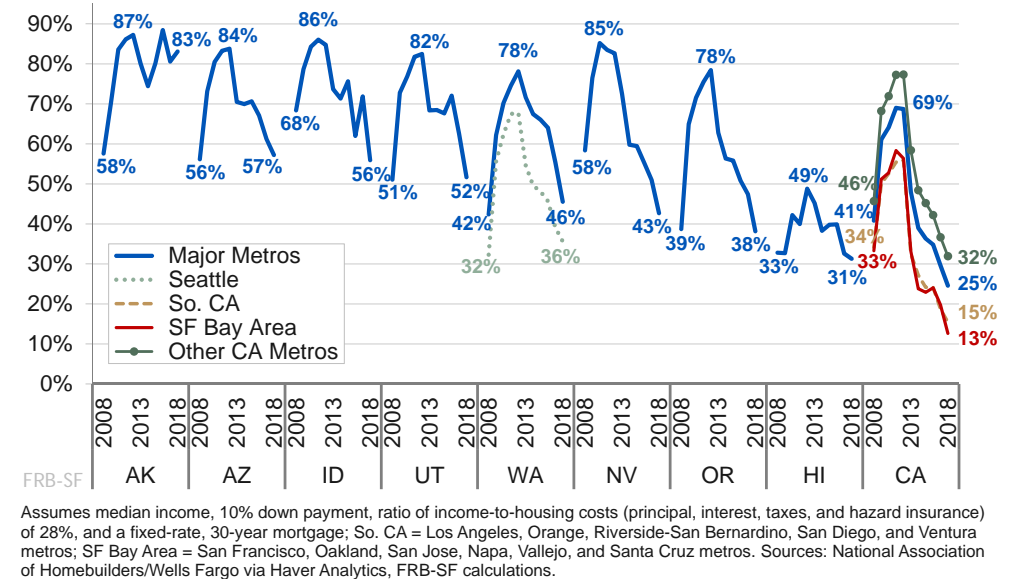
12 Nevada and Idaho Continued to Lead in Home Price Gains, but Growth Slowed in Expensive Coastal States

Year-over-Year % Change in Home Price Index



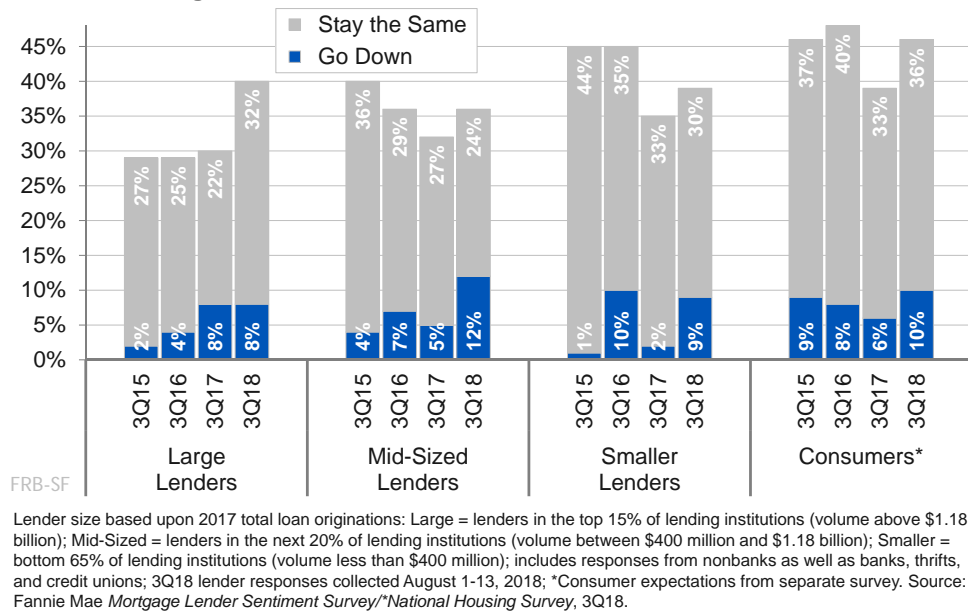
13 Interest Rate Increases Amplified Affordability Strains; Worse than 2008 in a Growing Number of States

Un-weighted Average Metro Housing Opportunity Index, September Each Year (% of Home Sales Deemed Affordable to Median Family Income; Higher Ratio = More Affordable)



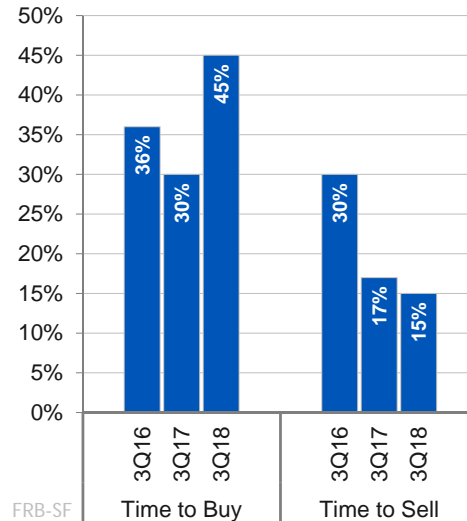
14 Fannie Mae Surveys: A Growing Share Expect Home Prices to Stabilize/Decrease in the Coming Year

Share Indicating Direction of Home Prices in the Next 12 Months:

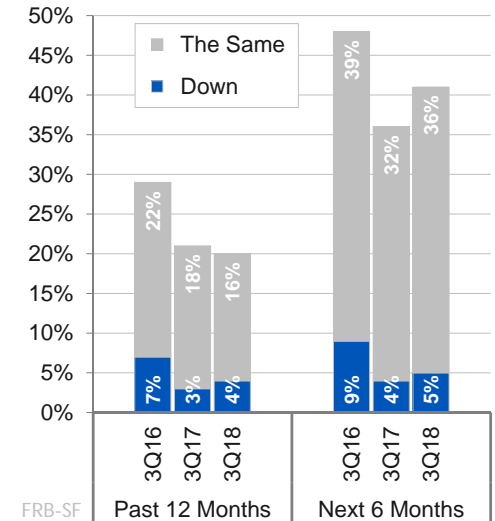


15 NAR Survey: More Feel Now is Not a Good Time to Buy a Home; Slightly Fewer See Price Gains Ahead

Share Indicating Now is Not a Good Time to Buy a Home – West:

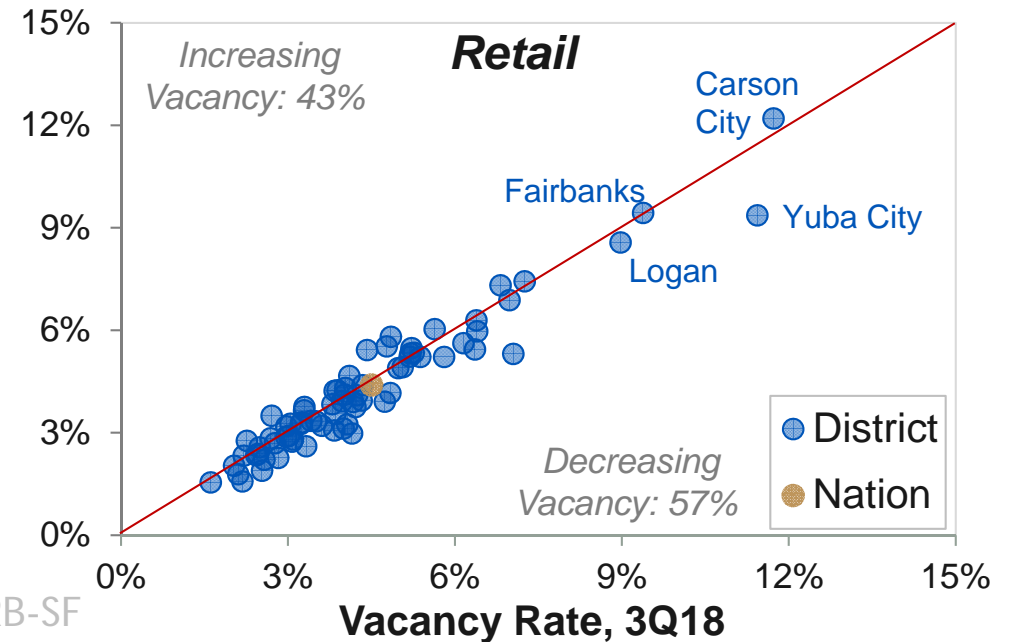
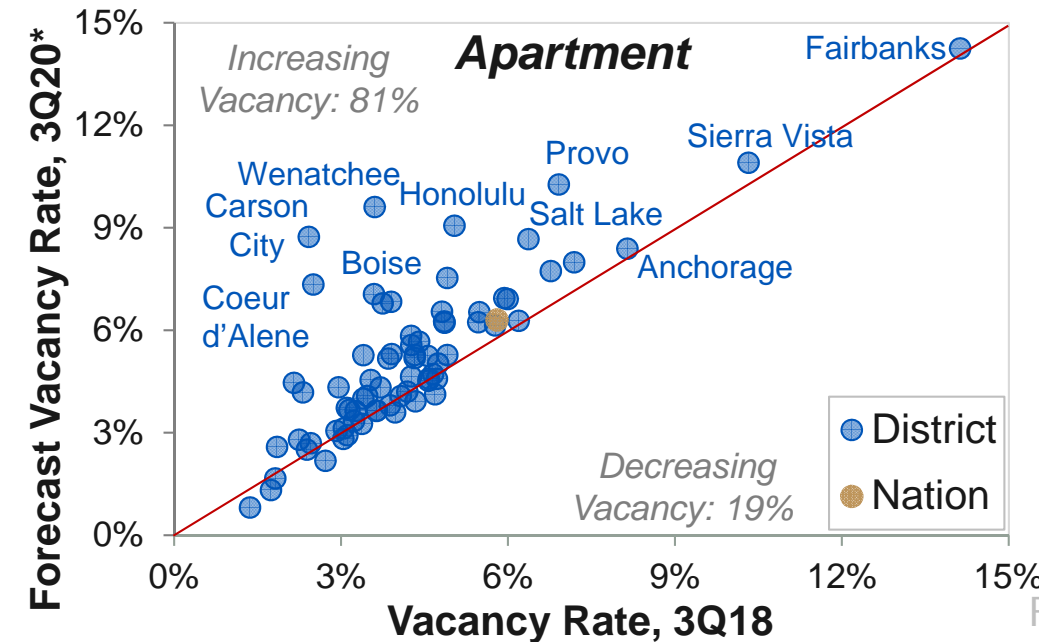
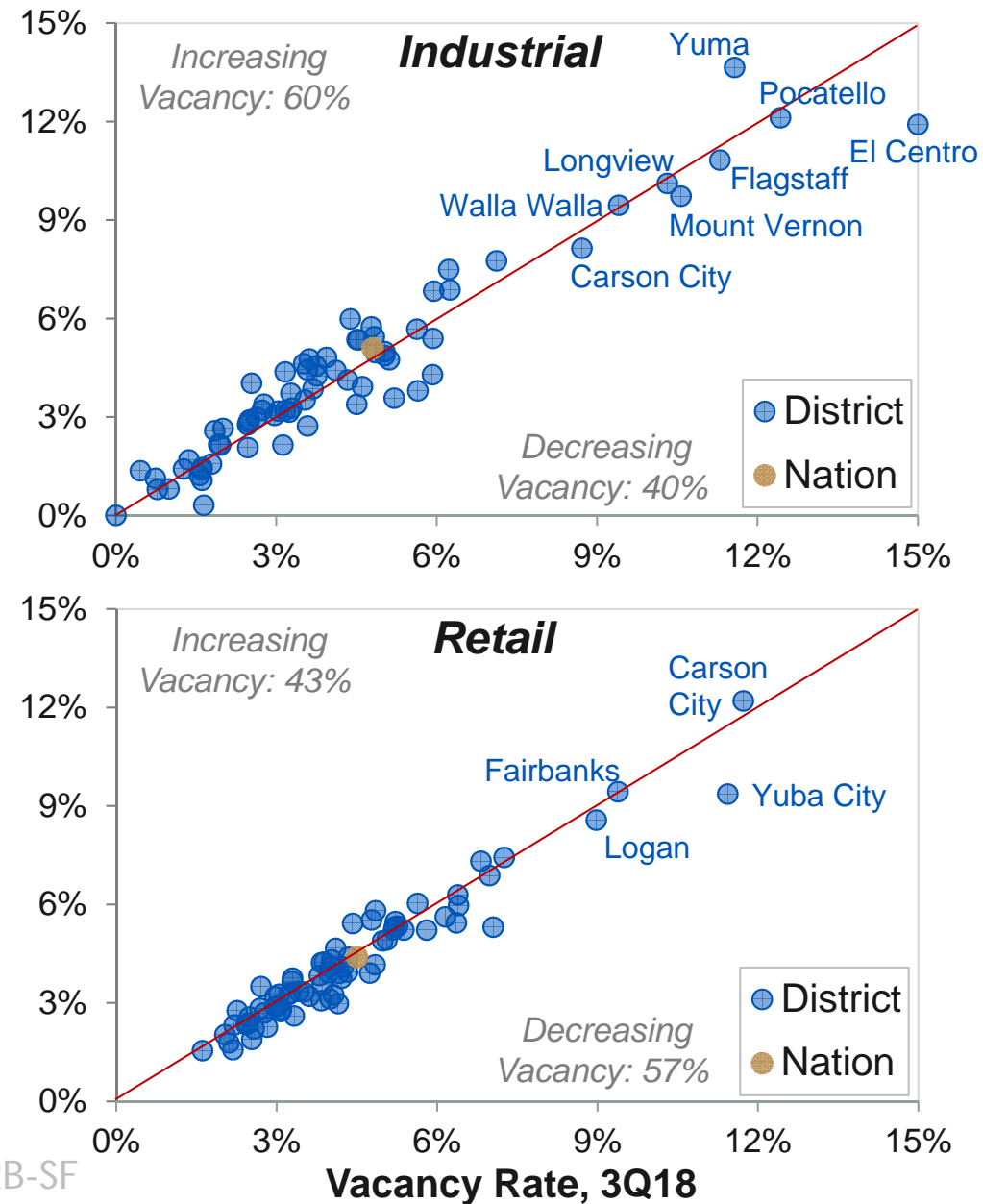
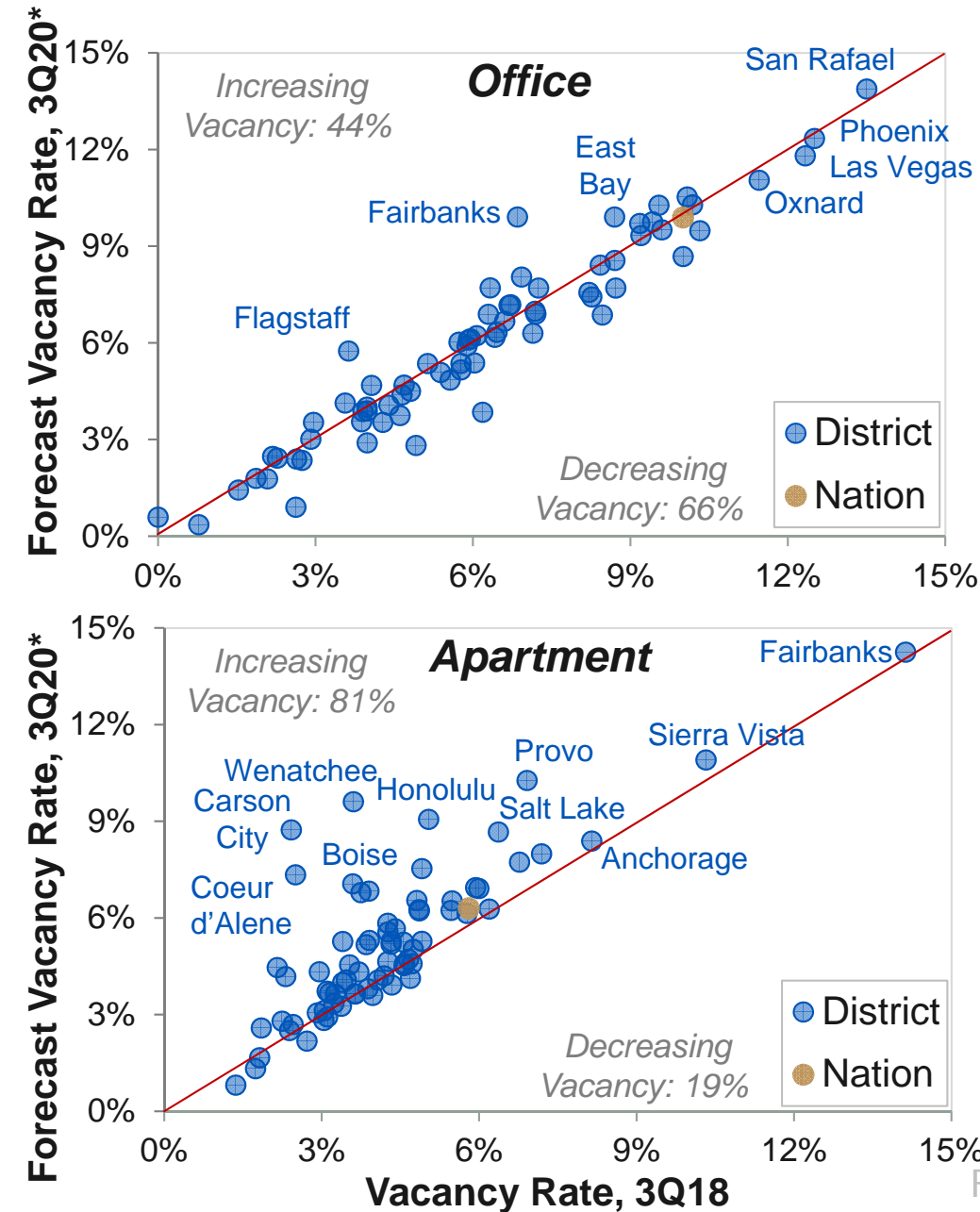


Share Indicating Prior/Future Home Price Direction - West:



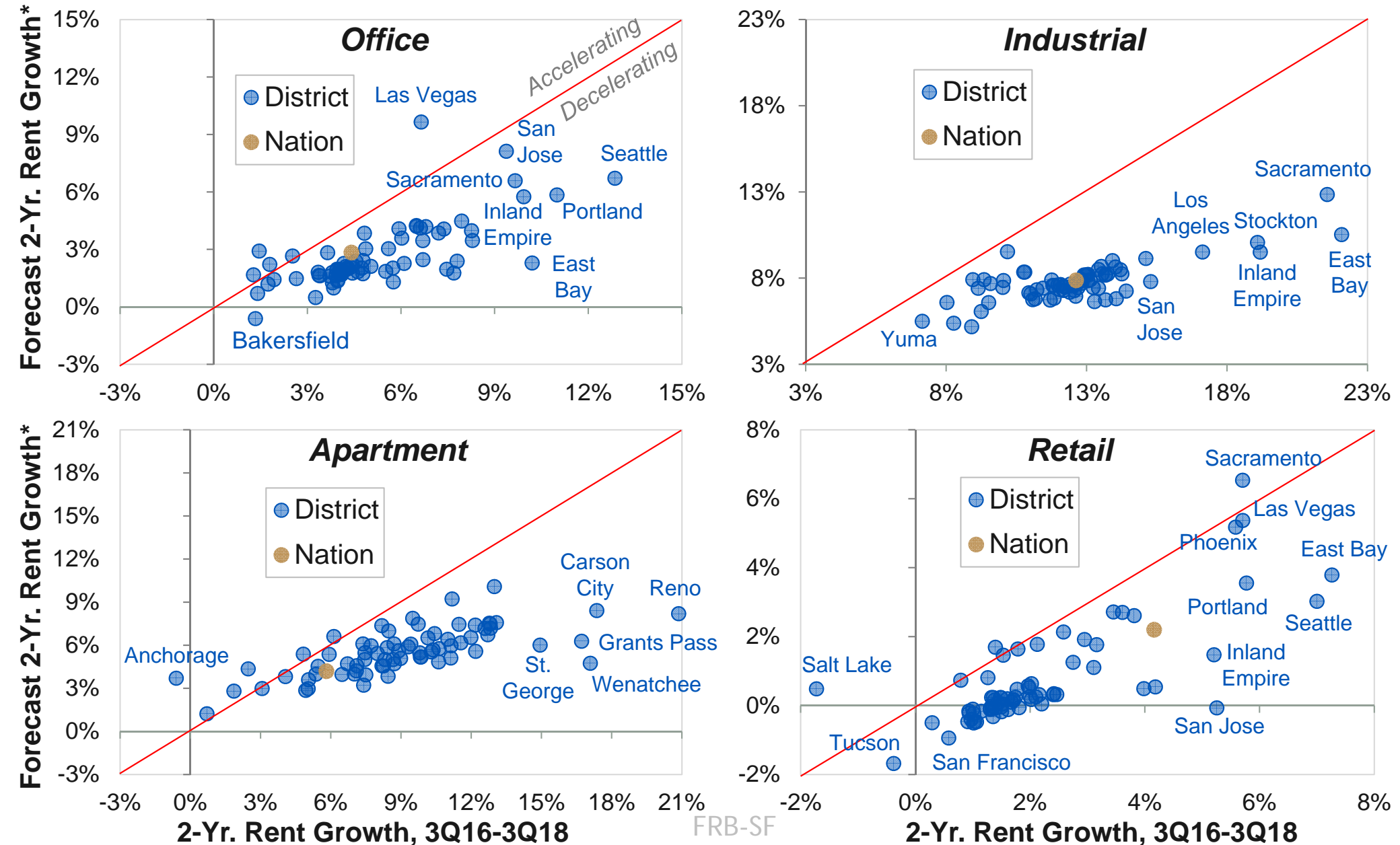
Includes respondents located in the West Census region only (12th District plus CO, NM, MT, and WY). Source: National Association of REALTORS® Housing Opportunities and Market Experience Survey.

Per CoStar, Vacancy Rates in Most District Apartment and Industrial Markets Could Edge Higher by 3Q20



*Per CoStar's baseline forecast for 3Q18 to 3Q20 as of 11/8/2018. Source: CoStar.

... And, Rent Growth Could Slow Across Property Types, Turning Negative for Several Retail Markets

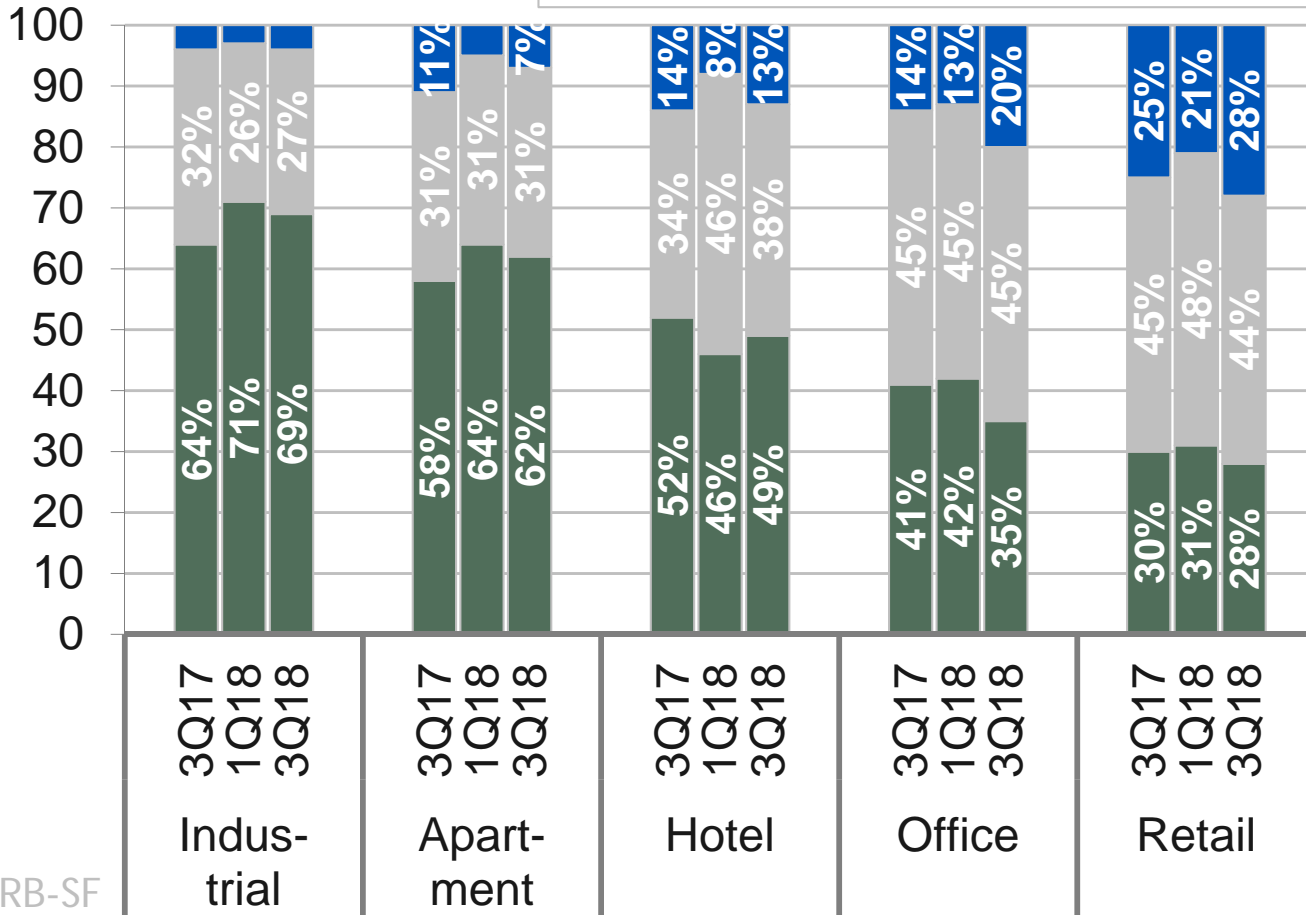


*Per CoStar's baseline forecast for 3Q18 to 3Q20 as of 11/8/2018; based on net change in asking rent index. Source: CoStar.

NREI/M&M Survey: CRE Investors Expected Modest Price Gains, but Rising Interest Rates Still a Concern . . .

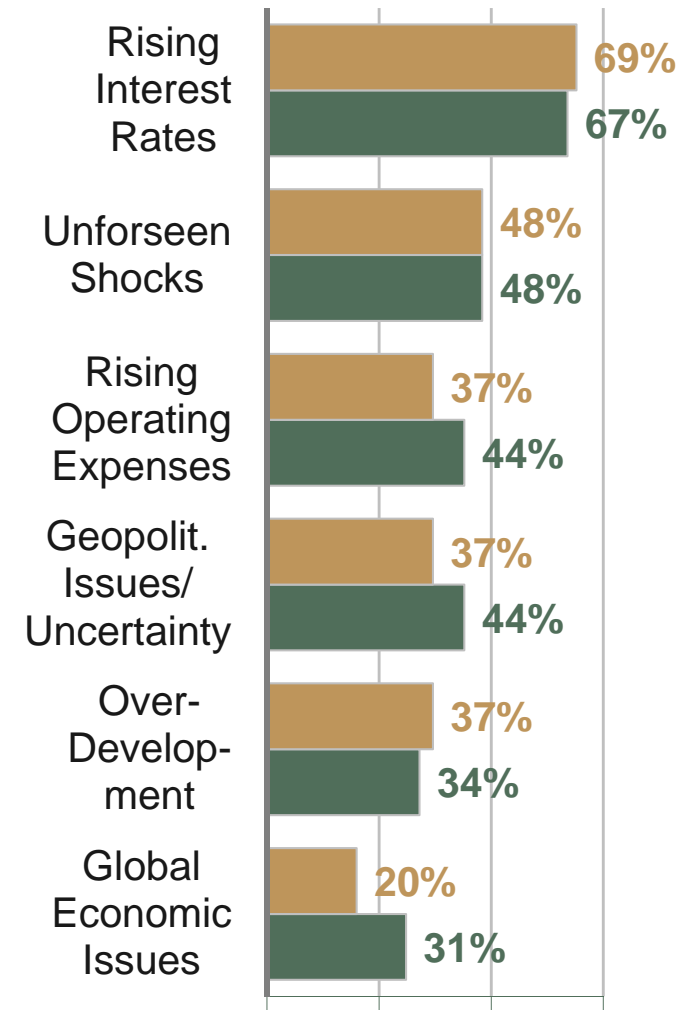
Expectations for Prices over Next 12 Months

% of Respondents ■ Decrease ■ Stable ■ Increase



Top Concerns

% of Respondents ■ 1Q18 ■ 3Q18

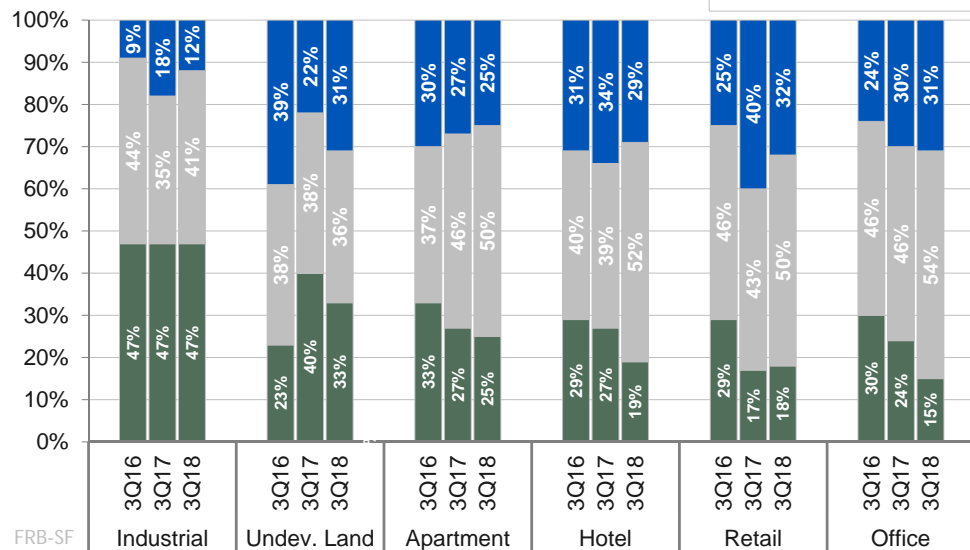


Average 1-Year Expected Change in Property Values

3Q17	5.1%	3.8%	3.9%	1.6%	0.3%
3Q18	5.4%	3.5%	1.7%	1.3%	-0.7%

19 . . . Investors Had a High, Steady Appetite for Industrial CRE, but Lower/Waning Interest in Other Sectors

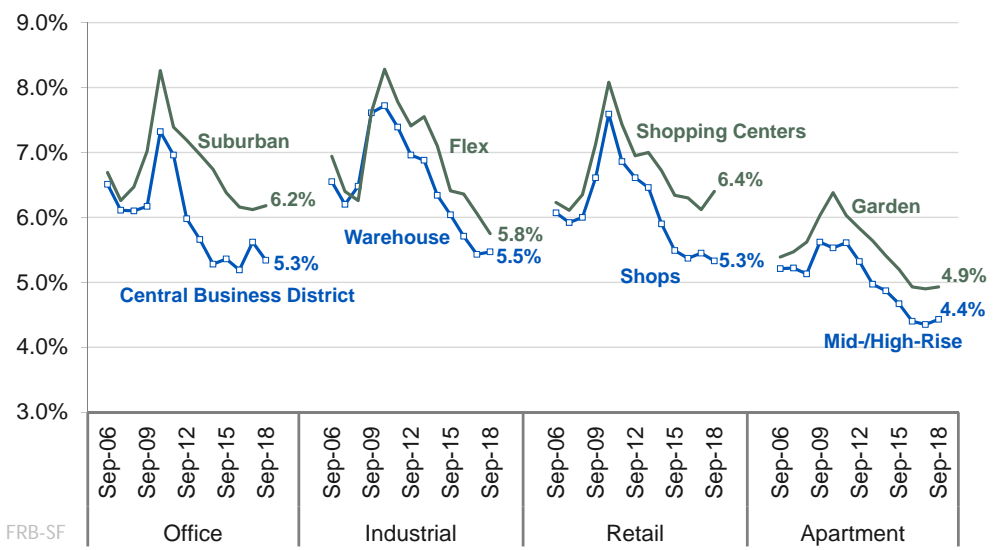
Share Indicating Now a Good Time to Sell/Hold/Buy CRE: ■ Sell ■ Hold ■ Buy



Included 694 respondents in 3Q16, 616 respondents in 3Q17, and 543 respondents in 3Q18; response count varied by property type. Source: National Real Estate Investor (NREI)/Marcus & Millichap *Commercial Real Estate Investment Outlook*.

20 Capitalization Rates in the West Ticked Higher for Some Property Types, Especially Shopping Centers

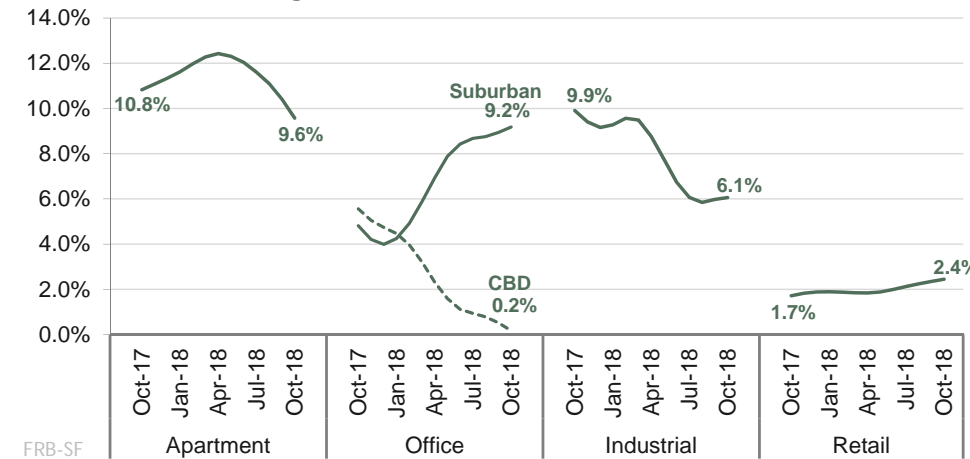
Western U.S. CRE Capitalization Rates (Trailing 12-Month Average %)



Includes transactions in the West (AK, CA, HI, ID, MT, NV, OR, UT, WA, and WY, but not AZ); property sales > \$2.5 million with available capitalization rate data. Sources: Real Capital Analytics.

21 In the Past Year, CRE Price Appreciation Slowed among Downtown Office, Industrial, and Apartment Properties

Year-over-Year % Change in CPPI – Nation

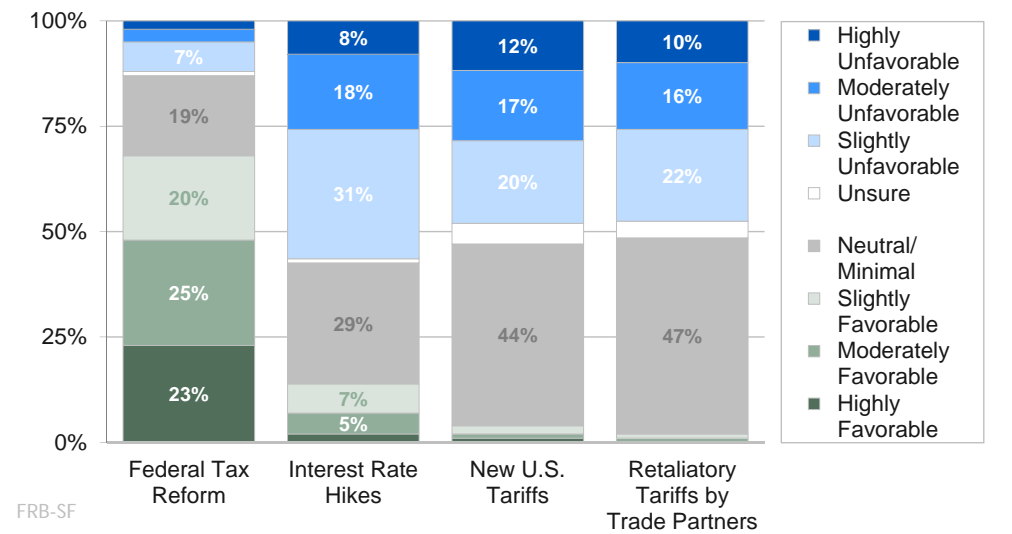


	Average Cumulative Change in CPPI			
5-Year	74.3%	47.0%	52.6%	29.1%
10-Year	85.1%	23.3%	29.4%	14.1%

CPPI = Commercial Property Price Index; CBD = central business district (downtown); based upon repeat-sales transactions. Source: Real Capital Analytics.

22 AICPA Survey: Tax Reform Benefitted Most; Many Firms Concerned About Interest Rate and Tariff Hikes

Perceived Impact on Respondent's Company



Based on a quarterly survey of "CPA decision makers" (primarily controllers and chief financial/executive officers); survey included 1,242 respondents, queried between July 31 and August 22, 2018. Source: Association of International Certified Professional Accountants *Business and Industry Economic Outlook Survey*, 3Q18.

Section 2

Commercial Bank Performance

Earnings

Loan Growth and Concentrations

Credit Quality

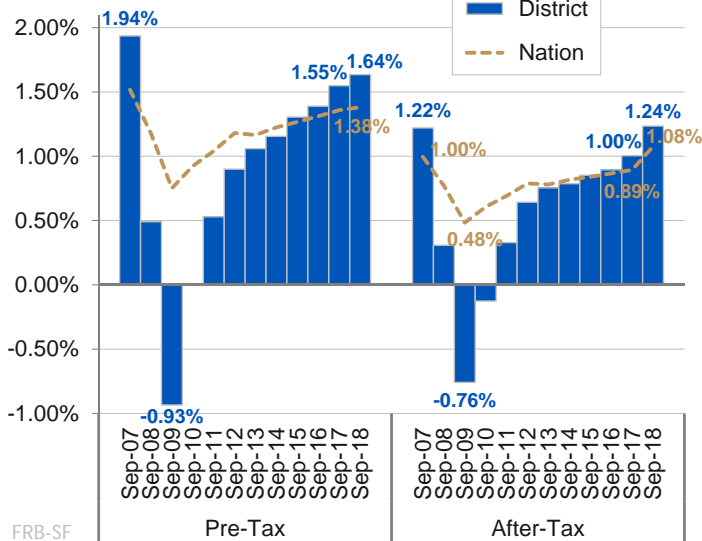
Liquidity and Interest Rate Risk

Capital

Note: Bank size groups are defined as very small (< \$1B), small (\$1B - \$10B), mid-sized (\$10B - \$50B), and large (> \$50B) banks. The large bank group covers nationwide banks (a larger statistical population), while the other three groups cover 12th District banks.

24 Compared with YTD 2017, Wider Margins and Lower Taxes More Than Offset Higher Noninterest Expenses

Average YTD ROAA*



Average YTD as % of Average Assets 12th District (Expenses = Negative Values)

Profit Component	Sep-17	Sep-18
Interest Income (TE)	4.09%	4.36%
Interest Expense	-0.32%	-0.44%
Net Int. Income (TE)	3.76%	3.92%
Nonint. Income	0.62%	0.61%
Nonint. Expense	-2.86%	-2.89%
Provision Expense	-0.06%	-0.07%
Tax Expense (TE)	-0.47%	-0.35%

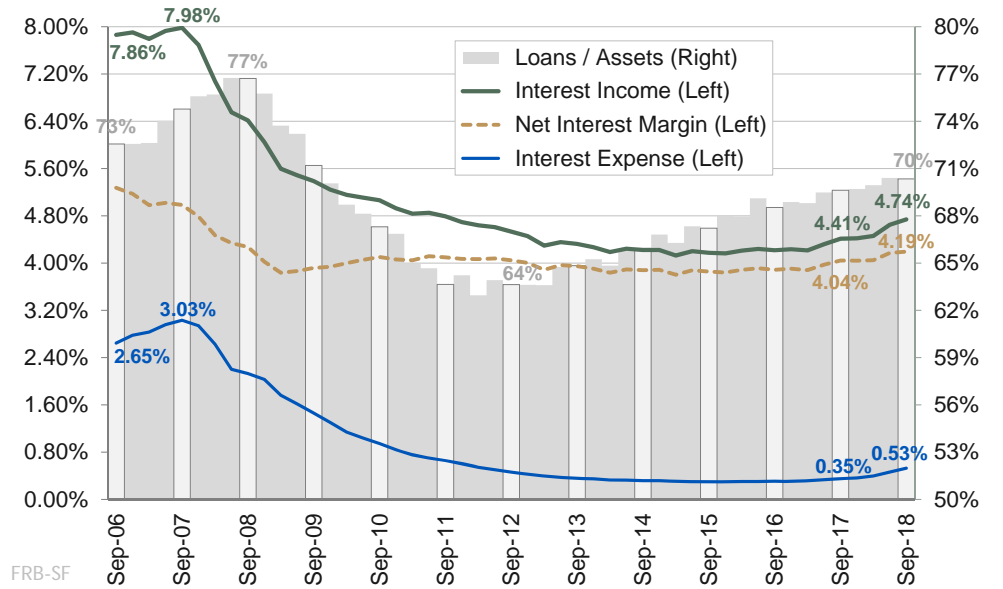
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Average = trimmed mean; YTD = year-to-date (annualized); *ROAA = return on average assets (net income/average assets, with theoretical tax expense deducted from Subchapter S filers for after-tax ratio); TE = tax equivalent (yields and applicable tax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

25 Average Quarterly Margin Gained Just Two Basis Points over 2Q18; Funding Costs Picked up Steam

Avg. Quarterly as % of Avg. Earning Assets (TE)

Avg. Net Loans / Assets

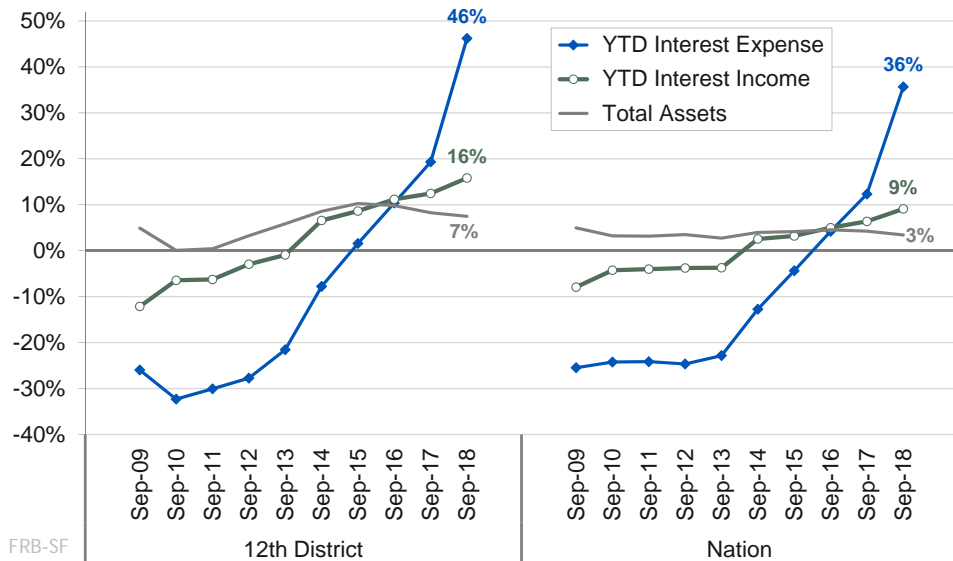


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Average = trimmed mean (12th District banks only); one-quarter annualized data; TE = tax equivalent.

26 On Average, Interest Expense Accelerated More Rapidly Than Interest Income, from a Comparatively Lower Base

Average Year-over-Year % Change in Dollar Volume

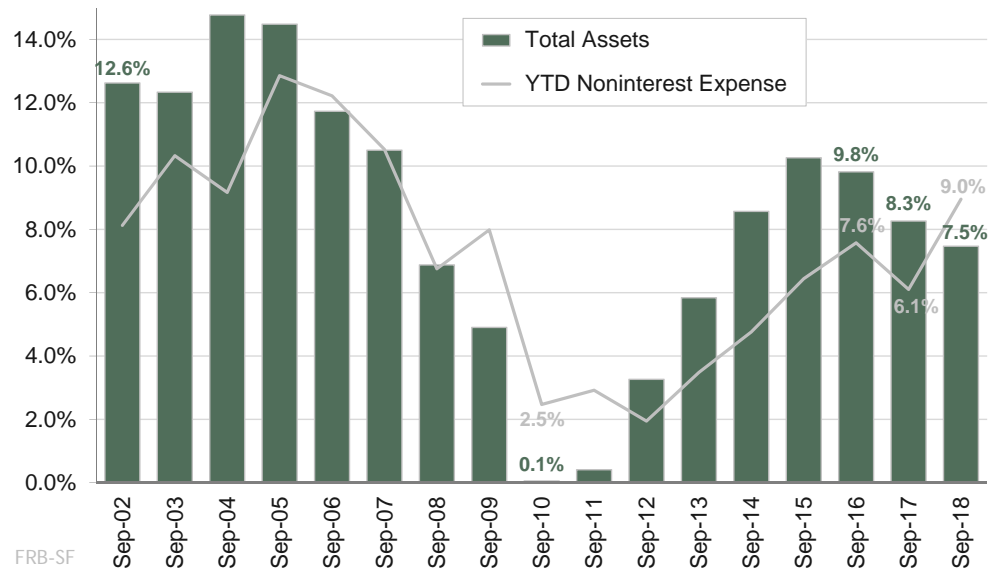


FRB-SF

Average = trimmed mean; YTD = year-to-date; growth rates are not merger-adjusted.

27 In the Past Year, Noninterest Expense Increases Accelerated as Asset Growth Decelerated

Average Year-over-Year Change — 12th District Banks

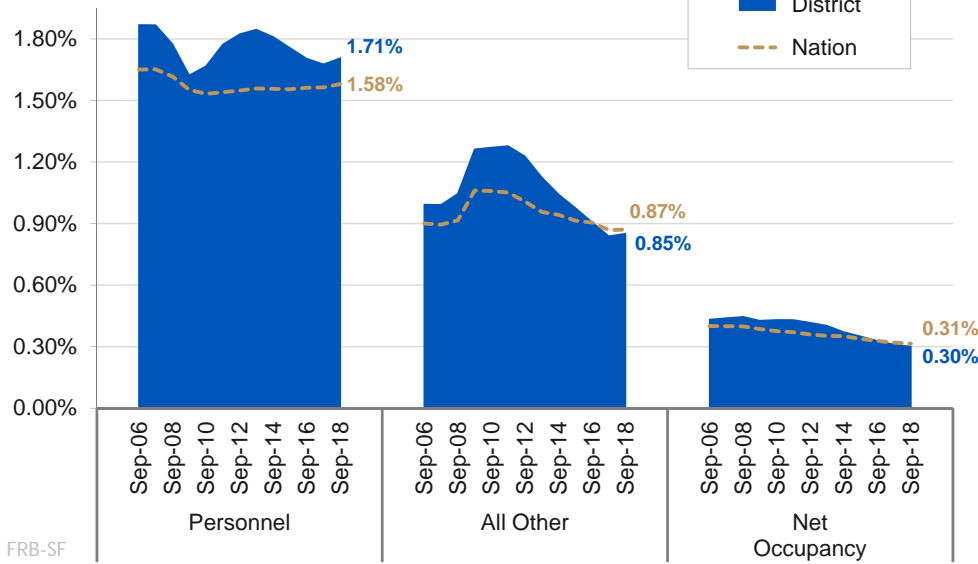


FRB-SF

Average = trimmed mean (12th District banks only); growth rates are not merger-adjusted; YTD = year-to-date.

28 As a Result, Overhead Ratios Drifted Up, Led by Higher Personnel and Non Occupancy-Related Expenses

Average YTD Overhead Expense / Average Assets

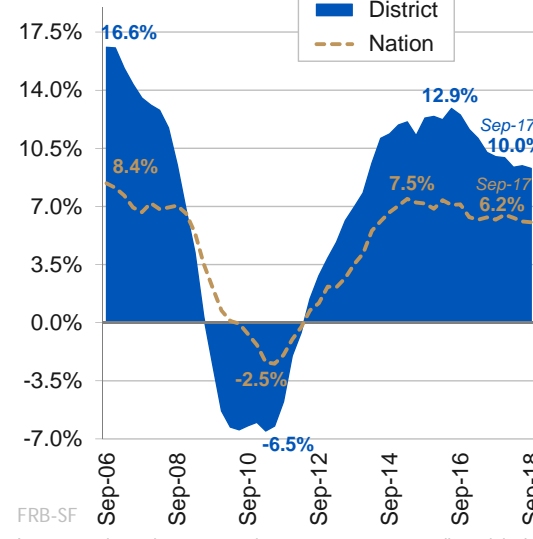


FRB-SF

Average = trimmed mean; YTD = year-to-date (annualized); overhead = noninterest expense.

29 Annual Loan Growth Slowed from Prior Quarter and Year; Quarterly Growth Followed Seasonal Pattern

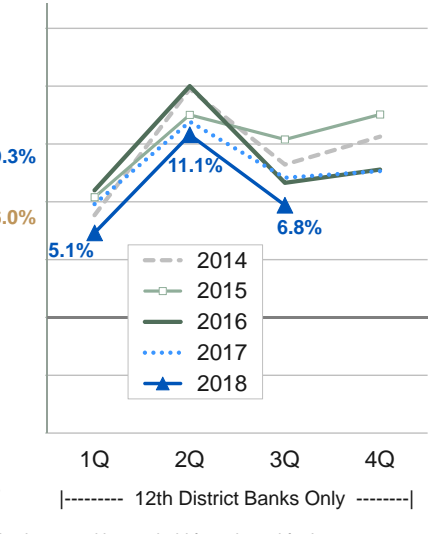
Average Year-over-Year Net Loan Growth



FRB-SF

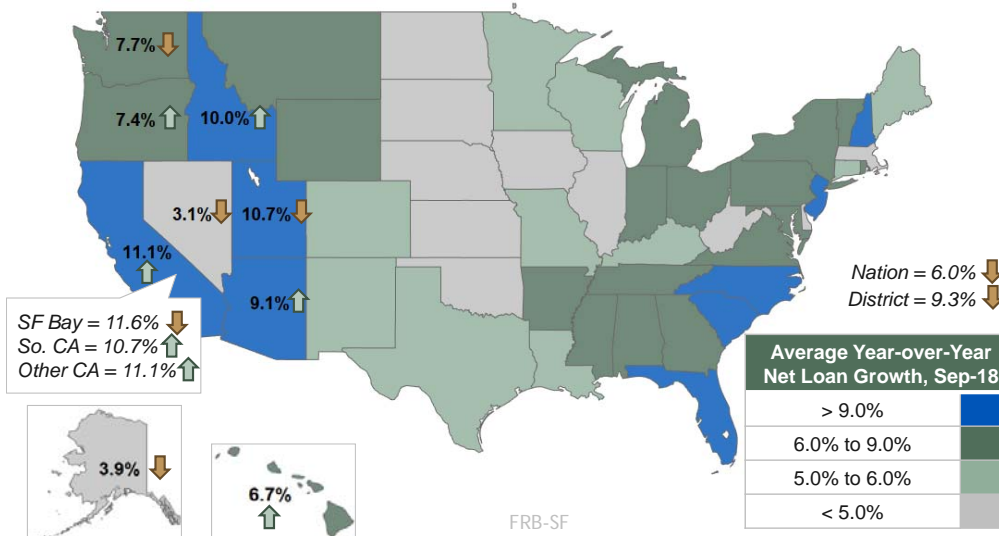
Average = trimmed mean; growth rates are not merger-adjusted; includes loans and leases held for sale and for investment, net of allowances for loan and lease losses.

Average Quarter-over-Quarter Net Loan Growth (Annualized)



30 Average Annual Loan Growth Decelerated across Several District States, Weighing on the District Average

Average Year-over-Year Net Loan Growth (%), Faster ↑ / Slower ↓ Rate vs. 2Q18

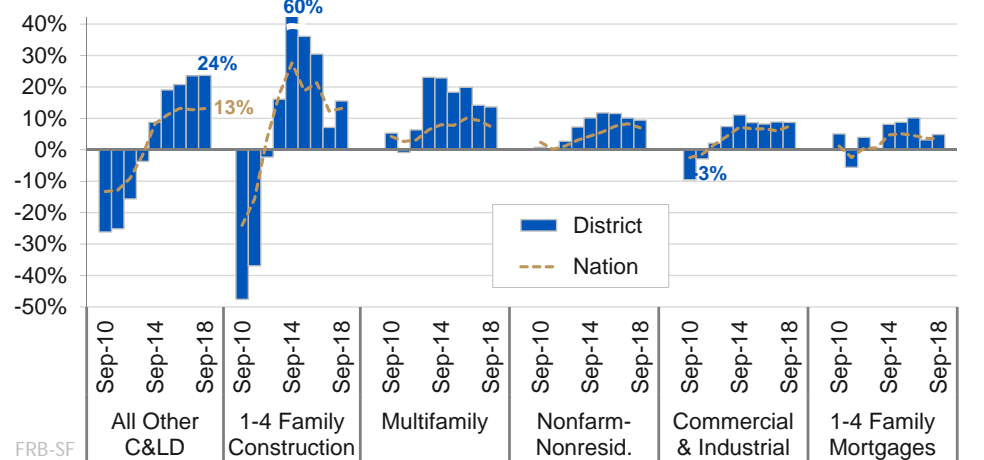


FRB-SF

Average = trimmed mean; growth for loans net of allowances for loan losses, not merger-adjusted; NV excludes zero loan and credit card banks. SF Bay = 38 banks based in San Francisco-San Jose Combined Statistical Area (CSA); So. CA = 69 banks based in Los Angeles CSA + San Diego metropolitan area; Other CA = 34 banks based in all other areas.

31 Growth Among CRE Loan Categories Continue to Outpace Other Credit Segments

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



FRB-SF

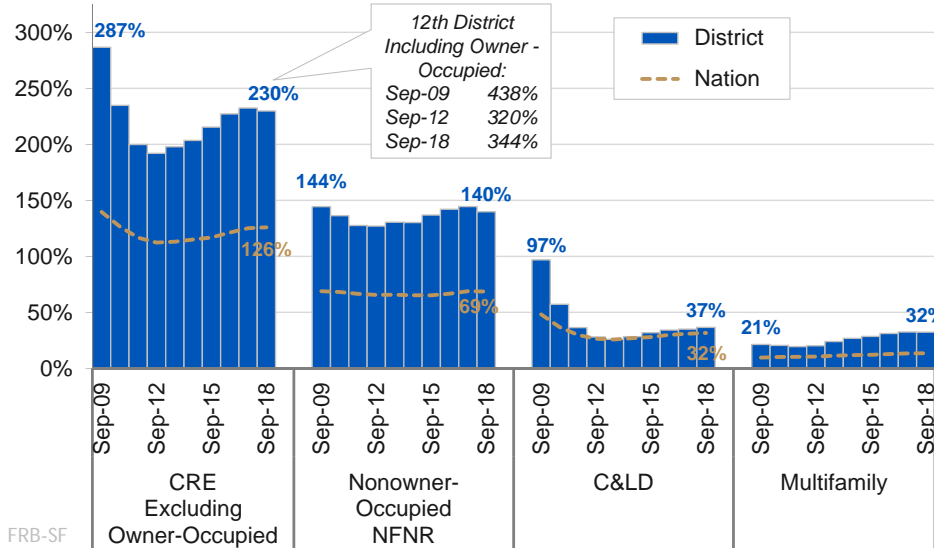
Memo: Average Concentration to Total Capital, Sep-18

	10.45	23.51	32.29	250.40	82.87	78.53
District	10.45	23.51	32.29	250.40	82.87	78.53
Nation	10.24	18.99	13.45	141.42	70.28	137.28

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

32 Capital Accretion Overshadowed CRE Loan Growth, Reducing Supervisory Concentration Ratios

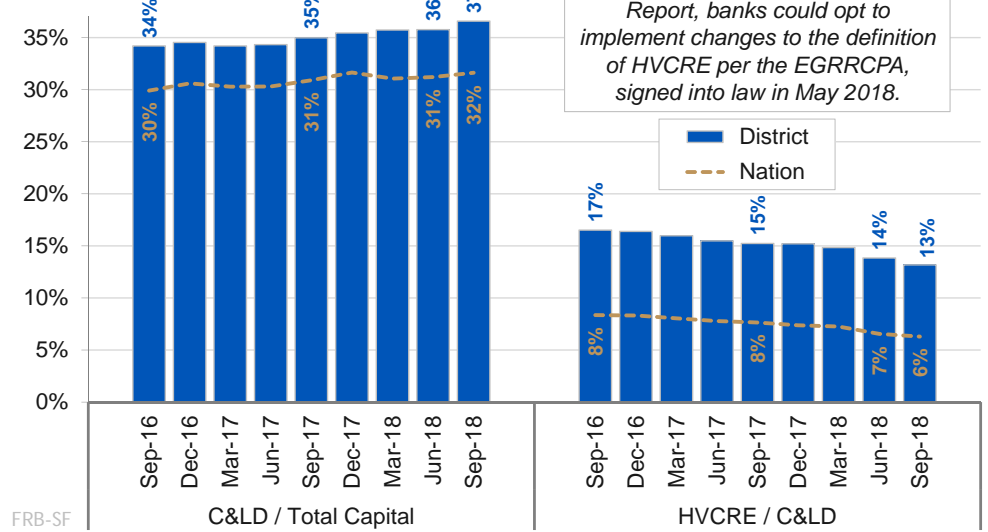
Average CRE Concentrations / Total Capital



Average = trimmed mean; Commercial Real Estate (CRE) Excluding Owner-Occupied = nonowner-occupied nonfarm-nonresidential (NFNR), construction and land development (C&LD), multifamily, and other CRE-purpose loans.

33 Adjustments to HVCRE Definition Likely Amplified Ongoing Decline in Reported HVCRE Concentrations

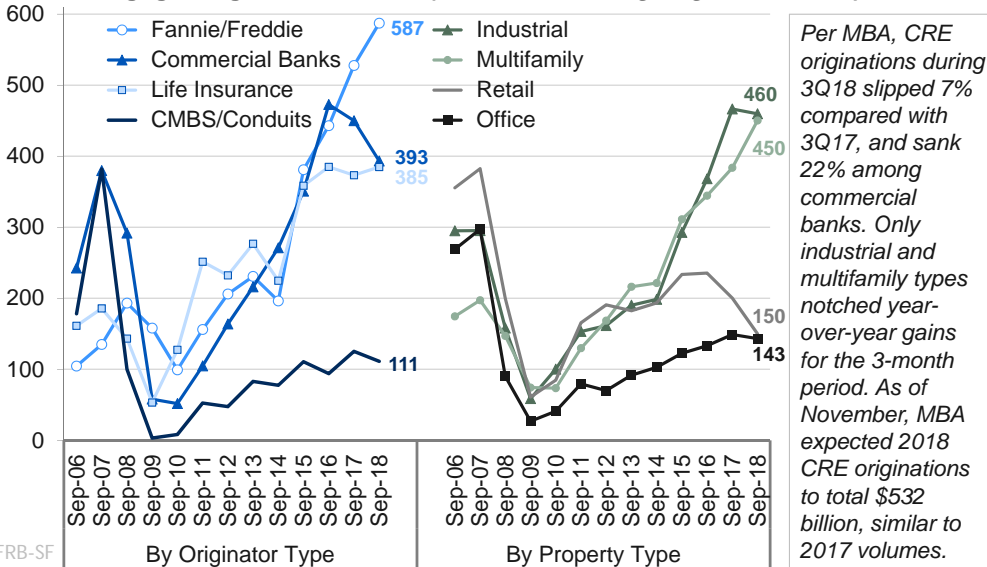
Average Percentage



Average = trimmed mean; high volatility commercial real estate (HVCRE) is a higher-risk segment of non residential construction and land development (C&LD) that is generally subject to higher risk-weighting (150%) for risk-based capital purposes; EGRRCPA= Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018.

34 MBA Origination Surveys: GSEs Fueled Multifamily; Commercial Bank Originations Eased . . .

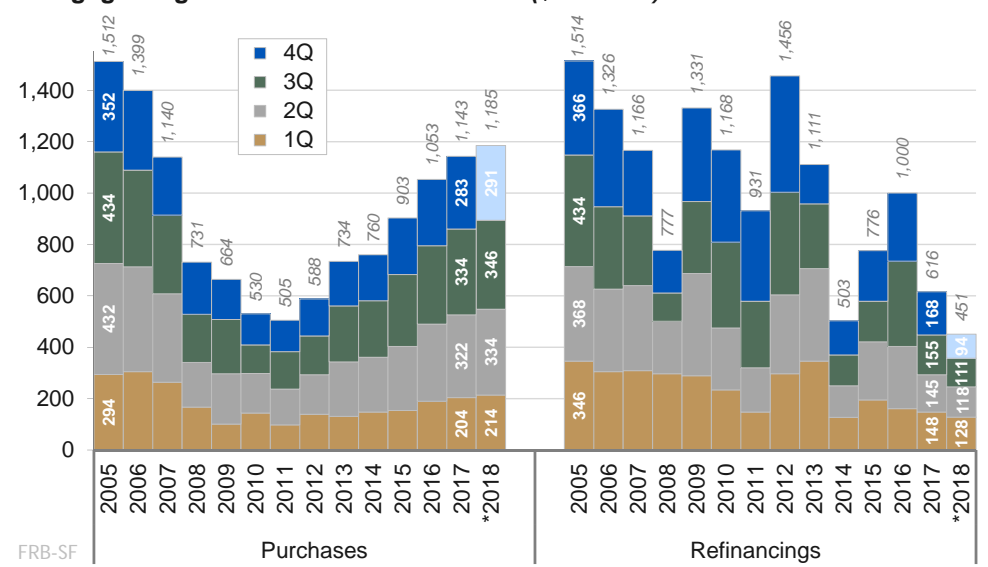
CRE Mortgage Origination Indices (4-Quarter Trailing Avg., 2001 = 100)



GSE = government sponsored enterprises (Fannie/Freddie) specialize in multifamily. Source: Mortgage Bankers Association (MBA).

35 . . . Meanwhile, Further Declines in Rate-Sensitive Refis Challenged Some Residential Mortgage Originators

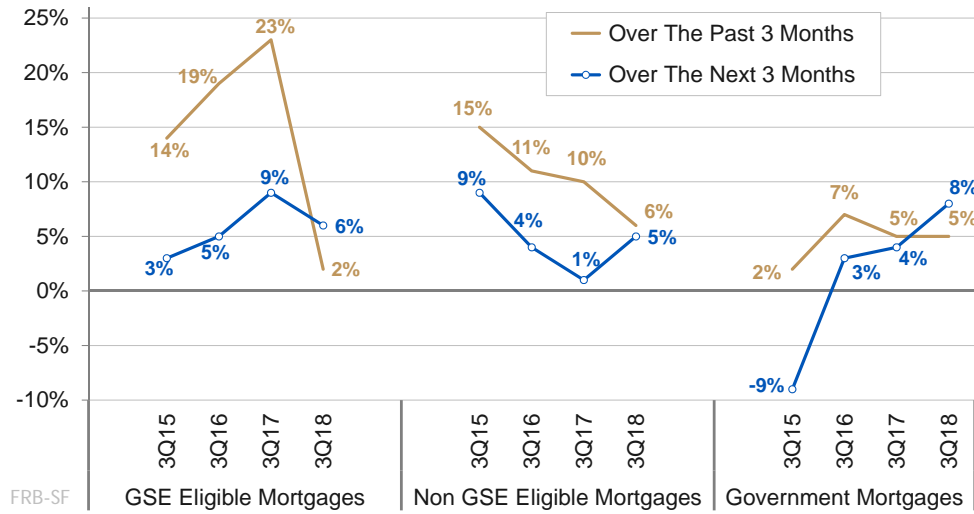
Mortgage Origination Volumes & Forecast (\$ Billions)



*4Q18 forecast per Mortgage Bankers Association (MBA). Source: MBA Mortgage Finance Forecast, 10/16/18/Haver Analytics

36 Fannie Mae Survey: A Small but Growing Share of Lenders May Ease Standards on Residential Mortgages

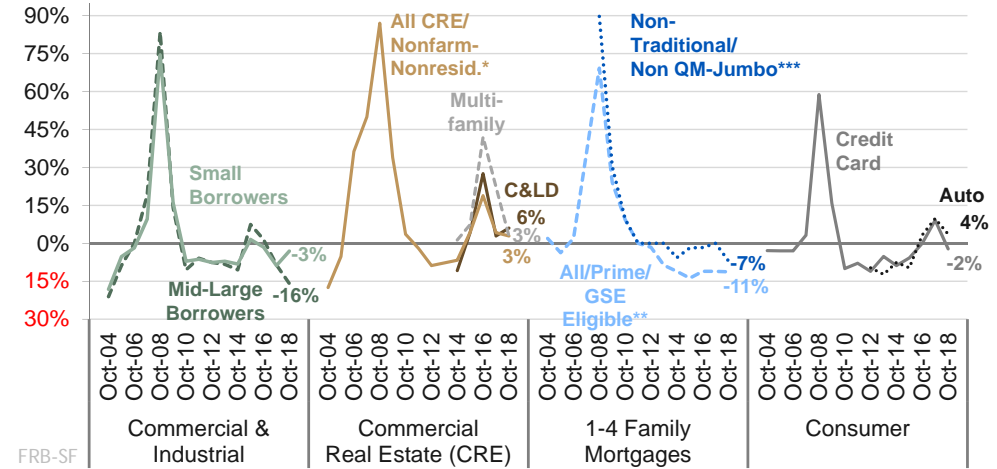
Net Share of Mortgage Executives Easing Mortgage Credit Standards:



FRB-SF Based upon a survey of depository institutions; GSE Eligible Mortgages = mortgages meeting the underwriting guidelines, including loan limit amounts, of the Government-Sponsored Enterprises (GSEs); Government Mortgages = loans backed by Federal Housing Administration, Department of Veterans Affairs insured loans and other federal programs. Source: Fannie Mae Mortgage Lender Sentiment Survey.

37 FR Loan Officer Survey: a Small Fraction Eased Terms for C&I, 1-4 Family, and Credit Cards; CRE Steadied . . .

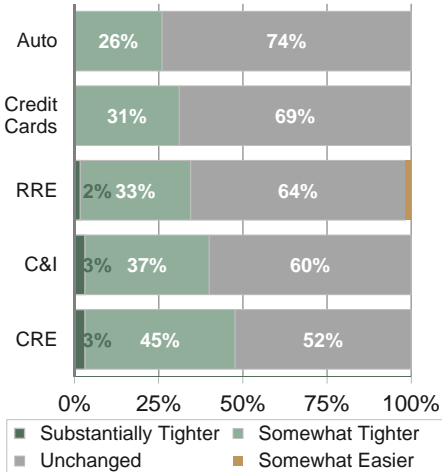
Net % of Lenders Reporting Tighter (Looser) Loan Standards vs. 3 Months Prior (October of Each Year)



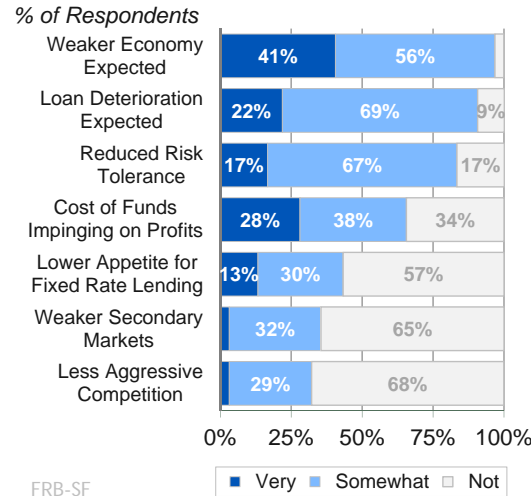
FRB-SF Based on a sample of 70+/- loan officers at domestic banks (number varies by period and loan type); C&LD = construction and land development; *includes all CRE loans prior to Oct-13; **includes all residential mortgages prior to Apr-07, "prime" mortgages Apr-07 to Oct-14, and GSE-Eligible starting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

38 . . . But, Should the Yield Curve Invert, Many Lenders May Tighten, Believing Worse Conditions Ahead

Will Change Credit Standards if Moderate Yield Curve Inversion



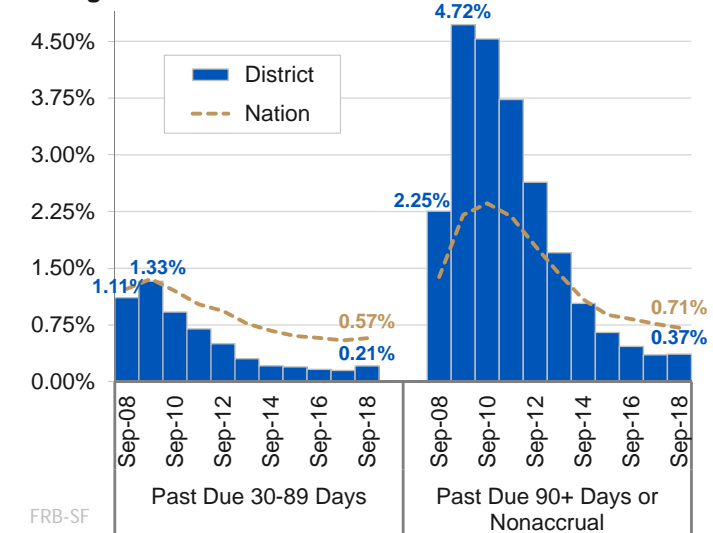
Importance of Reason if Tightening with Yield Curve Inversion



RRE = residential real estate; C&I = commercial and industrial; CRE = commercial real state; count of respondents for left-hand chart ranged from 45 to 65, depending upon loan type; count of respondents for right-hand chart ranged from 30 to 32, depending upon reason. Source: Federal Reserve Senior Loan Officer Opinion Survey, October 2018.

39 Past-Due Ratios Edged Higher Year-over-Year, Led by C&I, 1-4 Family, and Agricultural Loan Categories

Average Past Due or Noncurrent / Gross Loans & Leases

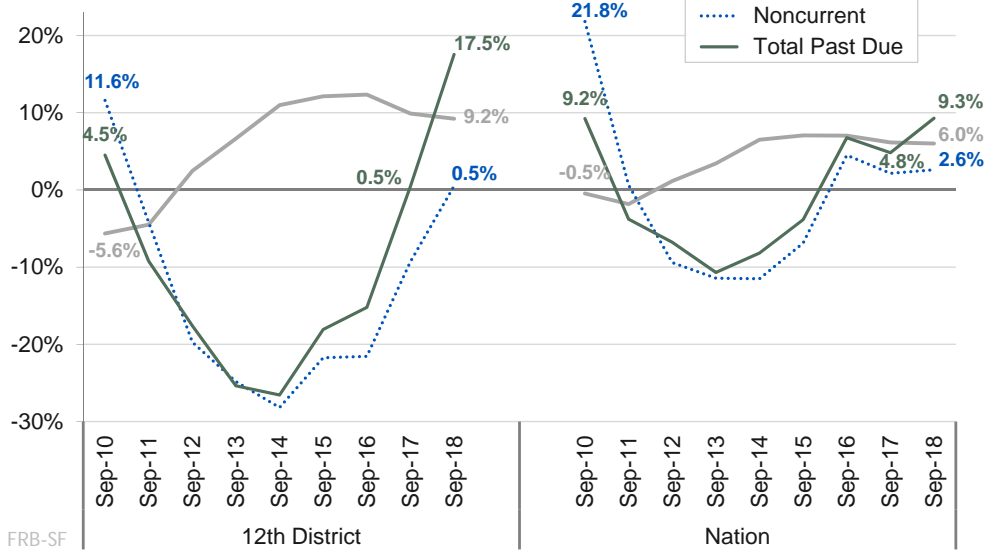


Loan Type	Avg. % Past Due 30+ Days or Nonaccrual 12th District		
	Sep-17	Jun-18	Sep-18
C&I	0.58	0.77	0.67
1-4 Family	0.52	0.50	0.60
NFNR	0.30	0.31	0.31
Owner-Occ	0.41	0.38	0.36
Other	0.11	0.09	0.11
Consumer	0.29	0.23	0.26
Credit Card	0.76	0.58	0.71
Auto	0.18	0.12	0.16
Other	0.23	0.16	0.20
Agriculture	0.19	0.33	0.23
C&LD	0.21	0.11	0.16
All Loans	0.57	0.62	0.65

FRB-SF Average = trimmed mean; loans past due 30-89 days are delinquent but still accruing interest (early-stage); noncurrent = loans past due 90+ days or on nonaccrual status; C&I = commercial & industrial; NFNR = nonfarm-nonresidential mortgages; C&LD = construction & land development; average overall past due ratio differs from the sum of the average 30-89 day rate plus the average noncurrent rate because each ratio is trimmed and averaged separately.

Growth in Overall Past Due Volumes Accelerated; District Noncurrent Growth Ticked Positive

Average Year-over-Year % Change in Dollar Volume

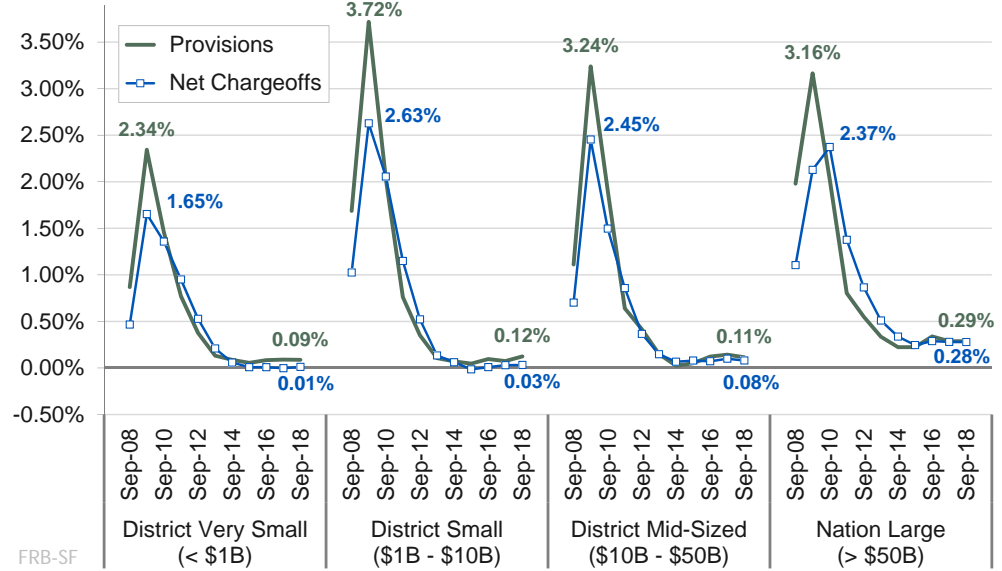


FRB-SF

Average = trimmed mean; total past due = loans past due 30+ days past due or on nonaccrual status; noncurrent = loans past due 90+ days or on nonaccrual status

Year-to-Date Net Chargeoff and Provision Expense Ratios Remained Higher at Larger Banks

Average YTD Provision Expenses and Net Chargeoffs / Average Loans & Leases

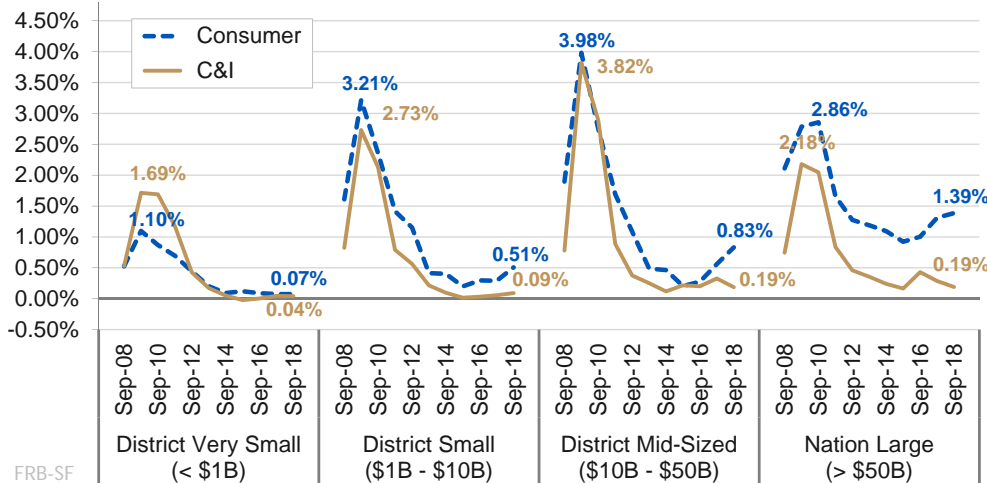


FRB-SF

Average = trimmed mean; YTD = year-to-date (annualized).

Mid- and Large-Size Bank Chargeoff Rates Reflected Concentrations and Losses in Consumer and/or C&I

Average YTD Net Chargeoffs / Average Loans by Category



FRB-SF

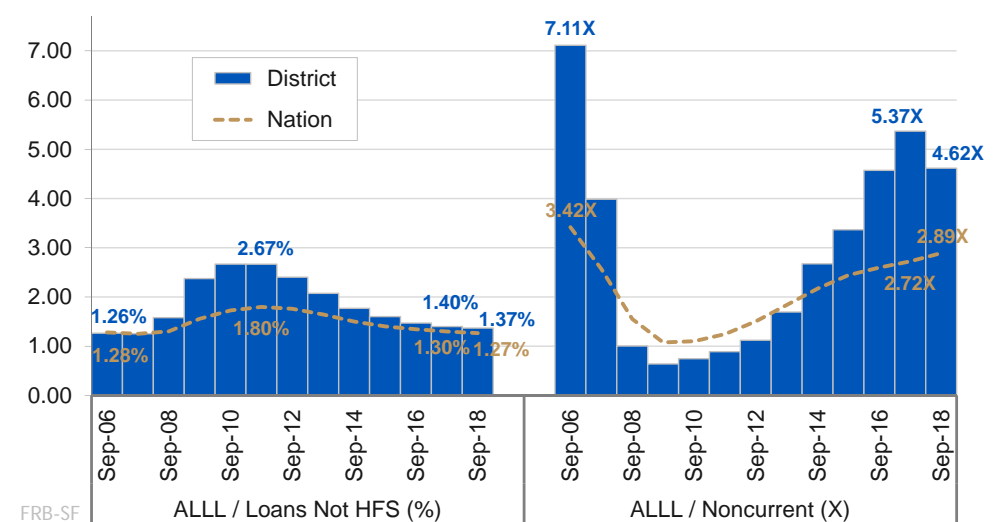
Memo: Average Concentration to Total Capital, Sep-18

	District Very Small (< \$1B)	District Small (\$1B - \$10B)	District Mid-Sized (\$10B - \$50B)	Nation Large (> \$50B)
Consumer	5.19	9.99	6.53	86.95
C&I	81.54	70.34	116.97	135.69

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

Loan Loss Allowances Continued to Lag Loan Growth and Dipped as a Multiple of District Noncurrent Loans

Average ALLL Coverage of Loans not HFS (%) and Noncurrent Loans (X)

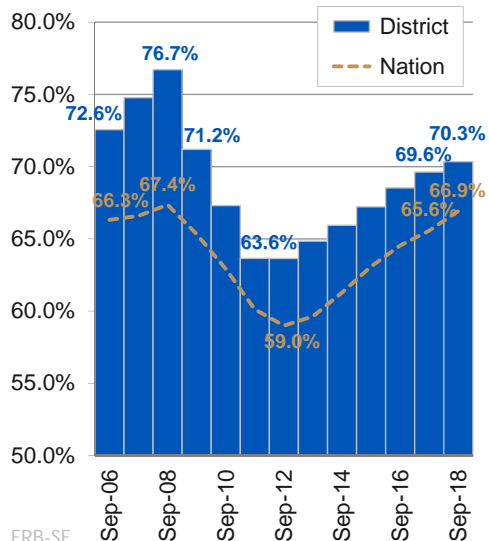


FRB-SF

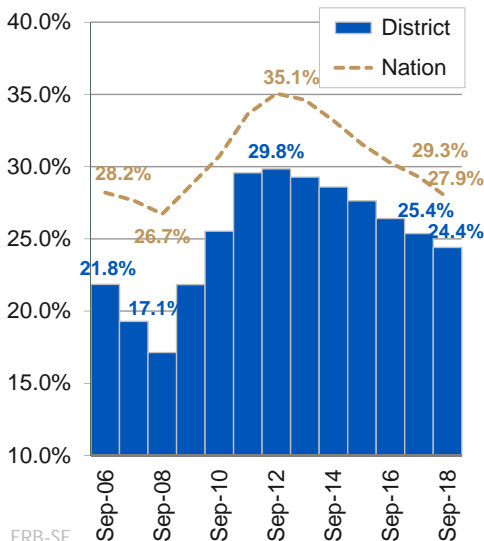
Average = trimmed mean; ALLL = allowance for loan and lease losses; HFS = held for sale; noncurrent = loans past due 90+ days or on nonaccrual status.

On-Balance Sheet Liquidity Tightened Year-over-Year, Continuing an Earlier Trend

Net Loans and Leases / Assets*



Securities + Liquid Invest. / Assets*



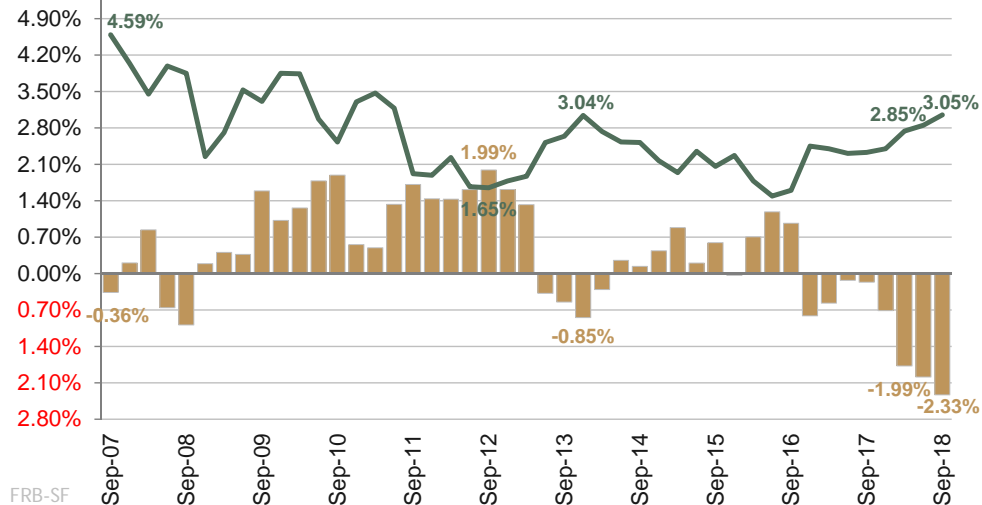
FRB-SF

FRB-SF

*All data are averages (trimmed means); liquid investments = cash, due from balances, interest bearing balances, and federal funds sold & securities purchased under agreements to resell.

Rising Long-Term Interest Rates Further Depressed Bond Portfolio Values, Possibly Limiting Liquidity

Average Net Unrealized Gains (Losses) on AFS Securities / AFS Securities
10-Yr. UST Yield

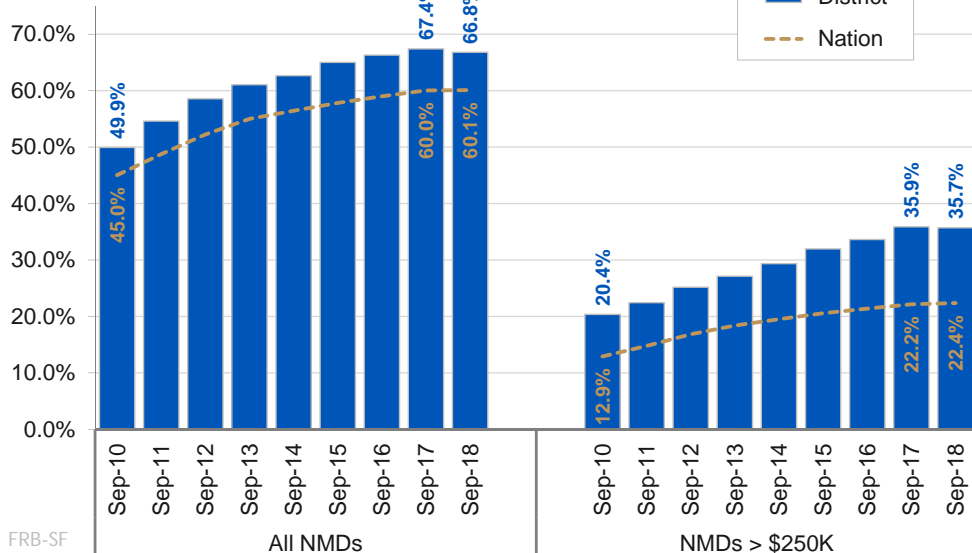


FRB-SF

Average = trimmed mean (12th 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.

Total and Jumbo NMDs Flattened as a Share of Assets as NMD Growth Stalled

Average Nonmaturity Deposits / Assets

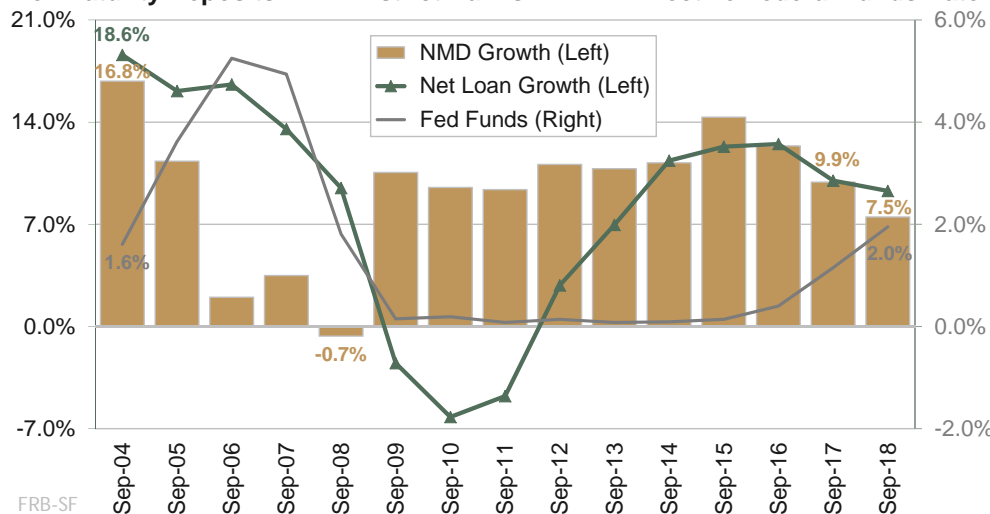


FRB-SF

Average = trimmed mean; NMD = nonmaturity deposits (all deposits excluding time deposits); Jumbo = > \$250K.

As Growth in NMDs Trails Loans, Banks May Turn to Costlier Funding or Further Reduce Liquid Holdings

Average Year-over-Year Growth in Nonmaturity Deposits—12th District Banks Effective Federal Funds Rate

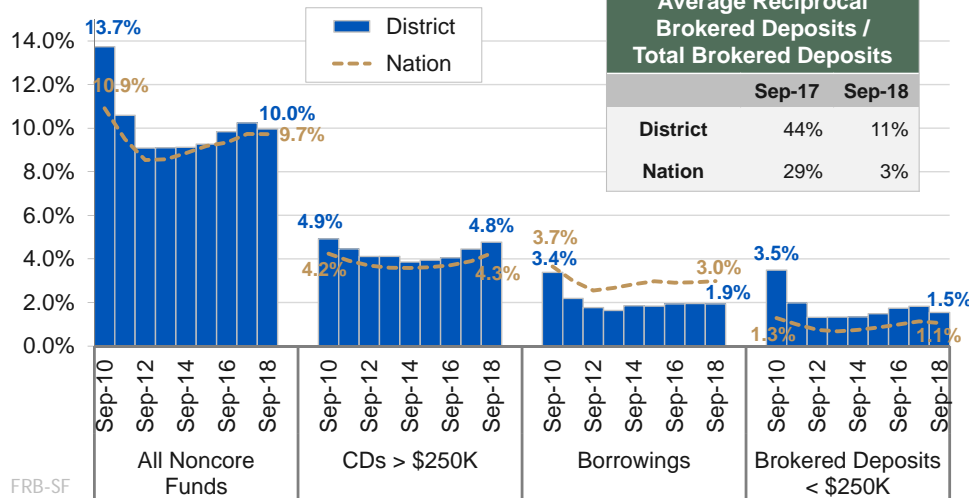


FRB-SF

Average = trimmed mean; growth rates are not merger-adjusted; NMD = nonmaturity deposits; federal funds rate from Federal Reserve via Haver Analytics; as part of a coordinated response to market dislocation, the FDIC provided an unlimited guarantee on certain transaction accounts between Oct-08 and Dec-10, which was extended with modification through Dec-12.

48 Average Noncore Funding Ratios Eased as Most Banks Re-classified Reciprocal Deposits as Non-Brokered

Average Noncore Funding / Assets



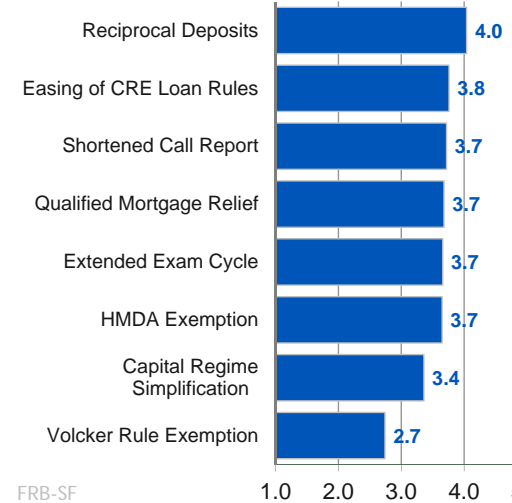
Average Reciprocal Brokered Deposits / Total Brokered Deposits		
	Sep-17	Sep-18
District	44%	11%
Nation	29%	3%

FRB-SF

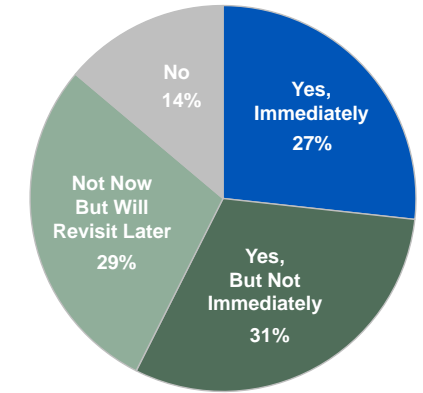
Average = trimmed mean; noncore liabilities = sum of borrowings (e.g., federal funds purchased, repurchase agreements, and other borrowed money), foreign deposits, certificates of deposit > \$250K, and brokered deposits < \$250K; beginning with the June 2018 Call Reports, qualifying (generally well-rated and well-capitalized) banks could opt to 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 of 2018.

49 Promontory Surveys: Reciprocal Deposit Rule Change May Lead to Expanded Usage of the Product . . .

Average Perception of EGRRCPA Impact (1 = Negative; 3 = Neutral; 5 = Positive)



Share Planning to Start/Increase Reciprocal Deposit Usage Given Change in Law



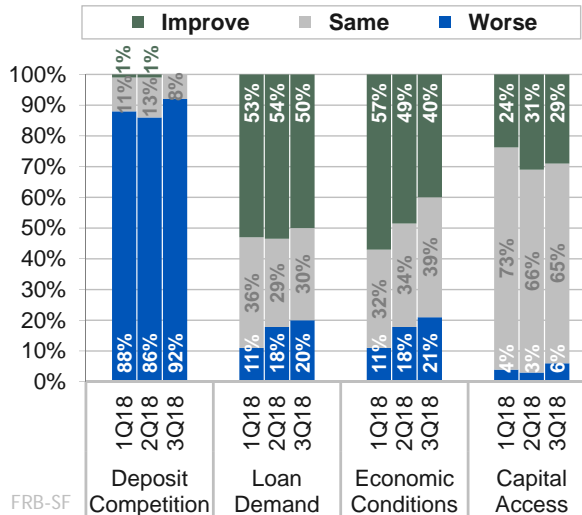
FRB-SF

FRB-SF

Based on a nationwide, online survey of bank executives at 390 institutions about the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) of 2018, queried between July 2 and July 13, 2018; HMDA = Home Mortgage Disclosure Act. Source: Promontory Interfinancial Network *Bank Executive Business Outlook Survey*, 2Q18.

50 . . . And Also Noted That Banker Confidence Moderated As Deposit, Loan, and Economic Expectations Shifted

Expectations in Next 12 Months – West Area

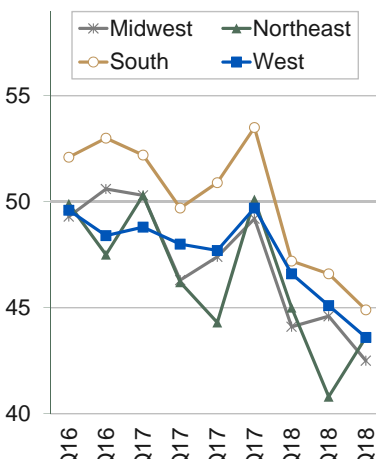


FRB-SF

3Q18 data based on a nationwide survey of bank chief executive officers, chief financial officers, and presidents at 421 institutions, queried between October 2 and October 12, 2018; 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 Survey*.

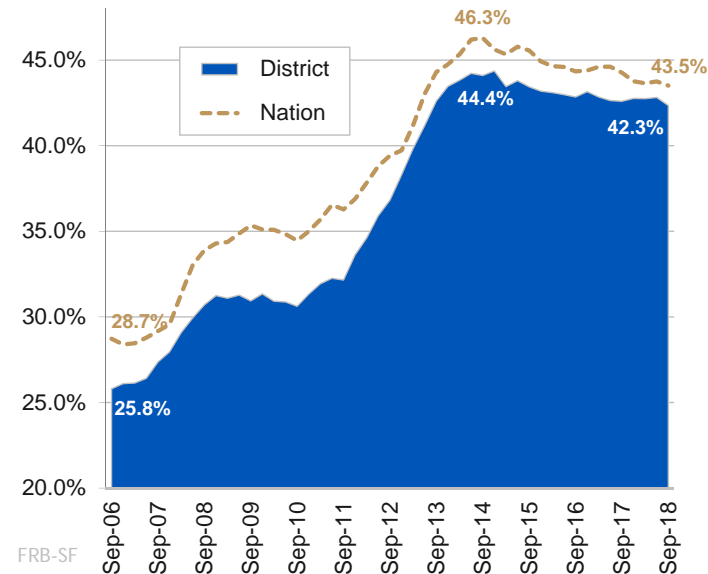
Bank Confidence Index

Above 50 Considered Expansions



51 Average Long-Term Asset Ratios Edged Lower; However, Some District States Bucked the Trend

Average % of Loans & Securities Maturing > 3 Years



FRB-SF

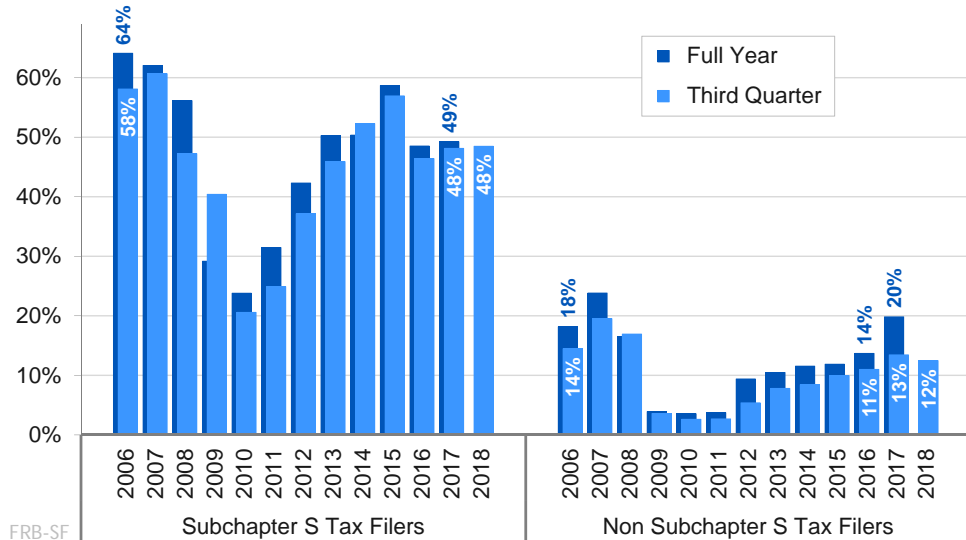
Average % of Loans & Securities > 3 Years		
FRB-SF	2006-18*	Sep-18
OR	53.9%	53.9%
AK	52.2%	52.2%
HI	49.1%	49.1%
WA	48.0%	48.0%
AZ	47.8%	47.8%
CA	42.3%	42.3%
NV	37.9%	37.9%
ID	34.3%	34.3%
UT	30.1%	30.1%
Nation	43.5%	43.5%

◆ = trough ◆ = peak

Average = trimmed mean; *September of each year; NV excludes credit card and zero-loan banks.

52 YTD Dividends Held Relatively Steady As a Share of Net Income; Historically Often Higher by Fourth Quarter

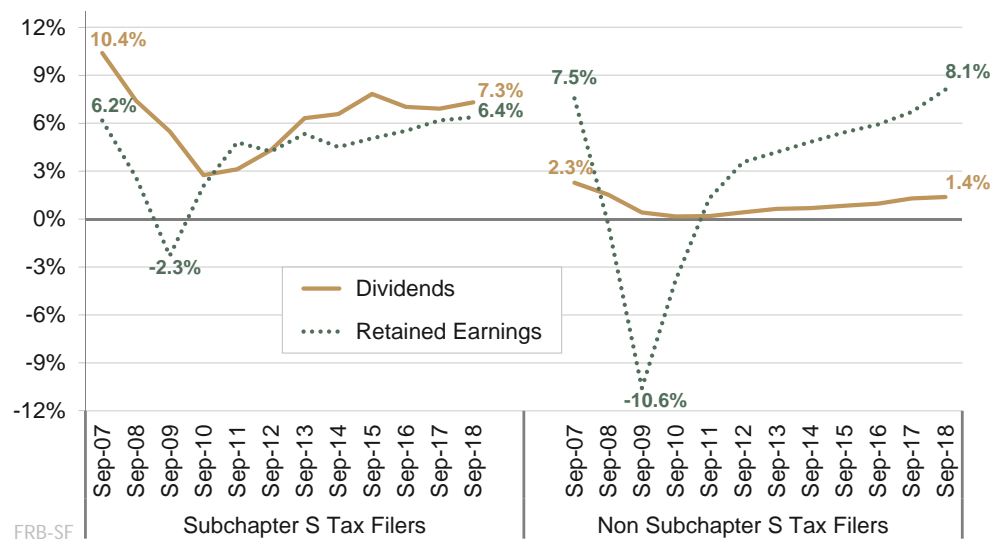
Average YTD Cash Dividends / Net Income – 12th District



FRB-SF
Average = trimmed mean; YTD = year-to-date; Subchapter S filing banks (13% of banks in the 12th District, 38% of banks nationwide) pay taxes at the shareholder rather than corporate level and typically have higher dividend payout rates (also known as distributions) so that shareholders can cover tax obligations.

53 Capital Accretion from Earnings Retention Far Outpaced Dividend Payouts at Non Subchapter S Banks

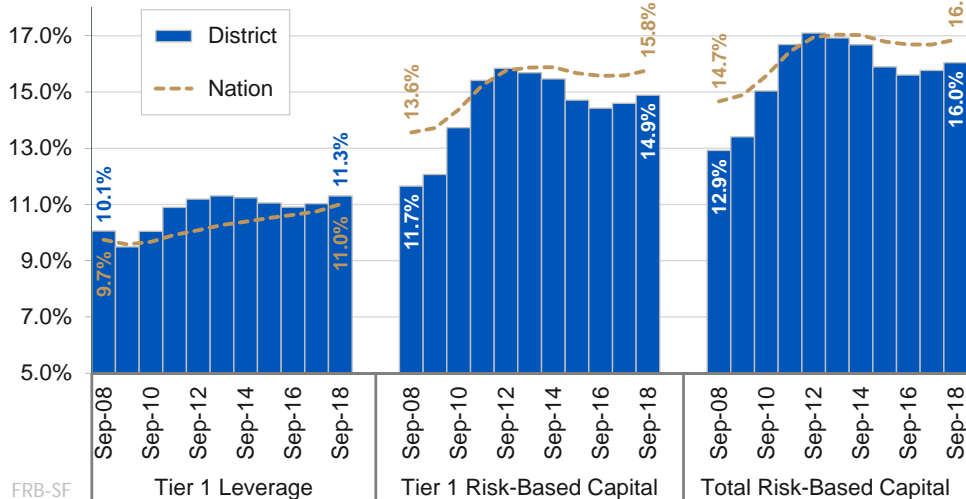
Average YTD Dividends and Retained Earnings / Avg. Equity – 12th District



FRB-SF
Average = trimmed mean (12th District banks only); YTD = year-to-date (annualized); Subchapter S filing banks (13% of banks in the 12th District) pay taxes at the shareholder rather than corporate level and typically have higher dividend payout rates (also known as distributions) so that shareholders can cover tax obligations.

54 Regulatory Capital Ratios Increased Year-over-Year as Capital Accretion Outpaced Slowing Asset Growth

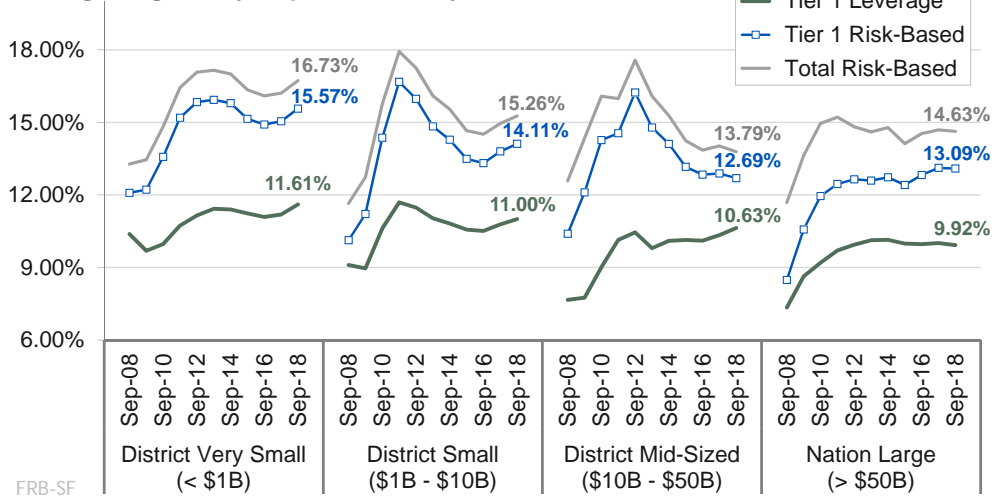
Average Regulatory Capital Ratios



FRB-SF
Average = trimmed mean; new risk-based capital rules that became effective March 2015 for most banks (March 2014 for some larger/more complex banks) included the phase out of some capital instruments and higher risk weights on some asset and off-balance sheet commitment categories; beginning with the June 2018 Call Report, banks could opt to implement changes to the definition of high volatility commercial real estate (per the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018), which may have reduced risk weightings for some assets previously weighted at 150%.

55 Year-over-Year Improvement in RBC Ratios Was More Pronounced Among Smaller Banks

Average Regulatory Capital Ratios by Bank Size



FRB-SF
Average = trimmed mean; new risk-based capital (RBC) rules that became effective March 2015 for most banks (March 2014 for some larger/more complex banks) included the phase out of some capital instruments and higher risk weights on some asset and off-balance sheet commitment categories; beginning with the June 2018 Call Report, banks could opt to implement changes to the definition of high volatility commercial real estate (per the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018), which may have reduced risk weightings for some assets previously weighted at 150%.

Appendices

Summary of Institutions

Technical Information

Appendix 1: Summary of Institutions

Appendix 2: Technical Information

Area	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Sep-17	Sep-18	Sep-17	Sep-18	Sep-17	Sep-18
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	15 (0)	15 (0)	-	-	1 (0)	-
CA	161 (1)	141 (2)	3 (0)	3 (0)	10 (0)	11 (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)	12 (0)	-	-	1 (0)	1 (0)
NV	10 (0)	10 (0)	4 (0)	4 (0)	2 (0)	2 (0)
OR	18 (0)	15 (0)	-	-	3 (0)	2 (0)
UT	28 (0)	27 (0)	15 (0)	14 (0)	2 (0)	1 (0)
WA	38 (0)	36 (0)	-	-	10 (0)	10 (0)
12L	293 (1)	267 (2)	23 (0)	22 (0)	33 (0)	31 (0)
U.S.	4,942 (6)	4,746 (11)	25 (0)	24 (0)	768 (1)	703 (1)

General: This report focuses on the financial trends and performance of commercial banks headquartered within the 12th 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 (banks 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 needed to construct trimmed means.