FEDERAL RESERVE BANK
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FIRST GLANCE 12L

Economic and Banking Performance in the Twelfth Federal Reserve District

RECENT VIRUS TRANSMISSION MAY WEIGH ON THE RECOVERY

2Q21 | SEP. 9, 2021

This report is a product of Supervision + Credit. It is based upon preliminary data from 2Q21 and prior Condition and Income Reports as well as other economic and banking sources. Data has been prepared primarily for bank supervisors and bankers. The opinions expressed in this publication are those of the authors. Opinions are intended only for informational purposes, and are not formal opinions of, nor binding on, the Federal Reserve Bank of San Francisco or the Board of Governors of the Federal Reserve System.

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Summary & Contents

Key Takeaways

District labor markets recovered further through July, but the Delta variant posed renewed risks.

- Districtwide **hiring** accelerated through July and the unemployment rate fell, but COVID-19 infections also started rising rapidly again in early July.
- **Housing** sales declined amid low inventory and high construction costs, but price appreciation continued to accelerate.
- **Commercial real estate** saw generally stronger metrics in the second quarter, except for downtown offices, which experienced further price declines.

Paycheck Protection Program (PPP) shifts affected some banking metrics.

- The May sunset of PPP—and possibly seasonal factors—led to faster **non-PPP loan growth** in 2Q21. However, originations lagged the pace of PPP forgiveness, which pushed overall net loan and lease growth into negative territory quarter-over-quarter.
- District banks' average **quarterly return on average assets** ratio eased slightly. Excess liquidity contributed to yield pressures. Provision expense reversals often boosted earnings at larger firms.
- **Problem loan ratios** remained low, owing heavily to government stimulus and economic re-opening. Future prospects remain cloudy given expiring support programs and continued COVID-19 variants.
- **Fraud** incidents have increased amid the pandemic, as noted in this quarter's "Spotlight" section.

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Twelfth District Overview
"Recent Virus Transmission May Weigh on the Recovery"

The labor market continued to recover through July, but the spread of the Delta variant posed renewed risks. The pace of hiring in the District reaccelerated to 9.2% in July (month-on-month, annualized), from 6.5% three months earlier, led by gains in the leisure/hospitality sector and a jump in local-government hiring. Payrolls in Hawaii and Nevada benefited from the continuing recovery of leisure/hospitality jobs but remained among the furthest below pre-pandemic baselines across District states (see table, right). The Districtwide unemployment rate improved to 6.7% in July, although this was above the national rate of 5.4%. However, COVID-19 infection rates increased rapidly across the District and nation starting in early July as the Delta variant spread, which led to disappointing national job growth in August—annualized monthly pace of 1.9% versus 9.0% in July—and a sharp drop in consumer confidence. National mobility data from Google suggested little decline in mobility since mid-July and only Hawaii reimposed tighter social distancing measures, but mobility may shift if serious illness becomes more widespread.

Tight supply and construction costs contributed to further home price appreciation. The volume of home sales in the West declined to pre-pandemic levels, from a late-2020 peak, but this largely reflected limited supply. Districtwide, inventory remained low at roughly one month of sales through July. Single-family price appreciation accelerated to 22.0% year-over-year in June, led by a nation-leading pace of 34.2% in Idaho. Supply chain bottlenecks in the homebuilding sector also contributed to price increases, and homebuilder sentiment declined in recent months, largely due to higher materials costs according to the National Association of Home Builders. Home price increases led to a deterioration in affordability in most District states, despite increases in median household income.

The office sector remained a laggard amid a CRE recovery. Nationally, CRE transactions jumped significantly in the second quarter, matching or exceeding pre-pandemic paces in all sectors except office. Office-sector troubles appeared increasingly concentrated in central business districts (downtowns), as suburban offices joined other CRE sectors in a price rebound. In the West region, the spread of cap rates to Treasury rates edged down across sectors but remained high relative to pre-pandemic levels, suggesting investors still sought compensation for higher perceived risk. District vacancy rates declined across all sectors except office, which saw rising vacancies. Apartment rents began to rise again in the second quarter, while office rents declined further, and industrial and retail rents saw a minor dip.

Nonfarm Payrolls & Unemployment

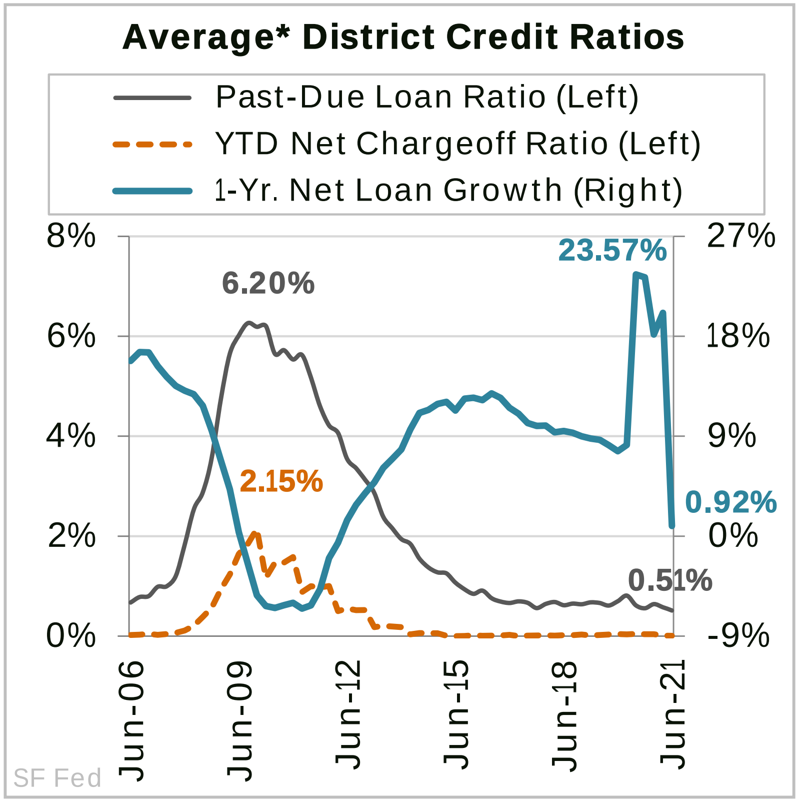
	Payrolls Jul-21 vs. Feb-20	Unemploy. Rate 12 Mo.	Unemploy. Rate Jul-21
NV	-7.4%		7.7%
CA	-6.4%		7.6%
HI	-12.0%		7.3%
AZ	-0.7%		6.6%
AK	-7.6%		6.6%
OR	-5.0%		5.2%
WA	-3.2%		5.1%
ID	2.2%		3.0%
UT	2.7%		2.6%
US	-3.7%		5.4%

SF Fed

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

Annual loan growth appeared to retreat sharply. On its face, average year-over-year net loan growth decelerated sharply (see chart below). PPP forgiveness led to a quarter-over-quarter contraction in overall loans and leases at most banks, but the year-over-year trend was magnified by comparisons with mid-2020, when PPP first surged. Excluding PPP, District banks' average year-over-year and quarter-over-quarter loan growth rates accelerated, reaching averages of 7.1% and 2.8%, respectively, as banks returned to a more traditional, seasonal lending pattern.

Bank ROAAs eased slightly, with some variation by bank size. District banks' average 2Q21 annualized ROAA ratio was 1.18%, down 2 bps from 1Q21, but up 26 bps from the 2Q20 average. Net interest margins remained under pressure as loan-to-asset ratios eased and average short-term interest rates moderated. Lower overhead expense-to-average asset ratios provided some offset to margin compression, in part reflecting asset (denominator) growth outpacing noninterest expense (numerator) increases. For many publicly-traded banks that took larger, earlier provisions under the Current Expected Credit Loss (CECL) accounting method, further loan loss reserve releases pushed quarterly ROAAs higher.



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

Loan delinquency and net chargeoff ratios remained low. Quarter-over-quarter, the District's average 30+ day delinquency ratio ticked down 7 bps to 0.51% (see chart, left). Overall, just 1.2% of District non-PPP loans and leases were either modified, restructured, or delinquent on average, roughly one-tenth of the level reported in mid-2020. Similarly, annualized net charge-off ratios remained negligible at most banks, averaging just 1 bp year-to-date. Stimulus measures continued to temper repayment issues.

On-balance sheet liquidity mounted further. Deposit levels, which expanded 2.6% on average during the quarter, outpaced net loan growth. This led on-balance sheet liquidity higher, with liquid instruments and securities reaching nearly 33% of District bank balance sheets, the highest second-quarter level in more than 20 years of data reviewed. Meanwhile, loans and leases—which earn higher yields on average than liquid instruments or securities—edged down to 63% of District bank assets, versus roughly 70% before the onset of the pandemic. This continuing shift has contributed to net interest margin compression.

Capital ratios came under pressure. Average risk-based capital (RBC) ratios eased slightly among smaller banks as PPP loans—which carry a 0% risk weight—shrank as a share of assets. In contrast, mid-sized banks, which held proportionately lower levels of PPP, reported higher average RBC ratios because of growing liquidity buffers. Tier 1 leverage ratios continued to decline across most firms because deposit-fueled asset growth outpaced equity formation. The average quarterly dividend payout ratio was mostly steady among non-Subchapter S banks.

Section 1
Spotlight Feature & Hot Topics

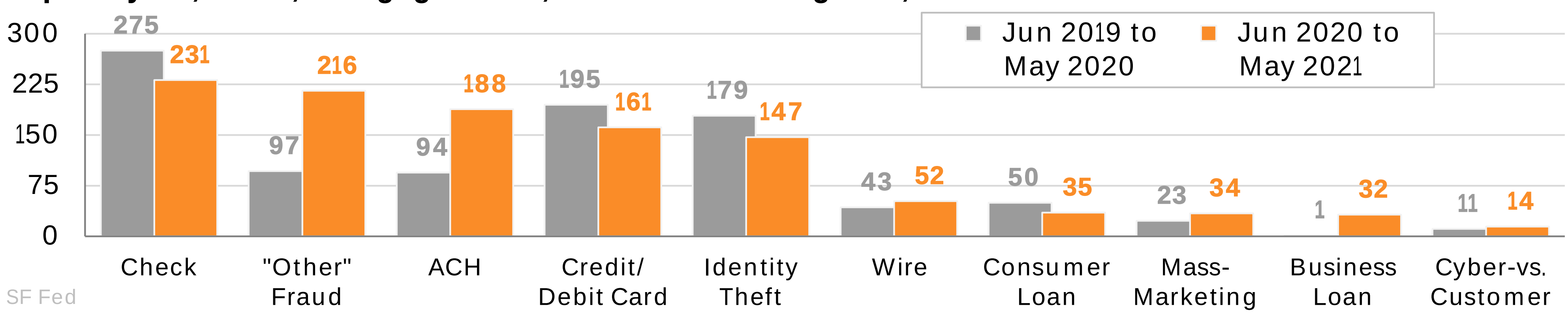
Spotlight: Fraud Trends

Hot Topics We Are Monitoring Most Closely

Spotlight: Fraud Trends

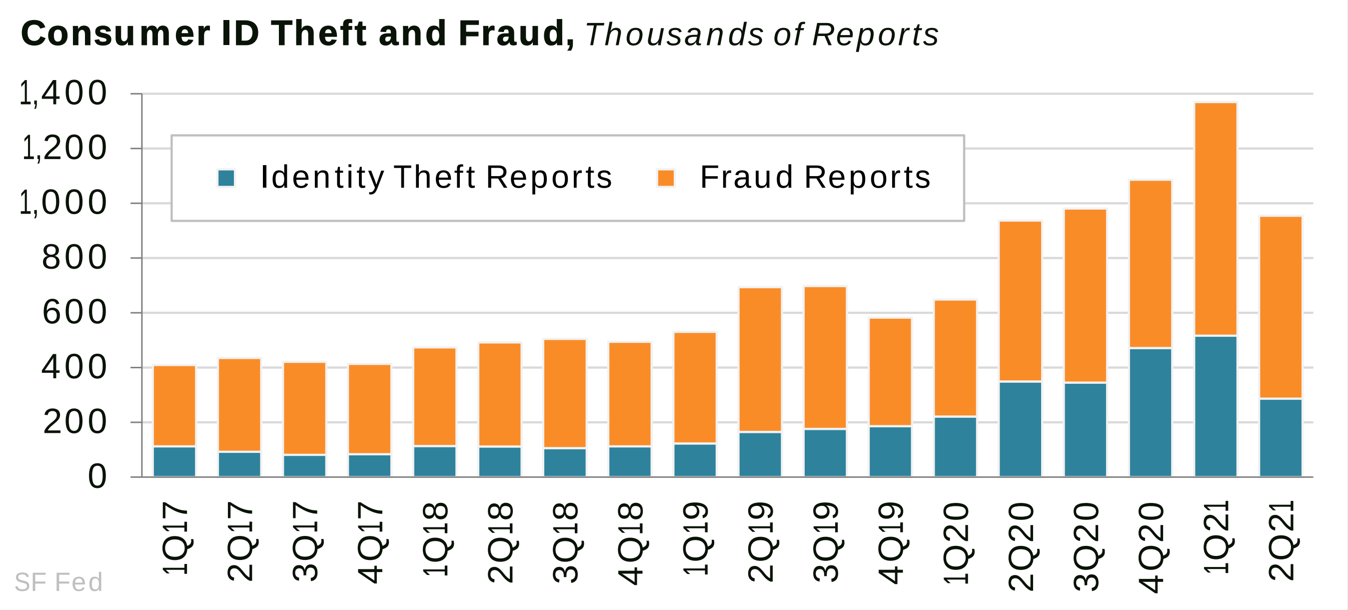
- ***Fraud poses risk in several dimensions.*** Be it internal or external, online or in-person, sophisticated or simple, the end result is the same: potential financial losses for depository institutions, not to mention costs associated with trying to avert them. In addition, reputational and legal risks can ensue if a bank's poor internal controls contributed to the fraud event. While the finance industry's ongoing digital transformation can assist with fraud detection, it also offers new avenues for thieves. The pandemic accelerated both the trend toward online transactions and fraudsters' adoption of more direct scams, such as those that targeted peer-to-peer payments and digital wallets. Javelin Research estimates that these newer scams resulted in losses of $30 billion in 2020.
- ***Fraud manifests when there is opportunity, pressure, and rationalization.*** These three factors combine to form the "fraud triangle." For example, employees may be given the opportunity to commit fraud via aggressive sales incentives and inadequate risk controls. They may be pressured into achieving sales quotas under threat of termination or loss of pay. And they may rationalize the fraudulent behavior because of an institutional culture condoning it. Fraud triangle factors have intensified amid COVID-induced socio-economic pressures, the amount of rapidly-deployed stimulus programs, increased adoption of mobile and online banking, and a shift to a remote work posture.
- ***Bank reporting of suspicious activity has increased.*** Nationwide, depository institutions filed an increasing volume of cyber and fraud-related Suspicious Activity Reports (SARs) in the twelve months ending May 2021. FinCEN data suggests the increase was driven heavily by automated clearing house (ACH), business loan, and "other" fraud types (see chart, bottom). As noted in FinCEN Notice FIN-2021-NTC1, the "other" fraud category encompasses several COVID-19-related programs, including the SBA's PPP and Economic Injury Disaster Loans (EIDL) programs, economic impact payments (EIPs), and unemployment insurance programs. Of note, filers can identify multiple types of suspicious activities on a single SAR. So, a fraudulent PPP application could trigger the identification of both business loan and "other" fraud—and possibly more—simultaneously. The growth in ACH-related fraud reflected, in part, the shift to online, socially-distanced transactions during the pandemic.

Top 10 Cyber, Fraud, Mortgage Fraud, and ID Theft Categories, *Thousands of SARs*

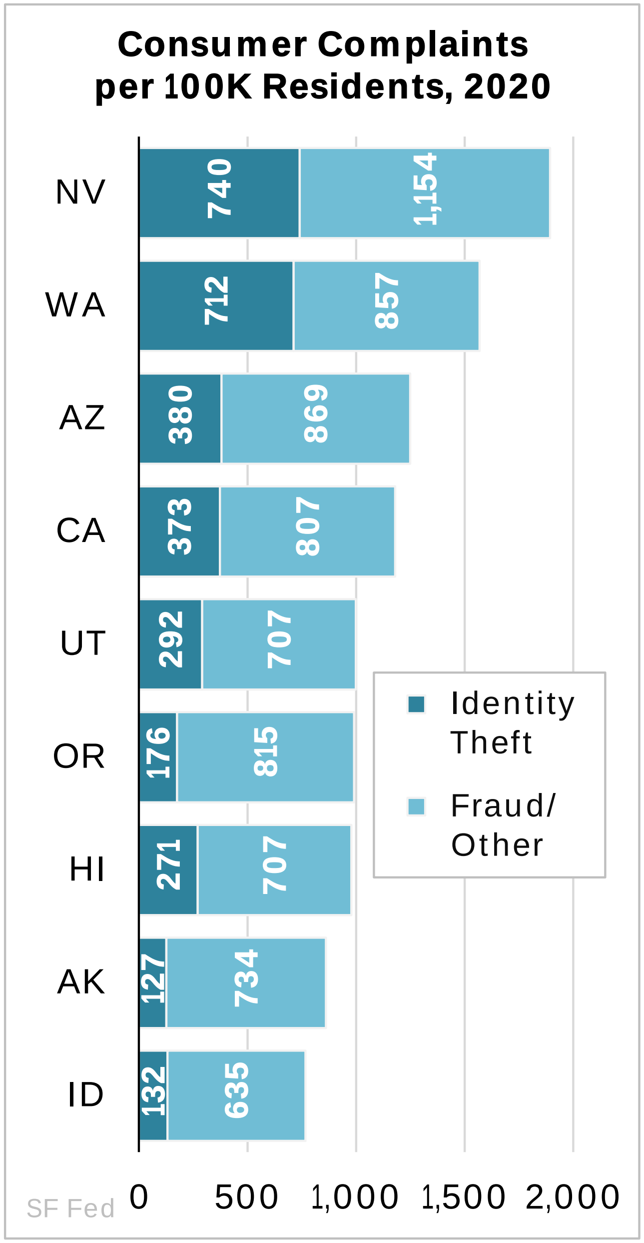


Limited to suspicious activities classified as "cyber", "fraud", "mortgage fraud", or "identity [ID] theft". Source: SF Fed calculations based upon FinCEN SAR Stats Tool.

- ***Consumer fraud and identity theft complaints likewise surged.*** According to the [Federal Trade Commission (FTC) Consumer Sentinel Network](), a central repository of several sources, consumer complaints increased significantly during the pandemic, abating somewhat in 2Q21 (see chart, bottom). During 2020, the FTC estimated that fraud schemes cost consumers more than $3.3 billion, up from $1.8 billion in 2019. Imposter scams, online shopping, and internet services were the top three types fraud complaints noted during the year. In addition, there were nearly 1.4 million reports of ID theft, roughly double the volume reported in 2019. Growth in ID theft reports was primarily driven by government documents or benefits fraud—a function of significant and rapidly deployed stimulus funding—as well as credit card and loan fraud.
- ***FTC complaint activity was higher in some states than others***. During 2020, Nevada and Washington had among the highest FTC complaint rates per capita in the District, especially in terms of identity theft (see chart, right). Nevada had the highest per capita rate of fraud/other reports and the fourth highest per capita rate of ID theft complaints among all 50 states. In Washington, government benefits/documents fraud drove 70% of its elevated ID theft complaint rate in 2020, the highest share of any state in the West. This was likely influenced by elevated unemployment insurance-related fraud activity in the state.



Source: Federal Trade Commission, Consumer Sentinel Network (as of 7/28/2021)



Source: Federal Trade Commission, Consumer Sentinel Network Annual Data Book.

- ***Mortgage fraud risk also moved higher.*** In 2Q21, CoreLogic's Application Fraud Risk Index increased 10% quarter-over-quarter, partly because a shift in the mix of loan purpose. Purchase loans—especially those used for investment properties—carry higher fraud risk than refinancing applications. Index readings for Nevada, Hawaii, and California ranked among the top five states nationally, and Las Vegas, San Jose, Los Angeles, and San Francisco ranked high among major U.S. markets. Thieves have also been targeting escrow officers. ALTA's 2021 Wire Fraud and Cyber Crime Survey found that criminals tried to get title employees to wire funds to a fraudulent account in one third of real estate deals.
- ***Pandemic relief monies lured fraudsters and ID thieves.*** According to a March 2021 report by the Pandemic Response Accountability Committee (PRAC), three COVID-related programs—PPP, EIDL, and Pandemic Unemployment Assistance (PUA)—accounted for much of the 431 criminal complaints, 308 arrests, and 98 convictions associated with COVID-relief programs in the preceding six months. Since banks and thrifts are involved in the processing of payments for these programs, they are exposed to reputational, legal, and financial risks. Often, criminals exploited SBA programs by filing multiple fraudulent applications that featured fictitious businesses, overstated payroll, and/or relied on some form of ID theft. In an August 2021 paper, University of Texas researchers estimated that up to 15% of PPP loans—originated disproportionately but not exclusively by fintech firms—had potential hallmarks of fraud based upon several criteria. Meanwhile, unemployment insurance, particularly the PUA program designed for self-employed and independent contractors, was a target rich environment for thieves because of its self-certifying nature and outmoded state processing systems. As a result of the Fraud Task Force established in early 2021, PRAC recently published Lessons Learned to assist inspectors general with their investigations of fraud.
- ***Multiple agencies have released fraud-related guidance in the era of COVID.*** Both the Departments of Justice (DOJ) and Treasury communicated that fighting swindlers is a top priority. The DOJ created a COVID-19 Fraud Enforcement Task Force in May 2021 to enhance work against pandemic-related fraud, and FinCEN—pursuant to the Anti-Money Laundering Act of 2020 (AML Act)—issued a list of eight government-wide priorities for money laundering and terrorist financing risks, which included fraud. FinCEN has also released myriad advisories via its coronavirus updates hub, including guidance on EIPs, imposter scams, unemployment fraud schemes, and cyber-related crimes. The SEC maintains a website to provide investors with broad educational materials and tips on how to avoid being defrauded, as well as current news alerts and bulletins. Likewise, the IRS has issued their annual "Dirty Dozen" list to highlight common tax-related fraud schemes and provided red flags for institutions to monitor for unemployment insurance fraud (see box, right).

Financial Red Flag Indicators of Unemployment Fraud
Unemployment payments from a state other than the state in which the customer reportedly resides or has previously worked.
Multiple state unemployment payments made within the same disbursement timeframe.
Payments made in a person's name other than the account holder or in the names of multiple recipients.
Numerous transactions made presumably as unemployment payments from one or more states to people other than the account holder(s).
The amount of unemployment payments within a timeframe is higher than what similar customers received.

Source: Internal Revenue Service 2021 Dirty Dozen list.

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 remain the primary cyberthreats facing supervised institutions, their customers and suppliers in 2Q21. A recent attack against Kaseya, an IT management software company for IT teams and managed service providers (MSPs), deployed both ransomware and supply chain tactics. Attacks against VPN and firewall devices have become increasingly common in the current remote work environment; vulnerabilities in Pulse Secure, Zyxel, and Cisco VPN and Firewall devices have been recently exploited. Vulnerabilities in widely distributed software continue to pose threats to financial institutions, including multiple exploits from Microsoft's print spooler service dubbed 'PrintNightmare'. Supervised institutions are encouraged to remain vigilant in their security monitoring and vulnerability management practices, as well as their oversight of third-party vendors and MSPs.

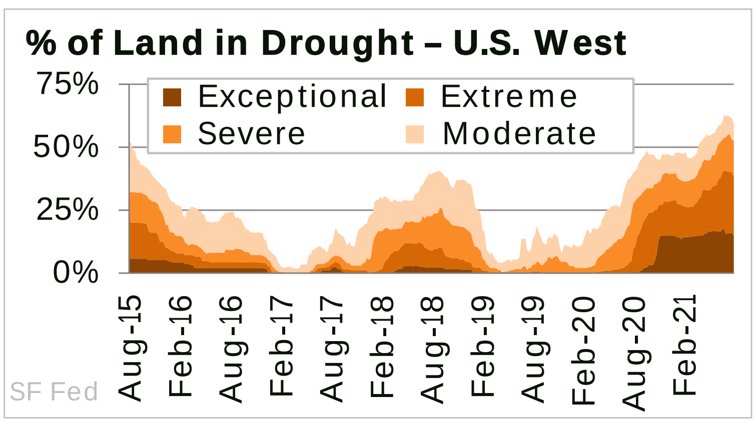
- ***Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance and fraud.*** BSA/AML monitoring remains heightened because of the District's role in the global economy and the array of activities being conducted by supervised institutions. Passage of the 2021 National Defense Authorization Act included 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. FinCEN marked its first milestone in complying with the AML Act by issuing eight government-wide priorities for money laundering and terrorist financing risks (in no rank order): corruption; cybercrime (including cybersecurity and virtual currency considerations); foreign and domestic terrorist financing; fraud; transnational criminal organization activity; drug trafficking organization activity; human trafficking/smuggling; and proliferation financing.

- ***Compliance challenges amid the COVID-19 response.*** Various CARES Act and other pandemic response programs that provide relief to consumers and small businesses have ended, or will end within the coming months, despite the recent Delta variant-related surge in COVID-19 cases. This may impact financial institutions' compliance responsibilities. The Consumer Financial Protection Bureau (CFPB) finalized amendments to federal mortgage servicing regulations to help protect mortgage borrowers as they exit forbearances. Banks are also encouraged, as relayed through SR 20-18 / CA 20-13, to provide consumers with options to make prudent changes to the terms of credit to support sustainable and affordable payments in the long term. For additional information and resources, refer to the Federal Reserve's COVID-19 Resource Page.

- ***Banking and financial technology (fintech) collaboration.*** A growing number of fintech firms are partnering with banks to offer digital financial services. This business model, known as "Banking-as-a-Service" (BaaS), continues to transform technology and evolve in complexity. Some BaaS players have started to offer marketplace-like platforms that connect to multiple partners. Banks that collaborate with fintechs may need to assess legal, strategic, reputational, operational, and other risks from these new service models. In mid-July, the Federal banking agencies jointly requested public comment on proposed guidance designed to help banks manage risks associated with third-party relationships, including fintechs. And, in late August, the agencies issued a guide to help community banks evaluate fintech relationships.

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, average concentration ratios held by banks based in most District states remained above the U.S. average (see table, right). Lending exposures, combined with pressures on CRE—particularly among hotel, retail, and office properties—heighten regulatory concern.
- ***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 (Jul. 12-18, 2021), 25% of surveyed small businesses nationally reported a large negative impact from the pandemic, with an above-average proportion of firms in Hawaii (37%), Alaska (32%), California (30%), and Nevada (28%), noting a similar degree of damage. Businesses in the accommodation and food services, arts/entertainment/recreation, educational services, and "other services" (e.g., salons, spas, and other personal services) sectors were most likely to report large negative effects. Continued stimulus has limited delinquencies and charge-offs, but District banks could experience increased loan problems once support measures fade. As of 2Q21, non-PPP C&I balances averaged 64% 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 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.) and caution on the part of customers. Banks have invested some newfound funding in low-yielding, liquid instruments, pressuring yields.



West = Twelfth District, Montana, and New Mexico. Source: Univ. of Nebraska-Lincoln, U.S. Dept. of Ag., Nat. Oceanic and Atmospheric Admin., 8/24/2021.

- ***Drought-related risks.*** According to the U.S. Drought Monitor, dry conditions have intensified in the West (see chart, left). As a result, fires scorched more than 4.9 million acres nationally YTD through August 26, versus 3.8 million acres in the year-ago period, and the District was home to 85% of U.S. active fire acreage as of that date. Fires pose ongoing financial and operational risks for banks, and their employees, and customers. Further, water quality and availability challenges have increased for farmers/ ranchers, homeowners, businesses, and developers.

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

SF Fed	2008-2021**	Jun-21
CA	298%	263.2%
WA	326%	218.6%
OR	333%	204.6%
AZ	355%	192.9%
NV	301%	169.6%
HI	169%	167.0%
ID	236%	140.7%
AK	162%	134.6%
UT	315%	115.1%
Nation	148%	124.7%

◆= trough ◆= peak

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

Section 2
Economic Conditions

Job Growth

COVID-19 Pandemic

Housing Market

Commercial Real Estate

For more information on the national economy, see:

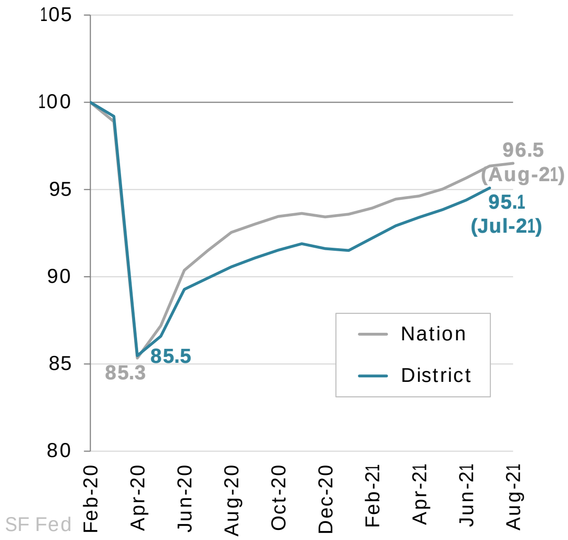
FedViews
(https://www.frbsf.org/economic-research/publications/fedviews/)

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

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

12 District payrolls continued to recover through July, but national job growth disappointed in August.

Nonfarm Jobs
(Indexed, Feb-20 = 100)



Twelfth District Jobs by Sector

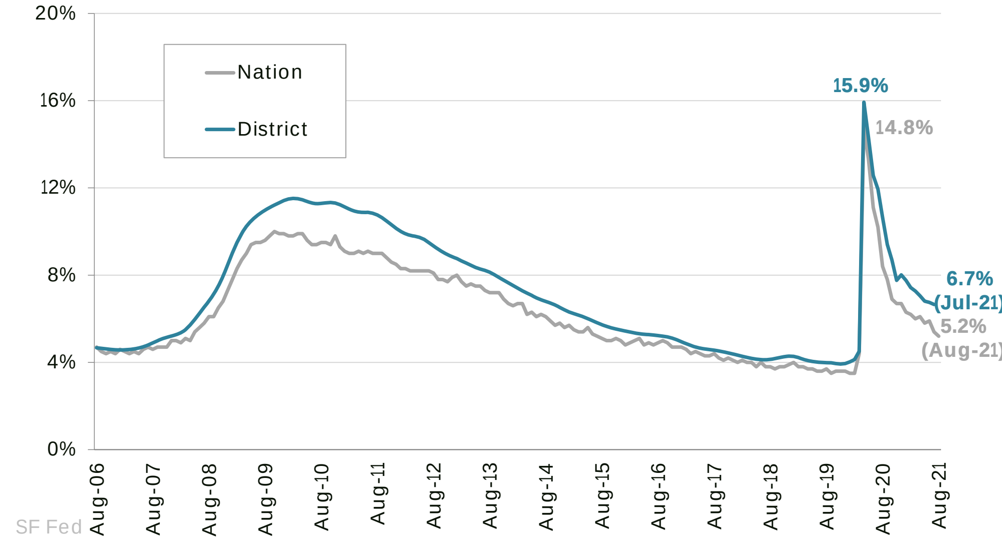
Job Sector	% Change (Month-Over-Month, Annualized) 12-month	Jul-21
Leisure & Hospitality		43.10%
Government		20.57%
Other Svcs.		13.48%
Information		9.02%
Wholesale Trade		7.88%
Prof. & Business Svcs.		5.27%
Financial Activities		4.10%
Edu. & Health Svcs.		3.55%
Construction		2.91%
Mining & Logging		0.00%
Retail Trade		-0.16%
Transport. & Utilities		-1.68%
Manufacturing		-2.29%
Total Nonfarm		9.25%

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.

13 The Districtwide unemployment rate declined, but remained above the national rate and its pre-pandemic level.

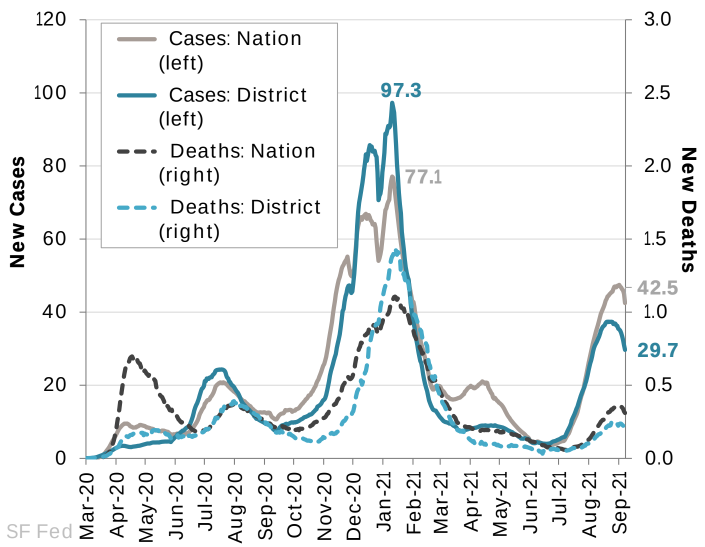
Unemployment Rate



Seasonally adjusted. Source: Bureau of Labor Statistics.

14 COVID-19 infection rates rose rapidly starting in July but receded recently; ICU utilization was high in several states.

New Cases and Deaths per Day Attributed to COVID-19
(7-day rolling average per 100,000 of population)



COVID-19 data through 9/7/2021; population as of mid-2020. Sources: Centers for Disease Control and Prevention [CDC] (accessed 9/8/2021), Census Bureau.

COVID-19 New Cases & ICU Utilization

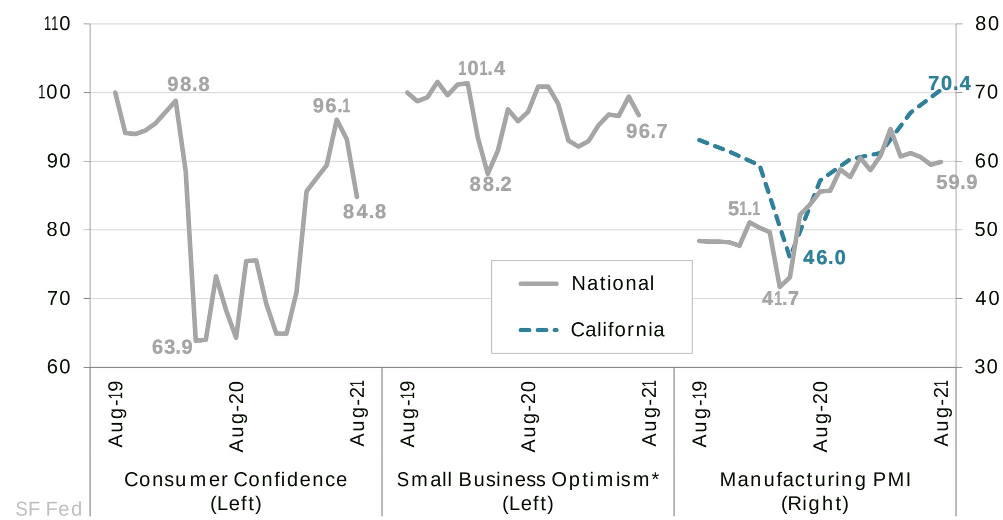
	New Cases per 100k	ICU Utilization
AK	79	78.5%
HI	53	100.0%
ID	52	94.7%
OR	45	77.7%
WA	44	79.1%
AZ	44	63.6%
UT	42	69.8%
NV	33	82.9%
CA	18	78.9%
US	43	81.0%

"New cases" = 7-day rolling average as of 9/7/2021; population as of mid-2020; "ICU utilization" = % of staffed adult ICU beds occupied (including non-COVID) as of 9/8/2021. Sources: CDC, HHS, Census Bureau.

15 Consumer confidence fell sharply in August on Delta variant concerns, while California PMI increased through early Q3.

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

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

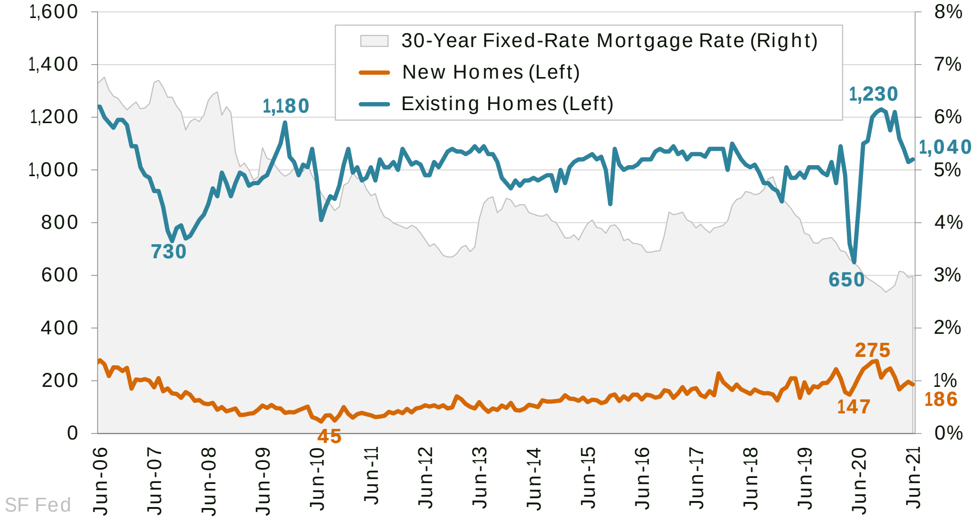


Seasonally adjusted; California PMI is quarterly, ending 3Q21; other series monthly, ending Jul-21 for small business optimism (*) and Aug-21 for other series. Sources: Conference Board, National Federation of Independent Business, Institute for Supply Management, Chapman University via Haver Analytics.

16 New and existing home sale volumes both moderated from recent highs amid an uptick in mortgage rates.

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

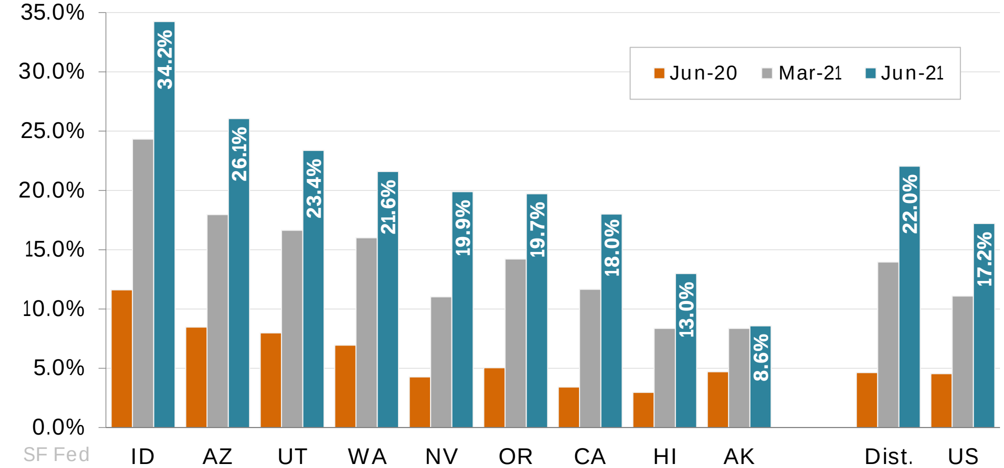
30-Year Fixed Mortgage Rate – Nation *(Monthly)*



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.

17 The breakneck pace of home-price appreciation continued to accelerate through June.

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

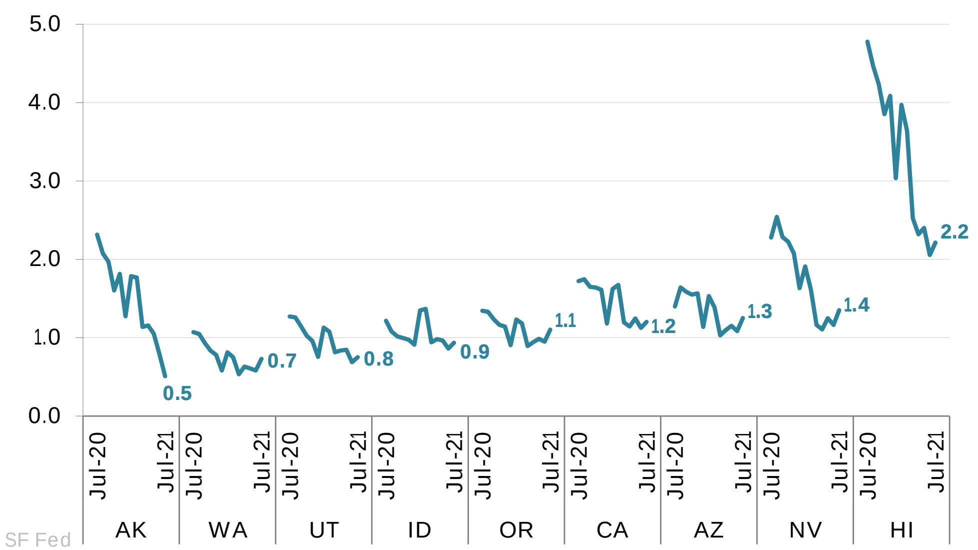


10-Year CAGR:	ID	AZ	UT	WA	NV	OR	CA	HI	AK	Dist.	US
	11%	10%	10%	9%	10%	8%	8%	6%	3%	9%	7%

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.

18 For-sale housing inventories remained tight across the District, but have stabilized in recent months.

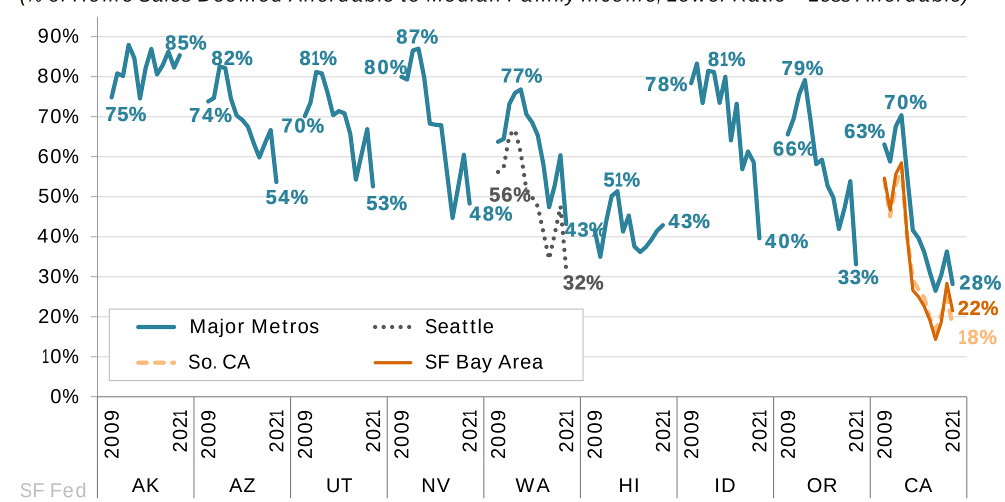
Months' Supply in the Housing Market *(Monthly homes sold divided by end-of-month active listings)*



Not seasonally adjusted. Source: Redfin via Haver Analytics.

19 Pandemic-era home price increases reduced housing affordability, despite gains in median household incomes.

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

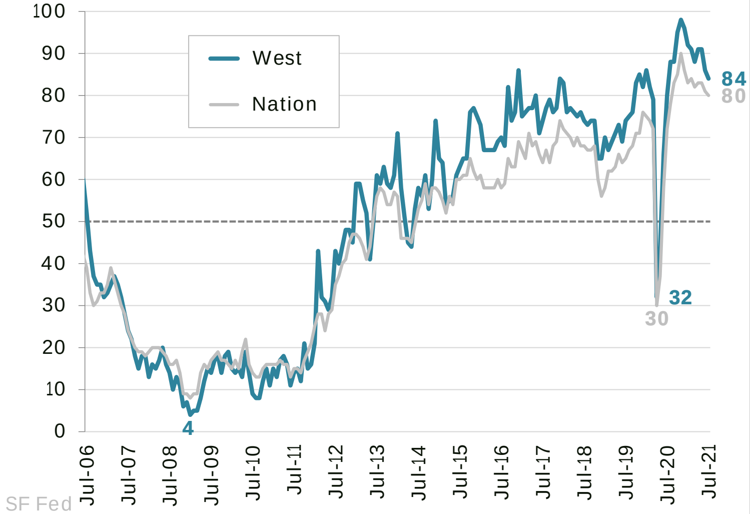


Assumes median income (minus an assumed 7% haircut in 2020), 10% down payment, ratio of income-to-housing costs (principal, interest, taxes, and hazard insurance) of 28%, and a fixed-rate, 30-year mortgage; So. CA = Los Angeles, Orange, Riverside-San Bernardino, San Diego, and Ventura metros; SF Bay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

20 Homebuilder optimism declined amid concerns about materials costs but remained near pre-pandemic levels.

Homebuilder Diffusion Index

(Monthly, Index Above 50 Considered Positive)



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

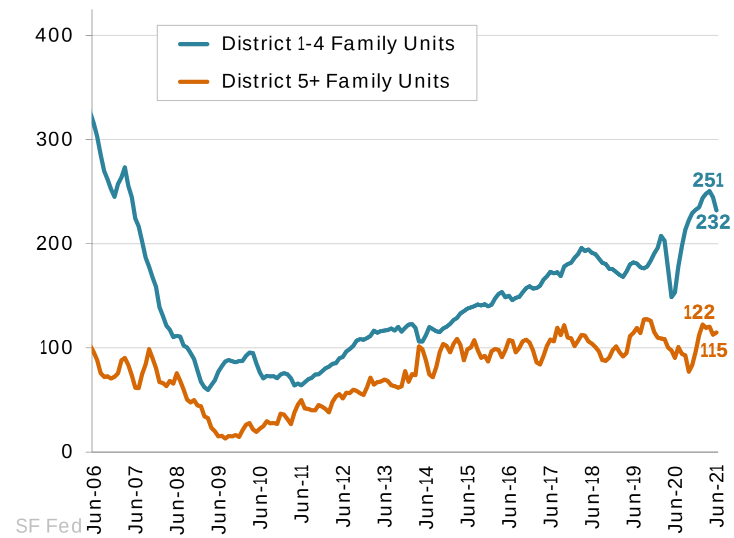
Region	Jul-20	Jul-21
West	63.3	87.0
South	59.0	84.7
Northeast	45.0	74.7
Midwest	50.3	70.7
Nation	55.7	81.3

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

21 1-4 family permits eased slightly but remined on an upward trend, while 5+ family permits remained range-bound.

Housing Permits – Twelfth District

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



New Authorized Housing Units

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

	Level 2005-2021	Change from Feb-20 1-to-4 Family	Change from Feb-20 Multi-family
UT		92%	198%
ID		58%	-44%
AZ		47%	-5%
OR		45%	44%
AK		33%	50%
HI		32%	-38%
NV		26%	2%
WA		26%	-11%
CA		14%	0%
Dist.		29%	-3%

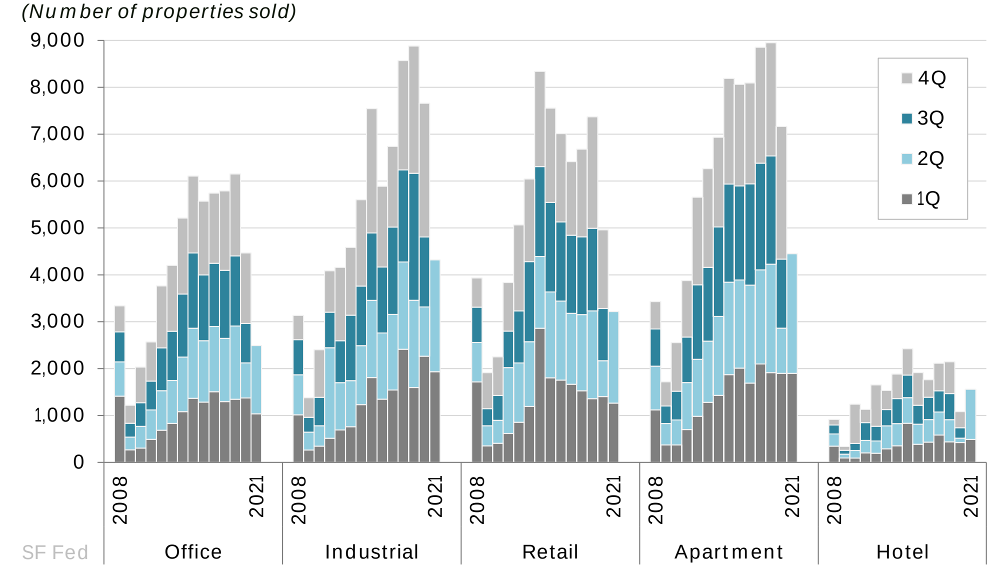
SF Fed ◆= trough ◆ = peak

* All data seasonally adjusted; trend lines as of June of each year. Source: Census Bureau via Haver Analytics.

22 A second quarter surge in CRE transactions put most sectors on pace to match pre-pandemic trends, except for office.

National CRE Transactions

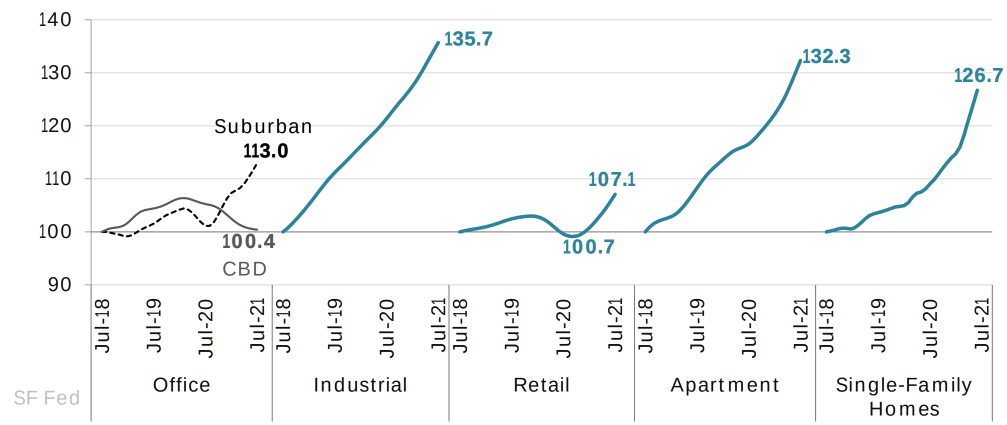
(Number of properties sold)



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

23 As of July, downtown offices were the only CRE sector that was still experiencing downward price pressure.

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



Average Annual Growth in Price Indices

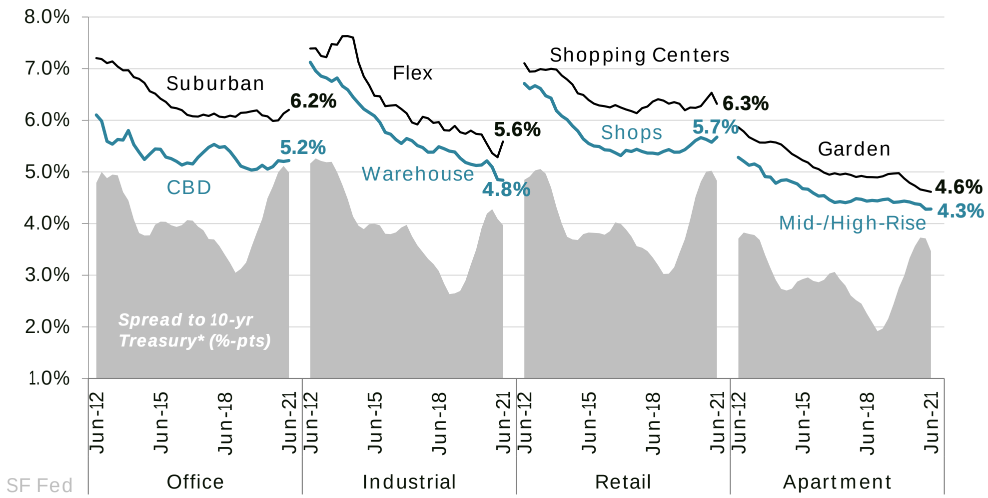
	Office	Industrial	Retail	Apartment	Single-Family Homes
1-Yr.	8.8%	11.8%	7.5%	13.5%	17.2%
5-Yr.	5.1%	9.6%	1.9%	10.1%	7.2%
10-Yr.	6.0%	8.5%	4.4%	10.5%	6.6%

CBD = central business district (downtown); based upon repeat-sales transactions; 5- and 10-year rates reflect compound annual growth; single-family price data through June 2021. Sources: Real Capital Analytics, Inc. (CRE price indices) and CoreLogic (single-family home price index).

24 CRE cap rate spreads to Treasuries edged down across sectors, but remained high relative to pre-pandemic levels.

Western U.S. CRE Capitalization Rates & Spreads

(Trailing 12-Month Averages)

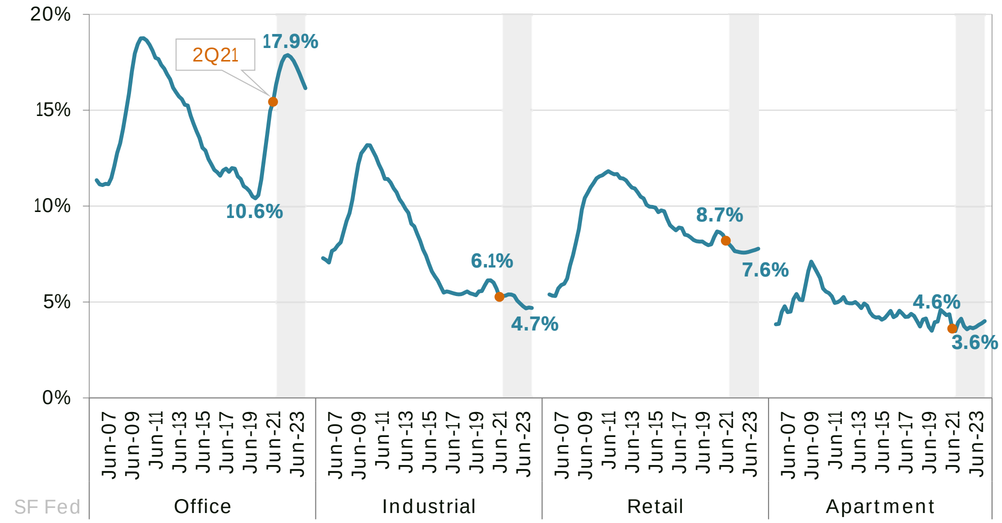


* Represents the spread of the overall cap rate for each property sector to the 10-year constant maturity Treasury rate. Includes transactions in the West (AK, CA, HI, ID, MT, NV, OR, UT, WA, and WY, but not AZ); property sales > $2.5 million with available data; CBD = central business district; "Shops" = single-tenant, drug stores, and urban/storefront retail. Sources: Real Capital Analytics, Inc., Federal Reserve Board via Haver Analytics.

25 Among District markets, CRE vacancy rates declined across most sectors, with offices a notable exception.

CRE Vacancy Rates – Twelfth District Markets

(Historical from 2Q06 through 2Q21, forecast from 3Q21 to 1Q24)

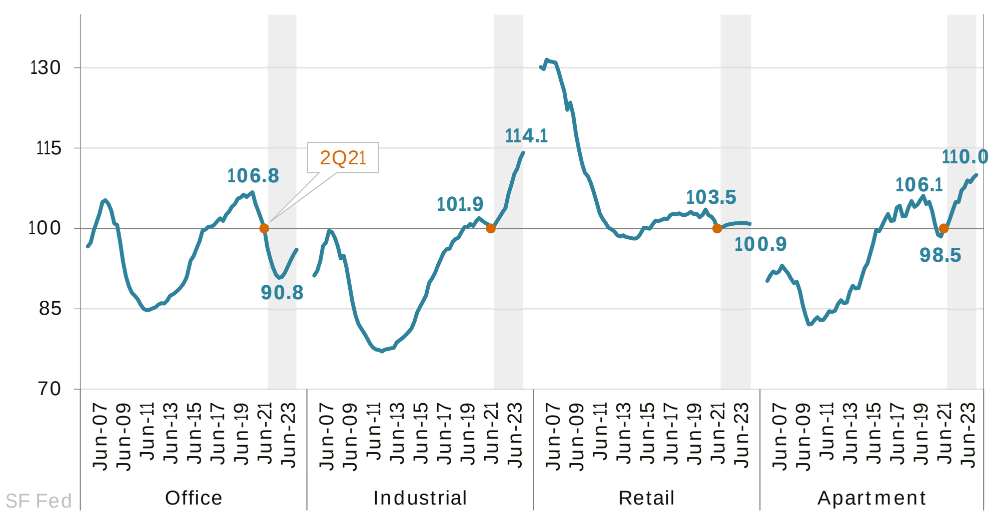


Includes the 16 to 18 largest markets in the District, depending on the sector, weighted by stock; baseline forecasts as of 2Q21; shaded area = forecast. Sources: CBRE-EA, SF Fed calculations.

26 District CRE rents dipped across sectors, and CBRE-EA expects office rents to worsen in the coming quarters.

CRE Real Rent Indices – Twelfth District Markets

(2Q21 = 100; historical from 2Q06 through 2Q21, forecast from 3Q21 to 1Q24)

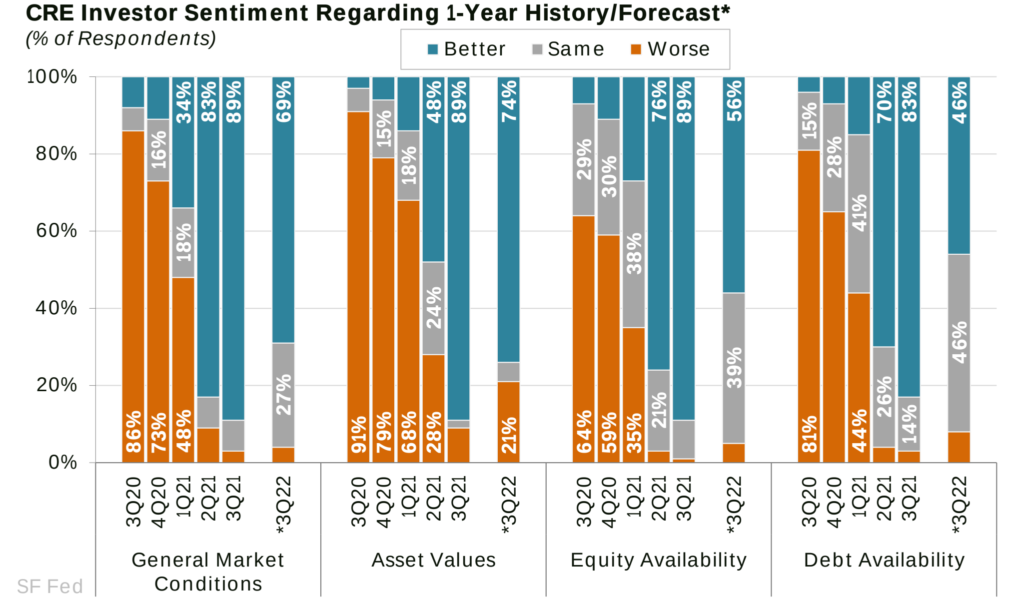


Rent indices cover asking rents for office and industrial sectors and effective rents (asking rents minus concessions offered) for retail and apartment sectors; includes the 16 to 18 largest markets in the District, depending on the sector, weighted by stock; baseline forecasts as of 2Q21; shaded area = forecast. Source: CBRE-EA, SF Fed calculations.

27 CRE investor sentiment improved dramatically in recent quarters and most expect stable-to-improving conditions.

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 3Q21 for the year ahead. Source: Real Estate Roundtable *Sentiment Index* reports.

Section 3
Commercial Bank Performance

Loan Growth

Earnings

Allowances and Credit Quality

Liquidity and Interest Rate Risk

Capital

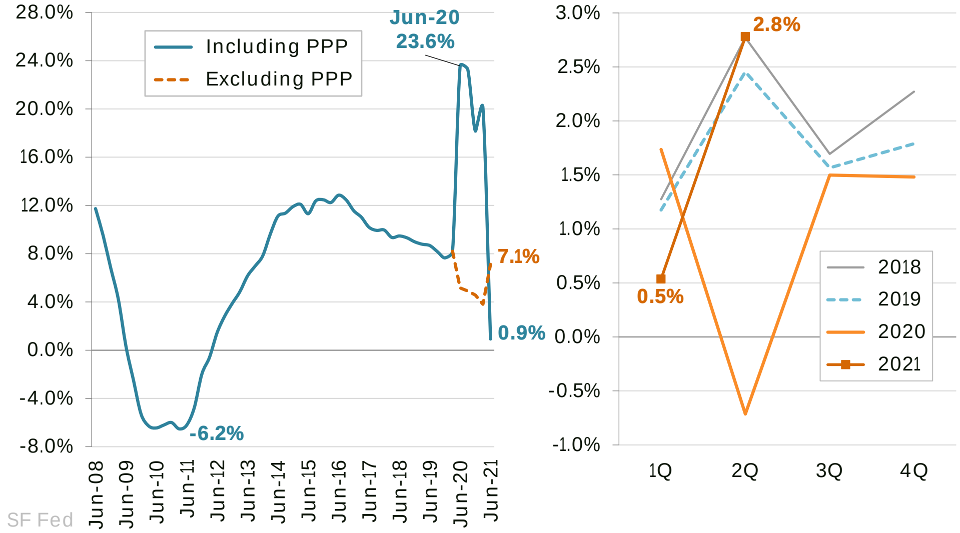
For ongoing supervisory perspectives and guidance on COVID-19, please visit https://www.federalreserve.gov/covid-19.htm

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.

29 PPP forgiveness and 2Q20 base effects tamped annual growth; PPP sunset, seasonal factors helped quarterly trend.

Average Year-over-Year Net Loan & Lease Growth

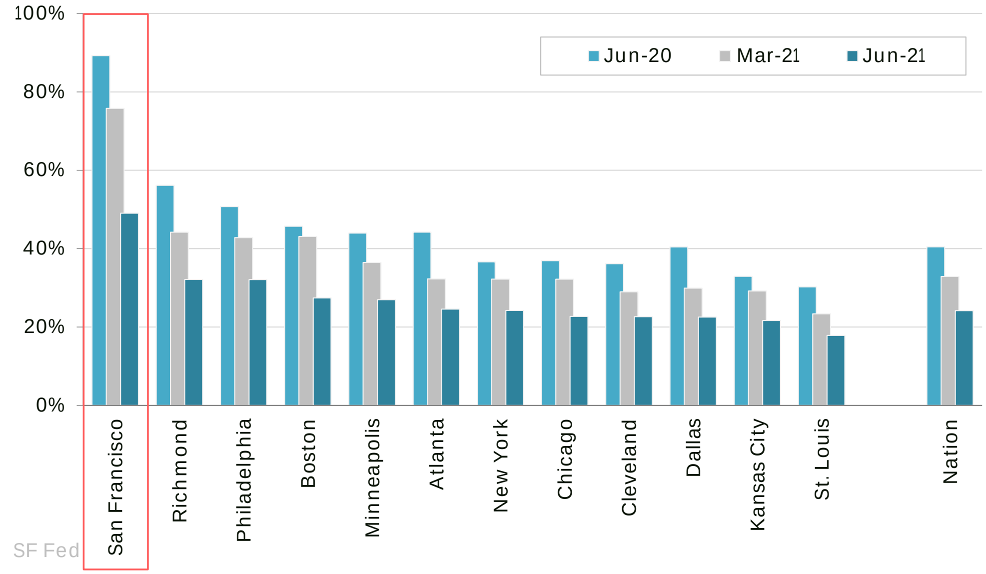
Avg. 1-Quarter Net Loan & Lease Growth, Excluding PPP *(Not Ann'd.)*



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; includes Twelfth District banks only.

30 PPP loan concentrations remained highest in the West but receded as 2021 funding expired and forgiveness picked up.

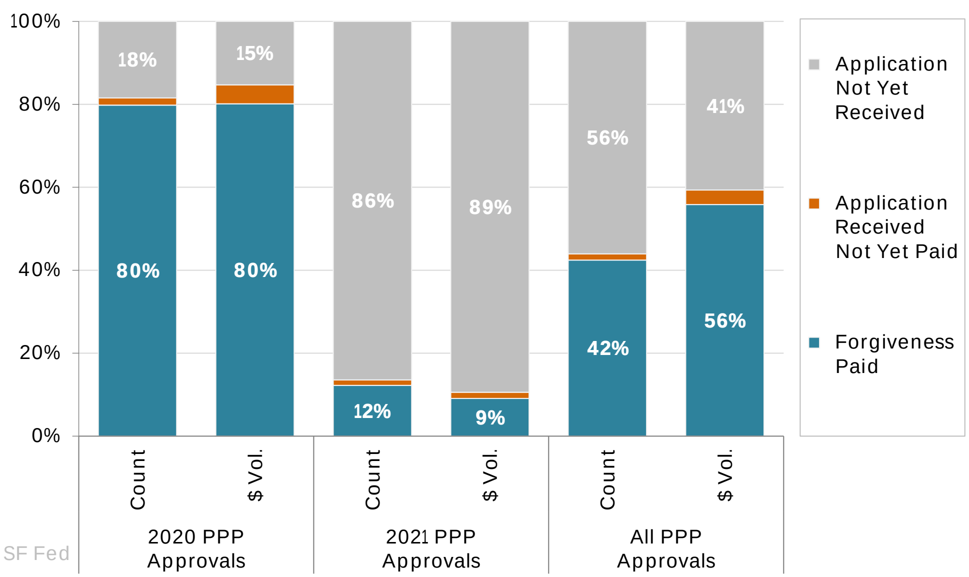
Average PPP Loan Concentration to Tier 1 Capital + ALLL or ACL by District



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).

31 2020 PPP advances were largely forgiven by July 30; 2021 loans were in the early stages of forgiveness.

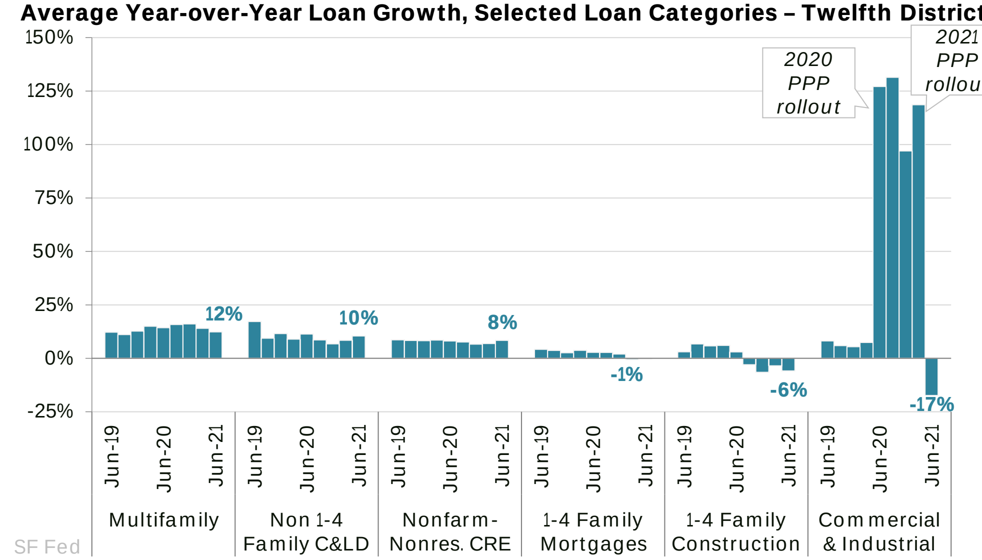
PPP Forgiveness Status — All Lender Types *(July 30, 2021)*



Source: Small Business Administration, *Forgiveness Platform Lender Submission Metrics Report*, 7/30/2021.

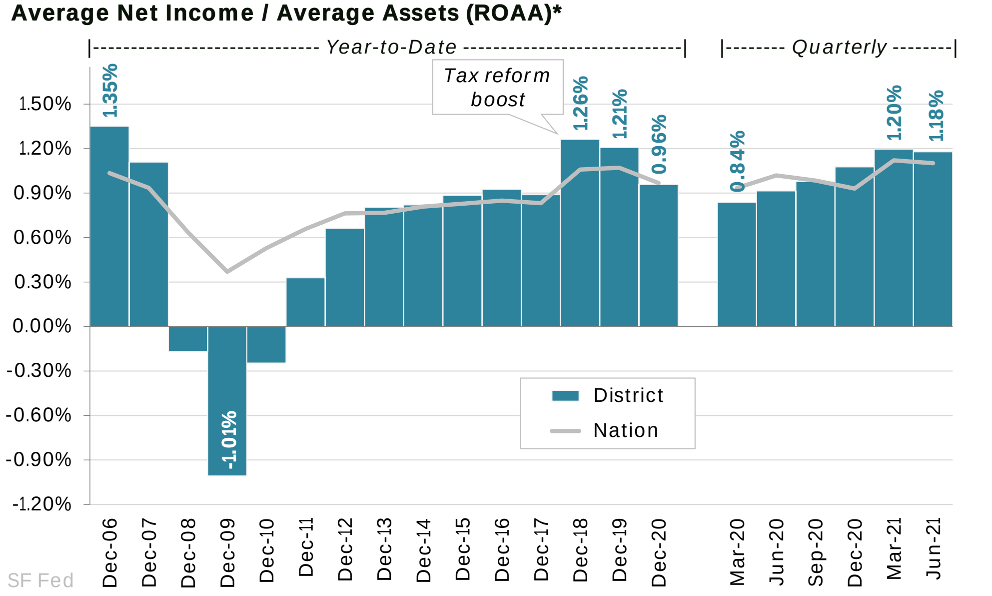
32 PPP shifts and prior-year base effects caused annual C&I growth to diverge from several other major categories.

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



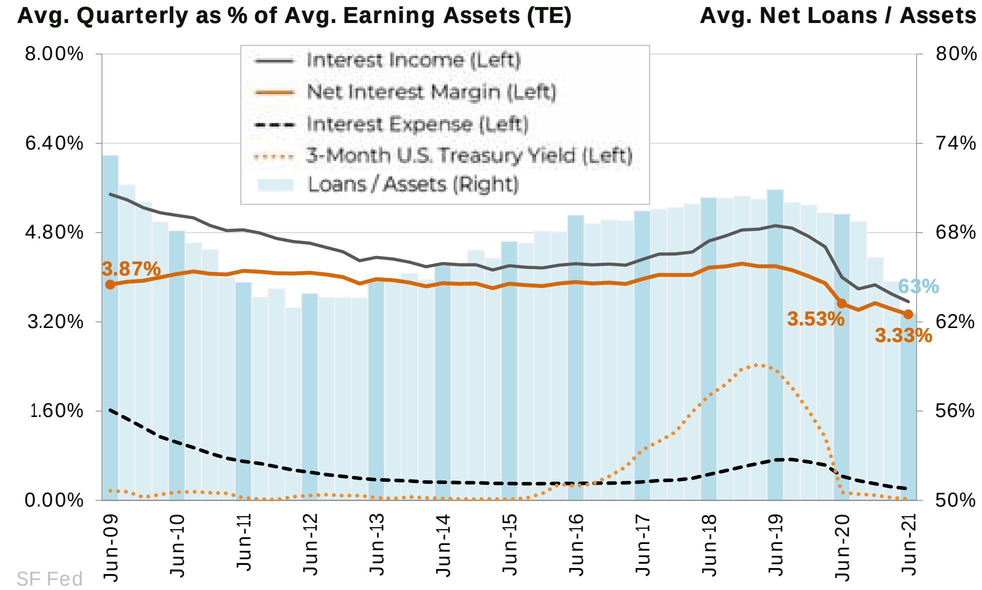
Average = trimmed mean; growth rates are not merger-adjusted; C&I = commercial and industrial; nonfarm-nonresidential commercial real estate includes owner- and nonowner-occupied collateral; C&LD = construction and land development; assumes all PPP is reported as C&I.

33 District banks' average quarterly ROAA edged lower in part because of net interest margin pressures.



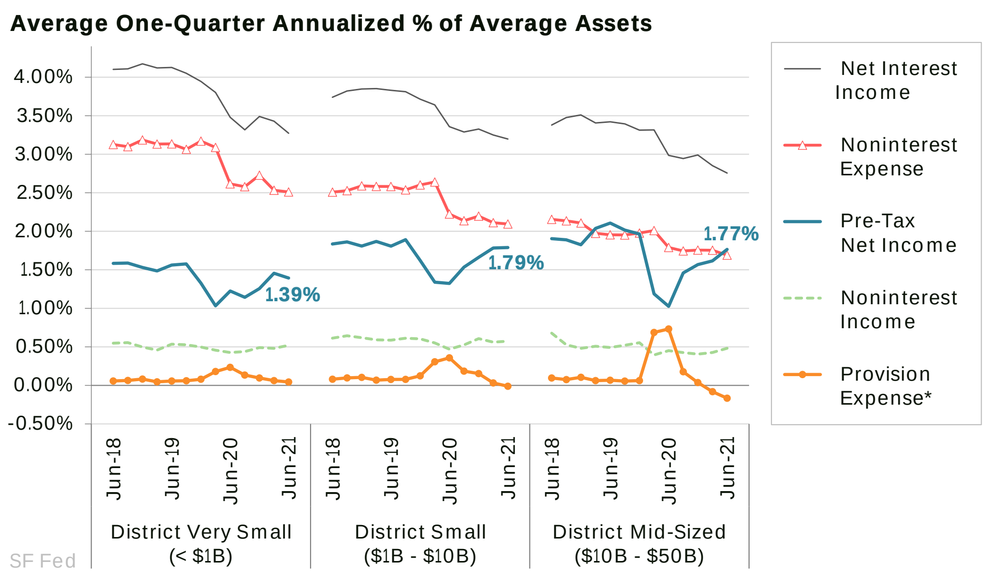
Average = trimmed mean; all figures annualized; ROAA = return on average assets; *theoretical tax expense deducted from Subchapter S filers.

34 Asset yields eased further amid lower rates and shifting asset mix, weighing on most banks' net interest margins.



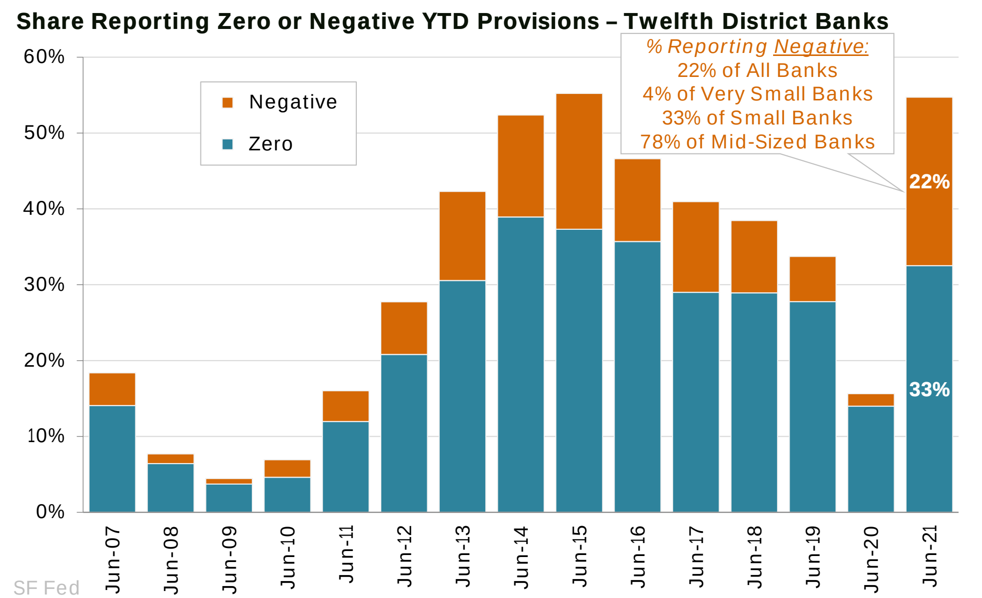
Average = trimmed mean (Twelfth District banks only); one-quarter annualized data; TE = tax equivalent. Source (quarterly average of 3-month U.S. Treasury rate at constant maturity): Federal Reserve via Haver Analytics.

35 Reserve releases offset narrower net interest margins in some cases—mainly at larger CECL-adopting firms



Average = trimmed mean; *many larger publicly-traded firms adopted CECL (current expected credit loss) allowance methodologies beginning in 1Q20; among CECL adopters, provision expense includes provisions for credit losses on all financial assets that fall within the standard.

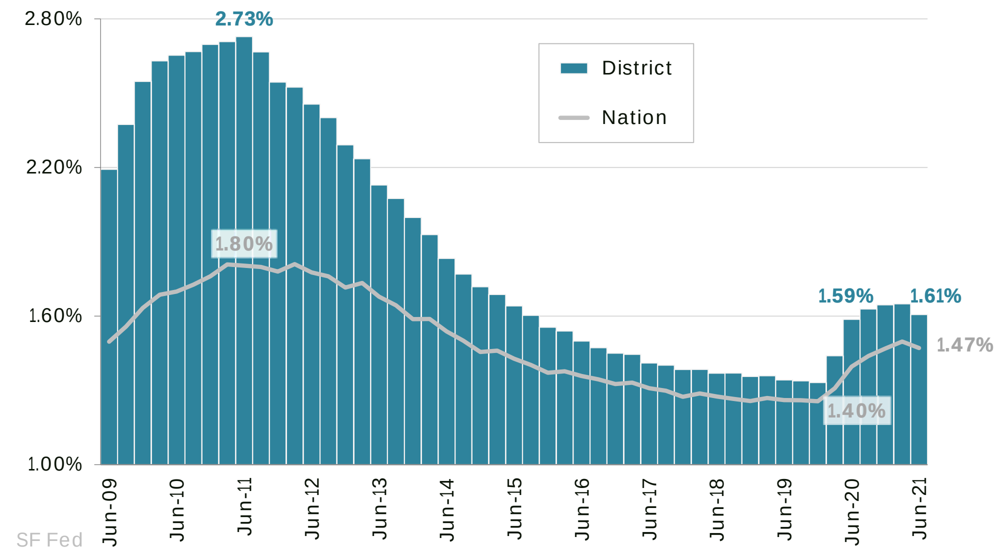
36 Most Twelfth District banks had zero or negative provision expenses YTD; mid-sized were most likely to release reserves.



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

37 Loss allowance coverage of non-PPP loans eased given constrained reserve builds and loan growth.

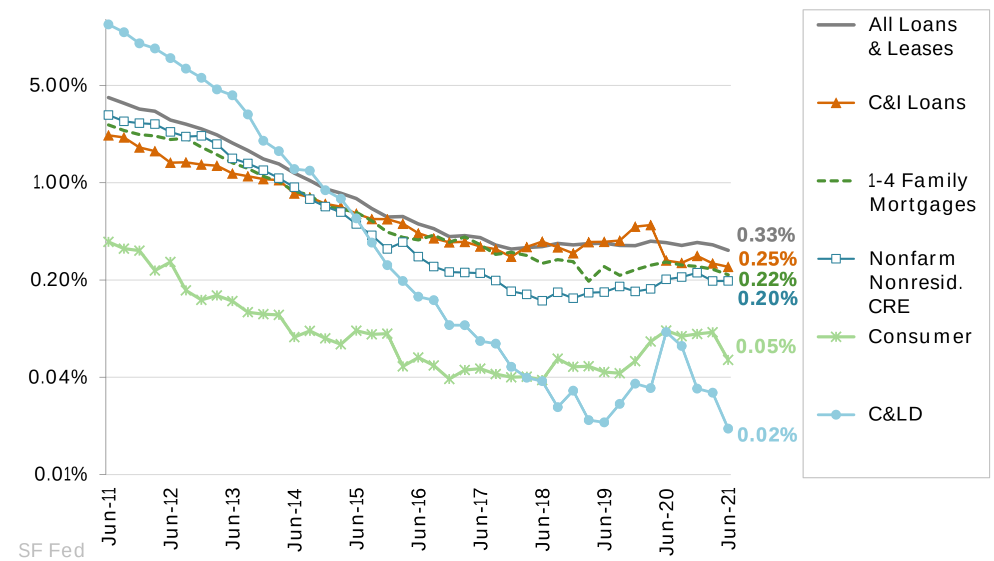
Average ALLL or ACL for Loans & Leases / Non-PPP Loans and Leases not HFS* (%)



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

38 Overall, average noncurrent loan ratios remained low, mitigated by stimulus support and economic reopening.

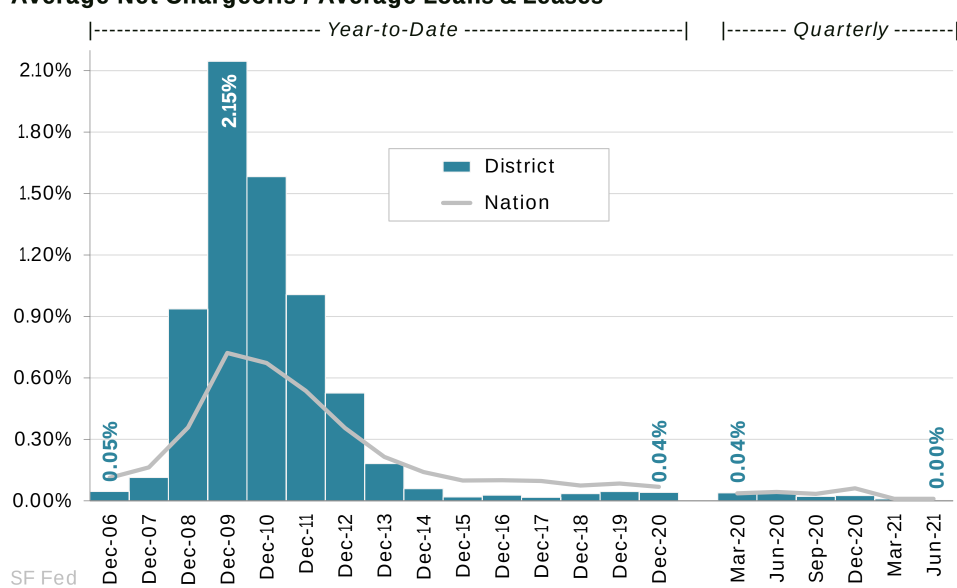
Average Noncurrent Loan Rates – Twelfth District Banks *(Log Scale)*



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

39 Net chargeoffs were negligible through mid-2021, unlike the immediate shadow cast after the 2008 recession.

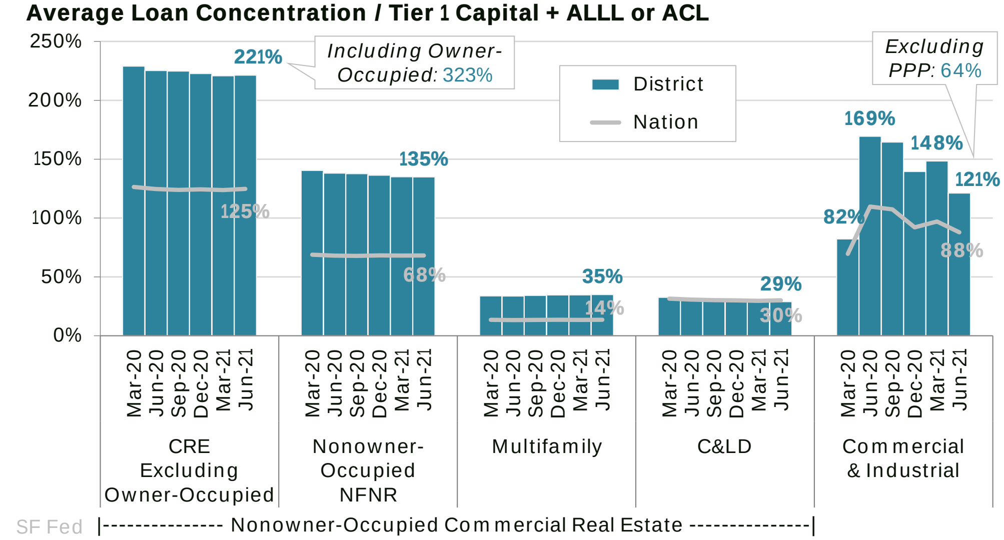
Average Net Chargeoffs / Average Loans & Leases



Average = trimmed mean; all figures annualized.

40 CRE lending continued to dominate; C&I concentrations eased in 2Q21 as PPP forgiveness outpaced new lending.

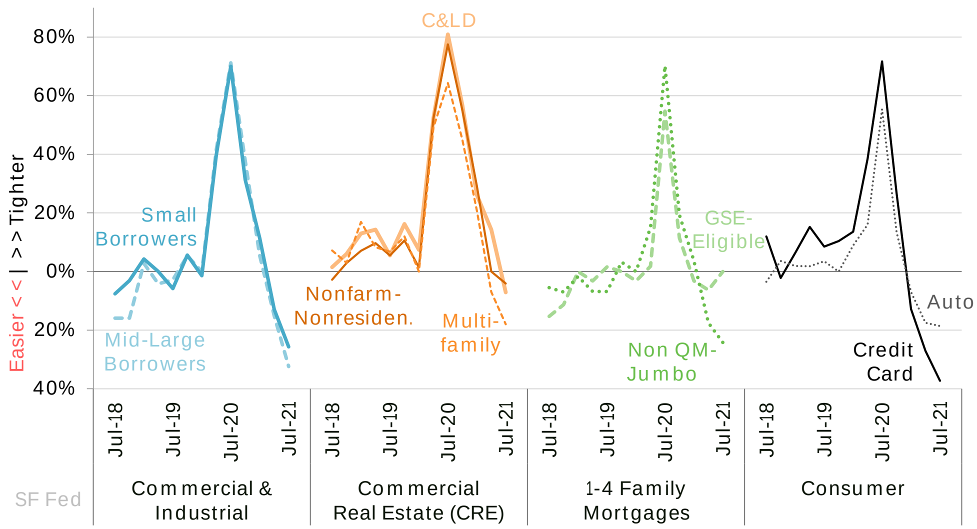
Average Loan Concentration / Tier 1 Capital + ALLL or ACL



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 = sum of 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; assumes all Paycheck Protection Program (PPP) loans are reported as C&I.

41 A growing share of lenders loosened loan standards amid stronger demand, citing the economy and competition.

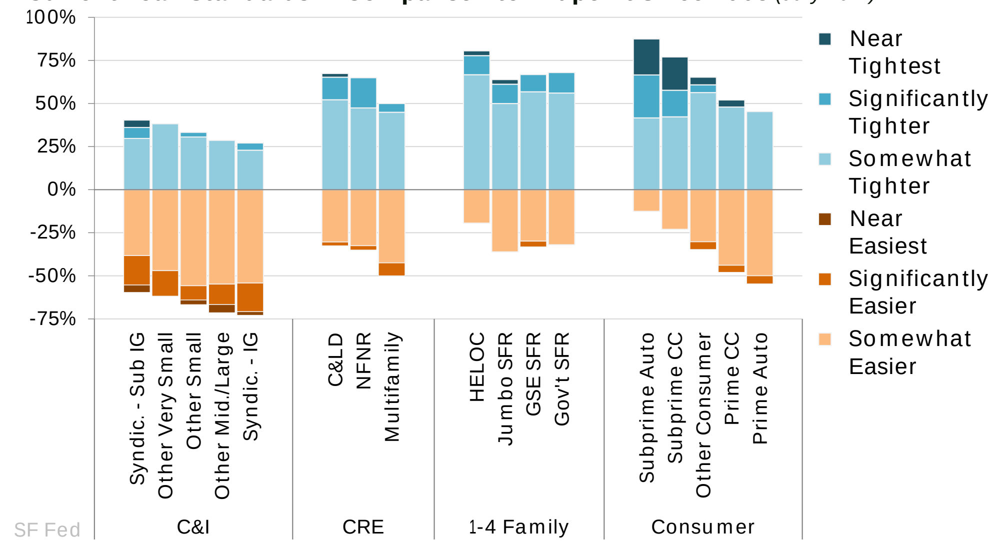
Net % of Lenders Reporting Tighter (Easier) Loan Standards during Quarter
(January, April, July, and October of each year)



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 Versus a long-term average, C&I standards were most likely to be easier on net; subprime consumer and HELOC tighter.

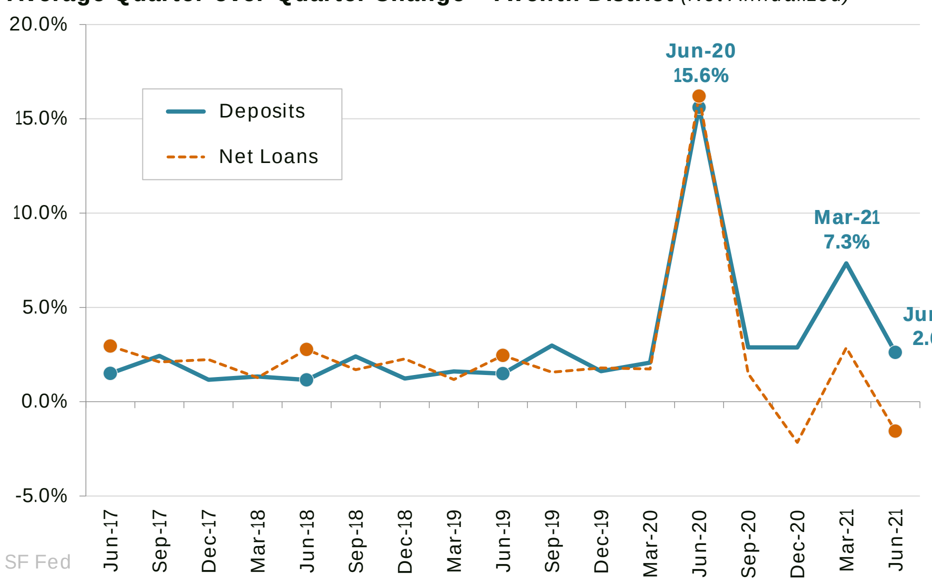
Current Loan Standards in Comparison to Midpoint Since 2005 *(July 2021)*



C&I = commercial and industrial; IG = investment grade; CRE = commercial real estate; C&LD = construction and land development; NFNR = nonfarm nonresidential; HELOC = home equity line of credit; SFR = single-family residential; GSE = government sponsored enterprise; CC = credit card. Source: Federal Reserve Senior Loan Officer Opinion Survey, July 2021.

43 Although moderating, growth in deposits outpaced both its pre-pandemic 2Q rate and net loans.

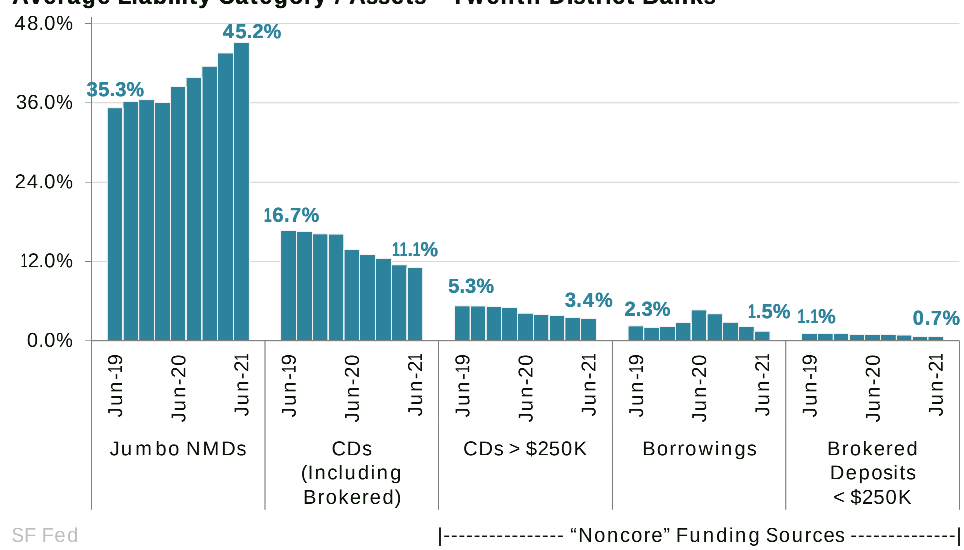
Average Quarter-over-Quarter Change – Twelfth District *(Not Annualized)*



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

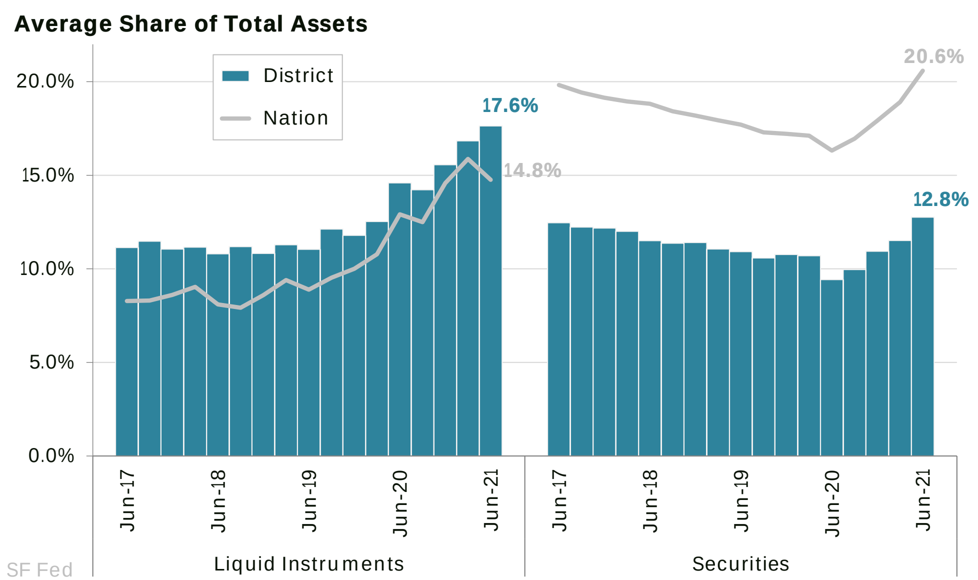
44 Balance sheet funding continued to skew towards jumbo NMDs and away from time deposits and "noncore" sources.

Average Liability Category / Assets – Twelfth District Banks



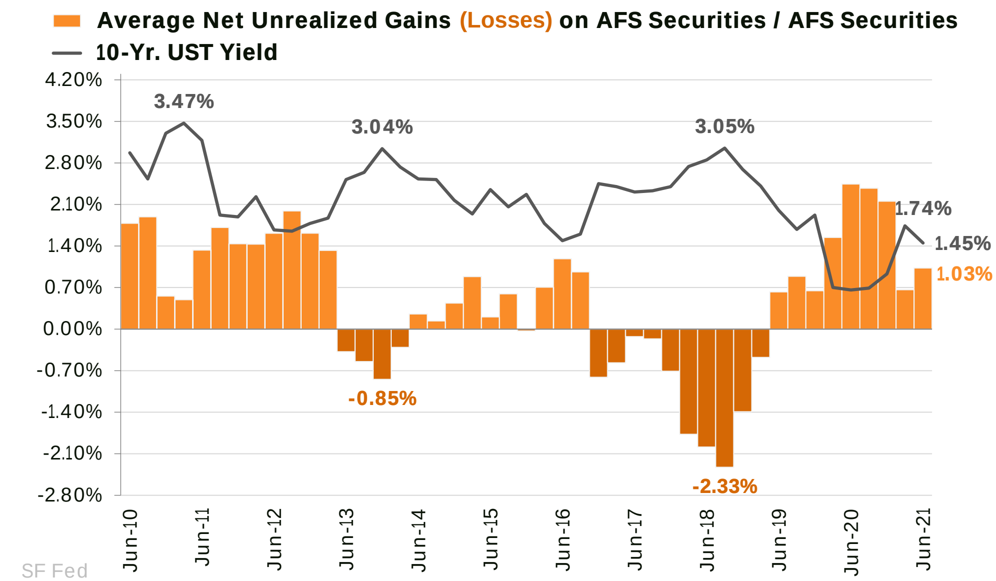
Average = trimmed mean; jumbo = greater than $250K; NMD = nonmaturity deposit; CD = certificate of deposit; borrowings = federal funds purchased, repurchase agreements, and other borrowed money, including PPP liquidity facility (PPPLF) advances; some noncore sources, such as foreign office deposits, were too small on average to itemize.

45 On-balance sheet liquidity at District banks accumulated further as deposit inflows outpaced net new lending.



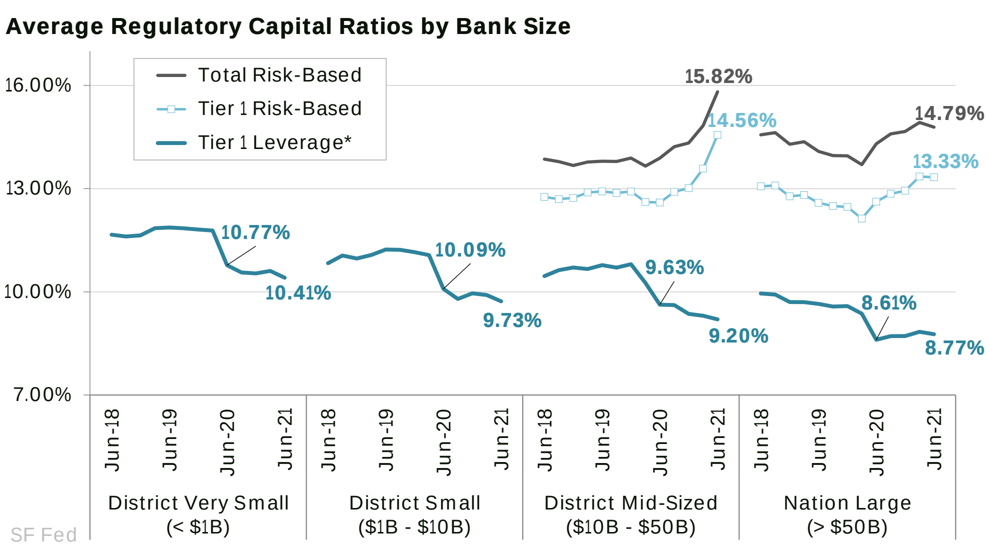
Average = trimmed mean; liquid investments = cash, due from balances, interest bearing balances, and federal funds sold & securities purchased under agreements to resell; securities includes available for sale and held to maturity investments at fair value and amortized cost, respectively.

46 Long-term interest rates retreated slightly in 2Q21, lifting end-of-period investment portfolio valuations.



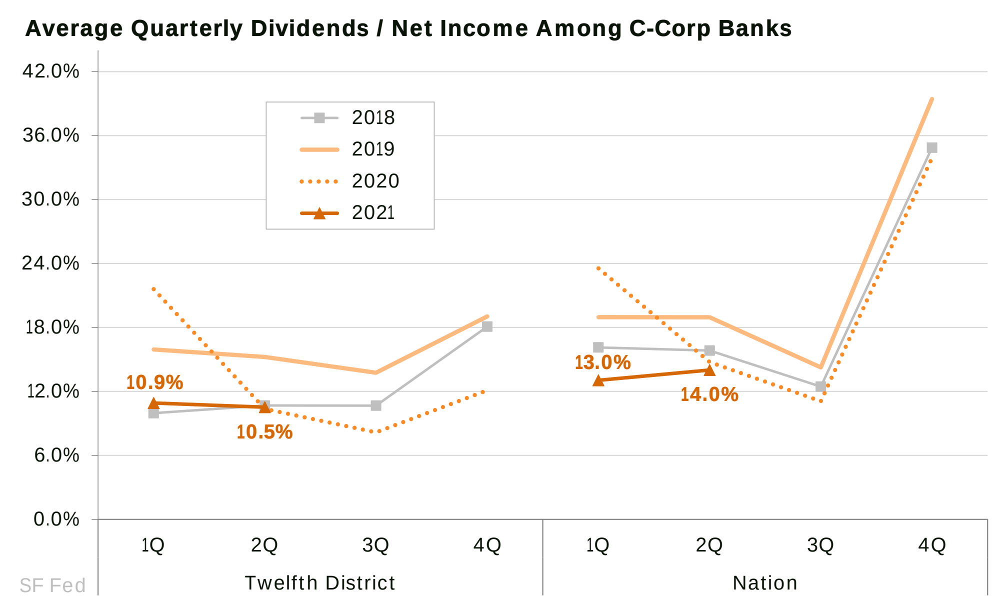
Average = trimmed mean (Twelfth District banks only); AFS = available-for-sale; changes in valuation reported net of deferred tax effects; UST = end of period U.S. Treasury yield at a constant maturity (from Federal Reserve via Haver Analytics); AFS securities excludes equities beginning with the March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

47 Growth in assets outpaced capital, hurting leverage ratios; low risk weights on liquid assets helped RBC ratios at some.



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.

48 Average District bank dividend payout ratios were roughly comparable to the prior quarter and year-ago periods.



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)	
	Jun-20	*Jun-21*	*Jun-20*	*Jun-21*	*Jun-20*	*Jun-21*
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	13 (0)	13 (0)	-	-	-	-
CA	131 (2)	130 (2)	3 (0)	3 (0)	10 (0)	10 (0)
GU	2 (0)	2 (0)	-	-	1 (0)	1 (0)
HI	5 (0)	5 (0)	1 (0)	1 (0)	2 (0)	2 (0)
ID	10 (0)	10 (0)	-	-	1 (0)	1 (0)
NV	10 (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)	32 (0)	-	-	9 (0)	8 (0)
12L	245 (3)	246 (4)	22 (0)	24 (2)	29 (1)	28 (1)
U.S.	4,404 (29)	4,307 (35)	24 (0)	26 (2)	645 (1)	616 (1)

Based on preliminary 2Q21 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