FEDERAL RESERVE BANK
OF SAN FRANCISCO

FIRST GLANCE 12L

Economic and Banking Performance in the Twelfth Federal Reserve District

NOT YET OUT OF THE WOODS

3Q20 | DEC. 11, 2020

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Summary & Contents

Key Takeaways

Re-hiring continued through October, but virus activity surged in 4Q20, posing renewed uncertainty.

- The District continued to add **jobs**, but the recovery varied between different sectors and states. Subsequent increases in COVID-19 case counts prompted new or modified restrictions in several District markets, which could slow the recovery.
- **Home price gains** accelerated further as home sales reached post-Global Financial Crisis (GFC) highs.
- **Commercial real estate** fundamentals deteriorated but prices were relatively stable amid declining interest rates and subdued transaction volumes.

Stimulus and forbearance remained key banking considerations.

- Quarterly bank **loan growth** slowed sharply as Paycheck Protection Program (PPP) activity tapered. PPP forgiveness will stretch into at least 2021, prolonging the program's impact on banking ratios.
- District banks' average **quarterly return on average assets** ratio improved incrementally from 2Q20 despite net interest margin compression, as credit loss provision and noninterest expense ratios eased.
- **Problem loan ratios** were little moved, mitigated by loan accommodations and stimulus paid to borrowers.
- The **pandemic's** progression and selected economic and banking impacts are highlighted in this quarter's "Spotlight" feature.

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Twelfth District Overview
"Not Yet Out of the Woods"

Employment continued to recover, but with increasing divergence across states and sectors. Districtwide, October nonfarm payrolls remained 7% below year-earlier levels, but the annual pace of losses continued to ease since reaching a trough of -13% in April. Likewise, the Districtwide unemployment rate improved to 8% in October, from 16% in April. Divergence in the pace of the recovery also continued to widen across sectors and states. Notably, state and local governments, which accounted for 14% of District payrolls, reported renewed job losses in October, led by an 8.3% year-over-year decline in local government jobs. By October, Utah and Idaho recovered nearly all jobs lost during the pandemic, while Hawaii, Nevada, and California still had large gaps (see table, right). The recent spike in COVID-19 infections threatens the employment recovery; already, national-level hiring slowed sharply in November.

The housing market boom accelerated in the third quarter. The volume of existing single-family home sales in the West reached a post-GFC high in October and single-family home price appreciation accelerated sharply in all District states as buyers took advantage of record-low mortgage rates to acquire more space in less-dense communities. Particularly fast appreciation of lower-tier single-family prices suggested that many apartment-dwellers shifted to detached homes. 1-4 family housing permits in the District also increased to post-GFC highs, likely contributing to record-high homebuilder sentiment, although multifamily permits fell. However, housing affordability declined in most District states due to higher prices and lower median incomes, which put homeownership further out of reach, especially among hard hit lower-income households.

CRE fundamentals deteriorated across the District; pricing was mostly steady, but year-to-date (YTD) transaction volumes declined. Districtwide, CRE vacancy rates increased, particularly in the office and retail sectors, as absorption rates trailed waning completions. Rents also fell across most sectors, except among industrial properties. These trends could affect default probabilities. Favorably, CRE prices for many sectors were resilient through October—other than for retail properties and suburban offices. Nevertheless, CRE transaction volumes were down sharply YTD, suggesting a significant gap in price expectations between buyers and sellers. Record-low interest rates provided some support for CRE prices, as they allowed relative CRE returns to increase despite mostly steady nominal cap rates.

Nonfarm Job Growth & Unemployment

	Job Growth (Y-o-Y %) 12 Mo.	Job Growth (Y-o-Y %) Oct-20	Unemploy. Rate 12 Mo.	Unemploy. Rate Oct-20
HI		-18.9%		15.0%
NV		-8.6%		12.5%
CA		-8.5%		11.1%
WA		-5.6%		8.3%
OR		-6.6%		7.9%
AK		-9.2%		7.2%
AZ		-3.0%		6.5%
ID		-0.9%		6.1%
UT		-0.7%		5.0%
US		-6.4%		7.9%

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

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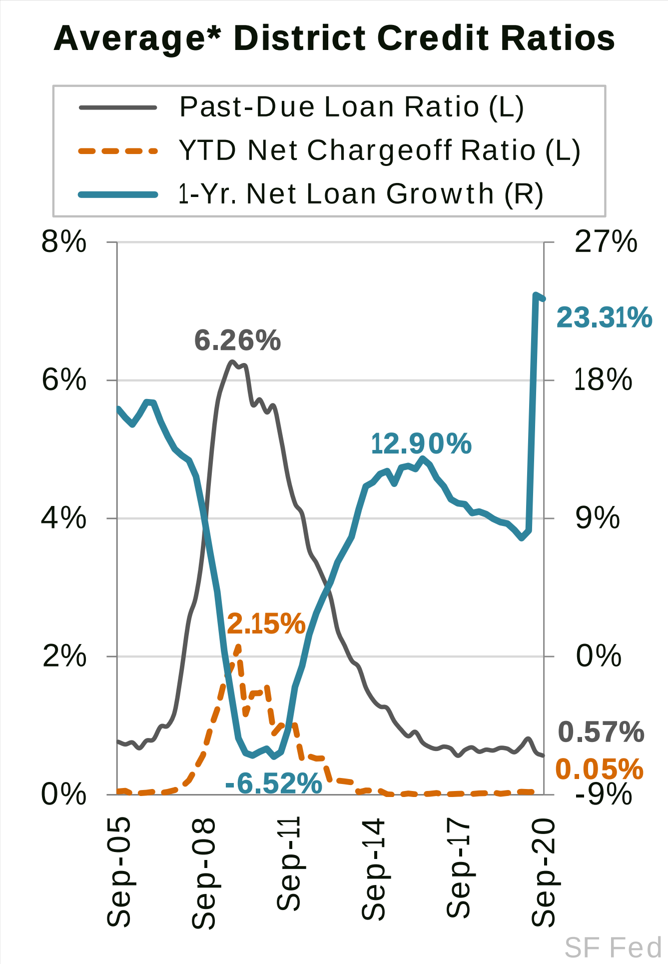
Twelfth District Overview, Continued

Quarterly bank profit ratios ticked higher but continued to lag the same period in 2019. District banks' average quarterly annualized ROAA ratio was 0.98%, up 6 bps from 2Q20, but down 30 bps year-over-year. Quarterly net interest margins continued to narrow under the weight of delayed loan repricing, on-balance sheet liquidity, and a large volume of lower-yielding PPP loans. Quarter-over-quarter, margin compression was offset by declines in average provision expense- and overhead expense-to-average asset ratios, in part reflecting dilution from a full quarter of PPP-related assets. In effect, direct and indirect pandemic earnings impacts have largely erased the ROAA bump provided by tax reform in 2018.



*trimmed means; past-due = 30+ days past due or nonaccrual; net chargeoff ratio = annualized net chargeoffs to average loans.

PPP volumes and credit modifications continued to affect credit metrics. Average one-year net loan growth remained above 23% in the District, inflated by PPP activity in 2Q20 (see chart, left). However, quarter-over-quarter, net loan growth trailed pre-pandemic averages. Although the District's overall 30+ day delinquency loan ratio receded further to 0.57%, the average noncurrent loan ratio, which includes more severely-past due and nonaccrual credits, ticked higher within each major loan category other than commercial and industrial (C&I). The trend highlighted the dilutive effects of PPP on C&I loan performance. Notably, delinquency figures generally exclude loans modified to accommodate borrowers' COVID-related challenges. Average modification levels declined from last quarter as many borrowers exited their initial forbearance periods. However, modifications continued to represent a significant multiple of past-due loans. Overall, an estimated 7% of District non-PPP loans and leases were either modified, restructured, or past-due on average. This was comparable to the proportion of loans that were past due at the post GFC peak.

PPP-related and flight-to-quality deposits remained elevated as of 3Q20 and leverage ratios dipped further. On-balance sheet liquidity exceeded prior-quarter and year-ago levels. The share of assets held in securities edged up from last quarter as banks moved to invest excess funds. Similar to loans, average one-year deposit growth exceeded 25%, but the average pace of quarterly deposit gains reverted to nearly pre-pandemic rates. Risk-based capital ratios remained largely unaffected by PPP growth given the category's zero percent risk weight. However, the District's average tier 1 leverage capital ratio—which only excludes PPP loans pledged against PPP Liquidity Facility (PPPLF) borrowings from the denominator—dipped another 24 bps to 10.12% given the limited use of PPPLF among District banks. Quarterly dividends generally eased in relation to net income and average equity, in part because holding companies scaled back share repurchase activity; still, more than half of the District's banks paid dividends YTD.

Section 1
Spotlight Feature & Hot Topics

Spotlight: COVID-19's Progression and Selected Impacts

Hot Topics We Are Monitoring Most Closely

Spotlight: Pandemic Progression and Selected Impacts

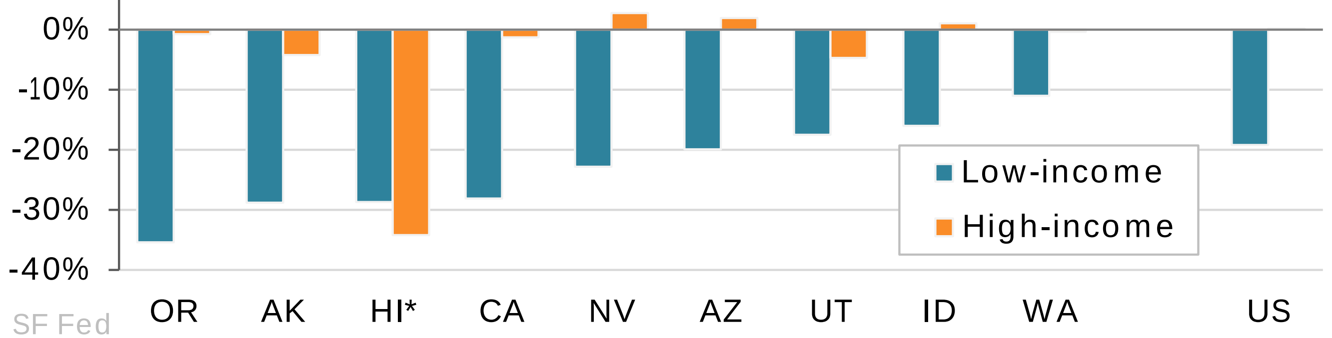
- ***COVID-19 cases increased rapidly during November 2020***. In particular, Utah experienced a massive spike in cases in the middle of the month, but infection rates there subsided somewhat by early December. Nevertheless, all other District states except Hawaii were at or near peak infection rates as of early December, and case counts were expected to increase further on the heels of the Thanksgiving holiday. Deaths attributed to COVID-19 have also increased in most District states in recent weeks and may increase further due to recent infections.

- ***In advance of these trends, the labor market recovery continued, although at varying rates across the District***. By October, Idaho and Utah had recovered nearly all of their jobs lost between February and April (see chart, right). In contrast, Hawaii's tourism-dependent economy recovered only a small fraction. Unemployment rates continued to ease across the District from peak levels in April. Notably, however, national-level data suggests that most of the decline in unemployment represented re-hiring of temporarily laid-off workers; the number of permanently laid-off workers increased through September and only decreased marginally in October.

- ***Data collected by Opportunity Insights showed that the job recovery was also uneven across income levels***. In all District states except Hawaii, job losses have been much more severe among low-income workers (those in the bottom income quartile) than among high-income workers (top income quartile) (see chart, below). This divergence may accelerate the long-term trend of increasing income inequality.

Job Losses & Gains by Income Level

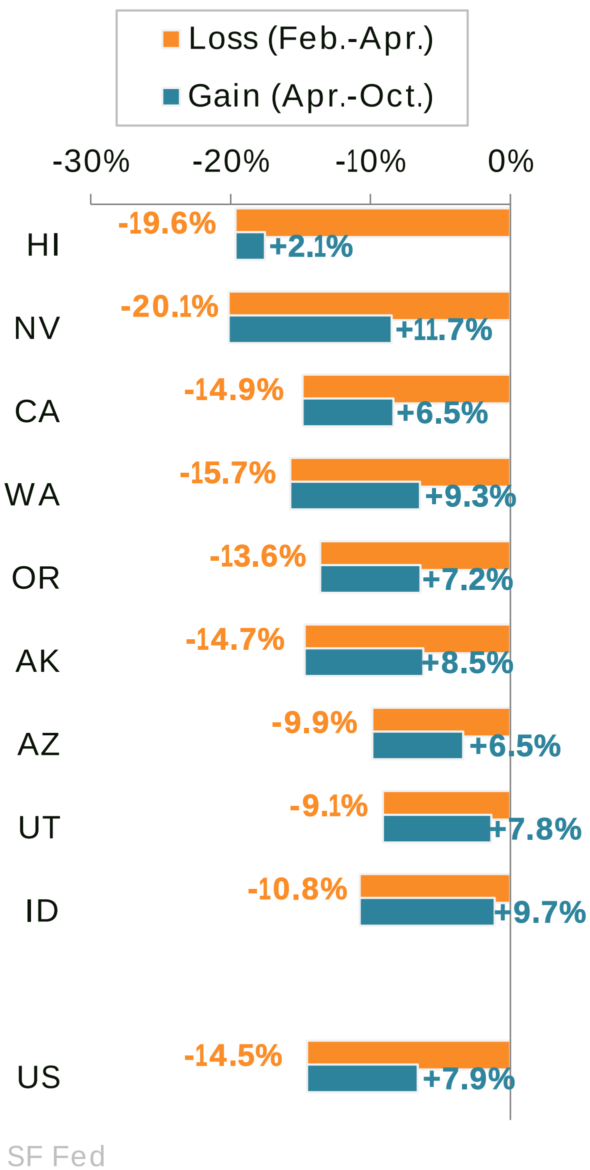
7-day moving average as of 9/30/2020, % difference from 1/4-31/2020 baseline



* Orange bar represents middle-income in Hawaii. Source: Paychex, Earnin, Intuit, and Kronos, via Opportunity Insights and Haver Analytics.

Job Losses & Gains

As % of Feb. 2020 level



Source: Bureau of Labor Statistics via Haver Analytics.

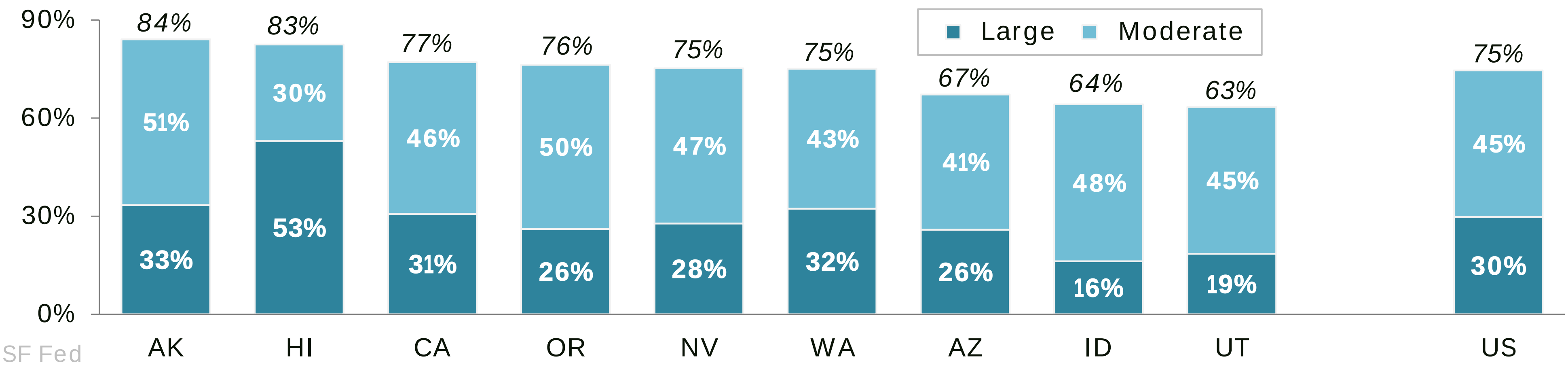
Spotlight: Pandemic Progression and Selected Impacts

- ***Household stress is likely to increase.*** Per the Census Bureau's weekly [Household Pulse Survey](), roughly 8% of households surveyed in mid-November indicated some level of housing insecurity—meaning they either owed back rent or mortgage payments or had limited confidence in their ability to timely pay next month's rent or mortgage. Respondents living in tourism-dependent Hawaii (9.4%) and Nevada (8.2%) reported higher levels of housing insecurity than in other District states. The tenuous economic recovery amid a surge in virus cases, the pending expiration of the Centers for Disease Control's eviction moratorium, and the expectation that consumers will begin to pay back any deferred housing costs once forbearance periods expire may intensify housing insecurity.

- ***Most small businesses have been impacted negatively.*** Per the Census Bureau's weekly [Small Business Pulse Survey](), three quarters of small businesses surveyed nationally reported moderate-to-large negative impacts from the pandemic through the third week of November. Small businesses in District states with higher reliance on the energy and leisure sectors (e.g., Alaska, Hawaii, and Nevada) and/or more extensive social distancing mandates (e.g., California, Oregon, and Washington) tended to report stronger YTD negative effects (see chart, bottom). At the extreme, more than half of respondents in Hawaii reported large adverse impacts. The pattern was generally consistent with the severity of job losses in each state. Nationally, the share of businesses reporting moderate-to-large negative impacts was especially high in these sectors: educational services (92%), accommodation/food services (91%), health care services (88%), arts/entertainment/recreation (86%), "other" services such as salons, spas, and repair shops (82%), and mining/oil/gas (81%).

- ***Small Business Administration (SBA) programs had widespread adoption.*** Through the third week of November, roughly two-thirds of the District's small businesses surveyed by the Census Bureau received PPP funds. A notable minority also reported using Economic Injury Disaster Loan proceeds, similar to national trends.

Share of Small Businesses Reporting Moderate-to-Large Negative Impact from COVID-19



Source: Census Bureau Small Business Pulse Survey via Haver Analytics *(11/16-22/2020).*

Spotlight: Pandemic Progression and Selected Impacts

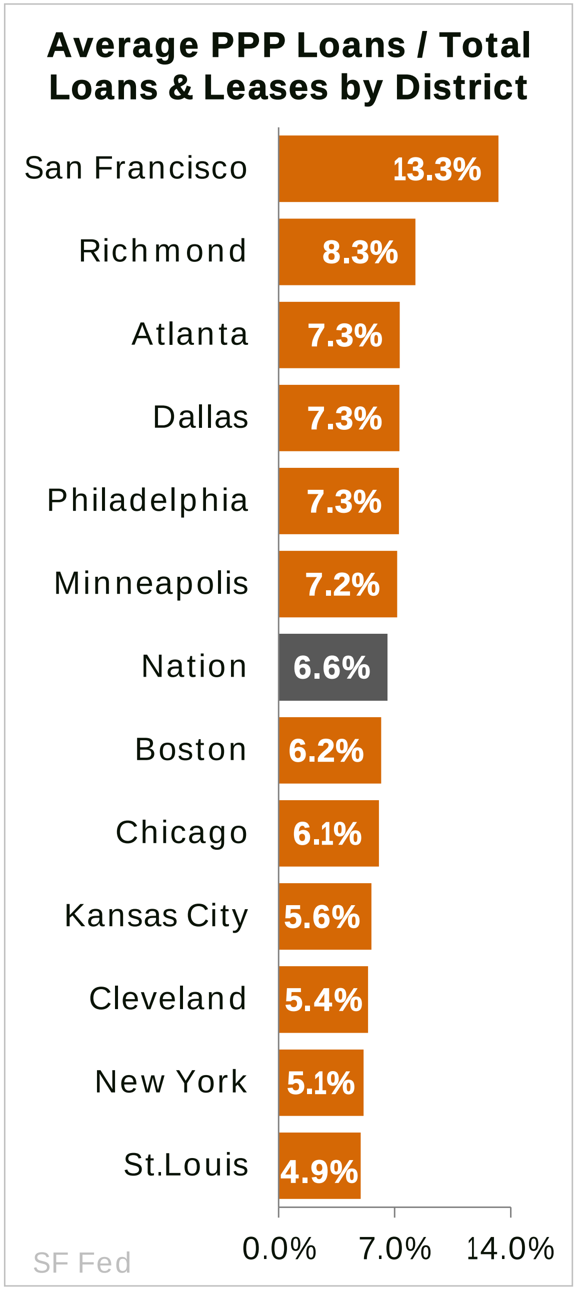
- ***Twelfth District banks held the highest relative level of PPP loans (see chart, right).*** Significant PPP lending contributed to sizeable annual growth in liquid assets, loans, and deposits, declines in overall effective asset yields, and diluted delinquency and overhead expense ratios. PPP also weighed on tier 1 leverage ratios among most lenders. Many of these trends will likely reverse as PPP forgiveness progresses.

- ***PPP forgiveness and residual loan repayment timing remain unclear.*** Borrowers have up until loan maturity (generally two or five years from origination) to apply for forgiveness. In the interim, borrower loan payments are not required until the earlier of 1) the SBA's forgiveness payment to the lender, or 2) ten months after the last day of the forgiveness "covered period", which is generally two to six months after initial funding. As forgiveness and repayments (or loan sales) occur, banks can accelerate their recognition of yield-enhancing loan fees from the SBA.

- ***Banks have worked to accommodate their existing borrowers.*** Among District banks, the average proportion of loans modified in conformance with CARES Act requirements—often in the form of short-term deferral or interest only payments—was 5%, down from 8% in June. Favorably, many borrowers resumed payments after their initial modification periods expired. Still, some loans accommodated temporarily may require a more formal restructuring or workout program in the future.

- ***Fraudsters increasingly used depository institutions to perpetrate crimes***. In the first ten months of 2020, U.S. depository institutions filed 10% more Suspicious Activity Reports (SARs) with the Financial Crimes Enforcement Network (FinCEN) than in the same period in 2019. Contributing materially to the trend were categories such as suspicious electronic funds/wire transfers, ACH, "other" fraud types, transactions with "no apparent economic, business, lawful purpose," and suspicious receipt of government payments/benefits (multiple categories can apply to a single incident).

- ***The pandemic has prompted banks to transform their operational environments, sometimes permanently.*** In addition to requiring banks to adapt to evolving social distancing requirements, the virus has hastened the adoption of new digitization strategies and in some cases the pace of permanent branch closures. In the year ending June, the overall count of bank and thrift offices operating within the District declined 2.2%, accelerating from a 1.9% pace of contraction in 2019. This was despite a concurrent surge in aggregate branch deposits of more than 14%. Office reductions in Oregon, Arizona, and Nevada outpaced other District states, shrinking more than 3% each.



Average = trimmed mean.
Source: Bank Call Reports (3Q20)

Hot Topics: Areas We Are Monitoring Most Closely

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

- ***Cyberthreats.*** As COVID-19 pandemic fatigue sets in for many, threat actors remain undeterred and continue to capitalize on the pandemic-influenced technology environment. Ransomware attacks, the primary cyber incident result of clicking a phishing email, have evolved to include public shaming of affected companies, including notices on social media of hacked companies. Threat actors have also implemented ransomware that affects backed-up data as well as live data, preventing the hacked company from avoiding payment of ransom through a restoration. Cyberthreats are not only originating directly from threat actors, but also via third parties. The FBI recently alerted the public that threat actors are stealing source code through misconfigured third-party applications used by District banks. Also, Zoom, the most high-profile video conferencing platform to emerge during the pandemic, reached a settlement with the Federal Trade Commission for deceiving customers about the strength of its encryption of meetings, and for circumventing browser controls to allow threat actors to spy on users through webcams. Importantly, despite a heightened threat environment marked by increased brute-force attack attempts and fraudulent logon attempts, firms have been able to sustain operations.

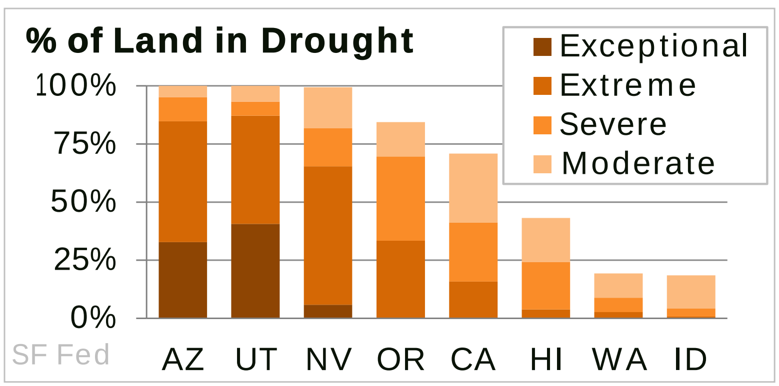
- ***Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance and fraud.*** While the volume of BSA/AML-related supervisory criticisms at District institutions has moderated, monitoring remains heightened because of the District's role in the global economy, the array of activities being conducted by supervised institutions, and the expanding scope of cannabis legalization. Further movement on cannabis legalization occurred as Arizona voted to legalize recreational use of cannabis in the November 2020 general election (which will make it the sixth state in the District to do so). In addition, FinCEN SAR data reveals that coronavirus and stimulus-related scams are occurring increasingly. For instance, nationwide, depository institutions filed more than 9,000 SARs involving business loans in the first ten months of 2020, compared with fewer than 1,700 during the same period in 2019, likely influenced by suspicious PPP applications. The count of filings also increased across myriad other fraud-related categories. FinCEN provides continuous updates on emerging risks on its new coronavirus updates page, which most recently added an advisory on unemployment insurance scams.

- ***Compliance challenges amid COVID -19 response.*** Despite the positive developments regarding COVID-19 vaccines, the current wave of COVID-19 cases is triggering new lockdowns and restrictions. These new measures, coupled with the expiration of various relief efforts targeted to support consumers, are likely to result in additional strain on bank customers and new accommodation requests. As relayed through SR 20-18 / CA 20-13, banks are encouraged to provide consumers with available options for making prudent changes to the terms of credit to support sustainable and affordable payments for the long term. For additional information and resources, refer to the Federal Reserve's COVID-19 Resource Page.

- ***Evolving financial technology (fintech) opportunities and risks.*** Fintech firms are increasingly seeking banking charters and access to Federal Reserve System (FRS) Master Accounts, causing the Federal Reserve to consider precedential decisions. As the fintech industry continues to seek access to the banking sector to provide lending and payments services to customers, some firms are pivoting from their earlier posture as both a disruptor and partner, to chartering or acquiring a bank. The trend toward evolution and advancement of fintech business models has accelerated during the COVID-19 pandemic; with Varo Money being one of the first Fintech bank charter applications to be approved.

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

- ***CRE concentrations.*** Nonowner-occupied CRE loan concentrations entered the current recession below pre-GFC peaks, mainly because of lower C&LD lending volumes. However, most state average concentrations ratios remained more than 100 percentage points above the U.S. average (see table, right). Lending exposures, combined with mounting pandemic-related pressures on CRE cash flows, valuations, and credit availability, heighten regulatory concern. Given pressures on businesses, risks also extend to owner-occupied CRE.
- ***C&I concentrations.*** Corporate indebtedness, pre-pandemic loosened underwriting, and current stress on business borrowers, are expected to amplify C&I loan losses. Although stimulus, PPP, and modifications have limited delinquencies and charge-offs to date, the eventual impact on District banks could be significant. As of 3Q20, C&I balances averaged 165% of tier 1 capital plus loan and lease loss allowances in the District (68% excluding PPP), compared with a 107% average nationwide (63% excluding PPP). Although protected from credit risk, PPP lenders face the challenge of processing voluminous forgiveness requests.
- ***Earnings pressures.*** 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.
- ***Surge deposits.*** The stability of recent deposit inflows is uncertain. Banks have invested some newfound funding in low-yielding, liquid instruments, pressuring yields.
- ***Capital actions.*** Low bank share prices have induced some banks/holding companies to conduct new or ongoing stock buybacks, which may leave capital buffers thin—an unfavorable trend given the uncertain magnitude and duration of the current crisis.



Source: Univ. of Nebraska-Lincoln, U.S. Dept. of Ag., National Oceanic and Atmospheric Admin., 11/17/2020.

Drought-related risks. According to the U.S. Drought Monitor, as of November 17, drought covered most of the land area in several District states (see chart, left). Drought was far less pronounced at the same time last year. Drier climate has contributed to significant fire activity in the West during 2020, including record acreage in California. Wildfire, as well as other climate-related shifts, pose ongoing financial and operational risks for bank offices, employees, and customers.

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

SF Fed	2008-2020**	Sep-20
CA	301%	267.3%
WA	342%	215.5%
OR	337%	199.7%
AZ	335%	192.7%
NV	330%	180.8%
HI	169%	168.8%
AK	158%	152.2%
ID	236%	150.5%
UT	290%	119.4%
Nation	150%	124.1%

◆ = trough ◆ = peak

Trimmed means; excludes owner-occupied CRE; *includes loan- and lease-related allowances; **Sep. 30 each year.

Section 2
Economic Conditions

Job Growth

Pandemic and Social Distancing

Housing Market

Commercial Real Estate

For more information on the national economy, see:

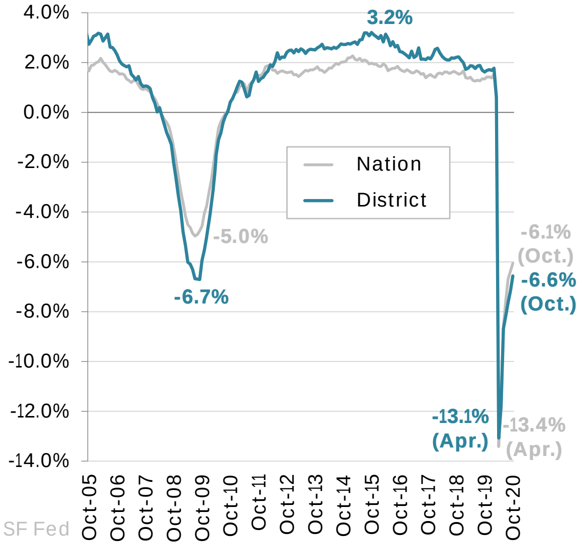
FedViews
(https://www.frbsf.org/economic-research/publications/fedviews/)

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

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

12 Jobs recovered through October but still trailed 2019 levels; leisure/hospitality and "other" services suffered the most.

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



Twelfth District Jobs by Sector

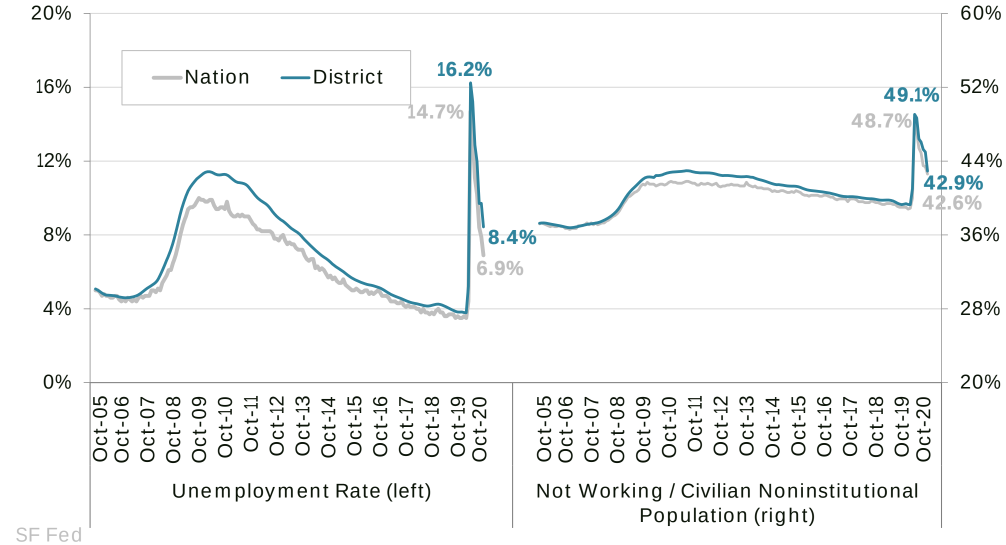
Job Sector	% Change (Year-Over-Year) 12-month	% Change (Year-Over-Year) Oct-20
Leisure & Hospitality		-22.89%
Other Svcs.		-12.70%
Information		-6.94%
Manufacturing		-6.45%
Government		-6.23%
Wholesale Trade		-4.68%
Edu. & Health Svcs.		-3.84%
Prof. & Business Svcs.		-3.59%
Mining & Logging		-3.24%
Transport. & Utilities		-2.74%
Retail Trade		-2.68%
Construction		-0.78%
Financial Activities		-0.33%
Total Nonfarm		-6.56%

SF Fed

Seasonally adjusted; construction in Hawaii includes mining and logging; information sector excludes Hawaii and Nevada; Other Services includes salons, spas, and repair and laundry services. Source: Bureau of Labor Statistics via Haver Analytics.

13 Unemployment across the District also continued to recover, but remained well above the national rate as of October.

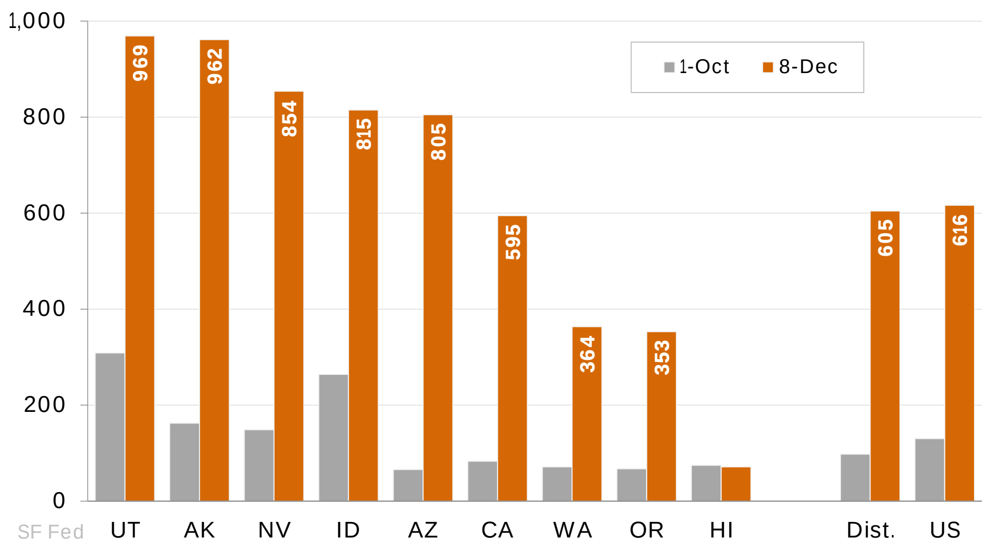
Unemployment Rate **Not Working (% of Civilian Population)**



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

14 COVID-19 infection rates surged across most District states in 4Q20, threatening the employment recovery.

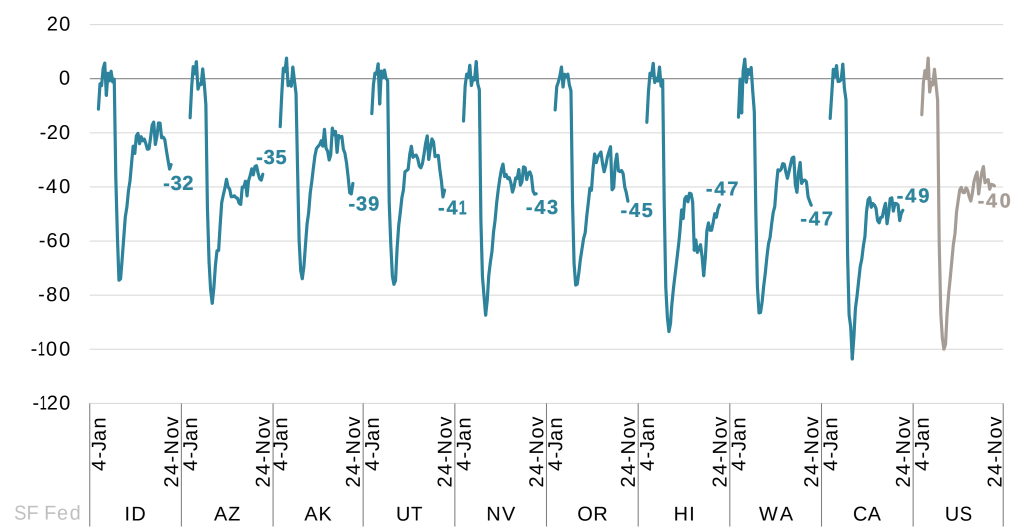
New COVID-19 Cases per Million of Population
(7-day Rolling Average)



Population estimates as of mid-2019. Sources: COVID Tracking Project (accessed 12/9/2020) and Census Bureau.

15 Mobility recovered partially after contracting in the Spring, but sank again in November where the virus was spreading.

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

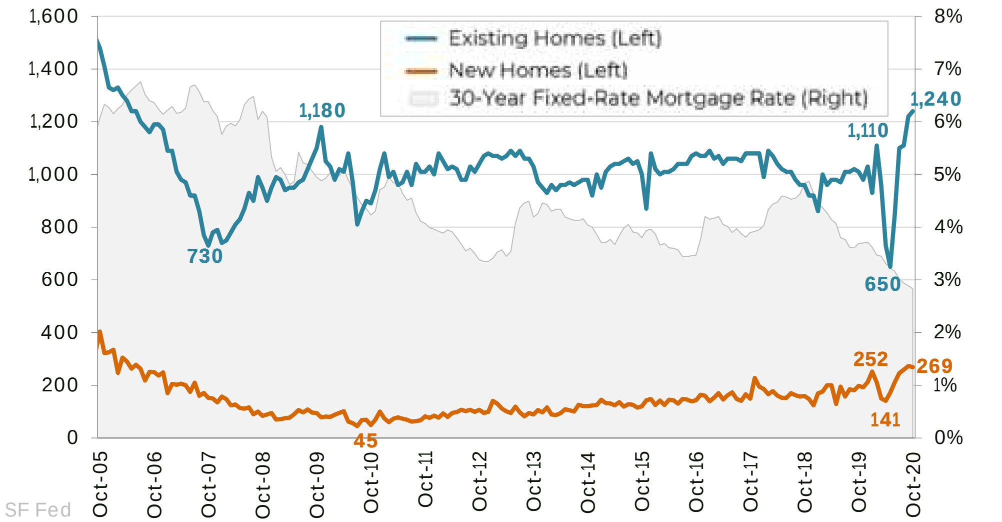


All indices are scaled relative to a national index, which averages zero during the January–February 2020 period and equals -100 for the week ended April 11, 2020; indices are based on aggregated, anonymized location data from mobile devices. Source: Federal Reserve Bank of Dallas via Haver Analytics.

16 Home sales reached post-Great Recession highs in October.

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

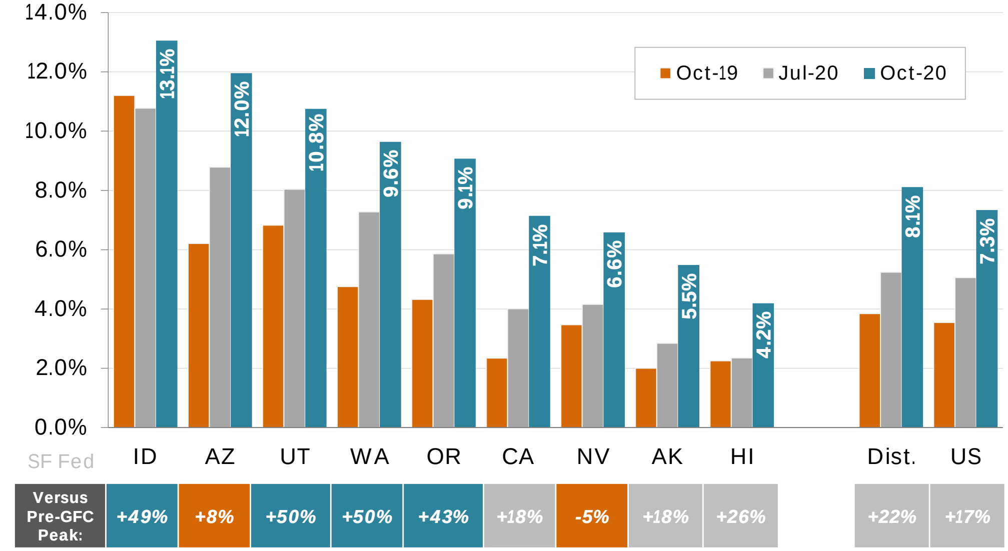
30-Year Fixed Mortgage Rate – Nation *(Monthly)*



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.

17 Single-family home-price growth continued to accelerate, as residents sought more space amid low interest rates.

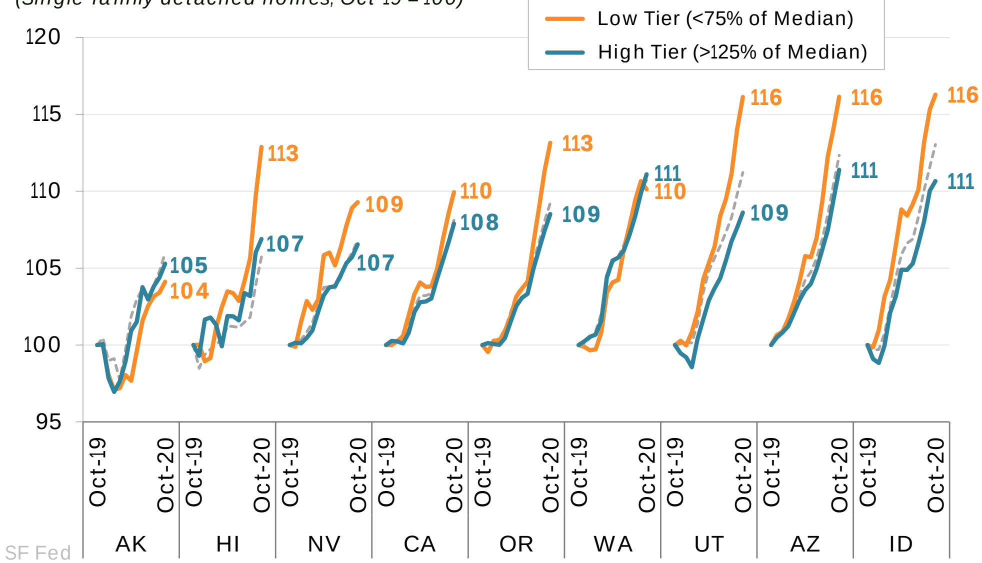
Home Price Index
(Year-Over-Year % Change)



Home price index includes all detached and attached single-family homes, including distressed sales. "Dist." = Twelfth District, an average of individual state indices weighted by repeat sales. Source: CoreLogic, SF Fed calculations.

18 The rapid rise in lower-tier home prices suggested that apartment residents shifted into single-family homes.

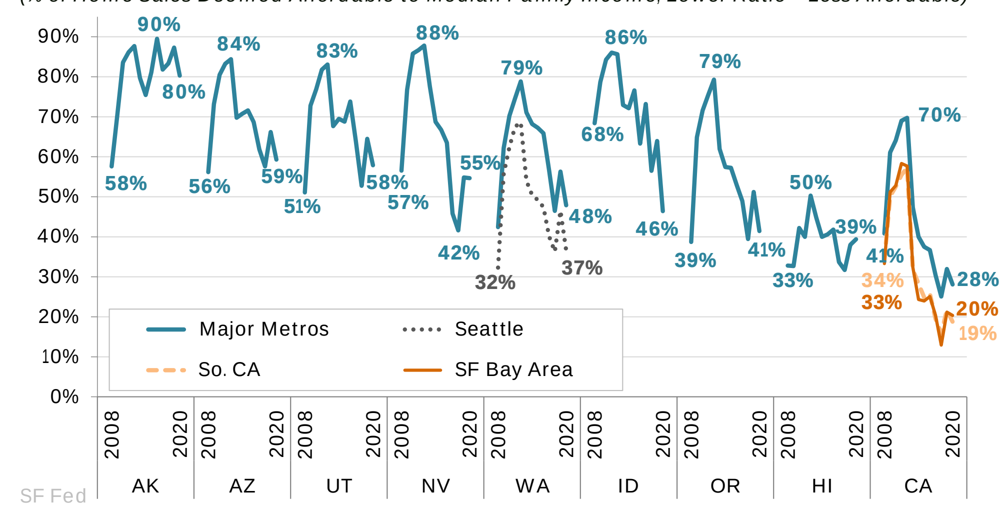
Home Price Index by Price Tier
(Single-family detached homes; Oct-19 = 100)



Includes distressed sales. Source: CoreLogic.

19 But declining median incomes and higher prices put homeownership further out of reach for poorer households.

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

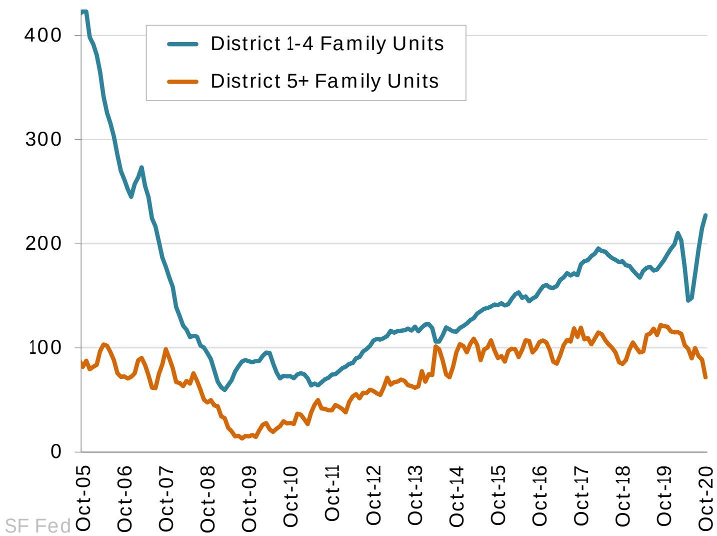


Assumes median income (minus an assumed 7% haircut in 2020), 10% down payment, ratio of income-to-housing costs (principal, interest, taxes, and hazard insurance) of 28%, and a fixed-rate, 30-year mortgage; So. CA = Los Angeles, Orange, Riverside-San Bernardino, San Diego, and Ventura metros; SF Bay 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.

20 1-4 family permit volumes returned to their pre-pandemic upward trend, but multifamily permits continued to wane.

Housing Permits – Twelfth District

(Seasonally Adjusted Annual Rate, 3-Month Moving Avg., Thousands)



New Authorized Housing Units

*Trailing 3-Mo. Avg., October**

	Level 2004-2020	1-Year Chg. 1-to-4 Family	1-Year Chg. Multi-family
AZ		36%	-11%
UT		34%	-48%
NV		30%	-25%
CA		21%	-44%
ID		20%	-56%
AK		19%	-79%
OR		7%	-63%
WA		5%	-16%
HI		-14%	-72%
Dist.		19%	-42%

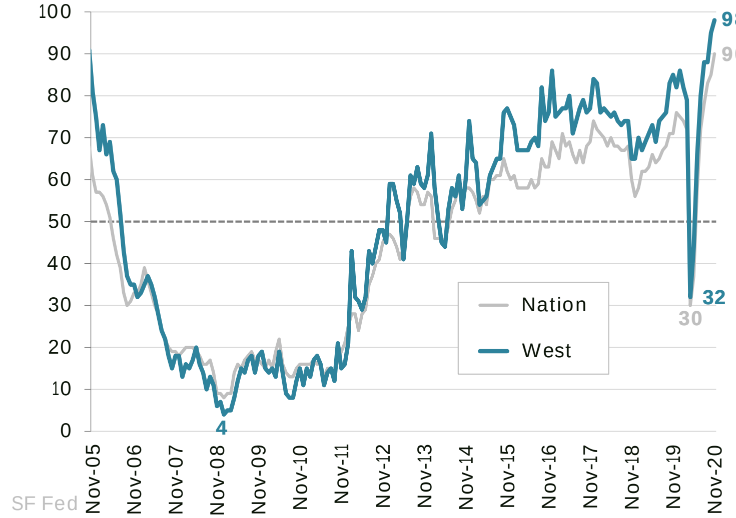
SF Fed ◆ = trough ◆ = peak

* Trend lines as of July of each year. Source: Census Bureau via Haver Analytics.

21 Both West-region and national homebuilder optimism reached their highest levels on record in November.

Homebuilder Diffusion Index

(Monthly, Index Above 50 Considered Positive)



Regional Home Builder Diffusion Indices

(Trailing 3 Mo. Avg.)

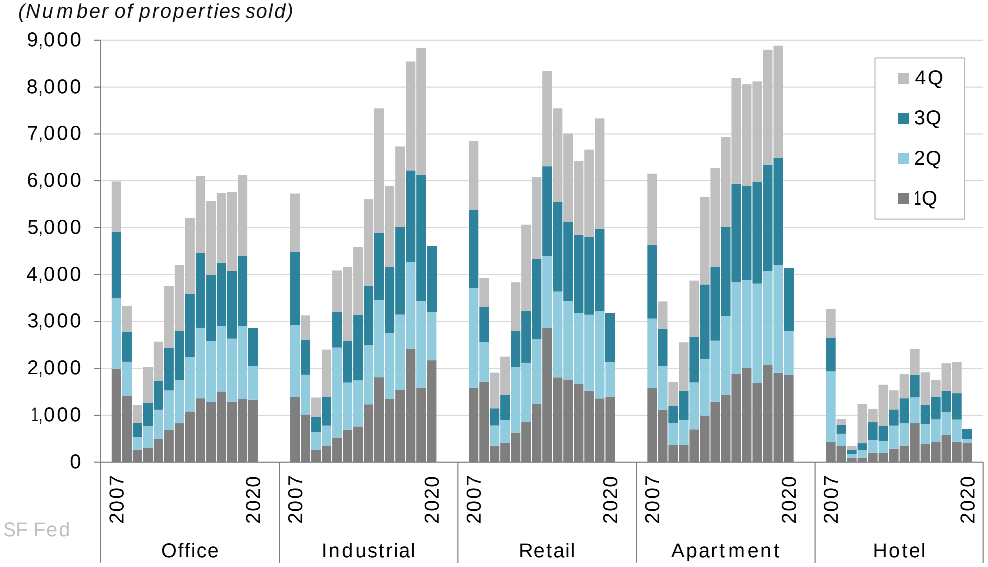
Region	Nov-19	Nov-20
West	81.3	93.7
South	74.7	86.0
Northeast	62.7	83.3
Midwest	57.7	79.7
Nation	70.0	86.0

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.

22 CRE transaction volumes partially recovered in 3Q but remained well behind their YTD 2019 pace.

National CRE Transactions

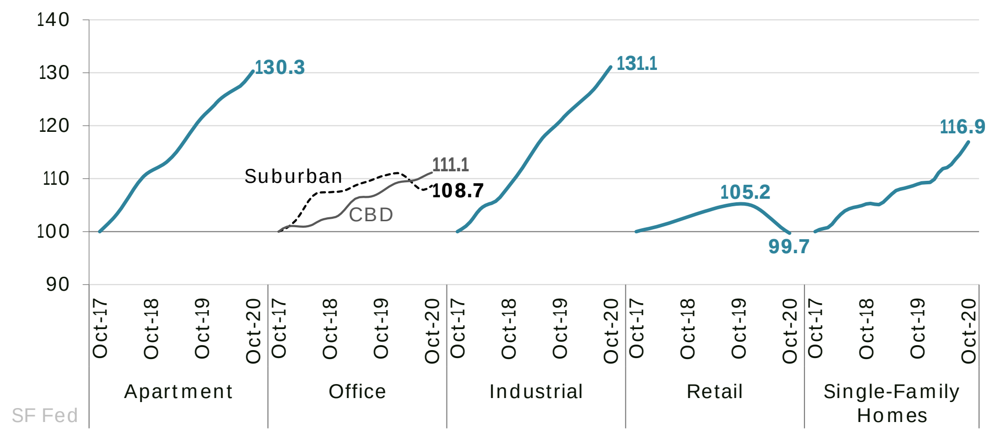
(Number of properties sold)



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

23 Except for retail and suburban offices, CRE sellers mostly preferred to delay sales instead of accept lower prices.

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



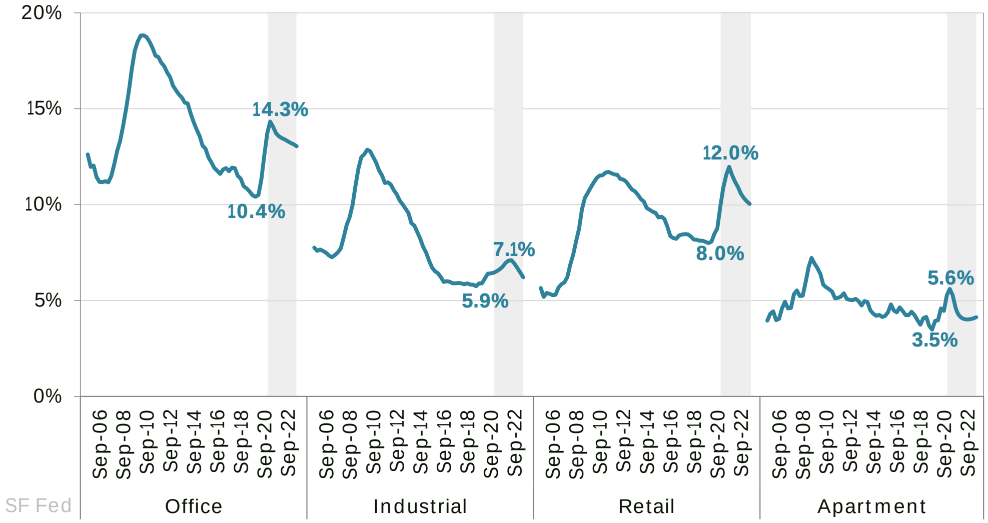
Average Annual Growth in Price Indices

	Apartment	Office	Industrial	Retail	Single-Family Homes
1-Yr.	7.2%	-0.9%	8.5%	-5.2%	7.3%
5-Yr.	9.9%	4.4%	8.9%	0.7%	5.5%
10-Yr.	10.4%	5.7%	7.6%	3.8%	5.2%

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).

24 Per CBRE-EA, CRE vacancy rates continued to rise in 3Q; occupancy may be slowest to recover for office and retail.

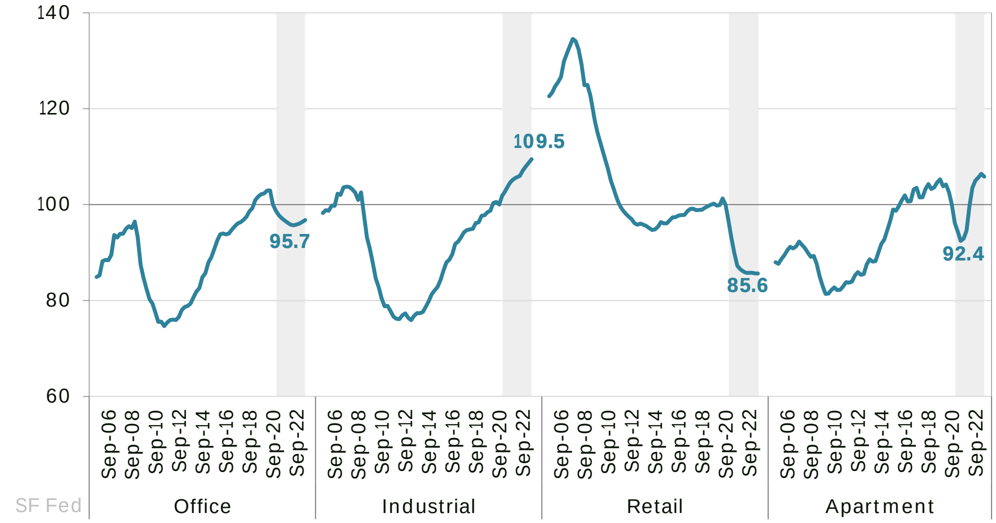
CRE Vacancy Rates – Twelfth District Markets
(Historical from 3Q05 through 3Q20, forecast from 4Q20 to 2Q23)



Includes the 18 to 16 largest markets in the District, weighted by stock; baseline forecasts as of 3Q20; shaded area = forecast. Source: CBRE-EA.

25 CBRE-EA expects rent declines, especially in retail and multifamily, although apartments may recover quickly.

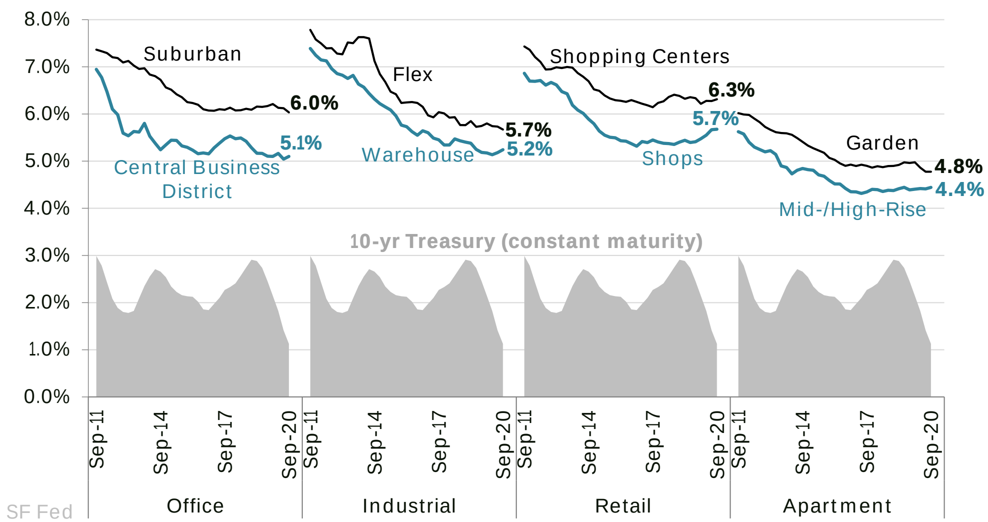
CRE Real Rent Indices – Twelfth District Markets
(3Q20 = 100; historical from 3Q05 through 3Q20, forecast from 4Q20 to 2Q23)



Includes the 18 to 16 largest markets in the District, weighted by stock; baseline forecasts as of 3Q20; shaded area = forecast. Source: CBRE-EA.

26 Nominal cap rates mostly held steady, but a declining risk-free rate suggests risk premiums increased further.

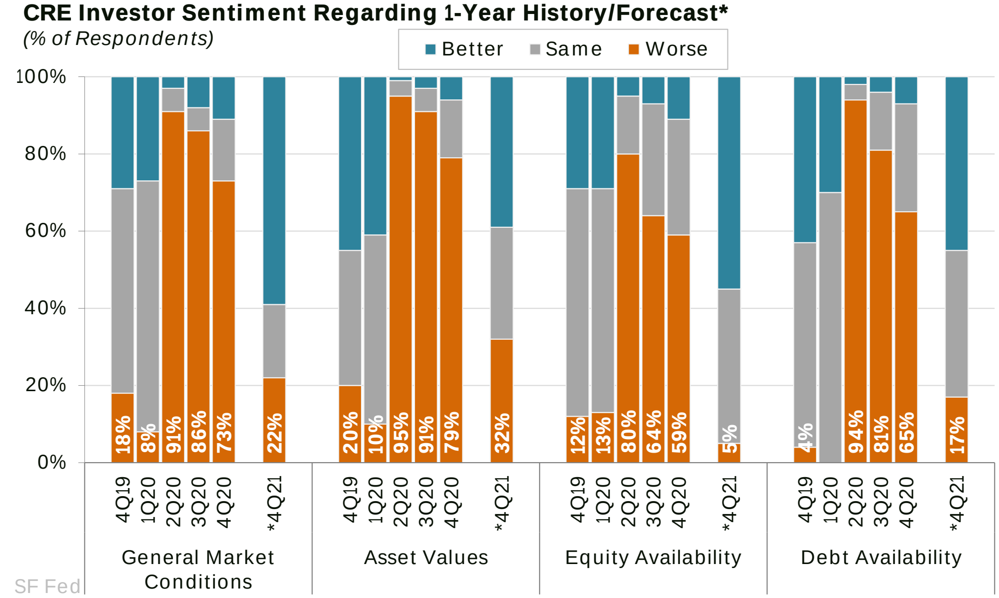
Western U.S. CRE Capitalization Rates vs. Risk-Free Rate (10-yr Treasury)
(Trailing 12-Month Averages)



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. Sources: Real Capital Analytics, Inc., Federal Reserve Board via Haver Analytics.

27 A major but receding share of CRE investors reported weaker conditions versus 2019; many foresee a brighter 2021.

CRE Investor Sentiment Regarding 1-Year History/Forecast*
(% of Respondents)



Survey data was collected in the first month of each quarter; *denotes expectations as of 4Q20 for the year ahead. Source: Real Estate Roundtable *Sentiment Index* reports.

Section 3
Commercial Bank Performance

Earnings

Credit Quality

Loan Growth and Concentrations

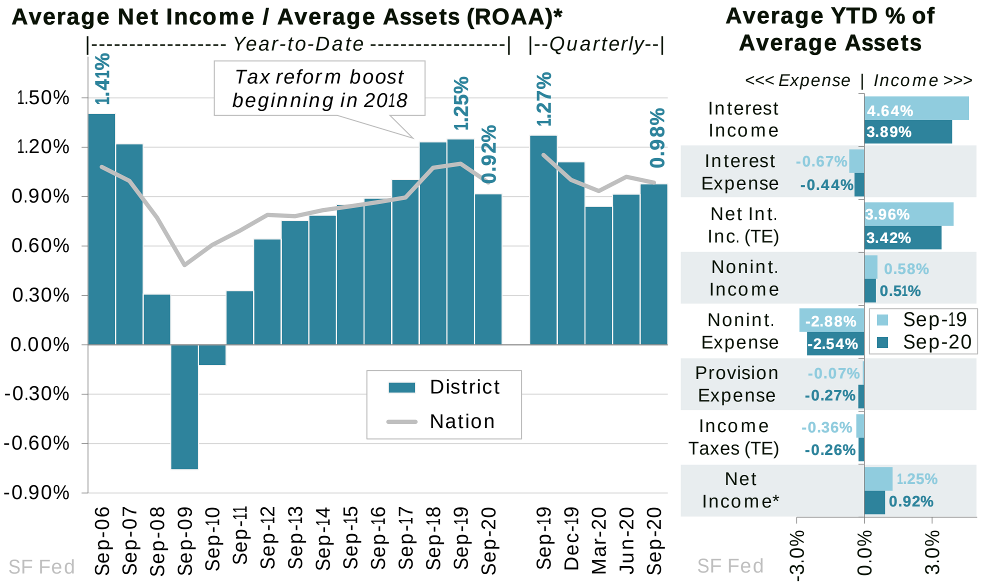
Liquidity and Interest Rate Risk

Capital

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

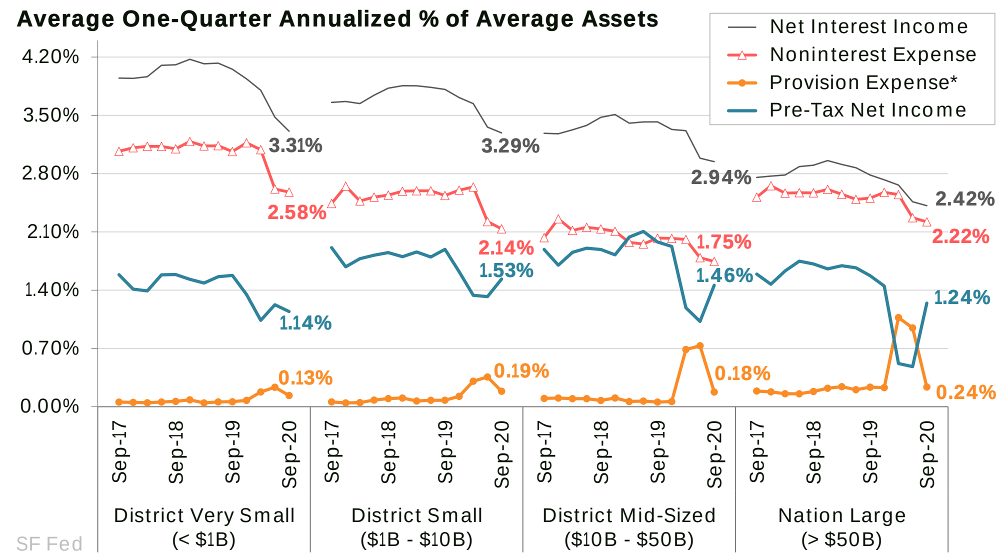
Note: Bank size groups are defined by total assets as "Very Small" (< $1B), "Small" ($1B - $10B), "Mid-Sized" ($10B - $50B), and "Large" (> $50B), which, for analytical reasons, differ slightly from supervisory asset thresholds. The "Large" bank group covers banks based nationwide—given their broader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

29 The average YTD ROAA remained well below 2019 levels, but quarterly ROAA ratios edged higher over the course of 2020.



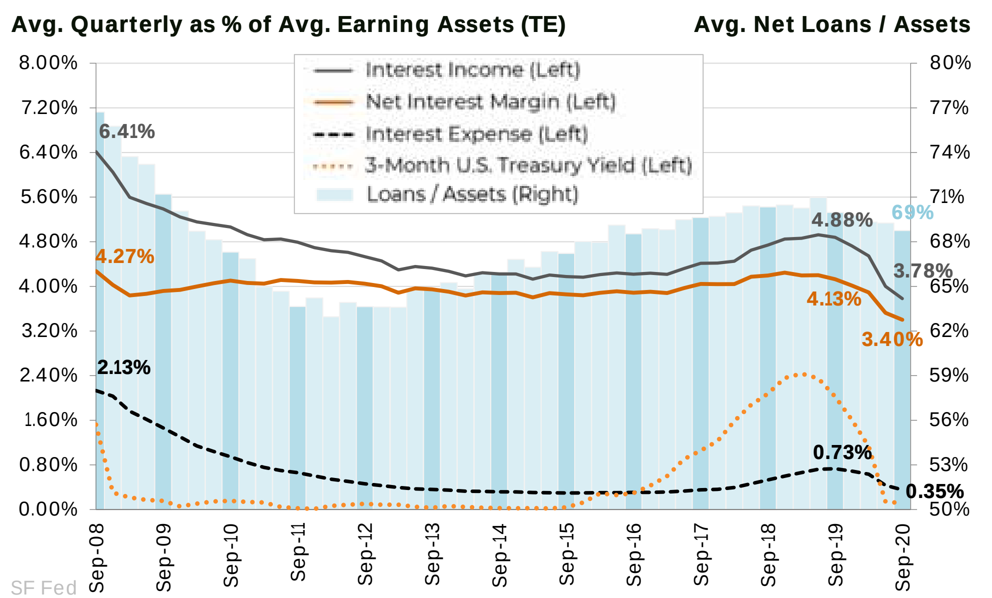
Average = trimmed mean; all figures annualized; ROAA = return on average assets; *theoretical tax expense deducted from Subchapter S filers; TE = tax equivalent (yields and applicable tax expense adjusted for tax-exempt revenues); because of trimmed average properties, average constituent parts do not sum to average net income.

30 PPP skewed margin and overhead ratios lower at smaller banks; provision pressures eased notably at CECL adopters.



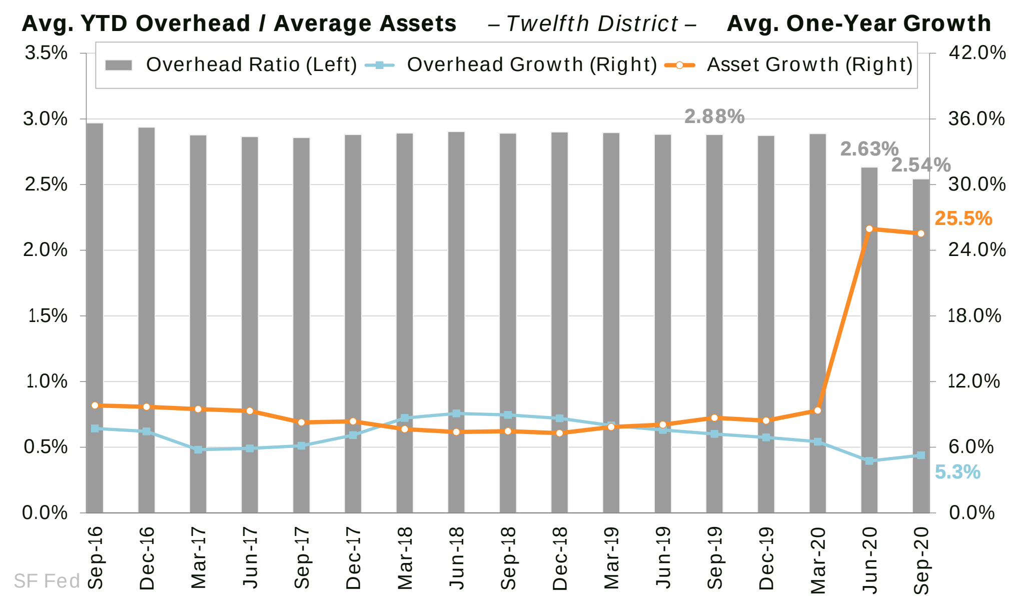
Average = trimmed mean; *many publicly-traded firms adopted CECL (current expected credit loss) allowance methodologies beginning in 1Q20--CECL requires lenders to consider potential credit losses over the life of a loan, which is often a longer time horizon than considered under the prior "incurred loss" allowance methodology; among CECL adopters, provision expense includes provisions for credit losses on all financial assets that fall within the standard.

31 Quarterly net interest margins sank further, reflecting higher liquidity and a full-quarter of PPP effects on asset yields.



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.

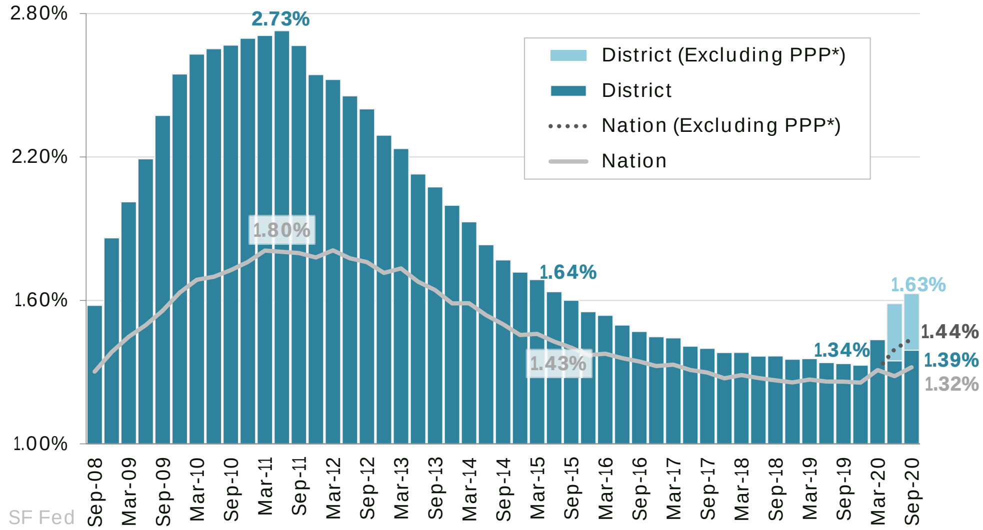
32 Year-to-date, PPP-fueled asset growth outpaced constrained increases in overhead, diluting overhead-to-asset ratios.



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

33 Loan and lease loss allowances increased, and in relation to non-PPP loans, reached levels not seen since 2015.

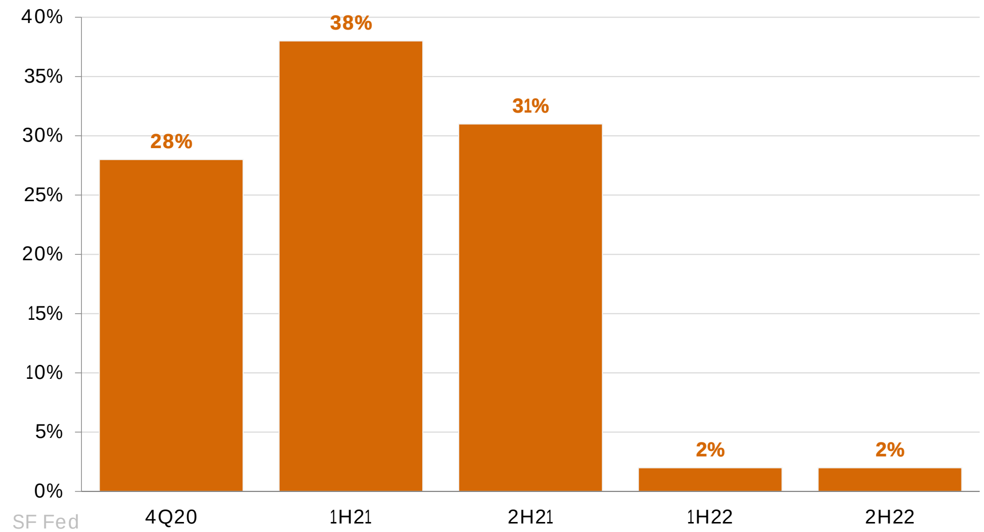
Average ALLL or ACL for Loans & Leases / Loans and Leases not HFS (%)



Average = trimmed mean; ALLL = allowance for loans and leases; ACL = allowance for credit losses related to loans and leases; HFS = held for sale; *excludes PPP loans from the denominator—because of data limitations, assumes all PPP loans are held for investment, not for sale.

34 Most bankers surveyed in early October believed loan loss allowance building had not yet peaked.

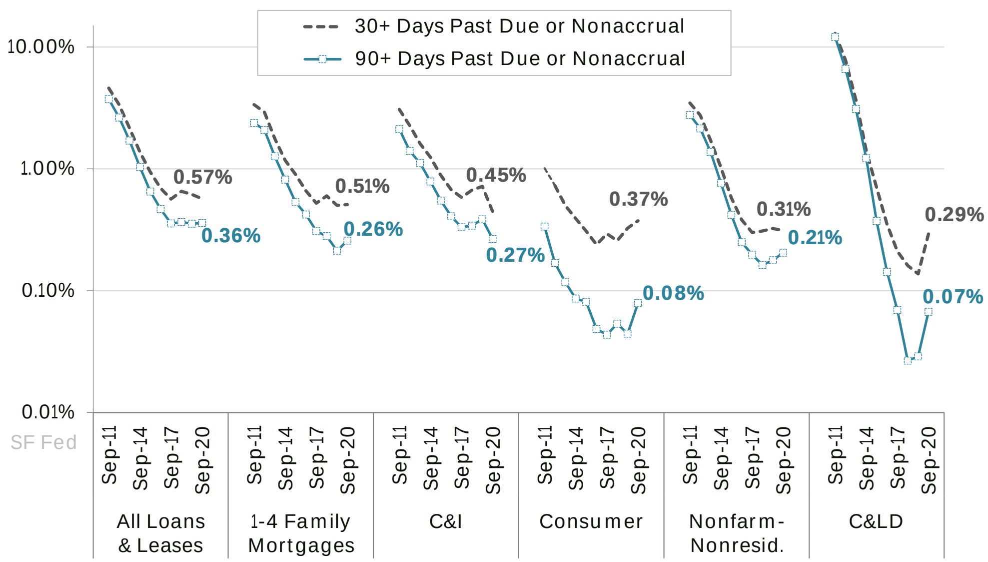
When Credit Reserve Building Will Mostly Likely Peak – West *(% of Respondents)*



Based upon a survey of bank chief executive officers, chief financial officers, and presidents, queried in the first half of October 2020; West = Kansas City + San Francisco Districts. Source: IntraFi Network *Bank Executive Business Outlook Survey*.

35 Noncurrent loan rates ticked up for most major categories; growth from PPP diluted C&I and overall delinquency ratios.

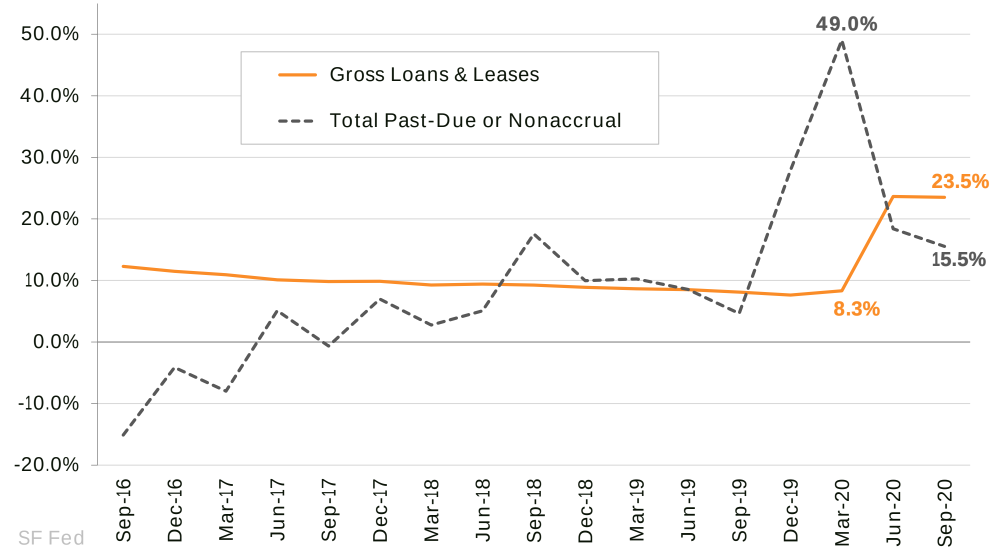
Average Past Due or Nonaccrual / Gross Loans & Leases *(Log Scale)*



Average = trimmed mean; C&I = commercial & industrial; C&LD = construction & land development; noncurrent = 90+ days past due or in nonaccrual status.

36 The annual pace of past-due loan growth remained elevated in the District but slowed from earlier in 2020.

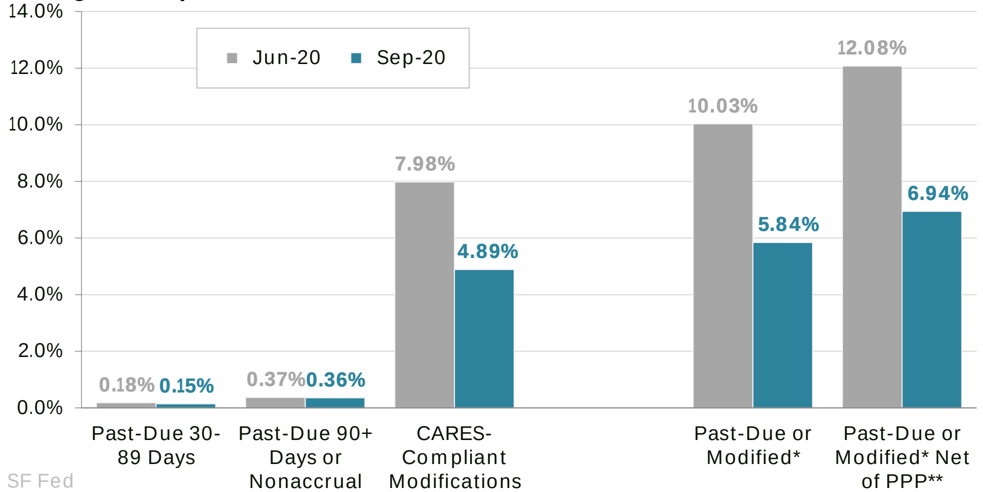
Average Year-over-Year Change – Twelfth District



Average = trimmed mean; past-due includes loans delinquent 30 days or more or in nonaccrual status due to doubts as to full collectability.

37 CARES Act-compliant modification rates declined, but still represented a significant multiple of past-due loans.

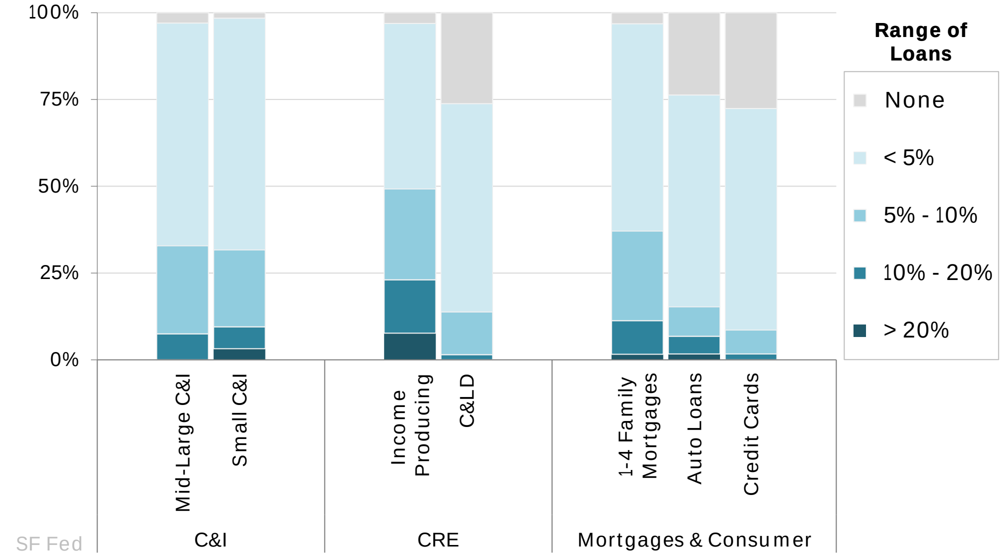
Average Delinquencies or Modifications / Loans and Leases – Twelfth District



Average = trimmed mean; CARES Act-compliant modifications includes accommodations made in accordance with Section 4013 of the CARES Act, which do not have to be reported as troubled debt restructurings (TDRs) for accounting purposes; *numerator includes CARES Act-compliant modifications, past-due loans, and formal TDRs paying in accordance with modified terms; **denominator excludes PPP loans as these are unlikely to be delinquent or modified; because of trimmed average properties and some categories not itemized, constituent parts on the left-hand side do not sum to the combined total of past-due or modified on the right.

38 The latest loan officer survey indicated forbearance was common among income-producing CRE.

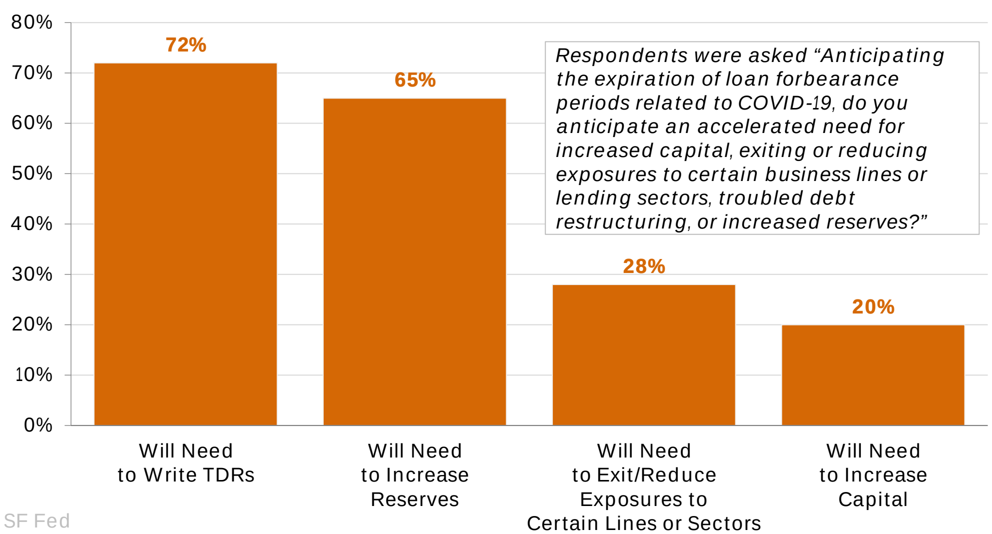
Range of Loans Currently in Forbearance, % of Respondents *(October 2020)*



C&I = commercial and industrial; C&LD = construction and land development. Source: Federal Reserve *Senior Loan Officer Opinion Survey*.

39 A separate survey noted that bankers expected an increase in TDRs and loan loss allowances once forbearance expires.

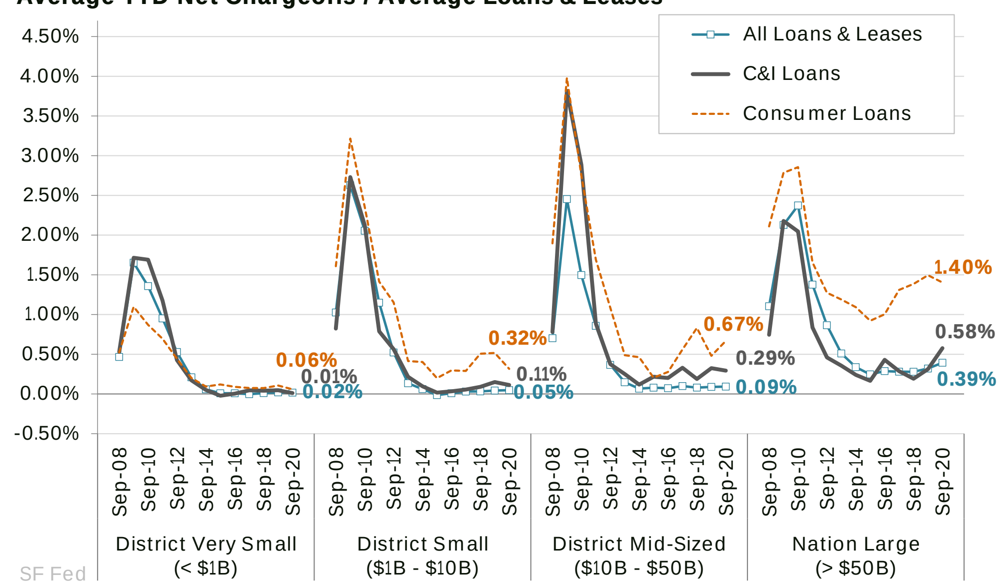
Expectations Following End of Forbearance Periods – West *(% of Respondents)*



Based upon a survey of bank chief executive officers, chief financial officers, and presidents, queried in the first half of October 2020; respondents could choose as many items as applied; TDR = troubled debt restructuring; West = Kansas City + San Francisco Districts. Source: IntraFi Network *Bank Executive Business Outlook Survey*.

40 Through 3Q20, net chargeoff ratios remained low among most District banks, especially smaller ones.

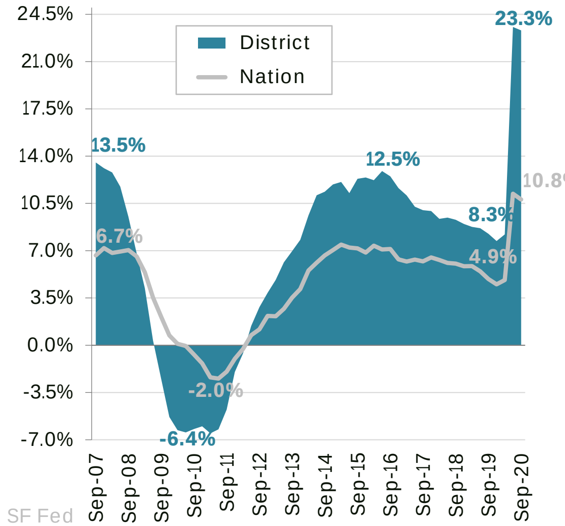
Average YTD Net Chargeoffs / Average Loans & Leases



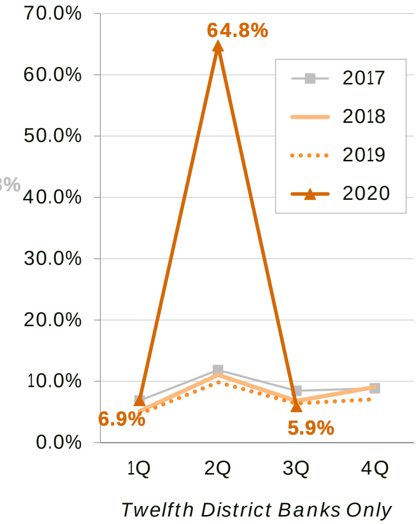
Average = trimmed mean; YTD = year-to-date (annualized); C&I = commercial and industrial (not adjusted for PPP).

41 Annualized quarterly loan growth reverted to a slower pace; year-over-year growth was skewed by the 2Q20 PPP surge.

Average Year-over-Year Net Loan & Lease Growth



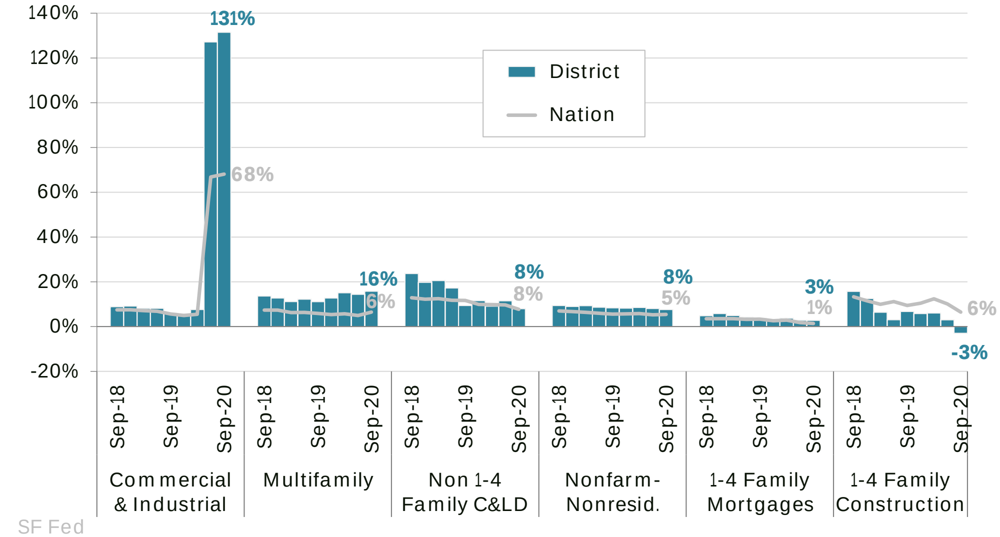
Average Quarter-over-Quarter Net Loan & Lease Growth *(Annl'd.)*



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.

42 C&I portfolios surged year-over-year with the roll out of PPP in 2Q20; growth in many other categories stalled or slowed.

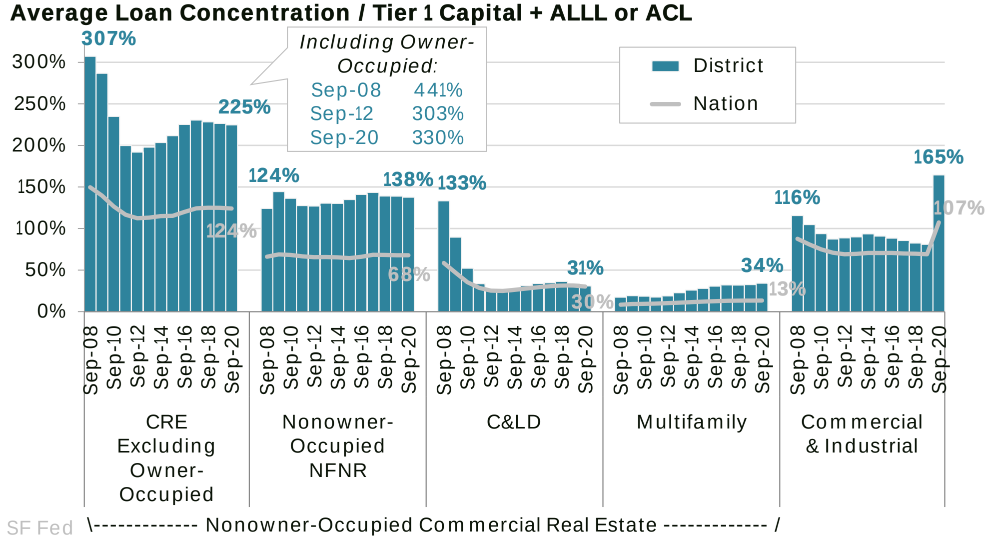
Average Year-over-Year Loan Growth, Selected Loan Categories



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

43 District bank average CRE loan concentrations remained high, but eased, partly due to growing loan loss allowances.

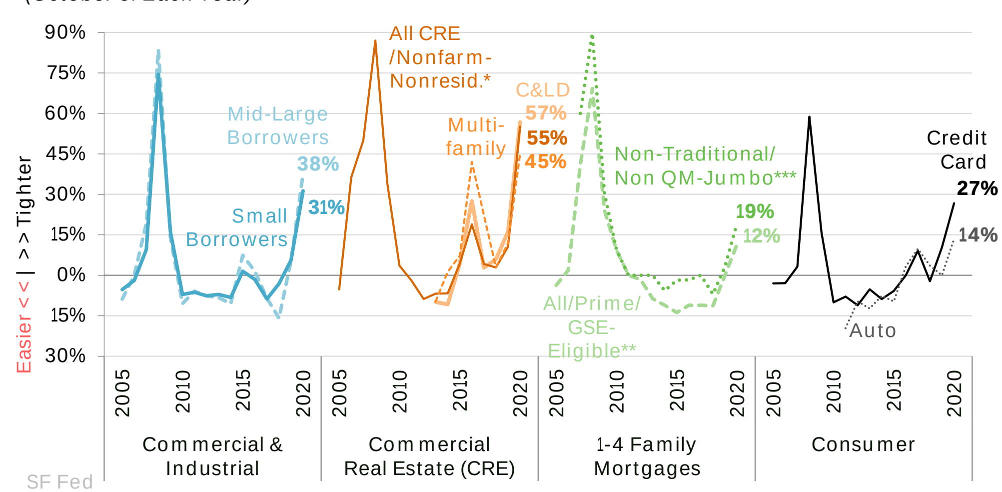
Average Loan Concentration / Tier 1 Capital + ALLL or ACL



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.

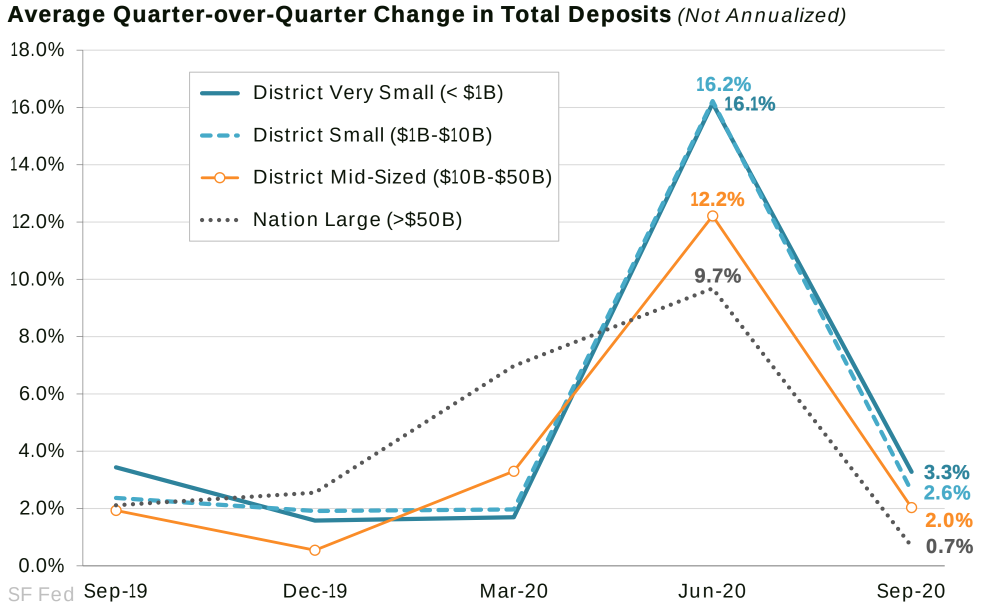
44 Notable net fractions of lenders tightened underwriting during 3Q20, in particular for CRE loan categories.

Net % of Lenders Reporting Tighter (Easier) Loan Standards during Quarter
(October of Each Year)



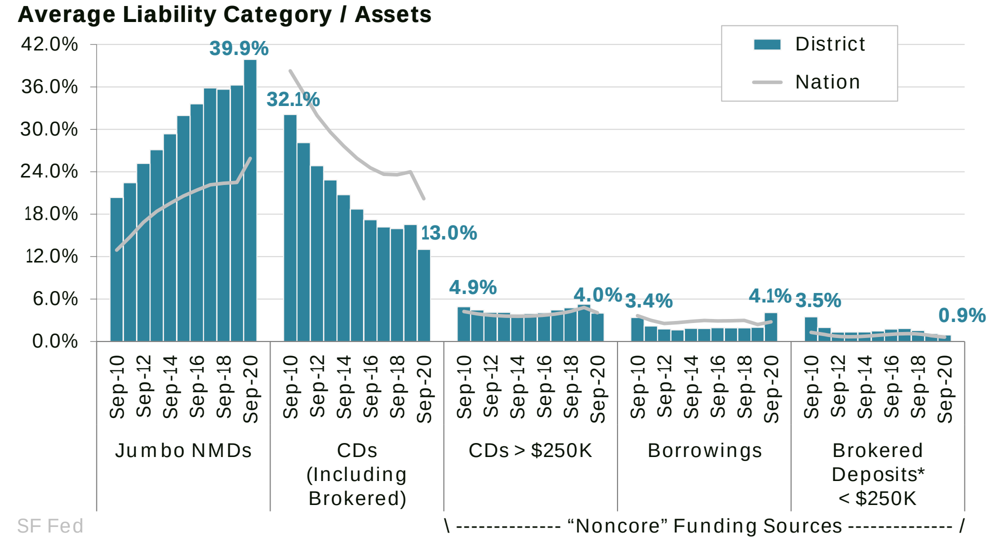
Based on a sample of 70+/- loan officers at domestic banks (number varies by period and loan type); C&LD = construction and land development; *includes all CRE loans prior to Oct-13; **includes all residential mortgages prior to Apr-07, "prime" mortgages Apr-07 to Oct-14, and GSE-Eligible starting Jan-15; ***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.

45 Although still positive, average quarterly deposit growth rates slowed significantly in 3Q20 after spiking in 2Q20.



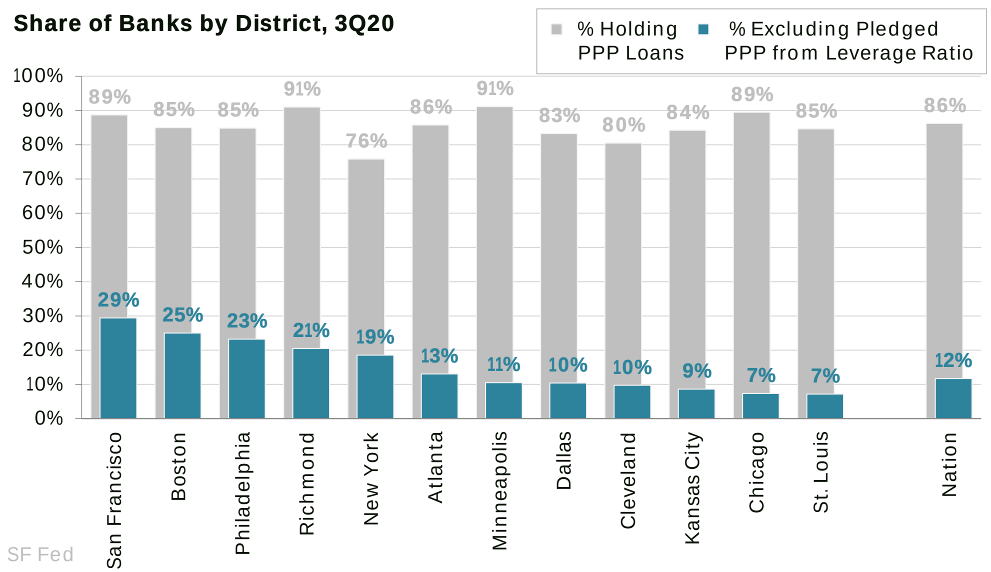
Average = trimmed mean; growth rates are not merger-adjusted.

46 PPP contributed to banks' reliance on jumbo NMDs and borrowings (via PPPLF); CDs fell out of favor given low rates.



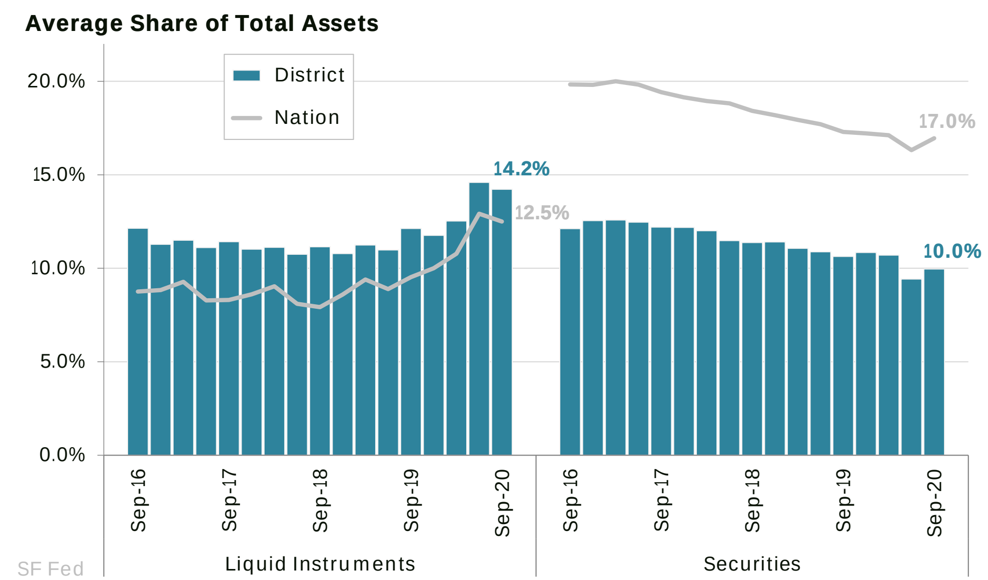
Average = trimmed mean; jumbo = greater than $250K; NMD = nonmaturity deposit; CD = certificate of deposit; borrowings = federal funds purchased, repurchase agreements, and other borrowed money, including PPP liquidity facility (PPPLF) advances; *beginning in 2Q18, qualifying (generally well-rated and 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.

47 Only a minority of District banks used PPPLF, but the share of banks using PPPLF in the West outpaced other districts.



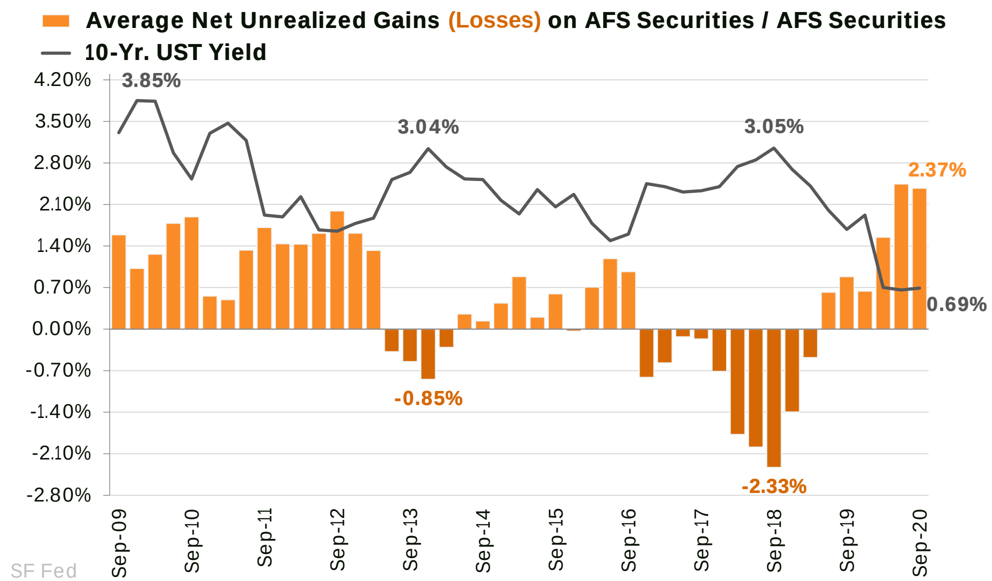
Includes de novos but excludes industrial banks; beginning 2Q20, average assets used in the denominator of the tier 1 leverage capital ratio excluded the average amount of PPP loans pledged against borrowings under the Federal Reserve's PPPLF; PPP loans not pledged against PPPLF borrowings were not treated similarly and remained in the tier 1 leverage ratio denominator.

48 The portion of District bank assets held in securities edged up during 3Q20, but the relative share still lagged the nation.



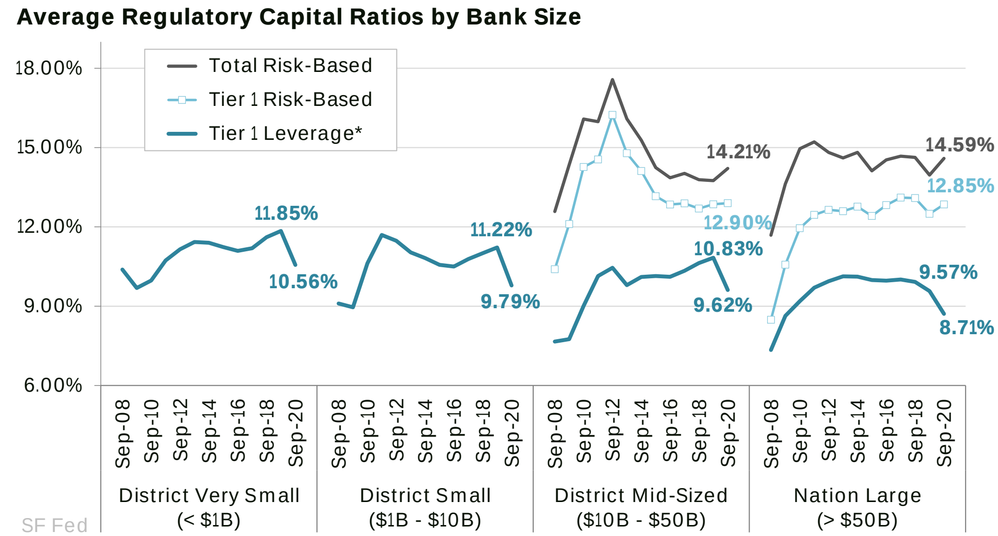
Average = trimmed mean; liquid investments = cash, due from balances, interest bearing balances, and federal funds sold & securities purchased under agreements to resell; securities includes available for sale and held to maturity investments at fair value and amortized cost, respectively.

49 Low, steady long-term interest rates kept District bank bond portfolios in a net unrealized gain position on average.



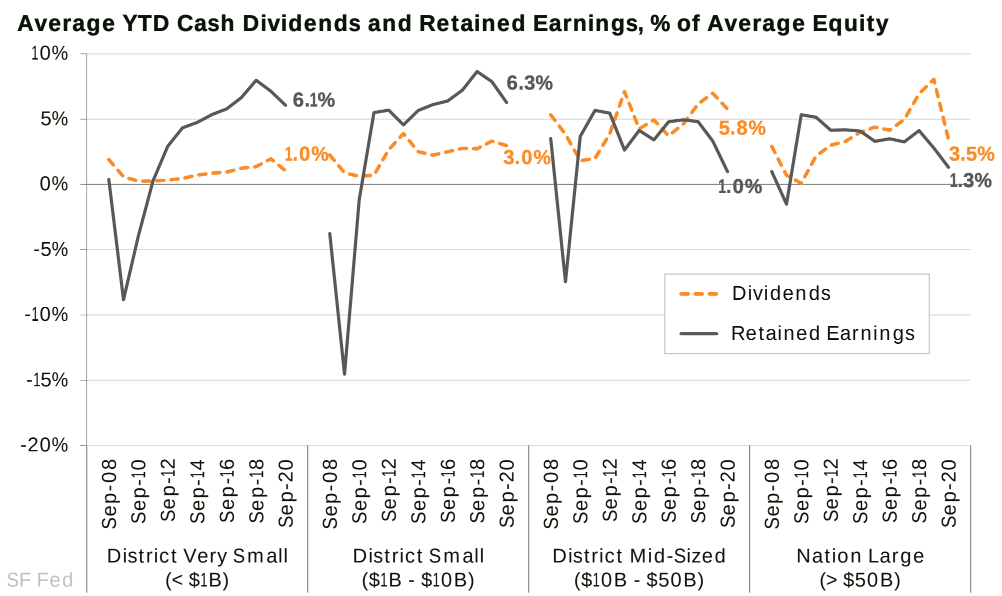
Average = trimmed mean (Twelfth District banks only); AFS = available-for-sale; changes in valuation reported net of deferred tax effects; UST = end of period U.S. Treasury yield at a constant maturity (from Federal Reserve via Haver Analytics); AFS securities excludes equities beginning with the March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

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



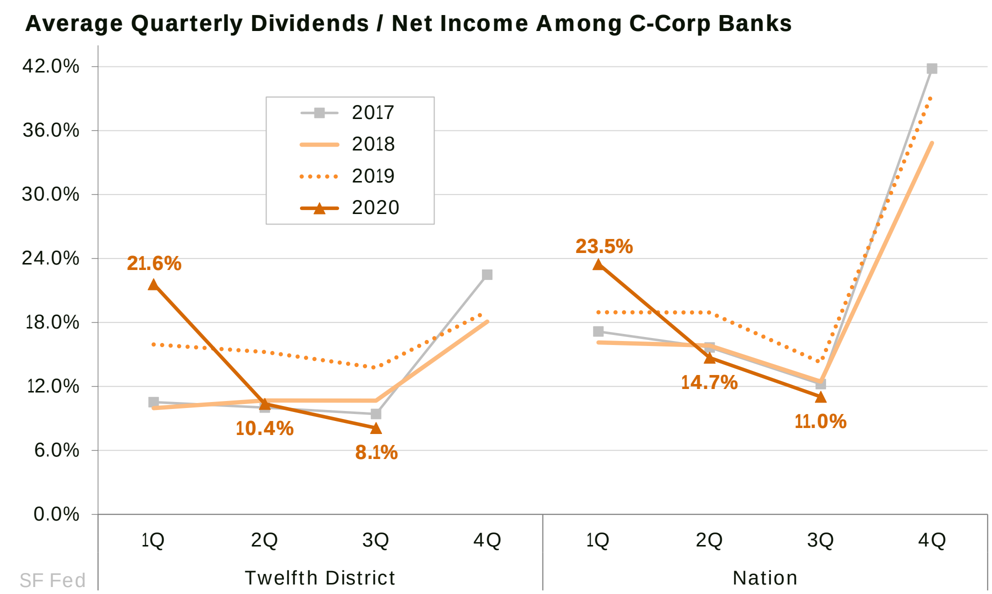
Average = trimmed mean; *based upon community bank leverage ratio (CBLR) or tier 1 leverage ratio; beginning 1Q20, risk-based capital (RBC) averages became unavailable for banks under $10B that adopted CBLR, which limited the utility of RBC time series comparisons; beginning in 2Q20, the average balance 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) denominators.

51 Profit challenges caused year-to-date capital accretion from retained earnings to trail 2019 in spite of lower dividends.



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.

52 Third quarter dividend payout ratios eased from 2Q20, but will the year's final quarter bring a "seasonal" surge?



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

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)	
	Sep-19	***Sep-20***	***Sep-19***	***Sep-20***	***Sep-19***	***Sep-20***
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	15 (0)	13 (0)	-	-	-	-
CA	137 (2)	131 (2)	3 (0)	3 (0)	11 (0)	11 (0)
GU	2 (0)	2 (0)	-	-	1 (0)	1 (0)
HI	5 (0)	5 (0)	1 (0)	1 (0)	2 (0)	2 (0)
ID	10 (0)	10 (0)	-	-	1 (0)	1 (0)
NV	11 (1)	11 (1)	3 (0)	3 (0)	4 (1)	2 (1)
OR	14 (0)	14 (0)	-	-	2 (0)	2 (0)
UT	24 (0)	25 (1)	14 (0)	14 (0)	1 (0)	1 (0)
WA	32 (0)	32 (0)	-	-	9 (0)	9 (0)
12L	254 (3)	247 (4)	21 (0)	21 (0)	32 (1)	30 (1)
U.S.	4,562 (23)	4,374 (29)	24 (0)	24 (0)	670 (1)	632 (1)

Based on preliminary 3Q20 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), 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