



# First Glance 12L (3Q14)



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

## ***Loan Growth Accelerated but Earnings Remained Muted***

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This report is based upon preliminary data from 3Q2014 and prior Condition & Income Reports as well as other examination and economic sources. Data and 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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# 12<sup>th</sup> District Overview - “Loan Growth Accelerated but Earnings Remained Muted”

*Measures and statistics in the following summary refer to averages in the 12th District unless otherwise noted.*

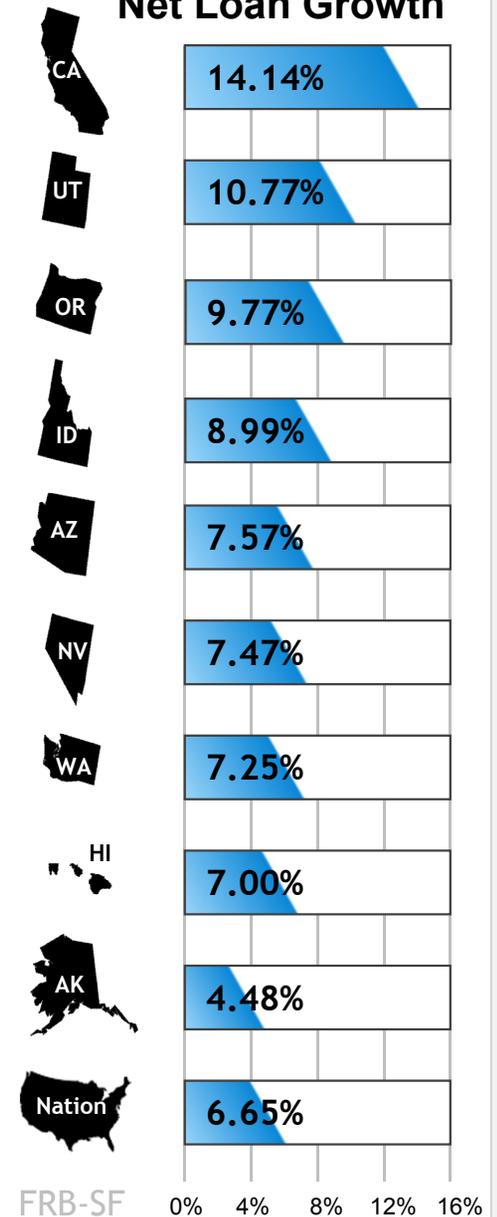
The District’s economy continued to expand at a healthy rate. Increases in jobs and home prices outpaced the nation, on average. Home construction also expanded. The pace of job, home price, and construction gains was more muted than one year ago, however. Leading Index readings from the Federal Reserve Bank of Philadelphia suggest growth will continue in most of the District’s states.

Several metrics among 12<sup>th</sup> District-based banks improved further during 3Q14. Loan growth continued to expand and asset quality measures approached pre-crisis levels; however, continued low interest rates proved to be an ongoing headwind for earnings.

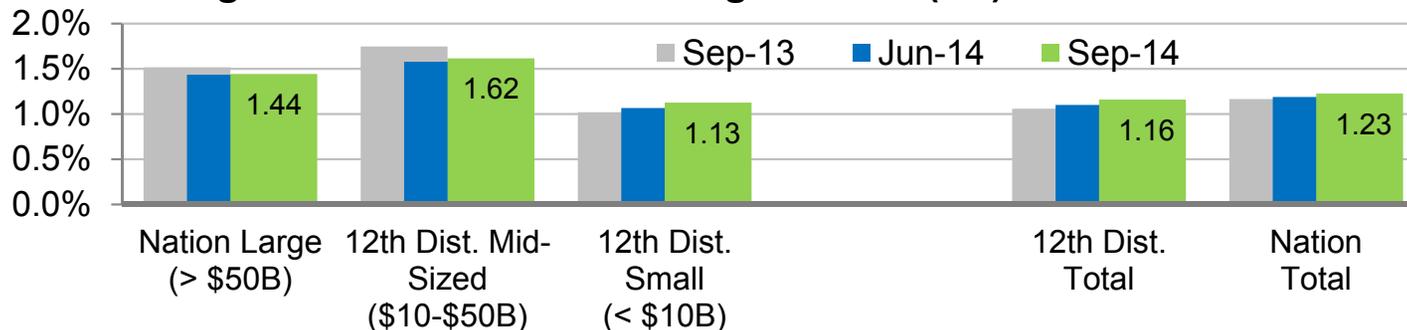
Year-to-date pretax profits generally improved on a linked-quarter basis across size groupings, although performance by bank size was uneven year-over-year. For smaller banks (<\$10 billion), overhead and provision expense reductions more than offset declines in net interest margins relative to last year. But at mid-sized (\$10-\$50 billion) and large (>\$50 billion) banks, margin compression was more severe and the effect on earnings was compounded by significant declines in noninterest income ratios. These factors overwhelmed improvements in other earnings components. Profitability trends also varied by state, with a significant range of performance within each state.

Loan demand remained strong. Net loan growth accelerated to 11.4% during the twelve months

## Average 1-Year Net Loan Growth



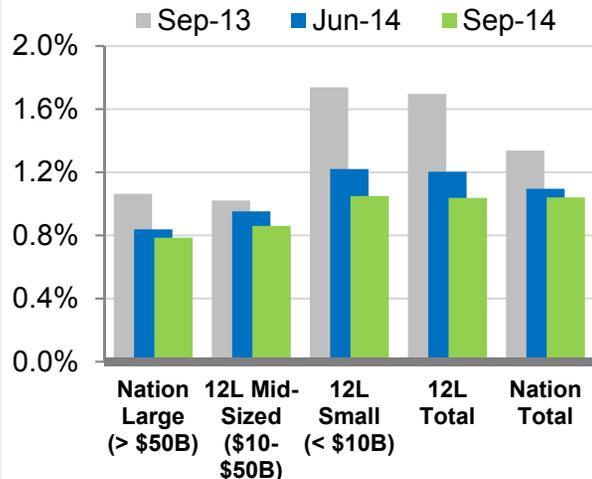
## Average Pretax Return on Average Assets (TE) – YTD Annualized



FRB-SF 0% 4% 8% 12% 16%

# 12<sup>th</sup> District Overview, Continued

## Average Nonperforming Assets/Assets (%)

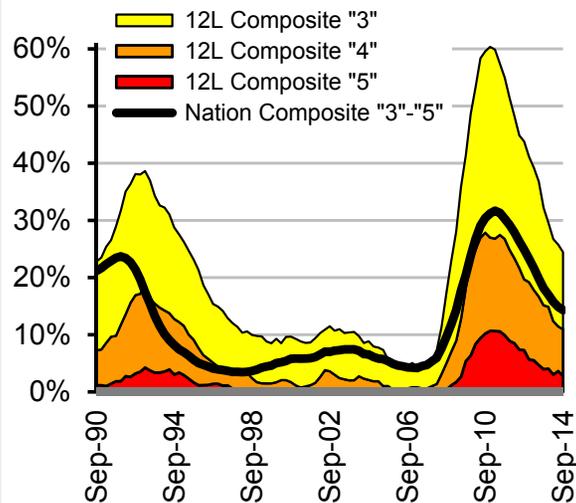


ending September 30<sup>th</sup>, far above an average national growth rate of 6.6%. Increases among commercial and industrial and certain real estate loan categories led the trend. Among mid-sized and larger banks, specialty loan segments also provided an important source of growth. As with profits, net loan growth varied by state, outpacing the nation in all but Alaska, where economic indicators lagged as well.

Asset quality continued to improve, especially among smaller banks. The districtwide average nonperforming asset ratio, which includes both noncurrent loans and foreclosed real estate, was comparable to the national average for the first time since year-end 2007. Consistent with last quarter, the average net charge-off rate among District banks hovered around pre-crisis levels.

Maturities on loans and securities continued to lengthen and non-maturity deposits remained high by historical standards. In a rising rate environment, assets with longer durations may decline in value by a greater degree than short-term assets. On the liability side, non-maturity deposits (i.e., checking, savings, and money-market accounts) may need to be repriced quickly to remain competitive with alternative products.

## Banks Rated CAMELS Composite 3, 4, or 5



Capital and balance sheet liquidity measures weakened slightly but remained strong overall. Changes in risk-based capital measures tended to lag increases in leverage ratios as banks shifted investments from lower risk-weighted cash and securities to higher risk-weighted loan categories. Meanwhile, noncore funds reliance remained relatively low. However, a rising interest rate environment may alter the mix of deposits and funding prospectively.

Examination ratings trends reflected improved financial performance across District banks. The share of banks with less-than-satisfactory examination ratings declined to 24%, still above a national ratio of 14%, but well below a peak of 60% in late 2010. Among ratings components, earnings and management tended to be the weakest. Consumer compliance ratings continued to recover from the crisis; however, banks faced the ongoing challenge of changes in compliance regulations. Meanwhile, the percentage of less-than-satisfactory community reinvestment act (CRA) ratings leveled-off.

# **Section 1 - Economic Conditions**

**Job Growth**

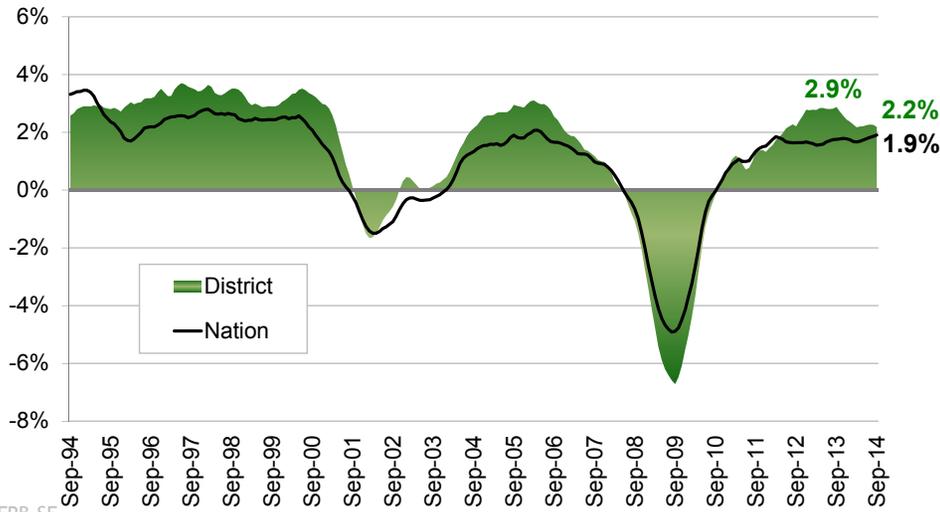
**State Leading Index**

**Housing Market Metrics**

**Commercial Real Estate Market Metrics**

## District Job Growth Rate Remained Strong But Decelerated in the Past Year

### Annual Growth Rate of Nonfarm Jobs

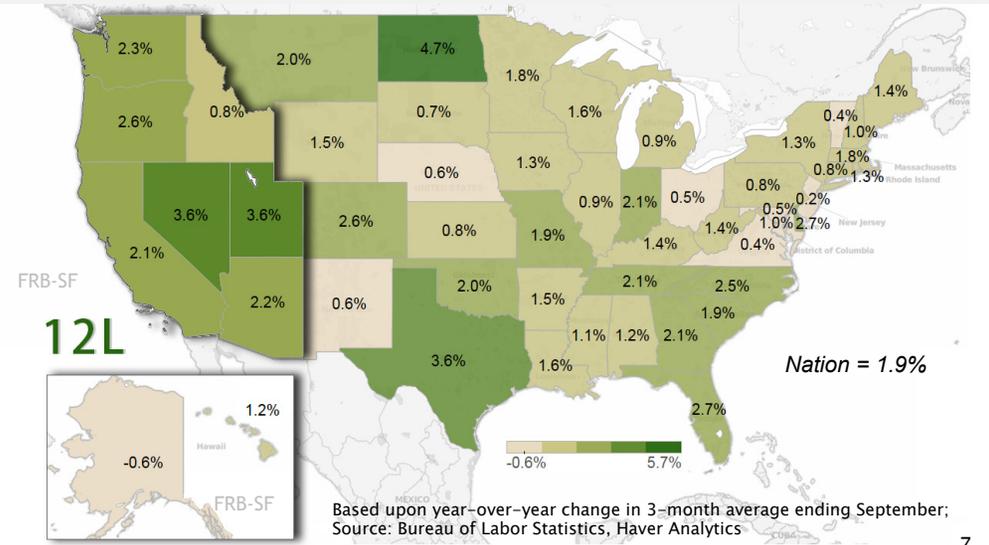


FRB-SF  
Source: Bureau of Labor Statistics, Haver Analytics.

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## State-Level Job Growth in the District Exceeded 2%, Except in Alaska, Idaho, and Hawaii

### Year-Over-Year Change in Nonfarm Jobs by State - 3Q14



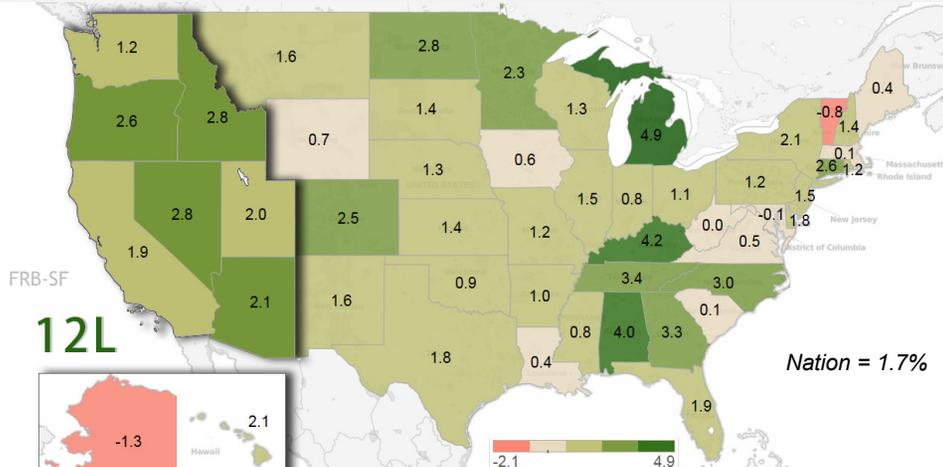
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Based upon year-over-year change in 3-month average ending September; Source: Bureau of Labor Statistics, Haver Analytics

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## Leading Index Measures Suggest Near-Term Growth Will Continue in Most States in the District

### Leading Index Measure by State - September 2014

Leading index predicts if a local economy might expand (+) or contract (-) in the near term

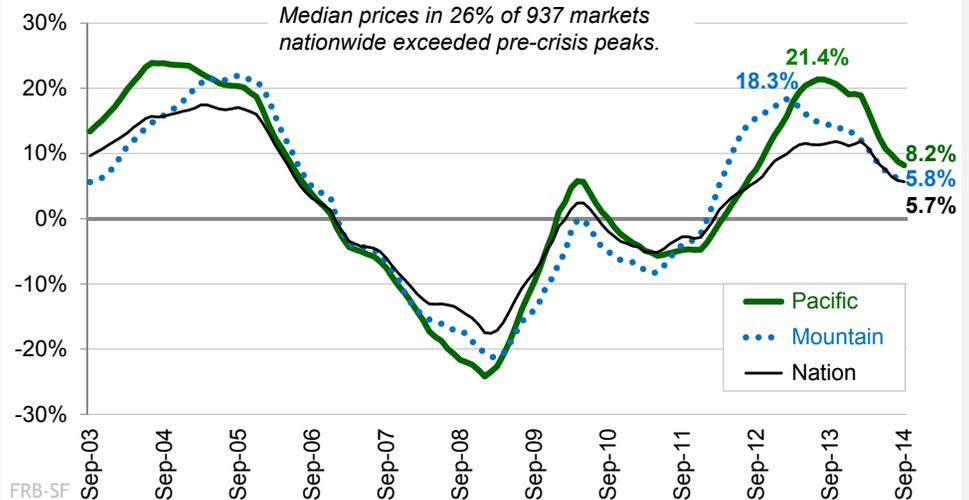


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The Leading Index predicts the 6-month growth rate of state's coincident economic index. Inputs include state-level nonfarm payroll jobs, average hours worked in manufacturing, unemployment rate, wages and salaries, 1-4 family permits, and initial unemployment claims, as well as national manufacturing delivery times and the 3-mo. vs. 10-yr. Treasury yield spread. Source: Federal Reserve Bank of Philadelphia, Haver Analytics

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## Home Prices Increased Further but at a Slower Pace

### Year-Over-Year Change in Median Home Price (%)



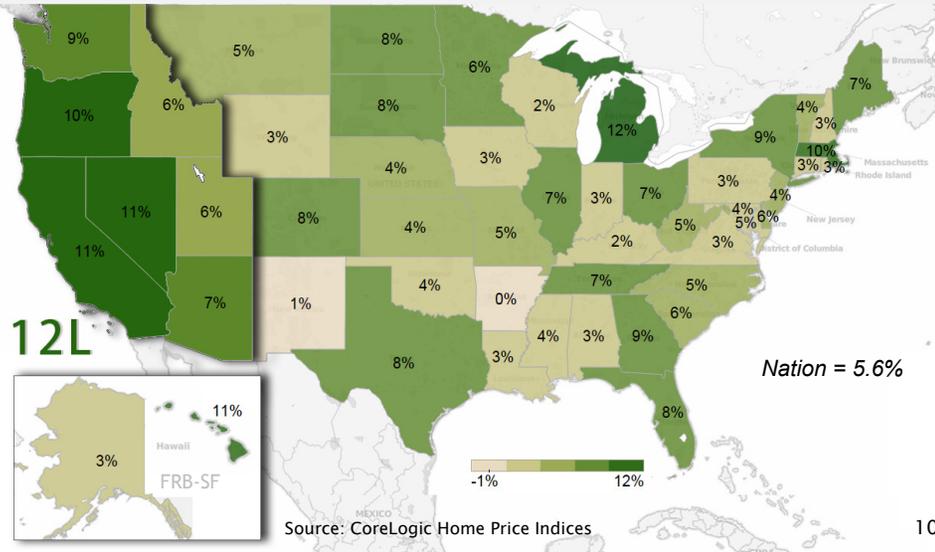
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Mountain: AZ, CO, ID, MT, NM, NV, UT, WY; Pacific: AK, CA, HI, OR, WA; Source: CoreLogic Home Price Indices

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## Home Price Increases in California, Nevada, Oregon, and Hawaii Were Particularly Strong (Albeit Slowing)

### Year-Over-Year Change in Median Home Price By State – September 2014

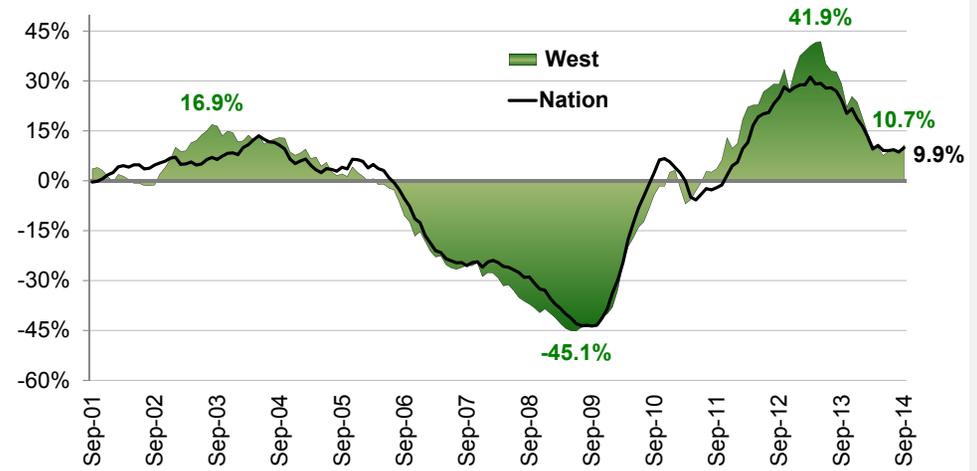
Median home prices continue to rise, but District prices remained 14% below pre-crisis peaks.



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## Growth in Housing Starts Levelled Out Somewhat After Decelerating from the 2012-2013 Period

### Year-Over-Year Change in Housing Starts



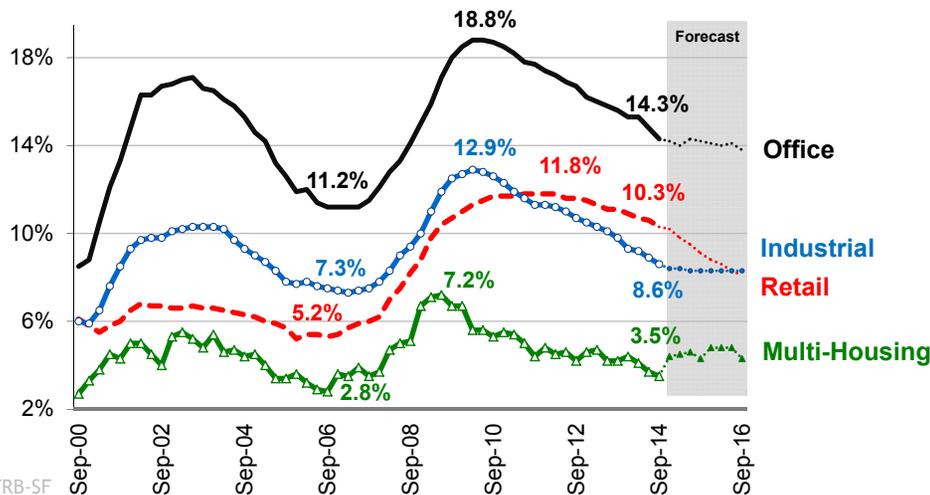
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Based on average new privately owned housing units started in trailing 12 months (seasonally adjusted); West: AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY; Source: Census Bureau, Haver Analytics

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## CRE Markets: Vacancy and Availability Rates Trended Down; Some Sectors May Improve Further

### Quarterly Aggregate Vacancy or Availability Rates – 12<sup>th</sup> District



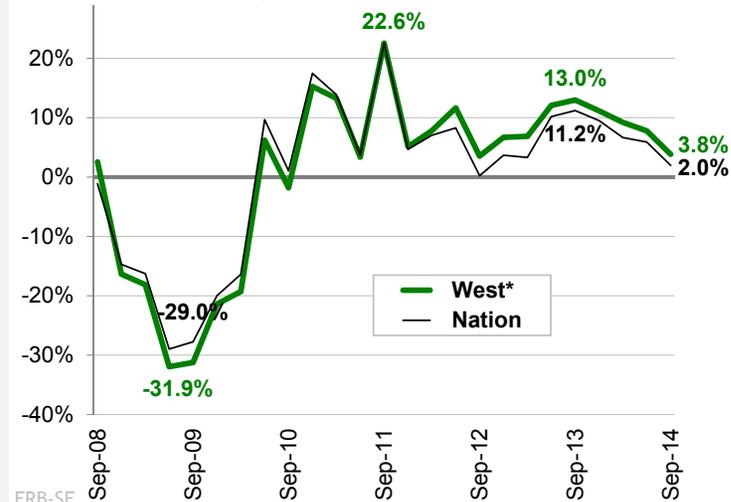
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Retail and Industrial trends are availability rates; Office and Multi-Housing trends are vacancy rates; based on an aggregate of rates for 15-16 large metropolitan areas; Source: CBRE-Econometric Advisors

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## The Pace of Commercial Real Estate Price Increases Slowed Across Property Types

### Year-Over-Year Change in Commercial Real Estate Price Index



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\*West: AZ, CA, CO, ID, MT, NV, NM, OR, UT, WA, WY; Source: NCREIF Transactions-Based Index of Institutional Commercial Property Investment Performance

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### Year-Over-Year Change in National CRE Price Index by Type

Sector	Sep-13	Sep-14
Apartment	12.0%	2.4%
Industrial	11.6%	1.5%
Office	10.4%	3.0%
Retail	10.6%	2.8%
All	11.2%	2.0%

# Section 2

## Commercial Bank Performance

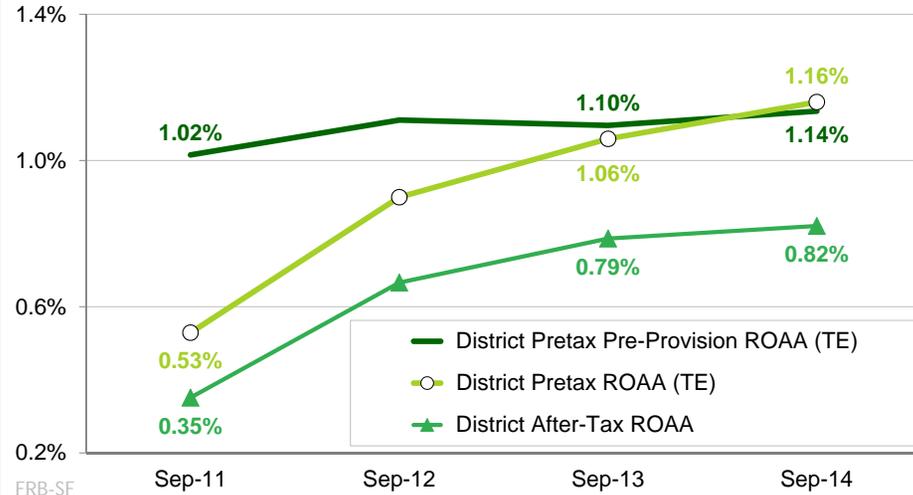
*Focusing on trends among the 357 commercial banks headquartered within the 12<sup>th</sup> Federal Reserve District.*

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

See also “Banks at a Glance,” Bank Profiles by State:  
<http://www.frbsf.org/banking-supervision/publications/banks-at-a-glance/>

## Profitability: Pretax Profits Increased Further, but Improvements to Bottom-Line Earnings Were More Muted

### Profitability Rates

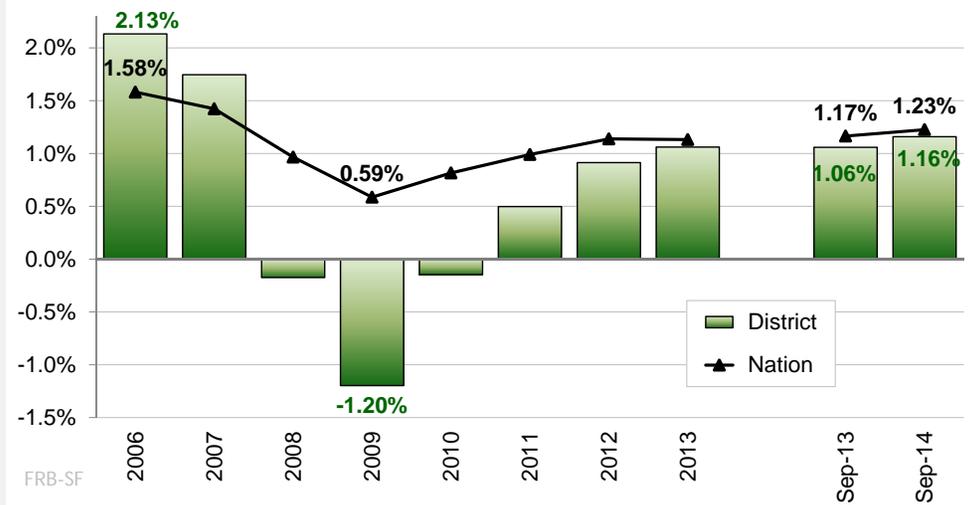


Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data; for comparability, Pretax ROAAs are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities

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## In Spite of Improvement, Average Pretax Profitability Continued to Trail the Nation

### Pretax Return on Average Assets (TE)

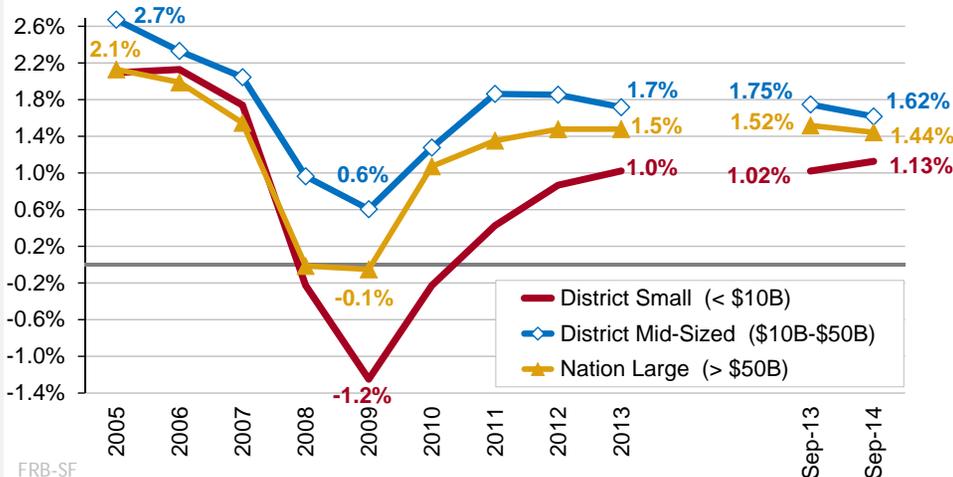


Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data; for comparability, Pretax ROAAs are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities

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## Most of the Improvement in Earnings Occurred Among Smaller Banks

### Pretax Return on Average Assets (TE) by Bank Size

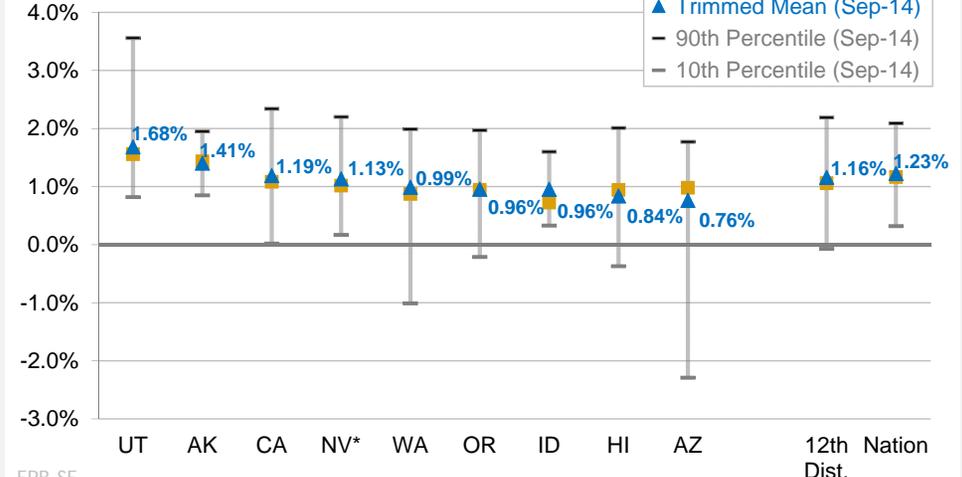


Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data; for comparability, Pretax ROAAs are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities; the large bank peer group includes nationwide banks to ensure a large enough population for averaging ratios

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## The Distribution of Pretax ROAAs Varied Widely Within Some District States, Especially Arizona

### Pretax Return on Average Assets (TE) by State

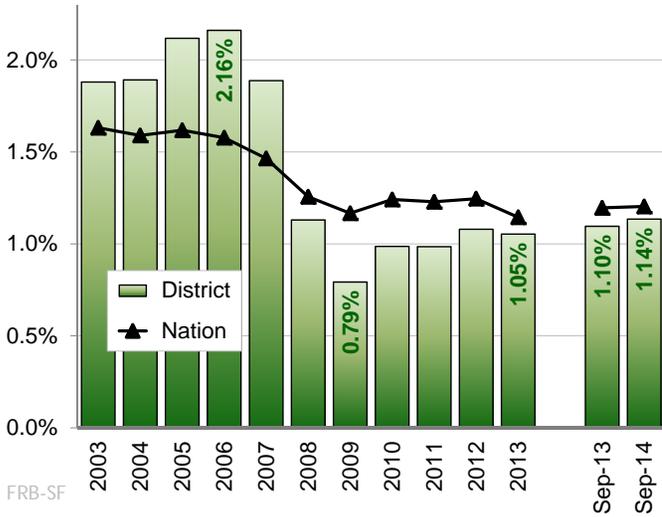


Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data; for comparability, Pretax ROAAs are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities; \*NV: excludes credit card and zero-loan banks

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## Core Profitability Rates Inched Up But Remained Well Below Pre-Recession Levels

### Core Profitability Pre-tax Pre-Provision Income / Average Assets



Core profitability declined year-over-year at mid-sized & large banks on average, mainly due to reduced margins and noninterest income ratios.

#### Average Core Profitability

Bank Size	Sep-13	Sep-14
District Small (<\$10B)	1.06%	1.10%
District Mid-Sized (\$10B-\$50B)	1.77%	1.57%
Nation Large (>\$50B)	1.63%	1.49%

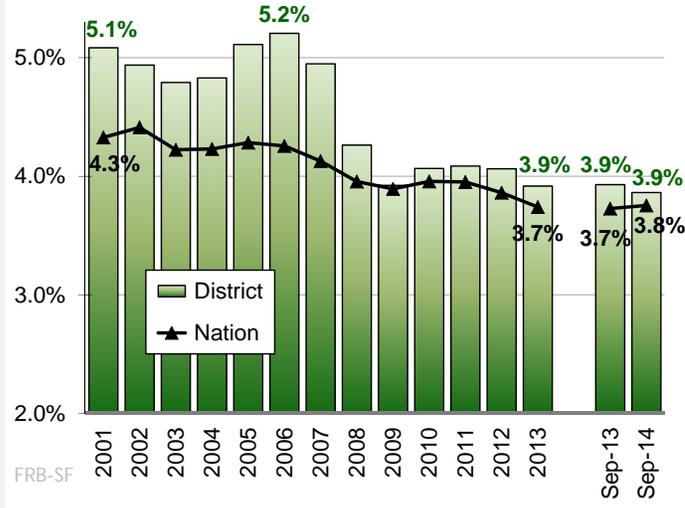
Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data;

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## Bank Supervisors' Hot Topic: Weak Net Interest Margins (NIMs) Continued to Weigh on Earnings

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



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

Bank Size	Sep-13	Sep-14
District Small (<\$10B)	3.96%	3.90%
District Mid-Sized (\$10B-\$50B)	3.44%	3.39%
Nation Large (>\$50B)	2.99%	2.81%

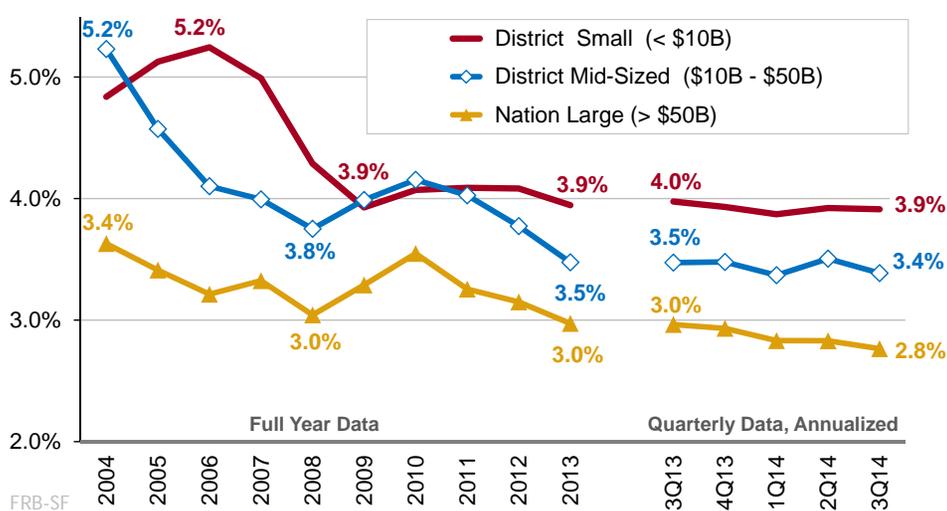
Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data; for comparability, net interest income is adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities

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## Mid-Sized Bank Net Interest Margins Narrowed the Most Since the Pre-Crisis Period

### Net Interest Income (TE) / Average Earning Assets by Bank Size



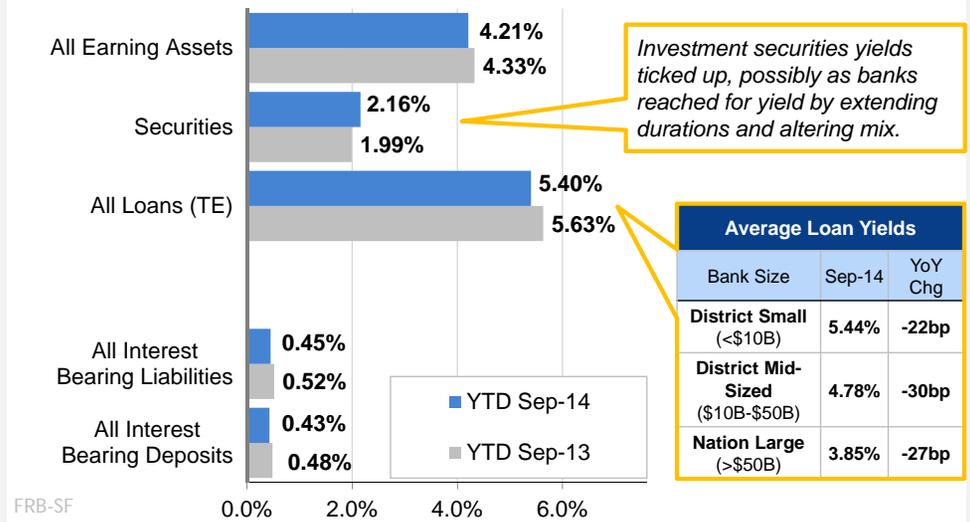
Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data; for comparability, net interest income is adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities

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## While Most Yields and Costs Declined, Yields on Securities Bucked the Trend

### Asset Yields and Funding Costs – 12<sup>th</sup> District



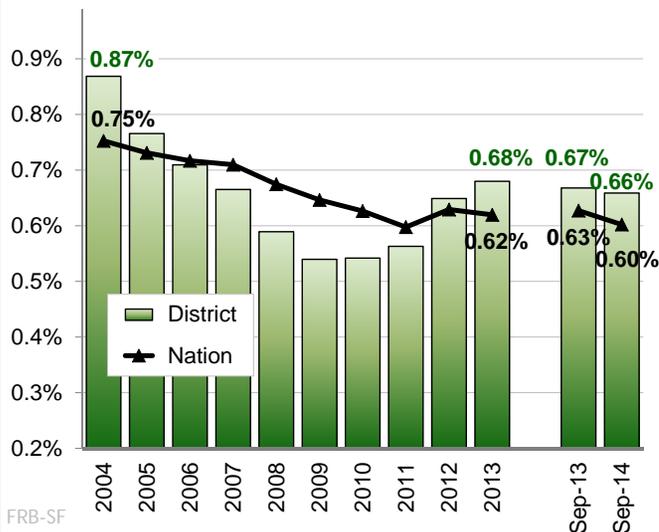
Bank Size	Sep-14	YoY Chg
District Small (<\$10B)	5.44%	-22bp
District Mid-Sized (\$10B-\$50B)	4.78%	-30bp
Nation Large (>\$50B)	3.85%	-27bp

Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data; for comparability, yields are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities

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## Noninterest Income Trends Did Not Help Small Bank Earnings And Detracted from Profits at Mid-Sized and Large Firms

### Noninterest Income / Average Assets



Average Noninterest Income Ratios		
Bank Size	Sep-13	Sep-14
District Small (<\$10B)	0.66%	0.66%
District Mid-Sized (\$10B-\$50B)	0.70%	0.55%
Nation Large (>\$50B)	1.81%	1.68%

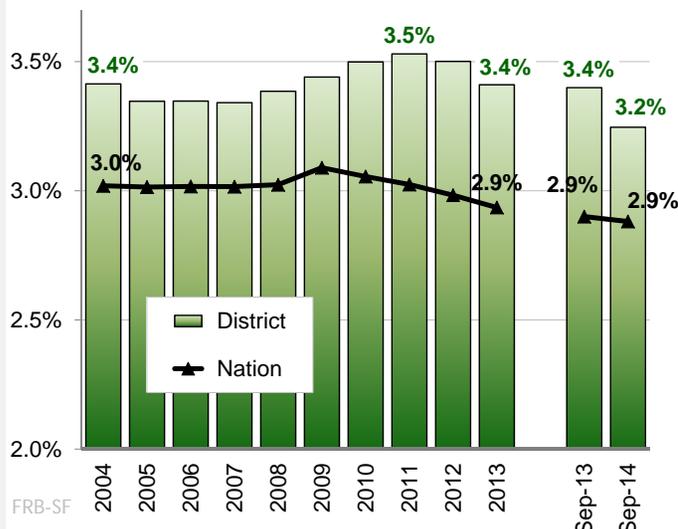
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Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data

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## Noninterest Expense Declines Provided Some Relief, Especially Among the Largest and Smallest Banks

### Noninterest Expense / Average Assets



Merger-related expenses may have muted overhead improvements among the District's mid-sized banks.

Average Noninterest Expense Ratios		
Bank Size	Sep-13	Sep-14
District Small (<\$10B)	3.46%	3.31%
District Mid-Sized (\$10B-\$50B)	2.20%	2.19%
Nation Large (>\$50B)	2.88%	2.74%

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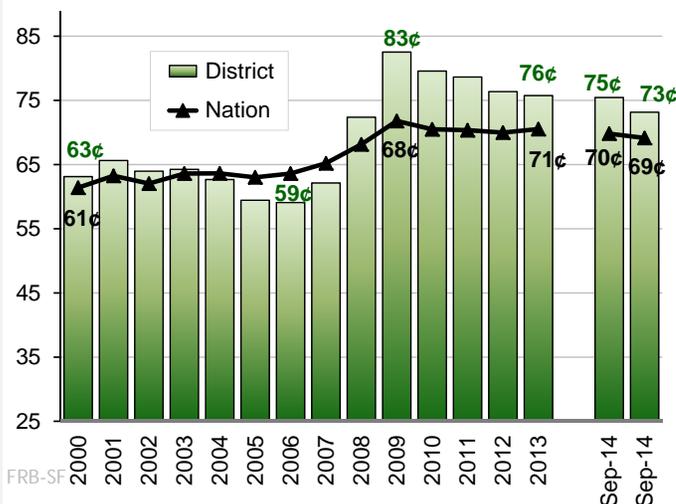
Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data

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## Efficiency Measures Among the District's Small Banks Remained Elevated but Improved Slightly

### Efficiency Measures

Overhead / (Net Interest Income + Noninterest Income)



Efficiency ratios slipped modestly at mid-sized and large banks but improved among smaller firms.

Average Efficiency by Bank Size		
Bank Size	Sep-13	Sep-14
District Small (<\$10B)	76¢	74¢
District Mid-Sized (\$10B-\$50B)	56¢	57¢
Nation Large (>\$50B)	63¢	64¢

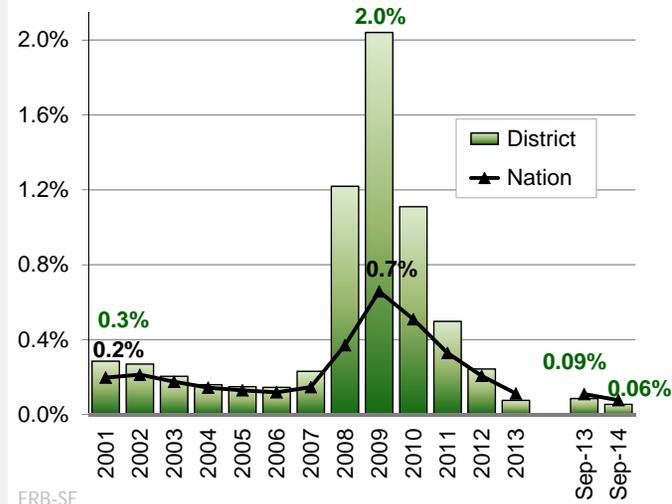
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Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data; this metric measures the cost to produce \$1 of revenue

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## A Large Proportion of the District's Banks Continued to Report Zero or Negative Provisions for Loan Losses

### Loan Loss Provisions/Average Assets



Year-to-date, almost three-quarters of District banks lowered their ALLL/Loans ratios and close to half took negative or zero loan loss provisions.

Percent of Commercial Banks with Year-to-Date:		
	Dist.	U.S.
Negative loss provisions	17%	8%
Zero loss provisions	31%	26%
Lowered ALLL / Loan Ratios	72%	63%

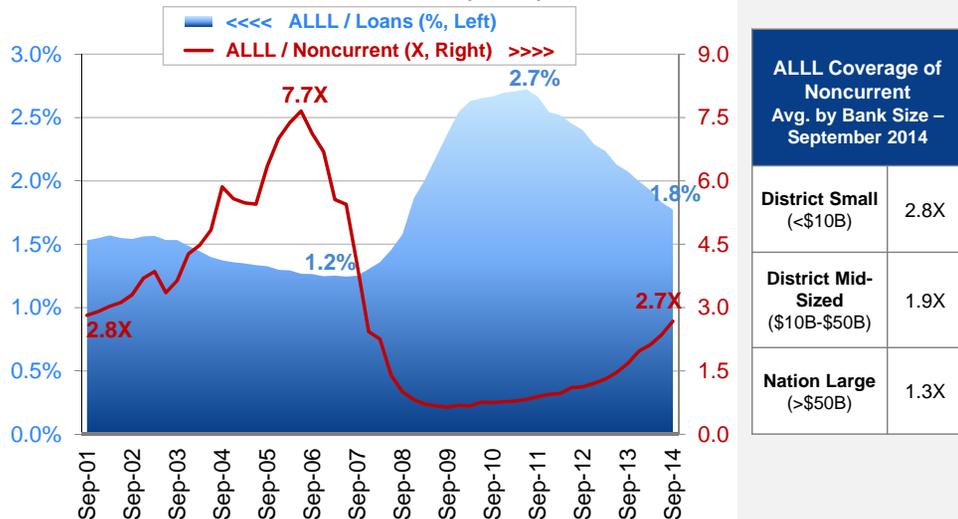
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; data is annualized; preliminary 9/30/14 data

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## Loan Loss Allowances Trailed Overall Loan Growth But Improved Relative to Shrinking Noncurrent Loan Levels

### Allowance for Loan & Lease Losses (ALLL) – 12<sup>th</sup> District



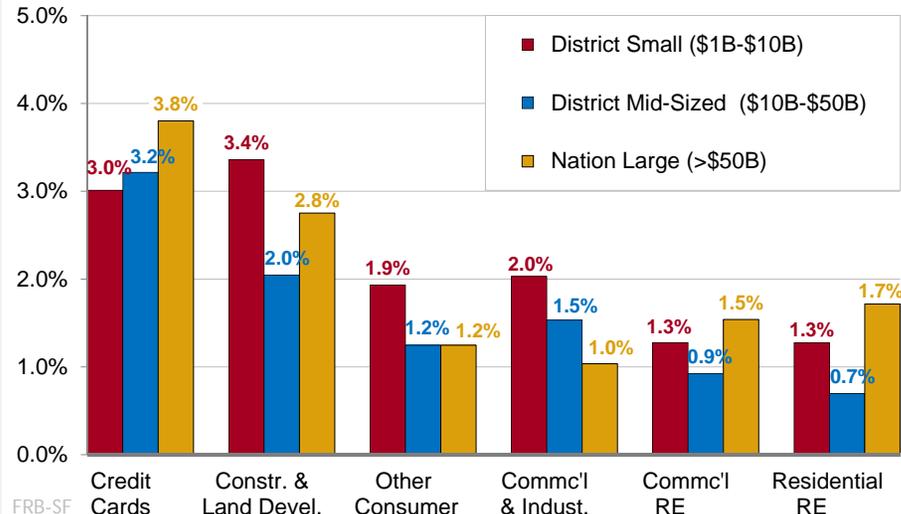
ALLL Coverage of Noncurrent Avg. by Bank Size – September 2014	
District Small (<\$10B)	2.8X
District Mid-Sized (\$10B-\$50B)	1.9X
Nation Large (>\$50B)	1.3X

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data

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## ALLL Balances by Loan Type Highlighted Differences in Credit Risk

### Allowance for Loan and Lease Losses / Total Evaluated\* Loans and Leases

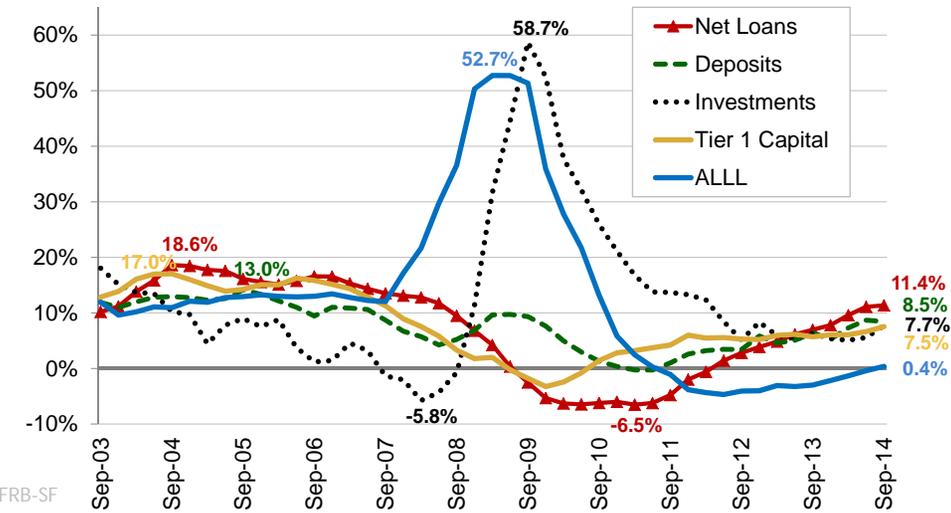


Based on aggregate data for commercial banks, preliminary 9/30/14 data. Note: banks with assets <\$1B do not report this information; \*evaluated excludes loans accounted for at fair value or held for sale

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## Growth: Loan Growth Outpaced Deposits, Investments, Capital, and Loan Loss Reserves

### Year-Over-Year Growth Rates – 12<sup>th</sup> District



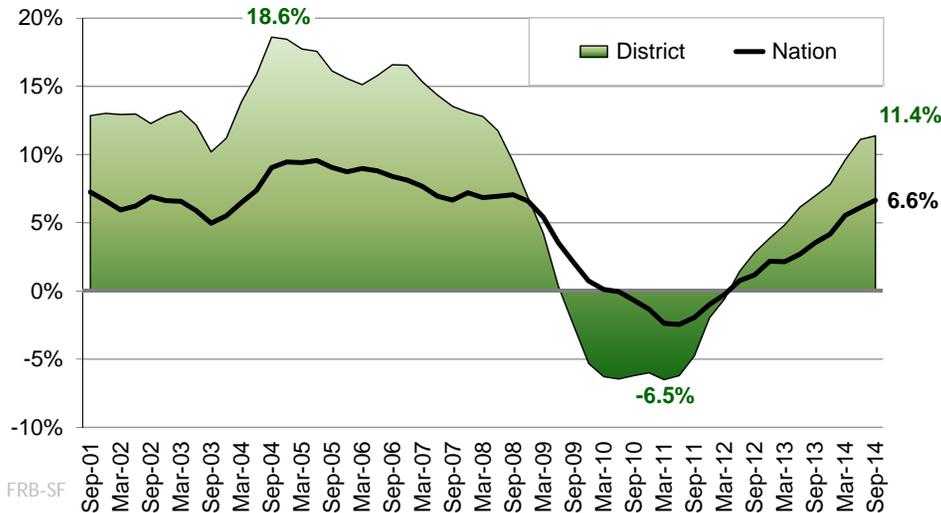
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Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 9/30/14 data; Investments: securities, interest-bearing due from, Federal funds sold/rev. repos, and trading accounts

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## District Loan Growth Accelerated Faster Than Nation; Generally More Volatile

### Year-Over-Year Growth in Net Loans & Leases



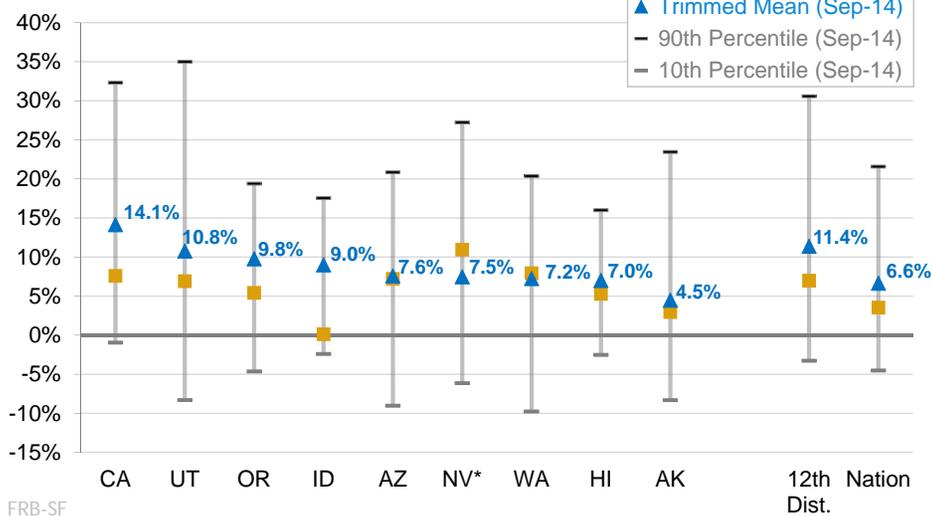
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Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 9/30/14 data

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## State-Level Loan Growth Generally Accelerated, With Significant Variance Within Each State

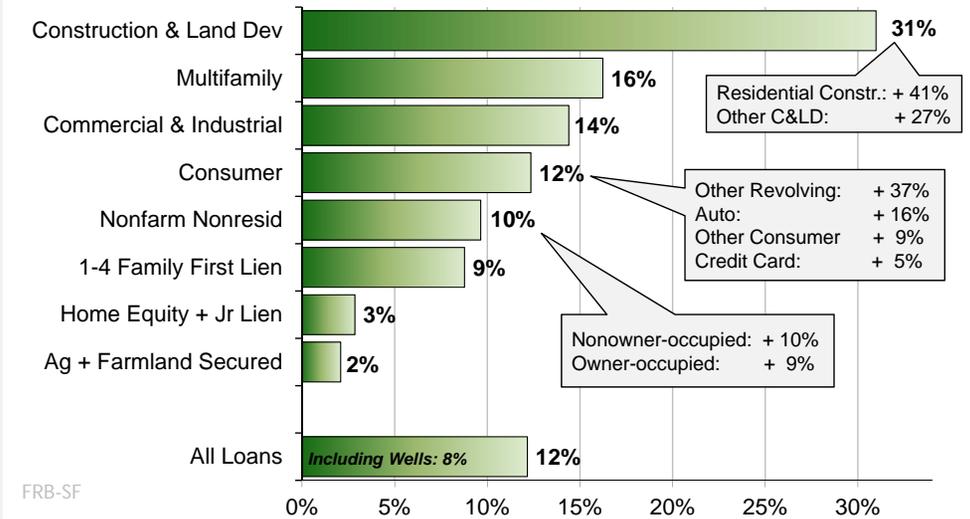
### Year-Over-Year Net Loan Growth by State



Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 9/30/14 data; \*NV: excludes credit card and zero-loan banks

## Aggregate Loan Growth: C&LD Loans Surged; Multifamily and C&I Lending Remained Strong

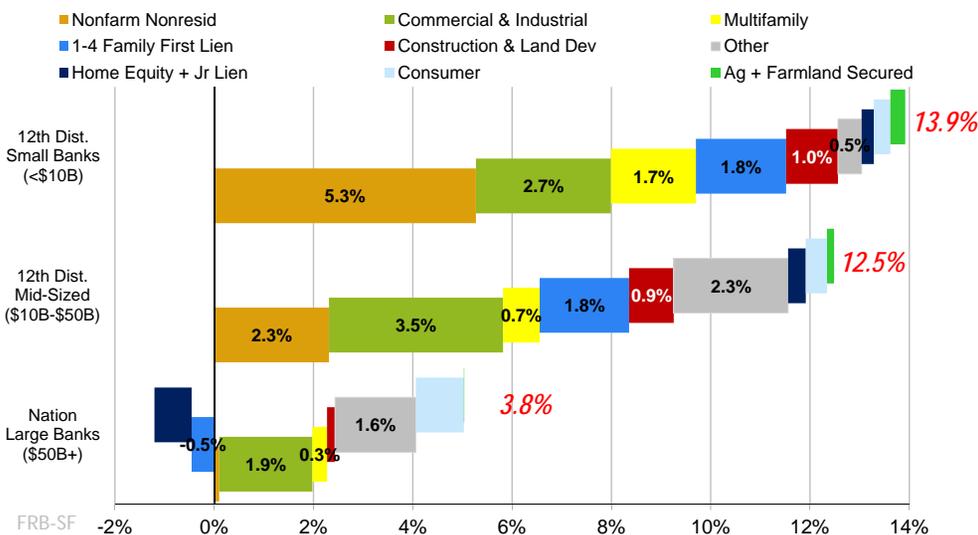
### Aggregate Year-Over-Year Loan & Lease Growth by Category



Based on a panel of District commercial banks with assets <\$200B; excludes banks with significant mergers, loan sales, or loan purchases over the period; preliminary 9/30/14 data

## Aggregate Loan Growth: Nonfarm Nonresidential, C&I, Multifamily Drove the Majority of Growth

### Percentage Point Contribution to Total Aggregate YoY Loan Growth



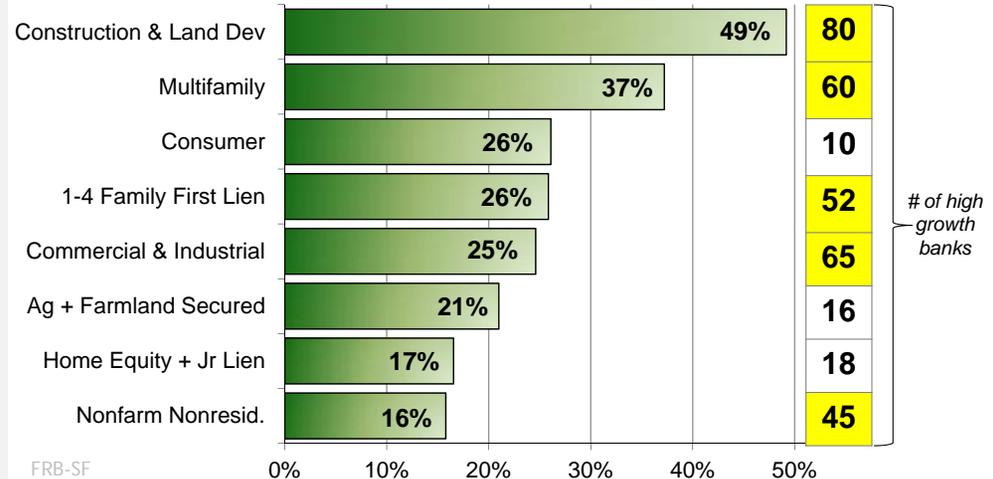
Based on a panel of District commercial banks with assets <\$200B; excludes banks with significant mergers, loan sales, or loan purchases over the period; preliminary 9/30/14 data



## Some Banks Had Rapid Growth in Certain Segments; Looser Underwriting May Have Driven Trend . . .

### Percent of Banks Making Loans in Category\* With >25% YoY Growth

Many multifamily and/or C&LD lenders expanded these segments by 25%+ year-over-year.

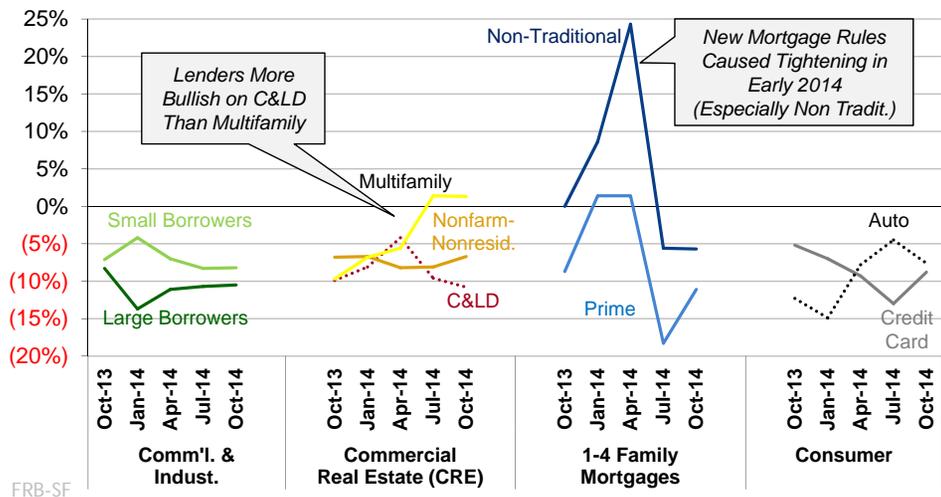


\* Based on a panel of 330 District commercial banks without significant mergers, loan sales, or loan purchases over the period. Includes only banks with at least 4% of loans in the particular loan type; preliminary 09/30/14 data



## ... On Net, Underwriting Loosened in Most Major Categories (Usually on Pricing or Maturity)

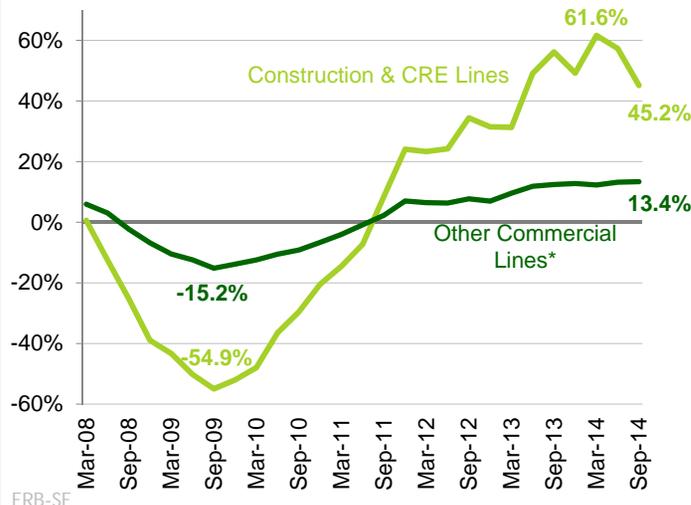
### Net Percentage Reporting Tightening (Loosening) Standards During Qtr.



Based on a sample of senior loan officers at 73 to 76 large and small domestic banks (number of respondents varies over time); Source: Federal Reserve Senior Loan Officer Opinion Survey

## Slowing Growth in Unfunded CRE Loans May Portend Slower On-Balance Sheet C&LD Growth

### Year-Over-Year Unfunded Loan Growth – 12<sup>th</sup> District



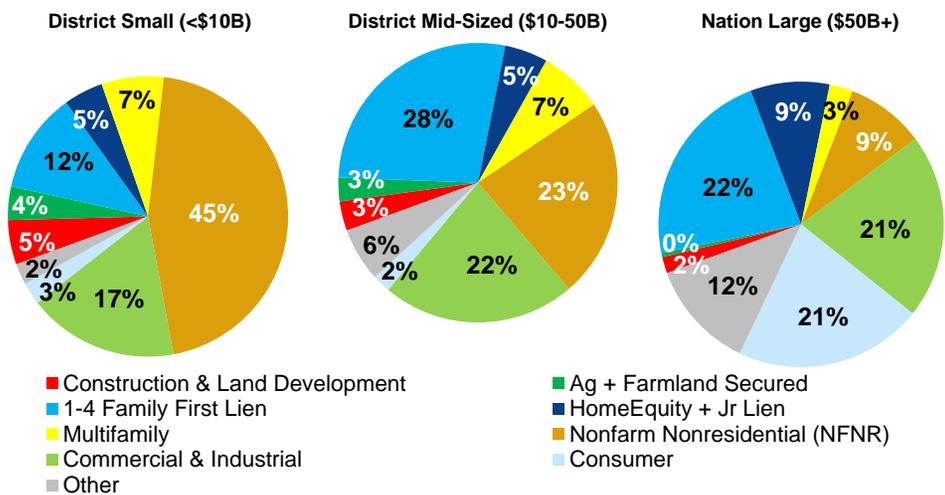
A slowdown in unfunded CRE growth has historically preceded slower growth in funded construction loan balances.

Average Annual Unfunded Loan Growth September 2014		
Bank Size	CRE	Other Com'l*
District Small (<\$10B)	45.3%	13.2%
District Mid-Sized (\$10B-\$50B)	49.9%	18.1%
Nation Large (>\$50B)	26.0%	8.1%

Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 9/30/14 data; \*includes unfunded loan commitments not secured by residential or commercial real estate (CRE) or for CRE purposes or for credit cards (i.e., mostly commercial and industrial lines)

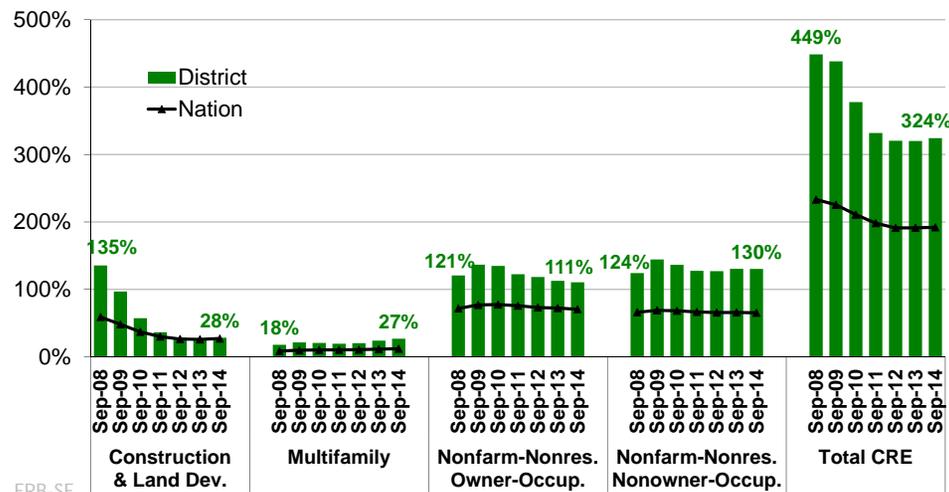
## District Bank Aggregate Loan Mix (%) by Size

Large banks nationwide focused more on 1-4 family, Consumer, and C&I; small District banks focused on CRE/NFNR; C&I loans remained significant across small and mid-sized groups.



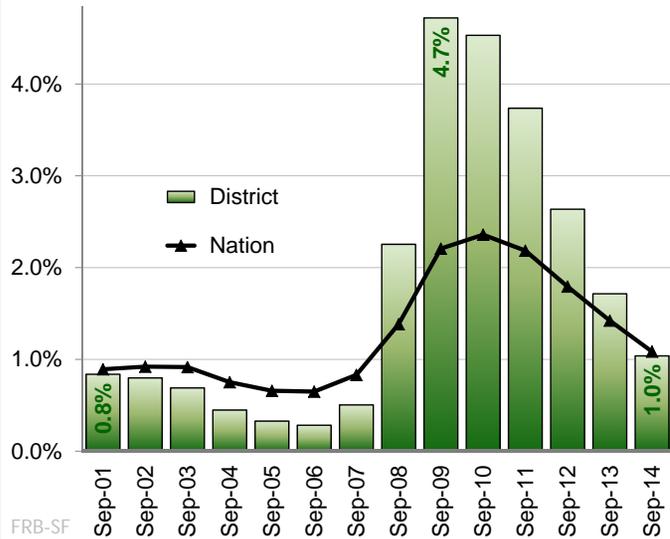
## Commercial Real Estate Concentrations Began to Tick Back Up Among District Banks on Average

### CRE Loans / Total Risk-Based Capital



## Credit Quality: Noncurrent Rates Declined Further, But Remained Above Pre-Crisis Lows

### Noncurrent Loans and Leases / Total Loans and Leases



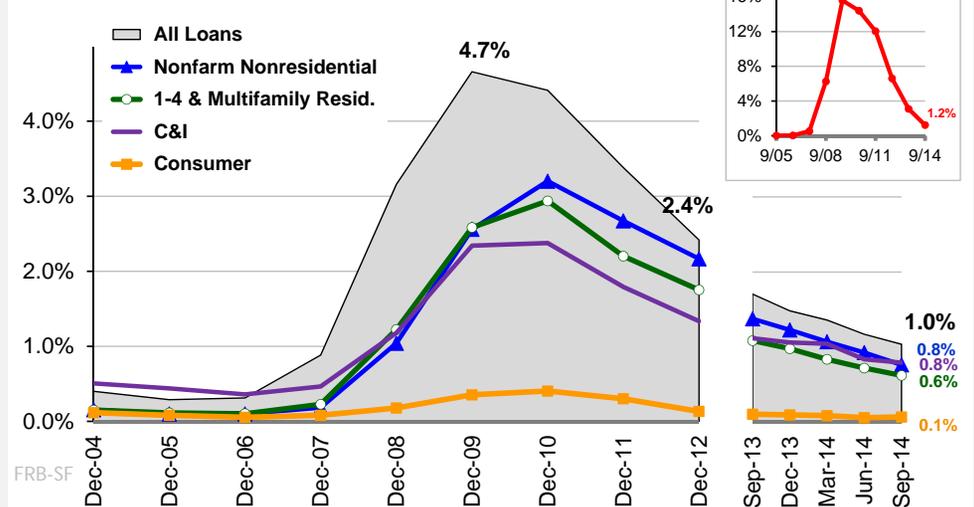
The small bank average noncurrent rate dropped sharply, the most of the three size groups

Average Noncurrent Rate		
Bank Size	Sep-13	Sep-14
District Small (<\$10B)	1.72%	1.03%
District Mid-Sized (\$10B-\$50B)	1.22%	1.02%
Nation Large (>\$50B)	1.61%	1.24%

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data; Noncurrent = 90+ days past due or on nonaccrual

## Severe Delinquencies Continued to Improve Across All Major Loan Categories

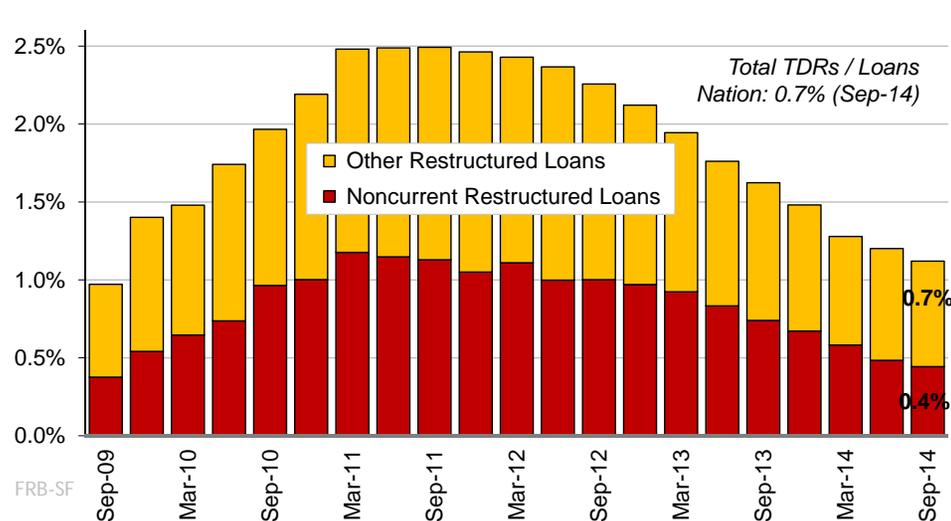
### Noncurrent Loans and Leases / Total Loans and Leases by Loan Type – 12<sup>th</sup> District



Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data; Noncurrent = 90+ days past due or on nonaccrual

## Troubled Debt Restructurings Continued Steady Decline

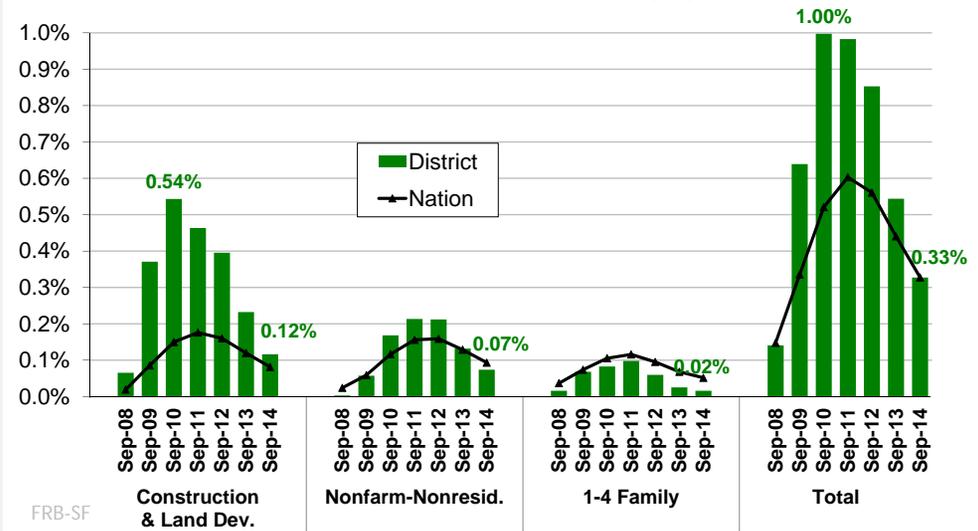
### Restructured Loans and Leases / Total Loans and Leases – 12<sup>th</sup> District



Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data; Noncurrent = 90+ days past due or on nonaccrual

## Foreclosure Volumes Remained Elevated but Are Now Well Below Crisis-Era Peaks and Track the Nation

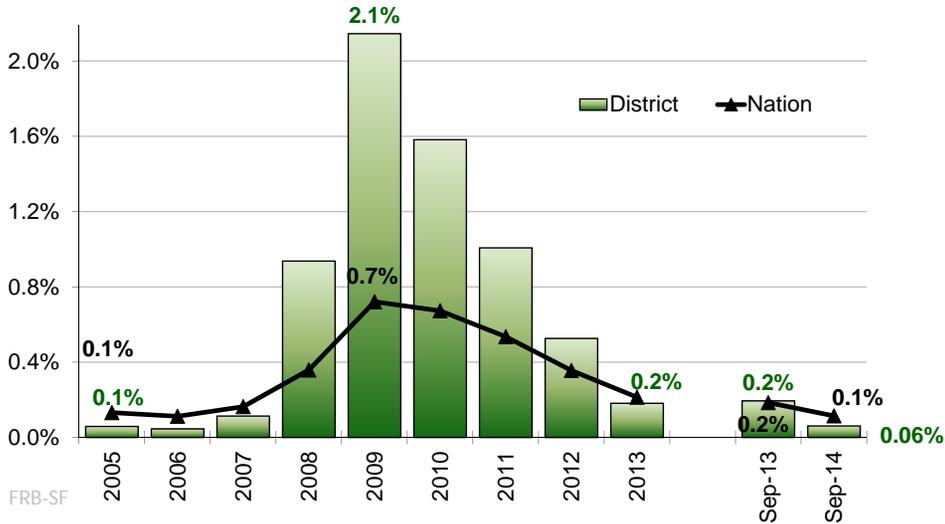
### Foreclosed Other Real Estate Owned / Total Assets by Type



Based on all 12<sup>th</sup> District commercial banks; trimmed means; preliminary 9/30/14 data

## Average District Bank Net Charge-Off Rate Was Negligible Year-to-Date

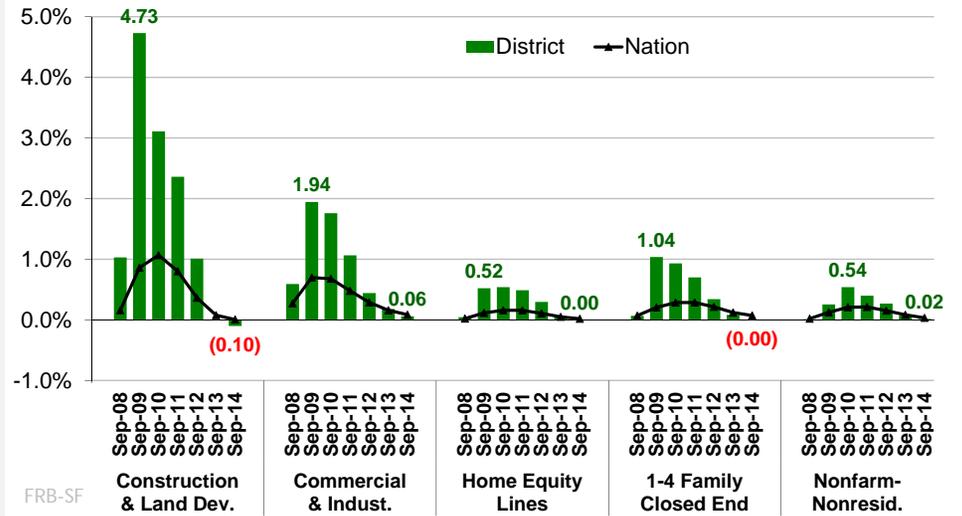
### Net Charge-Offs / Average Loans and Leases



Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data

## Net Charge-offs Continued to Recede Across Loan Types

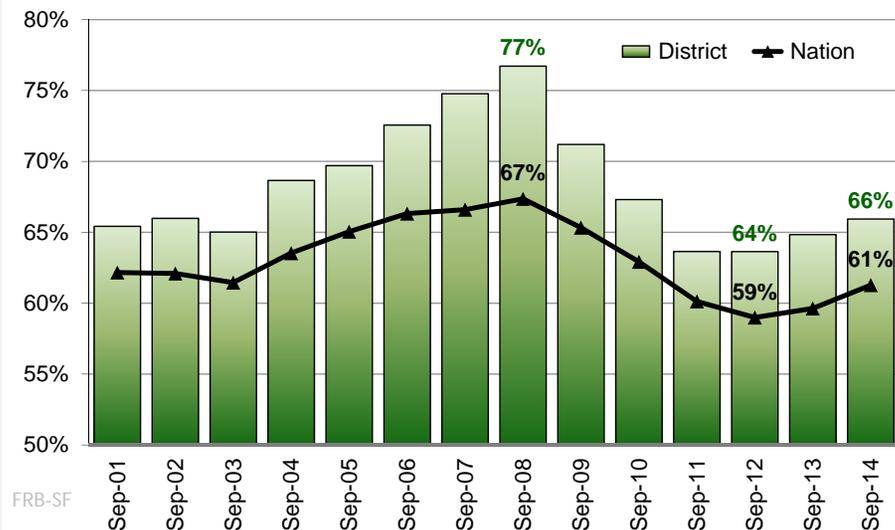
### Net Charge-offs / Average Loans by Type



Based on all 12<sup>th</sup> District commercial banks; year-to-date annualized; trimmed means; preliminary 9/30/14 data; Aggregate charge-off data will be posted to: <http://www.frbsf.org/banking-supervision/banking-economic-data/aggregate-data/> 44

## Liquidity: Banks Shifted Assets Towards Loans and Away From Lower-Yielding Investments

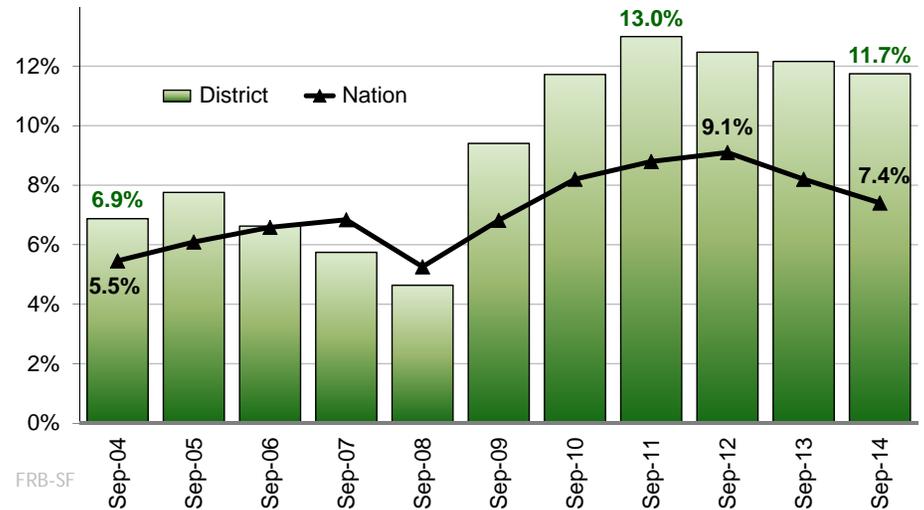
### Net Loans and Leases / Assets



Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data

## Although Lower, Short-Term Investments Remained Above Pre-Crisis Levels

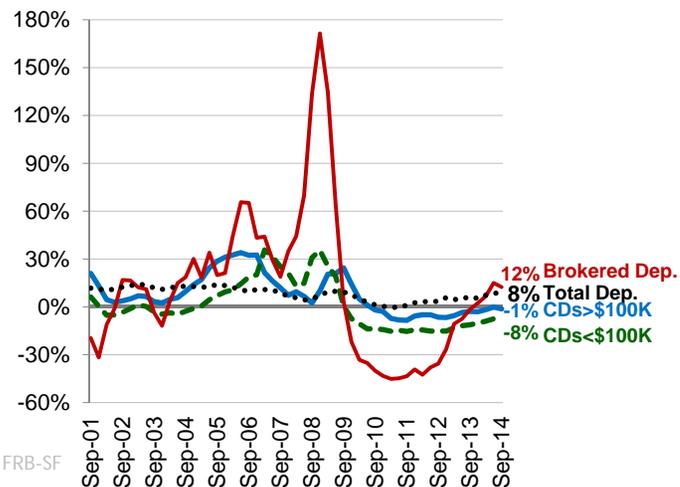
### Short-Term Investments / Assets



Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data; Short-Term Investments: interest-bearing bank balances, Federal funds sold & securities purchased under agreements to resell, <1-year debt securities

## Non-Maturity Deposits, and Increasingly Brokered Funds, Fueled Overall Deposit (and Asset) Growth

### Year-Over-Year Deposit Growth – 12<sup>th</sup> District



In part, deposit growth rates among mid-sized banks reflected merger activity.

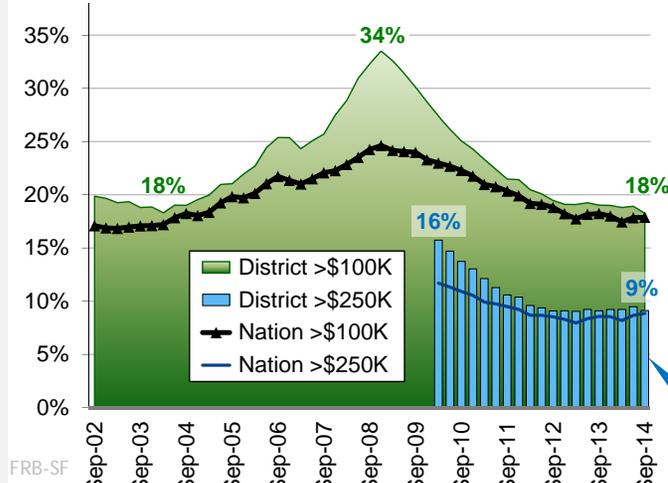
Average Annual Deposit Growth		
Bank Size	Sep-13	Sep-14
District Small (<\$10B)	6.2%	8.2%
District Mid-Sized (\$10B-\$50B)	8.9%	20.6%
Nation Large (>\$50B)	4.8%	6.4%

Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 9/30/14 data; non-maturity: demand, money market, and savings accounts

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## Average Noncore Funding Levels Remained Well Below Pre-Crisis Levels; District Matched Nation

### Noncore\* Liabilities / Assets



Average Noncore\* Liabilities / Assets by Bank Size (Using CDs > \$100K)

Bank Size	Sep-08	Sep-14
District Small (<\$10B)	32%	18%
District Mid-Sized (\$10B-\$50B)	45%	21%
Nation Large (>\$50B)	40%	23%

On average, half of non-core funding derived from CDs \$100K - \$250K

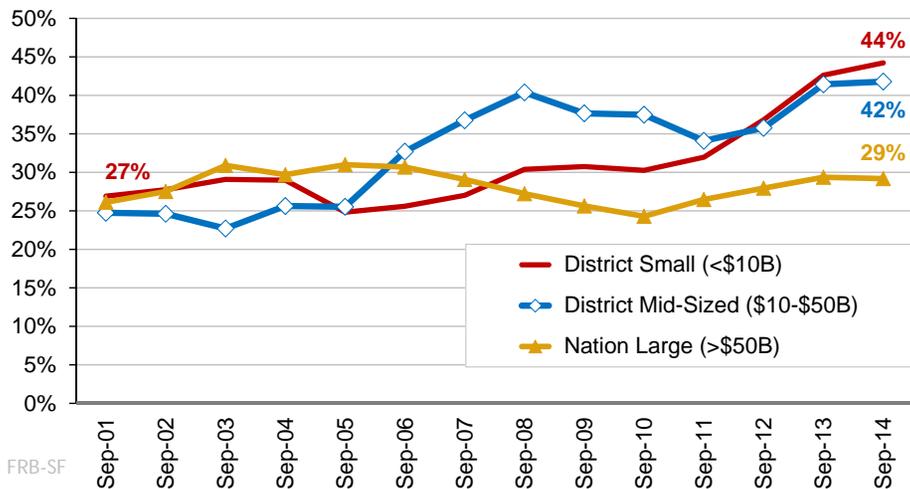
Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data; \*Noncore includes borrowed funds, foreign and brokered deposits, large CDs (previously defined as > \$100K—green bars, now defined as > \$250K—blue bars)

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## Interest Rate Risk: Investments in Longer-Term Assets at Small Banks Crept Higher

### Loans and Securities Maturing or Re-Pricing > 3 Years / Assets



Earning assets will be slower to re-price upward as rates rise.

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data

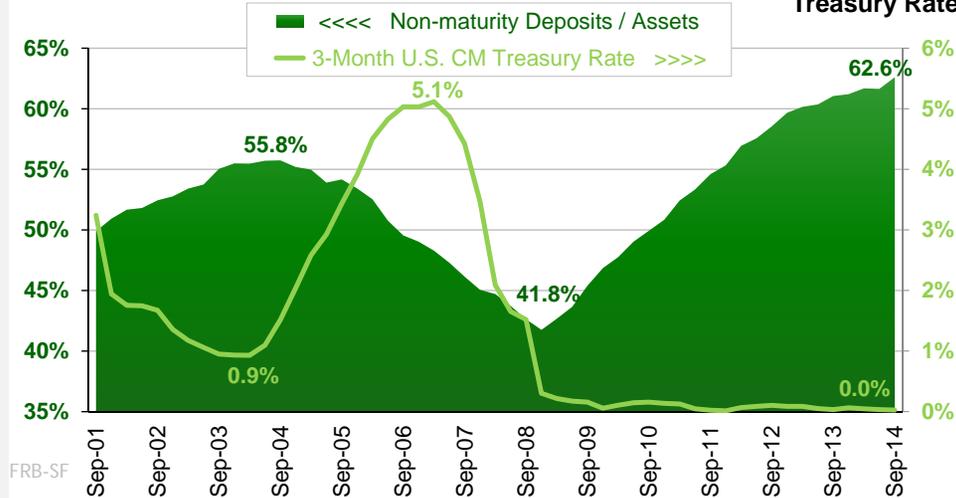
49



## Non-Maturity Deposits May Become a Less Reliable Funding Source as Rates Increase

### Non-Maturity Deposits / Total Assets

### Qtly. Avg. 3-Month U.S. CM Treasury Rate



Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data; non-maturity includes demand, money market and savings; Constant Maturity (CM) Treasury Rate from Federal Reserve, Haver Analytics

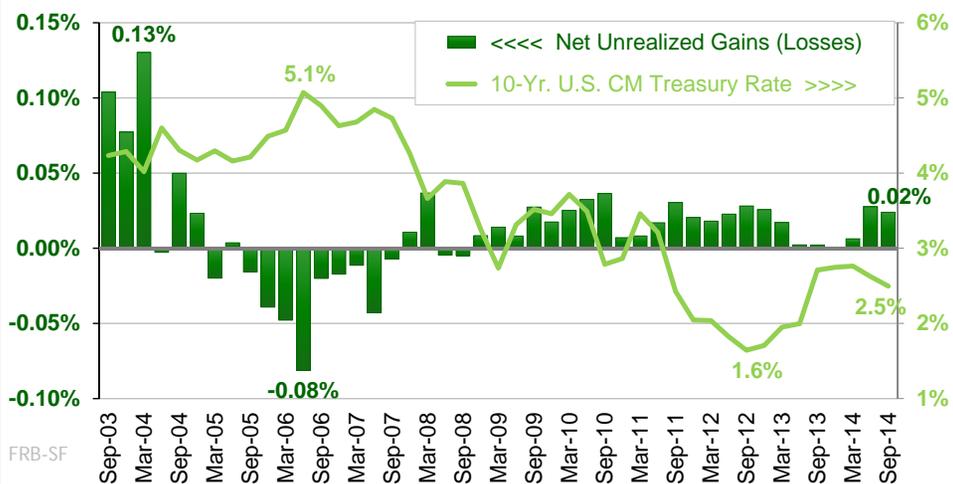
50



## Securities Values Recovered with Recent Rate Dip but Rising Rates Could Again Reduce Market Values

### Net Unrealized Gains (Losses) on AFS Securities / Tier 1 Cap. – 12<sup>th</sup> District

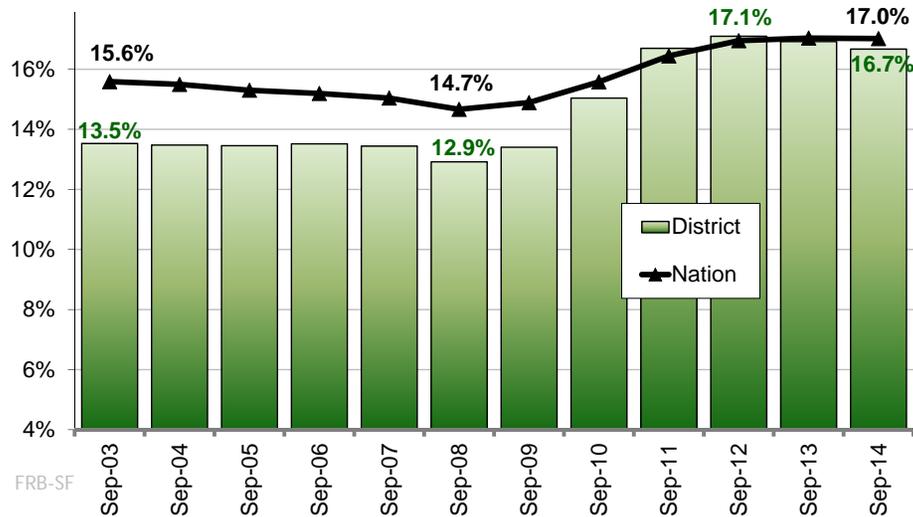
### Qtly. Avg. 10-Year U.S. CM Treasury Rate



Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data; available for sale (AFS) securities only; Constant Maturity (CM) Treasury Rate from Federal Reserve, Haver Analytics

## Capital: Growth and Shifts in Asset Mix Led District Risk-Based Capital Ratios Modestly Lower

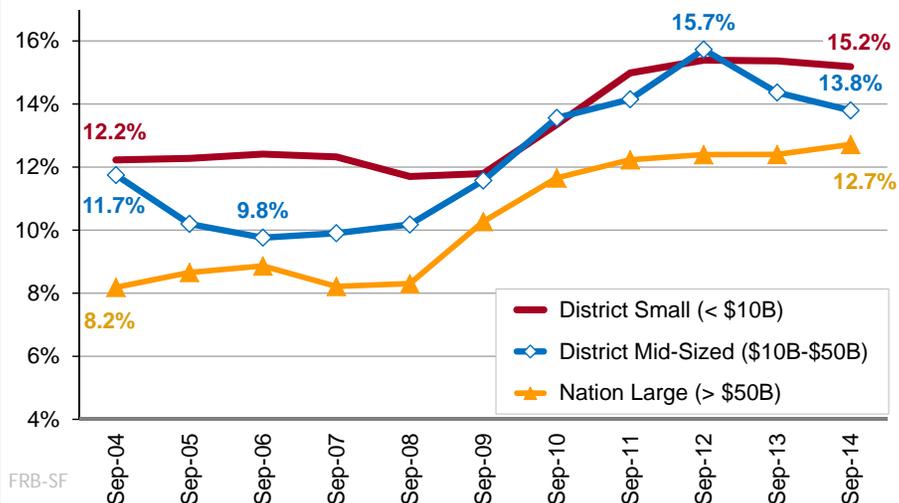
### Total Risk-Based Capital / Risk-Weighted Assets



Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data

## Tier 1 Common Equity Ratios Declined Slightly at Small Banks (More Sharply at Mid-Sized) due to Accelerated Loan Growth

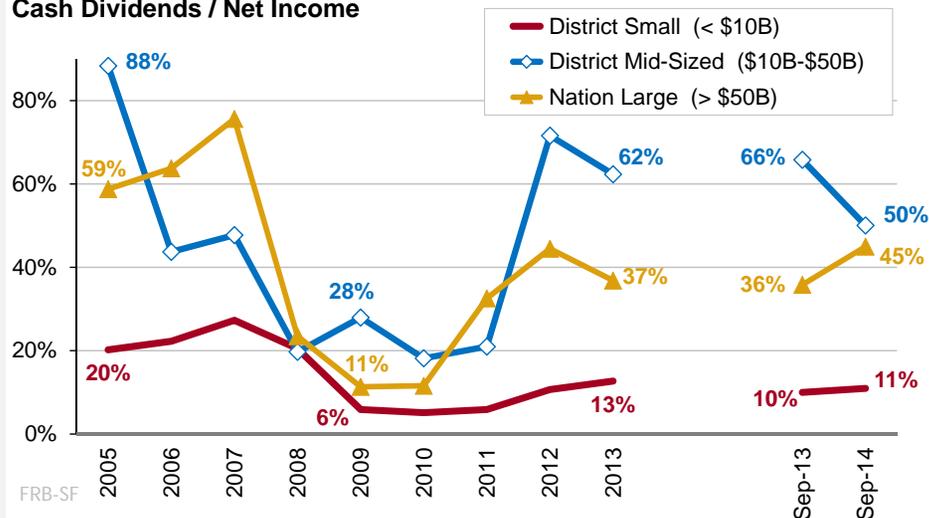
### Tier 1 Common Equity / Risk-Weighted Assets



Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data

## Dividend Payouts At Small Banks Remained Low and Stable; Payout Levels at Mid- and Large-Sized Banks Converged

### Cash Dividends / Net Income



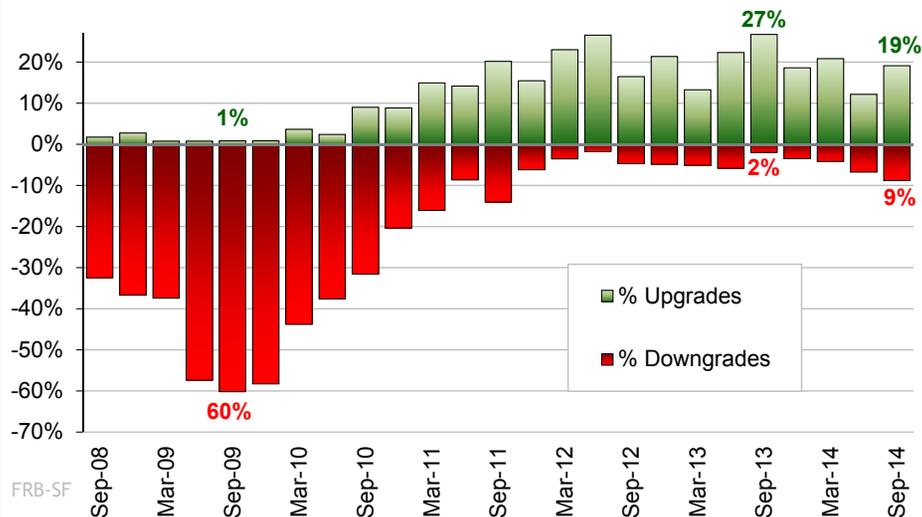
Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data; the large bank peer group includes nationwide banks to ensure a large enough population for averaging ratios

## Section 3 – Regulatory Ratings and Trends

*Focusing on examination (CAMELS) rating trends assigned by regulatory agencies among the 357 commercial banks headquartered within the 12<sup>th</sup> Federal Reserve District.*

## Regulatory Ratings: CAMELS Composite Upgrades Outpaced Downgrades for the Past 14 Quarters

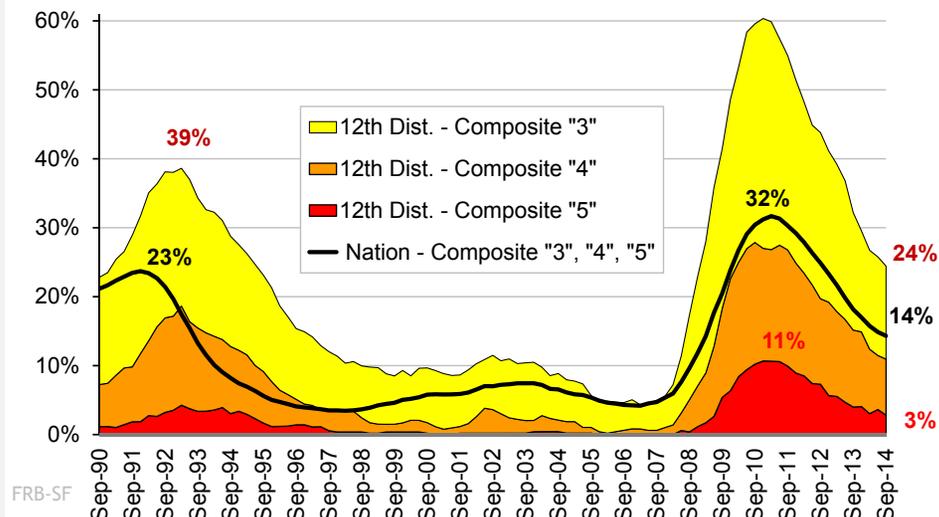
Percent of 12<sup>th</sup> District Quarterly Exams that Resulted in CAMELS Composite Rating Upgrade or Downgrade (downgrades shown as negative percentages)



Includes any change in composite CAMELS rating for commercial banks; quarterly trends based on examination completion dates (mail dates); recent data are preliminary; updated 11/19/14 56

## Percentage of Banks with CAMELS Composite Ratings of 3, 4, or 5 Continued to Fall

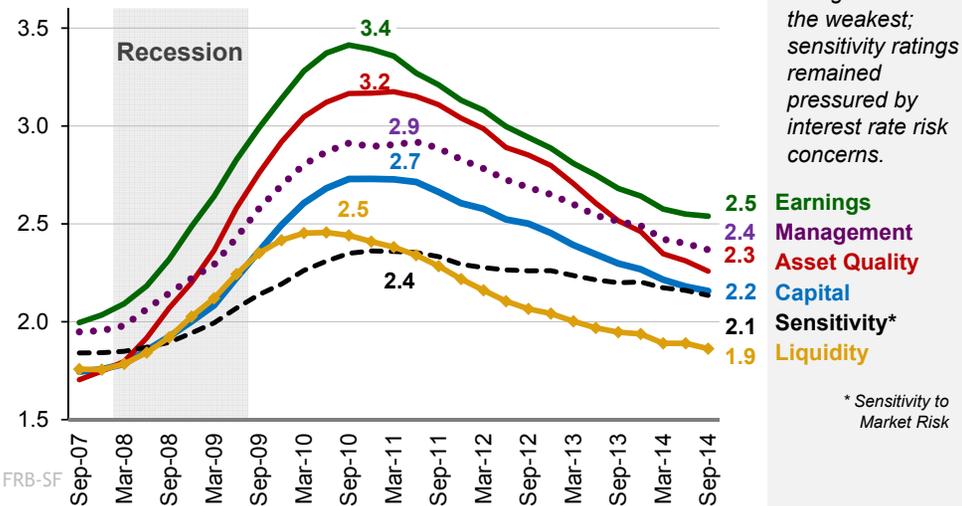
Share of Banks Rated Composite 3, 4, or 5



Trends for all commercial banks based on examination completion dates (mail dates); updated 11/19/14 57

## CAMELS Rating Components Continued to Improve; Although, Sensitivity Ratings Did Not Improve as Much

Average CAMELS Component Ratings for 12<sup>th</sup> District Banks (1: strong; 2: satisfactory; 3-5: less-than-satisfactory)



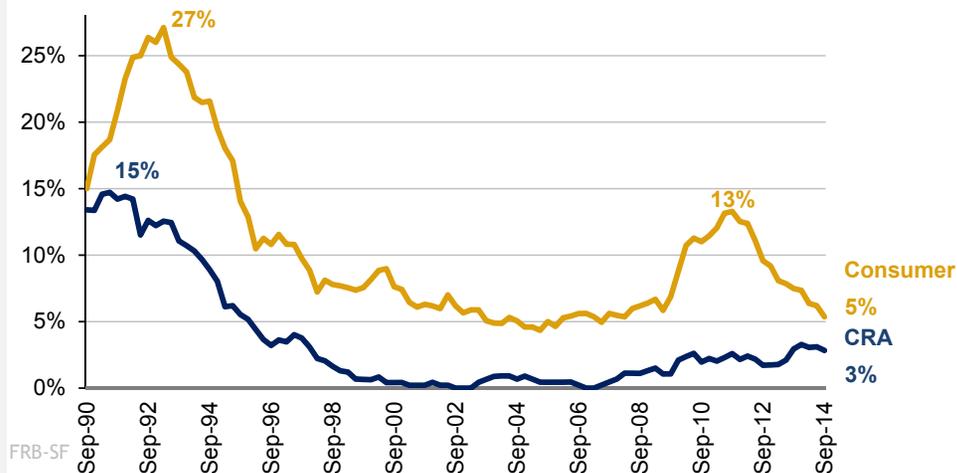
Earnings and Management ratings remained the weakest; sensitivity ratings remained pressured by interest rate risk concerns.

\* Sensitivity to Market Risk

Trends for all commercial banks based on examination completion dates (mail dates); recent data are preliminary; updated 11/19/14

## District Bank Consumer Compliance Ratings Improved; CRA Ratings Levelled Out

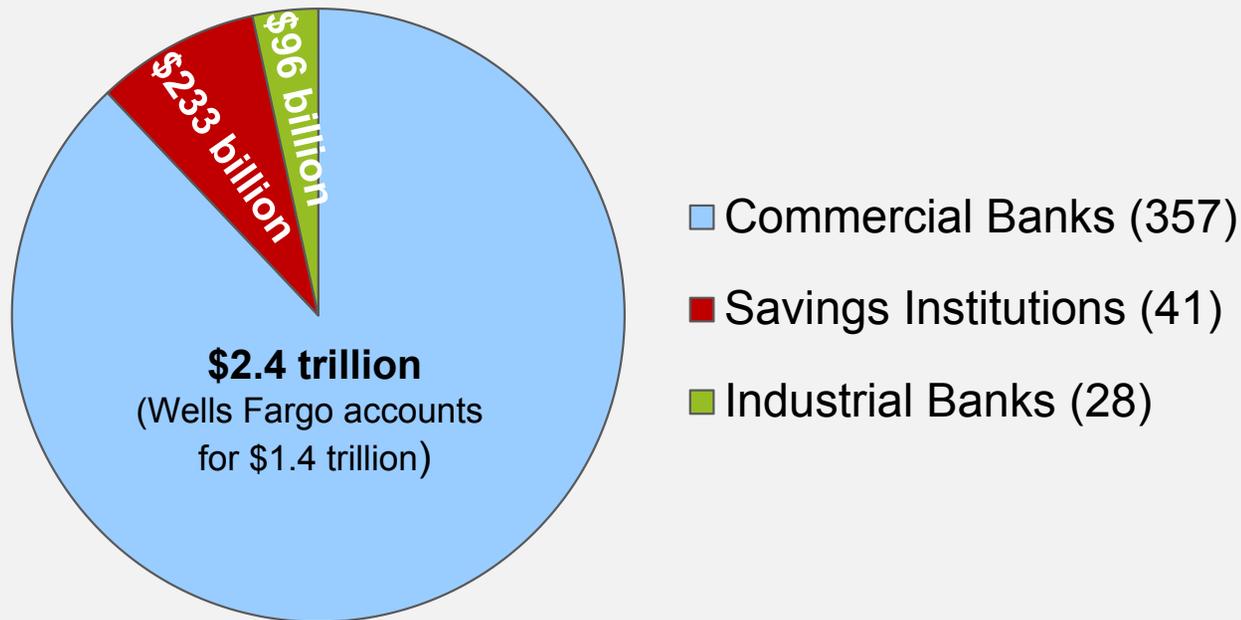
Percent of 12<sup>th</sup> District Banks with Less than Satisfactory Ratings



Trends for all commercial banks based on examination completion dates (mail dates); CRA = Community Reinvestment Act; recent data are preliminary; updated 11/19/14

# Section 4 - Savings Institution and Industrial Bank Performance

*Focusing on trends among the 40 savings institutions and 27 industrial banks headquartered within the 12<sup>th</sup> Federal Reserve District.*

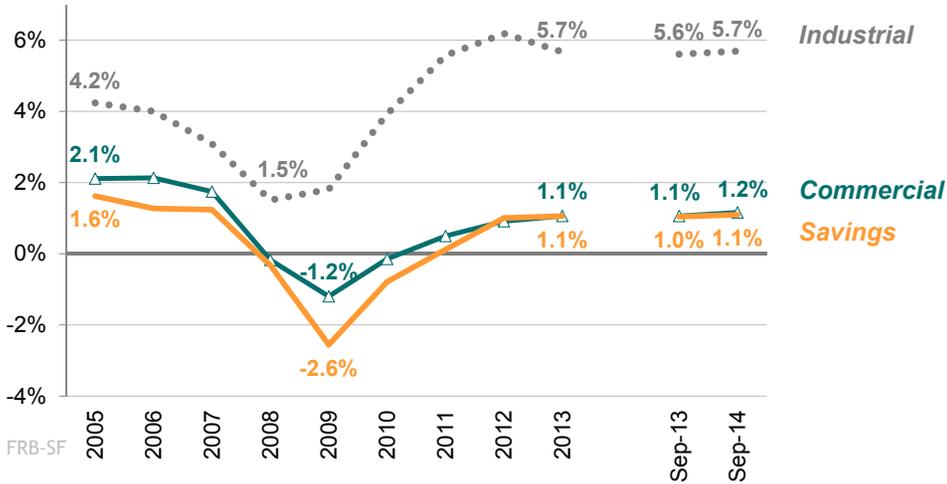


The savings institutions represent a combined population of District savings & loan associations plus savings banks – regardless of whether they filed the thrift Call Report or the bank Call Report. Starting March 2012, all savings institutions file the bank Call Report.

## District Industrial Bank Average Pretax Profitability Remained Strongest of the Institutional Groups

### Return on Average Assets

Industrials typically conduct nationwide consumer or C&I lending (contributing to strong loan yields) from one office (limiting overhead expenses).



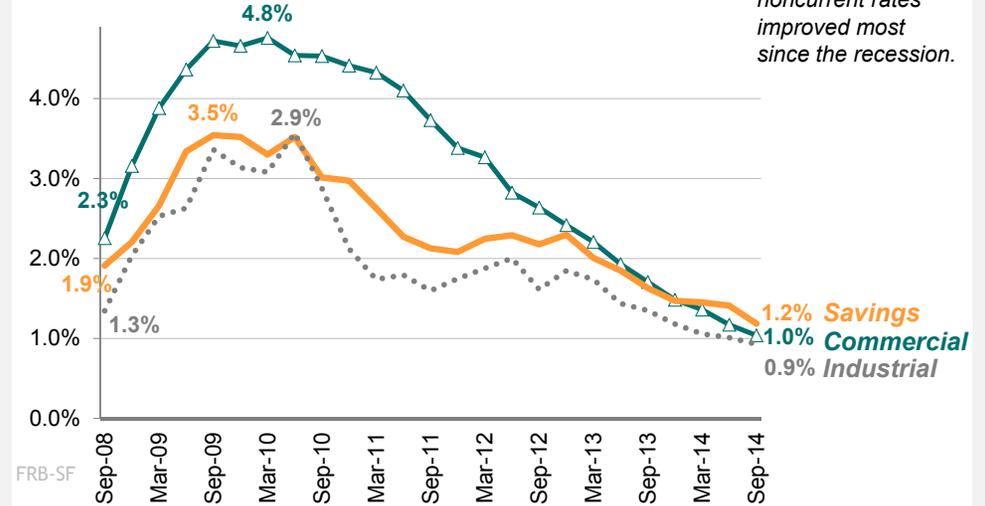
Based on District commercial banks, savings institutions, and industrial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data

61

## Noncurrent Loan Ratios Declined For Each Institutional Group

### Noncurrent Loans and Leases / Total Loans and Leases

Commercial bank noncurrent rates improved most since the recession.

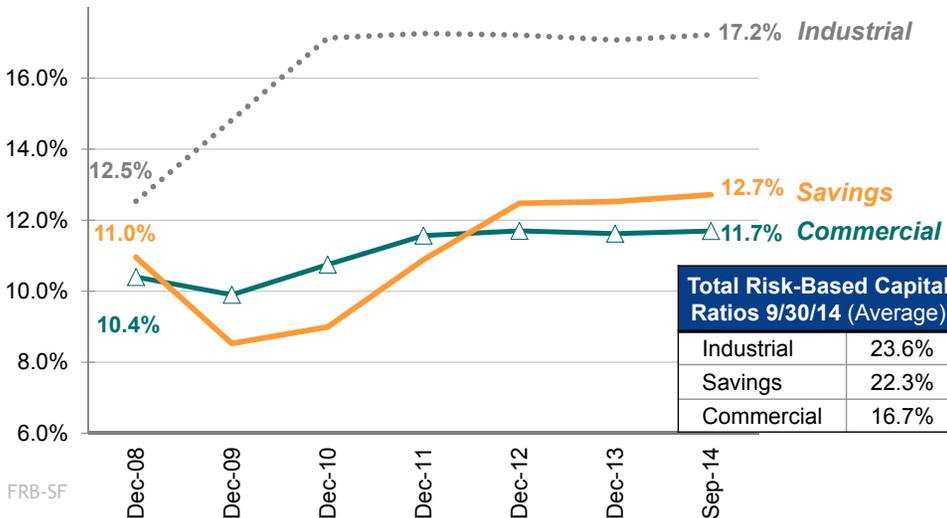


Based on District commercial banks, savings institutions, and industrial banks excluding De Novos; trimmed means; preliminary 9/30/14 data; Noncurrent = 90+ days past due or on nonaccrual.

62

## Average Equity/Assets Ratios Remained Flat for Each Institution Type after Rising Post-Crisis

### Equity / Assets



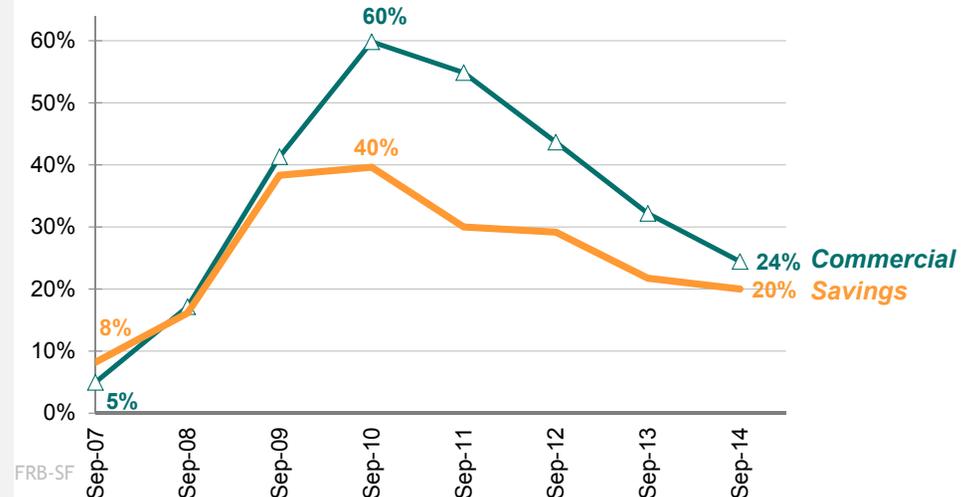
Total Risk-Based Capital Ratios 9/30/14 (Average)	
Industrial	23.6%
Savings	22.3%
Commercial	16.7%

Based on District commercial banks, savings institutions, and industrial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data; Equity = GAAP capital

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## Share of Savings Institutions Rated CAMELS Composite 3, 4, or 5 Also Drifted Downward

### Share of District Institutions Rated CAMELS Composite 3, 4, or 5



Trends for all institutions based on examination completion dates (mail dates); recent data are preliminary; updated 11/19/14; note: there are too few Industrials to disclose specifics, but the percentage rated CAMELS 3, 4, or 5 is under 15%.

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# Appendices

1. Banks Covered in this Report
2. Technical Information
3. Regulatory Hot Topics

## Appendix 1: Institutions Covered in this Report

Geography	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Sep-13	Sep-14	Sep-13	Sep-14	Sep-13	Sep-14
FRB-SF						
Alaska	4 (0)	4 (0)	-	-	2 (0)	1 (0)
Arizona	23 (0)	21 (0)	-	-	1 (0)	1 (0)
California	204 (5)	196 (1)	6 (0)	5 (0)	18 (1)	14 (0)
Guam	2 (0)	2 (0)	-	-	1 (0)	1 (0)
Hawaii	6 (0)	6 (0)	1 (0)	1 (0)	2 (0)	2 (0)
Idaho	15 (0)	12 (0)	-	-	1 (0)	1 (0)
Nevada	14 (0)	12 (0)	4 (0)	4 (0)	2 (0)	2 (0)
Oregon	25 (0)	25 (0)	-	-	3 (0)	3 (0)
Utah	32 (0)	31 (0)	19 (0)	18 (0)	4 (0)	4 (0)
Washington	52 (1)	48 (0)	-	-	12 (0)	12 (0)
12 <sup>th</sup> District	377 (6)	357 (1)	30 (0)	28 (0)	46 (1)	41 (0)
Nation	5,874 (40)	5,695 (14)	32 (0)	30 (0)	983 (4)	919 (2)

Based on preliminary 9/30/14 data.

## Appendix 2: Technical Information

This report focuses on the financial trends and performance of commercial banks headquartered within the 12<sup>th</sup> Federal Reserve District ("12L"). 12L includes 9 western states: AK, AZ, CA, HI, ID, NV, OR, UT, and WA, as well as Guam.

**De Novos:** Many of the charts exclude "De Novo" banks, or banks less than five years old.

**Groups by Asset Size:** 'Small', and 'Mid-Sized' bank groups are based on 12<sup>th</sup> District community banks (<\$10B) and Regional banks (\$10B-\$50B), respectively. The 'Large' bank group is based on nationwide banks with assets >\$50B, because a larger statistical population was needed to construct trimmed means.

**Trimmed Mean (also referred to as "average"):** Many of the charts present trends in ratio averages, adjusted for outliers. The method used is to eliminate or "trim" out the highest 10% and the lowest 10% of ratio values, and average the remaining values.

**Aggregate:** In some cases, the trimmed mean method is not appropriate (e.g., when many banks have zero values for a particular ratio or for some growth rates where there may be many highly positive and highly negative values). In these cases, District aggregates sometimes are computed (i.e., summing numerator values across all District banks and dividing by the sum of all denominator values), as opposed to averaging individual bank ratios). When an aggregate is used, it is indicated on the chart.

**Industrial banks and savings institutions:** The main focus of this report is on commercial banks. Industrial banks and savings institutions have different operating characteristics so are highlighted separately in Section 4. There, the savings institution data include institutions that file the bank Call Report plus those that, up until March 2012, filed the thrift Call Report.



# Appendix 3: Regulatory Hot Topics

## Moderate-to-High Concern Areas to Watch

*Evolving competitive, economic, regulatory, and technological challenges have heightened risks in many areas, especially BSA/AML, information technology, interest rate risk/liquidity, operations, and consumer compliance.*

**DIRECTION OF CONCERN**



**LEVEL OF CONCERN**

	Decreasing	Stable	Increasing
High		<u>BSA/AML</u> - Internal Control Environment	
Elevated		<u>Credit</u> - Quality of Loan Growth <u>Market</u> - Lengthening Asset Maturities <u>Other</u> - Capital Plans & Stress Testing	<u>Operational</u> - Info./Cyber Security
		<u>Operat'l.</u> - Business Continuity Planning <u>Operat'l.</u> - Service Provider Risk Management <u>Operat'l.</u> - Internal Audit Oversight & Program <u>Operat'l.</u> - Model Risk Management  <u>Compliance</u> - New/Complex Prod. & Services <u>Compliance</u> - Keeping Pace with Reg. Change	<u>Credit</u> - Loan Concentrations  <u>Liquidity</u> - Non-Maturity Deposit Sensitivity  <u>BSA/AML</u> - Board and Mgmt. Oversight

*BSA/AML policies, processes, and procedures have not always kept pace with the District's vulnerability to trade-based money laundering, bulk cash smuggling, marijuana related businesses, and virtual currencies.*

*Preventing and detecting rapidly evolving IT vulnerabilities and threats is an ongoing challenge. The stakes are very high in the event of a breach.*

**High** - Represents a current or future (next 1-2 years) problem area that if realized would likely lead District institutions to unprofitability, downgrade, or failure (note: High concern cannot have an Increasing outlook because High is already the highest concern level).

**Elevated** - Represents a lower likelihood than High of becoming a problem area and/or the problem area has a somewhat lower impact on District institutions' profitability, supervisory ratings, or ongoing concern.

**Moderate** - Represents a concern that is notable, but has low likelihood of realization or low impact to District institutions. Typically, these issues are of an emerging nature.

**Concern Outlook** – based on outlook within 1-2 years.

FRB-SF