Economic and Banking Performance
in the Twelfth Federal Reserve District

First Glance 12L

Risks Persist in an Uncertain Economic Environment

1Q22

May 26, 2022

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: The District economy continued to grow robustly in 1Q22. Job growth slowed slightly but did not stall, despite the COVID-19 surge in January. Unemployment in the District also continued to ease through March, but national data for April showed a slight decrease in employment, which may be due to inflation and lower consumer sentiment. Districtwide home-price growth reaccelerated in Q1, but sales declined on rising mortgage rates. Housing permits issued in the District rose while completions fell on supply chain problems. Commercial real estate (CRE) price growth slowed in most sectors. District CRE fundamentals were strong in the industrial and apartment sectors but weaker for office and retail. Headwinds from inflation and geopolitical tensions may become greater drags in Q2.

Banking Conditions: Net loan growth – excluding Paycheck Protection Program (PPP) loans – topped 13% year-over-year on a median basis. The one-quarter non-PPP loan growth rate was strong but slowed from 4Q21 due partly to seasonal factors. Profit ratios also slipped at most District banks, led by waning PPP fees. Problem loan levels remained low. Still, receding fiscal stimulus, rising inflation and interest rates, and supply chain and staffing challenges may pressure borrowers prospectively. On-balance sheet liquidity remained high but eased slightly, and rising interest rates hurt bond portfolio values. The shift in banks' asset mix away from liquid instruments and PPP loans crimped risk-based capital measures.

Note to readers: beginning this quarter, banking statistics are predominantly described on a median basis, which may differ from trimmed averages quoted in prior editions.

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A product of SF Fed | Supervision + Credit

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

Cyberthreats

+ Cyber remains a top risk given an ever-evolving multitude of threats, particularly amid recent geopolitical developments. Ransomware and supply chain compromises remained the primary cyber issues facing supervised institutions, their customers, and their suppliers. Hybrid 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.
+ Cyberattacks from nation-state actors have become more frequent, more damaging, and wider spread. The increase of digital financial services and mobile banking has exponentially expanded the attack surface that criminals can exploit. The Cybersecurity and Infrastructure Security Agency (CISA) continues to address Russian state-sponsored actors' cyber operations, most recently through an April 20, 2022 Cybersecurity Advisory.
+ A separate multinational Cybersecurity Advisory issued on April 27, 2022, provides details on the top fifteen Common Vulnerabilities and Exposures routinely exploited by malicious actors in 2021 and includes mitigation strategies and patch management resources. The alert was co-authored by cybersecurity authorities from the United States, Australia, Canada, New Zealand, and the United Kingdom.

Bank Secrecy Act/Anti-Money Laundering (BSA/AML) 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.
+ FinCEN issued several pieces of guidance to focus financial institutions' efforts on threats stemming from the Russia-Ukraine conflict. Notable communications include an alert discussing red flag indicators of potential sanctions evasions by Russian actors, as well as an advisory on kleptocracy and foreign public corruption that outlines typologies and red flag indicators and emphasizes corruption as a national AML priority.
+ The Office of Foreign Assets Control (OFAC) continues to issue actions to further operationalize U.S. sanctions against Russia. Initial actions targeted Russian state-owned banks Sberbank and VTB Bank and dozens of individuals and business entities from accessing the U.S. financial system. Actions over the past quarter have added dozens of individuals and entities to the sanctions program, including Transkapitalbank (which operates a proprietary internet-based payments channel that has served as an alternative to SWIFT), state-controlled television stations, and multiple oligarchs.

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

CRE concentrations

+ Nonowner-occupied (NOO) CRE loan concentrations entered the COVID-19 recession below pre-Great Recession peaks, mainly because of lower construction lending volumes over the period.
+ Still, at 230%, the Districtwide median NOO CRE loan-to-capital and allowances ratio remained well above a national equivalent of 123%. Elevated exposures were relatively widespread, with median concentrations in most District states above the U.S. (see table).
+ Net operating income pressures on CRE — particularly among lodging, retail, and office properties — heighten concern, especially amid rising interest rates.
+ Low interest rates and fiscal stimulus provided support to the CRE loan segment, but a reversal of those conditions could alter performance.

C&I concentrations

+ As of 1Q22, District banks' non-PPP C&I balances represented 59% of tier 1 capital plus loan and lease loss allowances on a median basis, comparable to the national average. Lingering or renewed stress on business borrowers — including inflation, evolving supply chain disruptions, and labor shortages — may amplify risks posed by C&I loan exposures.
+ COVID-related surveys by the National Federation of Independent Businesses (NFIB), demonstrate the challenges faced by C&I borrowers. Most small businesses surveyed in early March noted that the COVID-19 Omicron surge had impacted their business either mildly (36%), moderately (19%), or significantly (12%). Meanwhile, 81% reported that supply chain disruptions had impacted business at least moderately, and 79% expected disruptions to persist at least six months. Staffing was another ongoing challenge, characterized as mild by 25%, moderate by 18%, and significant by 24% of respondents. Most businesses had increased prices in response to supply chain and labor pressures, with 44% of those that had done so raising prices in excess of 10%.

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

	2008-22*	Mar-22
California		279.5%
Washington		221.8%
Oregon		221.4%
Arizona		197.9%
Nevada		166.3%
Hawaii		154.9%
Idaho		151.6%
Alaska		139.6%
Utah		111.5%
Nation		123.2%

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

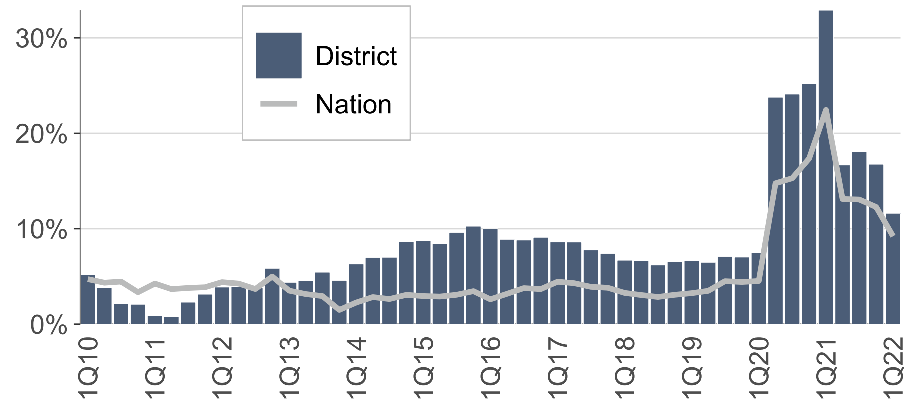
Issues on Our Radar | Selected issues we are watching most closely

Surge deposits

- Annual growth in deposits, in particular low/noninterest-bearing nonmaturity deposits (NMDs) remained high but slowed (see chart).
- A portion of deposit growth since 2019 related to PPP funds placed on deposit. Other stimulus-related funding (e.g., economic impact payments, unemployment insurance benefits, etc.) and caution on the part of customers also contributed.
- Given limited net loan growth in 2021 – tempered by weakened economic activity and PPP forgiveness – banks invested 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.

Median Total Deposit Growth

Year–over–year % change



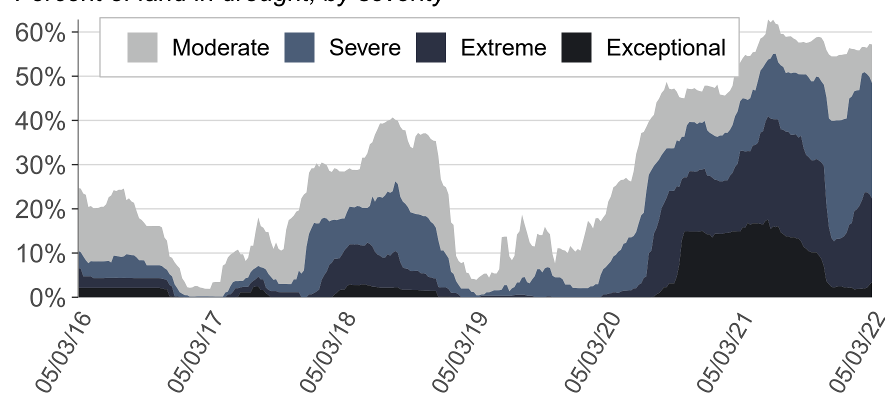
Source: Bank Call Reports/Uniform Bank Performance Reports.

Drought-related impacts

- According to the U.S. Drought Monitor, most land area in the West Climate Region remained in drought through May 3. The intensity of drought has worsened in much of the District in recent months given dry Spring conditions (see chart).
- Current forecasts from the National Oceanic and Atmospheric Admin. and the National Interagency Fire Center suggest that drought will persist, and that wildfire potential will remain elevated.
- Drought poses particular challenges for borrowers reliant on water quality and accessibility and contributes to wildfire activity. Recent fires have affected the cost/availability of hazard insurance in some areas, and the ongoing threat of wildfires poses financial and operational risks for banks, their employees, and their customers.
- Water-related restrictions have been issued in several parts of the West. For instance, Southern California's Metropolitan Water District and the California State Water Resources Control Board have recently announced new drought-related measures.

Drought Severity, West Region

Percent of land in drought, by severity



West = Twelfth District plus MT and NM. Source: Univ. of Nebraska-Lincoln, U.S. Dept. of Ag., Nat. Oceanic and Atmospheric Admin., 5/3/2022.

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

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. This is especially true if the risk appetite for outsourcing and engaging with non-bank partners gets head of the control environment.
- Recent extreme volatility in cryptocurrency markets heightens operational and financial risks for institutions that have expanded into crypto-related custody and/or other banking services.

Consumer compliance regulatory developments

- Pending rulemaking includes the Consumer Financial Protection Bureau's (CFPB) Small Business Lending Data Collection proposed rule (published in October 2021, comment period closed) and the Interagency Community Reinvestment Act (CRA) proposed rule (published in May 2022, comment period open until August 5, 2022).
- An Ask the Regulators/Connecting Communities webinar, CRA Reform Update: Overview of the Interagency CRA Notice of Proposed Rulemaking – held May 11 but available on replay – provides an overview of the proposal.
- In January, the CFPB also sought public comment on Fees Imposed by Providers of Consumer Financial Products or Services. The inquiry has garnered thousands of comments (see Docket ID CFPB-2022-0003).

LIBOR transition

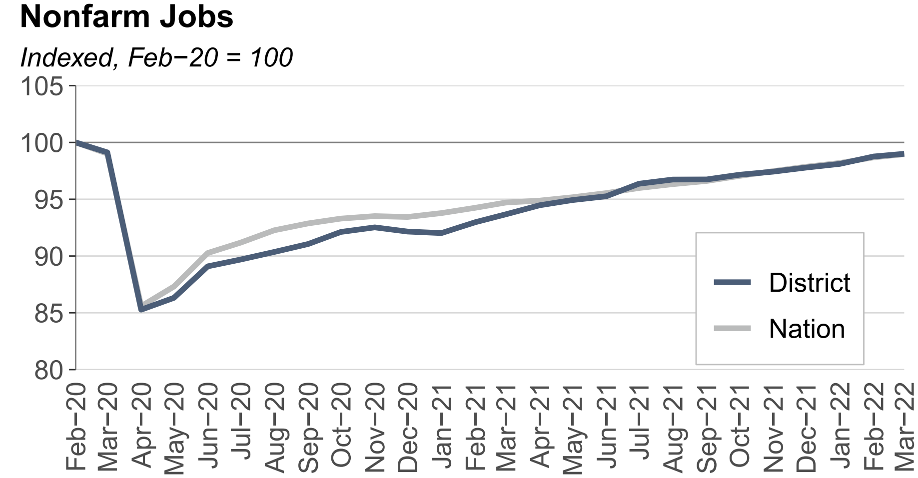
- As noted in guidance on the Federal Reserve's LIBOR Transition website, depositories were required to cease new LIBOR-based contracts by year-end 2021. Instruments with tenors beyond June 2023 may require renegotiation, fallback language, and/or an alternative reference rate.
- Legacy LIBOR exposure among District banks is generally minimal, primarily limited to securities, derivatives, and/or subordinated debt. Variable rate loans among District banks are generally tied to other indices.
- The Adjustable Interest Rate (LIBOR) Act (LIBOR Act), signed into law on March 15 as part of the 2022 Consolidated Appropriations Act, outlines a method for replacing LIBOR in legacy contracts that lack a clearly defined or practicable replacement benchmark rate. Among other things, the law requires the Federal Reserve to promulgate, within 180 days, which SOFR-based replacement rate and spread will apply to affected contracts.

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

Job growth eased in the first quarter but remained robust across the District.

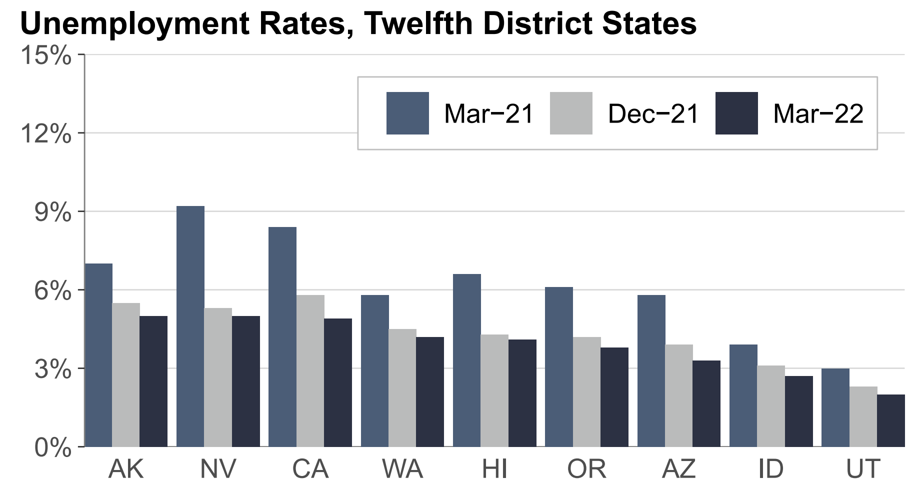
- District nonfarm payrolls were only 1.0% below their pre-pandemic (February 2020) level as of March 2022, compared to 1.1% below for the nation as a whole (see chart).
- District job growth eased slightly in the first quarter, to 5.7% year-on-year in March 2022, from 6.1% in December 2021, echoing the national trend. The slowdown was more significant on a month-on-month (annualized) basis: to 2.9% in March, from 4.5% in December, although this partly reflected a normalization following a post-Omicron hiring surge in February.
- The leisure/hospitality, construction, and education/health services sectors contributed the most to District job growth in the first quarter.
- Job growth also slowed across District states, but remained particularly strong in Nevada (9.1% year-on-year), California (6.4%), and Hawaii (6.3%) as of March.



Source: Bureau of Labor Statistics.

District unemployment rates continued to fall in Q1, but national-level data suggest some softening ahead.

- The Districtwide unemployment rate continued to decline rapidly through March 2022, to 4.3%, from 5.0% in December 2021. These gains occurred as labor-force participation increased to 62.3%, which was 0.9 percentage points below the February 2020 rate.
- State-level unemployment rates also declined across the District (see chart), and labor-force participation increased but remained below pre-pandemic baselines in all states but Oregon and Alaska.
- As of March 2022, Utah was tied with Nebraska for the lowest unemployment rate in the nation (2.0%).
- Recent national-level data suggest some softening of the labor market, however. The U.S. unemployment rate was 3.6% in April, unchanged from March, but the number employed declined slightly and underemployment increased. These national-level data may be a harbinger of a slowdown in the District in the coming months.

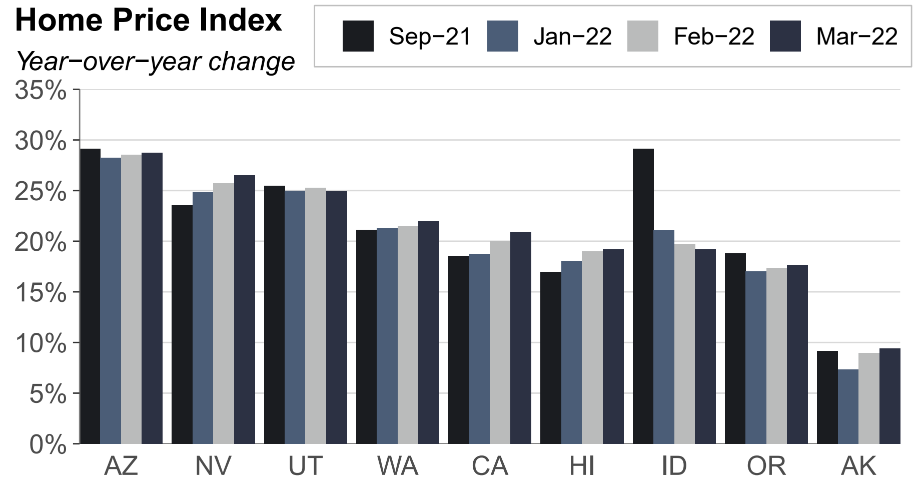


Source: Bureau of Labor Statistics.

Twelfth District Economy | Housing

Home-price growth reaccelerated in Q1 as housing affordability continued to deteriorate.

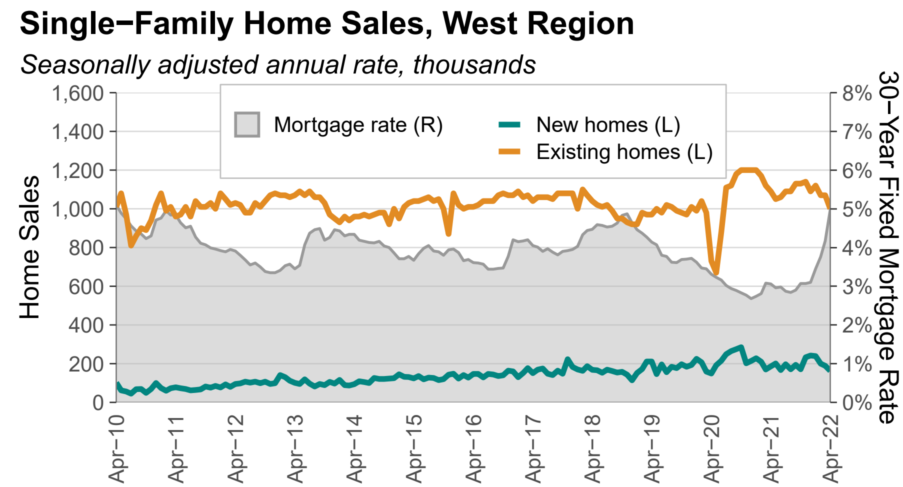
+ Single-family home-price growth in the District reaccelerated in Q1, to 21.8% year-on-year in March, after cooling slightly in late-2021. This compared to a national average price growth rate of 20.9%.
+ Price trends were mixed across District states in recent months, although all states saw fast growth relative to pre-pandemic standards (see chart). Price growth accelerated in Nevada and California during the quarter and continued to cool in Idaho, while it stayed steady in most other District states.
+ Housing affordability across the District continued to fall sharply over the past year, per the Wells Fargo/NAHB Housing Opportunity Index), despite large increases median family incomes in all District states. With mortgage rates rising quickly, affordability may deteriorate further in the coming quarters unless price growth slows substantially.



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

Home sales declined through April 2022 as mortgage rates increased, but supply remained tight.

+ Existing and new single-family home sales in the West region declined in 2022, likely due to a combination of rising mortgage rates, affordability constraints, and low supply (see chart). By April 2022, new home sales reached their lowest level since late-2018 (excepting the sharp plunge at the start of the pandemic), while existing home sales had returned to their pre-pandemic range.
+ Housing supply remained very tight across the District through April 2022, when for-sale inventories were equal to 1.1 month's of sales – roughly even with levels seen in late-2021 and compared to 2.6 months' just before the pandemic (per Redfin).
+ Some Q1 purchases may have been pulled forward as buyers anticipated further increases in mortgage rates, so sales could decrease more quickly in the coming months.



West = District plus CO, MT, NM, and WY. Sources: National Association of Realtors® (© 2022, reprinted with permission), Census Bureau, Freddie Mac.

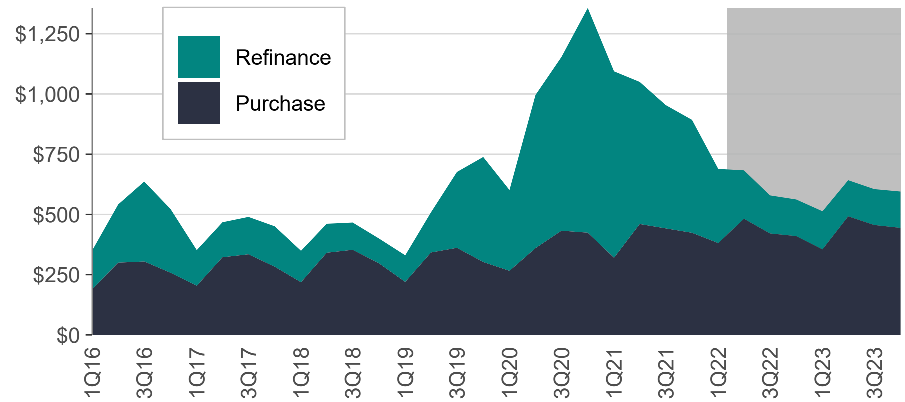
Twelfth District Economy | Housing

National purchase mortgage originations remained strong in Q1, but refinance originations fell sharply.

- Buyers' anticipation of continued interest rate increases may have helped sustain demand for 1-4 family mortgage originations in Q1. Although the dollar volume of purchase originations was seasonally lower in 1Q22, the decline was less severe than typical for recent years, and the year-over-year increase in purchase volume was the largest since the Great Recession (see chart).
- Similar to dollar volumes, the number of 1-4 family purchase applications in Q1 also increased from a year earlier.
- Higher interest rates have had a large effect on 1-4 family refinance activity, with originations down 67% since peaking in 4Q20, including a particularly large drop in 1Q22.
- Looking ahead, the Mortgage Bankers Association forecast shows purchase mortgage originations declining by 6.8% over the coming year, while refinance originations will decline by 48.7%.

Estimated Mortgage Originations, Nation

$ billions, quarterly; shaded area = forecast



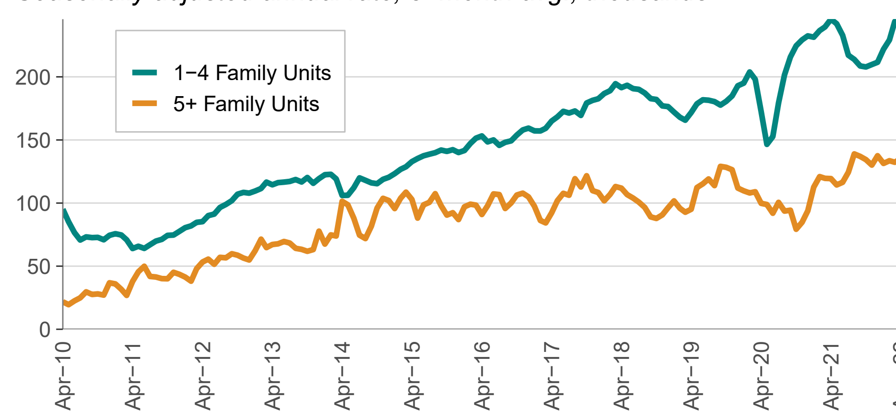
1-4 family mortgages; not seasonally adjusted. Source: Mortgage Bankers Association.

Housing permit issuance was strong in 2022 YTD, but housing completions declined.

- 1-4 family housing permits issued in the District reaccelerated rapidly in Q1, and pulled even with the April 2021 peak by March 2022, although the increase stalled in April (see chart). Oregon, Idaho, Arizona, and California saw the strongest issuance in 2022 YTD.
- 5+ family permits issued have stabilized since the second half of 2021 but remained well above the post-Great Recession trend as of April.
- Per the Census Bureau, housing completions in the West region fell by 6.7% year-over-year in April 2022, suggesting that builders faced rising costs and/or supply chain problems, although April completions were up from March.
- Homebuilder confidence in the West also declined in April and May, per the NAHB/Wells Fargo Housing Market Index. The report's authors highlighted material costs, interest rates, and affordability concerns as weighing on sentiment.

Housing Permits, Twelfth District

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



Source: Census Bureau via Haver Analytics.

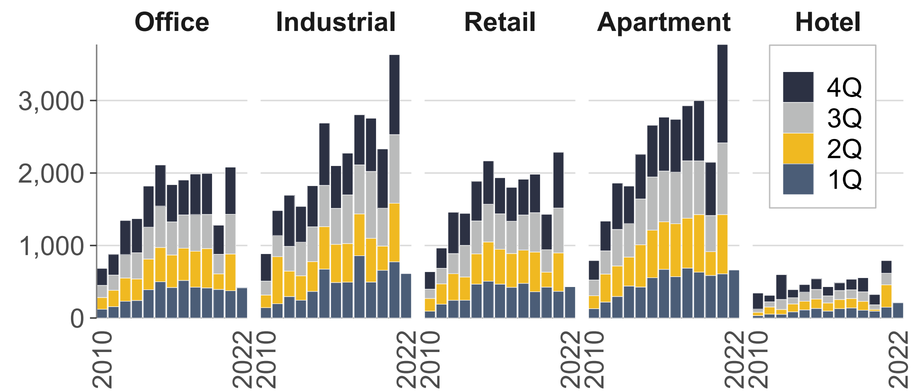
Twelfth District Economy | Commercial Real Estate

CRE transaction volumes remained strong in 1Q22 after a banner year in 2021.

- CRE transactions in the West got off to a strong start in Q1, with the number of transactions increasing relative to a year earlier for all sectors except industrial properties (see chart). However, national data for April suggested some slowdown amid rising interest rates.
- The decline in first-quarter industrial transactions may have been simple mean reversion after an extremely strong year in 2021, as the count compared favorably to pre-pandemic trends.
- An increase in office transactions relative to 1Q21 was shared across both downtown (CBD) and suburban properties, although CBD office transactions remained below their 1Q19 and 1Q20 levels.
- First-quarter apartment transactions approached the post-Great Recession peak reached in 1Q16, while hotel transactions remained well above levels typically seen in the first quarter since the Great Recession.

CRE Transactions, West Region

Number of properties sold



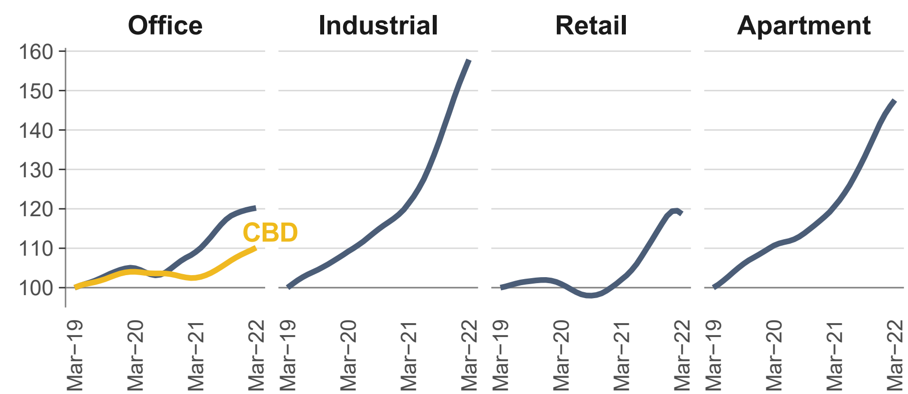
Includes transactions of properties valued $2.5 million and above; West = District plus CO, MT, NM, and WY. Source: Real Capital Analytics.

CRE price growth eased slightly across sectors, except for industrial.

- Nationwide, CRE price growth eased slightly in Q1, with the slowdown evident in all sectors except industrial prices, which accelerated to 30.1% year-over-year in March 2022 (see chart).
- In a reversal from the pandemic trend, suburban office prices eased slightly in Q1, while CBD office prices rose. Retail property prices also slowed in February and then declined slightly in March 2022.
- According to Real Capital Analytics data, the spread of cap rates in the West to the 10-year U.S. Treasury rate declined further across sectors, suggesting lower risk compensation for investors.
- The 2Q22 [Real Estate Roundtable Sentiment Index] declined sharply from the previous quarter, however, with industry participants expressing concern over inflation and interest rates. Notably, 48% of survey respondents expected real estate values to decline during the year ahead; only 13% responded similarly in 1Q22.

Commercial Property Price Indices, Nation

Mar–19 = 100



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

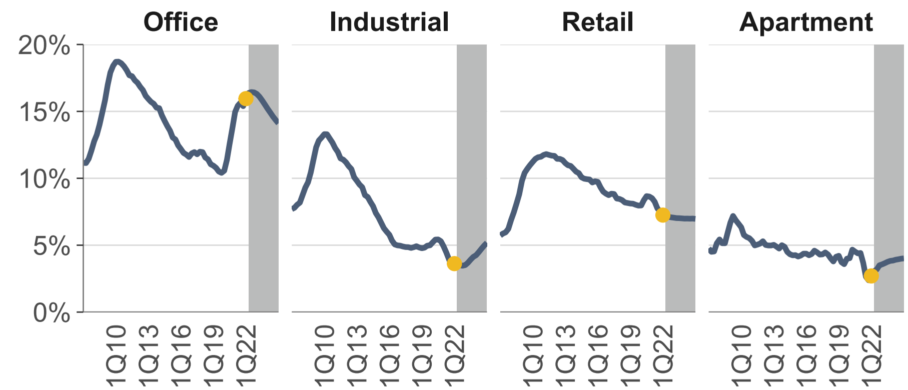
Twelfth District Economy | Commercial Real Estate

Office vacancy rates continued to increase in Q1, but vacancies stabilized at low levels in other sectors.

+ Average CRE vacancy rates for District markets stabilized at near record lows in the industrial and apartment sectors in 1Q22. The average retail vacancy rate continued to decline, while the average office vacancy rate climbed higher (see chart).
+ According to CBRE-EA forecasts, office vacancies in the District may stabilize starting in 2Q22 and start to decline in 2023.
+ San Francisco remained an outlier among District markets for its large increase in vacancy rates since the beginning of the pandemic across the office, retail, and industrial sectors. Even the apartment vacancy rate in San Francisco remained slightly above its pre-pandemic level in Q1, although other Bay Area markets recovered.
+ Southern California markets and Phoenix, on the other hand saw notably large declines in industrial vacancies since 4Q19.

Avg. CRE Vacancy Rates, Twelfth District Markets

Weighted by stock, shaded area = 3−year forecast



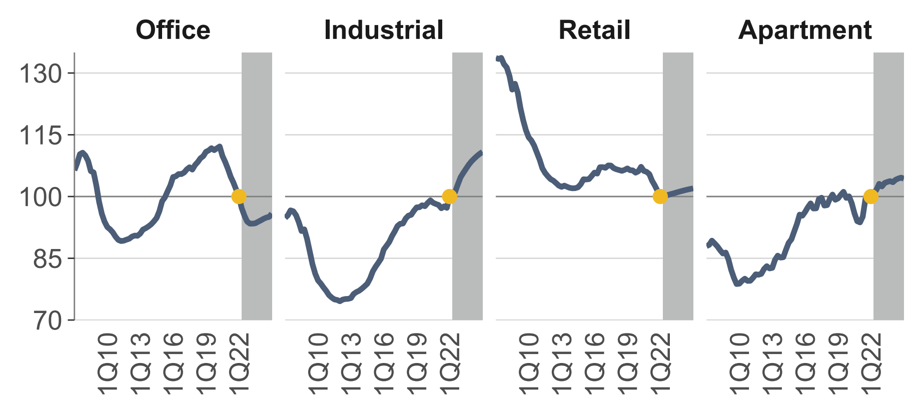
Includes the 16 to 18 largest markets in the District, depending on the sector.
Source: CBRE-EA, SF Fed calculations.

Industrial and apartment rents extended gains in Q1, while office and retail rents fell further.

+ Across District markets, average real apartment rents in 1Q22 largely extended trends exhibited in recent quarters (see chart).
+ Average industrial and apartment rents were near or above pre-pandemic highs as of Q1. Apartment rents continued to grow rapidly, while industrial rents resumed their growth after a lull in 2021.
+ Average office rents continued to decline. CBRE-EA expected office rents to slip further through early-2023. Meanwhile, they forecasted a stabilization of retail rents this year.
+ As with vacancies, San Francisco was an outlier for large declines in real rents since the start of the pandemic across all sectors, although San Jose also saw a large drop in apartment rents.
+ On the other hand, Phoenix, Tucson, and Las Vegas saw large apartment rent increases.

CRE Real Rent Indices, Twelfth District Markets

Weighted by stock, shaded area = 3−year forecast, 1Q22 = 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.

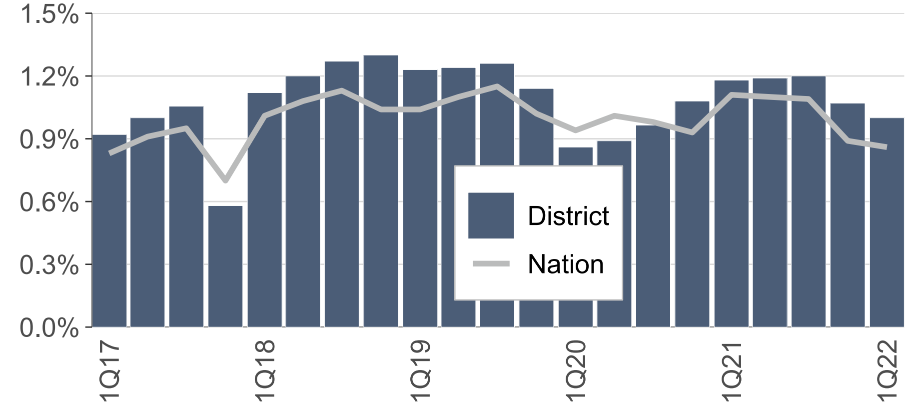
Twelfth District Banking Conditions | Earnings

Median District bank first quarter profit ratios declined.

+ During 1Q22, District banks reported a median ROAA (adjusted for Subchapter S effects) of 1.00%, down 7 bps and 18 bps from the prior and year-ago quarters, respectively (see chart).
+ The downshift in average ROAA was driven primarily by lower net interest margins. This was likely attributable to a slowdown in the pace of PPP loan forgiveness, which typically triggers the recognition of yield-enhancing fees. However, seasonal factors and competition-driven pricing also likely contributed to lower margins during the quarter.
+ According to the 1Q22 CSBS Community Bank Sentiment Survey, community bankers in the "West" became more pessimistic about profitability during 1Q22, in contrast to an easing of pessimism among all survey respondents nationally.

Median Net Income / Average Assets (ROAA)

1–quarter annualized



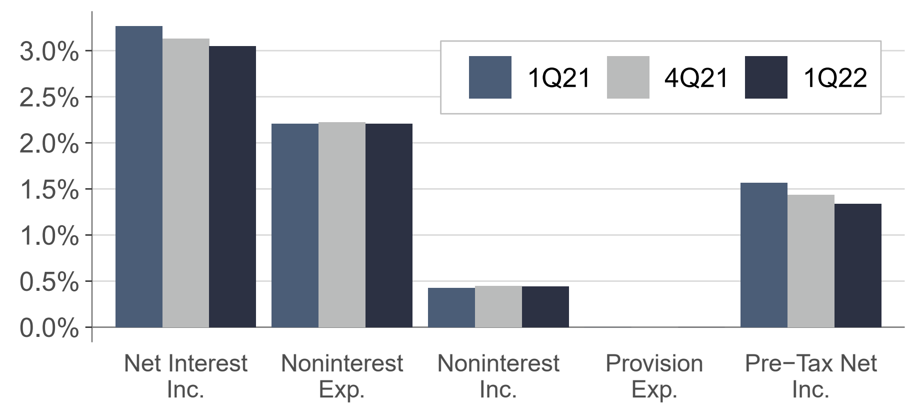
ROAAs among Subchapter-S filing banks are shown net of theoretical tax expense. Source: Bank Call Reports/Uniform Bank Performance Reports.

Narrower interest margins were likely driven by lower PPP-related fees offsetting rising interest rates.

+ The median one-quarter net interest income-to-average assets ratio among District banks declined to 3.05% in 1Q22, down 8 bps from 4Q21, as median interest income fell while median interest expense was flat (see chart). With a slower pace of PPP forgiveness, the median yield on C&I loans, which account for the majority of PPP loans, fell by 54 bps quarter-over-quarter, compared to a median decline of 30 bps in the yield on all loans.
+ The District median noninterest expense and income ratios to average assets were roughly flat on the quarter, down just 2 and 1 bps, respectively.
+ The median provision expense ratio among District banks has been zero since 1Q21. In 1Q22, the share of District banks releasing allowances decreased to 18% (from 20% in 4Q21), and the share with positive provision expense also eased to 42% (from 43% in 4Q21).

Median Pre–Tax Net Income Breakdown, Twelfth District

1–quarter annualized, % of avg. assets



Source: Bank Call Reports/Uniform Bank Performance Reports.

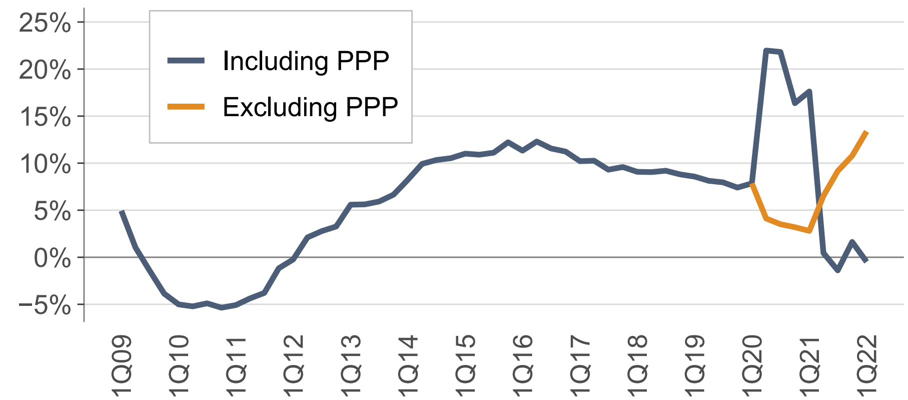
Twelfth District Banking Conditions | Growth + Concentrations

Annual CRE loan growth rates accelerated; PPP distortions affected annual comparisons for total loans and leases.

+ District banks' median year-over-year growth in non-PPP loans accelerated to 13.4%, typically driven by CRE lending. Still, the median one-quarter growth rate for non-PPP loans slowed modestly to 2.15%, likely led in part by seasonal factors.
+ Inclusive of PPP, the median year-over-year net loan growth rate turned slightly negative (see chart). This was influenced by the base period of the comparison – 1Q21 was inflated by the roll out of a new round of PPP. Meanwhile, significant PPP forgiveness activity in the intervening period amplified the year-over-year change.
+ Per the Small Business Administration, 90% of PPP funds had been fully or partially forgiven through April 3.
+ Surveys by IntraFi Network indicate loan growth expectations have eased. By April, 46% of bankers in the West expected loan demand to improve in the ensuing year, down from 71% queried in January.

Median Net Loan Growth, Twelfth District

Year–over–year % change



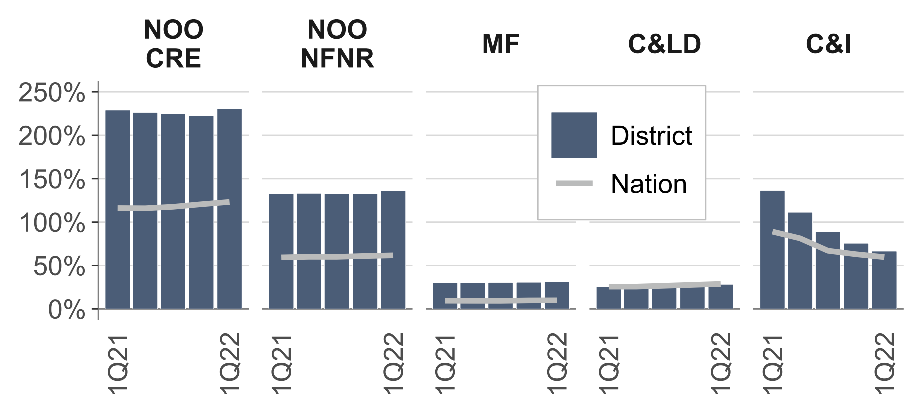
Growth rates include changes from mergers as well as organic growth. Source: Bank Call Reports/Uniform Bank Performance Reports.

CRE remained a leading loan category; C&I concentrations eased further amid continued PPP forgiveness activity.

+ District bank loan portfolios continued to center in CRE categories, including those backed by owner-occupied (OO) and nonowner-occupied (NOO) collateral.
+ At 230%, the District's median NOO CRE concentration ratio – which includes NOO NFNR, MF, C&LD, and other CRE purpose loans – exceeded a national median of 123% (see chart).
+ Separately, OO CRE mortgages represented 91% of tier 1 capital plus allowances in the District, also above a national median of 59%.
+ PPP forgiveness continued to reduce C&I concentration levels. By 1Q22, District banks' median C&I loan concentration ratio was 67%, down from 76% and 136% in the prior and year-ago quarters, respectively. Meanwhile, the District's median PPP concentration ratio sank to just 3% of tier 1 capital and allowances, down from 64% in 1Q21.

Median Loan Concentrations

% of tier 1 capital + ALLL or ACL

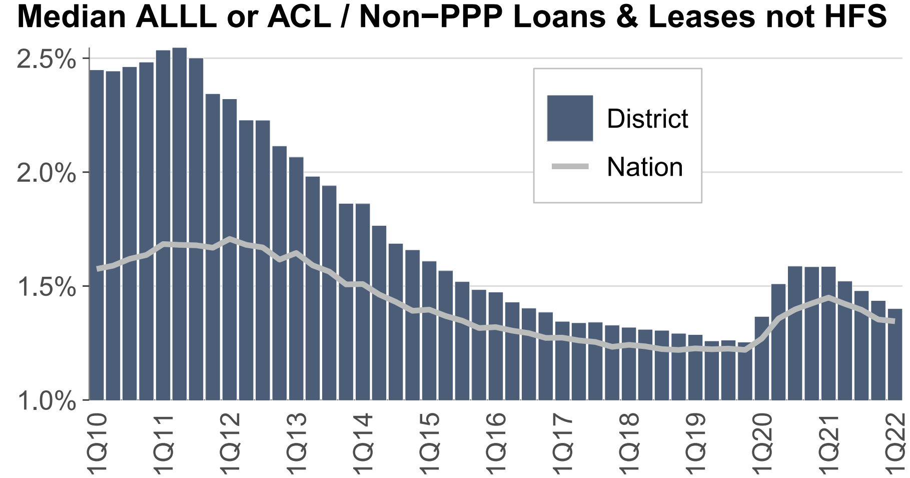


Source: Bank Call Reports/Uniform Bank Performance Reports.

Twelfth District Banking Conditions | Allowances + Underwriting

Median allowance coverage of non-PPP loans slipped further.

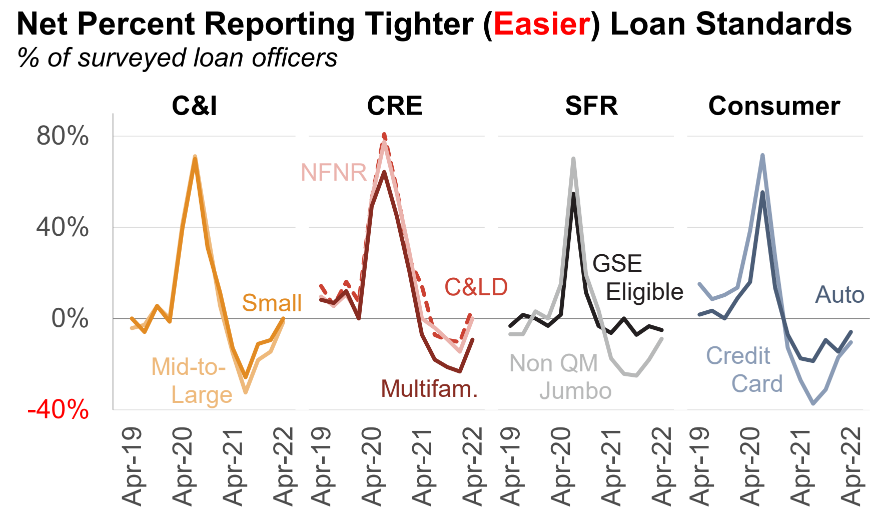
+ Non-PPP loan growth continued to outpace provisions for credit losses. As a result, the ratio of ALLL-to-non-PPP loans eased to a median of 1.40%, down 4 bps and 19 bps from the prior and year-ago quarters, respectively. However, District banks' coverage remained above a national median of 1.35% (see chart).
+ Median coverage ratios among Very Small (1.51%) and Small (1.35%) banks in the District continued to lead those reported among Mid-Sized (1.09%) District banks.
+ As of 1Q22, 84% of District banks had not yet adopted CECL. These generally smaller, non publicly traded institutions will be working toward the goal of adoption by early 2023.
+ 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 smaller banks.



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

Nationally, fewer lenders eased loan standards on net in 1Q22; the economy and competition remained factors.

+ Per the Federal Reserve's April 2022 Senior Loan Officer Opinion Survey (SLOOS), the net share of lenders easing standards declined for most C&I and CRE loan categories in the latest quarter (see chart).
+ For loans to households, more banks eased than tightened lending, although the scope of easing narrowed for several sub-categories.
+ The April SLOOS also asked special questions about *annual* changes to CRE underwriting. During the past year, lenders were most likely to ease standards on CRE loan pricing, especially for multifamily and NFNR loans. Maximum loan size and interest-only duration were loosened somewhat commonly. Less frequently, lenders lengthened maturities and expanded market areas. Debt service coverage and loan-to-value standards were reportedly least prone to easing.
+ Competition and waning uncertainty about the economy/property fundamentals were often cited among those easing C&I standards during the quarter and CRE terms during the year.



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

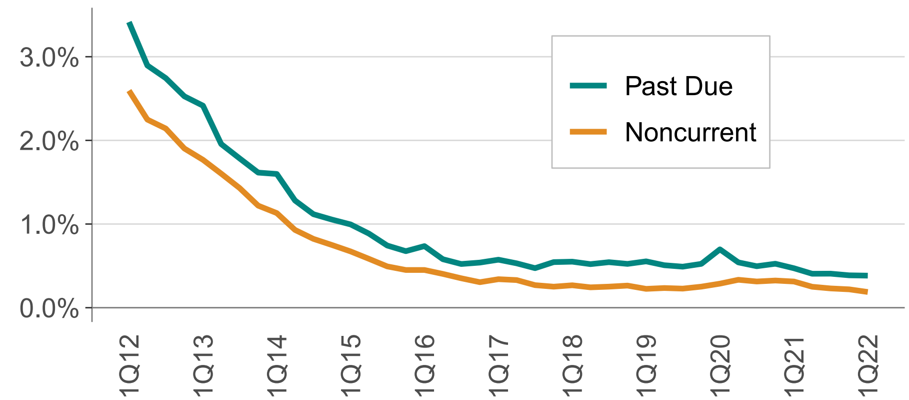
Twelfth District Banking Conditions | Loan Performance

Overall, few borrowers exhibited payment problems.

+ District bank's median noncurrent loan ratio (excluding PPP loans) was limited to 0.19% as of March 31, down 3 bps and 13 bps from the prior and year-ago quarters, respectively (see chart). It remained the lowest median rate among the Federal Reserve's twelve districts.
+ District bank's median overall past due non-PPP loan ratio – which includes credits 30-89 days delinquent – was likewise low at 0.38%, and continued to trail a national median of 0.72%. Similar to historical trends, C&I and consumer loans often accounted for a disproportionate share of delinquencies.
+ The outlook for loan performance will depend on how borrowers adapt to several challenges, including rising interest rates and inflation, supply chain issues, staffing shortages, and the trajectory of economic growth.

Median Loan Delinquency Rates, Twelfth District Banks

Excluding PPP loans



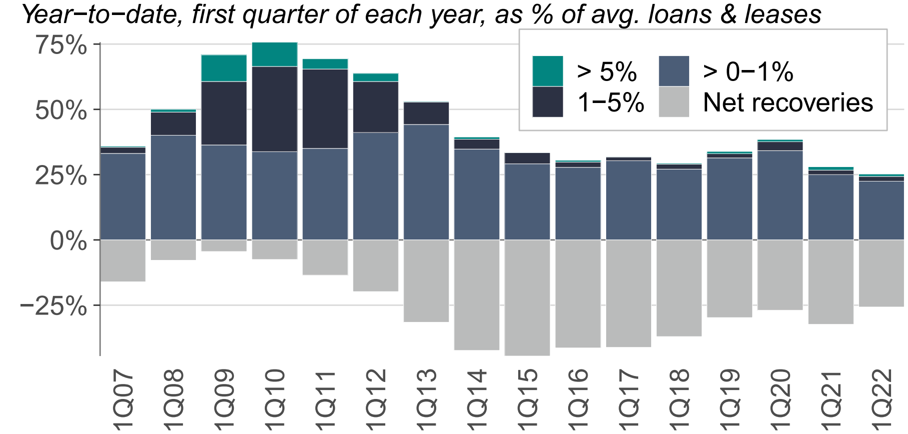
Noncurrent includes loans and leases 90+ days past due or on nonaccrual.
Source: Bank Call Reports/Uniform Bank Performance Reports.

Net losses on loans and leases remained at historically low levels through 1Q22.

+ Only 25% of District banks recorded net loan losses during the quarter; meanwhile, 49% reported zero loan losses and the remaining 26% had net recoveries (see chart). Net loan loss rates are typically low in first quarters, increasing progressively over the year.
+ YTD net loss rates in 2020, 2021, and 1Q22 were atypically low, owing primarily to significant fiscal and monetary stimulus and lender forbearance programs.
+ Credit performance may normalize or worsen going forward. The March CSBS Community Bank Sentiment Index's sub-index reading for future business conditions slipped 22 points quarter-over-quarter in the West (but at a score of 128, was more sanguine than the U.S.). Similarly, per IntraFi Network, the share of bankers in the West expecting economic conditions to worsen more than doubled to 39% in the three months ending April. Surveys of small and large businesses (e.g., NFIB and Business Roundtable) noted similar trends.

Share of Banks with Net Chargeoffs, Twelfth District

Year–to–date, first quarter of each year, as % of avg. loans & leases



Source: Bank Call Reports/Uniform Bank Performance Reports.

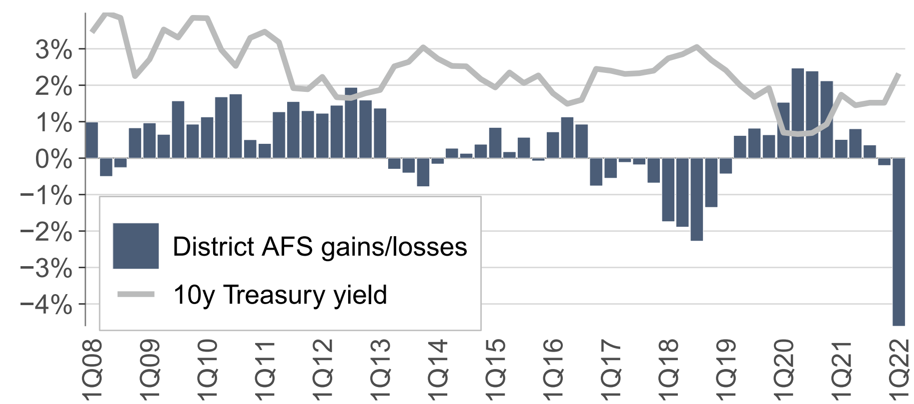
Twelfth District Banking Conditions | Liquidity

On-balance sheet liquidity at District banks declined slightly, and bond portfolios dipped in value.

- Although median quarterly deposit growth among District banks slowed to 1.4% in 1Q22 – likely due in part to seasonal factors – it outpaced net loan growth, which was hampered by PPP paydowns.
- In a break from the trend since mid-2020, loan-to-asset ratios gained traction in 1Q22, and the median District bank net loan-to-deposits ratio increased by 98 bps to 68.1%. This was matched by a combined 100 bps decline in the median ratio of liquid instruments and securities to assets to 36.7%, although this remained the highest first quarter median ratio since at least 2001.
- Rising long-term interest rates caused District banks' median net unrealized losses on available for sale (AFS) securities to surge to 4.6% of portfolio value in 1Q22, from 0.2% the previous quarter (see chart). District bank bond portfolios typically center in residential mortgage-backed securities and U.S. Treasury/agency instruments.

Median Net Unrealized Gains (Losses) on AFS Securities

% of portfolio value

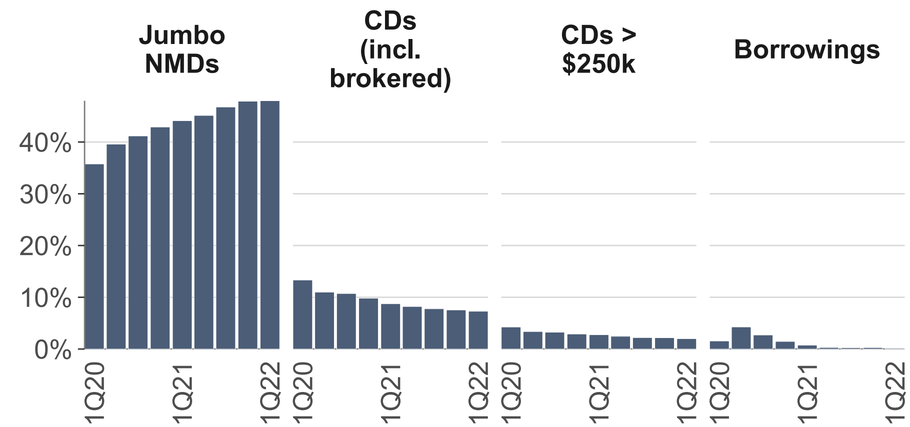


End-of-period fair value less amortized cost; Treasury yield at constant maturity.
Sources: Federal Reserve, Uniform Bank Performance Reports.

Insured NMDs grew faster than jumbo NMDs, with little evidence of deposit competition so far.

- NMDs, which backed roughly 70% of District bank assets pre-pandemic on a median basis, approached 80% of overall funding by 1Q22. While this growth has been driven by "jumbo" accounts above $250K, smaller NMDs accounted for the majority of the quarter-over-quarter increase in NMDs.
- Meanwhile, "noncore" funding sources such as jumbo CDs continued to decline and less than half of District banks used interbank and other borrowings (see chart).
- Rising interest rates appear to have had little effect on deposit competition in the District through 1Q22, as median effective yields paid on large CDs, savings accounts, and transaction accounts declined from the prior quarter. However, per an April 2022 [IntraFi Network survey,](#) many bankers in the "West" expected worsening deposit competition (61% of respondents) and higher funding costs (78% of respondents) in the coming twelve months.

Median Liability Category / Assets, Twelfth District Banks



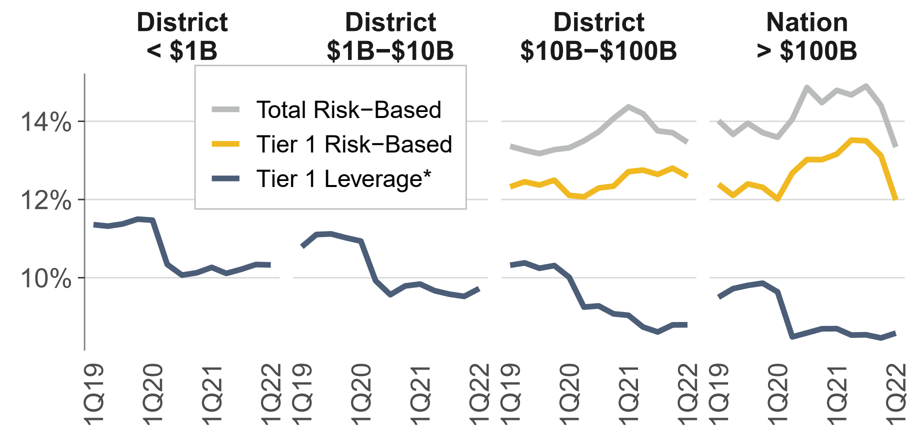
Source: Bank Call Reports/Uniform Bank Performance Reports.

Twelfth District Banking Conditions | Capital

Capital ratio trends continued to vary by measure and size of institution.

- Tier 1 leverage ratios improved slightly in 1Q21 amid slowing asset growth and higher earnings retention. Districtwide, the median tier 1 leverage ratio gained 25 bps from 4Q21 to end at 9.96% in 1Q22.
- Tapering PPP and liquid instrument balances and growth in higher-weighted loans and securities have pressured risk-based capital (RBC) measures among Mid-Sized and Large banks (see chart).
- On a median basis, tier 1 and total RBC ratios among reporting banks in the District measured 14.21% and 15.37% in 1Q22, down 69 bps and 78 bps, respectively, from their 1Q21 peaks.
- Surveys by IntraFi Network suggest easing banker confidence about access to capital. In April, 13% of bankers in the West expected capital access to improve in the next twelve months, versus 25% of respondents in January. Meanwhile, 11% expected capital access to worsen, up from 2% in the prior survey period.

Median Regultory Capital Ratios by Bank Size



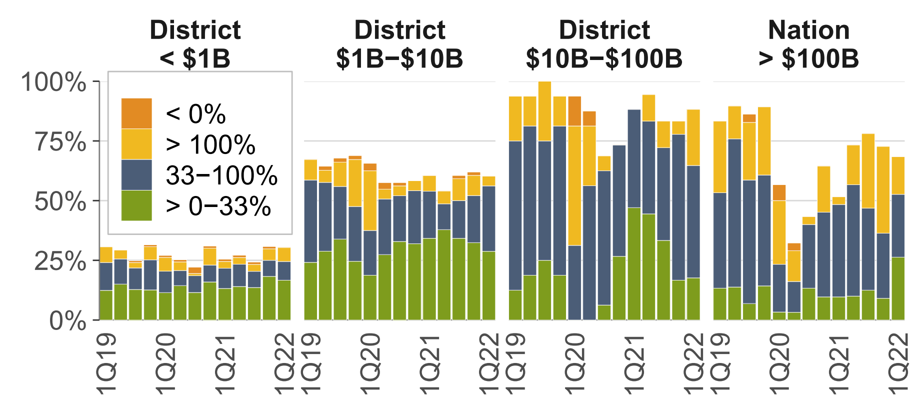
Source: Bank Call Reports/Uniform Bank Performance Reports.

First quarter District bank dividend payouts were slightly more common year-over-year.

- Among the District's non-Subchapter S banks, 47% paid dividends in 1Q22, up from 44% of banks during 1Q21. Dividend payouts remained least common among District Very Small banks and most common among Mid-Sized institutions (see chart).
- Districtwide, 22% of banks paid dividends representing of up to one-third of quarterly net income. Another 19% paid dividends that were higher than that but less than net profit, and 7% paid dividends in excess of quarterly net income.
- Given their comparatively lower dividend payouts, capital accretion tended to be better among smaller banks. On a median basis, 1Q22 retained earnings-to-average equity ratios were 6.8% and 8.4% among Very Small and Small banks based in the District versus 5.2% and 5.8% among District Mid-Sized and nationwide Large banks, respectively.

Cash Dividends by Bank Size

Share of C–corp banks paying dividends, as % of quarterly net income



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)	
	Mar-22	*Mar-21*	*Mar-22*	*Mar-21*	*Mar-22*	*Mar-21*
Alaska	4 (0)	4 (0)	-	-	1 (0)	1 (0)
Arizona	14 (1)	13 (0)	-	-	-	-
California	117 (1)	130 (2)	3 (0)	3 (0)	9 (0)	11 (0)
Guam	2 (0)	2 (0)	-	-	1 (0)	1 (0)
Hawaii	3 (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)	13 (0)	-	-	2 (0)	2 (0)
Utah	26 (1)	26 (1)	15 (2)	16 (2)	1 (0)	1 (0)
Washington	33 (0)	31 (0)	-	-	7 (0)	9 (0)
District	233 (4)	245 (4)	23 (2)	23 (2)	26 (0)	30 (1)
Nation	4,148 (30)	4,330 (26)	24 (2)	26 (2)	600 (0)	621 (1)

Based on preliminary 1Q22 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. Beginning in 1Q22, statistics are predominantly shown on a median rather than a "trimmed average" basis, so comparisons with prior editions of this report should be made with caution. 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 (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.

Common 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	held for sale
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