FEDERAL RESERVE BANK
OF SAN FRANCISCO

# FIRST GLANCE 12L

Economic and Banking Performance in the Twelfth Federal Reserve District

# IN THE EYE OF THE STORM

2Q20 | SEPT. 3, 2020



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*First Glance 12L*: https://www.frbsf.org/banking/publications/first-glance-12l

# Summary & Contents

## Key Takeaways

***Stimulus and forbearance muddied banking metrics.***

- **Paycheck Protection Program** (PPP) activity spurred a record level of quarterly loan, deposit, and asset growth. This fed a shift in balance sheet composition on both sides of the ledger, weighed on margins and tier 1 leverage capital ratios at most District banks, and distorted trends in several performance metrics.
- District banks' average **quarterly return on average assets** ratio increased slightly from 1Q20 in spite of net interest margin compression and higher credit loss provisions, mainly because asset growth far outpaced increases in noninterest and tax expenses.
- **Problem loan ratios** were generally stable given loan accommodations and PPP-fueled denominator growth, but metrics will likely deteriorate once forbearance and government programs expire.
- Banks are exposed to **household sector credit stress**, which varies by geography and demographic group, as noted in this quarter's "Spotlight" feature.

***Economic conditions recovered partially in 2Q20, but significant uncertainties remain.***

- **Hiring** rebounded from April's trough, but unemployment rates across the District remained well above year-ago levels, and COVID-19 case counts have proven volatile, potentially threatening the recovery.
- **Home price gains** persisted despite jobless rates. Low interest rates, limited for-sale inventories, and pent-up demand unleashed after states re-opened buoyed price gains, new permits, and homebuilder optimism.
- **Commercial real estate** prices came under pressure in several sectors, and property markets face the prospect of declining rents and rising vacancy rates.

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# Twelfth District Overview
# “In the Eye of the Storm”

*The labor market continued to recover from its historic collapse in April, but the pace of recovery slowed and not all states and sectors benefitted equally.* Districtwide, nonfarm payrolls fell by 8% year-over-year in July, compared to 13% in April. Likewise, the Districtwide unemployment rate improved to 12% in July, from 16% in April. While most sectors recovered at least some of their April job losses, the transportation/utilities (4% of average District payrolls in 2019), information (3%) and mining/logging (0.3%) sectors experienced little-to-no recovery. Similarly, all District states have seen some reduction in unemployment since April, but California, Arizona, Oregon, and Alaska have seen smaller improvements in their unemployment rates relative to Nevada, Hawaii, and Washington. Worryingly, the District, along with the nation, experienced a significant resurgence of COVID-19 cases starting in late-June, and deaths started increasing in mid-July. In response, mobility also started falling again in mid-July, after increasing from mid-April, suggesting that the labor-market recovery may lose steam in the coming months.

*The housing market bounced back sharply in June and July.* Sales of existing single-family homes recovered to pre-pandemic levels by July as buyers who have been working from home sought larger houses in less-dense areas. Home-price growth remained robust in most District states. In Washington, Nevada, and California, upper-tier home prices have outperformed relative to lower-tier prices since the pandemic, likely reflecting demand for larger homes and, possibly, more severe job losses among lower-earning industries—which also drove down housing affordability across the District. Housing permits issued in the District fell sharply in May, but retraced losses in July. By August, record levels of buyer traffic propelled West-region homebuilder sentiment to its highest level since the 2002-06 housing bubble.

*The CRE market began to show signs of deterioration in the second quarter.* The number of national CRE transactions fell sharply in all sectors to levels not seen since the early recovery from the Global Financial Crisis (GFC), with hotel transactions below GFC-era lows. Likewise, the pandemic prompted CRE prices to begin to edge downwards, except for industrial property prices. Average capitalization rates for retail shops ticked up notably—to 5.7%, from 5.4% a year earlier—but remained consistent with pre-pandemic trends in other sectors. In the District, vacancy rates edged up 0.5–0.9 percentage points relative to 4Q19, with the largest increase in the office sector. Additionally, CBRE-EA now forecasts a more sustained downturn for CRE vacancy rates and rents in the West—particularly for office and retail properties.

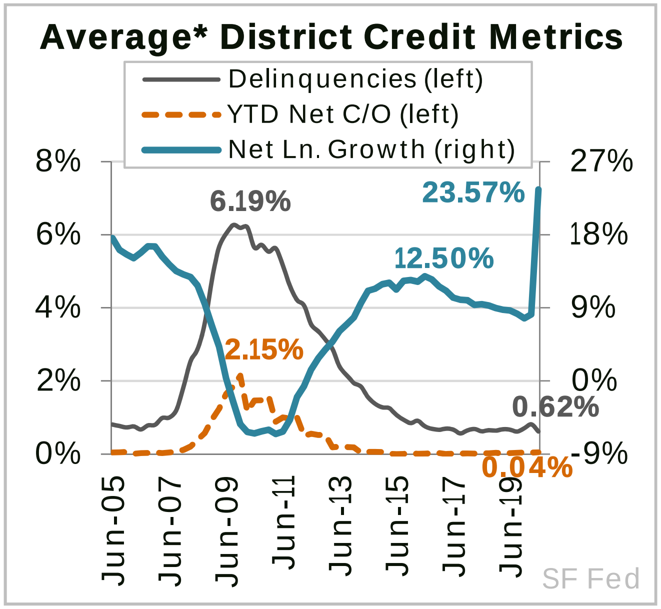
## Nonfarm Job Growth & Unemployment

| | Job Growth (Y-o-Y %) | | Unemploy. Rate | |
|---|---|---|---|---|
| | 12 Mo. | Jul-20 | 12 Mo. | Jul-20 |
| NV | | -9.8% | | 14.0% |
| CA | | -9.4% | | 13.3% |
| HI | | -16.1% | | 13.1% |
| AK | | -11.9% | | 11.6% |
| AZ | | -3.6% | | 10.6% |
| OR | | -7.6% | | 10.4% |
| WA | | -7.1% | | 10.3% |
| ID | | -1.2% | | 5.0% |
| UT | | -2.0% | | 4.5% |
| US | | -7.5% | | 10.2% |

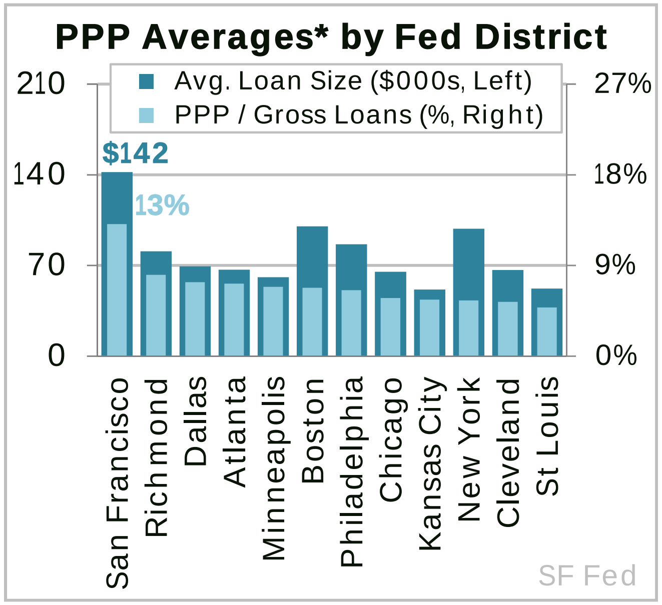
Seasonally adjusted; subject to annual benchmark revision.
Source: Bureau of Labor Statistics via Haver Analytics.

SF Fed

# Twelfth District Overview, Continued




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




*trimmed means; average loan size = aggregate PPP balances / number of PPP loans.

*Bank returns on average assets improved modestly quarter-over-quarter, but remained well below prior year levels.* District banks' average quarterly annualized ROAA ratio was 0.92%, up 8 bps from 1Q20, but more than 30 bps below the same quarter in 2019 (adjusted for Subchapter S tax filers). Interest rate declines plus a surge in lower-yielding PPP loans and liquid asset holdings fed quarterly net interest margin compression. Meanwhile, a dimming credit outlook prompted higher provisions for loan losses. However, these trends were heavily offset by a 46-bps decline in the average quarterly noninterest expense-to-average assets ratio—largely attributed to PPP-fueled asset growth far outpacing increases in overhead. On average, District banks' balance sheets swelled 16% quarter-over-quarter and 26% year-over-year, a record high pace (based upon data back to 2001).

*PPP loan growth and credit modifications affected traditional credit metrics notably.* Average one-year net loan growth topped 23% in the District, far outpacing historical norms, and all other Federal Reserve districts (see chart, upper left). Commercial and industrial (C&I) loans—the most common category for PPP loans—drove the trend, expanding 127% year-over-year on average. Twelfth District bank PPP loans were generally larger and represented a higher share of gross loans than elsewhere (see chart, bottom left). Partly because of denominator effects, the average ratio of loans past-due 30 days or more or in nonaccrual status receded slightly to 0.62%. Delinquency ratios were also mitigated by loan accommodations, which are encouraged by the banking agencies and can be made (temporarily) without troubled debt restructuring accounting treatment provided they comply with Coronavirus Aid, Relief, and Economic Security (CARES) Act requirements. By mid-2020, such modifications averaged more than 7% of gross loans and nearly 50% of tier 1 capital plus loan loss allowances among District banks. Outside of PPP, lenders reported tightened underwriting standards amid weaker borrower demand in 2Q20.

*A portion of PPP loan proceeds and flight-to-safety inflows remained on deposit at banks by mid-year, which were often invested in low-yielding, temporary instruments.* Year-over-year growth in nonmaturity deposits—which generally fund two thirds of bank balance sheets—accelerated to 33%. Likewise, bank holdings of cash and equivalents increased during the quarter and year. Given their zero percent risk weight, risk-based capital calculations were unaffected by PPP growth. However, the tier 1 leverage capital ratio denominator only excludes average PPP loans pledged against PPP liquidity facility (PPPLF) borrowings—which most banks did not use—so PPP-related asset growth typically weighed on leverage capital ratios.

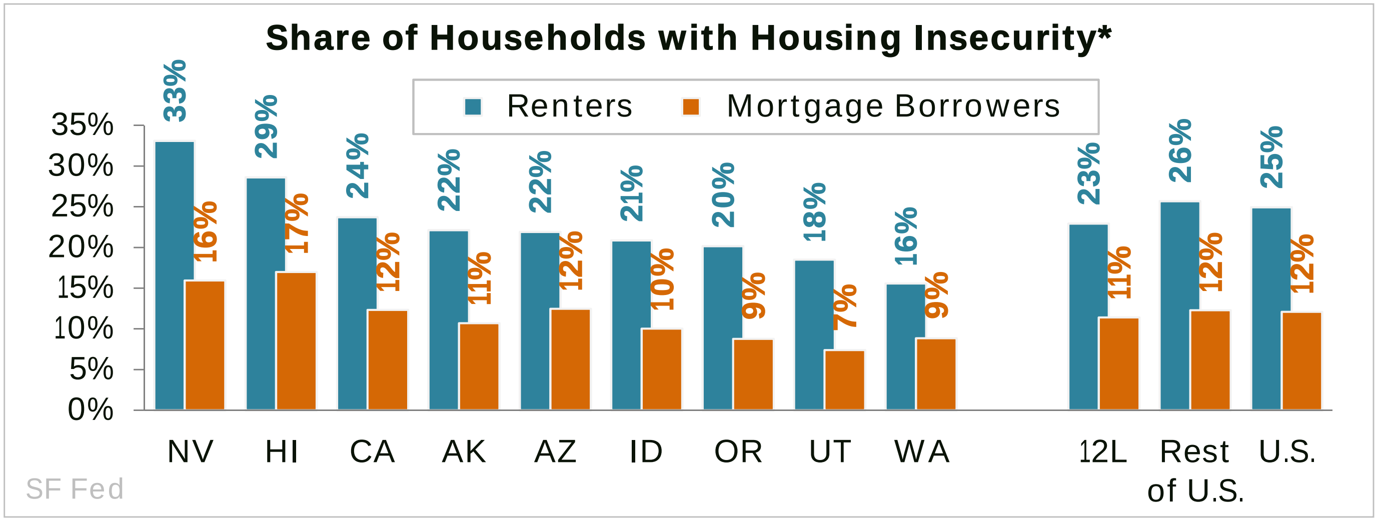
# Section 1
# Spotlight Feature & Hot Topics

**Spotlight: COVID-19's Household Impacts**

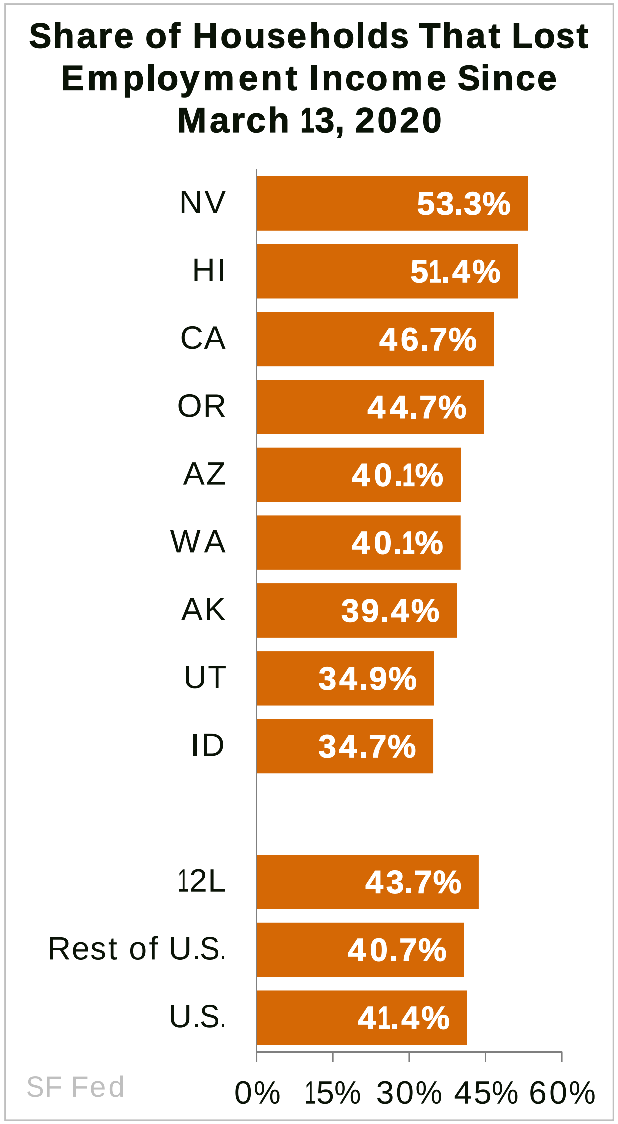
**Hot Topics We Are Monitoring Most Closely**

# Spotlight: COVID-19's Impact on Twelfth District Households

- *A large share of District households have suffered a loss of employment income during the pandemic*. The Census Bureau's latest available *Household Pulse Survey*, conducted in late July, suggested that more than 43% of households in the West had lost employment income since mid-March, slightly exceeding the share affected elsewhere. Households in states with a heavy reliance on tourism and/or prolonged shelter-in-place measures—such as Nevada, Hawaii, and California—tended to report greater impacts. In contrast, in Utah and Idaho, where virus transmission was initially low and states reopened earlier, a smaller proportion of households reported a loss of employment income between mid-March and mid-July (see chart, right).
- *Income losses contributed to housing insecurity*. The same Census Bureau survey asked mortgage borrowers and renters about whether or not they made last month's (June) housing payment on time and how confident they were in their ability to make next month's (August) payment. Homeowners and renters in Nevada and Hawaii were among the most likely to report late or deferred payments in the prior month (more than 10% of respondents). Households in these states also tended to have lower confidence in their ability to make future mortgage or rental payments. Overall, 11% of the District's surveyed mortgage borrowers and 23% of its renters expressed some level of housing insecurity in July (see chart, bottom).




*Defined as households with little/no confidence they can pay or that have plans to defer next month's mortgage or rent payment; denominator excludes responses where homeowner/renter did not have mortgage/rent payment obligations or where no selection was specified. Source: Census Bureau Household Pulse Survey (7/16-21/2020 survey period)




Survey included more than 19.3 thousand respondents in the District and 67.5 thousand respondents elsewhere; denominator excludes responses where no selection was specified. Source: Census Bureau Household Pulse Survey (7/16-21/2020 survey period)

# Spotlight: COVID-19's Impact on Twelfth District Households

- *The frequency of income loss and housing insecurity differ by race, ethnicity, and income level*. Previous or expected loss of employment income and housing insecurity were more commonly reported among non-white respondents or those of Hispanic origin (see table). The frequency of income loss and housing insecurity were also correlated negatively with a household's pre-pandemic annual income—those that reported lower incomes in 2019 were more likely to have lost income, expect a job loss in the coming four weeks, or lack confidence about their ability make mortgage or rent payments. The racial and income divide of COVID-19 has compounded pre-existing inequities.

- *Disparate impacts across groups were also evident in job loss data.* According to Opportunity Insights, a nonprofit research group at Harvard University, job losses have persisted among jobs in lower wage tiers vis-à-vis higher wage tiers. Nationally, by the end of June, low-wage positions remained more than 15% below their January 2020 level; in contrast, high-wage employment was down by less than 1%. A similar pattern held true across most of the Twelfth District, but with low wage positions down more than 20% within four District states: California (-26%), Nevada (-26%), Hawaii (-24%), and Oregon (-21%).

- *Borrowers with lower credit scores were more likely to have loans in forbearance by July.* According to Transunion, the share of consumer loan accounts "in hardship" tended to be higher among subprime and near prime

**Demographics of Employment Loss and Housing Insecurity**

| Twelfth District Respondents, 7/16-21/2020<br>SF Fed | Lost Employment Income* | Expect Loss of Employment | Mortgage Borrowers***: Late/Deferred Payment Last Month | Mortgage Borrowers***: No/Slight Confidence or Will Defer Next Month | Renters***: Late/Deferred Payment Last Month | Renters***: No/Slight Confidence or Will Defer Next Month |
|---|---|---|---|---|---|---|
| **Race or Ethnicity**** | | | | | | |
| Hispanic Origin | 57% | 47% | 16% | 21% | 18% | 37% |
| Non-Hispanic Origin | | | | | | |
| Black | 56% | 43% | 15% | 22% | 20% | 34% |
| Other/Multiple | 51% | 37% | 11% | 14% | 16% | 24% |
| Asian | 46% | 37% | 9% | 16% | 12% | 27% |
| White | 40% | 27% | 7% | 9% | 10% | 17% |
| **2019 Income Level ($000s)** | | | | | | |
| *< $50* | 53% | 41% | 17% | 26% | 18% | 33% |
| *$50-$100* | 45% | 31% | 10% | 12% | 10% | 18% |
| *$100-$150* | 39% | 27% | 6% | 7% | 4% | 8% |
| *>$150* | 32% | 20% | 4% | 4% | 2% | 5% |
| *Not Specified* | 43% | 32% | 11% | 12% | 13% | 22% |
| Twelfth District | 44% | 31% | 9% | 11% | 12% | 23% |

*Since March 13; **excludes responses where no selection was specified; ***excludes homeowners/renters who had no mortgage or lived rent-free. Source: Census Bureau *Household Pulse Survey (7/16-21/2020 survey period)*

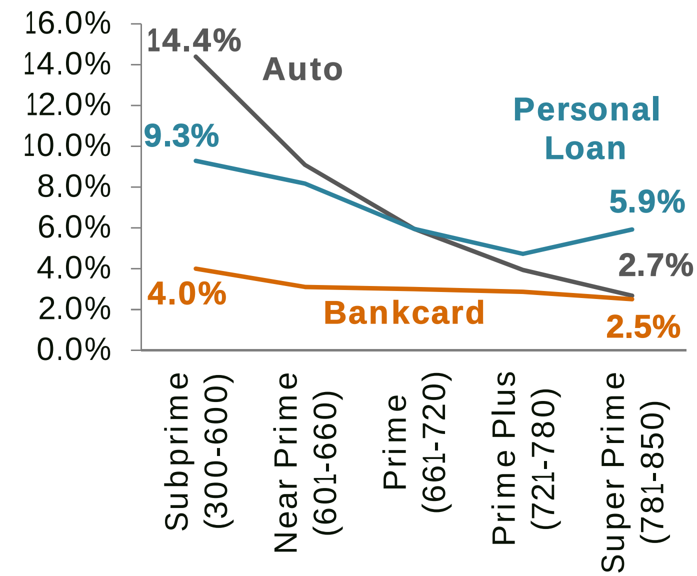
# Spotlight: COVID-19's Impact on Twelfth District Households

borrowers than super prime or prime plus borrowers (see chart, top right). Among mortgages, the rate of "hardship" among FHA-backed loans—made disproportionately to near prime and subprime borrowers—was 12.9%, up from 1.2% in July 2019, and more than twice the rate of Fannie/Freddie loans.

- *District banks are exposed to household sector stress most directly through consumer, 1-4 family, and multifamily loan portfolios.* At midyear, consumer and 1-4 family loan concentrations (and severe delinquencies) tended to be higher at large banks nationally than at community banks in the District (see chart, bottom). Mid-sized District banks often reported very heavy exposures to single-family mortgages. Notably, given the mix of housing stock in the West, District banks of all sizes typically reported multifamily mortgage exposures well above the national average, leaving them vulnerable to stress among renters. Forbearance, in combination with fiscal and monetary stimulus, largely suppressed loan delinquencies and losses through June 2020, notwithstanding a surge in unemployment. Once stimulus fades and forbearance terms run their course, credit performance problems are likely to emerge with a lag. Delinquencies may eventually trigger write-downs. Under the banking agencies' Revised *Uniform Retail Credit Classification and Account Management Policy Statement* (see SR-00-8), closed-end and open-end consumer credits that reach 120 days and 180 days delinquency, respectively—or sooner in the event of a bankruptcy filing—are subject to loss recognition in the event of collateral shortfalls.

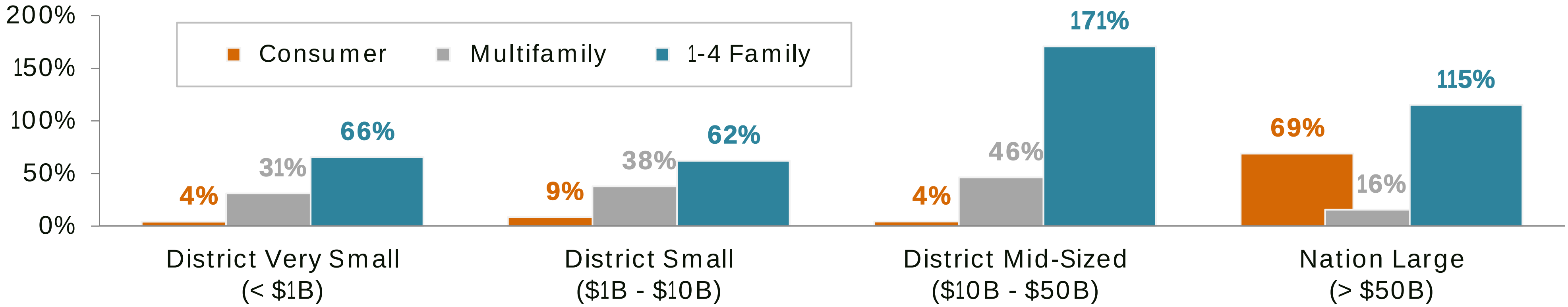
**Loans "In Hardship" – Nation**

*(% of Loan Count by Credit Score)*




"Hardship" includes accounts affected by disaster, or reported as in forbearance/ payment deferral/frozen status, but not officially delinquent. Source: Transunion, *Monthly Industry Snapshot* (July 2020).

**Average % of Tier 1 Capital + ALLL**




Average = trimmed mean; ALLL = allowance for loan and lease losses (or related portion of allowance for credit losses).

# Hot Topics: Areas We Are Monitoring Most Closely

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

- *Cyberthreats*. The remote work environment created by COVID-19 produced a more vulnerable attack vector for threat actors, capitalizing on a reduced, distracted, stressed financial sector workforce. According to VMWare's *Modern Bank Heists 3.0* report, cyberattacks against the financial sector increased by 238% between February and April 2020, with 80% of surveyed banks noting cyberattacks have increased over the past 12 months. These attacks range from destructive, such as corrupting data, to advantageous, such as wire fraud and ransomware. Further, the U.S. Secret Service's Cyber Fraud Task Force (CFTF) reported that the FBI and Department of Homeland Security found Citrix VPN and Microsoft Office 365 vulnerabilities are being routinely exploited by foreign threat actors, since financial institutions rushed to issue VPN licenses and launch Office 365 for remote collaboration. Financial institutions are not the only target of threat actors. The CFTF also noted it is seeing an increase in cyberattacks against service providers. Lastly, District banks have reported customers are being targeted using fake websites, COVID-19-themed phishing attacks, business email compromises, and man-in-the-middle vishing attacks that attempt to obtain one-time authentication passcodes.
- *Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance and fraud*. While the volume of BSA/AML-related supervisory criticisms at District institutions has moderated, monitoring remains heightened because of the District's role in the global economy, the array of activities being conducted by supervised institutions, and the expanding scope of cannabis legalization. We also note that coronavirus and stimulus-related scams are occurring increasingly. FinCEN provides continuous updates on emerging risks on its new coronavirus updates page, which houses notices on topics like medical scams, imposter scams, cyber-enabled crimes, PPP, and beneficial ownership considerations.
- *Compliance challenges amid COVID -19 response.* The CARES Act and other pandemic responses, including lending programs such as PPP and FEMA's grace period extension for renewing National Flood Insurance Policies, have created new compliance requirements and responsibilities for financial institutions. Although these responses provide support for consumers and small businesses, financial institutions have been required to update processes and procedures in a very short timeframe. In addition, as the pandemic is anticipated to continue for the foreseeable future, banks are encouraged to provide consumers with available options for repaying missed payments to avoid delinquencies or other adverse consequences. Banks are also encouraged to provide consumers with options for making prudent changes to the terms of credit to support sustainable and affordable payments for the long term (see SR 20-18 / CA 20-13).
- *Evolving financial technology (fintech) opportunities and risks*. Fintech lenders made significant inroads to the small business lending space through PPP originations. Larger fintech firms have also attracted attention recently, with Google adding six financial institutions to offer checking and savings accounts through Google Pay, and Kabbage launching a checking account option for small businesses. During the current environment, more financial activity has shifted online and deposits are increasingly valuable as a cheap, stable source of funding. We expect an increase in fintech firms seeking bank charters. Varo Money recently obtained a national bank charter, while SoFi is again attempting to establish a bank. Still, announced acquisitions of Kabbage and OnDeck signal that there could be more consolidation in the small business lending space, especially among fintech lenders with less-stable funding sources.

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

- *CRE concentrations/conditions*. Nonowner-occupied CRE loan concentrations—including mortgages for C&LD, multifamily, or nonowner-occupied commercial real estate plus CRE purpose loans not secured by real estate—entered the current recession below pre-GFC peaks, mainly because of lower C&LD lending volumes; however, they remained above the U.S. average across most District states (see table, right). Concentrations, combined with mounting pandemic-related pressures on CRE cash flows, valuations, and credit availability, heighten regulatory concern. Risks are expected to extend to owner-occupied CRE.
- *C&I concentrations/conditions*. The U.S. corporate debt-to-gross domestic product ratio was already near record levels in early 2020, propelled in part by leveraged and near-subinvestment grade loans. Corporate indebtedness, combined with loosened underwriting and current extreme stresses on business borrowers, are expected to amplify C&I loan losses. The impact on District banks could be significant. Although SBA-backed PPP loans represented roughly one quarter of District bank domestic C&I loans by mid-2020, the remainder included credits extended to struggling businesses or that were unsecured or collateralized by hard-to-value assets. On average, midyear drawn C&I balances represented 170% of tier 1 capital plus loan and lease loss allowances in the District, compared with a 110% average nationwide. PPP lenders now face the task of processing a large volume of loan forgiveness requests, and possibly modifications, which will put pressure on bank C&I lending functions. In a 2Q20 survey, bankers in the West indicated that C&I (followed closely by CRE) was the business line most vulnerable to COVID-19.
- *Reaching for yield.* Since the GFC, banks had shifted their balance sheet mix, in part to accommodate loan demand but also to combat a persistently low interest rate environment. Examples included increased holdings of longer-term loans and securities, and pursuit of products with higher credit risk or optionality. Given recent sharp declines in interest rates, excess liquidity, and the potential for mounting credit losses, earnings pressures have increased, possibly prompting alternative profit or yield seeking strategies. These shifts may impact credit, liquidity, interest rate, and even operational risk positions.
- *Drought-related risks*. According to the U.S. Drought Monitor, as of August 20, "severe" to "exceptional" drought covered a large share of land area in Utah (79%), Arizona (75%), Oregon (53%), Nevada (52%), and California (22%). These states were substantially drought-free at the same time last year. By August 26, the National Interagency Fire Center was tracking 94 active large fires/complexes nationwide. The largest incidents were in California, ignited by lightning amid a statewide heatwave in mid-August. Of the national total, the District was home to 76% of the count of fires and nearly 88% of affected acreage. Drought and wildfires pose challenges for bank offices, employees, and customers.

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

| SF Fed | 2008-2020** | Jun-20 |
|---|---|---|
| CA | 299% | 267.2% |
| WA | 334% | 221.3% |
| OR | 339% | 211.7% |
| AZ | 349% | 186.6% |
| NV | 324% | 178.6% |
| HI | 173% | 169.3% |
| ID | 238% | 150.8% |
| AK | 163% | 150.0% |
| UT | 318% | 121.0% |
| Nation | 149% | 124.6% |

Trimmed means; excludes owner-occupied CRE; *includes loan- and lease-related allowances for losses; **Jun. 30 of each year.

◆ = trough ◆ = peak

# Section 2
# Economic Conditions

**Pandemic and Social Distancing**

**Job Growth**

**Housing Market**

**Commercial Real Estate**

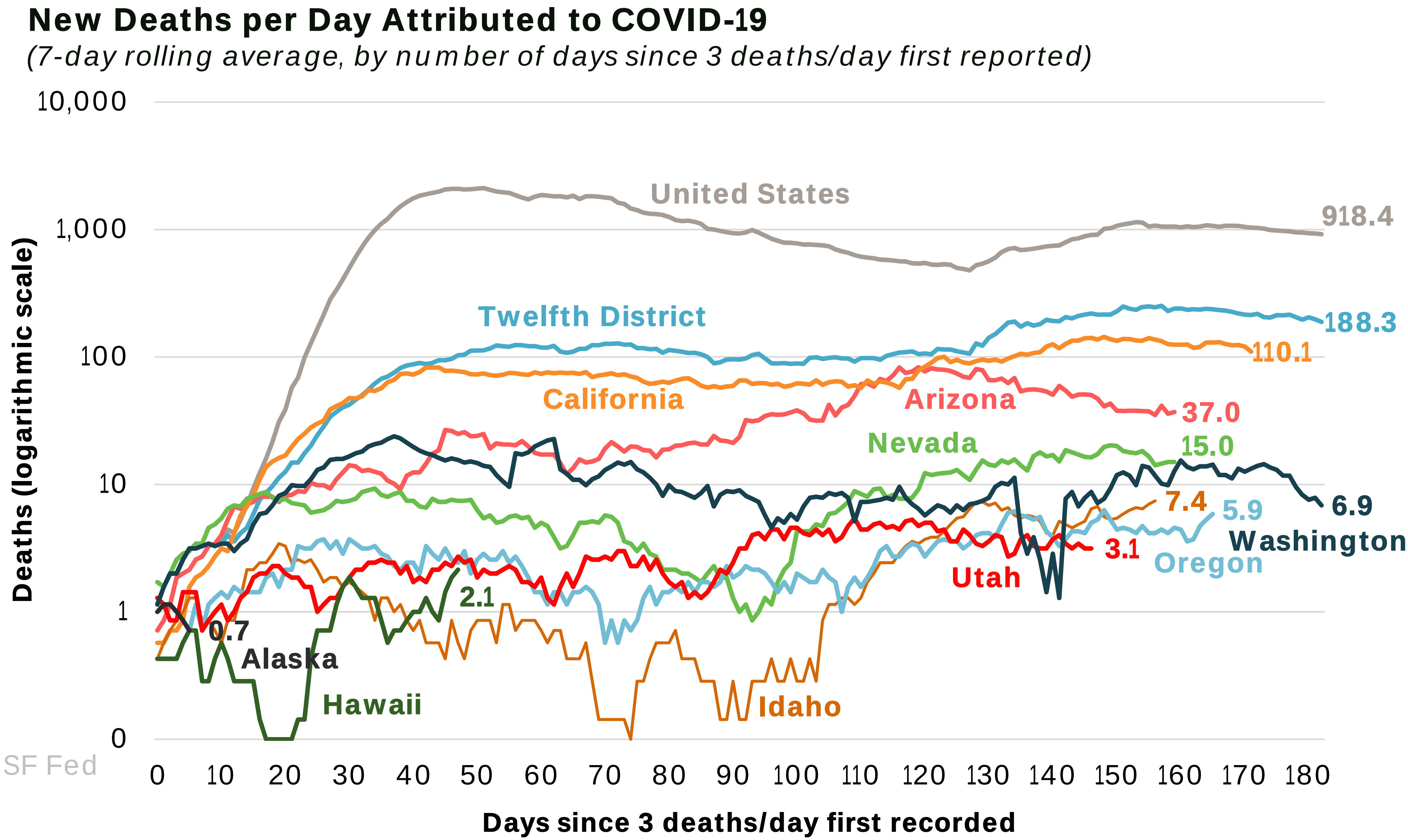
For more information on the national economy, see:

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

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

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

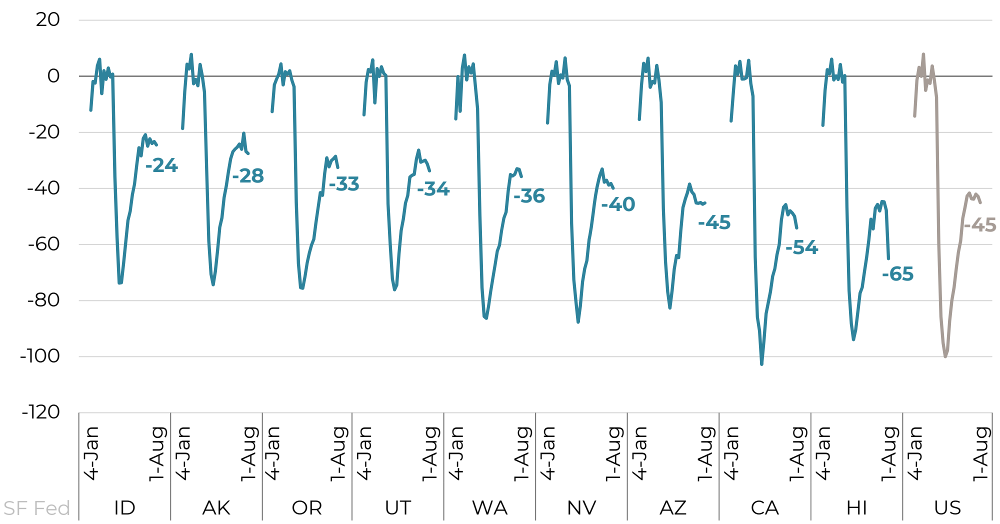
# Daily COVID-19 deaths in the District started reaccelerating in mid-July, and remain at or near peaks in ID, HI, and OR.




Data through 8/30/2020; comparisons of deaths across states should be interpreted cautiously due to differing standards for which deaths are attributed to COVID-19. Source: COVID Tracking Project, accessed 8/30/2020.

## 13 Mobility across District states loosened after mid-April, but started to tighten again in July as infections surged.

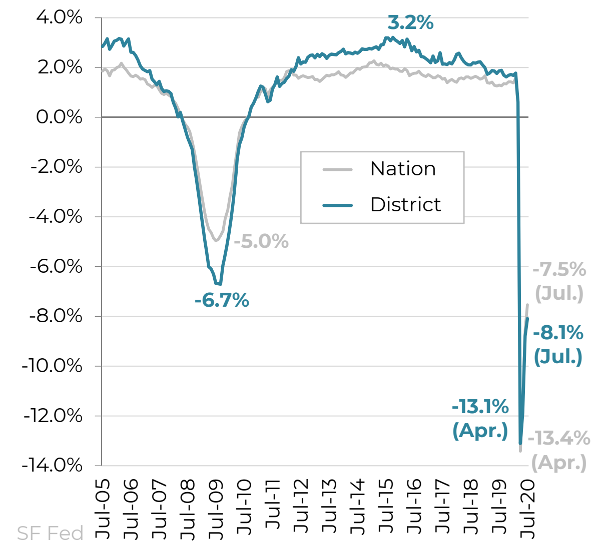
**Dallas Fed Mobility and Engagement Index**
*(Weekly average, lower = less mobility & engagement)*




All indices are scaled relative to a national index, which averages zero during the January–February 2020 period and equals -100 for the week ended April 11, 2020; indices are based on aggregated, anonymized location data from mobile devices. Source: Federal Reserve Bank of Dallas via Haver Analytics.

## 14 District payrolls recovered at a slowing pace through July; transport & info. sectors have missed out on the recovery.

**Nonfarm Job Growth**
*(Year-Over-Year % Change)*




**Twelfth District Jobs by Sector**

| Job Sector | % Change (Year-Over-Year) 12-month | Jul-20 |
|---|---|---|
| Leisure & Hospitality | | -27.73% |
| Other Svcs. | | -15.23% |
| Information | | -7.33% |
| Manufacturing | | -6.83% |
| Prof. & Business Svcs. | | -5.84% |
| Retail Trade | | -5.69% |
| Mining & Logging | | -5.11% |
| Transport. & Utilities | | -5.02% |
| Government | | -4.86% |
| Wholesale Trade | | -4.59% |
| Edu. & Health Svcs. | | -4.49% |
| Construction | | -4.10% |
| Financial Activities | | -0.82% |
| Total Nonfarm | | -8.09% |

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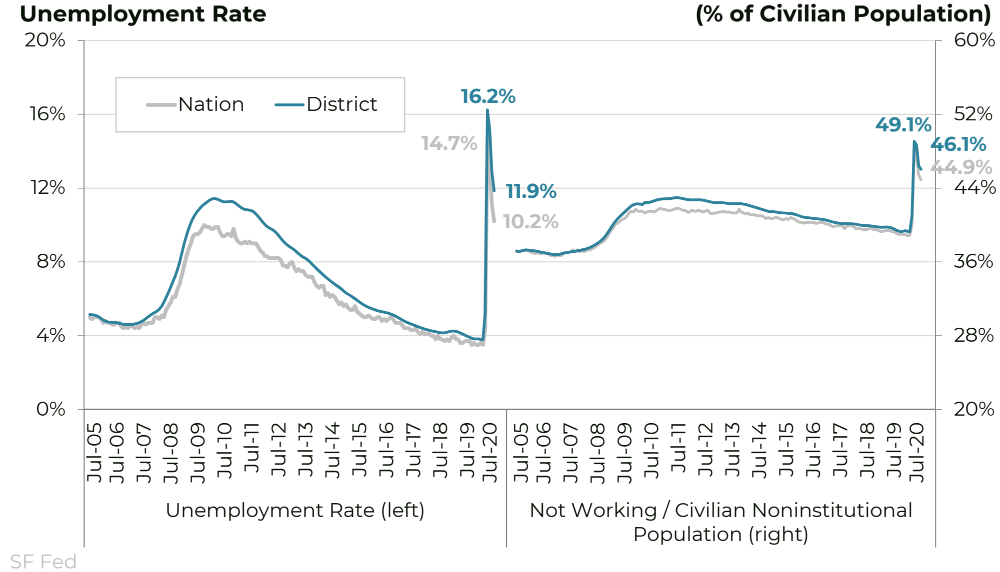
Seasonally adjusted; construction sector includes mining and logging in Hawaii; information sector excludes Hawaii and Nevada. Source: Bureau of Labor Statistics via Haver Analytics.

## 15 The District unemployment rate and not-working share fell sharply in June, but gains slowed in July.

**Unemployment Rate**

**Not Working (% of Civilian Population)**

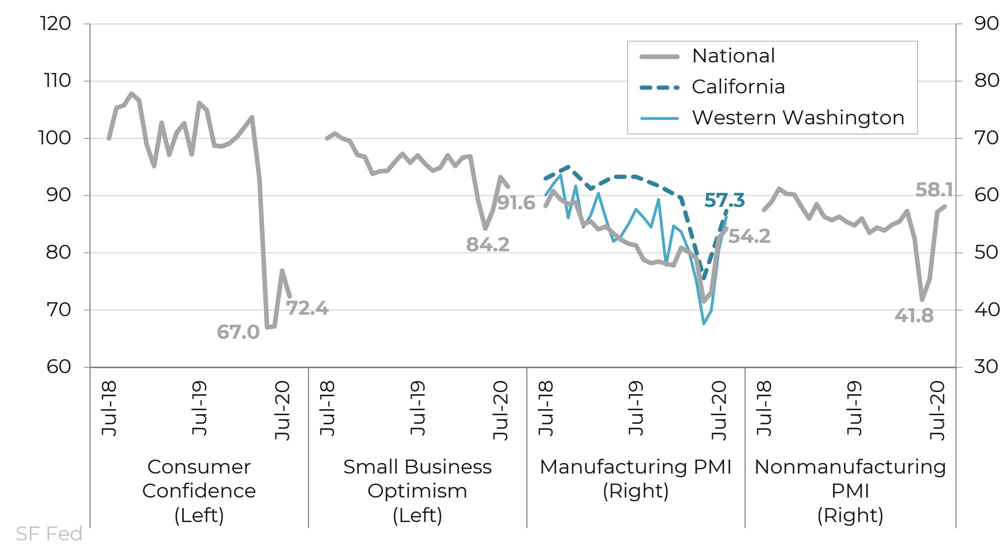



Seasonally adjusted. "Civilian Population" = noninstitutional civilian population; "Not Working" = Civilian Population minus number employed. Source: Bureau of Labor Statistics.

## 16 Although PMIs indicated that business activity expanded in June and July, optimism receded again.

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

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

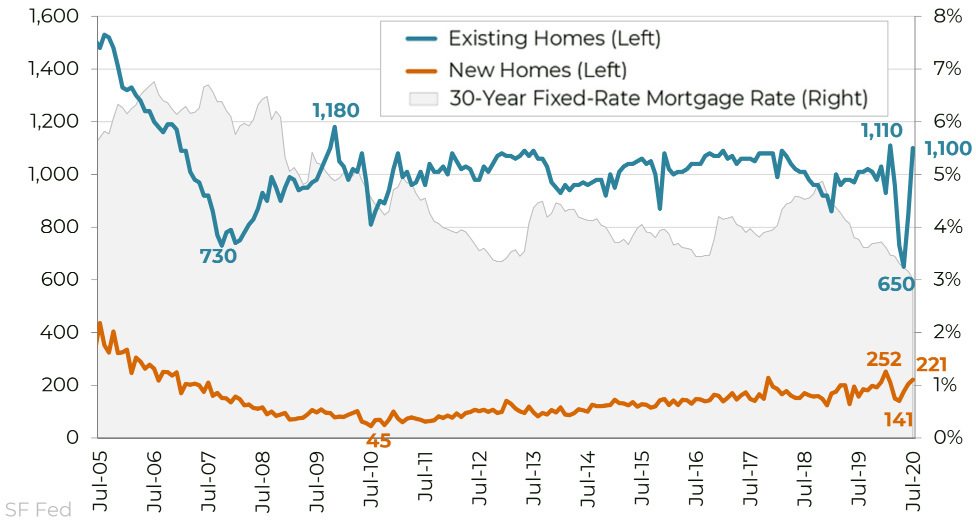



Seasonally adjusted. California PMI is quarterly, ending 2Q20; other series monthly, ending May-20. Sources: Conference Board, National Federation of Independent Business, Institute for Supply Management, Chapman University via Haver Analytics.

## 17 Single-family home sales recovered in July, driven by buyer demand for larger homes.

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

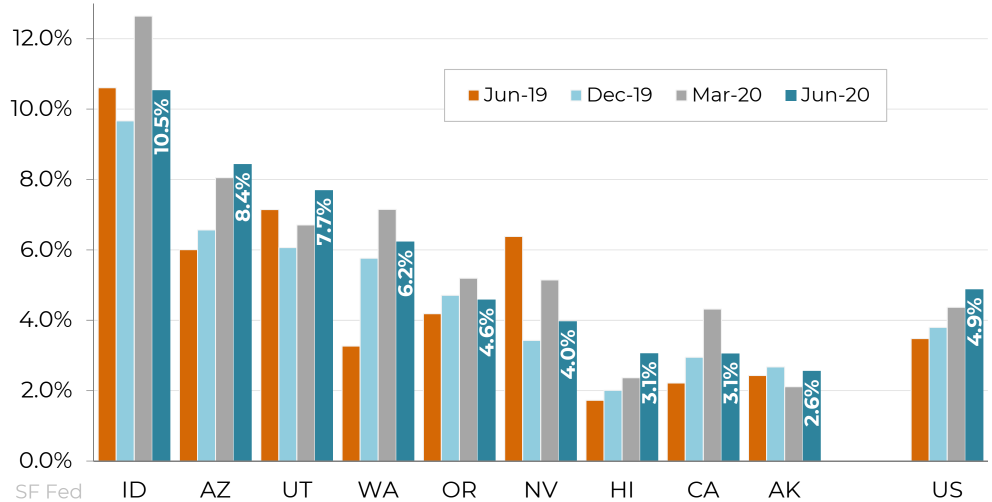
**30-Year Fixed Mortgage Rate – Nation** *(Monthly)*




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

## 18 Although it slowed in some District states, home-price growth continued amid low mortgage rates.

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

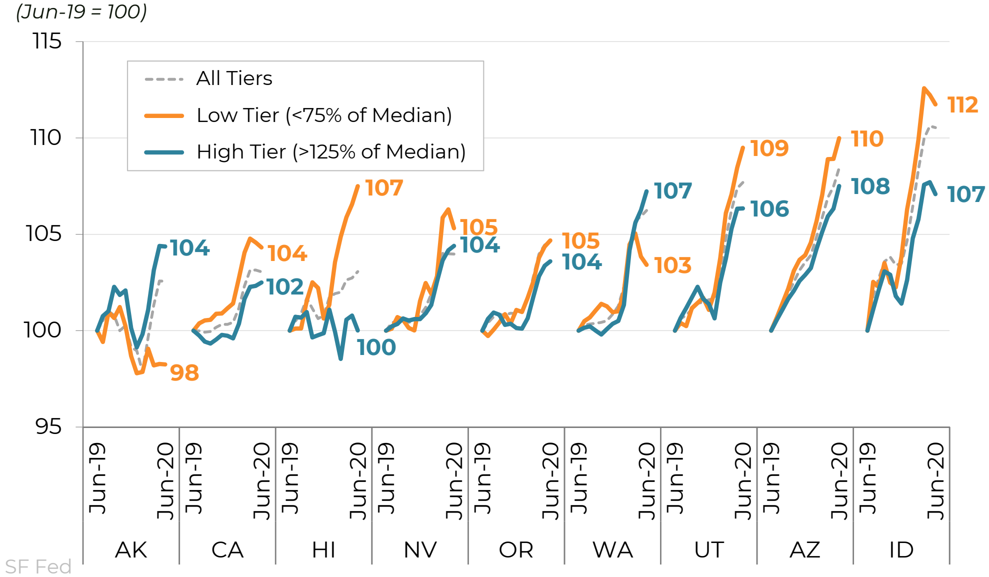



| Versus Pre-GFC Peak: | ID | AZ | UT | WA | OR | NV | HI | CA | AK | US |
|---|---|---|---|---|---|---|---|---|---|---|
| | +40% | +2% | +43% | +45% | +36% | -7% | +23% | +13% | +15% | +14% |

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

## 19 In CA, WA, and NV, recent price gains have slowed among lower tier but accelerated among higher tier homes.

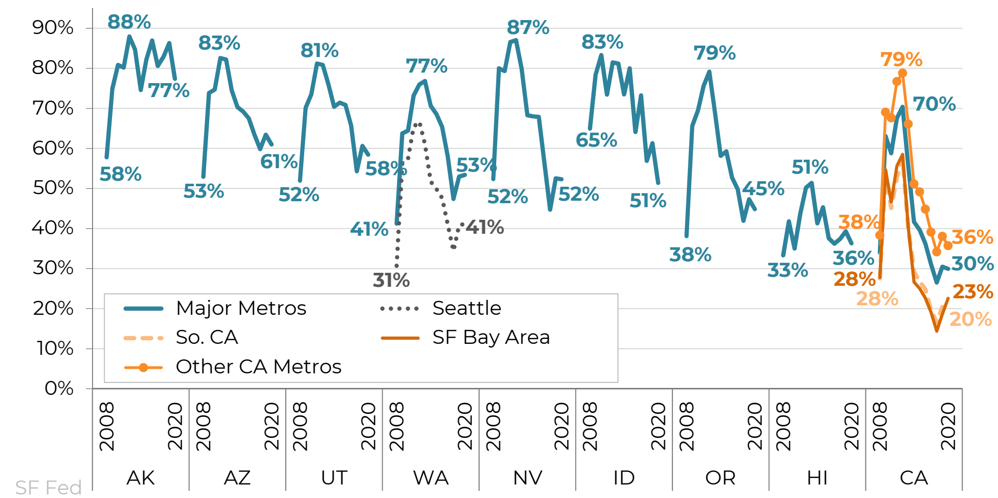
**Home Price Index by Price Tier**
*(Jun-19 = 100)*




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

## 20 Housing affordability weakened year-over-year in most District states despite lower interest rates.

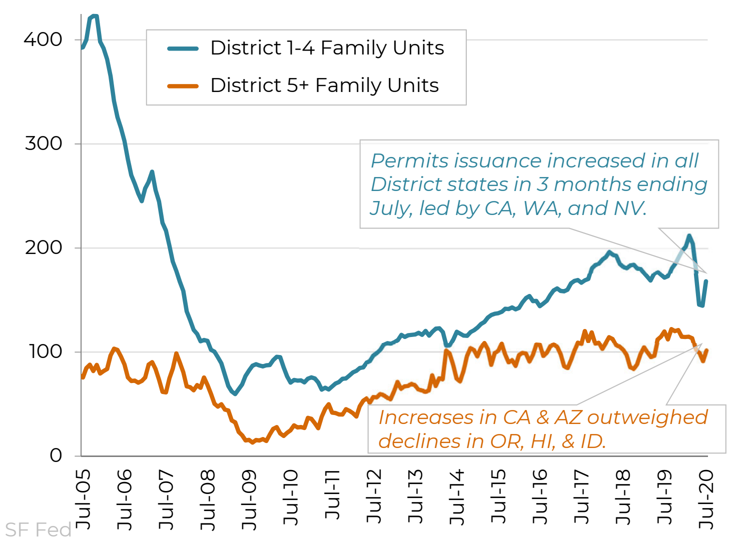
**Un-weighted Average Metro Housing Opportunity Index, June of Each Year**
*(% of Home Sales Deemed Affordable to Median Family Income; Lower Ratio = Less Affordable)*




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

## 21 Housing permits fell sharply across the District in 2Q20, but rebounded in July.

### Housing Permits – Twelfth District
*(Seasonally Adjusted Annual Rate, 3-Month Moving Avg., Thousands)*




**New Authorized Housing Units**
*3-Month Moving Avg.*

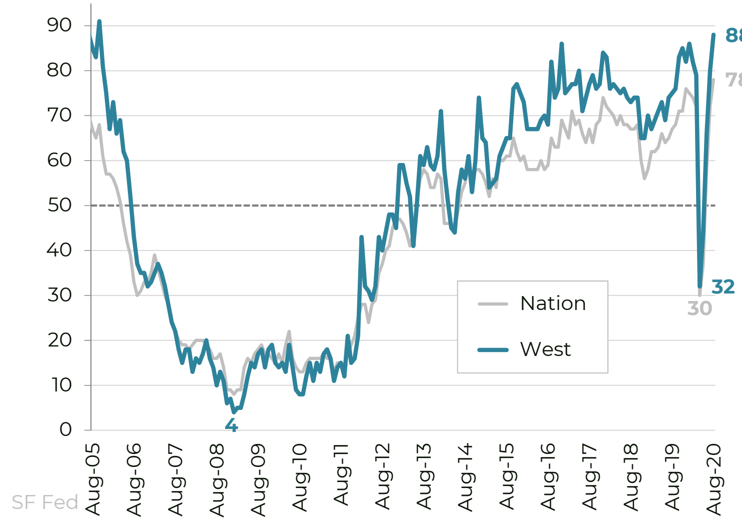
| | Level 2004-2020* | Jul-20 vs. Peak† | % Multif. Jul-20 |
|---|---|---|---|
| UT | | 96% | 24% |
| WA | | 78% | 41% |
| ID | | 68% | 13% |
| AZ | | 58% | 27% |
| OR | | 50% | 36% |
| CA | | 47% | 42% |
| HI | | 38% | 30% |
| NV | | 32% | 25% |
| AK | | 32% | 13% |
| Dist. | | 55% | 34% |

SF Fed ◆ = trough ◆ = peak

* Trend lines as of July of each year. Source: Census Bureau via Haver Analytics.
† "Peak" refers to the pre-Global Financial Crisis peak.

## 22 Homebuilder sentiment in the West reached the highest level since 2005 amid rebounding buyer traffic.

### Homebuilder Diffusion Index
*(Monthly, Index Above 50 Considered Positive)*



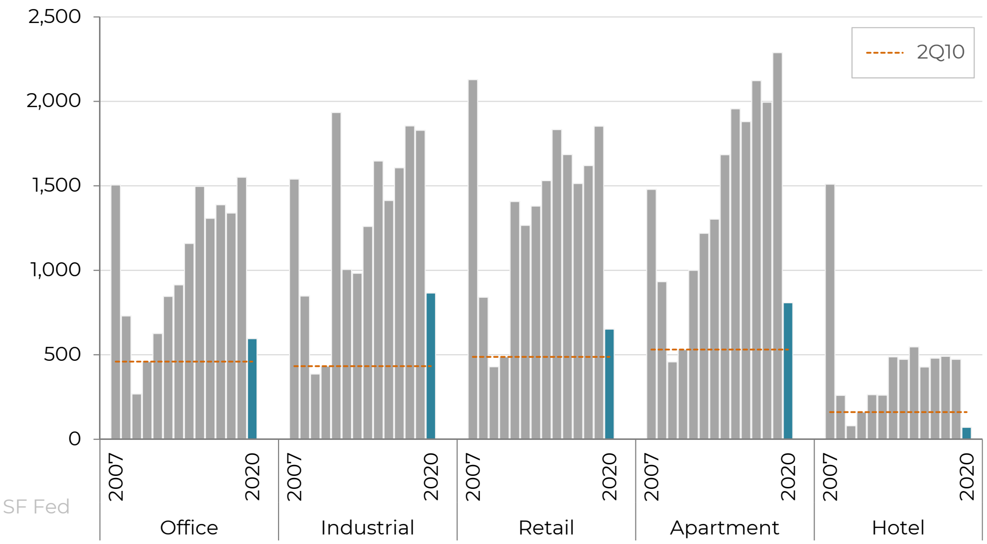

**Regional Home Builder Diffusion Indices**
*(Trailing 3 Mo. Avg.)*

| Region | Aug-19 | Aug-20 |
|---|---|---|
| West | 72.7 | 78.0 |
| South | 68.7 | 71.3 |
| Northeast | 57.0 | 65.0 |
| Midwest | 57.0 | 63.0 |
| Nation | 65.3 | 69.3 |

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

## 23 Second-quarter CRE transaction volumes fell to their lowest levels since 2010, with hotel transactions nearly halting.

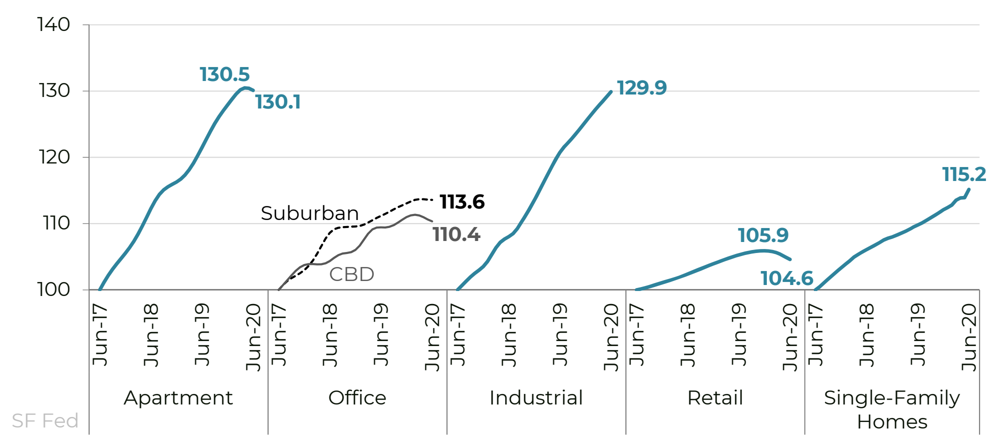
### National CRE Transactions
*(Number of properties sold, second quarter of each year)*




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

## 24 The pandemic prompted downturns in retail, office and apartment prices; industrial and home prices appreciated.

### Commercial & Residential Property Price Indices – Nation *(Jun-2017 = 100)*



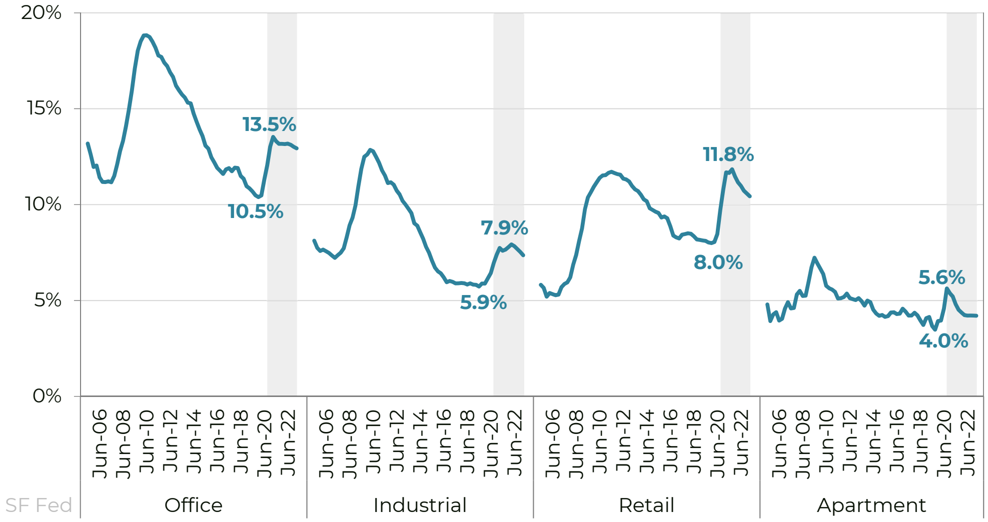

**Average Annual Growth in Price Indices**

| | Apartment | Office | Industrial | Retail | Single-Family Homes |
|---|---|---|---|---|---|
| 1-Yr. | 7.1% | 2.3% | 7.6% | -0.7% | 4.9% |
| 5-Yr. | 9.7% | 5.0% | 8.7% | 2.0% | 5.1% |
| 10-Yr. | 10.3% | 6.1% | 7.2% | 4.1% | 4.6% |

CBD = central business district (downtown); based upon repeat-sales transactions; 5- and 10-year rates reflect compound annual growth. Sources: Real Capital Analytics, Inc. (CRE price indices) and CoreLogic (single-family home price index).

## 25 Pricing trends reflected expectations for higher vacancy rates across most sectors . . .

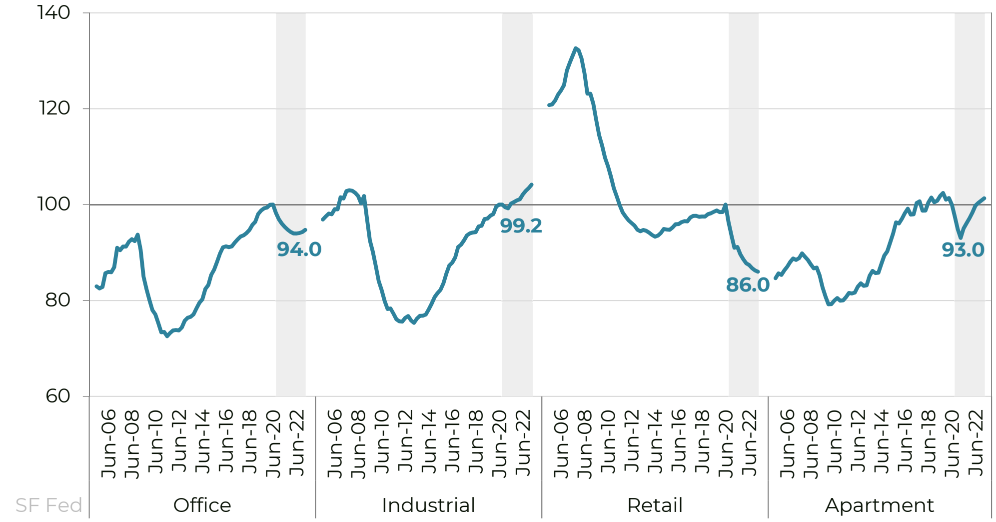
**CRE Vacancy Rates – Twelfth District Markets**
*(Historical from 2Q05 through 2Q20, forecast from 3Q20 to 1Q23)*




Includes the 18 to 16 largest markets in the District, weighted by stock; baseline forecasts as of 2Q20; "Nation" = sum of markets; shaded area = forecast. Source: CBRE-EA.

## 26 . . . As well as weaker rents in the near term across all but the industrial sector.

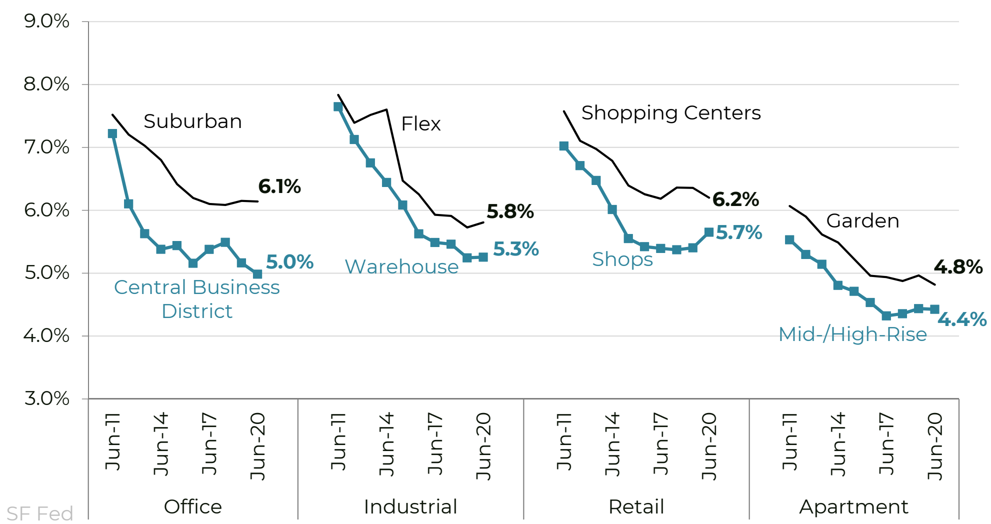
**CRE Real Rent Indices – Twelfth District Markets**
*(2Q20 = 100; historical from 2Q05 through 2Q20, forecast from 3Q20 to 1Q23)*




Includes the 18 to 16 largest markets in the District, weighted by stock; baseline forecasts as of 2Q20; "Nation" = sum of markets; shaded area = forecast. Source: CBRE-EA.

## 27 Meanwhile, CRE cap rates mostly maintained pre-pandemic trends; upticks were limited to flex industrial and retail shops.

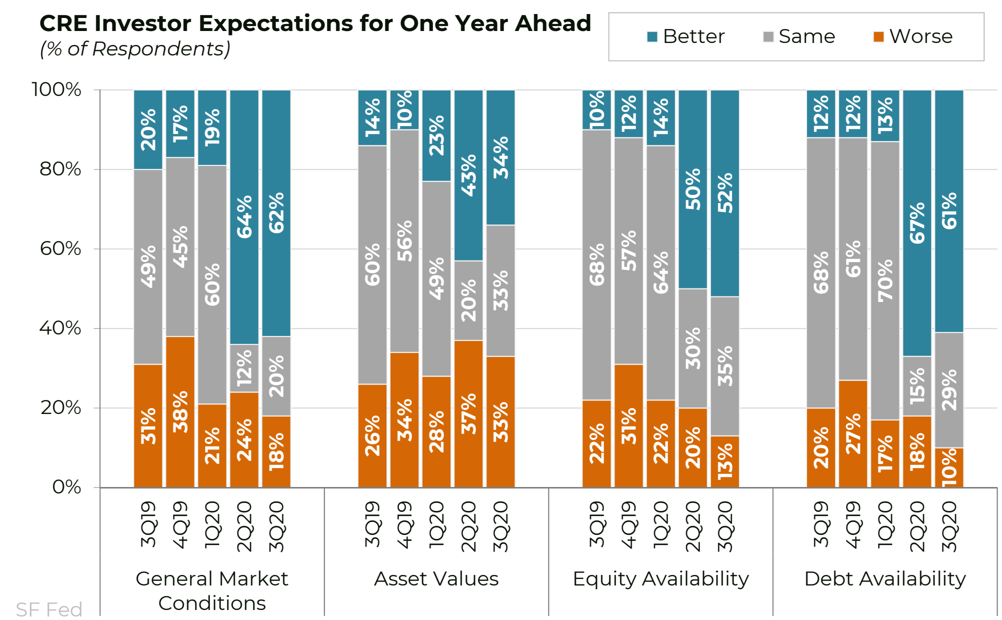
**Western U.S. CRE Capitalization Rates**
*(Trailing 12-Month Average %, June Each Year)*




Includes transactions in the West (AK, CA, HI, ID, MT, NV, OR, UT, WA, and WY, but not AZ); property sales > $2.5 million with available data; "Shops" = single-tenant, drug stores, and urban/storefront retail. Source: Real Capital Analytics, Inc.

## 28 CRE investors saw current market conditions deteriorate by early 3Q20, but expected improvement over the year ahead.

**CRE Investor Expectations for One Year Ahead**
*(% of Respondents)*




| | | Better | Same | Worse |
|---|---|---|---|---|
| General Market Conditions | 3Q19 | 20% | 49% | 31% |
| | 4Q19 | 17% | 45% | 38% |
| | 1Q20 | 19% | 60% | 21% |
| | 2Q20 | 64% | 12% | 24% |
| | 3Q20 | 62% | 20% | 18% |
| Asset Values | 3Q19 | 14% | 60% | 26% |
| | 4Q19 | 10% | 56% | 34% |
| | 1Q20 | 23% | 49% | 28% |
| | 2Q20 | 43% | 20% | 37% |
| | 3Q20 | 34% | 33% | 33% |
| Equity Availability | 3Q19 | 10% | 68% | 22% |
| | 4Q19 | 12% | 57% | 31% |
| | 1Q20 | 14% | 64% | 22% |
| | 2Q20 | 50% | 30% | 20% |
| | 3Q20 | 52% | 35% | 13% |
| Debt Availability | 3Q19 | 12% | 68% | 20% |
| | 4Q19 | 12% | 61% | 27% |
| | 1Q20 | 13% | 70% | 17% |
| | 2Q20 | 67% | 15% | 18% |
| | 3Q20 | 61% | 29% | 10% |

Survey data was collected in the first month of each quarter. Source: Real Estate Roundtable *Sentiment Index* reports.

# Section 3
# Commercial Bank Performance

**Earnings**

**Credit Quality**

**Loan Growth and Concentrations**

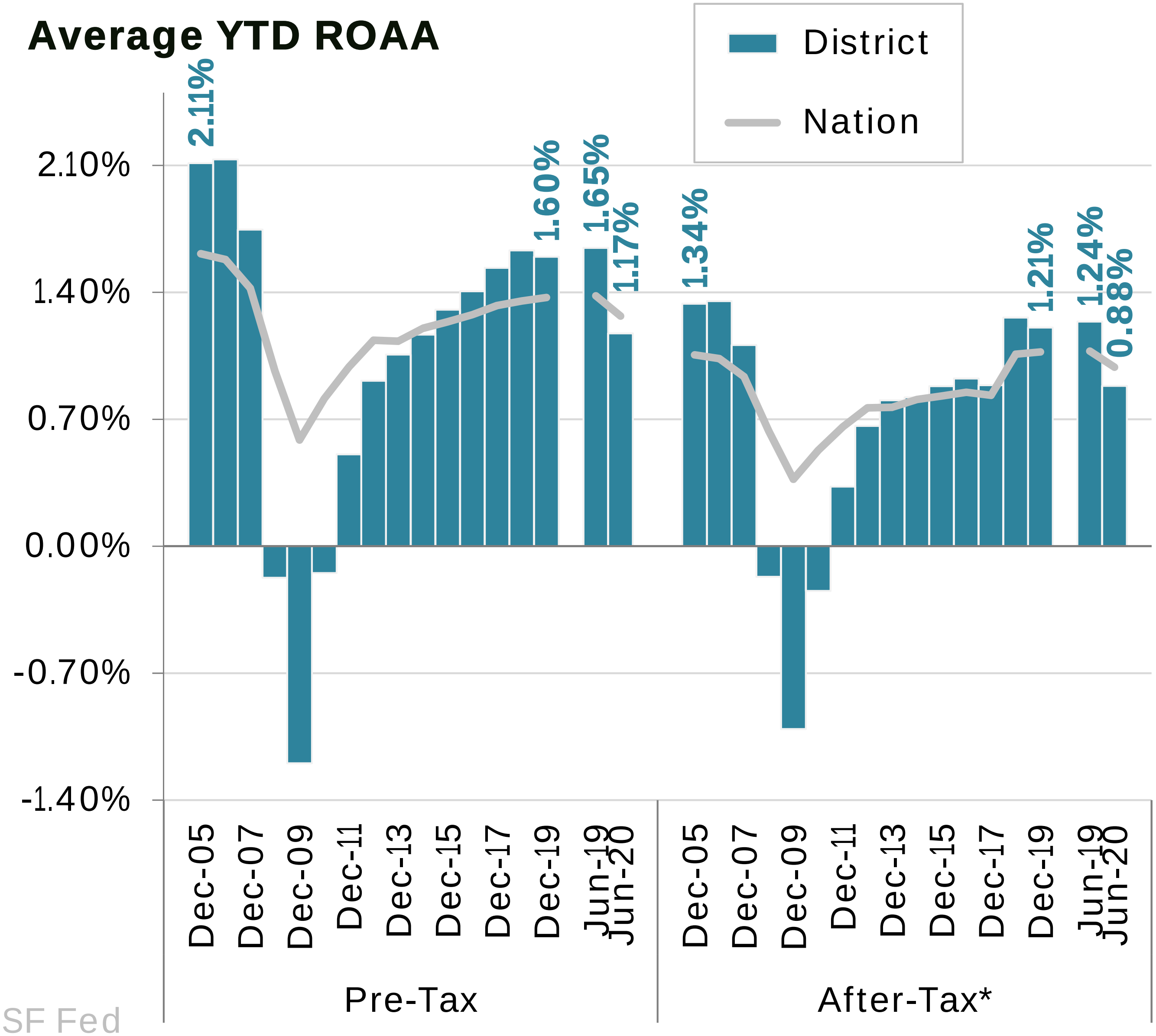
**Liquidity and Interest Rate Risk**

**Capital**

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

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

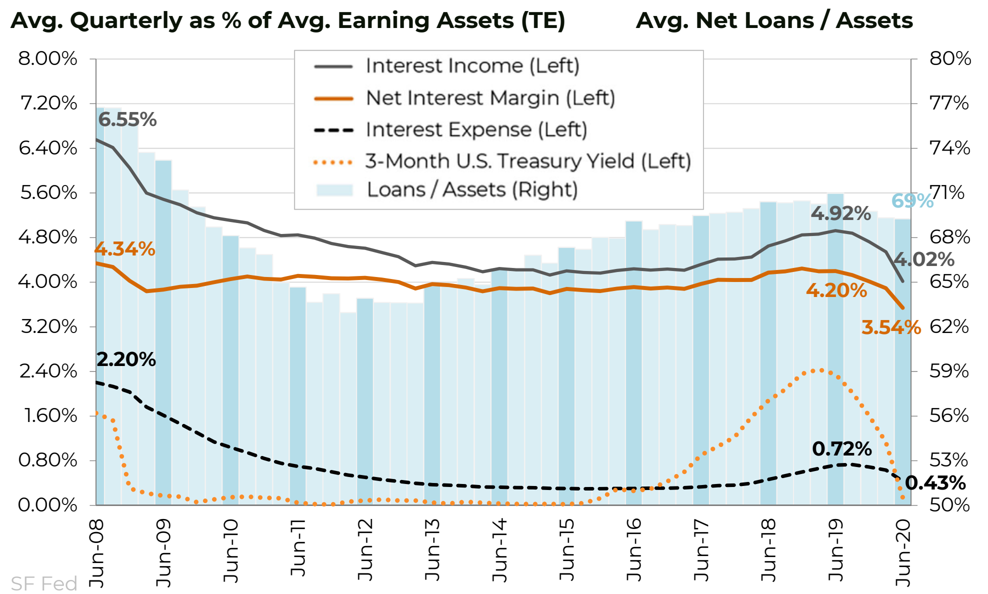
# Average 1H20 District bank profits were stung by weaker net interest income and higher provision expense ratios.




| Average YTD as % of Average Assets Twelfth District *(Expenses = Negative Values)* | | |
|---|---|---|
| **Profit Component** | **Jun-19** | **Jun-20** |
| Int. Inc. (TE) | 4.64% | 4.05% |
| Int. Exp. | -0.66% | -0.50% |
| Net Int. Inc. (TE) | 3.97% | 3.52% |
| Nonint. Inc. | 0.56% | 0.51% |
| Nonint. Exp. | -2.88% | -2.63% |
| Provision Exp. | -0.07% | -0.32% |
| Tax Exp. (TE) | -0.36% | -0.25% |

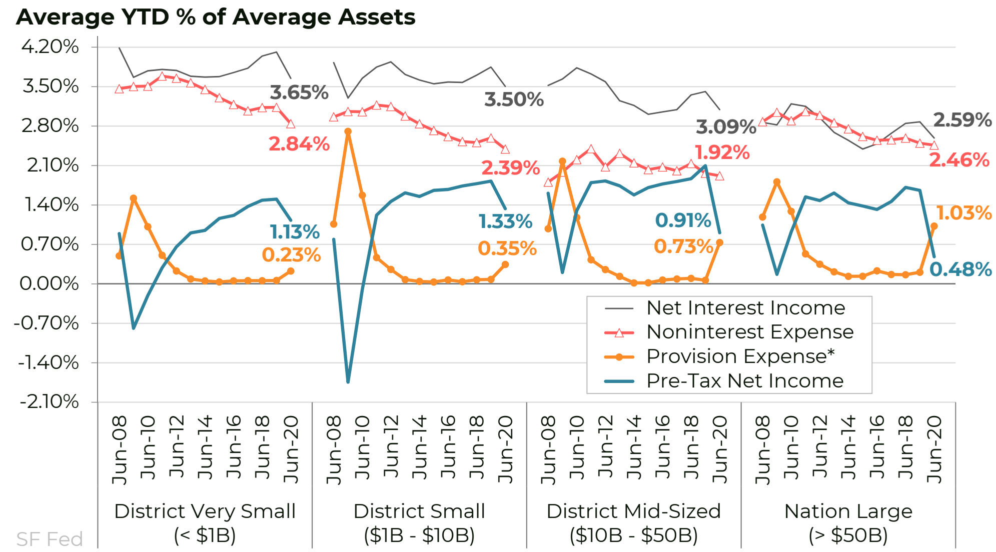
Average = trimmed mean; YTD = year-to-date (annualized); ROAA = return on average assets (net income/average assets); *theoretical tax expense deducted from Subchapter S filers for after-tax ratio; TE = tax equivalent (yields and applicable tax expense adjusted for tax-exempt revenues).

## 31 Further declines in short-term interest rates, combined with shifts in loan and asset mix, crimped margins.



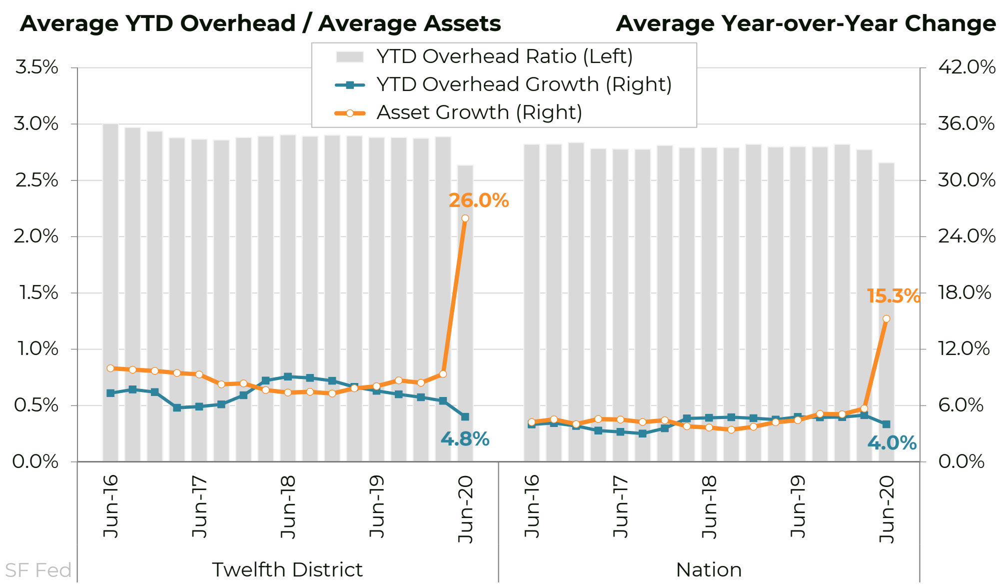

Average = trimmed mean (Twelfth District banks only); one-quarter annualized data; TE = tax equivalent. Source (quarterly average of 3-month U.S. Treasury rate at constant maturity): Federal Reserve via Haver Analytics.

## 32 Provision expenses continued to have outsized impacts at mid- and large-sized banks, driven partly by CECL.



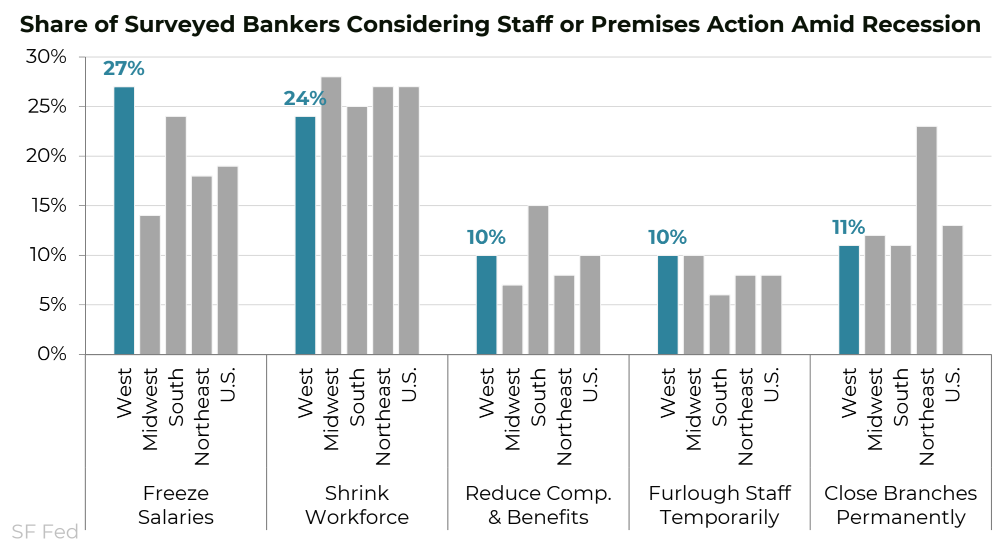

Average = trimmed mean; YTD = year-to-date (annualized); CECL (current expected credit loss) requires lenders to consider potential credit losses over the life of a loan, which is often a longer time horizon than considered under the prior "incurred loss" allowance methodology; many publicly-traded firms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

## 33 PPP-fueled asset growth far outpaced constrained increases in overhead, contributing to lower overhead ratios.



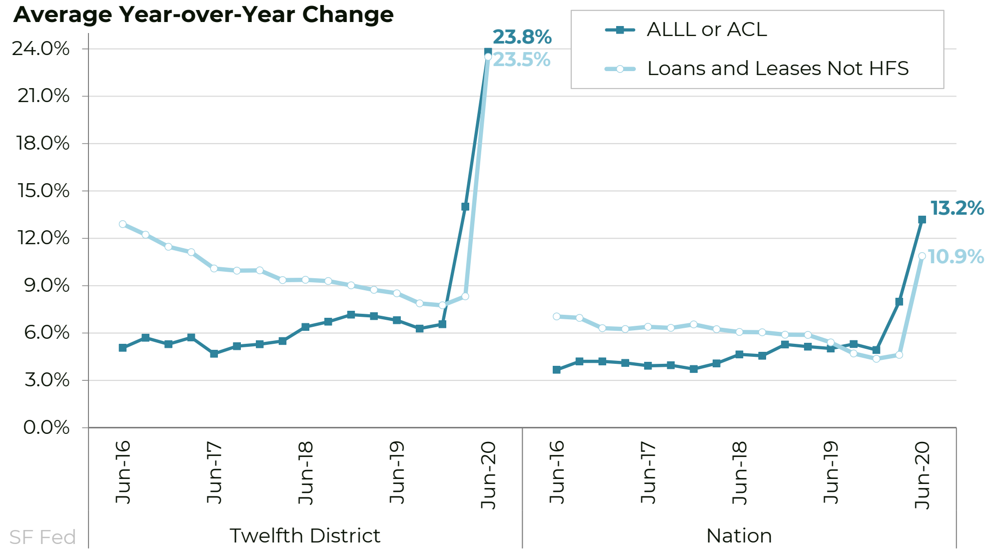

Average = trimmed mean; noninterest (overhead) expenses include but are not limited to costs incurred for salaries and benefits, premises and equipment, legal/consulting/audit work, information technology services, deposit insurance, and marketing.

## 34 Survey data suggests some banks may further limit or reduce personnel and occupancy expenses.



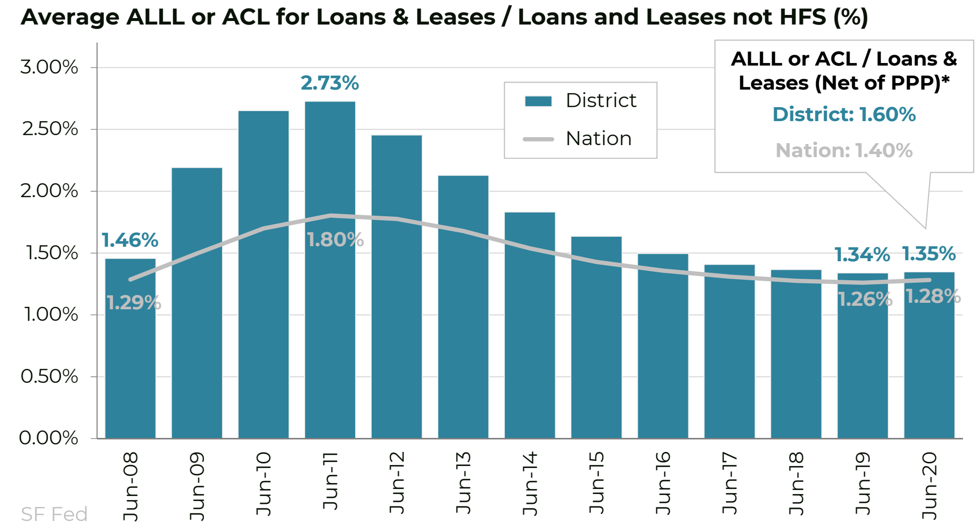

2Q20 data based on a nationwide survey of bank chief executive officers, chief financial officers, and presidents at 557 institutions, queried between July 1 and July 15, 2020; bankers could select multiple options and some response options are not shown, so tallies are not additive; West = Kansas City + San Francisco Districts; Midwest = Chicago + Cleveland + Minneapolis + St. Louis Districts; South = Atlanta + Dallas + Richmond Districts; Northeast = Boston + New York + Philadelphia Districts. Source: Promontory Interfinancial Network *Bank Executive Business Outlook Surveys.*

## 35 Provisioning and CECL caused loss allowances to swell, but growth was matched by a surge in PPP-fueled loan growth.



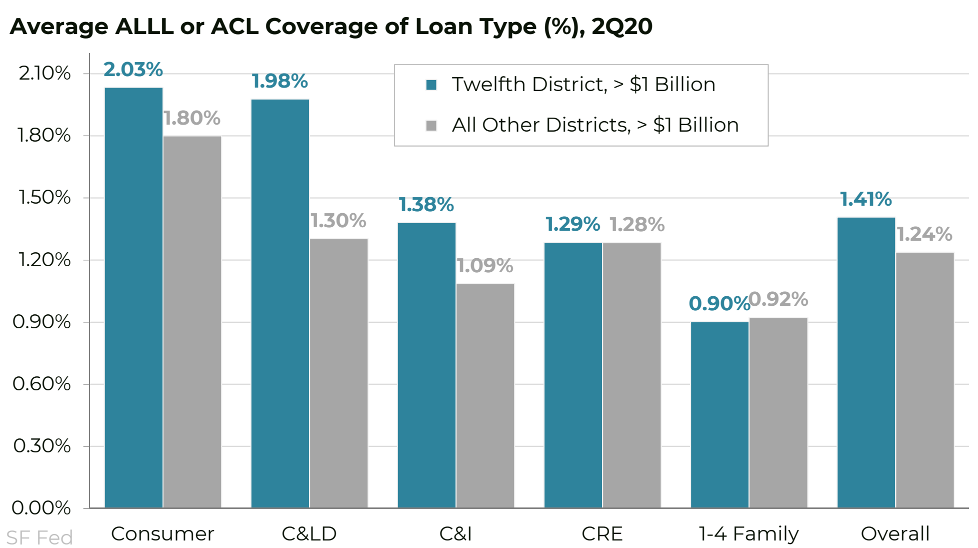

Average = trimmed mean; ALLL = allowance for loans and leases (per incurred loss method); ACL = allowance for credit losses related to loans and leases (per CECL); HFS = held for sale; CECL = current expected credit losses (ASU 2016-13); most, but not all mid- and large-sized banks adopted CECL in 1Q20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

## 36 As a result, average credit loss allowances held relatively steady in relation to loans not held for sale.



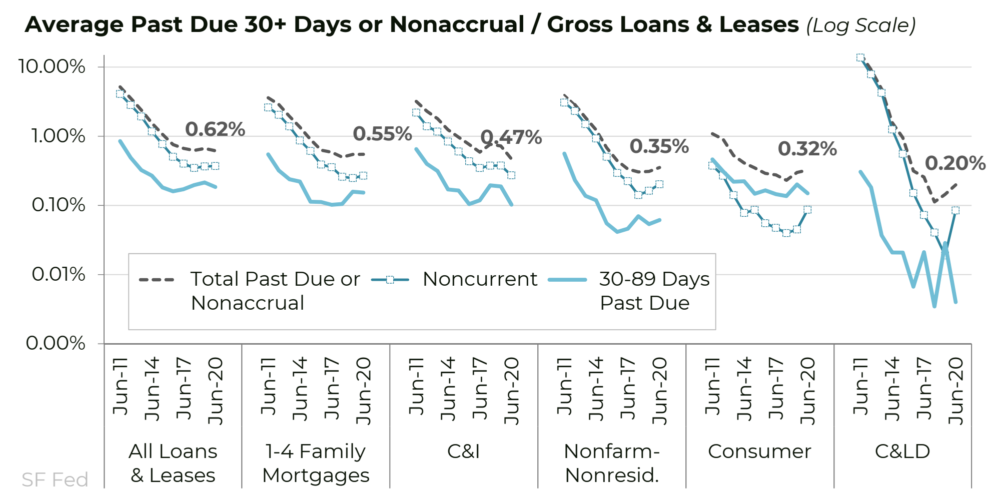

Average = trimmed mean; ALLL = allowance for loans and leases (per incurred loss method); ACL = allowance for credit losses related to loans and leases (per CECL); HFS = held for sale; CECL = current expected credit losses (ASU 2016-13); most, but not all mid- and large-sized banks had adopted CECL by 2Q20 (e.g., some had not yet adopted the standard because of non-calendar fiscal years; some opted to defer adoption as permitted under the CARES Act; some were not U.S. SEC filing firms); *because of data limitations, assumes all PPP loans are held for investment, not for sale.

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




Average = trimmed mean; ALLL = allowance for loans and leases (per incurred loss method); ACL = allowance for credit losses related to loans and leases (per CECL); C&LD = construction and land development; C&I = commercial and industrial; CRE = commercial real estate, including multifamily and nonfarm nonresidential mortgages; limited to banks with total assets above $1 billion that itemized disaggregated ALLL or ACL data, including 90 banks based in the Twelfth District and 541 headquartered elsewhere in the nation; only includes loans evaluated for purposes of ALLL or ACL.

## 38 An influx of PPP loans and loan modifications likely tamped delinquency ratios for C&I and overall loans and leases.

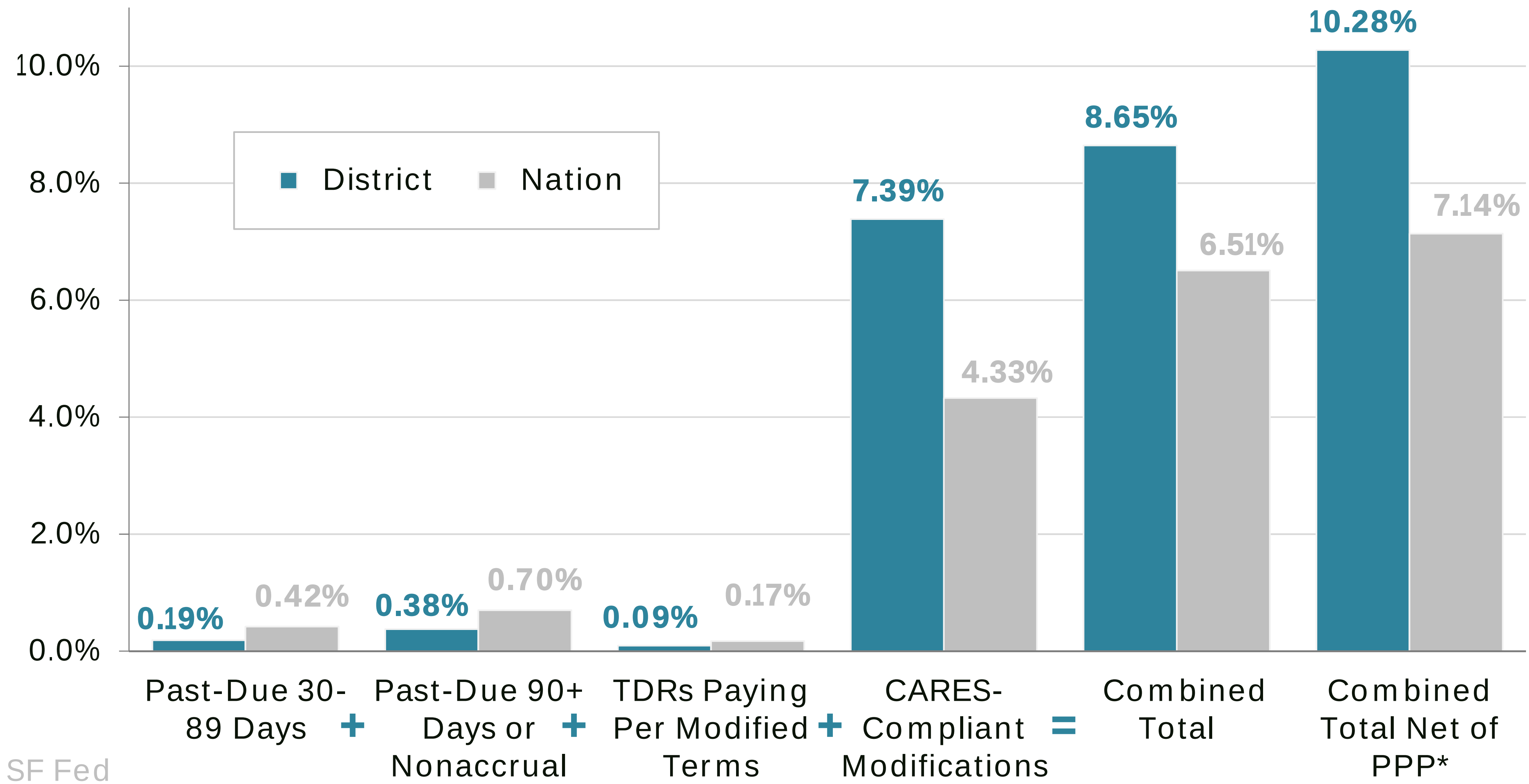



| Average Share of Gross Loans & Leases, 6/30/2020 | | | | | | |
|---|---|---|---|---|---|---|
| District | 100.0% | 12.4% | 18.8% | 41.0% | 1.2% | 5.4% |
| Nation | 100.0% | 23.4% | 14.7% | 23.6% | 3.8% | 5.3% |

Average = trimmed mean; C&I = commercial & industrial; C&LD = construction & land development; noncurrent = 90+ days past due or in nonaccrual status; average loan mix will not sum to 100% because of trimmed average properties and because not all loan categories are itemized above (e.g., multifamily, agriculture/farmland, loans to non/depositories).

# Banks' efforts to accommodate borrowers likely forestalled repayment problems as well.

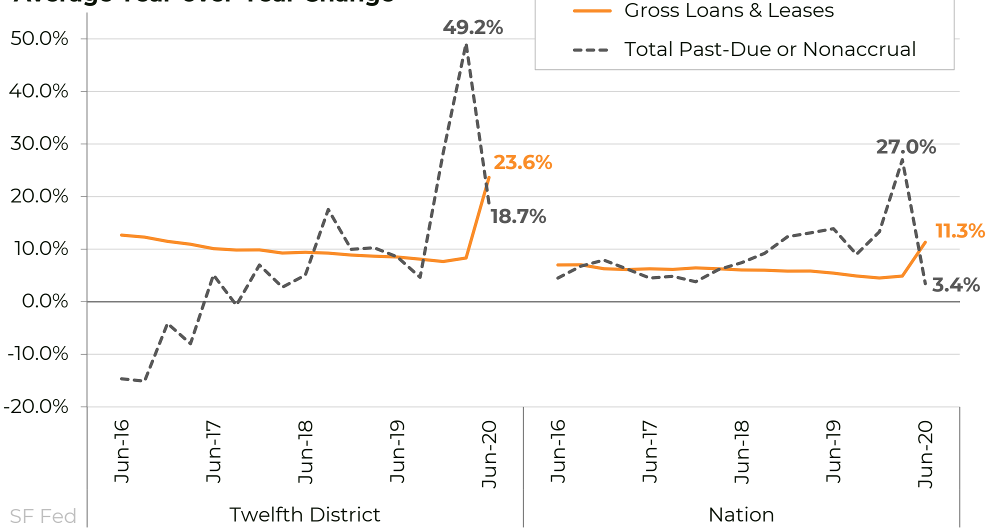
**Average Delinquencies or Modifications / Gross Loans and Leases**




Average = trimmed mean; CARES Act-compliant modifications includes loan modifications made in accordance with Section 4013, Temporary Relief from Troubled Debt Restructurings (TDRs), of the CARES Act, which do not have to be reported as TDRs for accounting purposes; *eliminates outstanding PPP loans from the denominator as these are unlikely to be delinquent or modified; because of trimmed average properties, constituent parts do not sum to the combined total.

## 40 Annual growth in past due and nonaccrual loans was high, but slowed from 1Q20, and lagged gross loans and leases.

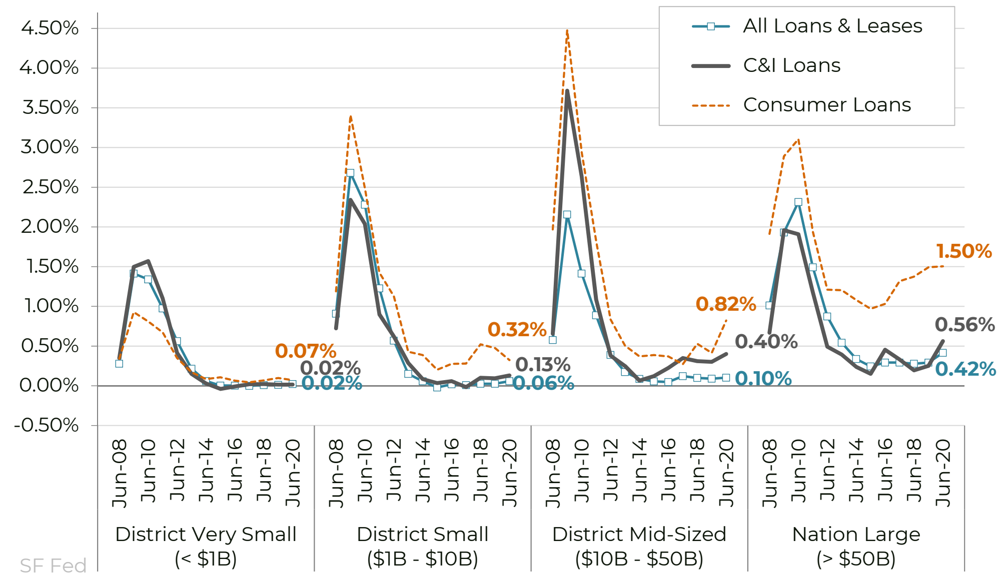
### Average Year-over-Year Change




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

## 41 Net chargeoff ratios remained modest among community banks; large banks reported the most notable increase

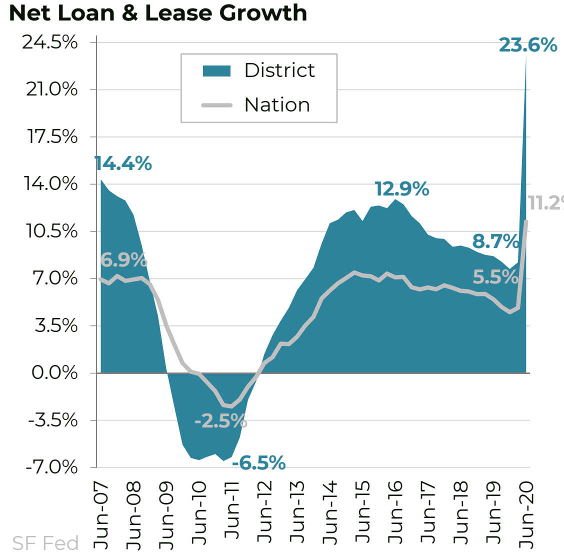
### Average YTD Net Chargeoffs / Average Loans & Leases



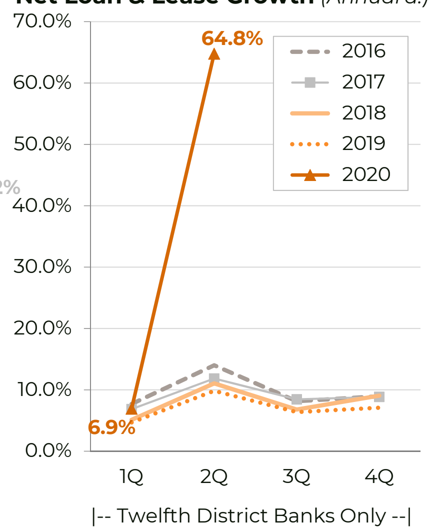

Average = trimmed mean; YTD = year-to-date (annualized); C&I = commercial and industrial.

## 42 Average annual growth in net loans and leases swelled to record levels as banks took on PPP lending.

### Average Year-over-Year Net Loan & Lease Growth



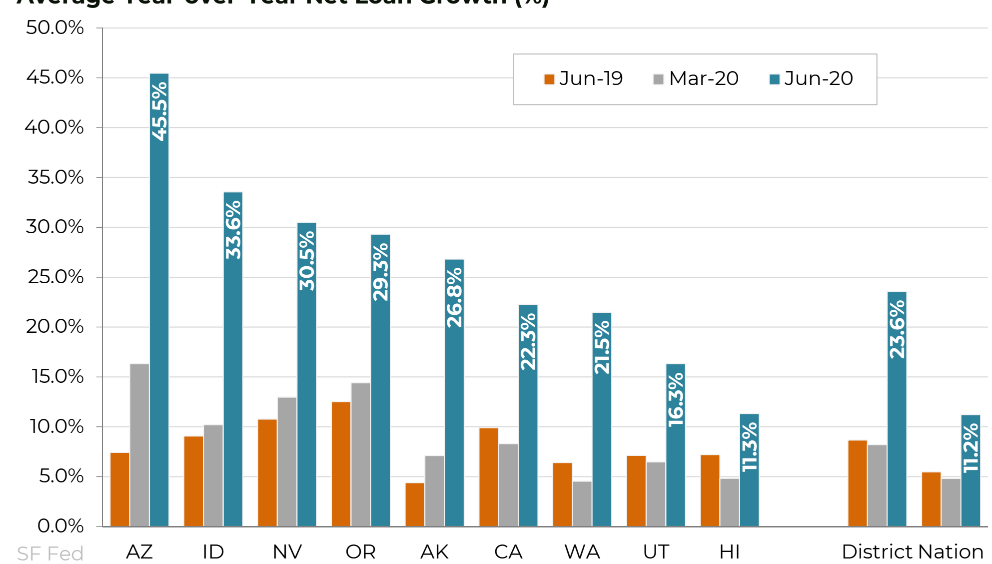

### Average Quarter-over-Quarter Net Loan & Lease Growth *(Annual'd.)*




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

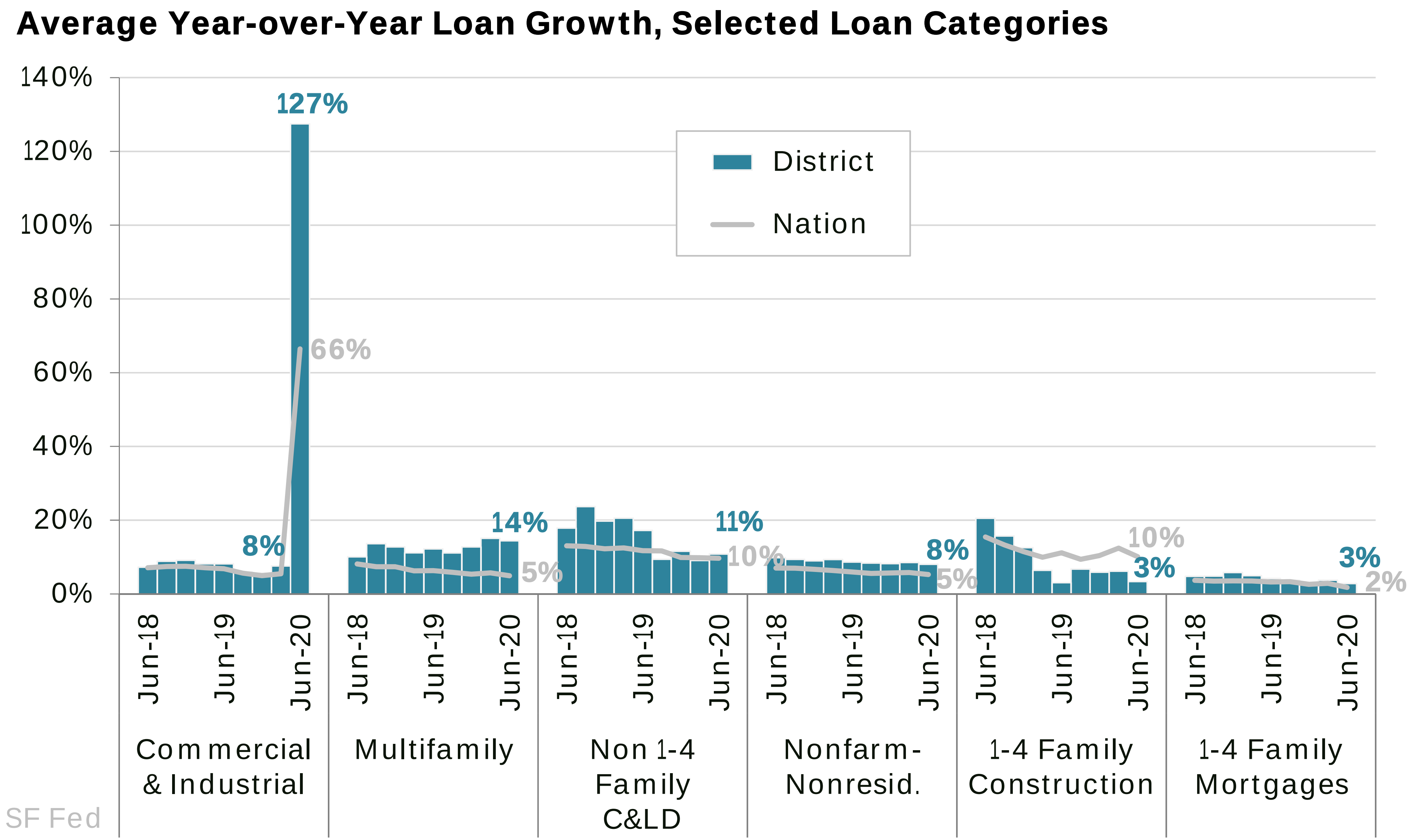
## 43 Average annual loan growth accelerated across District states.

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




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

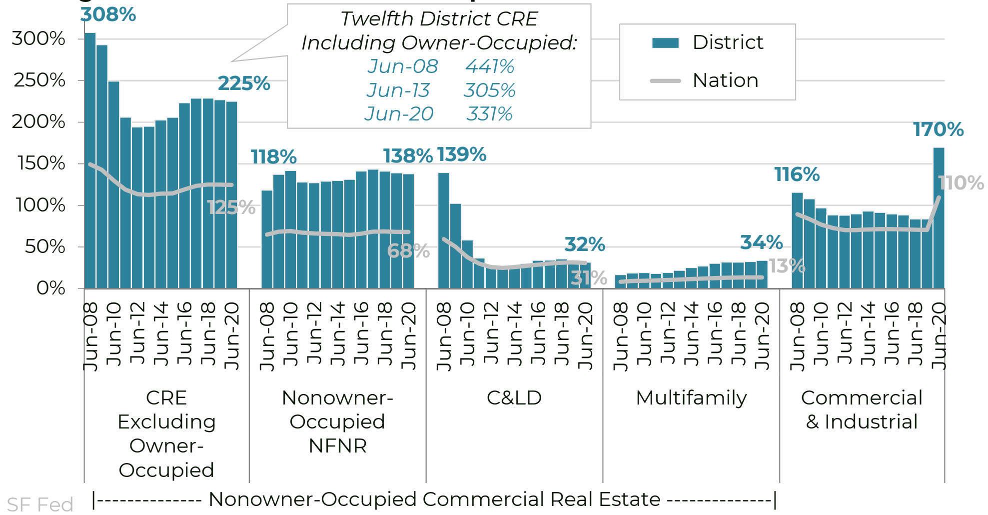
# C&I portfolios surged with the roll out of PPP in 2Q20; growth in other categories stalled or slowed.




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

## 45 Although still high, CRE loan concentration ratios eased as PPP lending inflated other parts of the balance sheet.

### Average Loan Concentration / Tier 1 Capital + ALLL or ACL

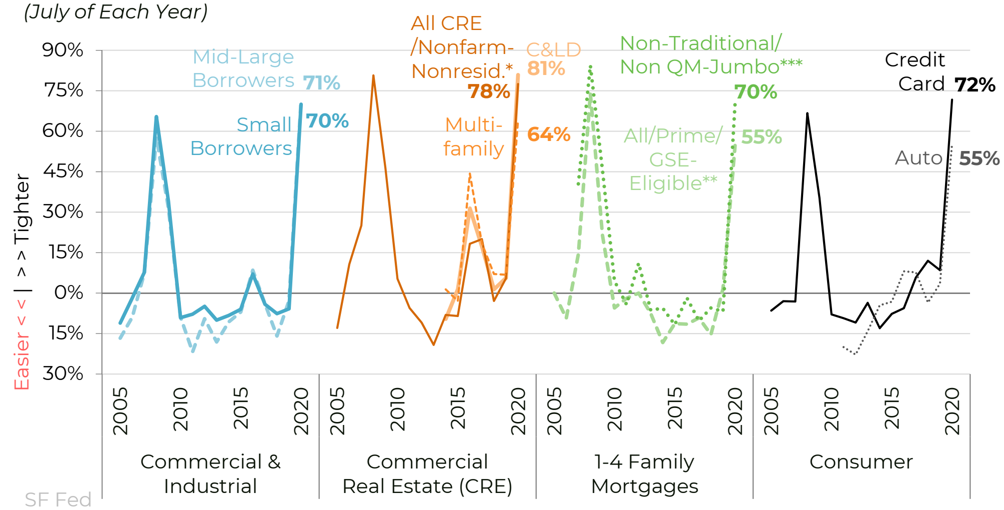



Average = trimmed mean; ALLL = allowance for loans and leases (per incurred loss method); ACL = allowance for credit losses related to loans and leases (per CECL); Commercial Real Estate (CRE) Excluding Owner-Occupied = nonowner-occupied nonfarm-nonresidential (NFNR), construction and land development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

## 46 The net share of lenders reporting tighter loan standards in July rivaled 2008.

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

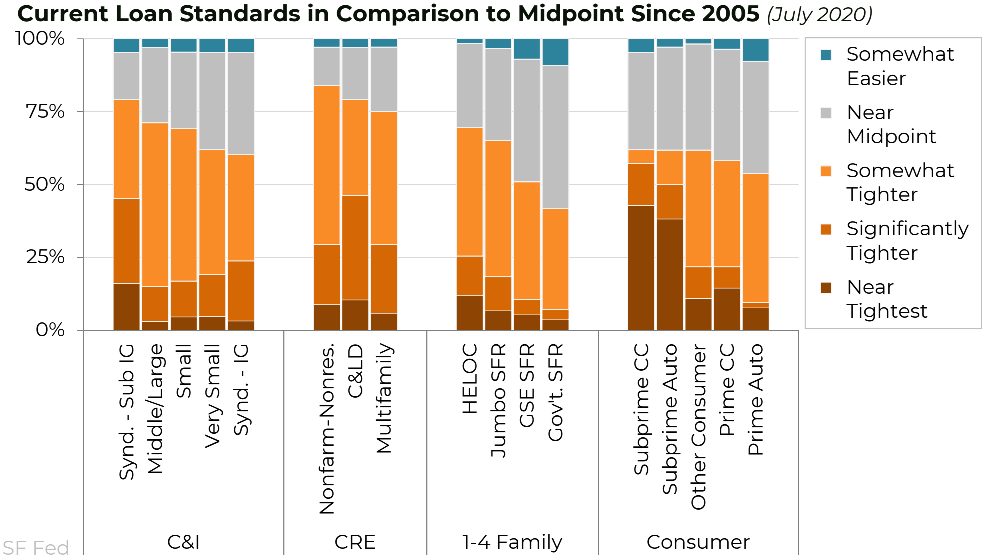
*(July of Each Year)*




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

## 47 Except for some home mortgages, most lenders felt lending standards were now tighter than long-term average.

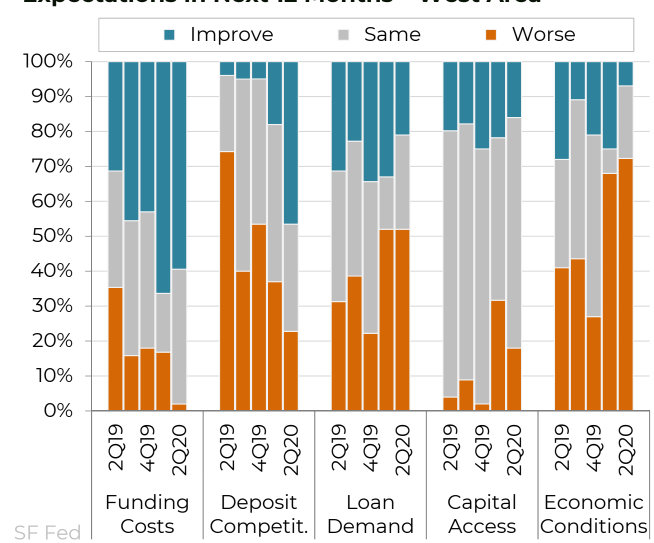
### Current Loan Standards in Comparison to Midpoint Since 2005 *(July 2020)*




C&I = commercial and industrial; IG = investment grade; C&LD = construction and land development; GSE = government sponsored enterprise; SFR = single-family residential; HELOC = home equity line of credit; CC = credit card; none felt standards were significantly easier or near the easiest. Source: Federal Reserve Senior Loan Officer Opinion Survey, July 2020.

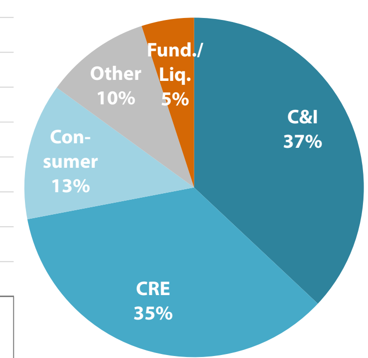
## 48 Bankers in the West remained bearish on the economy and loan demand; they viewed C&I and CRE as most vulnerable.

### Expectations in Next 12 Months – West Area



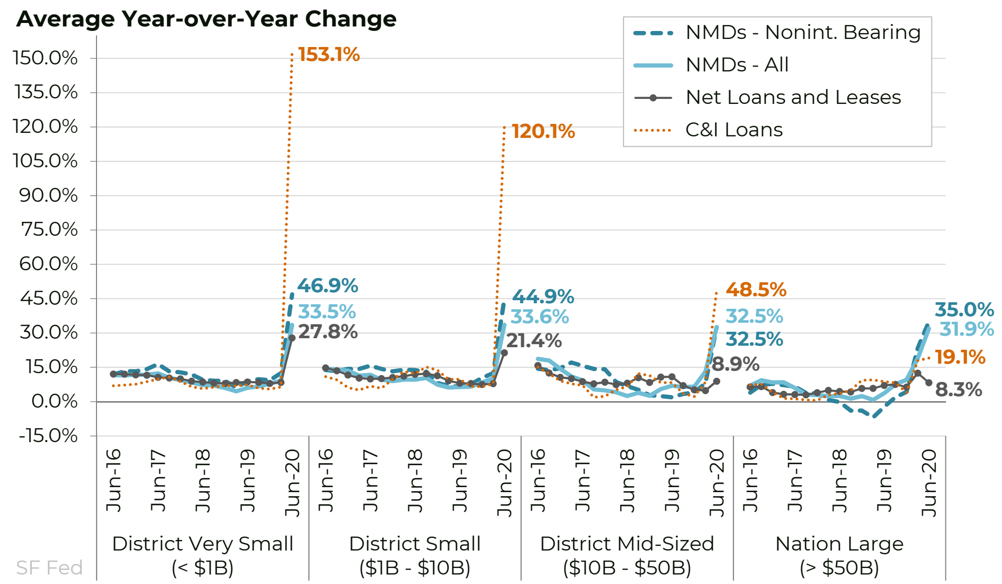

### Most Vulnerable Part of Business Given COVID-19 — Banks in West Area —

*(Share of Respondents)*



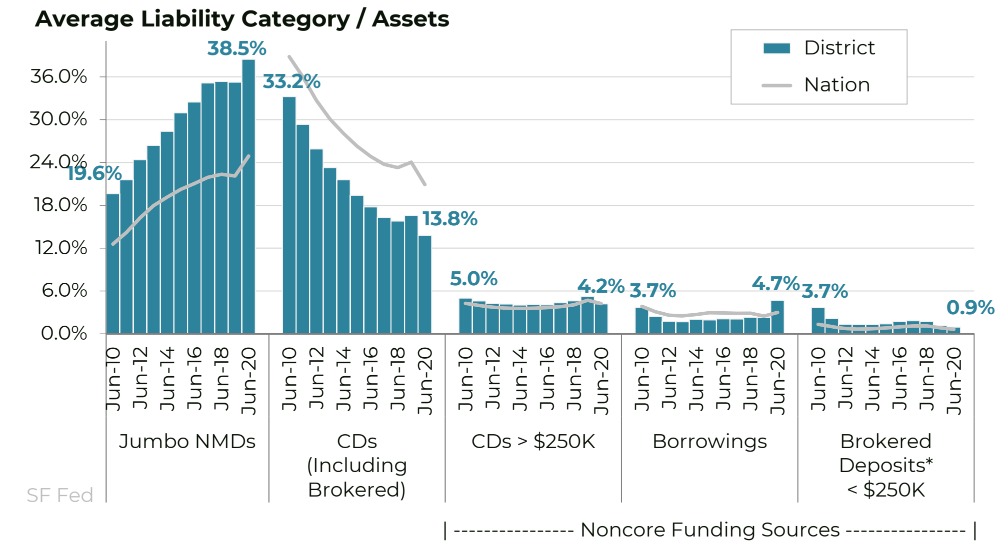

2Q20 data based on a nationwide survey of bank chief executive officers, chief financial officers, and presidents at 557 institutions, queried between July 1 and July 15, 2020; C&I = commercial and industrial; CRE = commercial real estate; West = Kansas City + San Francisco Federal Reserve Districts. Source: Promontory Interfinancial Network *Bank Executive Business Outlook Surveys*.

## 49 NMDs swelled year-over-year as flight-to-safety deposits and proceeds from credit line draws and PPP loans lingered.



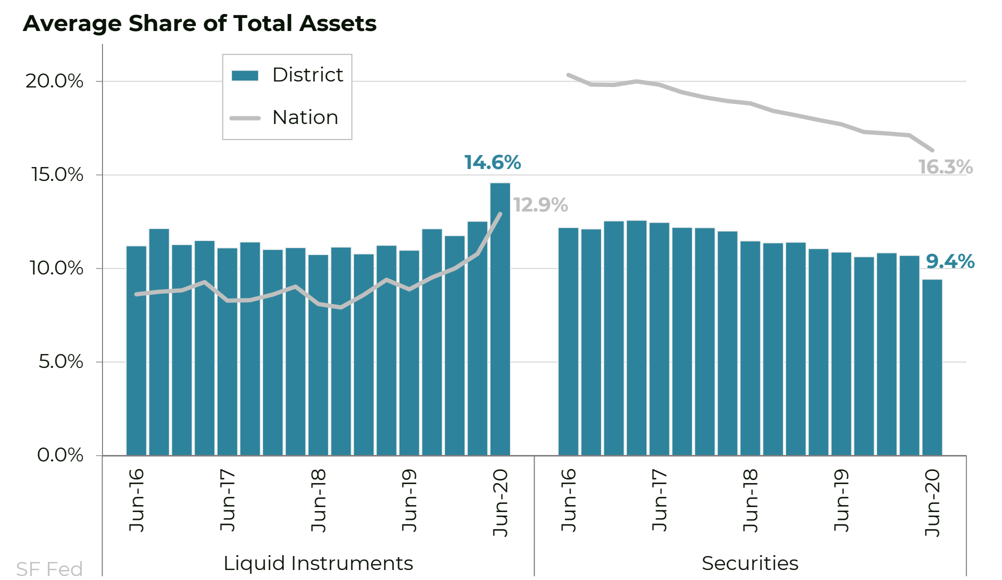

Average = trimmed mean; NMD = nonmaturity deposit; net loans and leases = loans and leases held for sale and for investment, net of allowances for loan- and lease-related credit losses; C&I = commercial and industrial; growth rates are not merger-adjusted.

## 50 PPP drove up banks' reliance on jumbo NMDs and borrowings (via PPPLF) in particular.



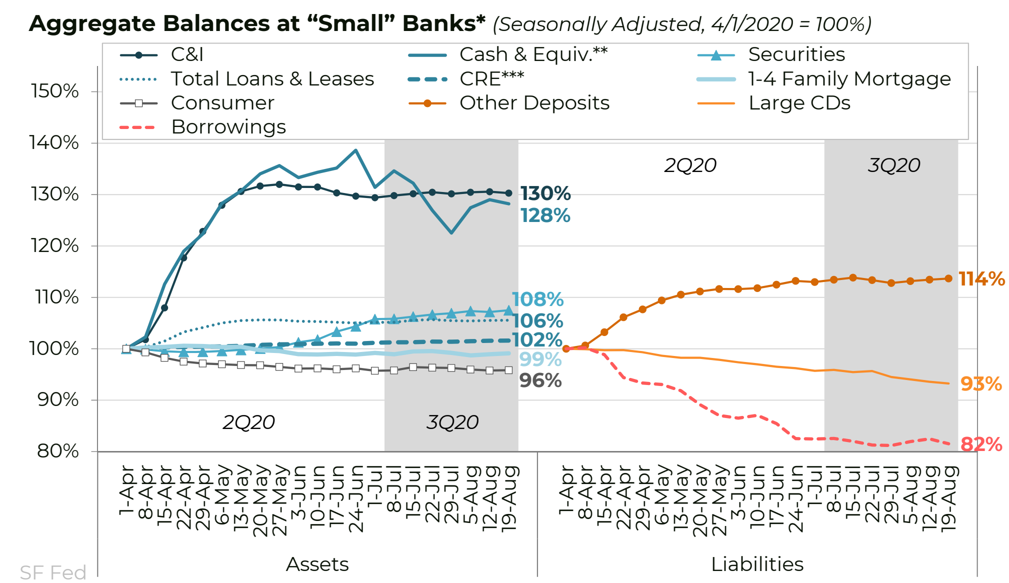

Average = trimmed mean; jumbo = greater than $250K; NMD = nonmaturity deposit; CD = certificate of deposit; borrowings = federal funds purchased, repurchase agreements, and other borrowed money, including PPP liquidity facility (PPPLF) advances; *beginning in 2Q18, qualifying (generally well-rated and well-capitalized) banks could discontinue reporting reciprocal deposits as brokered so long as they aggregated less than $5 billion or 20% of total liabilities, as permitted under the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) of 2018.

## 51 Given their temporary nature, banks initially invested PPP-related deposits in lower-yielding, liquid instruments.




Average = trimmed mean; liquid investments = cash, due from balances, interest bearing balances, and federal funds sold & securities purchased under agreements to resell; securities includes available for sale and held to maturity investments at fair value and amortized cost, respectively.

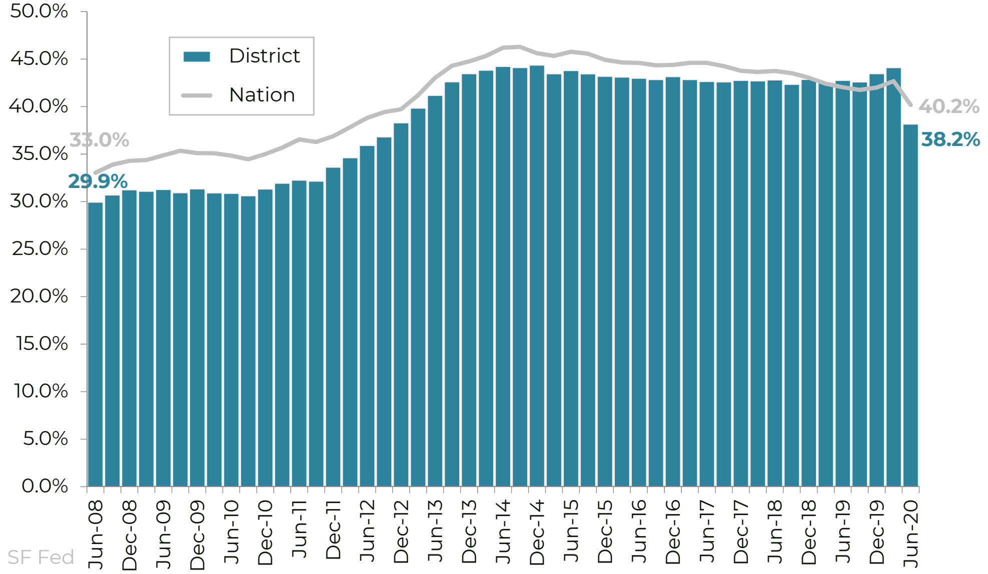
## 52 "Small" bank holdings of cash and equivalents may have eased slightly in 3Q20 as funds were invested in securities.




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

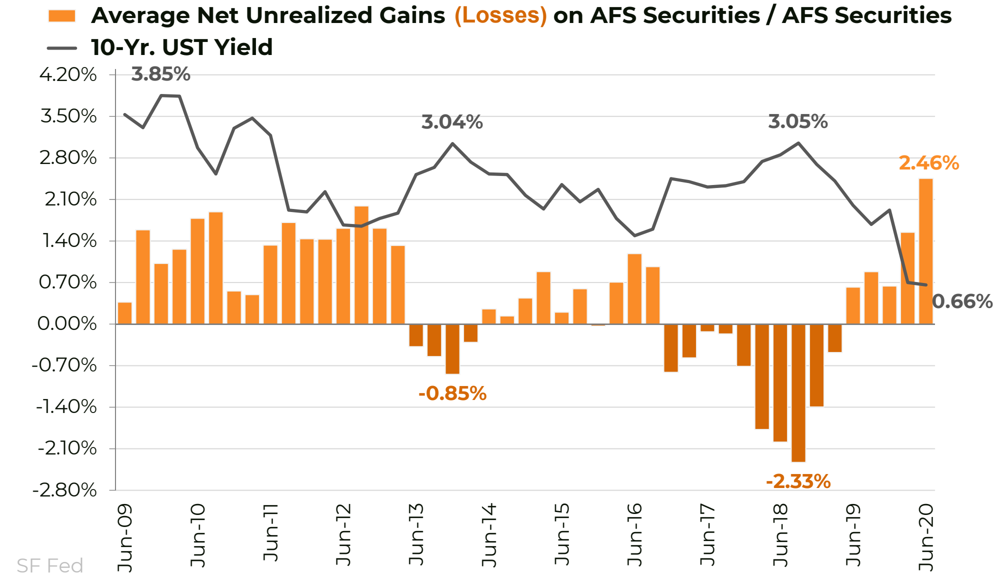
## 53 The surge in two-year PPP loans plus an uptick in short-term investments affected the average duration of bank assets.

**Average % of Loans & Securities Repricing > 3 Years**




Average = trimmed mean.

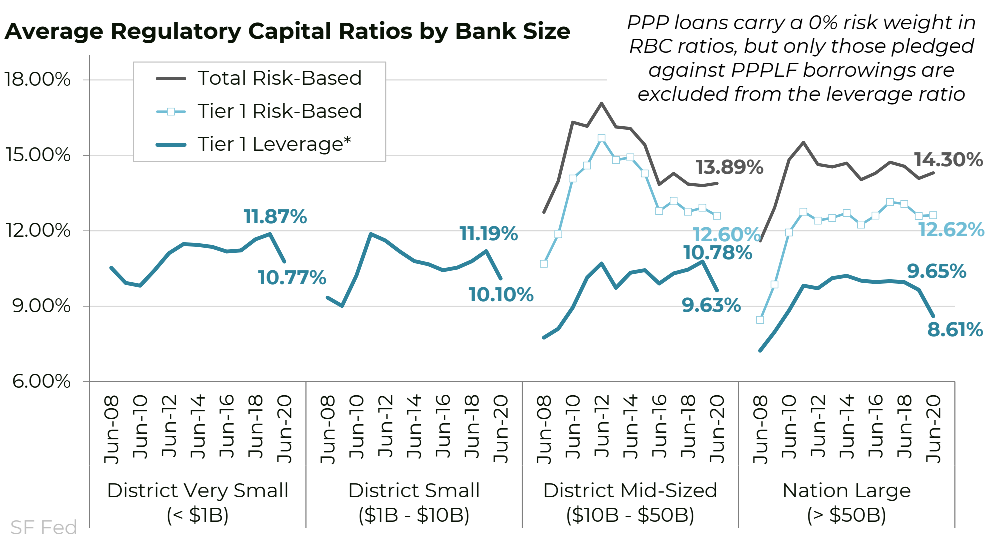
## 54 Low, stable long-term interest rates kept most District bank bond portfolios in a net unrealized gain position.




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

## 55 Significant PPP lending activity crimped tier 1 leverage capital ratios, but 0% risk-weight mitigated RBC impact.

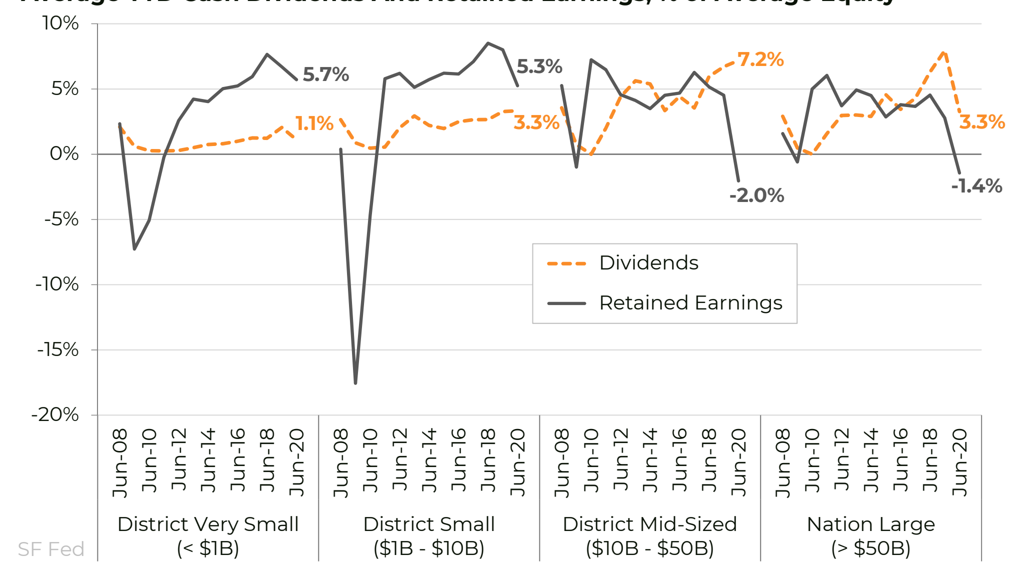
**Average Regulatory Capital Ratios by Bank Size**




Average = trimmed mean; *based upon community bank leverage ratio (CBLR) or tier 1 leverage ratio; beginning 1Q20, risk-based capital (RBC) averages became unavailable for banks under $10B that adopted CBLR, which limited the utility of RBC time series comparisons; beginning in 2Q20, the average balance of PPP loans pledged against the Federal Reserve's PPPLF were excludable from the denominator of the leverage ratio but unpledged balances were otherwise included in the calculation; in contrast, all PPP loans are assigned a zero percent risk weight in risk-based capital (RBC) denominator calculations.

## 56 Dividends amid weaker earnings slowed first half 2020 capital accretion, especially at mid- to large-sized banks.

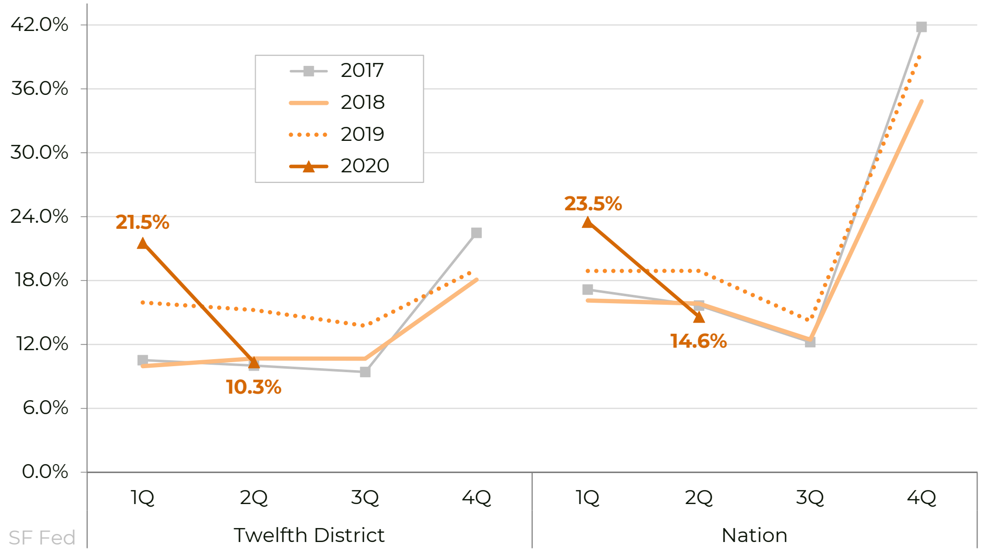
**Average YTD Cash Dividends And Retained Earnings, % of Average Equity**




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

## 57 Weak profits made for high dividend payout ratios in 1Q20, but ongoing uncertainty led banks to ease payouts by 2Q20.

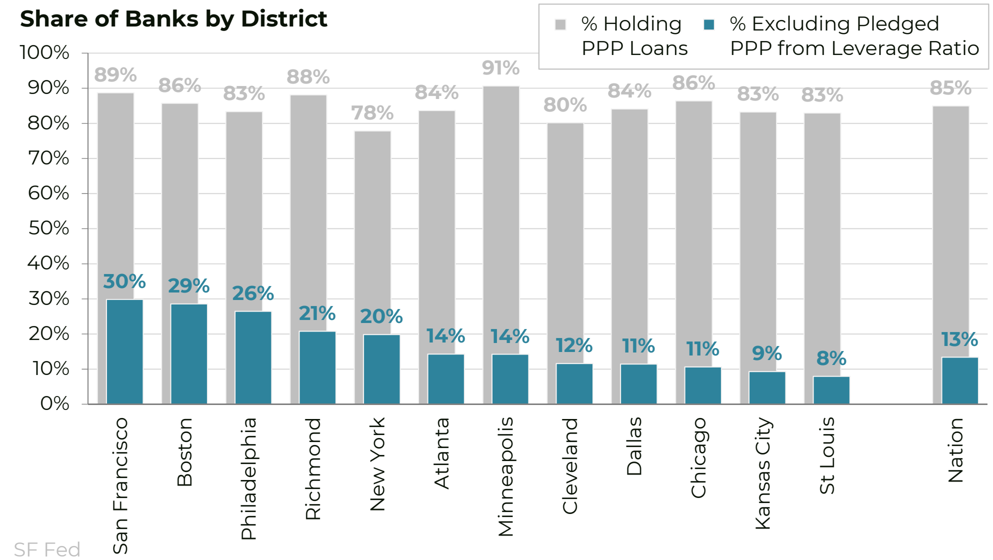
### Average Quarterly Dividends / Net Income




Average = trimmed mean; excludes Subchapter-S banks, which tend to report higher payout ratios to support shareholder tax obligations.

## 58 A comparatively large minority of District banks took advantage of PPPLF-related leverage ratio benefits.

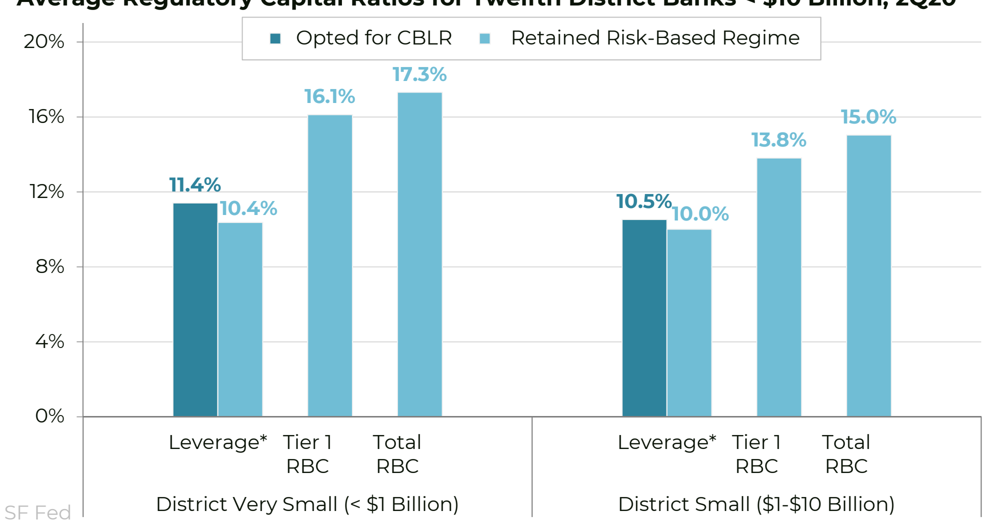
### Share of Banks by District




Commercial banks only, including de novos but excluding industrial banks; beginning 2Q20, average assets used in the denominator of the leverage ratio excluded the average amount of PPP loans pledged against borrowings under the Federal Reserve's PPPLF; PPP loans not pledged against PPPLF borrowings were not treated similarly and remained in the leverage ratio denominator.

## 59 Community banks that opted for CBLR treatment tended to have higher leverage ratios than non-CBLR banks.

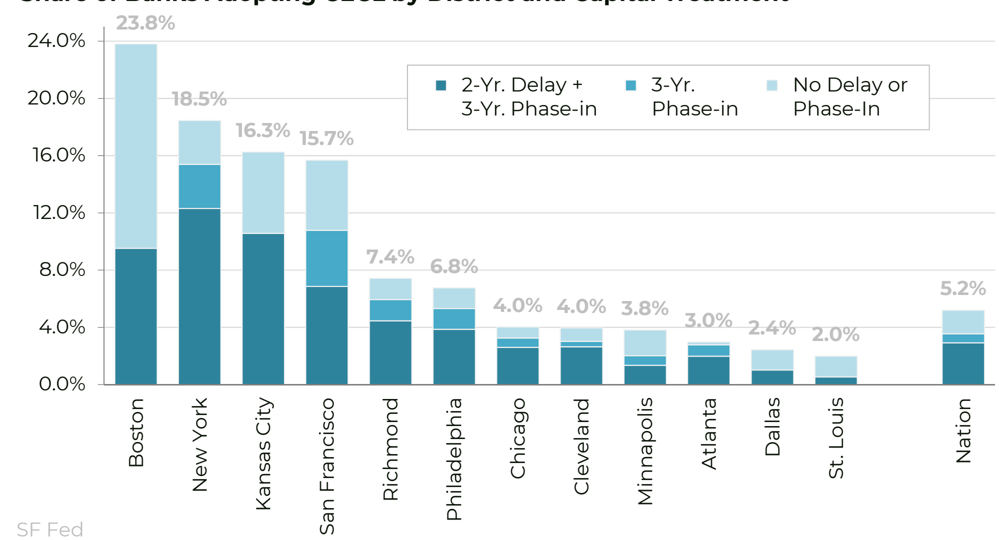
### Average Regulatory Capital Ratios for Twelfth District Banks < $10 Billion, 2Q20




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

## 60 Among the 16% of Twelfth District banks that adopted CECL, most elected to defer and then phase-in capital impacts.

### Share of Banks Adopting CECL by District and Capital Treatment




Commercial banks only, including de novos but excluding industrial banks; CECL adoption has mainly been limited to mid- to large-sized, publicly-traded firms; CECL adopters were allowed to transition the capital impacts of CECL adoption over three years, and under a March 27, 2020 interim final, were given the option to delay the impact of initial adoption as well as a portion of subsequent provisions on capital for up to two years, followed by a three-year phase-in period.

# Appendices

Summary of Institutions

Technical Information

Commonly Used Abbreviations

# Appendix 1: Summary of Institutions

| Area | Commercial Banks (De Novos) | | Industrial Banks (De Novos) | | Savings Institutions (De Novos) | |
|---|---|---|---|---|---|---|
| | *Jun-19* | *Jun-20* | *Jun-19* | *Jun-20* | *Jun-19* | *Jun-20* |
| **AK** | 4 (0) | 4 (0) | - | - | 1 (0) | 1 (0) |
| **AZ** | 15 (0) | 13 (0) | - | - | - | - |
| **CA** | 138 (2) | 131 (2) | 3 (0) | 3 (0) | 11 (0) | 10 (0) |
| **GU** | 2 (0) | 2 (0) | - | - | 1 (0) | 1 (0) |
| **HI** | 5 (0) | 5 (0) | 1 (0) | 1 (0) | 2 (0) | 2 (0) |
| **ID** | 10 (0) | 10 (0) | - | - | 1 (0) | 1 (0) |
| **NV** | 10 (0) | 10 (1) | 4 (0) | 4 (0) | 4 (1) | 2 (1) |
| **OR** | 14 (0) | 14 (0) | - | - | 2 (0) | 2 (0) |
| **UT** | 24 (0) | 24 (0) | 14 (0) | 14 (0) | 1 (0) | 1 (0) |
| **WA** | 32 (0) | 32 (0) | - | - | 9 (0) | 9 (0) |
| **12L** | 254 (2) | 245 (3) | 22 (0) | 22 (0) | 32 (1) | 29 (1) |
| **U.S.** | 4,604 (19) | 4,403 (29) | 24 (0) | 24 (0) | 682 (1) | 645 (1) |

Based on preliminary 2Q20 data.

# Appendix 2: Technical Information & Abbreviations

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

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

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

**Commonly Used Abbreviations:**

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