Economic and Banking Performance
in the Twelfth Federal Reserve District

First Glance 12L

Job and Non-PPP Loan Growth Accelerated, but Downside Risks Persist

3Q21 December 8, 2021

Federal Reserve Bank
of San Francisco

Key Takeaways

First Glance 12L provides a quarterly look at economic and banking conditions within the Twelfth District.

Economy: Hiring in the District reaccelerated in October following a Delta-induced dip in September. Business concerns about hiring difficulties, supply chains, and inflation intensified, although some District states still had more job seekers than openings as of September. Home sales picked up, but larger for-sale inventories allowed price growth to slow from summer highs. Among major commercial property types, downtown office performance continued to lag while suburban offices joined other sectors in a recovery. District industrial vacancy rates reached historic lows in 3Q21, but office rents and vacancies worsened. The ongoing threat of a seasonal- or variant-led surge in COVID-19 cases continued to cloud the outlook.

Banking Conditions: Growth in traditional lending categories improved but was more than offset by forgiveness-driven PPP repayments, leaving annual and quarterly net loan growth negative on average. Favorably, forgiveness prompted accelerated recognition of PPP-related fees, lifting effective loan yields and profits, especially at community banks. Earnings may face headwinds from tapering PPP revenues, emerging competitive pressures on loan and deposit pricing, and waning allowance reversals. PPP impacts were less pronounced among larger banks, where the program tended to represent a smaller share of loans. Loan delinquencies and losses remained low. Credit problems may emerge once monetary and fiscal support fade, and/or if renewed COVID-19 transmission crimps economic activity.

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This report is based upon preliminary data from commercial bank Condition & Income (Call) Reports as well as other public sources. Data have 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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Press inquiries: https://www.frbsf.org/our-district/press/

Issues on Our Radar | Selected issues we are watching most closely

Financial Risks

CRE concentrations

+ Nonowner-occupied CRE loan concentrations entered the current recession below pre-Great Recession peaks, mainly because of lower construction lending volumes.
+ Still, average concentration ratios held by banks based in most District states remained above the U.S. average (see table).
+ Rental income and property expense pressures on CRE – particularly among lodging, retail, and office properties – heighten concern.
+ Low interest rates and fiscal stimulus have provided support to the CRE loan segment, but a reversal of those conditions, or another COVID-19 surge could alter performance.

C&I concentrations

+ As of 3Q21, non-PPP C&I balances averaged 62% of tier 1 capital plus loan and lease loss allowances in the District, comparable to the national average. Lingering or renewed stress on business borrowers – including evolving supply chain disruptions and labor shortages – may amplify risks posed by C&I loan exposures.
+ According to the Census Bureau's Small Business Pulse Survey (Oct. 11-17, 2021), 23% of surveyed small businesses nationally reported a large negative impact from the pandemic, with an above-average proportion of firms in Alaska (31%), Nevada (29%), Hawaii (29%), California (27%), and Washington (25%) noting a similar degree of impact. Businesses in the accommodation and food services, arts/entertainment/recreation, educational services, and "other services" (e.g., salons, spas, and other personal services) sectors were most likely to report large negative effects.
+ Monetary and fiscal support have helped limit loan repayment issues to date, but credit problems could emerge once relief measures fade or if pandemic conditions worsen.

Average CRE Loan Concentration
% of tier 1 capital +
allowances for loan and lease losses

	2008-21*	Sep-21
California		261.3%
Washington		221.3%
Oregon		202.8%
Arizona		193.7%
Nevada		168.2%
Hawaii		153.0%
Alaska		152.4%
Idaho		143.8%
Utah		122.2%
Nation		126.3%

Excludes owner-occupied CRE; *Sep. 30 each year (orange dot = max).
Source: Bank Call Reports/Uniform Bank Performance Reports.

Issues on Our Radar | Selected issues we are watching most closely

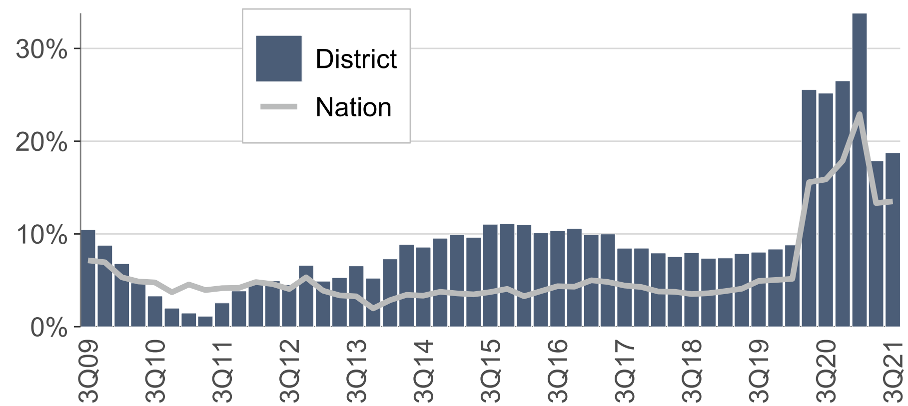
Financial Risks

Surge deposits

- Deposits, in particular low/noninterest-bearing NMDs, grew strongly in 2020 and into 2021 (see chart).
- A portion of deposit growth was generated via PPP-related lending. Also contributing were other stimulus-related funds deposited at banks (e.g., economic impact payments, unemployment insurance benefits, etc.) and caution on the part of customers.
- Given limited net loan growth – tempered by weakened economic activity or PPP repayments – banks have invested some newfound funding in low-yielding, liquid instruments, pressuring asset yields.
- The stability of recent deposit inflows is uncertain and deposits may become more price sensitive in a rising interest rate environment.

Avg. Total Deposit Growth

Year−over−year % change

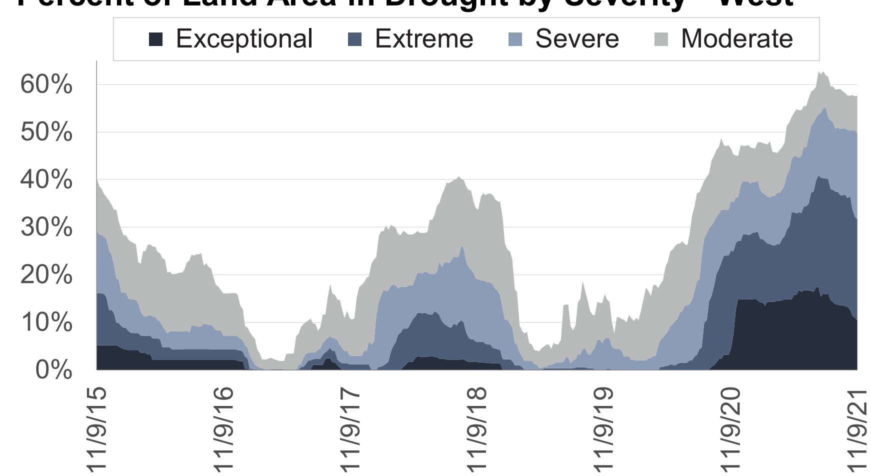


Source: Bank Call Reports/Uniform Bank Performance Reports.

Drought-related impacts

- According to the U.S. Drought Monitor, 58% of the West's land area remained in drought through early November (see chart). The breadth and intensity of drought is unprecedented in recent history.
- Dry conditions contributed to the more than 6.5 million acres scorched by wildfires nationally YTD through mid-November, with the bulk of acreage located within the District. The widespread potential for fire creates ongoing financial and operational risks for banks, their employees, and their customers.
- Recent rainfall reduced the intensity of drought in some areas, most notably the Pacific Northwest. But winter storms may bring mudflow risks to burn scar areas.
- Drought poses particular challenges for borrowers reliant on water quality and accessibility, and fire activity has affected the cost and/or availability of hazard insurance for collateral in some areas.

Percent of Land Area in Drought by Severity - West



West = Twelfth District plus MT and NM. Source: Univ. of Nebraska-Lincoln, U.S. Dept. of Ag., Nat. Oceanic and Atmospheric Admin., 11/9/2021.

Issues on Our Radar | Selected issues we are watching most closely

Non-financial Risks

Cyberthreats

+ Cyber remains a top risk given an ever-evolving multitude of threats. Ransomware and supply chain compromises remained the primary cyber issues facing supervised institutions, their customers, and their suppliers. Remote work environments have also offered opportunities for attacks against virtual private networks and firewall devices. Common vectors also extend to vulnerabilities in widely distributed software.
+ Supervised institutions are encouraged to remain vigilant in their security monitoring and vulnerability management practices, as well as their oversight of third-party vendors and service providers.
+ In mid-November, the federal bank regulatory agencies issued a rule requiring banking firms to notify their primary federal regulator of any significant computer incident within 36 hours. The rule applies to "incidents that have materially affected – or are reasonably likely to materially affect – the viability of a banking organization's operations, its ability to deliver banking products and services, or the stability of the financial sector." Bank service providers are also required to notify their financial institution customers about incidents that have caused or are reasonably likely to cause disrupted or degraded service for four or more hours. The rules are effective April 1, 2022 and enforcement will begin on May 1, 2022.

Bank Secrecy Act/Anti-Money Laundering compliance and fraud

+ BSA/AML monitoring remains heightened because of the District's role in the global economy, the array of activities being conducted by institutions, and the evolving nature of threats and regulatory guidance.
+ In November 2021, FinCEN emphasized the money laundering/terrorist financing risks posed by ransomware attacks in a report on ransomware trends in BSA data and an Advisory on Ransomware and the Use of the Financial System to Facilitate Ransom Payments, which included red flags of ransomware-related payments.
+ The U.S. Treasury Department's Office of Foreign Assets Control issued guidance on sanctions compliance for the virtual currency industry. The brochure provides programmatic information on sanctions risk and consolidates frequently asked questions on virtual currencies and transaction red flags.
+ Mirroring previously-released guidance and to provide transparency into the BSA/AML examination process, the FFIEC BSA/AML Examination Manual was updated regarding different customer typologies (e.g., political exposed persons, charities and nonprofit organizations, and independent ATM operators and owners).

Issues on Our Radar | Selected issues we are watching most closely

Non-financial Risks

Consumer compliance challenges amid the COVID-19 response

+ Various pandemic response programs that provided relief to consumers and small businesses have ended or will end in the coming months, despite ongoing concerns with the Delta and new Omicron COVID-19 variants.
+ Financial institutions are expected to adjust their programs to adapt to changing compliance responsibilities, including the Consumer Financial Protection Bureau's (CFPB) finalized amendments to federal mortgage servicing regulations, to help protect mortgage borrowers as they exit forbearances.
+ Banks are also encouraged, as relayed through SR 20-18 / CA 20-13, to provide consumers with options to make prudent changes to the terms of credit to support sustainable and affordable payments in the long term.
+ For additional information and resources, refer to the Federal Reserve's COVID-19 Resource Page.

Increasing enterprise complexity

+ Networks of multiple complex third/fourth party relationships, growing use of cloud services, the widening adoption of cryptoasset trading, and acquisition of fee-generating non-bank businesses in response to earnings pressures are drivers for heightened concern.
+ The risk appetite for outsourcing and engaging with non-bank partners may be ahead of the control environment needed to maintain sound practices.
+ In mid-July, the Federal banking agencies jointly requested comment on proposed risk management guidance for third-party relationships (the comment period was extended through October 18). And, in late August, the banking agencies issued a guide to help community banks evaluate fintech relationships (see SR-21-15/CA 21-11).

LIBOR transition

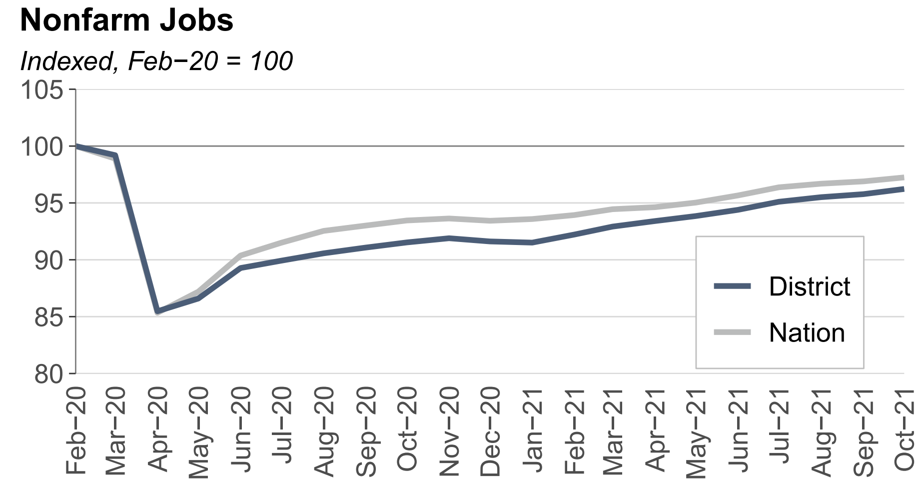
+ Depositories will need to cease new LIBOR-based contracts by year-end 2021. Existing instruments with tenors beyond June 2023 may require renegotiation, fallback language, and/or an alternative reference rate.
+ The transition will require comprehensive and proactive planning, financial exposure measurement and risk assessment, operational and legal preparedness, communication with counterparties, and oversight.
+ A list of related guidance and speeches is available on the Federal Reserve's LIBOR Transition website.

For more information: supervisory and financial stability issues related to these and other topics are explored in the Federal Reserve's semi-annual reports on Supervision and Regulation and Financial Stability.

Twelfth District Economy | Employment

The labor market continued to recover through October, but variances across states remained material.

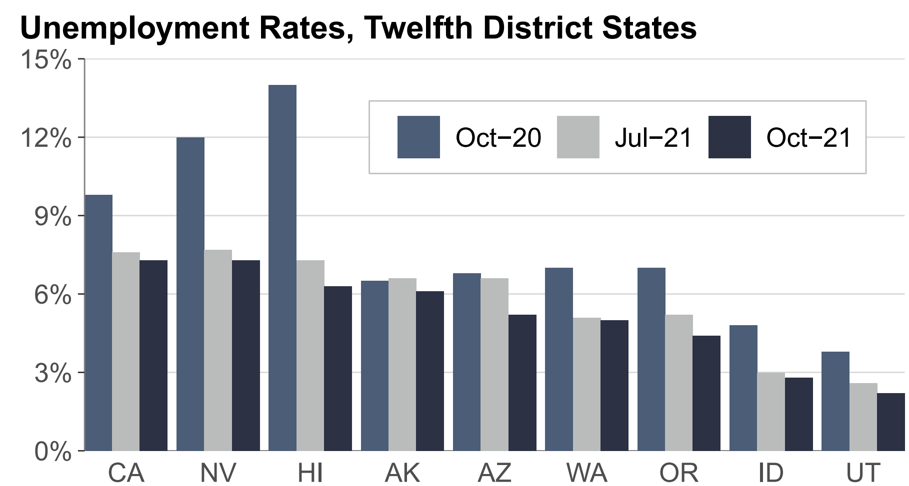
+ By October, Districtwide payrolls were 3.8% below their pre-pandemic level, compared to 2.8% below for the nation (see chart).
+ Monthly job growth in the District picked up in October, to 5.9% (annualized), from 3.4% in September during the Delta wave of COVID-19 infections.
+ The leisure/hospitality, professional/business services, and education/health services sectors continued to drive job growth in the District.
+ Tourism-dependent Hawaii remained furthest below its pre-pandemic job level (12.9% short) among District states, but it also added jobs at the fastest pace over the past year. Utah and Idaho were the only two District states to exceed their pre-pandemic job levels as of October.



Source: Bureau of Labor Statistics.

Unemployment rates declined as well, but California tied Nevada for the highest rate in the District in October.

+ The Districtwide unemployment rate continued to decline to 6.2% in October, compared to 4.6% for the nation overall.
+ Since the April 2020 peak, the national unemployment rate has declined faster than the District unemployment rate, although this is partly because the District has kept more workers in the labor force than the nation overall. The national labor-force participation rate declined by 1.7 percentage points from Feb-20 through Oct-21, while the District participation rate declined by only 1.3 points.
+ At the state level, California and Nevada were tied for the highest unemployment rates in the District as of October (see chart), but this also reflected a significantly greater decline in labor-force participation in Nevada than in California.
+ That said, labor-force participation declined in all District states relative to the pre-pandemic period, except for Oregon.



Source: Bureau of Labor Statistics.

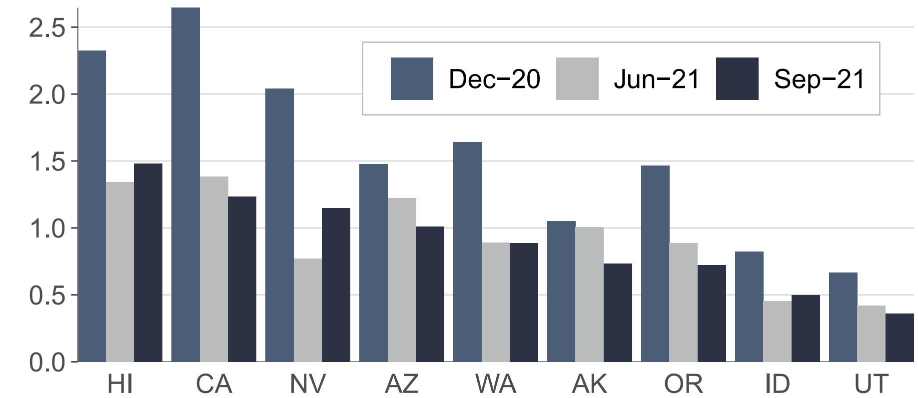
Twelfth District Economy | Hiring/Supply Chains + Housing

Hiring, supply chain, and inflation concerns intensified, but job seekers outnumbered openings in some District states.

+ Although job openings increased sharply over the past year and businesses reported difficulties hiring workers as noted in the latest Beige Book, some District states still had more unemployed persons than job openings as of September (see chart). Nationwide, the ratio of jobs seekers to openings was 0.74, indicating low labor supply.
+ Businesses also reported increasing supplier delays as supply chain problems intensified. As of mid-November 2021, more than half of small businesses surveyed by the Census Bureau reported supplier, production, or shipping delays, up from about one-third in the year-earlier period, with domestic supplier delays most commonly cited.
+ A recent BankDirector survey asked if banks' customers had reported concerns about supply chains or labor shortages. Notably, 88% of bankers replied 'yes', but of those, only 4% were concerned it would result in loan repayment problems for a significant share.

Job Seekers per Opening, Twelfth District States

Unemployed persons / job openings



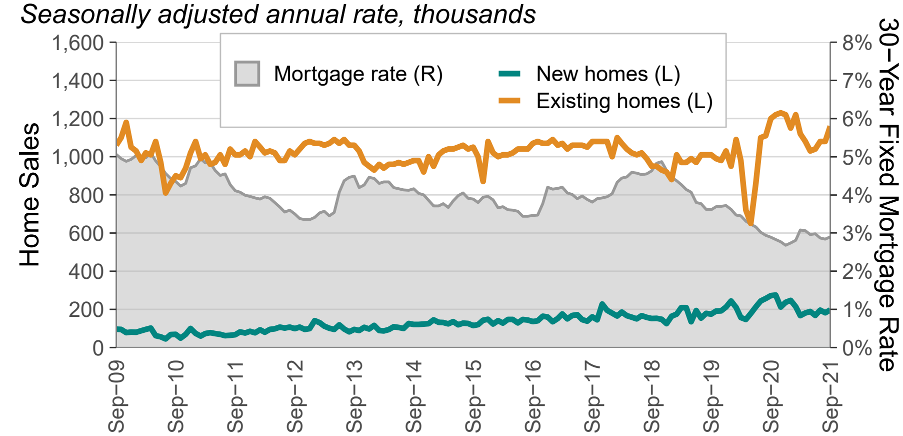
Source: Bureau of Labor Statistics.

Home sales rebounded in Q3 but supply pressures eased as for-sale inventories increased more quickly.

+ The number of home sales in the West region picked up from June to September, after declining in the first half of the year, led by existing home sales (see chart). Existing home sales approached the post-Great Recession highs reached in the second half of 2020.
+ The increase in sales may be partially due to buyers purchasing now in expectation of higher mortgage rates in the coming year if inflation remains elevated.
+ However, housing supply pressures eased slightly despite the increase in sales. Districtwide for-sale inventory increased to 1.2 months of sales in September, from 1.1 months in June (per Redfin). That said, inventories remained well below the 2.6 months of sales seen prior to the pandemic (February 2020).
+ At the state level, September inventories ranged from 2.3 months of sales in HI to 0.8 months in WA, with CA at 1.3 months.

Single−Family Home Sales, West Region

Seasonally adjusted annual rate, thousands



West = District plus CO, MT, NM, and WY. Sources: National Association of Realtors® (© 2021, reprinted with permission), Census Bureau, Freddie Mac.

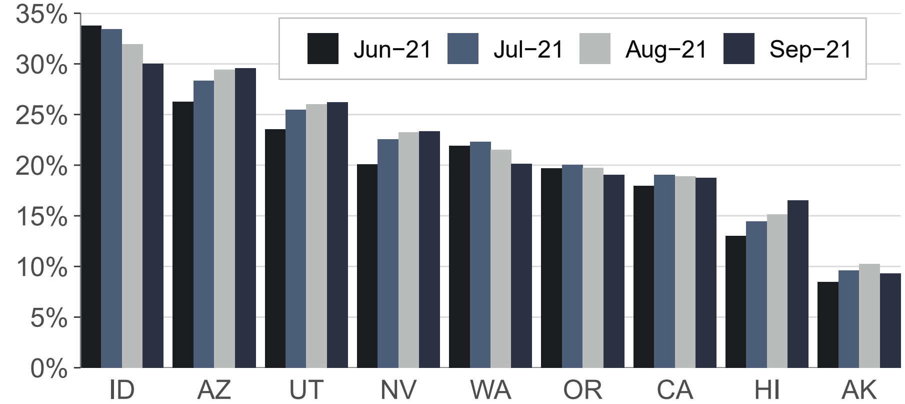
Twelfth District Economy | Housing

Home-price appreciation began to cool in Q3 but remained well above the pre-pandemic trend.

- Single-family home-price growth in the District began to moderate during the third quarter, easing to 20.8% year-over-year in September, from a high of 21.2% in July. However, this still represents a dramatic increase in the pace of growth from 7.5% a year earlier.
- The Districtwide deceleration was led by Idaho, where price growth peaked in June, and California, Washington, and Oregon, where growth peaked in July (see chart).
- Reports attribute these developments to buyer fatigue that set in over the summer amid bidding wars and perceptions of unsustainable price increases.
- Nevertheless, the remarkable increase in home prices over the past year led to a sharp deterioration in housing affordability across all District states except Alaska (as measured by the Wells Fargo/NAHB Housing Opportunity Index), despite rising median family incomes.

Home Price Index

Year−over−year % change



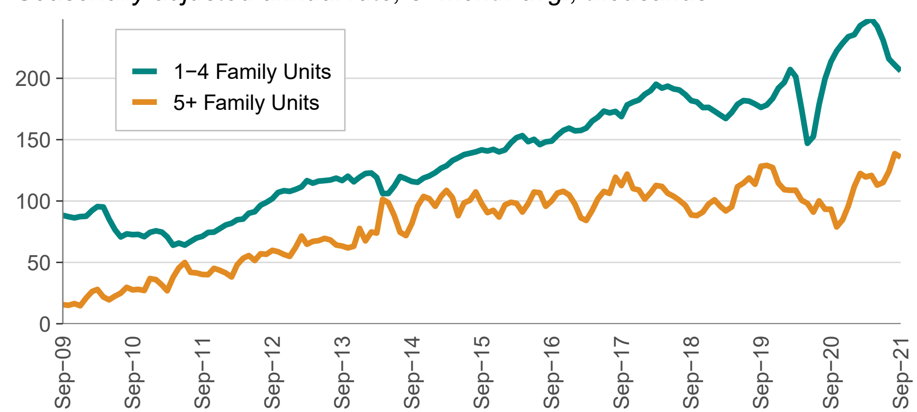
Includes attached and detached single-family homes, including distressed sales.
Source: CoreLogic.

A decline in 1-4 family residential permits may support home prices in the coming months.

- Districtwide, 1-4 family residential permits issued fell by nearly 17% from their peak in April 2021 through September, which may lead to lower inventories and higher prices in the coming months if demand for lower-density housing remains elevated (see chart).
- The slowdown in 1-4 family housing permits was shared across all District states, although Oregon saw a relatively small decline.
- On the other hand, multifamily (5+) permits surged, surpassing their previous post-Great Recession peak in August.
- Homebuilder confidence rebounded in the third quarter as perceptions of strong buyer demand outweighed persistent problems with materials bottlenecks, labor availability, and access to new building lots.

Housing Permits, Twelfth District

Seasonally adjusted annual rate, 3−month avg., thousands



Source: Census Bureau via Haver Analytics.

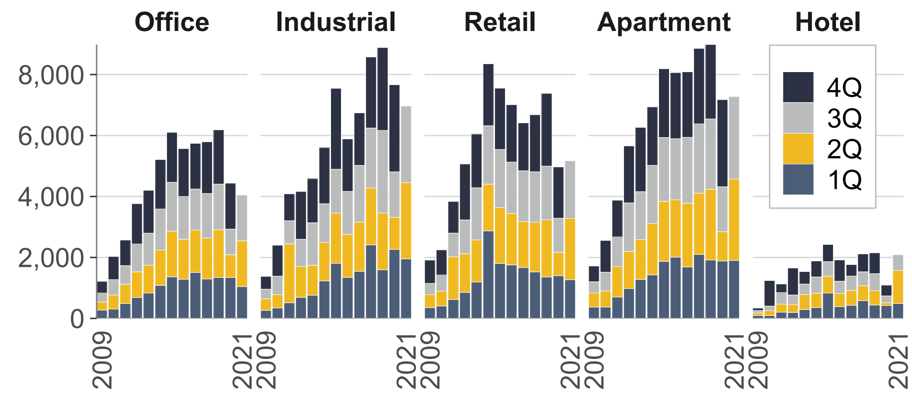
Twelfth District Economy | Commercial Real Estate

CRE transactions were well ahead of their pre-pandemic pace by 3Q21, except for the office sector.

- National CRE transactions continued to rebound from 2020 levels during the third quarter of this year.
- All sectors except office were well ahead of their 2019 YTD transaction pace by the third quarter, and hotel transactions almost exceeded 2019 full-year volumes (see chart).
- Office transactions remained about 5% behind their 2019 YTD pace as of 3Q21, driven by downtown/central business district (CBD) office sales, which were 27% behind their 2019 pace. In contrast, suburban office transactions were only 1% behind their 2019 YTD pace by 3Q21.

CRE Transactions, National

Number of properties sold



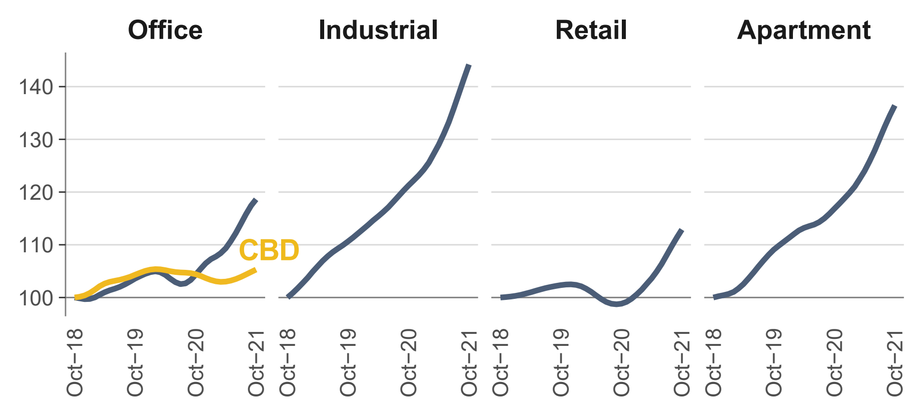
Includes transactions of properties valued $2.5 million and above. Source: Real Capital Analytics.

CRE price growth accelerated across sectors, but downtown office prices lagged; cap rate spreads narrowed.

- National CRE price growth accelerated across sectors in the second half of the year (see chart). As of October, industrial and apartment prices grew at their fastest pace since at least 2002 – 18.9% and 16.8% year-over-year, respectively – while the pace for retail properties (14.2%) was the fastest since late 2005.
- Office price growth accelerated to 13.7% year-over-year, driven mostly by suburban properties. Downtown (CBD) office price growth did turn positive on an annual basis in September, although the average CBD office price level remained slightly below its pre-pandemic peak as of October.
- In the West region, office cap rates rose in the third quarter across the CBD and suburban subsectors, although faster increases in the 10-year Treasury rate meant that office spreads narrowed along with the other CRE sectors.

Commercial Property Price Indices, Nation

Oct–18 = 100



Based upon repeat-sales transactions; CBD = central business district. Source: Real Capital Analytics.

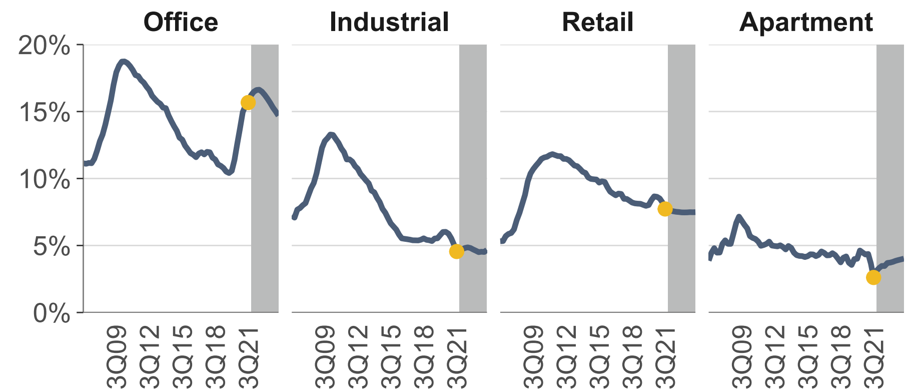
Twelfth District Economy | Commercial Real Estate

CRE vacancy rates declined in all sectors except office; industrial vacancies reached historic lows.

+ District CRE vacancy rates continued to edge down in all sectors except for office (see chart). The average industrial and apartment vacancy rates across District markets were at historic lows as of 3Q21.
+ Notably, industrial vacancy rates in the Riverside, Ventura, Los Angeles, and Orange County markets were among the 10 lowest in the nation in 3Q21, highlighting the degree of supply-chain congestion around the ports of Los Angeles and Long Beach.
+ The average office vacancy rate continued to climb, and CBRE expected a continued increase through the middle of 2022.
+ Across District markets, Southern California mostly had higher-than-average office vacancy rates (although Portland and Oakland also had high office vacancies), and Bay Area markets had relatively high vacancy rates in the apartment and industrial sectors.

Avg. CRE Vacancy Rates, Twelfth District Markets

Weighted by stock, shaded area = forecast



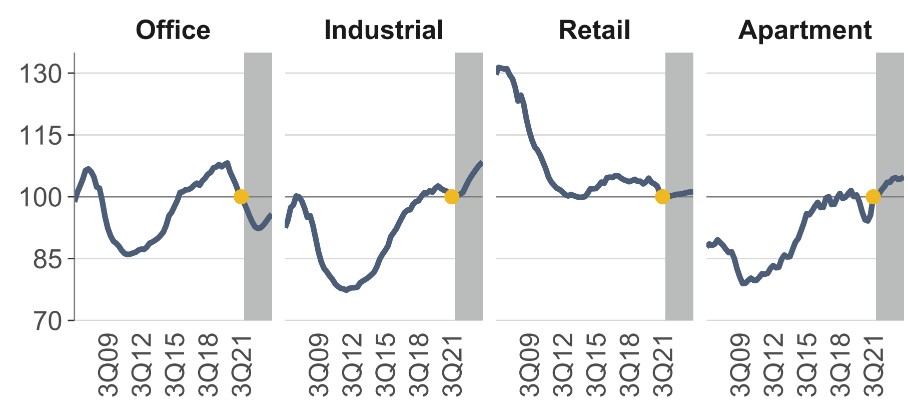
Includes the 16 to 18 largest markets in the District, depending on the sector. Source: CBRE-EA, SF Fed calculations.

Office rents declined more than other sectors, while apartment rents rose sharply to nearly pre-pandemic levels.

+ Although District average real rents remained below pre-pandemic peaks across CRE sectors in the third quarter, apartment rents recovered sharply in the third quarter and real industrial and retail rent declines have been moderate (see chart).
+ Real office rents, on the other hand, were down 6.8% on average since late-2019, and CBRE-EA forecasted continued declines in the coming quarters. Office rents eased in all District markets, but San Francisco experienced by far the largest drop in the District.
+ Bay Area markets were also outliers in the apartment sector, with real rents still down relative to late-2019, while Arizona and Nevada apartment markets saw the largest rent increases.
+ Real industrial rents trailed late-2019 levels in eleven out of eighteen major District markets, most notably in the Bay Area. But real rents rose over the same period in seven markets, most strongly in Seattle.

CRE Real Rent Indices, Twelfth District Markets

Weighted by stock, shaded area = forecast, 3Q21 = 100



Asking rents for office and industrial, effective rents for retail and apartment; 16 to 18 largest markets in the District. Source: CBRE-EA, SF Fed calculations.

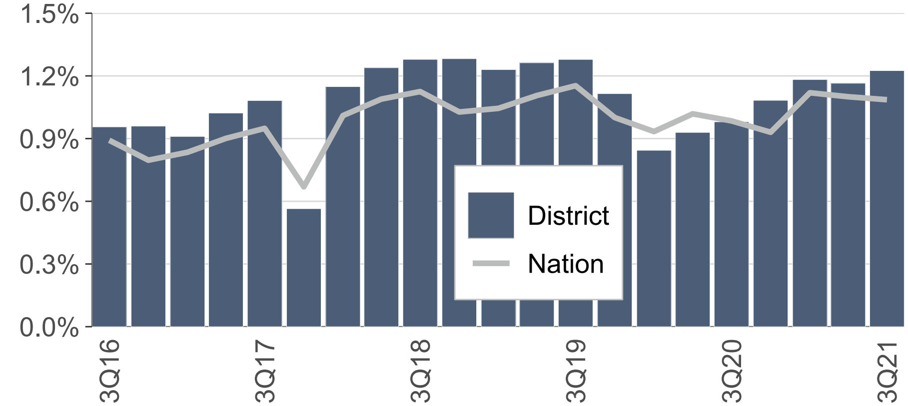
Twelfth District Banking Conditions | Earnings

District bank profit ratios improved slightly from prior quarter levels; performance varied by bank size.

+ The average one-quarter annualized ROAA ratio among District banks (adjusted for Subchapter S effects) improved to 1.23%, up 7 bps and 25 bps from 2Q21 and 3Q20, respectively (see chart). Year-to-date, District ROAAs averaged 1.20%, a nearly 30% improvement from the same period in 2020, and rivaling pre-pandemic averages.
+ The District's community banks (<$10 billion) led the trend, thanks to a forgiveness-driven acceleration in fee recognition among their heavy PPP investments. In contrast, the average ROAA among the District's mid-sized ($10-$100 billion) banks dipped quarter-over-quarter, often due to smaller reserve releases compared with 2Q21.
+ Tapering PPP fees, emerging competitive pressures on loan and deposit pricing, and waning reserve releases pose headwinds.The 3Q21 CSBS Community Bank Sentiment Survey found 54% of bankers – 33% in the "West" – expected profits to worsen prospectively.

Average Net Income / Average Assets (ROAA)

1−quarter annualized



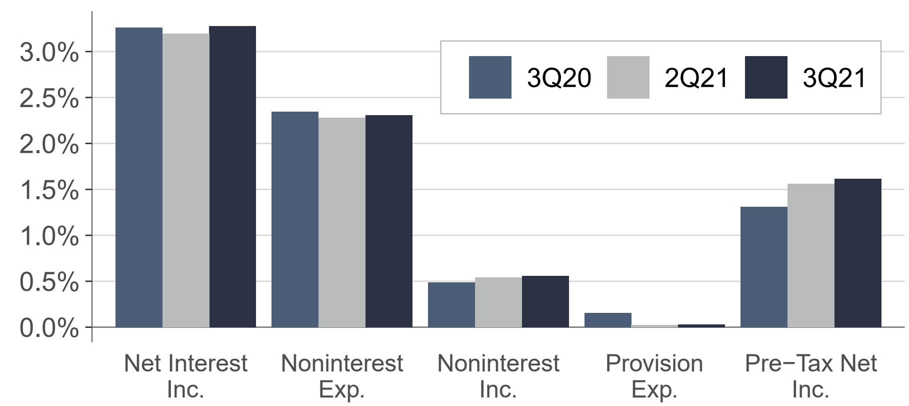
ROAAs among Subchapter-S filing banks are shown net of theoretical tax expense. Source: Bank Call Reports/Uniform Bank Performance Reports.

Minor shifts in several earnings components contributed to 3Q21 earnings trends.

+ Districtwide, banks' average one-quarter net interest income ratio reached 3.28%, slightly higher than 2Q21 (see chart). Margin expansion bucked a national trend, owing to higher average PPP exposures in the West. PPP forgiveness prompted accelerated fee recognition, benefiting effective loan yields, especially among the District's smaller banks. PPP fees may have lifted noninterest income ratios among banks that reported fees there instead.
+ District banks' noninterest expenses increased slightly faster than assets on average. Non-personnel/occupancy costs (e.g., legal, consulting, marketing, etc.) often led the increase.
+ Provision expenses remained low (see chart). In all, 49% of District banks reported zero or negative provisions YTD through September. Reserve releases, although waning, remained more common among mid-to-large firms, which took larger, earlier provisions under CECL.

Avg. Pre−Tax Net Income Breakdown, Twelfth District

1−quarter annualized, % of avg. assets



Source: Bank Call Reports/Uniform Bank Performance Reports.

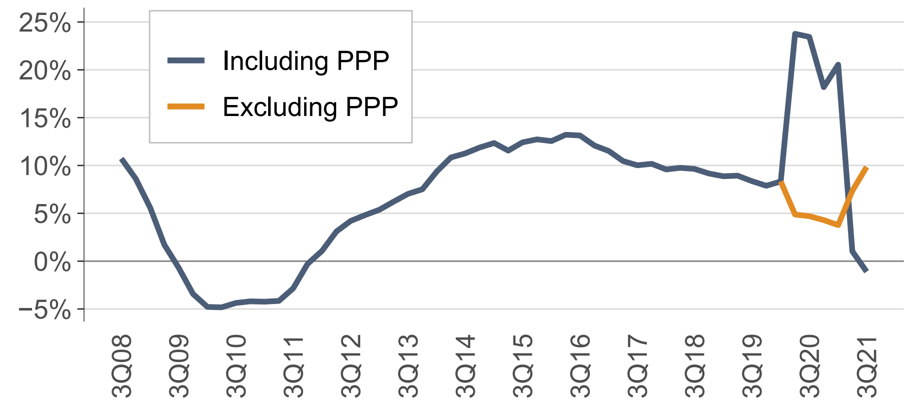
Twelfth District Banking Conditions | Growth + Concentrations

Non-PPP loan growth accelerated but was more than offset by forgiveness-driven PPP prepayments.

+ Average year-over-year and quarter-over-quarter net loan growth rates turned negative overall, decelerating from their 2Q21 paces to -1.1% and -1.0%, respectively. PPP forgiveness was largely to blame.
+ Excluding PPP, District banks' average year-over-year and quarter-over-quarter loan growth rates actually improved, reaching averages of 9.9% and 3.8%, respectively, as PPP distractions eased and CRE-related lending perked up (see chart).
+ PPP ebbs and flows have played an outsized role in District loan growth since 2020 because of high PPP exposures. Although it halved to 24% during 3Q21, the District's average ratio of PPP to capital and reserves continued to far exceed all other Fed districts.
+ Per the Small Business Administration (SBA), 76% of PPP funds had been fully or partially forgiven through October 31, including 92% and 44% of 2020 and 2021 advances, respectively.

Avg. Net Loan Growth, Twelfth District

Year−over−year % change



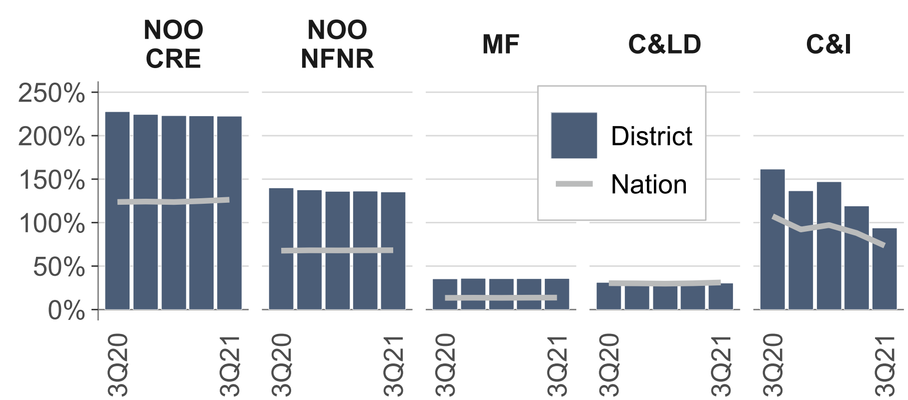
Growth rates include merger effects. Source: Bank Call Reports/Uniform Bank Performance Reports.

CRE lending continued to dominate; C&I concentrations eased in 3Q21 as PPP forgiveness outpaced new lending.

+ District bank loan portfolios continued to center in CRE categories, including those backed by owner-occupied (OO) and nonowner-occupied (NOO) collateral.
+ At 222%, the District's average NOO CRE concentration ratio – which includes NOO NFNR, MF, C&LD, and CRE purpose loans not secured by real estate – far exceeded a national average of 126% (see chart).
+ Separately, OO CRE represented an additional 90% of tier 1 capital plus allowances on average. Unlike NOO CRE loans, primary repayment of these loans tends to derive from the owner occupant's business rather than rents from the underlying collateral.
+ C&I loan concentrations continued to recede as forgiveness-driven PPP repayments outpaced new C&I lending. By 3Q21, District banks' average C&I loan-to-capital and allowances ratio was 94%–62% excluding PPP loans–down from 162% in 3Q20.

Average Loan Concentrations

% of tier 1 capital + ALLL or ACL



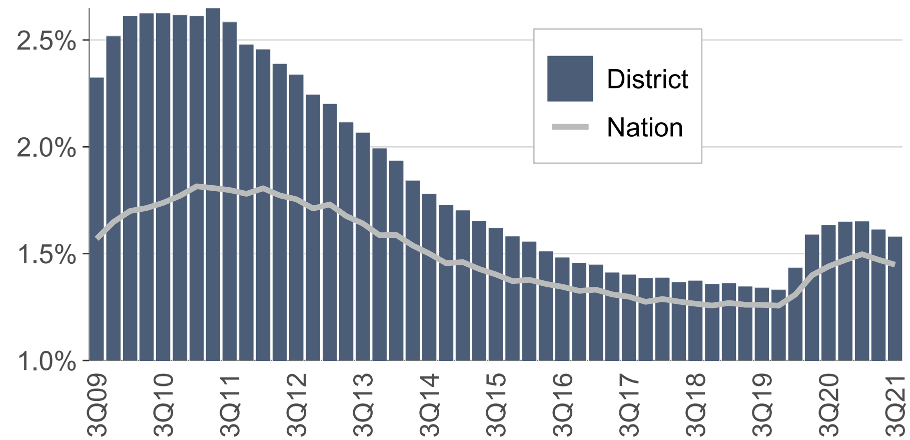
Source: Bank Call Reports/Uniform Bank Performance Reports.

Twelfth District Banking Conditions | Allowances + Underwriting

Loss allowance coverage of non-PPP loans eased given constrained reserve builds and stronger loan growth.

+ Because allowance provisioning trailed rebounding non-PPP loan growth, the ratio of ALLL-to-non-PPP loans receded further in 3Q21 to an average of 1.58%, but remained above a national average of 1.45% (see chart).
+ Average coverage ratios among very small (1.66%) and small (1.58%) banks in the District tended to lead those reported among District mid-sized (1.19%) and large banks nationwide (1.49%).
+ A national survey by CSBS noted that 64% of community banks were planning to implement CECL in 2023, 20% expected to adopt the standard prior to then, 6% were already using CECL, and 10% were unsure of their transition timeframe.
+ Of note, the Federal Reserve hosts a CECL Resource Center, which includes, among other things, the agency's Scaled CECL Allowance for Losses Estimator (SCALE) tool for community banks.

Avg. ALLL or ACL / Non−PPP Loans & Leases not HFS

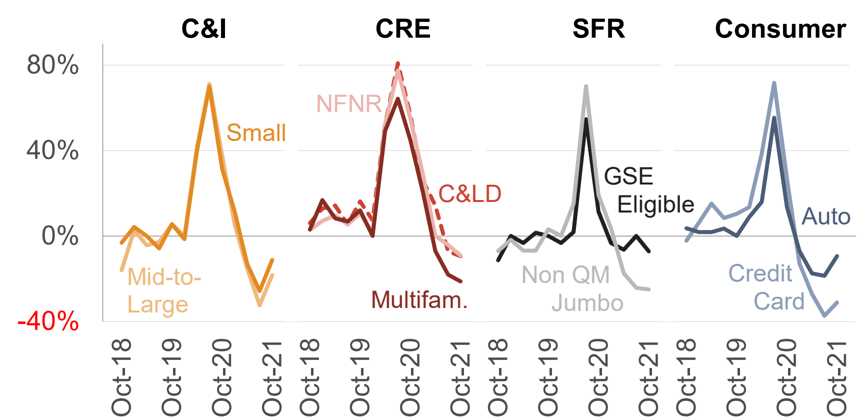


Limited to loan and lease related allowances. Source: Bank Call Reports/Uniform Bank Performance Reports.

Slightly more lenders loosened than tightened loan standards on net; the economy and competition were factors.

+ Per the October 2021 Senior Loan Officer Opinion Survey (SLOOS), a small net fraction of lenders reported easing standards for most C&I and CRE loan categories in the latest quarter (see chart).
+ Meanwhile, slightly more respondents noted strengthening versus weakening demand for C&I loans to mid-to-large borrowers and NFNR mortgages. Demand for C&LD and multifamily finance was percieved as stronger by some lenders, but a smaller share indicated improvement compared with the July 2021 survey.
+ Among loans to households, more banks eased than tightened standards for SFR and consumer loans during the quarter, especially for non-conforming SFR mortgages and credit cards.
+ Nearly half (46%) of bank executives in the "West" surveyed by IntraFi Network, expected loan demand to improve in the coming year, down from 56% in 2Q21. Another 38% foresaw stable demand.

Net Percent Reporting Tighter (Easier) Loan Standards
% of surveyed loan officers



Share reporting tighter minus share reporting easier standards during the quarter. Source: Federal Reserve SLOOS via Haver Analytics.

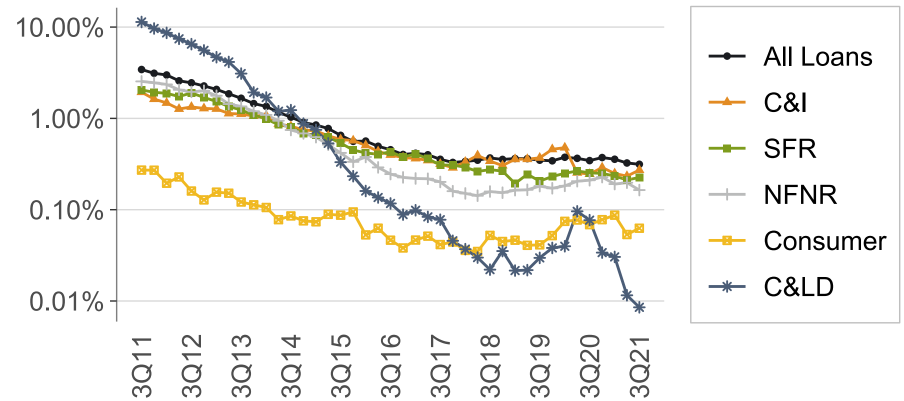
Twelfth District Banking Conditions | Loan Performance

Overall, loan performance remained strong, mitigated by federal/monetary support and economic reopening.

+ District bank's average noncurrent loan ratio was just 0.31%, down slightly from the prior quarter and year, and the lowest average rate among the Federal Reserve's twelve districts.
+ Noncurrent loan rates tended to be higher among C&I and SFR loans than other major categories (see chart; note log scale).
+ Early-stage (30-89 day past due) delinquencies averaged an additional 0.15% among District banks, up slightly from 2Q21, but comparable to the same time last year.
+ Overall past-due loans (30+ days past due or nonaccrual) averaged 0.54% of gross loans, well below a national average of 0.93%.
+ Loan repayment problems may develop once stimulus and other support fades or if a seasonal- or variant-related virus surge poses renewed borrower challenges.

Avg. Noncurrent Loan Rates, Twelfth District Banks

Logarithmic scale



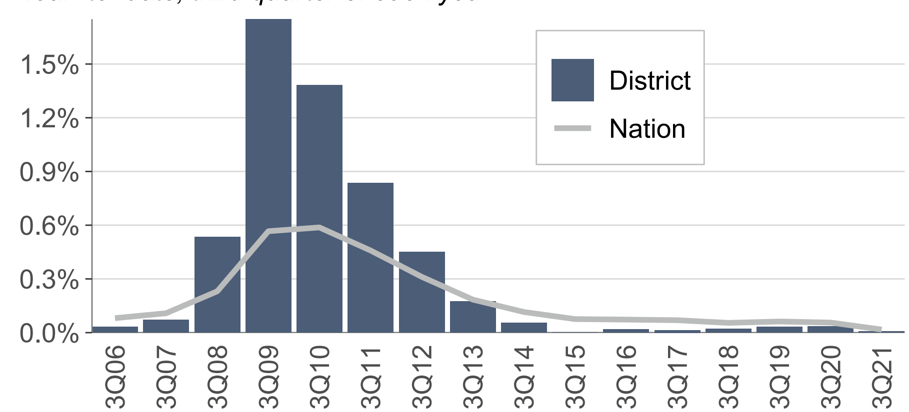
Includes loans and leases 90+ days past due or on nonaccrual. Source: Bank Call Reports/Uniform Bank Performance Reports.

Net chargeoffs were negligible through 3Q21.

+ On average, District banks reported a low and declining average net chargeoff ratio of just 0.01% YTD through September (see chart).
+ Notwithstanding pandemic-related stress, it marked the lowest average third quarter YTD net chargeoff ratio since 2017.
+ Consumer loans tended to account for a disproportionate share of YTD credit losses.
+ Similar to delinquencies, the outlook for loan losses will be contingent upon how well borrowers adapt to unwinding fiscal and monetary stimulus as well as future COVID-19 transmission trends.

Avg. Net Chargeoffs / Avg. Loans & Leases

Year−to−date, third quarter of each year

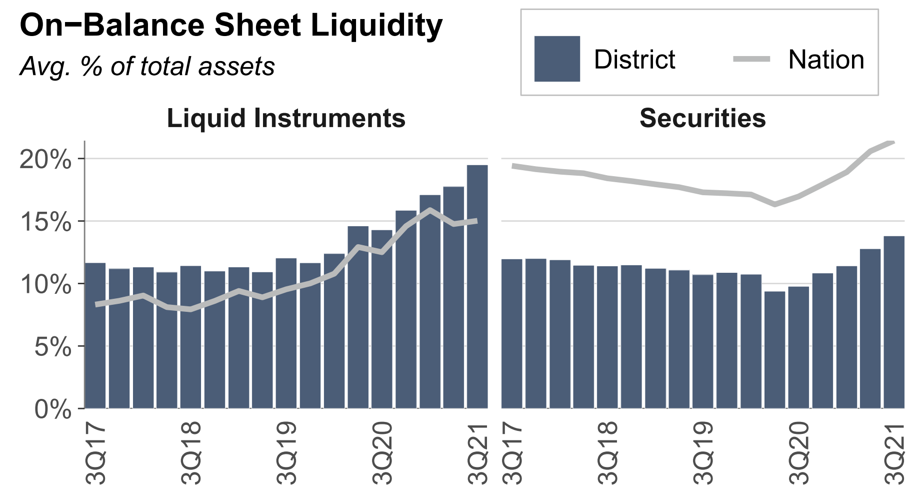


Source: Bank Call Reports/Uniform Bank Performance Reports.

Twelfth District Banking Conditions | Liquidity

On-balance sheet liquidity at District banks accumulated further as deposit inflows outpaced net new lending.

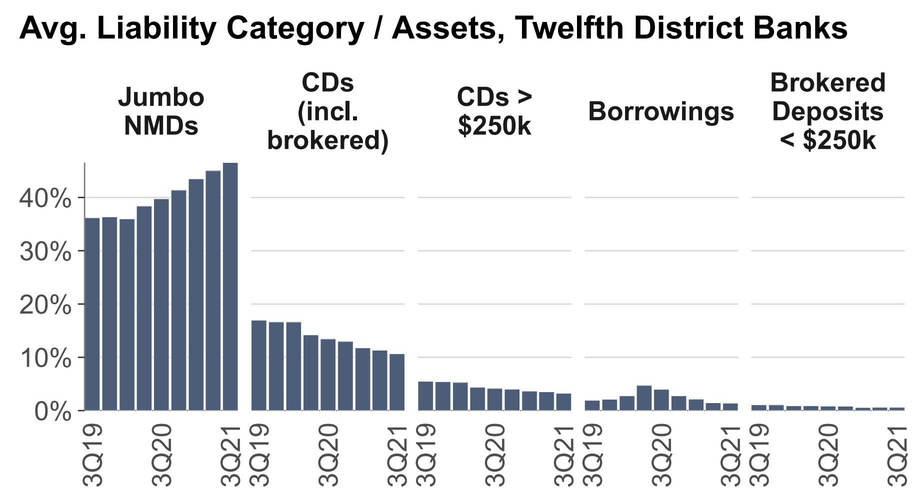
- Quarterly growth in deposits, which accelerated to 3.4% on average during 3Q21, outpaced overall loan growth, which was dampened by PPP forgiveness. Banks continued to divert excess inflows into more liquid assets.
- This led on-balance sheet liquidity higher, with liquid instruments and securities reaching 35% of District bank balance sheets on average, the highest third-quarter level in more than 20 years of data reviewed (see chart).
- Net loans and leases edged down to 60% of District bank assets, versus roughly 70% in 3Q19, before the onset of the pandemic.
- Net unrealized gains on AFS securities remained positive on average, but eased amid an uptick in long-term interest rates during 3Q21.



Liquid instruments include cash, due from balances, and fed funds sold/reverse repos. Source: Bank Call Reports/Uniform Bank Performance Reports.

Funding continued to skew towards jumbo NMDs and away from time deposits and "noncore" sources.

- NMDs, which backed roughly 65% of District bank assets on average pre-pandemic, swelled to 75% of overall funding by 3Q21. Much of the growth in NMDs has come from "jumbo" accounts exceeding $250K, which supported 46% of assets on average in 3Q21 (see chart).
- Meanwhile, "noncore" funding sources such as jumbo CDs, small brokered funds, and interbank and other borrowings ebbed.
- Overall, the change reflects customer caution, an influx of stimulus-related funds, and limited depositor appetite for CDs in the low interest rate environment.
- IntraFi Network's Bank Executive Business Outlook Survey noted that 40% of bankers in the "West" expected deposit competition to worsen in the coming year, down slightly from 43% in 2Q21, but ahead of 30% of bankers nationally. Banks wishing to retain deposits in such a market may need to offer higher pricing or cut fees.



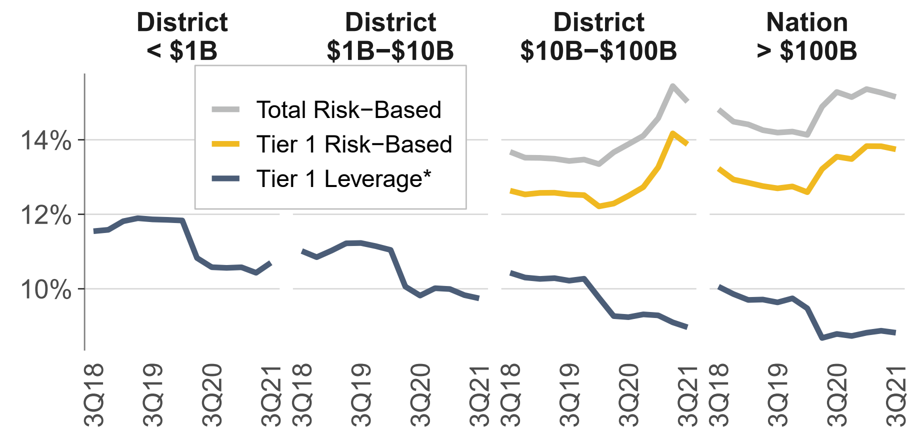
Source: Bank Call Reports/Uniform Bank Performance Reports.

Twelfth District Banking Conditions | Capital

Capital ratio trends varied by measure and size of institution.

+ Tier 1 leverage ratios remained under pressure among most firms because deposit-fueled asset growth outpaced equity formation. One notable exception was the District's smallest banks, where PPP forgiveness boosted revenue recognition and equity growth and dampened asset increases more notably.
+ Initially during the pandemic, shifts in balance sheet mix towards lower-risk liquid instruments and 0% risk-weighted PPP loans lifted risk-based capital (RBC) measures. More recently, however, tapering PPP balances, growth in higher-weighted loan categories, and rebounding quarterly dividends among mid-to-large banks have pressured RBC measures (see chart).
+ On average, tier 1 and total risk-based capital (RBC) ratios among non-CBLR District banks measured 15.35% and 16.55% in 3Q21, down 16 bps and 19 bps, respectively from their 1Q21 peaks.

Avg. Regultory Capital Ratios by Bank Size



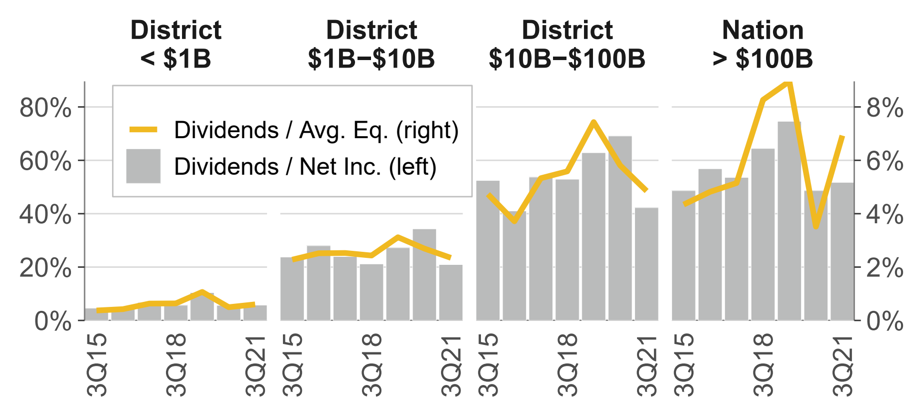
Source: Bank Call Reports/Uniform Bank Performance Reports.

Average District bank dividend payout ratios during the first nine months trailed the same period in 2020.

+ Among the District's non-Subchapter S banks, the average YTD dividend-to-net income ratio was 14.7%, down from 18.2% during the first three quarters of last year.
+ Stronger net income levels drove the trend rather than lower dividend distributions. On average, the dollar amount of YTD dividends increased 4% compared with the same period in 2020, while net income expanded 73%.
+ The proportion of net income distributed continued to correlate with bank size, with higher relative payouts by larger banks (see chart).
+ Of note, quarterly dividend-to-net income ratios among mid-to-large banks drifted higher in 2Q21 and 3Q21. These firms are more commonly owned by publicly-traded holding companies, which may have used the funds in part to support share repurchases or acquisitions.

Avg. Cash Dividends by Bank Size

Year–to–date, third quarter of each year



Excludes banks with Subchapter-S tax treatment, which distribute funds to cover owners' taxes. Source: Bank Call Reports/Uniform Bank Performance Reports.

Appendix | Technical Information and Abbreviations

Summary of Institutions by State & Technical Information

Area	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Sep-21	Sep-20	Sep-21	Sep-20	Sep-21	Sep-20
Alaska	4 (0)	4 (0)	-	-	1 (0)	1 (0)
Arizona	13 (0)	13 (0)	-	-	-	-
California	127 (1)	131 (2)	3 (0)	3 (0)	10 (0)	11 (0)
Guam	2 (0)	2 (0)	-	-	1 (0)	1 (0)
Hawaii	4 (0)	5 (0)	1 (0)	1 (0)	2 (0)	2 (0)
Idaho	10 (0)	10 (0)	-	-	1 (0)	1 (0)
Nevada	11 (1)	11 (1)	4 (0)	4 (0)	2 (0)	2 (1)
Oregon	13 (0)	14 (0)	-	-	2 (0)	2 (0)
Utah	27 (1)	25 (1)	16 (2)	14 (0)	1 (0)	1 (0)
Washington	32 (0)	32 (0)	-	-	8 (0)	9 (0)
District	243 (3)	247 (4)	24 (2)	28 (0)	28 (0)	30 (1)
Nation	4,272 (30)	4,376 (26)	26(2)	24 (0)	613 (0)	632 (1)

Based on preliminary 3Q21 data.

+ 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, unless noted otherwise. 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 (less than three years old), 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-$100 billion, respectively. The "Large" bank group uses banks with assets >$100 billion nationwide because these banks typically operate beyond the District's geographic footprint and a larger statistical population is preferred for trimmed means.

Abbreviations

AFS	available for sale
ACL	allowance for credit losses
ALLL	allowance for loan and lease losses
BSA/AML	Bank Secrecy Act/anti-money laundering
C&I	commercial & industrial
C&LD	construction & land development
CBLR	community bank leverage ratio
CD	certificate of deposit
CECL	current expected credit loss
CRE	commercial real estate
HFS/HTM	held for sale/held to maturity
MF	multifamily (5+ unit housing)
MMDA	money market deposit account
NFNR	nonfarm-nonresidential
NMD	nonmaturity deposit
PPP	Paycheck Protection Program
ROAA	return on average assets
SFR	single-family residential (1-4 family housing)
TE	tax equivalent
YTD	year to date