FEDERAL RESERVE BANK
OF SAN FRANCISCO

FIRST GLANCE 12L

Economic and Banking Performance in the Twelfth Federal Reserve District

WANING CASE COUNTS AND FISCAL STIMULUS FUELED GROWTH

1Q21 | JUN. 4, 2021

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Summary & Contents

Key Takeaways

The District labor market continued to recover despite slight easing in April.

- The Districtwide unemployment rate continued to decline. With more than half the District population at least partially vaccinated, consumer and business confidence strengthened through April.
- **Housing** inventory has become exceptionally tight and construction costs increased, leading to a slowdown in sales, but price growth accelerated. Home price increases have outpaced rent inflation and some households face housing insecurity, as noted in this quarter's "Spotlight" section.
- **Commercial real estate** challenges were increasingly concentrated in the office sector, which saw rising vacancy rates and declining rents across the District.

PPP growth resumed; bank profits improved.

- Quarterly bank **loan growth** accelerated as new Paycheck Protection Program (PPP) lending outpaced forgiveness, but non-PPP loan demand was comparatively weak. Meanwhile, an influx of cash and deposits boosted liquidity but pressured yields.
- Despite net interest margin compression, District banks' average **quarterly return on average assets** ratio improved, driven by lower provision and noninterest expense ratios.
- **Problem loan ratios** and modification volumes receded. Additional stimulus limited credit stress, but future loan performance may come under pressure as various accommodative measures are removed.

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Twelfth District Overview
"Waning Case Counts and Fiscal Stimulus Fueled Growth"

The labor market continued to recover amid optimism over vaccinations and reopening. Although the pace of hiring in the District slowed to 6.6% (month-on-month, annualized) in April, from 9.5% in March, this slowdown was less severe than for the nation overall. Likewise, the Districtwide unemployment rate declined to 7.2% in April. Unemployment rates across all District states were either stable or declining, compared to an uptick in the national jobless rate (see chart, right). Hiring was driven by gains in the leisure/hospitality and "other services" sectors (the latter comprising personal, repair, and other services) that were hard-hit early in the pandemic. Leisure/hospitality hiring enabled Hawaii to post the fastest rate of April job growth in the District, followed by California and Nevada. By late-May, the District had vaccinated 53% of its population, but the pace of vaccinations has slowed in recent weeks. Nevertheless, consumer confidence increased dramatically in April, small business sentiment improved, and purchasing managers' indices (PMIs) were well above pre-pandemic levels despite a minor dip on the month.

Home prices increased amid exceptionally tight supply. According to Redfin, the inventory of for-sale homes in the District declined to 0.9 months worth of sales in April, compared to 1.1 months for the nation and 2.8 months for the District a year earlier. Given the dearth of homes for sale, both new and existing home-sales declined significantly in recent months. Tight supplies caused price appreciation to accelerate further, reaching 12.8% year-over-year in March for the District as a whole, despite a small increase in mortgage rates. Homebuilder optimism dipped—although it remains high—perhaps reflecting reports of sharp price increases for construction inputs. Permitting activity continued to rise, however, suggesting that construction may accelerate once supply-chain pressures ease.

CRE challenges were increasingly concentrated in the office sector. While industrial and apartment prices continued to show strong growth and retail property prices recovered from early-pandemic declines, central business district (CBD) office prices eased further. During the pandemic, District office vacancy rates increased as rents declined, and CBRE-EA forecasts predicted further deterioration in both measures in the coming months. Although apartment rents have also declined significantly, CBRE-EA expects a quick recovery. The spread of office cap rates to Treasury rates continued to widen, but spreads for other sectors stabilized. Echoing homebuilders, CRE market participants expected construction costs to be a headwind in the coming year, even as capital availability improves.

Nonfarm Payrolls & Unemployment

	Payrolls Apr-21 vs. Feb-20	Unemploy. Rate 12 Mo.	Unemploy. Rate Apr-21
HI	-15.1%		8.5%
CA	-8.0%		8.3%
NV	-9.3%		8.0%
AZ	-3.2%		6.7%
AK	-6.9%		6.7%
OR	-6.6%		6.0%
WA	-4.8%		5.5%
ID	1.5%		3.1%
UT	1.2%		2.8%
US	-5.4%		6.1%

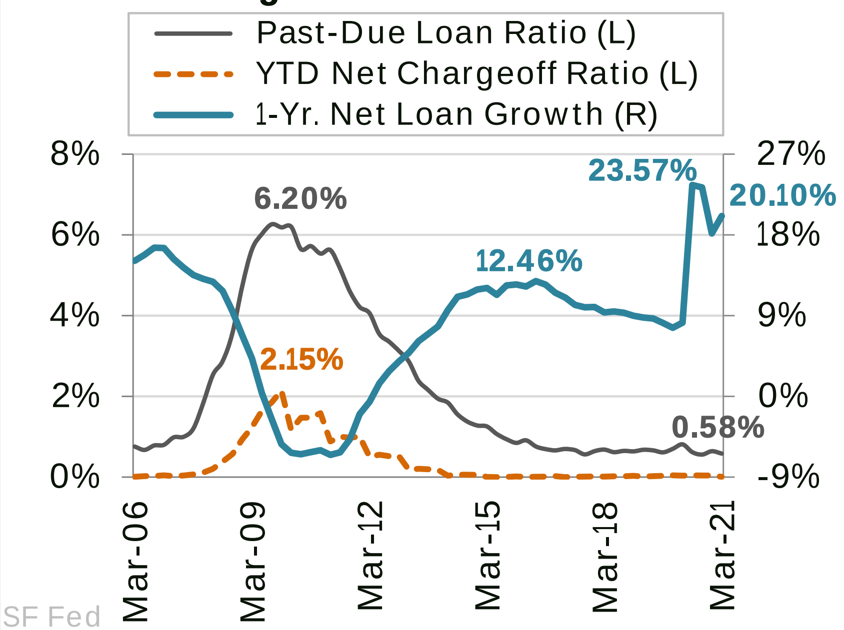
SF Fed

Seasonally adjusted. Source: Bureau of Labor Statistics via Haver Analytics.

PPP originations resumed in 1Q21, but loan growth was otherwise weak. Average year-over-year net loan growth re-accelerated to 20.1% as lending from the latest round of PPP outpaced forgiveness (see chart below). However, excluding PPP, average annual loan growth among District banks was much more subdued at 3.5%, the slowest average clip since 2012. Compared with 4Q20, non-PPP loans expanded by less than 0.5% on average (not annualized).

Quarterly bank ROAAs improved. District banks' average 1Q21 annualized ROAA ratio was 1.20%, up 12 bps from 4Q20, and 36 bps above the year-ago average. For most banks, net interest margins came under pressure again as loan-to-asset ratios eased and short-term interest rates dipped. But narrower margins were more than offset by lower provision and noninterest expense ratios. An improving economic outlook prompted lower provisioning, especially among mid- to large-sized banks, which typically released reserves during the quarter. Meanwhile, lower overhead ratios were generally a function of strong asset (denominator) growth outpacing noninterest expenses. With the latest round of PPP funding mostly exhausted, forgiveness activity is expected to pick back up. As of May 24, the SBA had forgiven 54% of the dollar volume of PPP loans funded by banks and thrifts in 2020, up from 40% through April 1. Another 16%—mostly larger loans—were still pending review, and applications for the remaining 31% had not yet been received. Forgiveness is expected to bring accelerated fee recognition over the coming quarters, which banks may need should credit costs rise and/or loan portfolios shrink.

Average* District Credit Ratios



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

Bank loan modification and delinquency ratios remained low. Quarter-over-quarter, the District's average 30+ day delinquency ratio ticked down from 0.64% to 0.58%. Averages for both periods would have been about 10 bps higher if not for PPP dilution in the denominator. Delinquency figures generally omit loans temporarily modified to accommodate borrowers' COVID-related challenges. Overall, an estimated 2% of District non-PPP loans and leases were either modified, restructured, or delinquent on average, down from nearly 3% in 4Q20 and 12% in mid-2020. Stimulus efforts since the onset of the pandemic have helped mitigate delinquencies and losses, but credit metrics may ultimately weaken once support measures recede.

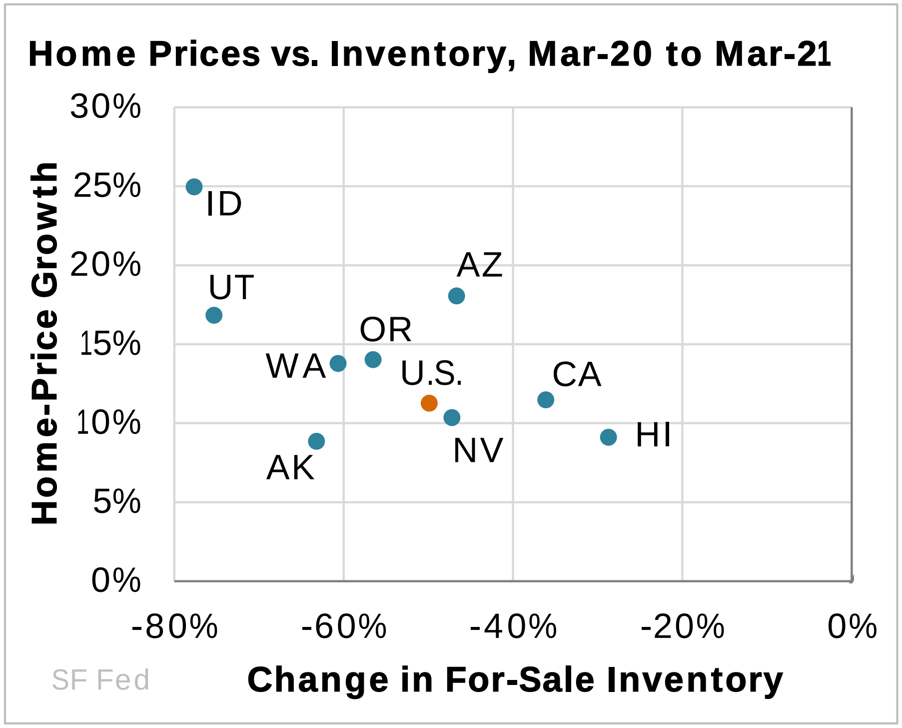
On-balance sheet liquidity improved and capital ratios were mostly steady-to-higher. Amid sluggish non-PPP loan demand, banks continued to divert deposit inflows into securities and other liquid instruments. Combined, liquid investments and securities approached 31% of assets on average, the District's highest first quarter level in more than 20 years of data reviewed. As with prior quarters, the shift in asset mix helped risk-based capital ratios, which also edged higher because of improved earnings retention. The districtwide average tier 1 leverage capital ratio was steady, led mainly by very small banks, where dividend payout ratios tended to trail larger banks.

Section 1
Spotlight Feature & Hot Topics

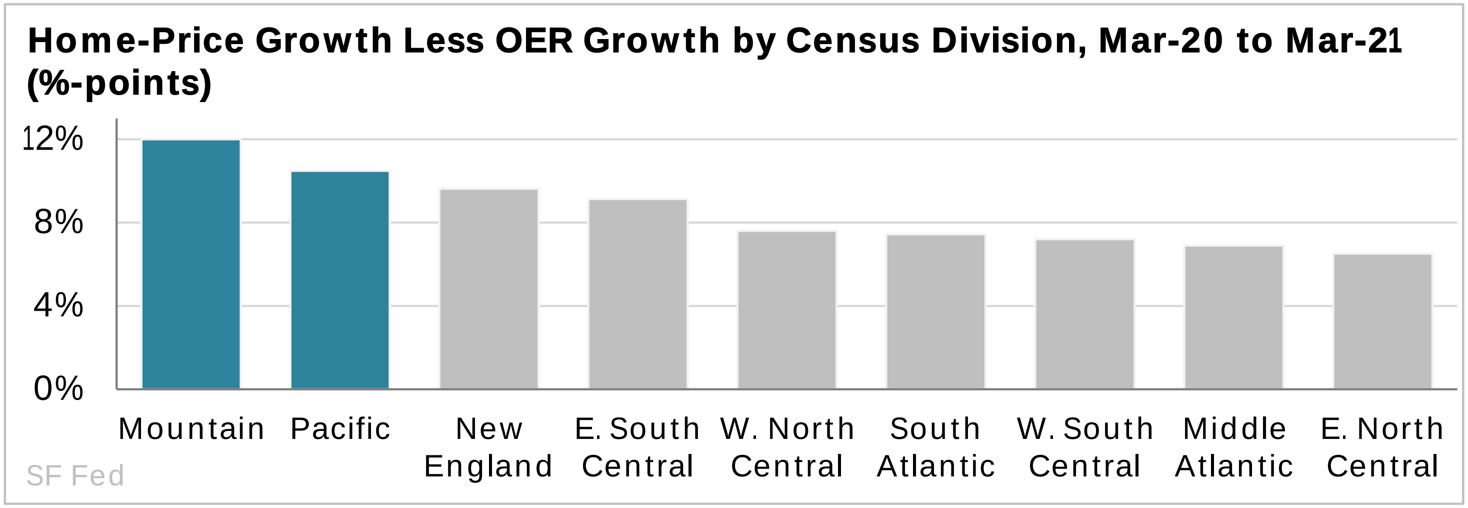
Spotlight: Residential Real Estate Conditions

Hot Topics We Are Monitoring Most Closely

- ***During the pandemic, price-to-rent ratios in the West region rose at the fastest pace in the nation.*** As discussed in a recent analysis by the St. Louis Fed, rising price-to-rent ratios may indicate that home prices are outpacing fair value, raising the prospect of a correction. The chart below shows that home-price growth in the Mountain and Pacific Census divisions exceeded owners' equivalent rent growth (an estimate of how much homeowners would have to pay to rent their own homes) by the largest margin in the nation.
- ***Home-price growth has been driven by demand and supply factors, some of which may be transitory.*** The 2020 Census showed that Utah and Idaho experienced the fastest population growth in the nation since 2010. Anecdotal reports suggest that this trend accelerated during the pandemic as residents of denser, more expensive coastal cities took advantage of work-from-home arrangements and lower interest rates to purchase larger homes in the Mountain states. Another demand factor is the Millennial generation entering prime home-buying age, perhaps prompted to switch from renting due to pandemic conditions and interest rates. Meanwhile, higher construction costs and reports that potential sellers opted to upgrade their current homes rather than risk not being able to find a replacement home in the current hot market constrained for-sale inventories. Together, these factors fueled significant increases in home prices (see chart, top right). Looking ahead, the risk is that waning virus activity and/or rising long-term interest rates reduce demand just as homebuilders and existing homeowners add supply to the for-sale market, moderating price pressures.



Sources: Redfin via Haver Analytics, CoreLogic.

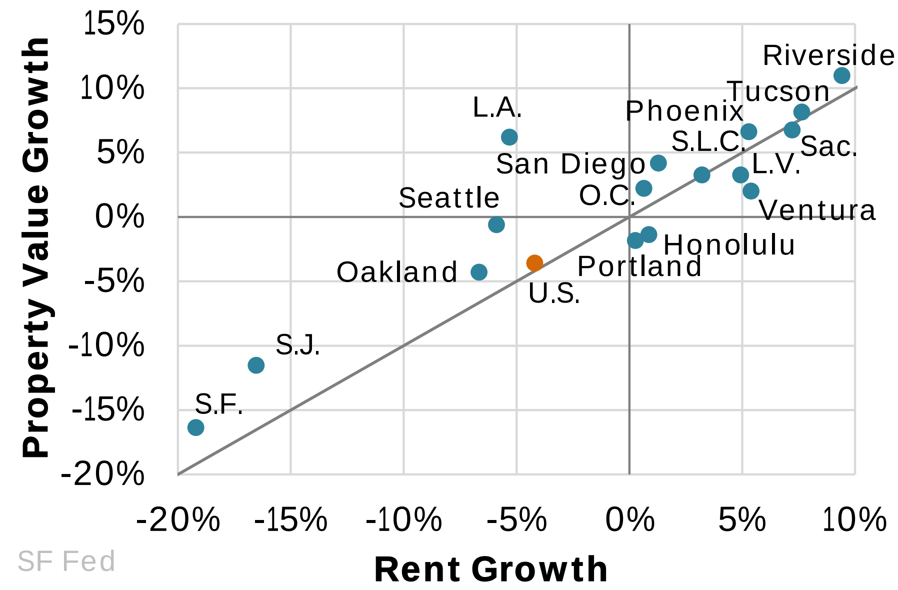


"OER" = owners' equivalent rent of primary residences; OER data covers the urbanized portions of each division and the nation. Sources: BLS, CoreLogic.

Spotlight: Residential Real Estate Conditions

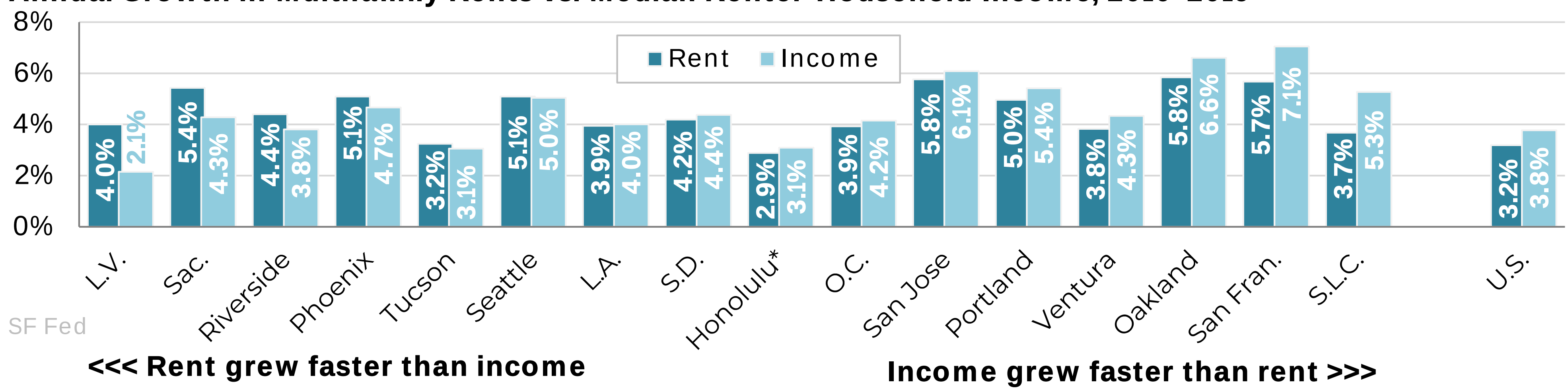
- ***Multifamily price-to-rent ratios have been more stable in the District, but denser coastal markets deteriorated while inland markets strengthened.*** San Francisco Bay Area markets in particular saw large multifamily property price and rent declines, as out-migration of higher-income renters likely contributed to home-price growth in inland and Mountain state markets (see chart, right). More suburban markets saw faster multifamily rent and price growth during the pandemic.
- ***Renters were already increasingly cost burdened in inland markets.*** The chart below indicates that between 2010 and 2019, rents grew faster than median renter-household income in the same markets that experienced the fastest rent growth during the pandemic—including Riverside, Tucson, Sacramento, Phoenix, and Las Vegas. This suggests that renter households in these markets were already cost-burdened prior to the pandemic, and rent increases during the pandemic—combined with steeper job losses among lower-wage industries—may lead to more tenants facing difficulties making rent payments in the absence of relief (see next page).

M-F Property Values vs. Rent, 1Q20 to 1Q21



"M-F" = multifamily. Source: CBRE-EA.

Annual Growth in Multifamily Rents vs. Median Renter-Household Income, 2010–2019*

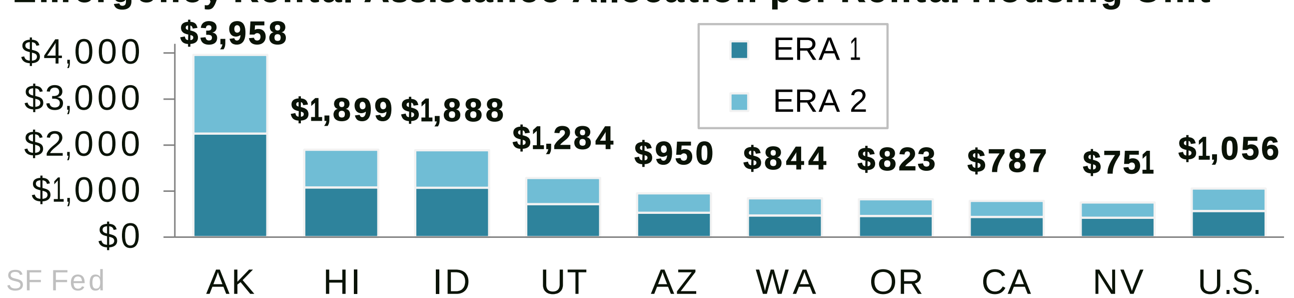


Compound annual growth rates; * 2013-2019 for Honolulu; "Sac." = Sacramento; "L.V." = Las Vegas; "O.C." = Orange County; "S.D." = San Diego; "L.A." = Los Angeles; "S.L.C." = Salt Lake City; "San Fran." = San Francisco; "US" = sum of markets covered by CBRE-EA. Sources: CBRE-EA, Census Bureau.

Spotlight: Residential Real Estate Conditions

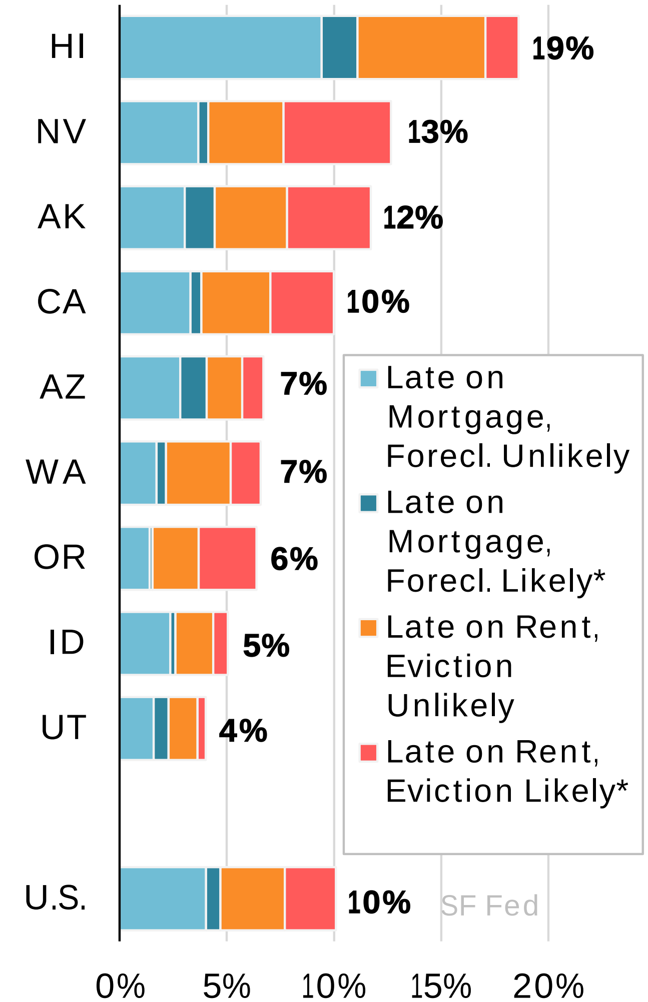
- ***Some homeowners and renters remain at risk of foreclosure or eviction.*** According to a late-April Census Bureau Household Pulse Survey, roughly 10% of households nationally reported they were late on mortgage or rent payments, including 7.4% of owners and 14.7% of renters. Further, 1.1% of homeowners and 6.5% of renters believed they were somewhat or very likely to face foreclosure or eviction within the coming months. Among District states, mortgage and rent arrearages tended to be more common in tourism- and energy-dependent economies like Hawaii, Nevada, and Alaska (see chart, right). The Centers for Disease Control and Prevention's eviction moratorium—currently in limbo pending legal challenges—is set to expire in mid-2021. Many state/local bans have similar expiration dates, subject to extensions. Ultimately, households unable to bring payments current may face actions by lenders or landlords.
- ***Federal relief could assist some renters, although possibly not in proportion to financial stress***. Both the Consolidated Appropriations Act and the American Rescue Plan Act included Emergency Rental Assistance programs aggregating $46.6 billion (a/k/a ERA1 and ERA2). The programs are directed at low-to-moderate income households with unemployment or hardship due to the pandemic that run the risk of housing instability or homelessness. Given the population-driven allocation methodology and statutory funding minimums per state—$200 million for ERA1 and $152 million for ERA2—less populous states tended to receive allocations that were high in relation to their number of rental housing units (see chart, below). In addition, allocations were made without regard to pandemic impact or average rental housing costs. As a result, relief may not be available in proportion to household stress in some areas, for instance in Nevada, where a higher share of renters are past due and in California, where rents are typically well above the national average.

Emergency Rental Assistance Allocation per Rental Housing Unit



Sources: U.S. Treasury Department (ERA1 data for non-tribal areas); Census Bureau (2019).

Overall % of Surveyed Population Not Current on Mortgage or Rent Payments

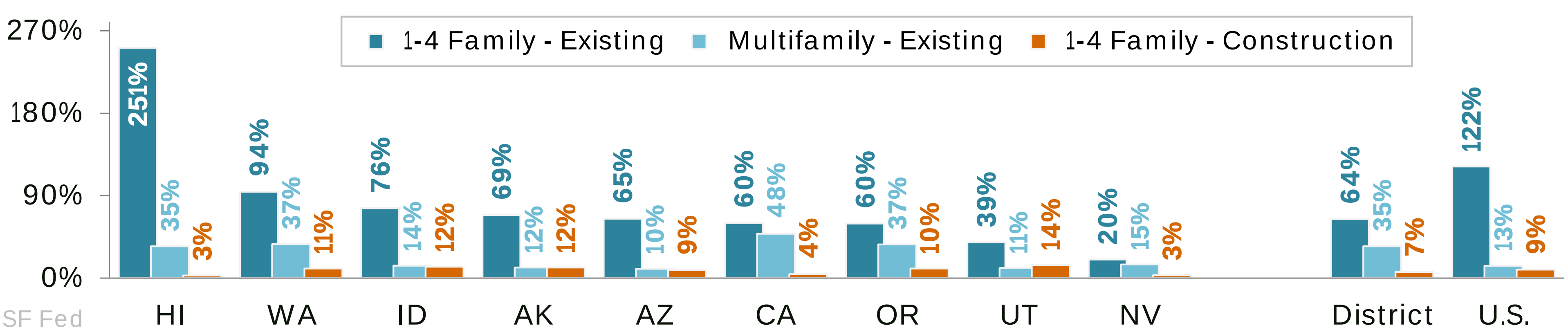


Shown as a share of households disclosing payment status; *"likely" includes "somewhat" and "very" likely in the next two months. Source: Census Bureau, *Household Pulse Survey* (Apr. 14-26, 2021).

Spotlight: Residential Real Estate Conditions

- ***District banks are exposed to both single- and multifamily real estate markets.*** On average, mortgages for existing one-to-four family homes represented 64% of District banks' tier 1 capital plus allowances for loan and lease losses—roughly half the nationwide average (see chart below). Mid- to large-sized banks, which tend to dominate statistics in some states like Hawaii, commonly reported concentrations twice the District average. Meanwhile, the average multifamily loan concentration was 35%—nearly three times the national average—a function of low homeownership within several District states. District lenders held comparatively modest exposures to one-to-four family construction mortgages, with funded balances representing 9% of tier 1 capital plus allowances on average. Banks also invest in mortgage-backed bonds; however, these often pose limited credit risk given backing by government-sponsored enterprises and agencies.
- ***Refinancing activity fed runoff in banks' one-to-four family mortgage portfolios, but multifamily balances increased.*** Per the Mortgage Bankers Association (MBA), one-to-four family mortgage originations reached a record-high $3.8 trillion in 2020, led by refinancing activity. The volume was equivalent to about one-third of aggregate U.S. one-to-four family mortgage debt outstanding at year-end. Nonbank mortgage lenders continued to gain market share, however, which likely amplified prepayments at depositories. This probably contributed to the average year-over-year decline in one-to-four family mortgage balances among District banks. Outstanding one-to-four family construction loan balances also receded on average. In contrast, multifamily portfolios expanded year-over-year, up 14% among banks based in the District.
- ***Residential loan delinquencies remained low but may edge higher as stimulus and forbearance fade.*** Despite tenant arrearages, the District's average noncurrent multifamily mortgage rate was zero in 1Q21. The same was true of one-to-four family construction loans. Meanwhile, the average noncurrent one-to-four family mortgage ratio was limited to 0.24%, half the nationwide average. As noted in a recent New York Fed Liberty Street Economics analysis, forbearance programs and refinancing options helped waylay mortgage delinquencies and forestalled increases in distressed homes sales, which could have otherwise hurt home prices and compounded defaults. It remains to be seen how residential mortgages will fare once stimulus recedes, and eviction and foreclosure bans lapse.

Average Bank Loan Concentrations to Tier 1 Capital + Allowances*



As of March 31, 2021; data not available for multifamily construction; *includes loan- and lease-related loss allowances.

Hot Topics: Areas We Are Monitoring Most Closely

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

- ***Cyberthreats.*** Ransomware and supply chain compromises have been the primary cyberthreats facing supervised institutions, their customers and suppliers in Q1 2021. Ransomware attacks have evolved to leverage extortion, increasing the financial impact to targeted entities as well as increased the likelihood of disclosure of any confidential information the cyber criminals exfiltrated prior to encrypting the organization's data. Recent attacks have also targeted operational utilities, such as the Colonial Pipeline, cyber insurance underwriters CNA Financial and AXA, and financial institution vendors. Additionally, ransom payment provides no guaranty a company's information will be returned intact or additional ransom demands won't follow. Nation-state actors, on the other hand, have been responsible for the recent surge in supply chain compromises, including those impacting SolarWinds, Microsoft Exchange, and Pulse Secure VPN devices. While supervised institutions do not appear to have been the intended targets, the attacks have caused operational disruption and exposed institutions to follow-up attacks by opportunistic cyber criminals.

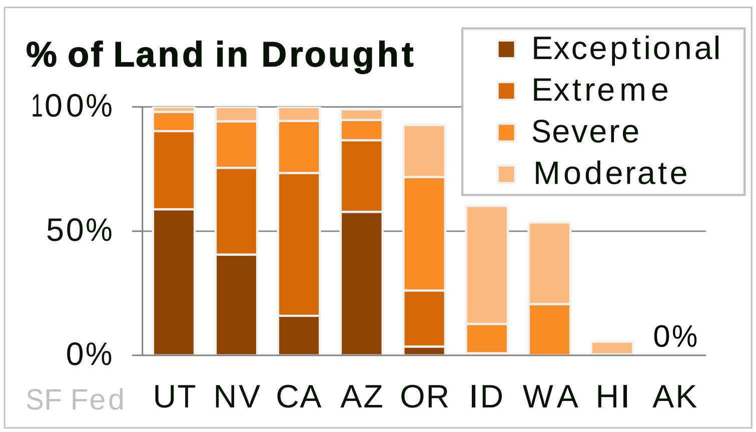
- ***Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance and fraud.*** BSA/AML monitoring remains heightened because of the District's role in the global economy and the array of activities being conducted by supervised institutions. Passage of the 2021 National Defense Authorization Act included the Anti-Money Laundering Act of 2020 (AML Act), which represents the most significant change to the US BSA/AML framework since the US PATRIOT Act of 2001. The AML Act will impact supervision and regulation work as well as how financial institutions comply with the BSA once Treasury and FinCEN determine how the AML Act is operationalized. FinCEN continues to highlight a prevalence of pandemic and stimulus-related schemes through continuous updates on its coronavirus updates page, which most recently issued advisories on health insurance and health care related fraud, Economic Impact Payment fraud, and an update to their PPP FAQ (originally issued in April 2020).

- ***Compliance challenges amid COVID-19 response.*** The CARES Act and other pandemic responses, which are designed to provide relief for consumers and small business, continue to have an impact on financial institutions' compliance responsibilities. For example, federal foreclosure moratoria and mortgage forbearance protections were recently extended through June 30, 2021. In addition, 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.

- ***Banking and financial technology (fintech) collaboration.*** The increasing prominence of Banking-as-a-Service and open banking models continues to drive technology transformations and partnerships for banks. The tendency for technology businesses to monetize, aggregate, and analyze user data prompts concerns for data privacy and security considerations, and amplifies the need for banks to implement sound data management and governance disciplines. In addition, banks will likely have to re-evaluate risks related to operational dependencies and resilience arising from its service models and partnerships.

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

- ***CRE concentrations.*** Nonowner-occupied CRE loan concentrations entered the current recession below pre-Great Recession peaks, mainly because of lower construction lending volumes. However, most state average concentration ratios in the District remained above the U.S. average (see table, right). Lending exposures, combined with pressures on CRE cash flows—particularly among hotel, retail, and office properties—heighten regulatory concern. Risks also extend to owner-occupied CRE used by COVID-impacted businesses.
- ***C&I concentrations.*** Prolonged stress on business borrowers amplifies risks posed by C&I loan exposures. According to the Census Bureau's Small Business Pulse Survey (Apr. 12-18, 2021), 27% of surveyed small businesses nationally reported a large negative impact from the pandemic, with an above-average proportion of firms in California (31%), Hawaii (39%), and Alaska (39%) noting a similar degree of damage. Businesses in the accommodation and food services, arts/entertainment/recreation, educational services, and mining sectors were most likely to report large negative effects. Continued stimulus, PPP, and loan forbearance have limited delinquencies and charge-offs, but District banks could experience increased loan problems as temporary support measures fade. As of 1Q21, non-PPP C&I balances averaged 65% of tier 1 capital plus loan and lease loss allowances in the District, slightly more than the national average of 60%.
- ***Surge deposits.*** The stability of recent deposit inflows is uncertain. A large portion of deposit growth has been created via PPP-related lending. Also contributing are other stimulus-related funds deposited at banks (e.g., economic impact payments, unemployment insurance benefits, etc.). Banks have invested some newfound funding in low-yielding, liquid instruments, pressuring yields.



Source: Univ. of Nebraska-Lincoln, U.S. Dept. of Ag., Nat. Oceanic and Atmospheric Admin., 5/18/2021.

- ***Drought-related risks.*** According to the U.S. Drought Monitor, as of May 18, drought covered most of the land area in seven District states, including nearly all of four states (see chart, left). Consequently, this year's wildfire season is expected to be severe. Wildfires in the West cost insurers an estimated $6 to 12 billion in damages in 2020, and there were uninsured losses and suppression costs in addition. Wildfire and 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	2008-2021**	Mar-21
CA	293%	262.8%
WA	325%	208.9%
OR	347%	205.5%
AZ	380%	198.9%
NV	292%	179.2%
HI	168%	164.6%
ID	245%	148.9%
AK	162%	133.1%
UT	322%	116.5%
Nation	148%	123.8%

◆ = trough ◆ = peak

Trimmed means; excludes owner-occupied CRE; *includes loan- and lease-related allowances; **Mar. 31 each year.

Section 2
Economic Conditions

Job Growth

Housing Market

Commercial Real Estate

For more information on the national economy, see:

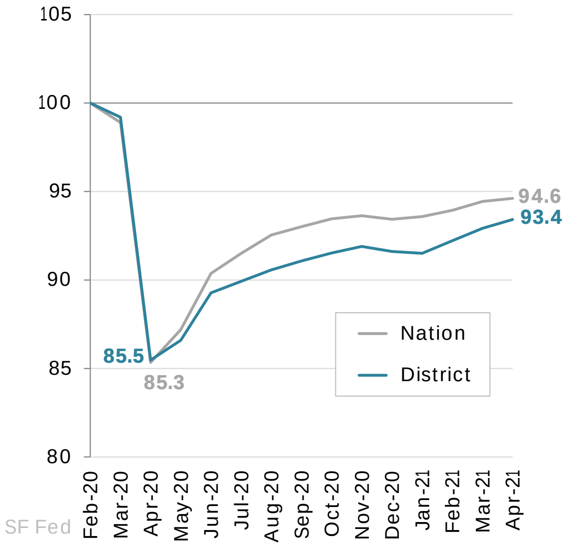
FedViews
(https://www.frbsf.org/economic-research/publications/fedviews/)

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

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

13 District payrolls remained below pre-pandemic levels in April but continued to recover, led by hard-hit leisure/hospitality.

Nonfarm Jobs
(Indexed, Feb-20 = 100)



Twelfth District Jobs by Sector

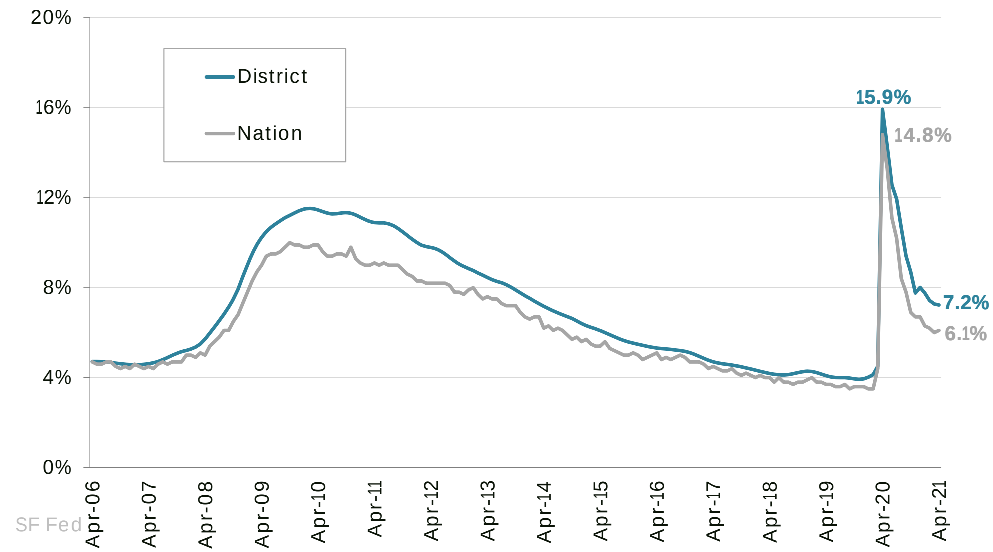
Job Sector	% Change (Month-Over-Month, Annualized) 12-month	Apr-21
Leisure & Hospitality		54.55%
Other Svcs.		17.49%
Wholesale Trade		9.08%
Prof. & Business Svcs.		6.23%
Edu. & Health Svcs.		3.37%
Government		3.31%
Manufacturing		1.34%
Financial Activities		0.86%
Construction		0.14%
Retail Trade		-2.39%
Transport. & Utilities		-5.40%
Information		-5.76%
Mining & Logging		-11.19%
Total Nonfarm		6.61%

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.

14 The Districtwide unemployment rate continued to decline in April, in contrast to the national rate, which ticked up.

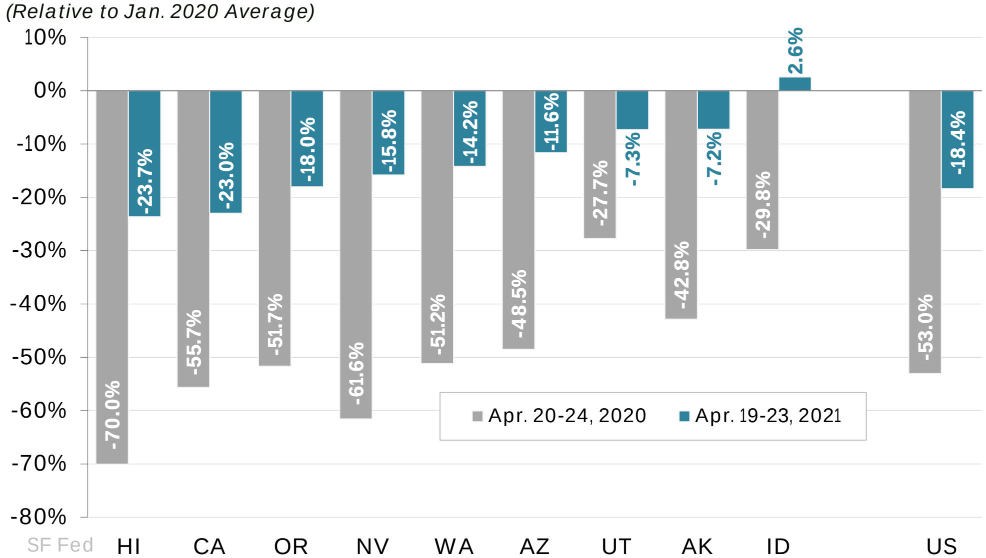
Unemployment Rate



Seasonally adjusted. Source: Bureau of Labor Statistics.

15 Easing restrictions led to a rebound in hours worked in the District, but with significant disparities across states.

Change in Hours Worked by Hourly Employees
(Relative to Jan. 2020 Average)

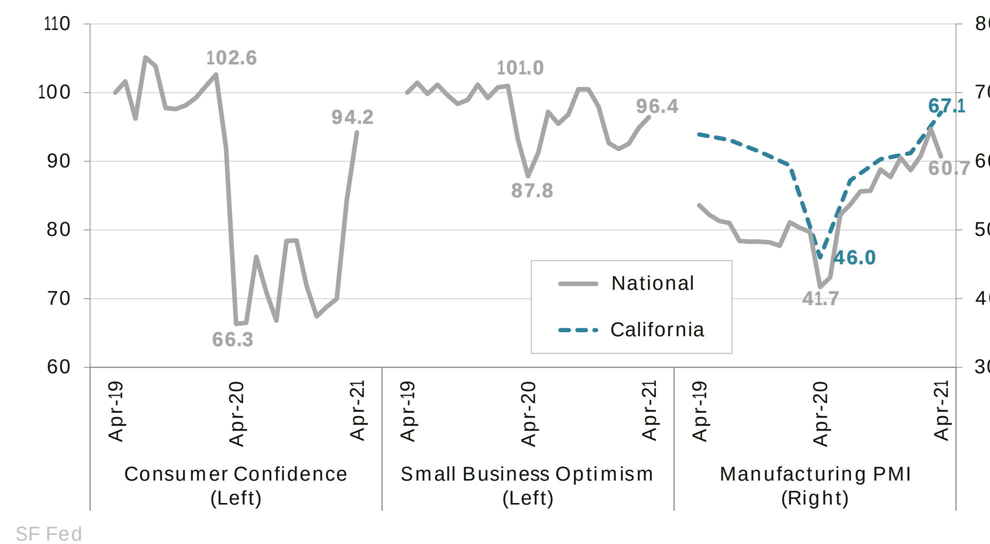


Based on data from Homebase, a free time tracking tool used by 100,000+ small businesses across the nation, primarily restaurant, food/beverage, retail, and service establishments. Source: Homebase via Haver Analytics.

16 Consumer and small business confidence rebounded in April, and PMIs surpassed pre-pandemic levels.

Consumer Confidence & Small Business Optimism *(Apr-19 = 100)*

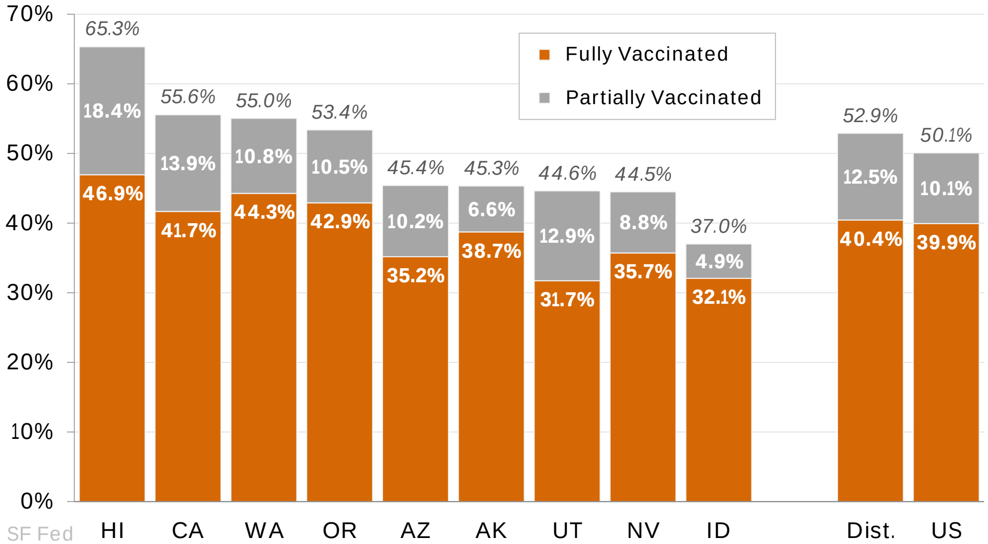
Purchasing Managers Indices (PMI) *(>50 = expansion)*



Seasonally adjusted. California PMI is quarterly, ending 2Q21; other series monthly, ending Apr-21. Sources: Conference Board, National Federation of Independent Business, Institute for Supply Management, Chapman University via Haver Analytics.

17 Improved vaccination coverage reduced case counts and contributed to the rebound in jobs and sentiment.

People Receiving COVID-19 Vaccine Doses, % of Population
(As of 5/25/2021)

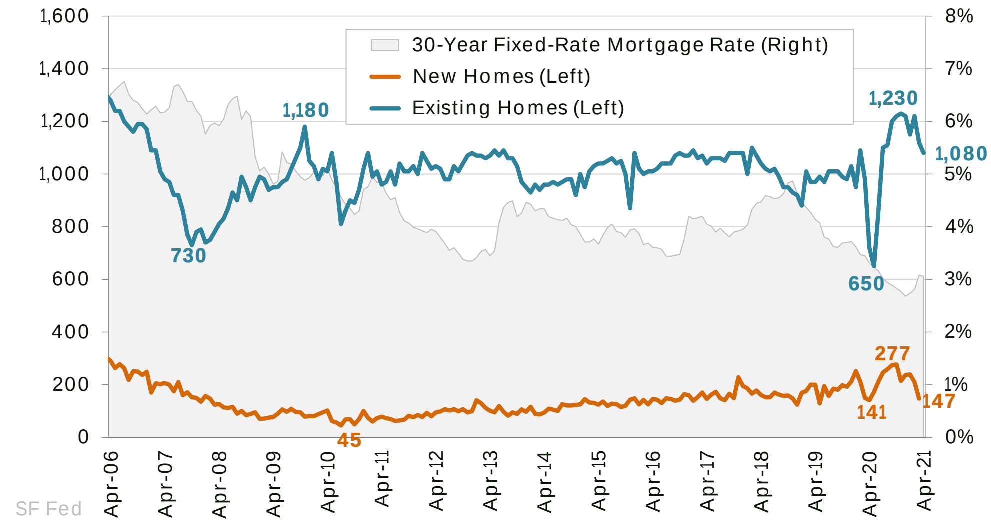


Population estimates as of mid-2019; "Dist." = Twelfth District. Sources: Centers for Disease Control and Prevention and Census Bureau.

18 New and existing home sales declined recently amid exceptionally tight inventory . . .

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

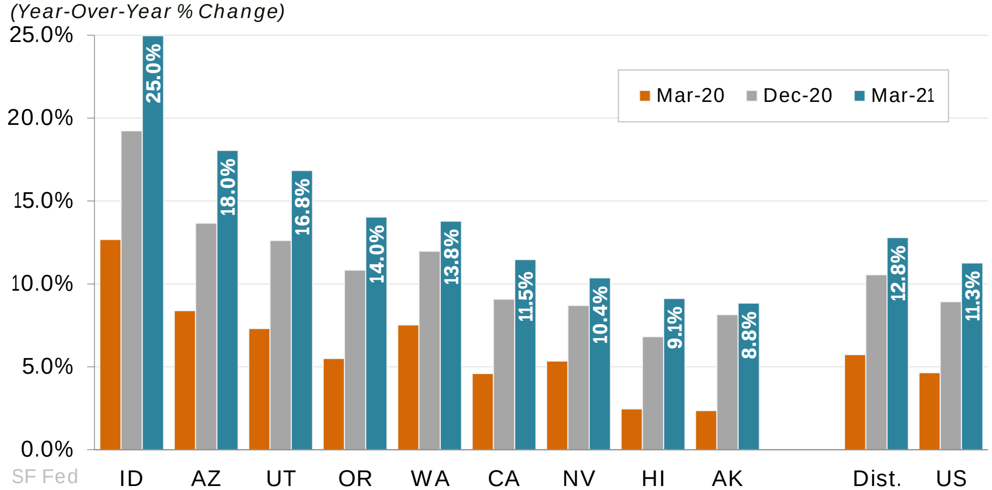
30-Year Fixed Mortgage Rate – Nation *(Monthly)*



New-home sales through March 2021; West = Twelfth District plus CO, MT, NM, and WY. Sources: NATIONAL ASSOCIATION OF REALTORS®, Census Bureau, and Freddie Mac (mortgage rate) via Haver Analytics. "Existing Home Sales" copyright © 2020 *NATIONAL ASSOCIATION OF REALTORS®*; all rights reserved; reprinted with permission.

19 . . . and home prices continued to accelerate despite an uptick in long-term mortgage rates.

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

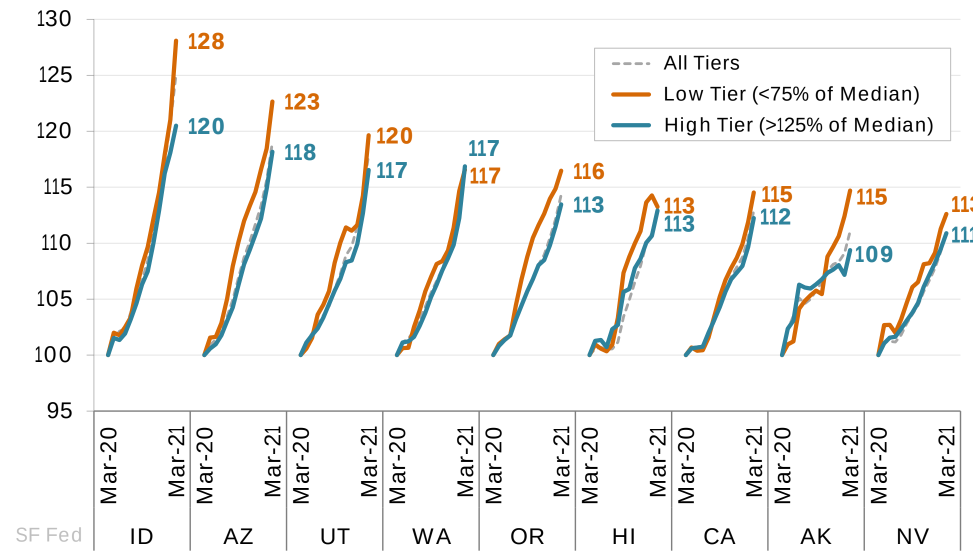


	ID	AZ	UT	OR	WA	CA	NV	HI	AK	Dist.	US
10-Year CAGR:	11%	9%	9%	8%	8%	8%	9%	5%	3%	8%	6%

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

20 Less-expensive homes appreciated fastest in most District states, suggesting high demand for entry-level homes.

Home Price Index by Price Tier
(Single-family detached homes; Mar-20 = 100)

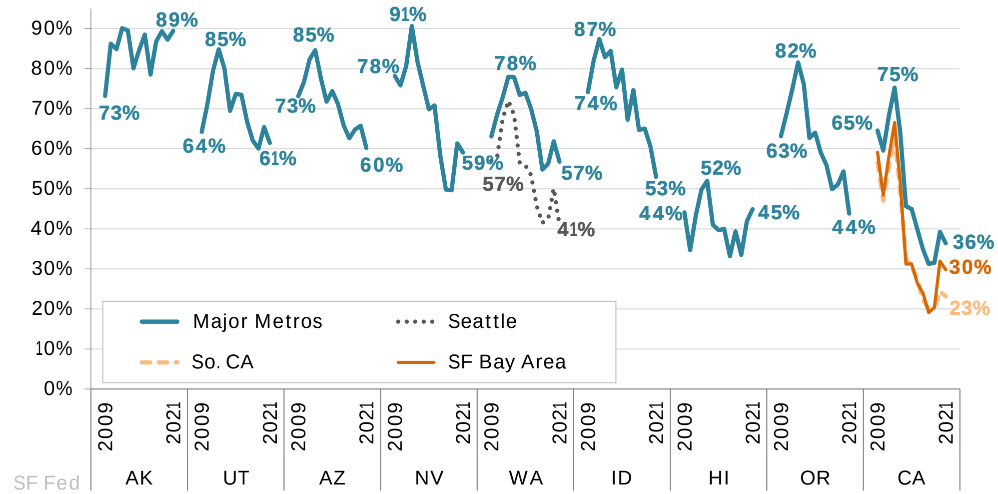


Includes distressed sales. Source: CoreLogic.

21 Over the past year, home-price gains outpaced median incomes in several District states, particularly ID and OR.

Un-weighted Average Metro Housing Opportunity Index, Mar. of Each Year

(% of Home Sales Deemed Affordable to Median Family Income; Lower Ratio = Less Affordable)

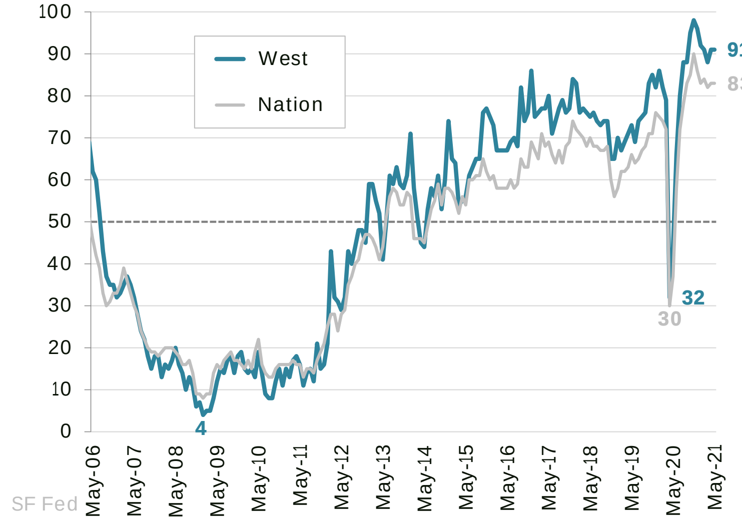


Assumes median income (minus an assumed 7% haircut in 2020), 10% down payment, ratio of income-to-housing costs (principal, interest, taxes, and hazard insurance) of 28%, and a fixed-rate, 30-year mortgage; So. CA = Los Angeles, Orange, Riverside-San Bernardino, San Diego, and Ventura metros; SF Bay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

22 Homebuilder optimism was strong but off recent peaks amid reports of pressure on construction supply chains.

Homebuilder Diffusion Index

(Monthly, Index Above 50 Considered Positive)



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

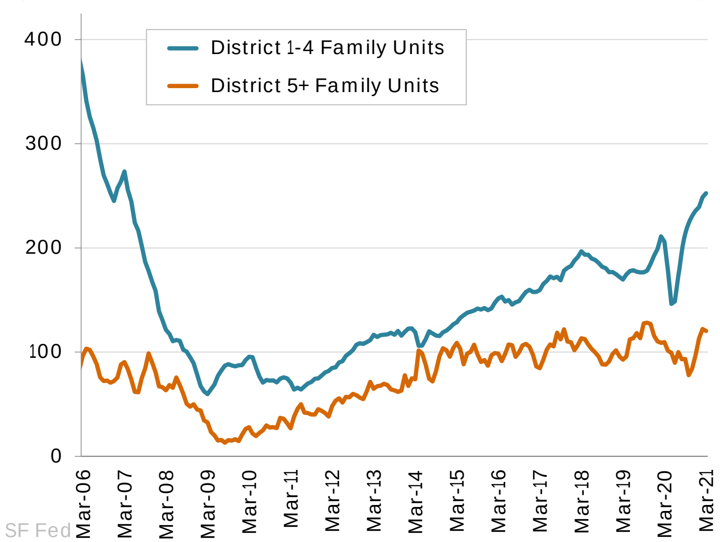
Region	May-20	May-21
West	51.7	90.0
South	50.7	84.0
Northeast	33.3	82.3
Midwest	41.3	75.0
Nation	46.3	82.7

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 Permitting activity remained high, pointing to more construction once input prices ease.

Housing Permits – Twelfth District

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



New Authorized Housing Units

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

	Level 2005-2021	1-Year Chg. 1-to-4 Family	1-Year Chg. Multi-family
UT		41%	17%
ID		40%	-33%
AK		36%	83%
AZ		31%	-35%
HI		30%	34%
OR		30%	11%
WA		27%	28%
CA		11%	23%
NV		10%	73%
Dist.		21%	11%

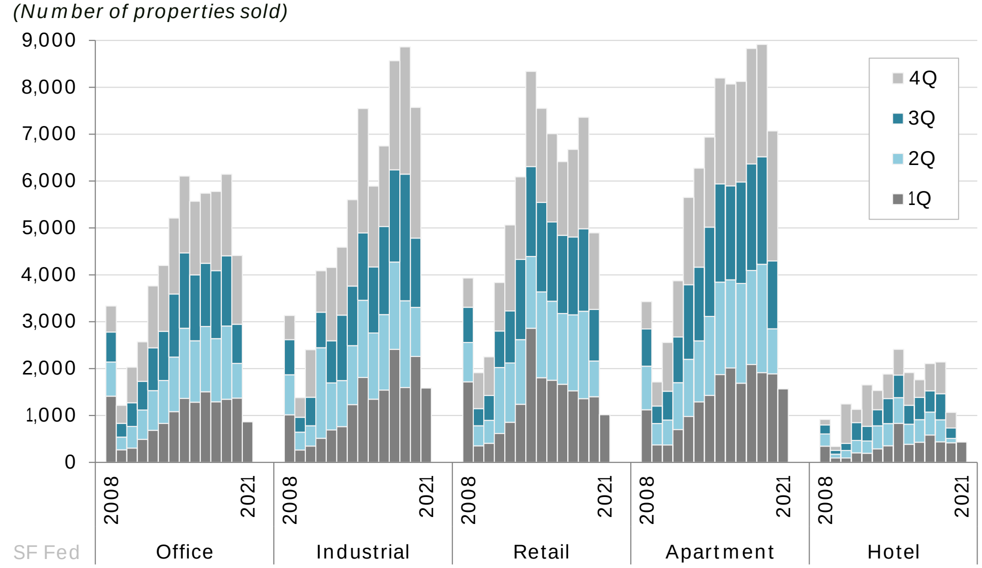
SF Fed ◆ = trough ◆ = peak

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

24 National first-quarter CRE transaction counts were down in all sectors except, surprisingly, hotels.

National CRE Transactions

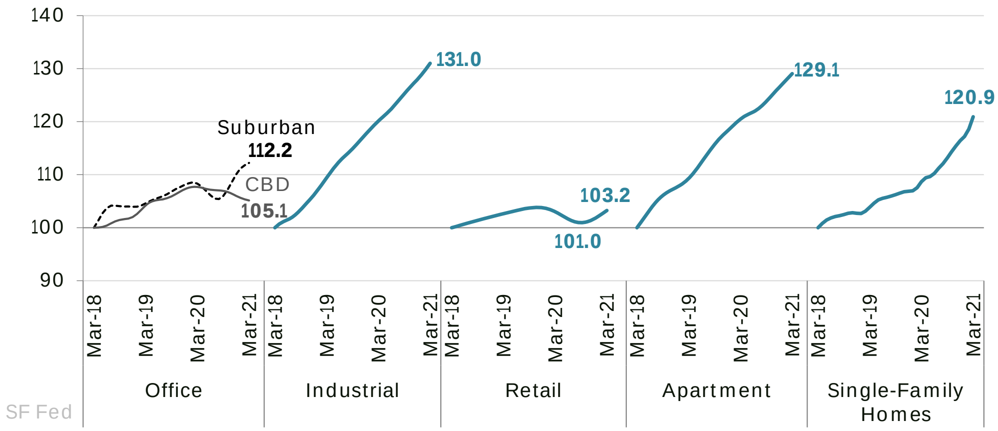
(Number of properties sold)



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

25 Downtown office prices declined while other sectors continued to gain or recover from early-pandemic slumps.

Commercial & Residential Property Price Indices – Nation *(Mar-2018 = 100)*



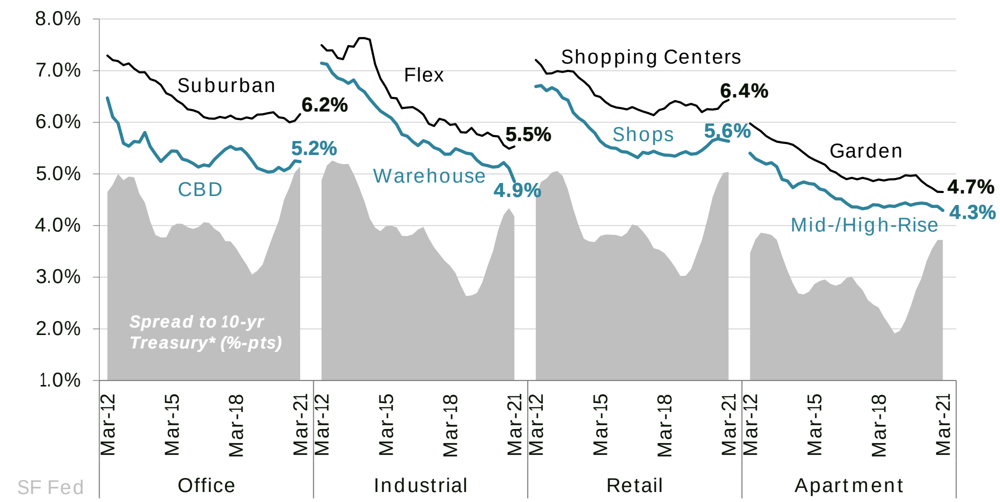
Average Annual Growth in Price Indices

	Office	Industrial	Retail	Apartment	Single-Family Homes
1-Yr.	2.9%	9.1%	0.2%	7.1%	11.3%
5-Yr.	5.1%	9.0%	1.2%	9.4%	6.3%
10-Yr.	5.8%	8.0%	4.1%	10.3%	6.3%

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).

26 Cap rate spreads stabilized in most sectors after rising during the pandemic, with the exception of office properties.

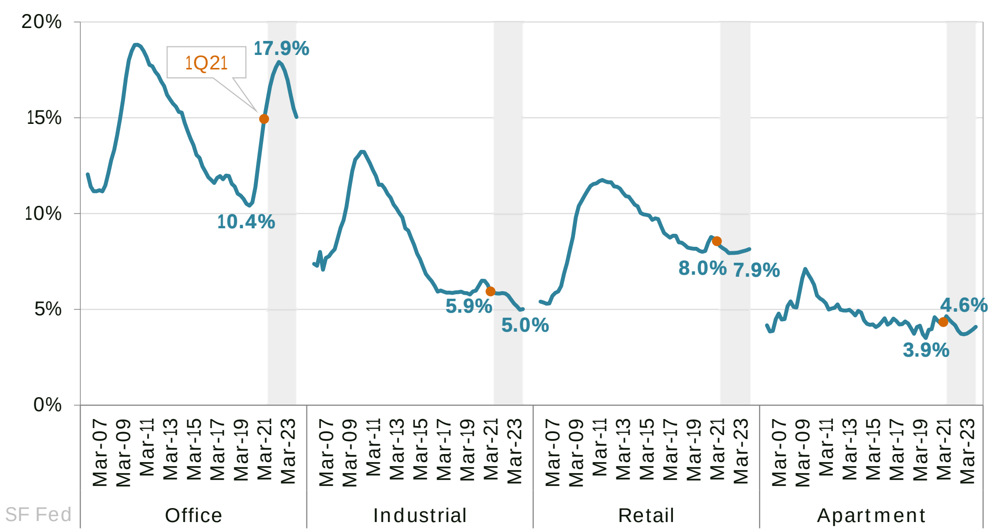
Western U.S. CRE Capitalization Rates & Spreads
(Trailing 12-Month Averages)



* Represents the spread of the overall cap rate for each property sector to the 10-year constant maturity Treasury rate. 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; CBD = central business district; "Shops" = single-tenant, drug stores, and urban/storefront retail. Sources: Real Capital Analytics, Inc., Federal Reserve Board via Haver Analytics.

27 The office sector saw the largest increase in vacancy rates across the District, while other sectors began to recover.

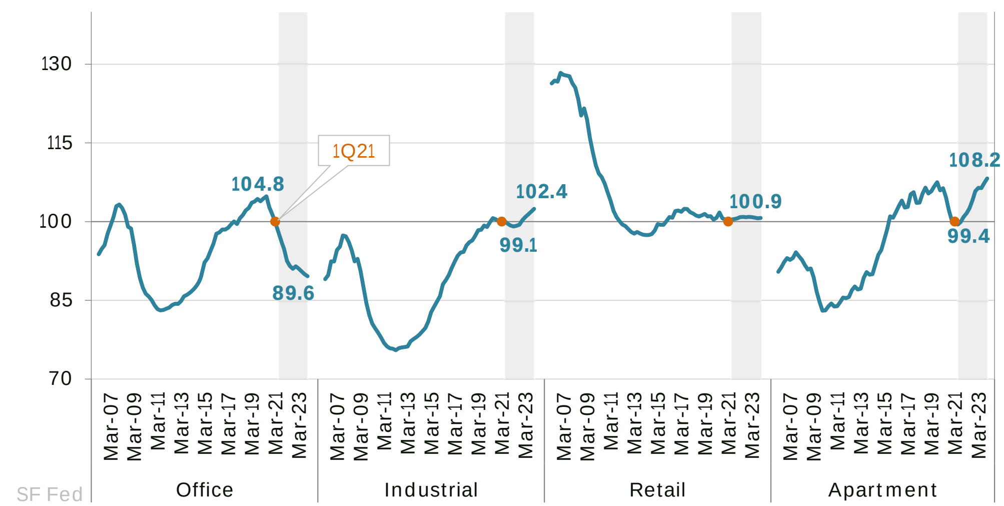
CRE Vacancy Rates – Twelfth District Markets
(Historical from 1Q06 through 1Q21, forecast from 2Q21 to 4Q23)



Includes the 16 to 18 largest markets in the District, depending on the sector, weighted by stock; baseline forecasts as of 1Q21; shaded area = forecast. Sources: CBRE-EA, SF Fed calculations.

28 During the pandemic, rents fell for offices and apartments, but CBRE-EA expects office rents to fall further.

CRE Real Rent Indices – Twelfth District Markets
(1Q21 = 100; historical from 1Q06 through 1Q21, forecast from 2Q21 to 4Q23)



Rent indices cover asking rents for office and industrial sectors, and effective rents for retail and apartment sectors; effective rent is asking rent minus concessions offered; includes the 16 to 18 largest markets in the District, depending on the sector, weighted by stock; baseline forecasts as of 1Q21; shaded area = forecast. Source: CBRE-EA, SF Fed calculations.

Section 3
Commercial Bank Performance

Loan Growth

Earnings

Allowances and Credit Quality

Liquidity and Interest Rate Risk

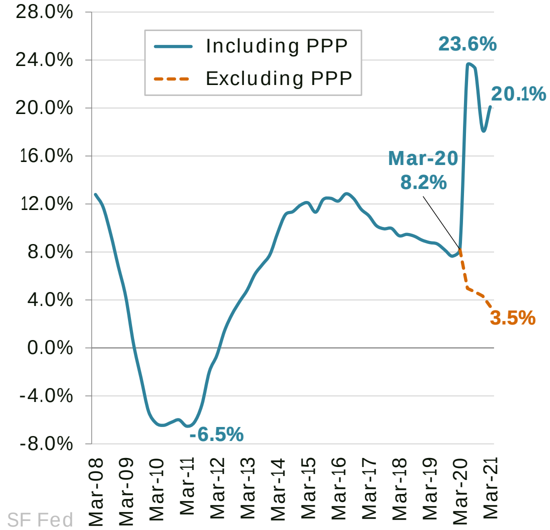
Capital

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

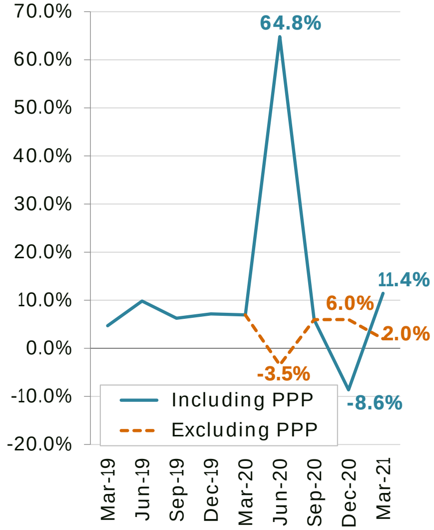
Note: Bank size groups are defined by total assets as "Very Small" (< $1B), "Small" ($1B - $10B), "Mid-Sized" ($10B - $50B), and "Large" (> $50B), which, for analytical reasons, differ slightly from supervisory asset thresholds. The "Large" bank group covers banks based nationwide—given their broader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

30 Average net loan growth rebounded in 1Q21 as new PPP lending outpaced forgiveness; non-PPP growth was modest.

Average Year-over-Year Twelfth District Net Loan & Lease Growth



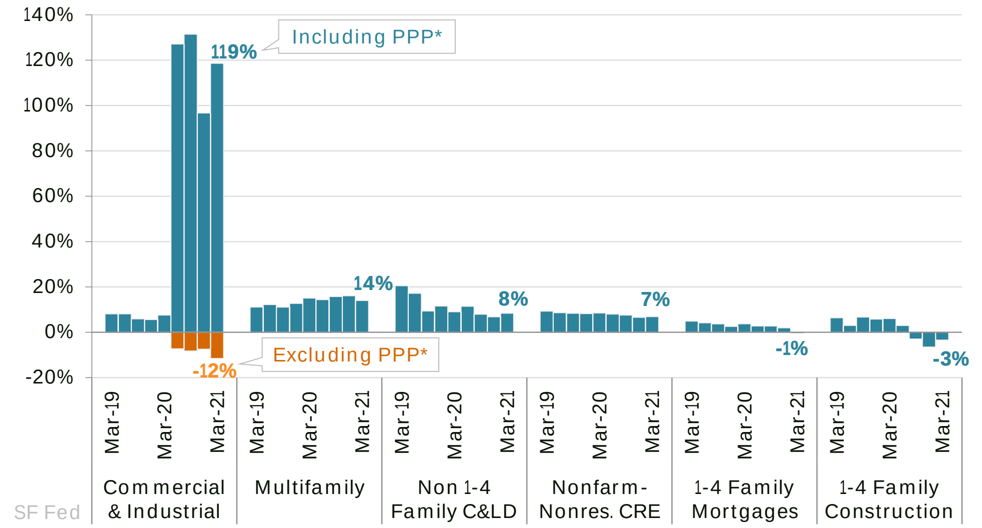
Avg. Quarter-over-Quarter Twelfth District Net Loan & Lease Growth*



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; *quarterly growth rates are annualized.

31 Resurgent PPP lending propelled annual C&I growth rates, offsetting stable-to-slower growth in other categories.

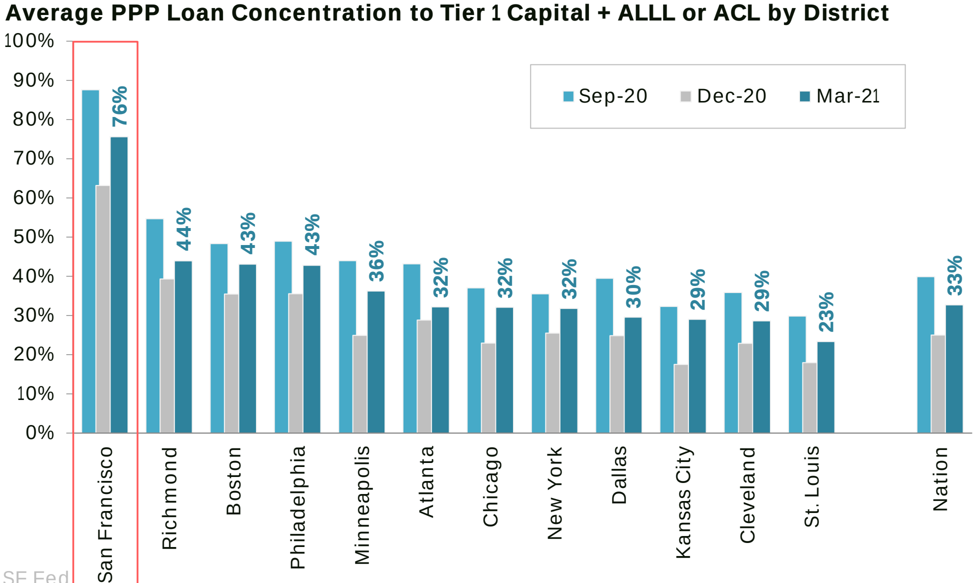
Average Year-over-Year Loan Growth, Selected Loan Categories – Twelfth District



Average = trimmed mean; growth rates are not merger-adjusted; C&I = commercial and industrial; nonfarm-nonresidential commercial real estate includes owner- and nonowner-occupied collateral; C&LD = construction and land development; *given data limitations, assumes all PPP is reported as C&I.

32 PPP concentrations to capital and reserves also rebounded; District banks continued to report the highest average ratio.

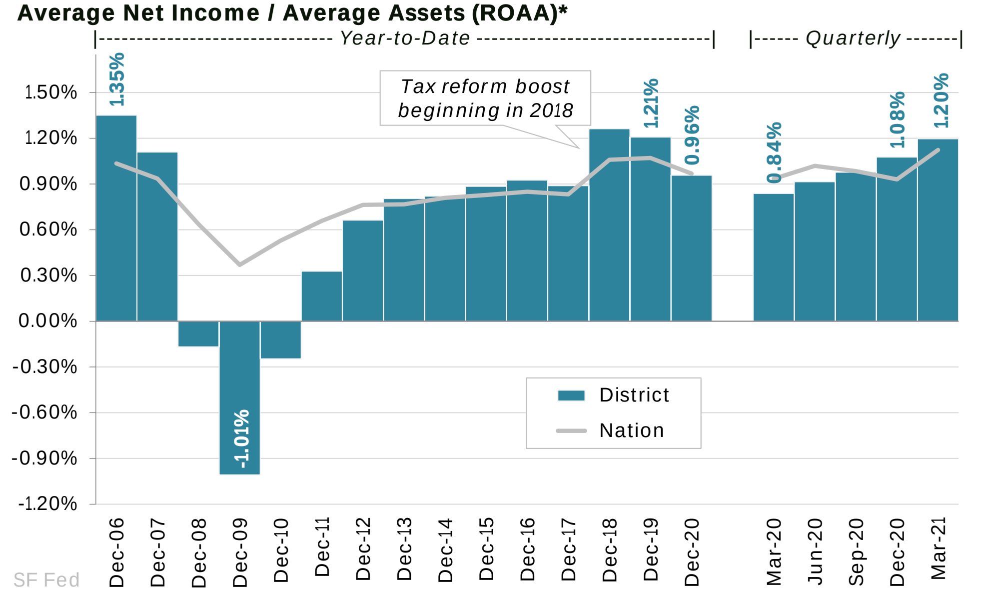
Average PPP Loan Concentration to Tier 1 Capital + ALLL or ACL by District



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).

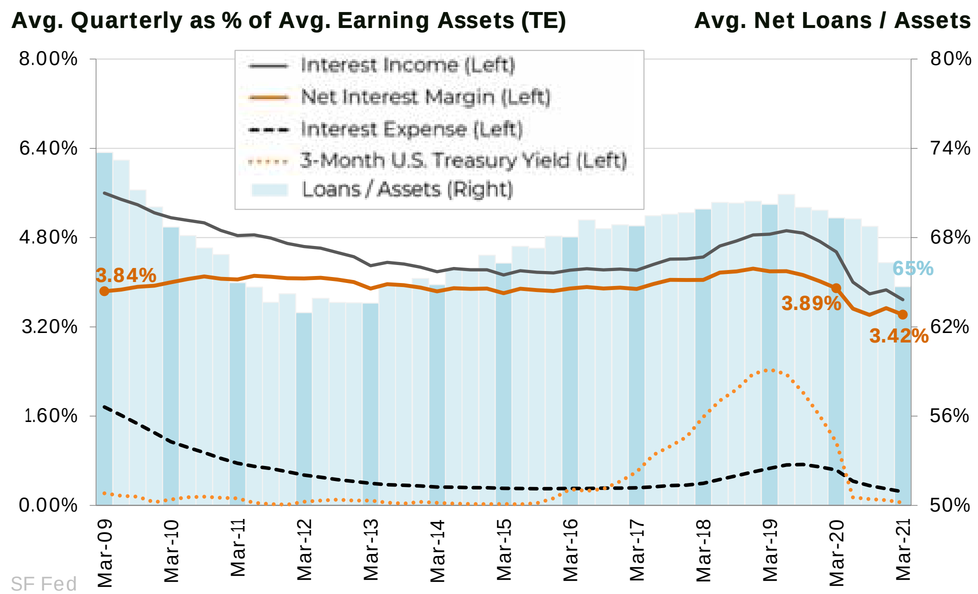
33 Lower overhead and provision expense ratios offset thinner net interest margins, leading quarterly ROAAs higher.

Average Net Income / Average Assets (ROAA)*



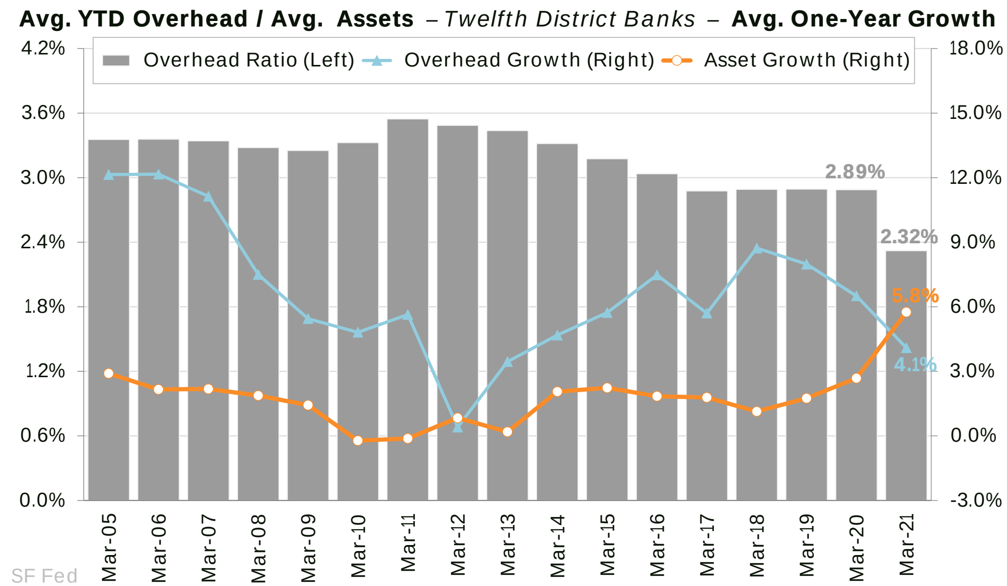
Average = trimmed mean; all figures annualized; ROAA = return on average assets; *theoretical tax expense deducted from Subchapter S filers.

34 Declining short-term interest rates and lower loan-to-asset ratios contributed to margin compression.



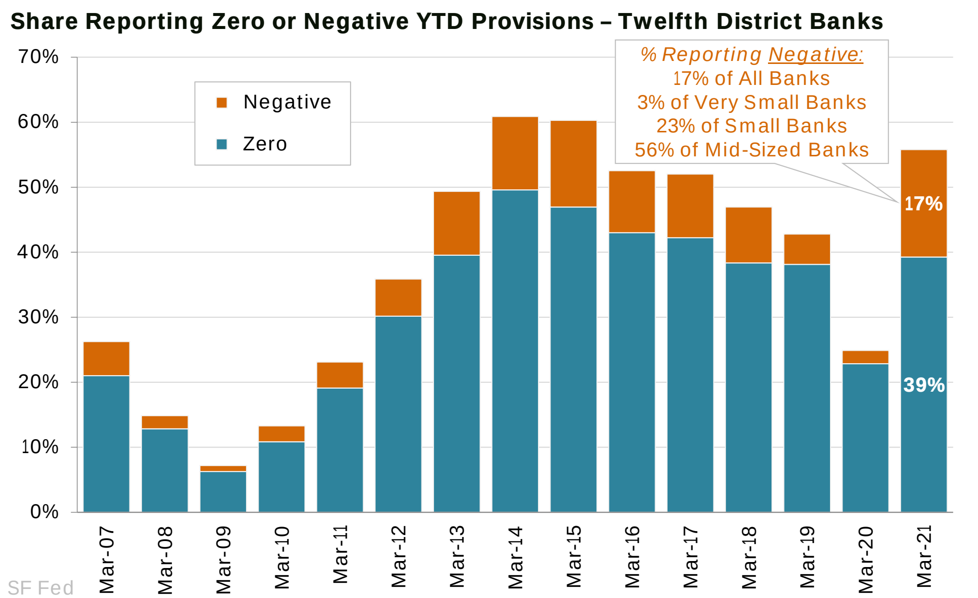
Average = trimmed mean (Twelfth District banks only); one-quarter annualized data; TE = tax equivalent. Source (quarterly average of 3-month U.S. Treasury rate at constant maturity): Federal Reserve via Haver Analytics.

35 PPP and deposit-fueled asset growth outpaced constrained increases in overhead, diluting overhead-to-asset ratios.



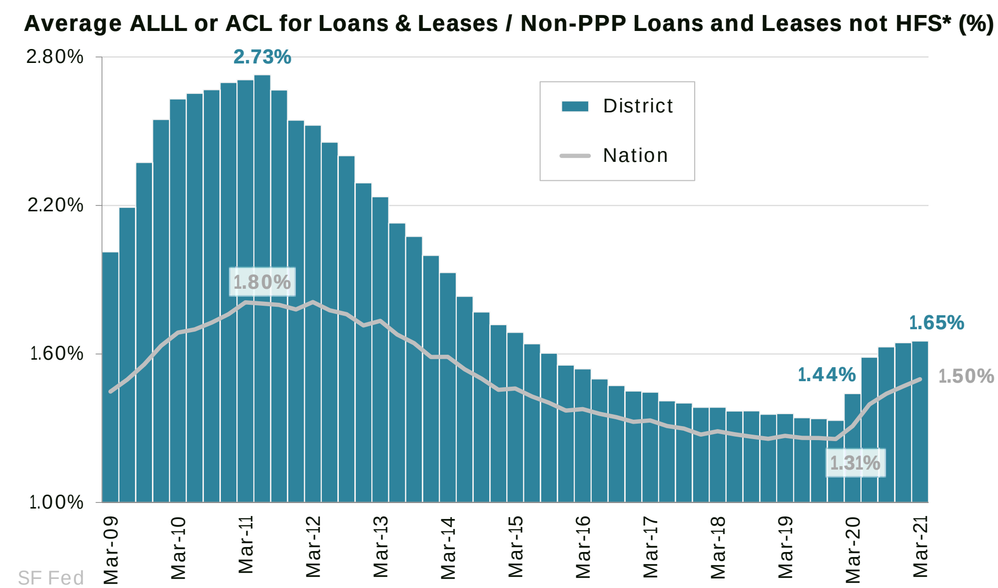
Average = trimmed mean; noninterest (overhead) expenses include but are not limited to salaries and benefits, premises and equipment, legal/consulting/audit work, information technology services, deposit insurance, and marketing.

36 More than half of District banks did not add to loan loss allowances; most mid-sized banks took negative provisions.



Among CECL adopters, provision expense includes provisions for credit losses on all financial assets that fall within the standard.

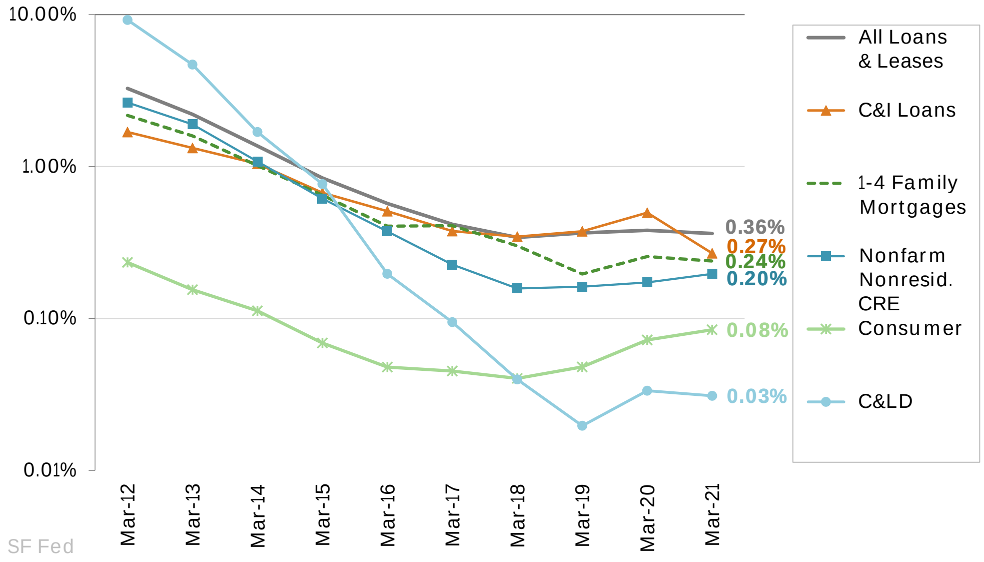
37 Despite low or negative provisions, allowances for loan and lease losses edged up relative to non-PPP loans.



Average = trimmed mean; ALLL = allowance for loans and leases; ACL = allowance for credit losses related to loans and leases; HFS = held for sale; *given data limitations, assumes all PPP loans are held for investment, not for sale.

38 Noncurrent loan ratios remained low, held down by stimulus, loan forbearance, and PPP denominator growth.

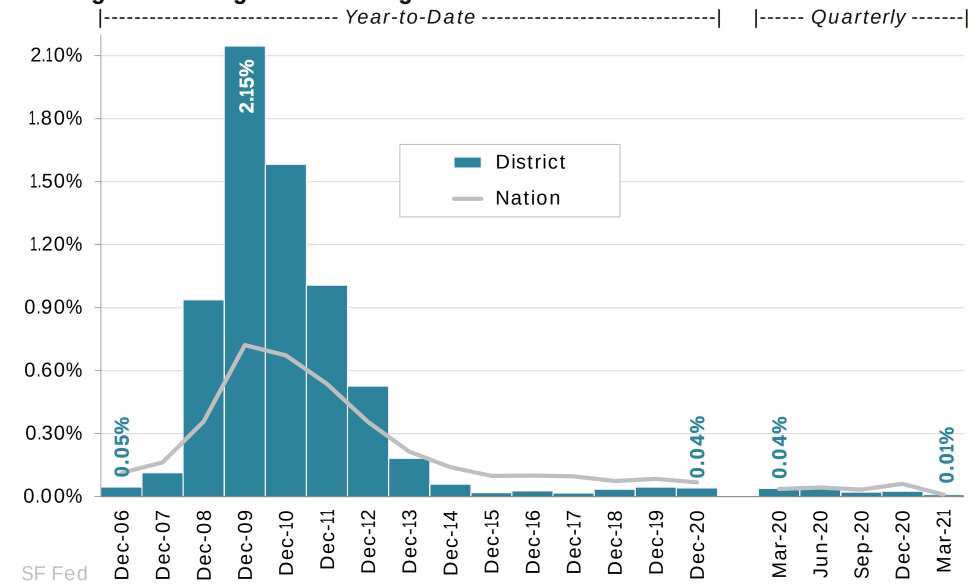
Average Noncurrent Loan Rates – Twelfth District Banks *(Log Scale)*



Average = trimmed mean; C&I = commercial & industrial; C&LD = construction & land development; nonfarm-nonresidential commercial real estate includes owner- and nonowner-occupied; noncurrent = 90+ days past due or in nonaccrual status.

39 Net chargeoffs remained negligible and loss rates stood in stark contrast to the period following the 2008 recession.

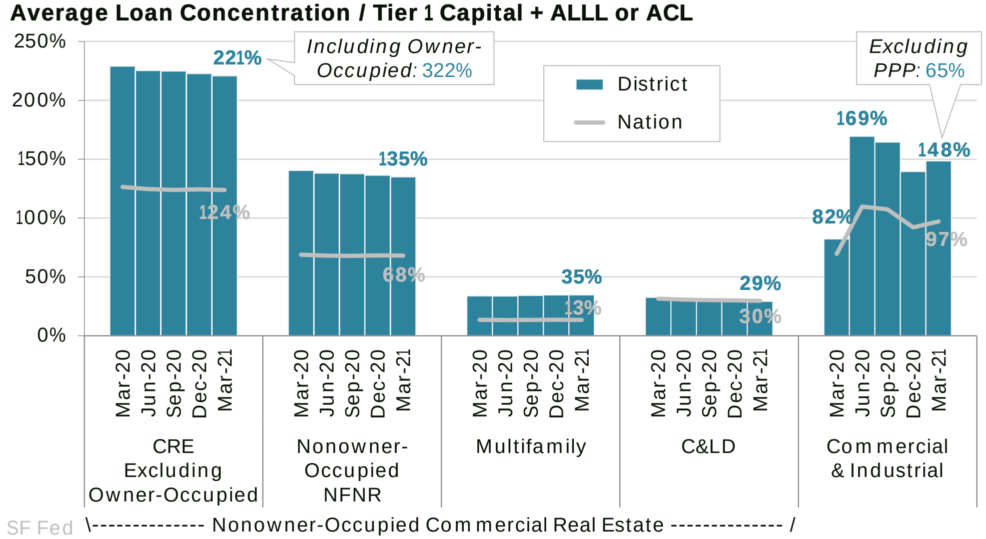
Average Net Chargeoffs / Average Loans & Leases



Average = trimmed mean; all figures annualized.

40 CRE remained a key lending focus; C&I concentrations moved up as new PPP lending outpaced forgiveness.

Average Loan Concentration / Tier 1 Capital + ALLL or ACL

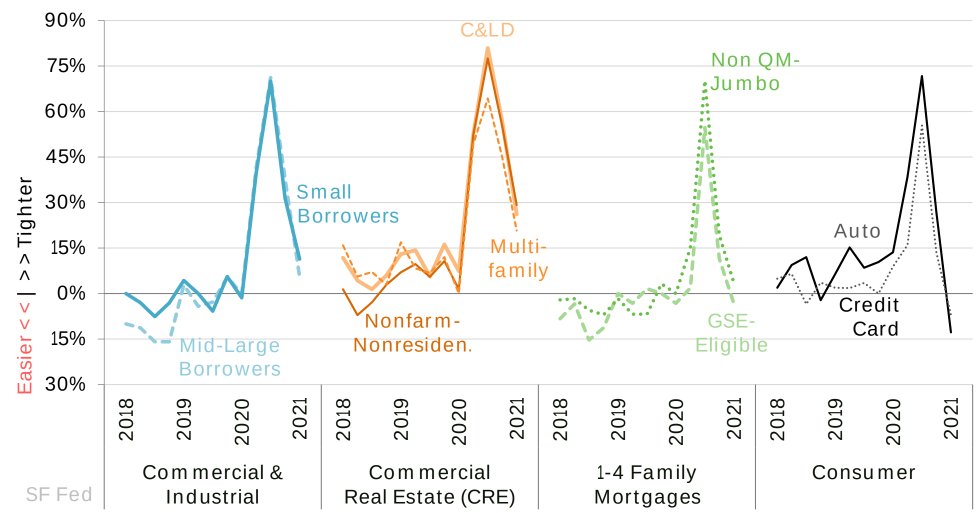


Average = trimmed mean; ALLL = allowance for loans and leases (per incurred loss method); ACL = allowance for credit losses related to loans and leases (per CECL); Commercial Real Estate (CRE) Excluding Owner-Occupied = nonowner-occupied nonfarm-nonresidential (NFNR), construction and land development (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.

41 On a quarterly basis, surveyed lenders continued to unwind earlier tightening of underwriting standards.

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

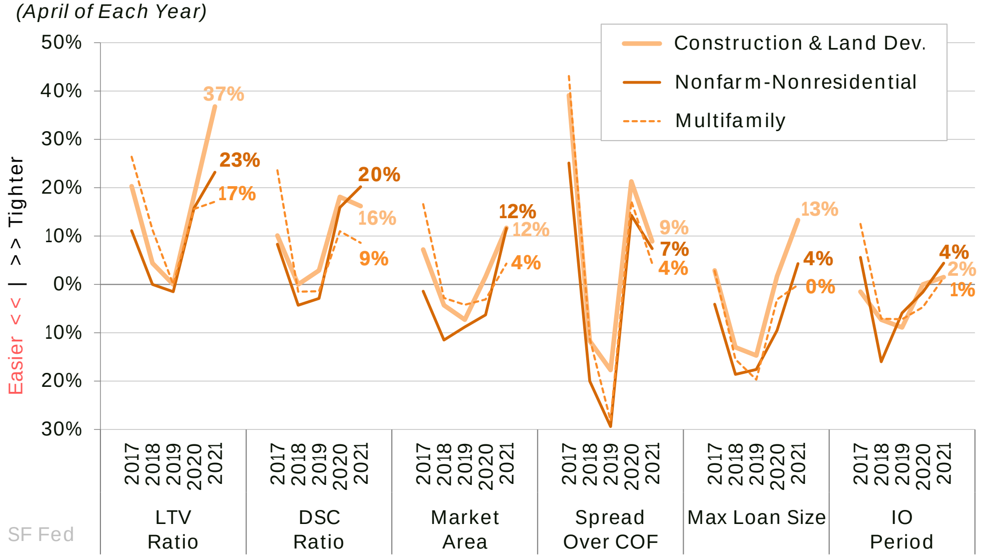
(January, April, July, and October of each year)



Based on a sample of 70+/- loan officers at domestic banks (number varies by period and loan type); C&LD = construction and land development; GSE = government sponsored enterprise; QM = qualified mortgage. Source: Federal Reserve *Senior Loan Officer Opinion Survey*, (https://www.federalreserve.gov/data/sloos.htm) via Haver Analytics.

42 On net, many surveyed lenders tightened aspects of CRE underwriting in the past year.

Net % of Lenders Tightening (Easing) CRE Standards During Prior 12 Mos.
(April of Each Year)

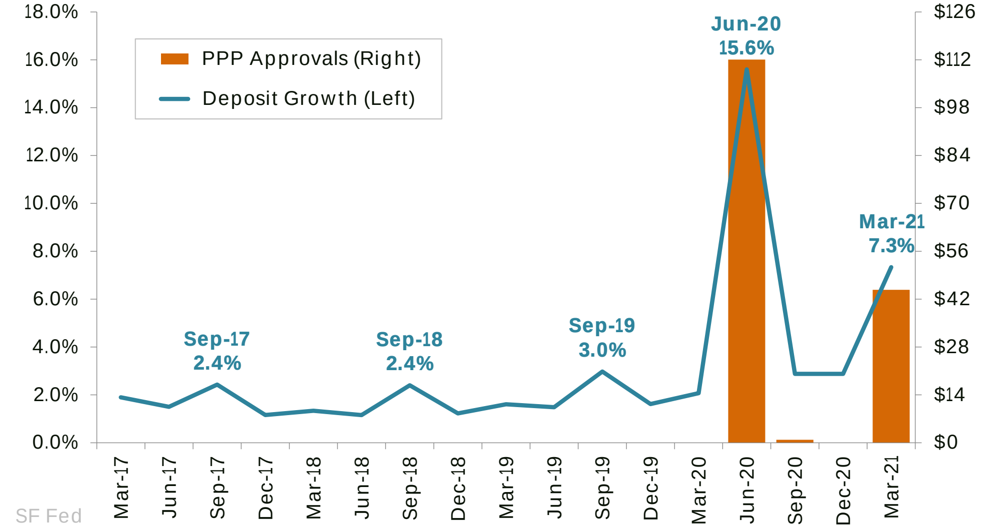


Based on sample 70+/- senior lenders; LTV = loan-to-value; DSC = debt service coverage; COF = cost of funds; IO = interest only. Source: Federal Reserve *Senior Loan Officer Opinion Survey*, April of each year.

43 Average quarterly deposit growth surged in 1Q21 amid new PPP originations and stimulus payment disbursements.

Average Quarterly Change in Twelfth District Deposits *(Not Annualized)*

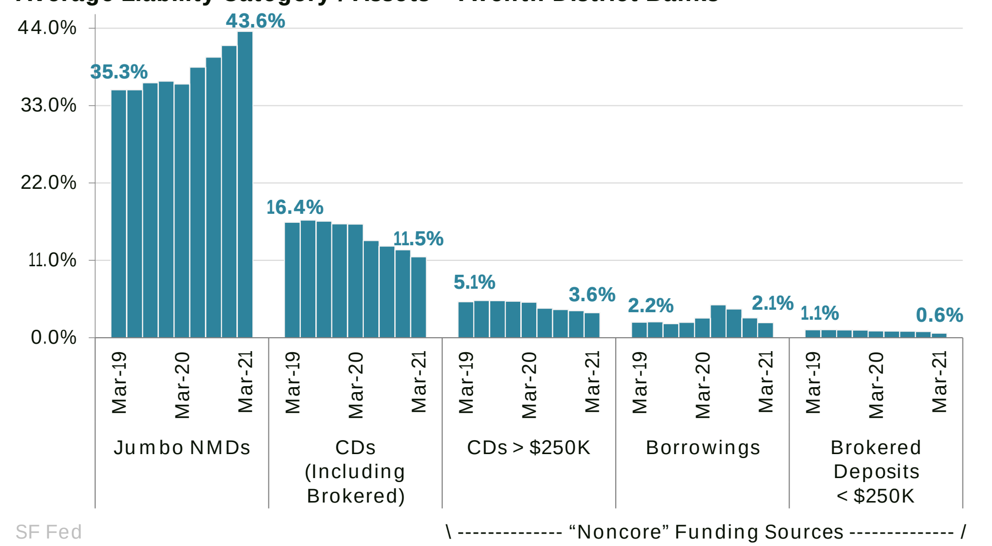
Aggregate Quarterly Twelfth District PPP Approvals* *($Bils., All Lenders)*



Average = trimmed mean; growth rates are not merger-adjusted. *approval data includes bank and nonbank lenders, as reported by the Small Business Administration (interpolated from 6/30/20, 8/8/20, and 3/28/21 Program Reports).

44 Large NMDs increasingly dominated the funding mix; time deposit and "noncore" funding reliance eased further.

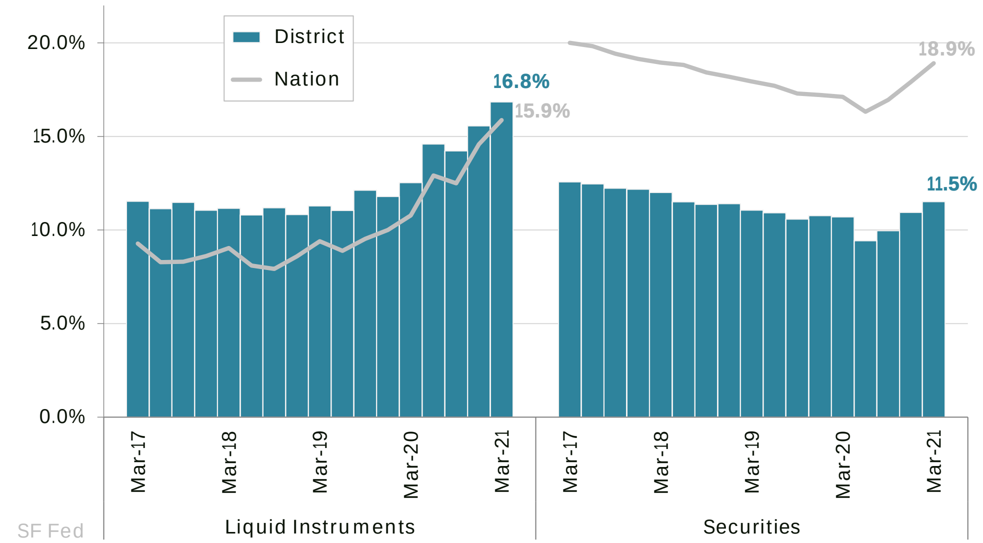
Average Liability Category / Assets – Twelfth District Banks



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.

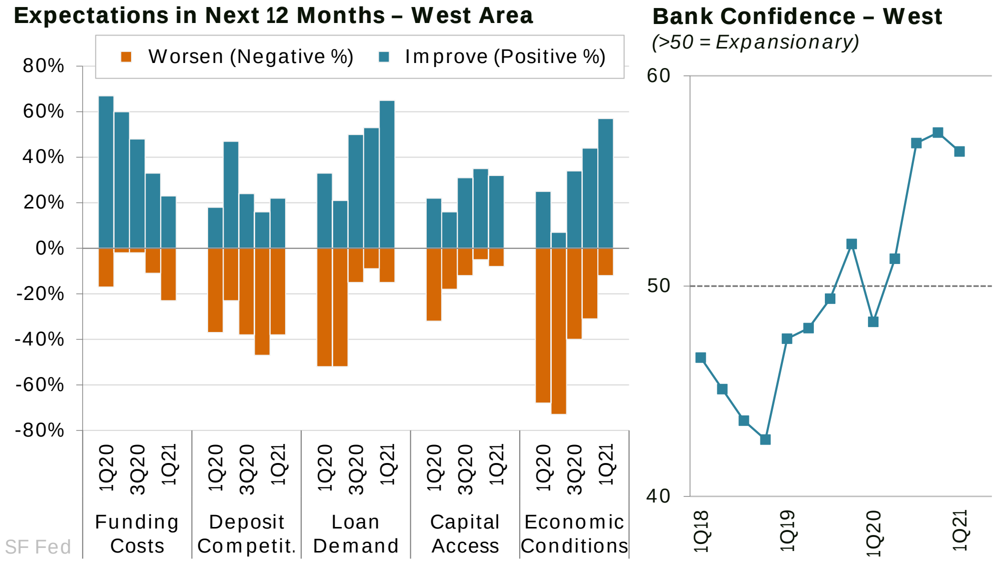
45 With deposit growth outstripping loan demand, banks increased their holdings of liquid instruments and securities.

Average Share of Total Assets



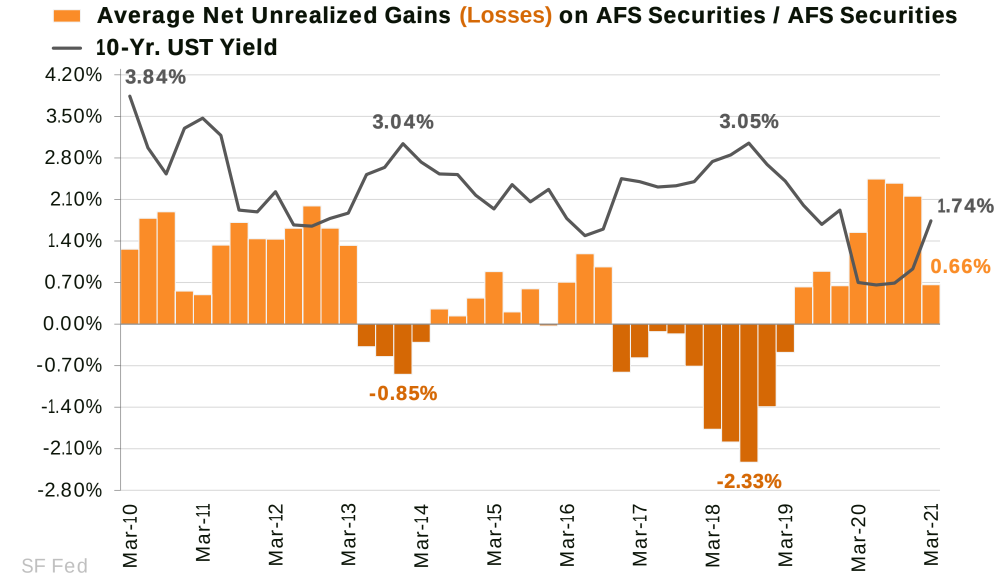
Average = trimmed mean; liquid instruments = cash, due from balances, interest bearing balances, and federal funds sold & securities purchased under agreements to resell; securities includes available for sale and held to maturity investments at fair value and amortized cost, respectively.

46 On net, bankers in the West were optimistic, but they became less sanguine about prospective funding costs.



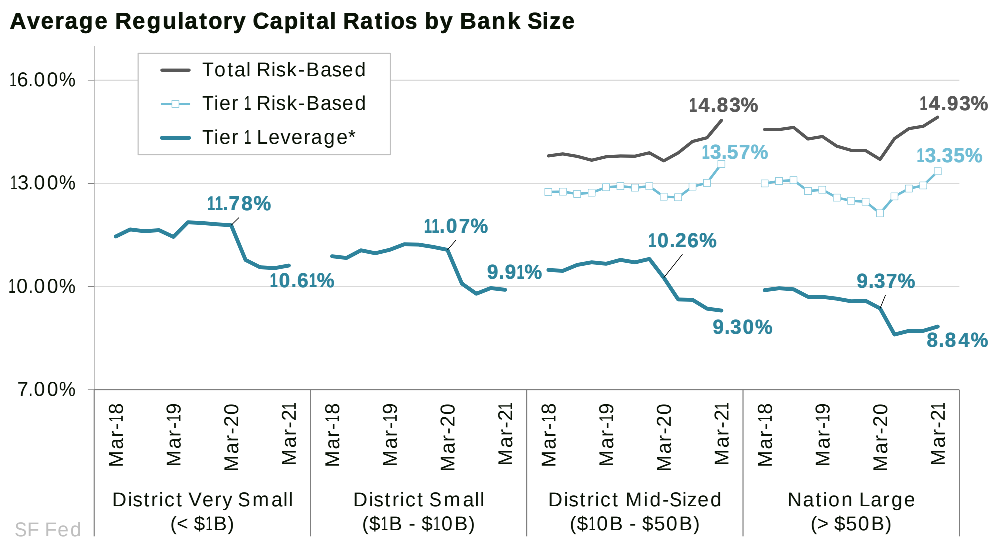
Data based on nationwide surveys of 500 +/- community bank executives, two weeks after each quarter; confidence was scored based on perceptions of funding costs, deposit competition, loan demand, and access to capital (but not economic conditions); West = Kansas City/San Francisco Districts. Source: Intrafi Network *Bank Executive Business Outlook Surveys*.

47 An early 2021 surge in long-term interest rates weighed on net unrealized gains in bank investment portfolios.



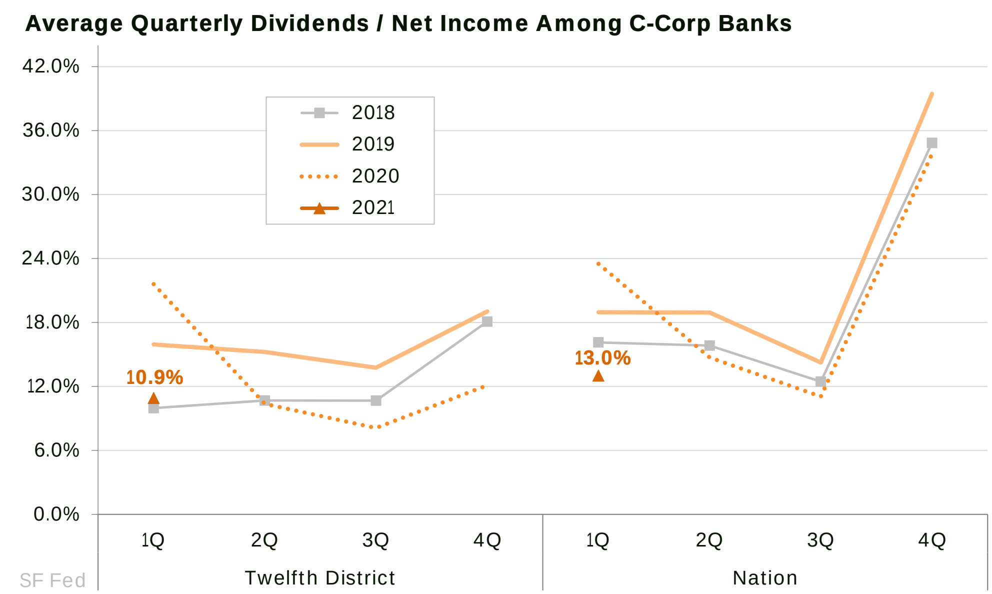
Average = trimmed mean (Twelfth District banks only); AFS = available-for-sale; changes in valuation reported net of deferred tax effects; UST = end of period U.S. Treasury yield at a constant maturity (from Federal Reserve via Haver Analytics); AFS securities excludes equities beginning with the March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

48 Asset growth tempered leverage ratios at some banks; low risk weights on PPP and liquid assets helped RBC ratios.



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 denominators.

49 Dividend payout ratios in 1Q21 trailed prior quarter and year-ago levels, in part because of stronger profits.



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)	
	Mar-20	Mar-21	Mar-20	Mar-21	Mar-20	Mar-21
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	13 (0)	13 (0)	-	-	-	-
CA	133 (2)	130 (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)	4 (0)	4 (0)	2 (1)	2 (1)
OR	14 (0)	13 (0)	-	-	2 (0)	2 (0)
UT	24 (0)	26(1)	14 (0)	16 (2)	1 (0)	1 (0)
WA	32 (0)	31 (0)	-	-	9 (0)	9 (0)
12L	248 (3)	245 (4)	22 (0)	24 (2)	30 (1)	30 (1)
U.S.	4,437 (28)	4,329 (32)	24 (0)	26 (2)	652 (1)	621 (1)

Based on preliminary 1Q21 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	**MBS**	Mortgage-backed security
ACL	Allowance for credit losses	**MMDA**	Money market deposit account
ALLL	Allowance for loan and lease losses	**NFNR**	Nonfarm-nonresidential
BSA/ AML	Bank Secrecy Act / Anti-Money Laundering	**NMD**	Nonmaturity deposit
C&I	Commercial & industrial	**PPP**	Paycheck Protection Program
C&LD	Construction & land development	**ROAA**	Return on average assets
CD	Certificate of deposit	**TDR**	Troubled debt restructuring
CRE	Commercial real estate	**TE**	Tax equivalent
HFS	Held for sale	**YTD**	Year-to-date