

Economic and Banking Performance
in the Twelfth Federal Reserve District

First Glance 12L

The Recovery Continued but a New Year Brings
New Uncertainties

4Q21

March 1, 2022

• Federal Reserve Bank
of San Francisco

Key Takeaways

First Glance 12L provides a quarterly look at economic and banking conditions within the Twelfth District.

Economy: The District labor market continued to recover in 4Q21 as unemployment fell substantially, although preliminary data suggested monthly job growth slowed in December. Housing markets remained undersupplied amid strong sales and low inventory, although price appreciation cooled slightly Districtwide. Meanwhile, housing affordability declined sharply, and housing insecurity remained elevated in some District states as foreclosure protections expired. Nationally, commercial real estate (CRE) prices grew rapidly; even downtown office prices reached pre-pandemic levels. Trends in CRE fundamentals were mixed, however, with San Francisco Bay Area markets underperforming notably. Looking ahead, geopolitical tensions may dent consumer confidence and business investment.

Banking Conditions: Growth in CRE mortgages strengthened in 4Q21, outpacing the impact of PPP forgiveness payments on overall loan growth. Although improved, net new lending often trailed increases in deposits, pushing on-balance sheet liquidity higher. Bank net interest margins struggled amid low loan-to-asset ratios, but full-year ROAAs outpaced 2020, boosted by diluted overhead ratios, lower provision expense burdens, and yield-enhancing PPP fees. These tailwinds waned in 4Q21, however, causing the average quarterly ROAA to dip slightly. In 2022, bank earnings will benefit less from PPP and provision expense trends. But net interest margins may widen should interest rates increase, all else equal. Credit quality metrics may face challenges amid fading stimulus and geopolitical developments.

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This report is based upon preliminary data from commercial bank Condition & Income (Call) Reports as well as other public sources. Data have 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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Issues on Our Radar | Selected issues we are watching most closely

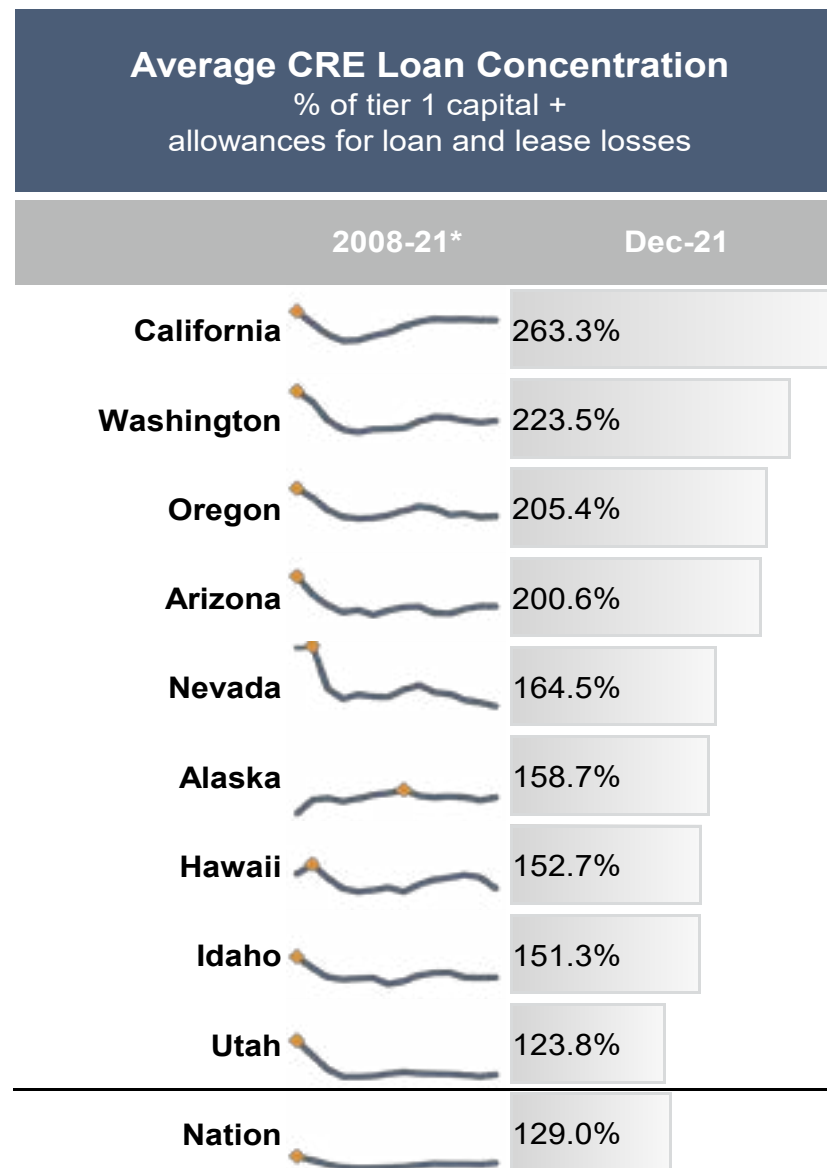
Financial Risks

CRE concentrations

- + Nonowner-occupied CRE loan concentrations entered the COVID-19 recession below pre-Great Recession peaks, mainly because of lower construction lending volumes.
- + Still, average concentration ratios held by banks based in most District states remained above the U.S. average (see table).
- + Net operating income pressures on CRE – particularly among lodging, retail, and office properties – heighten concern.
- + Low interest rates and fiscal stimulus have provided support to the CRE loan segment, but a reversal of those conditions, or another COVID-19 surge, could alter performance.

C&I concentrations

- + As of 4Q21, non-PPP C&I balances averaged 64% of tier 1 capital plus loan and lease loss allowances in the District, comparable to the national average. Lingering or renewed stress on business borrowers – including evolving supply chain disruptions and labor shortages – may amplify risks posed by C&I loan exposures.
- + According to the [Census Bureau's Small Business Pulse Survey](#) (Jan. 10-16, 2022), 23% of surveyed small businesses nationally reported a large negative impact from the pandemic, with a higher proportion of firms in Alaska, Nevada, California, Washington, and Hawaii noting a similar degree of impact. Businesses in the accommodation and food services, educational services, arts/entertainment/recreation, and "other services" (e.g., salons, spas, and other personal services) sectors were most likely to report large negative effects.
- + An accommodative monetary policy and robust fiscal spending helped limit loan repayment issues to date, but credit problems could emerge once relief measures fade or if pandemic conditions worsen.



Excludes owner-occupied CRE; *Dec. 31 each year (orange dot = max).
Source: Bank Call Reports/Uniform Bank Performance Reports.

Issues on Our Radar | Selected issues we are watching most closely

Financial Risks

Surge deposits

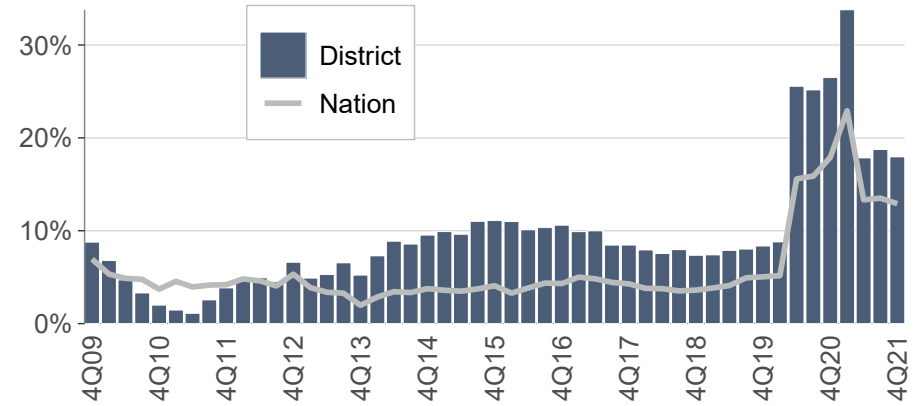
- + Deposits, in particular low/noninterest-bearing NMDs, grew strongly during 2020 and into 2021 (see chart). Quarterly growth eased as stimulus programs abated in 2021 but growth remained elevated.
- + A portion of deposit growth was generated via PPP-related lending. Also contributing were other stimulus-related funds deposited at banks (e.g., economic impact payments, unemployment insurance benefits, etc.), and caution on the part of customers.
- + Given limited net loan growth in 2021 – tempered by weakened economic activity and PPP forgiveness – banks invested newfound funding in low-yielding, liquid instruments, pressuring asset yields.
- + The stability of recent deposit inflows is uncertain and deposits may become more price sensitive in a rising interest rate environment.

Drought-related impacts

- + According to the [U.S. Drought Monitor](#), 55% of the West’s land area remained in drought through February 1. Heavy winter rains reduced the intensity of drought in many parts (see chart).
- + Dry conditions contributed to the more than 7 million acres scorched by wildfires [nationally](#) in 2021, with the bulk of acreage located within the District. The widespread potential for fire creates ongoing financial and operational risks for banks, their employees, and their customers.
- + Early 2022 precipitation in the West was below average outside of the upper Pacific Northwest. Current [U.S. forecasts](#) suggest drought will persist throughout much of the region for at least the near term.
- + Drought poses particular challenges for borrowers reliant on water quality and accessibility, and fire activity has affected the cost and/or availability of hazard insurance for collateral in some areas.

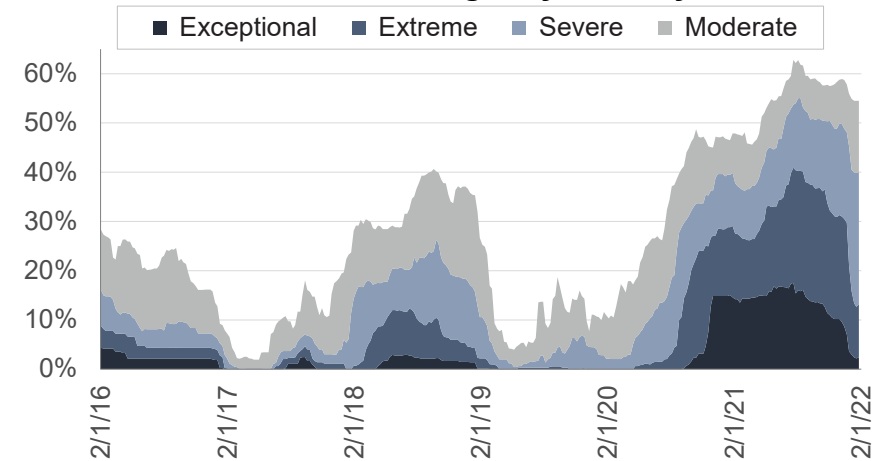
Avg. Total Deposit Growth

Year-over-year % change



Source: Bank Call Reports/Uniform Bank Performance Reports.

Percent of Land Area in Drought by Severity - West



West = Twelfth District plus MT and NM. Source: Univ. of Nebraska-Lincoln, U.S. Dept. of Ag., Nat. Oceanic and Atmospheric Admin., 2/1/2022.

Issues on Our Radar | Selected issues we are watching most closely

Non-financial Risks

Cyberthreats

- + Cyber remains a top risk given an ever-evolving multitude of threats, particularly given recent geopolitical developments. Ransomware and supply chain compromises remained the primary cyber issues facing supervised institutions, their customers, and their suppliers. Hybrid work environments have also offered opportunities for attacks against virtual private networks and firewall devices. Common vectors also extend to vulnerabilities in widely distributed software.
- + Cyberattacks from nation-state actors have become more frequent, more damaging, and wider spread. The increase of digital financial services and mobile banking has exponentially expanded the attack surface that criminals can exploit. The Cybersecurity and Infrastructure Security Agency (CISA), the Federal Bureau of Investigation (FBI), and the National Security Agency (NSA) released joint Cybersecurity Advisories on [January 11, 2022](#) and [February 11, 2022](#), to address Russian state-sponsored actors' cyber operations; commonly observed tactics, techniques, and procedures; detection actions; incident response guidance; mitigations; and efforts to target Cleared Defense Contractor Networks to obtain sensitive defense information and technology. CISA also maintains an [overview page](#) on Russia cyberthreats and advisories.
- + The federal bank regulatory agencies [issued a rule](#) in November 2021 requiring banking firms to notify their primary federal regulator of any significant computer incident within 36 hours. The rule also created new requirements for bank service providers. Although effective April 1, 2022, enforcement begins in May.

Bank Secrecy Act/Anti-Money Laundering compliance and fraud

- + BSA/AML monitoring remains heightened because of the District's role in the global economy, the array of activities being conducted by institutions, and the evolving nature of threats and regulatory guidance.
- + FinCEN took the next step in implementing provisions of the Corporate Transparency Act by issuing a [Notice of Proposed Rulemaking](#) (NPRM) in December around beneficial ownership reporting requirements. The NPRM outlined whose, what, and when beneficial ownership information is required to be filed with FinCEN. It also identified where information will be centralized to help combat corruption, money laundering, terrorist financing, tax fraud, and other illicit activity conducted through shell companies. The public comment period, which ended February 7, 2022, garnered over 230 written comments.
- + The Office of Foreign Assets Control (OFAC) issued [several actions recently](#) to operationalize U.S. sanctions against Russia. The actions sever Russian state-owned banks Sberbank and VTB Bank as well as numerous subsidiaries globally from access to the U.S. financial system. The actions also affect dozens of other individuals and financial, energy, telecommunications, and transportation firms.



Issues on Our Radar | Selected issues we are watching most closely

Non-financial Risks

Consumer compliance challenges amid the COVID-19 response

- + Various pandemic response programs that provided relief to consumers and small businesses continue to sunset. Institutions are expected to adjust their programs to adapt to changing compliance responsibilities, including the Consumer Financial Protection Bureau's (CFPB) temporary amendments to federal mortgage servicing regulations, to help protect mortgage borrowers as they exit forbearances.
- + Since the COVID-19 Emergency may be affecting certain segments of the population and industries disproportionately, banks are 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.
- + For additional information and resources, refer to the [Federal Reserve's COVID-19 Resource Page](#).

Increasing enterprise complexity and staffing challenges

- + Networks of multiple complex third/fourth party relationships, growing use of cloud services, the widening adoption of cryptoasset trading, and acquisition of fee-generating non-bank businesses in response to earnings pressures are drivers for heightened concern.
- + The risk appetite for outsourcing and engaging with non-bank partners may be ahead of the control environment needed to maintain sound practices.
- + Difficulties attracting and retaining talent may amplify risks. Staffing was expected to be a top challenge in 2022 among 48% of community bank chief executive officers surveyed by [Independent Banker](#), up from only 21% of respondents in 2021. In addition to placing upward pressure on compensation costs, talent gaps may pose operational risks, complicate digital transformation efforts, and/or compel additional outsourcing.

LIBOR transition

- + Depositories were required to cease new LIBOR-based contracts by year-end 2021. Instruments with tenors beyond June 2023 may require renegotiation, fallback language, and/or an alternative reference rate.
- + The transition requires comprehensive and proactive planning, financial exposure measurement and risk assessment, operational and legal preparedness, communication with counterparties, and oversight.
- + A list of related guidance and speeches is available on the [Federal Reserve's LIBOR Transition website](#).

For more information: supervisory and financial stability issues related to these and other topics are explored in the Federal Reserve's semi-annual reports on [Supervision and Regulation](#) and [Financial Stability](#).



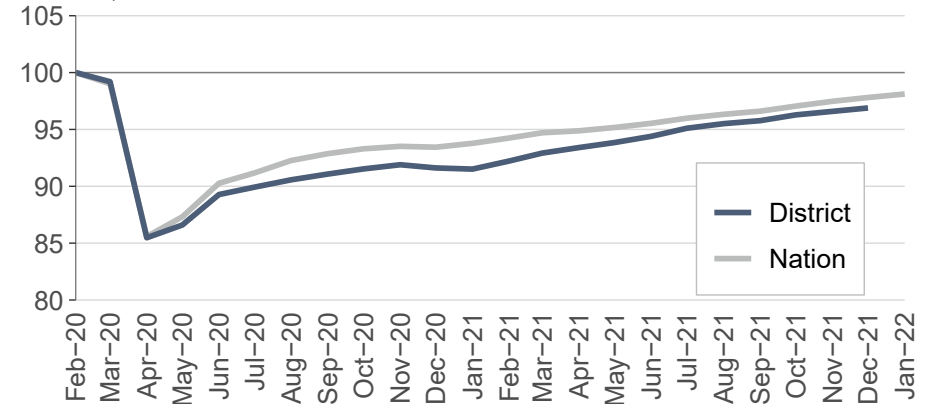
Twelfth District Economy | Employment

The labor market continued to recover through year end 2021, but monthly job growth cooled slightly.

- + By Dec. 2021, Districtwide payrolls were 3.1% below their pre-pandemic level, compared to 2.2% below for the nation (see chart).
- + Preliminary data show job growth in the District slowed in late-2021, to 3.8% (annualized) in December, reflecting in part a tight labor market. However, the annual re-benchmarking of payroll data, which had been completed for national but not state-level data as of this writing, may lead to upward revisions of 2021 figures.
- + Transportation/utilities hiring surged in 4Q21, which may help alleviate domestic supply-chain bottlenecks, although [Transpacific shipping congestion](#) worsened through year end 2021. Leisure/hospitality hiring slowed but remained robust.
- + At the state level, Alaska, Nevada, and California saw the fastest job growth in the District during 4Q21. Tourism-dependent Hawaii and Nevada remained furthest below their pre-pandemic job levels.

Nonfarm Jobs

Indexed, Feb-20 = 100

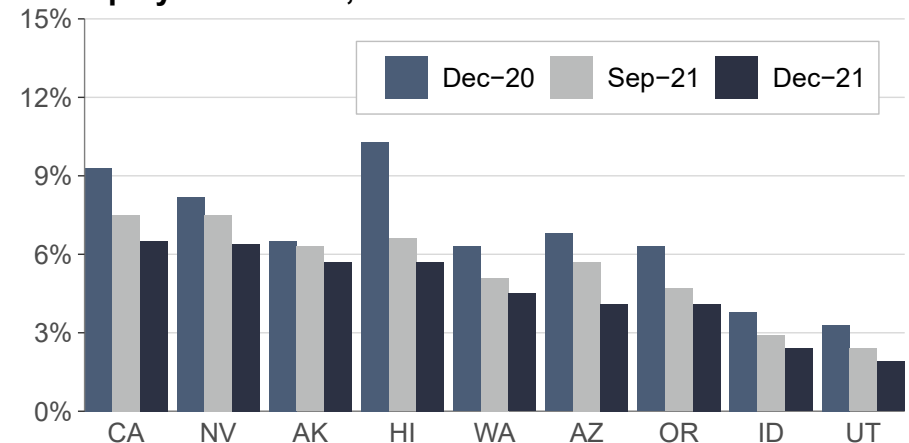


District-level data through Dec. 2021, nation-level data through Jan. 2022.
Source: Bureau of Labor Statistics.

Unemployment rates continued to decline across the District, and labor-force participation edged up.

- + The Districtwide unemployment rate declined significantly in 4Q21, to 5.5% in Dec. 2021, from 6.4% in September. Labor-force participation in the District also edged up to 61.8% in December, or 1.2 percentage points below the Feb. 2020 rate. The national unemployment rate stabilized at 3.9% and 4.0% in Dec. 2021 and Jan. 2022, respectively.
- + State-level unemployment rates in the District also continued to decline (see chart). California and Nevada maintained the two highest unemployment rates in the nation, however, at 6.5% and 6.4% in December, respectively. In contrast, Utah and Idaho had the second- and fourth-lowest unemployment rates in the nation (1.9% and 2.4%, respectively) and along with Arizona were the only District states with lower jobless rates than before the pandemic.
- + Oregon remained the only District state with a higher labor-force participation rate than before the pandemic.

Unemployment Rates, Twelfth District States

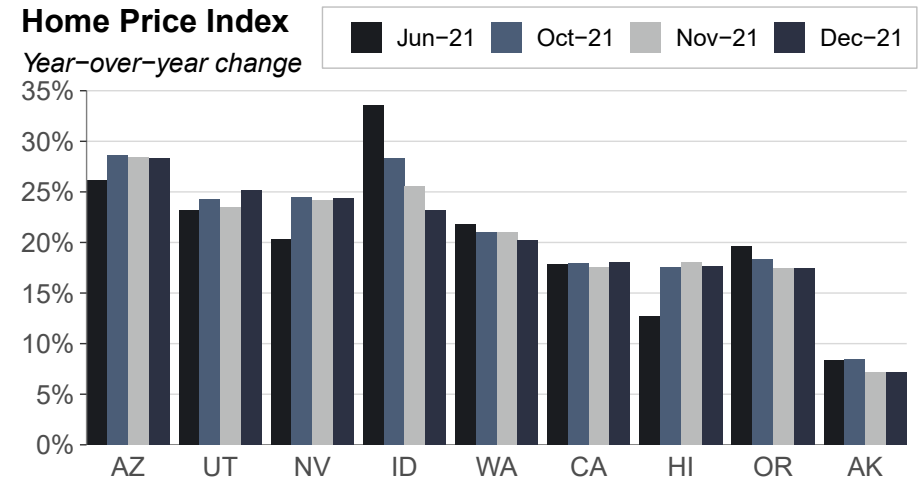


Source: Bureau of Labor Statistics.

Twelfth District Economy | Housing

Home-price appreciation eased in Q4 but remained strong; housing affordability declined sharply.

- + Single-family home-price growth in the District cooled during the second half of 2021, although it remained robust compared to pre-pandemic trends. As of December, prices grew by 20.0% year-over-year on average in the District, although monthly annualized growth eased to 13.4%, from a high of 36.1% in March 2021.
- + Price growth was high but stable in most District states in 4Q21 (see chart). Growth slowed notably in Idaho, however, which had posted the fastest appreciation rate in the nation for much of the pandemic but fell behind five other states (three in the District) by December.
- + Rapid home-price growth and higher mortgage rates led to a sharp fall in housing affordability across the District (per the Wells Fargo/NAHB Housing Opportunity Index), despite rising median family incomes. By 4Q21, all District states except Alaska and Hawaii posted their lowest share of affordable home sales since at least 2009.



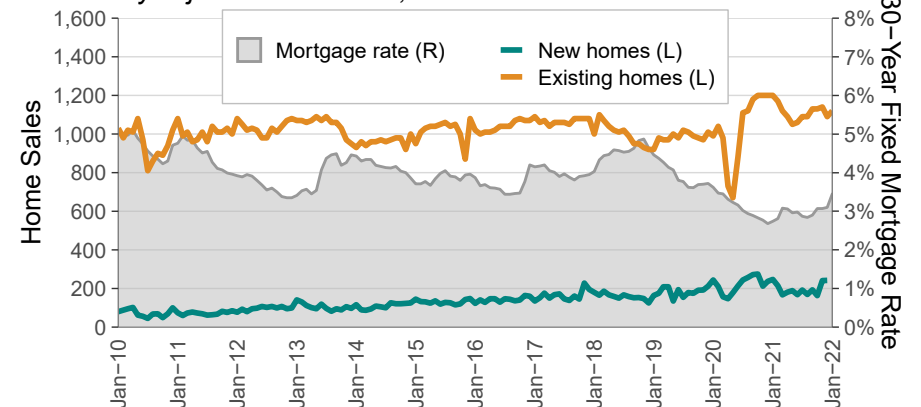
Index covers attached and detached single-family homes, including distressed sales. Source: CoreLogic.

Home sales remained robust through January 2022, while for-sale inventory plunged across the District.

- + Existing home sales in the West region grew in the second half of 2021 and, following a dip in December, jumped in January 2022 despite higher mortgage rates. New home sales were stable for much of 2021 but increased notably in November (see chart).
- + While housing inventory pressure eased somewhat in mid-2021, it tightened sharply again in 4Q21. By year end, Districtwide for-sale inventory was just 0.80 months' worth of sales, compared with 0.95 months nationwide (per Redfin).
- + Housing supply was tight in all District states, with for-sale inventory above one month of sales only in Hawaii and (barely) Nevada in December 2021.
- + Continued increases in mortgage rates could dampen home sales in the coming months.

Single-Family Home Sales, West Region

Seasonally adjusted annual rate, thousands



West = District plus CO, MT, NM, and WY. Sources: National Association of Realtors® (© 2021, reprinted with permission), Census Bureau, Freddie Mac.

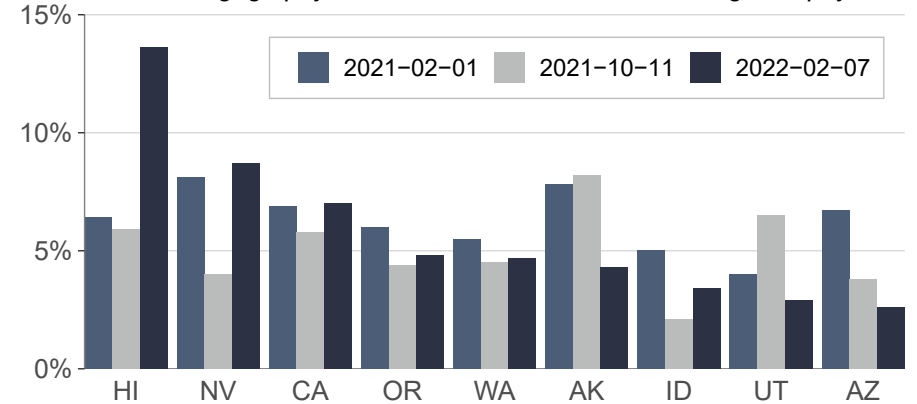
Twelfth District Economy | Housing

Housing insecurity remained elevated in some District states in early 2022.

- + Per the [Census Household Pulse Survey](#), the share of households that had missed mortgage/rent payments and lacked confidence about future payments was elevated in states with the most incomplete job recovery, most notably Hawaii and Nevada (see chart).
- + Homeowners may face higher foreclosure risk due to the year end 2021 expiration of a [Consumer Financial Protection Bureau \(CFPB\)](#) foreclosure moratorium on mortgage servicers. Nationally, foreclosure activity [jumped in January 2022](#). A potential increase in distressed sales may affect mortgage lenders adversely.
- + Housing-insecure renters may benefit from the federal Emergency Rental Assistance Program, which allocated \$6.8 billion to state governments in the District. However, District states had only approved or paid about 50% of these funds to households through February 8, 2022 per the [National Low Income Housing Coalition](#).

Housing Insecurity Rates, Twelfth District States

Missed rent/mortgage payment and low confidence in making next payment



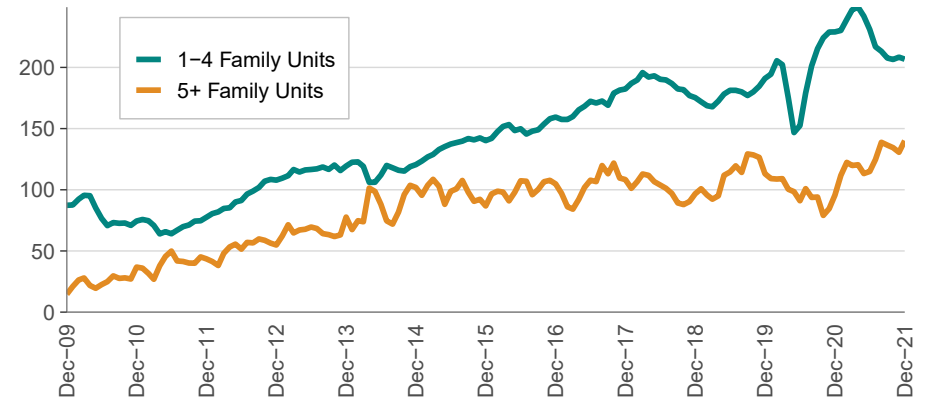
Surveys cover 2-week period ending on dates indicated. Source: Census Bureau Household Pulse Survey.

Multifamily housing permits continued to grow robustly, while 1-to-4 family permits stabilized.

- + By end-2021, housing permits issued across the District were down about 6% from their April 2021 peak, but remained above pre-pandemic levels seen since mid-2006.
- + Permitting strength in 4Q21 was driven by the 5+ family segment, which reached its highest level since at least 2005. One-to-four family permits remained 17% below the April 2021 peak, but stabilized at a level not matched since before the Great Recession (see chart).
- + At the state level, Washington, Arizona, and Utah contributed the most to 5+ family permit growth; Hawaii and California detracted the most.
- + Homebuilder confidence in the West increased steadily for much of 2021 and early-2022, and by February 2022 matched the peak of the 2004-05 housing boom. Nevertheless, increasing materials prices and labor supply shortages remained top homebuilder concerns.

Housing Permits, Twelfth District

Seasonally adjusted annual rate, 3-month avg., thousands



Source: Census Bureau via Haver Analytics.

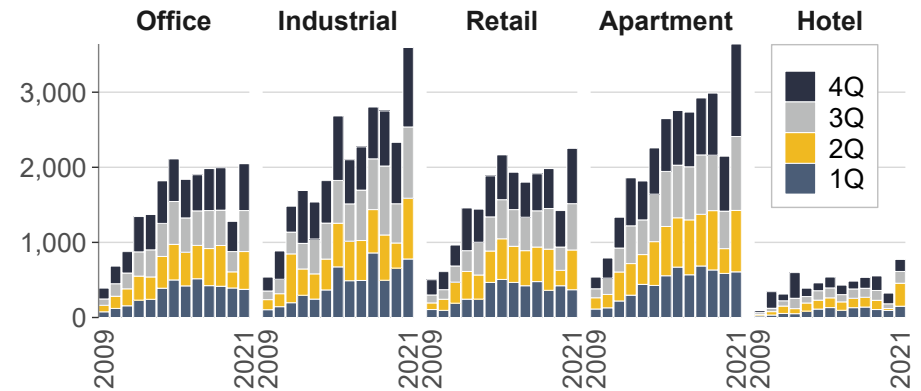
Twelfth District Economy | Commercial Real Estate

4Q21 transactions set single-quarter records, as did full-year 2021 transactions, except in the office property sector.

- + CRE transactions in the West set single-quarter records in 4Q21 across all four major sectors – even office (data since 2001). Hotel transactions eased since the 2Q21 surge, but full-year 2021 transactions still set a record going back to at least 2005 (see chart).
- + For the full year, 2021 clocked the highest number of transactions on record for all sectors except office. Industrial and apartment transactions, in particular, were 28% and 22% higher, respectively, in 2021 compared with their next-highest year on record.
- + Even office transactions surpassed levels seen in the years just prior to the pandemic; full-year office transactions were higher only in 2015 and 2007. However, this performance was largely due to suburban office transactions. Downtown office property trades in 2021 (full-year) were 40% below their 2019 level.

CRE Transactions, West Region

Number of properties sold



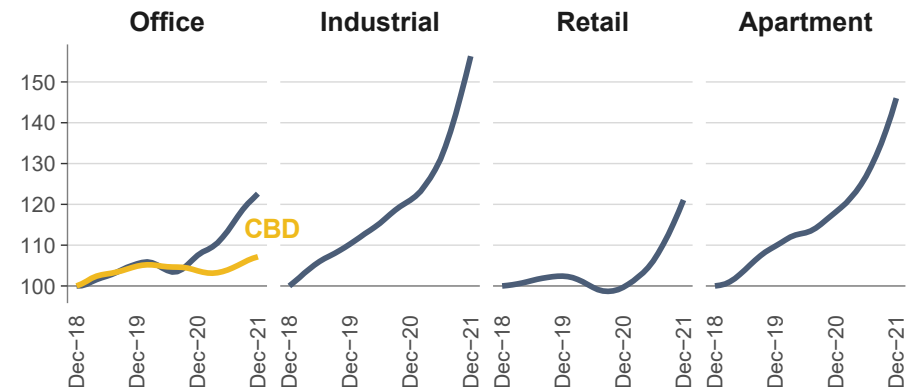
Includes transactions of properties valued \$2.5 million and above; West = District plus CO, MT, NM, and WY. Source: Real Capital Analytics.

CRE price growth set records in all sectors except office, but downtown office prices exceeded pre-pandemic levels.

- + Nationwide, CRE price growth continued to accelerate in 4Q21 across sectors (see chart). December year-over-year appreciation rates in the industrial (29.2%), apartment (23.6%), and retail (21.5%) sectors set records going back to 2001.
- + The pace of office price growth was high relative to its pre-pandemic trend, but unlike other sectors, did not accelerate and remained below rates seen in 2006. Nationally, downtown (CBD) office prices finally regained their pre-pandemic level in September 2021, but a large majority of market participants still expected a significant decline in long-term office demand (per [RCLCO's Year-End 2021 Survey](#)).
- + According to Real Capital Analytics data, the spread of cap rates in the “West” to the 10-year U.S. Treasury rate continued to decline across sectors, suggesting lower perceptions of risk by investors.

Commercial Property Price Indices, Nation

Dec-18 = 100



Based upon repeat-sales transactions; CBD = central business district. Source: Real Capital Analytics.

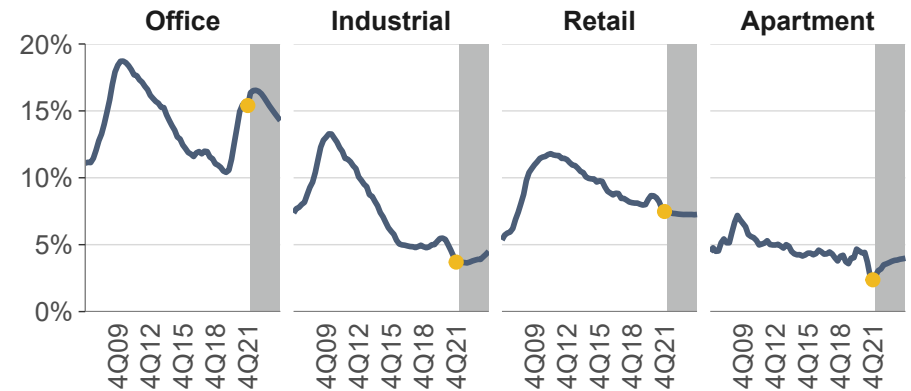
Twelfth District Economy | Commercial Real Estate

CRE vacancy rates declined in all sectors in 4Q21; industrial and apartment vacancies reached historic lows.

- + Average CRE vacancy rates for District markets edged down across all sectors in 4Q21 (see chart). Even the average office vacancy rate paused its upward climb, although CBRE-EA expected it to rise further through mid-2022.
- + Average industrial and apartment vacancy rates were the lowest on record in 4Q21 (data from 1990 for industrial, 1994 for apartment).
- + Notably, six District industrial property markets ranked among the ten lowest vacancy rates across all markets in the nation covered by CBRE-EA in 4Q21. These included the four major markets near the Ports of Los Angeles and Long Beach that handle large import volumes. Conversely, San Francisco Bay Area markets had notably higher industrial vacancy rates in 4Q21 than before the pandemic.
- + All District markets had lower apartment vacancy rates in 4Q21 than before the pandemic.

Avg. CRE Vacancy Rates, Twelfth District Markets

Weighted by stock, shaded area = 3-year forecast



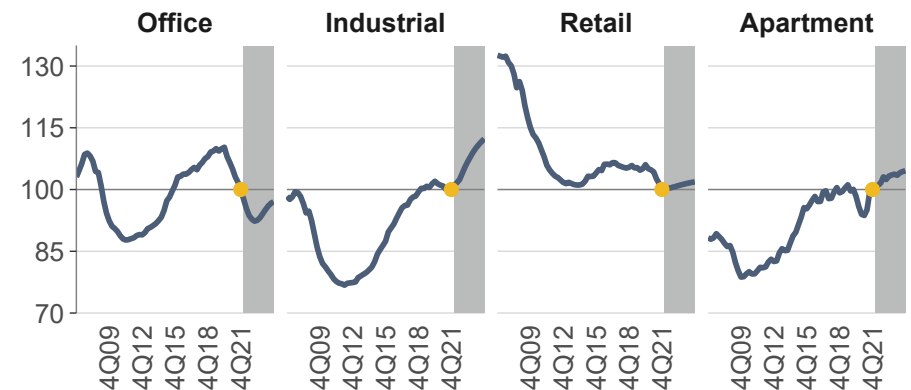
Includes the 16 to 18 largest markets in the District, depending on the sector. Source: CBRE-EA, SF Fed calculations.

Apartment rents recovered to pre-pandemic levels in 4Q21, while rents in other sectors still had lost ground to recover.

- + Across District markets, average real apartment rents grew rapidly in 2021 and were roughly even with pre-pandemic levels as of 4Q21. Relative to 4Q19, average real rents in other sectors had not yet fully recovered, with industrial rents down 0.5% and retail rents down 4.5%, although CBRE-EA expected recovery in the coming quarters.
- + The District's office sector remained the most distressed, with average real rents down by 8.8% in the two years ending 4Q21 (see chart). Real rents declined in all District markets, most dramatically in San Francisco (down 17.7%) and Orange County (down 8.7%).
- + Bay Area markets were also outliers in the apartment sector, with real rents more than 10% below 4Q19 levels in San Francisco and San Jose and off 5.9% in Oakland. In much of the rest of the District – except Los Angeles and Seattle – apartment rents topped pre-pandemic levels, particularly Phoenix and Tucson (up 20% each).

CRE Real Rent Indices, Twelfth District Markets

Weighted by stock, shaded area = 3-year forecast, 4Q21 = 100



Asking rents for office and industrial, effective rents for retail and apartment; 16 to 18 largest markets in the District. Source: CBRE-EA, SF Fed calculations.

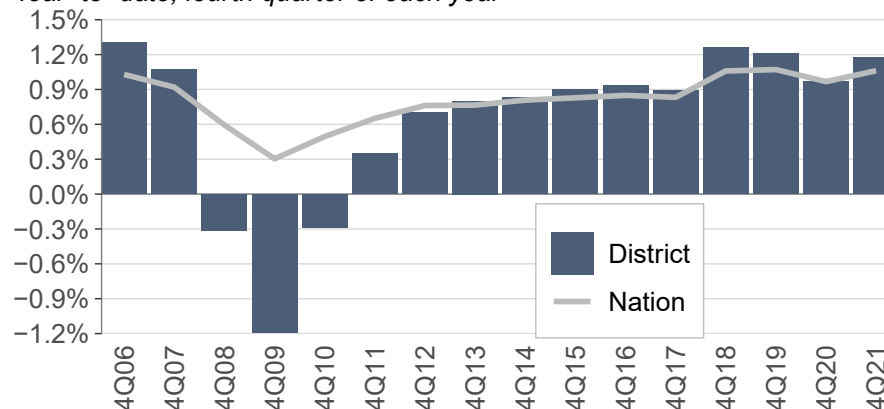
Twelfth District Banking Conditions | Earnings

Average YTD District bank profit ratios improved, but the average quarterly ROAA dipped.

- + For the full year, District bank ROAAs (adjusted for Subchapter S effects) averaged 1.17%, a 20 bps improvement over 2020 (see chart). The uptick in average ROAA reflected substantially lower credit loss provisions, improved noninterest income performance, and lower overhead expense-to-average asset ratios (diluted by significant asset growth), which more than offset lower net interest margins.
- + Notwithstanding improved full-year performance, the average 4Q21 annualized ROAA ratio reported by District banks eased quarter-over-quarter to 1.10%, as further explained below.
- + Bankers may have reservations about the sustainability of earnings. The 4Q21 [CSBS Community Bank Sentiment Survey](#) found that 62% of respondents in the “West” expected profits to worsen prospectively. Forecasts likely reflected a smaller available pipeline of PPP fees and potentially higher provision expenses.

Average Net Income / Average Assets (ROAA)

Year-to-date, fourth quarter of each year



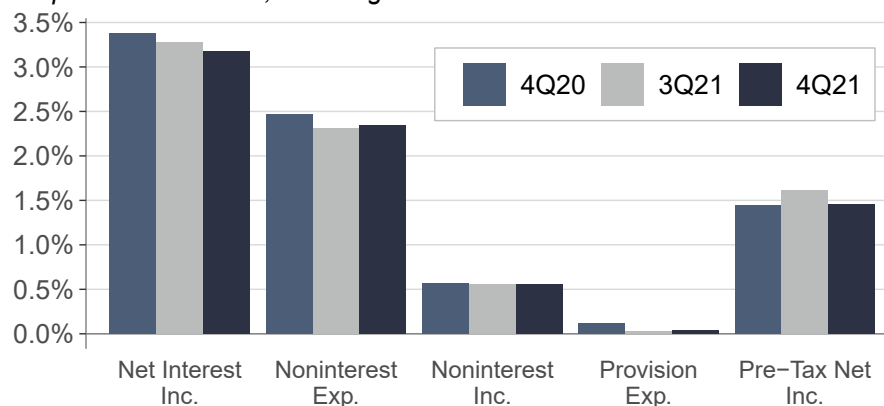
ROAAs among Subchapter-S filing banks are shown net of theoretical tax expense. Source: Bank Call Reports/Uniform Bank Performance Reports.

Boosts from PPP fees and low provision expenses were less widespread in 4Q21; seasonal expenses also detracted.

- + Districtwide, banks’ average one-quarter net interest income-to-average assets ratio eased to 3.18%, down 10 bps from 3Q21 (see chart). PPP forgiveness-driven paydowns, which significantly accelerated the recognition of yield-enhancing fees in the prior quarter, slowed. Most PPP advances had been forgiven by year end, so the recognition of related fees is expected to wane prospectively.
- + District banks’ growth in noninterest expenses slightly outpaced assets on average during the quarter, often led by personnel expenses. Seasonal factors such as year-end accruals plus rising wage pressures likely contributed to the quarter-over-quarter trend.
- + The average provision expense ratio remained low, but ticked higher quarter-over-quarter (see chart). By 4Q21, 59% of District banks reported positive YTD provision expenses, up from 51% during the first three quarters of the year, but down from 90% of banks in 2020.

Avg. Pre-Tax Net Income Breakdown, Twelfth District

1-quarter annualized, % of avg. assets



Source: Bank Call Reports/Uniform Bank Performance Reports.

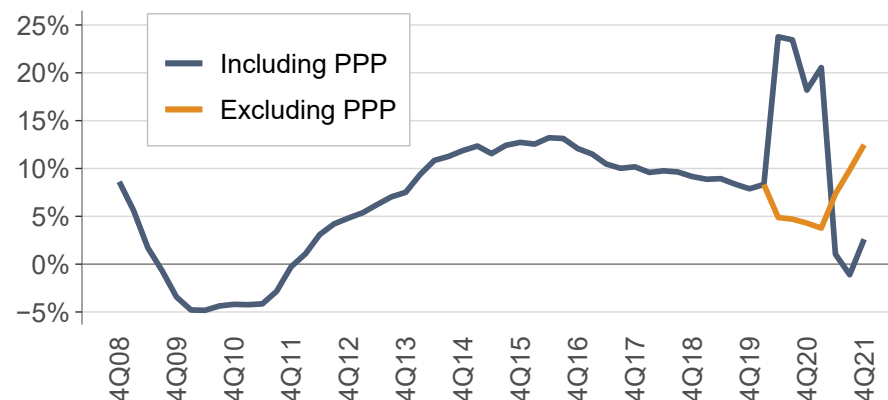
Twelfth District Banking Conditions | Growth + Concentrations

Non-PPP loan growth accelerated, finally outpacing forgiveness-driven PPP prepayments.

- + Excluding PPP-related distortions, District banks' average quarter-over-quarter and year-over-year loan growth rates improved to 3.6% and 12.5%, respectively, amid stronger loan demand (see chart). Excluding PPP, banks in the West reported the fastest average quarterly and annual growth rates among the Fed's twelve districts.
- + PPP paydowns reduced the District's respective one-quarter and one-year loan growth to more modest averages of 0.7% and 2.6%.
- + Per the [Small Business Administration](#) (SBA), 83% of PPP funds had been fully or partially forgiven through December 26, including 94% and 62% of 2020 and 2021 advances, respectively.
- + A notable share of respondents to the Federal Reserve's [January 2022 Senior Loan Office Opinion Survey](#) (SLOOS) expected loan demand to improve in 2022 for most categories. It remains unclear how subsequent geopolitical developments may affect growth.

Avg. Net Loan Growth, Twelfth District

Year-over-year % change



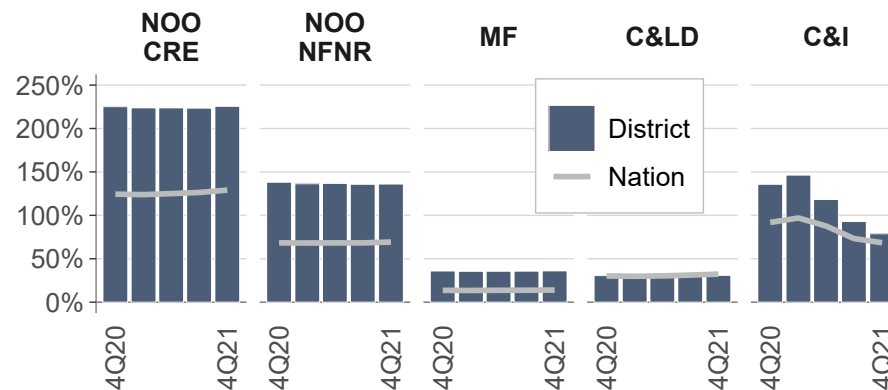
Growth rates include merger effects. Source: Bank Call Reports/Uniform Bank Performance Reports.

CRE remained a leading loan category; C&I concentrations eased as PPP prepayments offset new originations.

- + District bank loan portfolios continued to center in CRE categories, including those backed by owner-occupied (OO) and nonowner-occupied (NOO) collateral.
- + At 225%, the District's average NOO CRE concentration ratio – which includes NOO NFNR, MF, C&LD, and other CRE purpose loans – exceeded a national average of 129% (see chart).
- + Separately, OO CRE mortgages represented an additional 91% of tier 1 capital plus allowances on average.
- + C&I loan concentrations ended the year lower because of forgiveness-driven PPP reductions. By 4Q21, District banks' average C&I loan concentration ratio was 79%, down from 93% and 136% in the prior quarter and year, respectively. During 2021, the District's average PPP concentration ratio sank from 63% to 11%, but remained more than twice the national average.

Average Loan Concentrations

% of tier 1 capital + ALLL or ACL



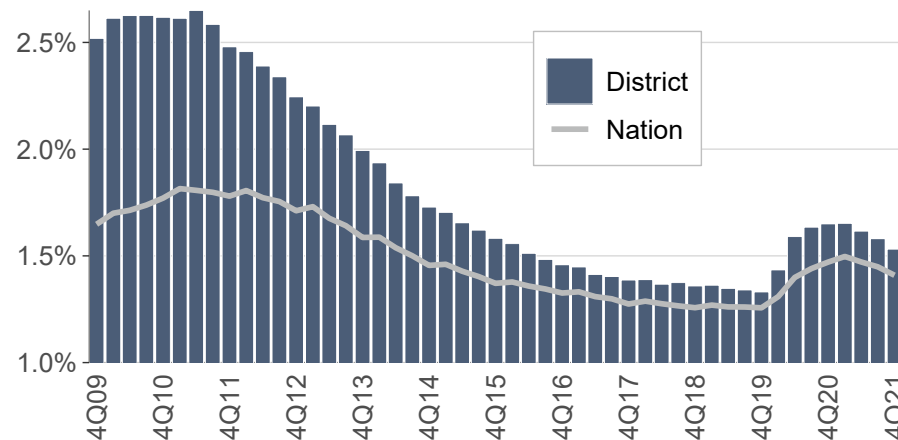
Source: Bank Call Reports/Uniform Bank Performance Reports.

Twelfth District Banking Conditions | Allowances + Underwriting

Constrained provisioning amid stronger loan growth reduced the average allowance coverage of non-PPP loans.

- + Non-PPP loan growth accelerated while provisions for credit losses remained muted. As a result, the ratio of ALLL-to-non-PPP loans eased to an average of 1.53%, down from 1.65% in 4Q20 and 1.58% in 3Q21. However, coverage remained above a national average of 1.41% (see chart).
- + Average coverage ratios among Very Small (1.64%) and Small (1.48%) banks in the District continued to lead those reported among District Mid-Sized (1.12%) and Large banks nationwide (1.41%).
- + During 2022, most banks that had not yet adopted CECL – generally smaller, non publicly traded institutions – will be working toward the goal of adoption by early 2023.
- + Of note, the Federal Reserve hosts a [CECL Resource Center](#), which includes, among other things, the agency’s Scaled CECL Allowance for Losses Estimator (SCALE) tool for community banks.

Avg. ALLL or ACL / Non-PPP Loans & Leases not HFS

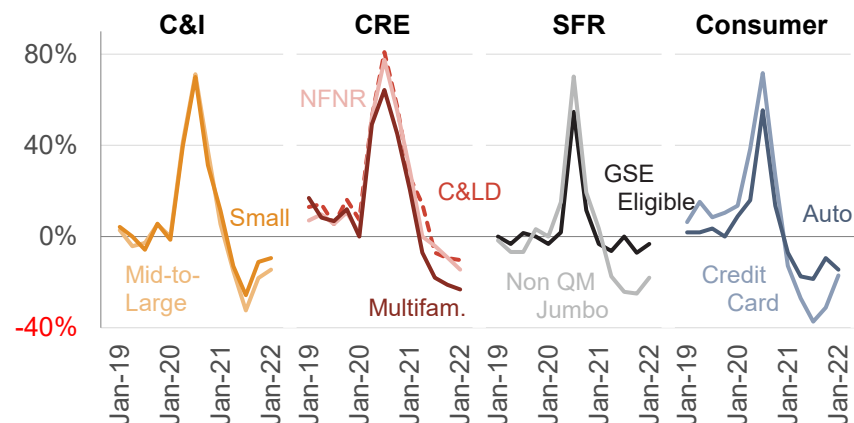


Limited to loan and lease related allowances. Source: Bank Call Reports/Uniform Bank Performance Reports.

Slightly more lenders loosened than tightened loan standards on net; the economy and competition remained factors.

- + Per the Federal Reserve’s [January 2022 SLOOS](#), slightly more lenders reported easing rather than tightening standards for most C&I and CRE loan categories in the latest quarter (see chart).
- + Among loans to households, more banks eased than tightened standards, especially for jumbo SFR mortgages, credit cards, and other consumer loans.
- + Looking forward, a small net share of banks expected to loosen standards for C&I loans, multifamily mortgages, and loans to households in 2022, often led by large bank respondents.
- + At the time, lenders were more sanguine about future credit performance (e.g., delinquencies and losses) for C&I and CRE than for credit card, auto, and nonconforming jumbo SFR mortgages.

Net Percent Reporting Tighter (Easier) Loan Standards
% of surveyed loan officers



Share reporting tighter minus share reporting easier standards during the quarter. Source: Federal Reserve SLOOS via Haver Analytics.

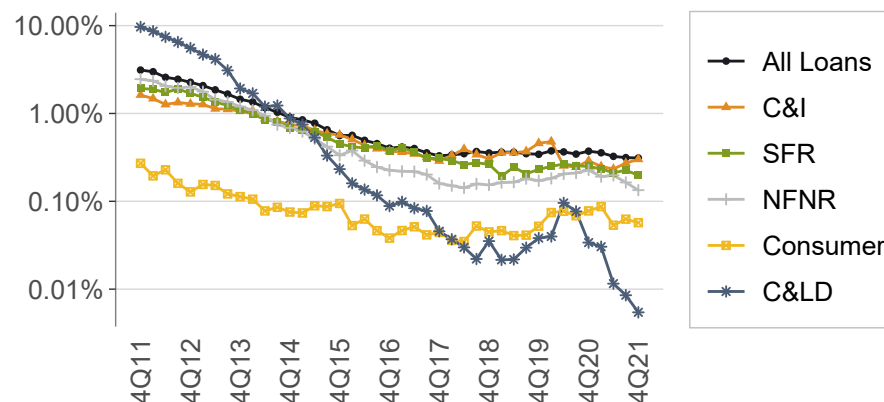
Twelfth District Banking Conditions | Loan Performance

Overall, loan performance remained strong, mitigated by federal/monetary support and economic expansion.

- + District bank's average noncurrent loan ratio (excluding PPP loans) ended the year at just 0.32%, similar to the prior quarter but down 10 bps from 4Q20, and the lowest average rate among the Federal Reserve's twelve districts.
- + Average noncurrent loan rates tended to be higher among C&I and SFR loans than other major categories (see chart; note log scale).
- + Early-stage (30–89 day past due) delinquencies averaged an additional 0.13% among District banks, down slightly from the prior quarter and year ago averages.
- + Combined, District banks' average past-due non-PPP loan ratio (30+ days past due or nonaccrual) of 0.53% continued to trail a national average of 0.88%.

Avg. Noncurrent Loan Rates, Twelfth District Banks

Logarithmic scale



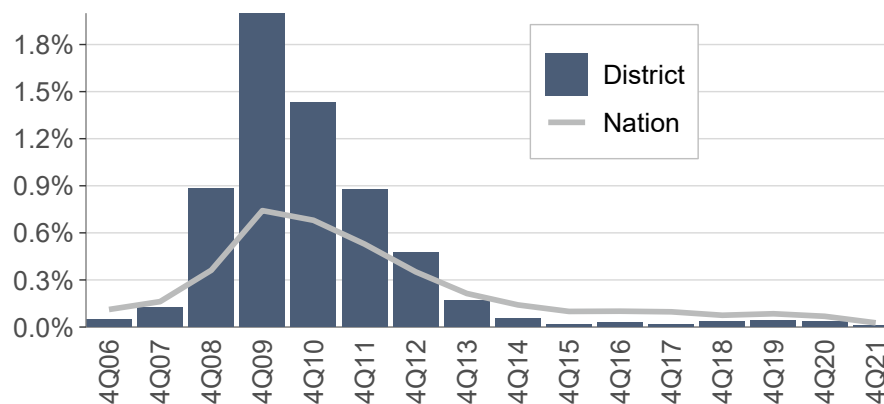
Includes loans and leases 90+ days past due or on nonaccrual. Source: Bank Call Reports/Uniform Bank Performance Reports.

Net losses on loans and leases remained at historically low levels in 2021.

- + On average, District banks reported a net chargeoff ratio of just 1 bp during 2021, down from 4 bps in 2020 (see chart).
- + Notwithstanding pandemic-related stress, it marked the lowest average annual net chargeoff ratio in more than twenty-one years of data reviewed.
- + Similar to historical trends, average net loss rates were highest among consumer loans (16 bps), followed by leases (11 bps), and C&I loans (2 bps). Unlike the Great Financial Crisis, average net chargeoff rates on real estate-secured loans were minimal during the pandemic.
- + The outlook for loan defaults and losses will depend on how borrowers adapt to several challenges, including rising interest rates and inflation, supply chain issues, staffing shortages, fading fiscal stimulus, and the trajectory of virus activity and economic growth.

Avg. Net Chargeoffs / Avg. Loans & Leases

Year-to-date, fourth quarter of each year



Source: Bank Call Reports/Uniform Bank Performance Reports.

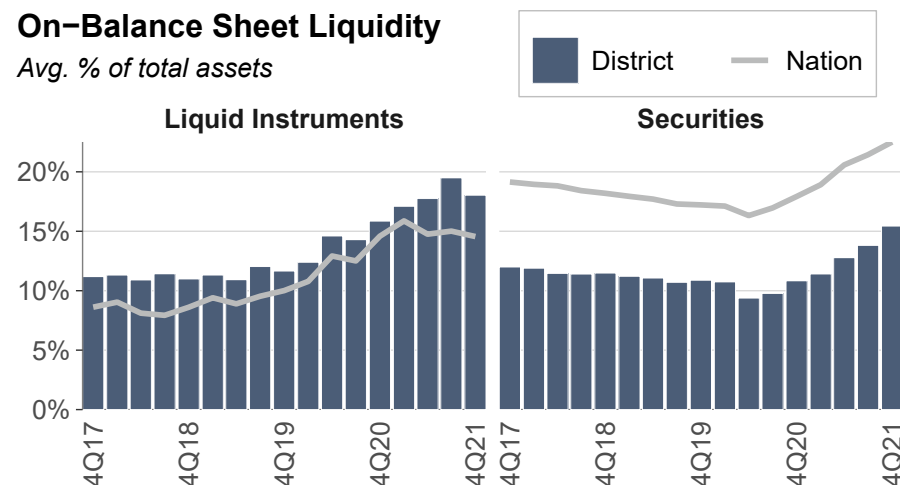
Twelfth District Banking Conditions | Liquidity

On-balance sheet liquidity at District banks accumulated further, but bond portfolios dipped in value.

- + Although quarterly deposit growth among District banks slowed to 2.2% on average during 4Q21 – likely due in part to seasonal factors – it typically outpaced overall loan growth, which remained subdued by PPP paydowns.
- + Banks continued to divert excess funding into liquid instruments and securities, which, combined, approached nearly 36% of District bank assets on average, the highest year end ratio in more than twenty-one years of data reviewed (see chart).
- + Net loans and leases eased to 70% of deposits, versus 85% pre-pandemic. Per a January 2022 [IntraFi Network survey](#), most bankers in the “West” did not expect loan-to-deposit ratios to reach prior levels until 2023 (46% of respondents) or later (35% of respondents).
- + An uptick in long-term interest rates caused banks’ AFS securities to register net unrealized losses on average for the first time since 1Q19.

On-Balance Sheet Liquidity

Avg. % of total assets

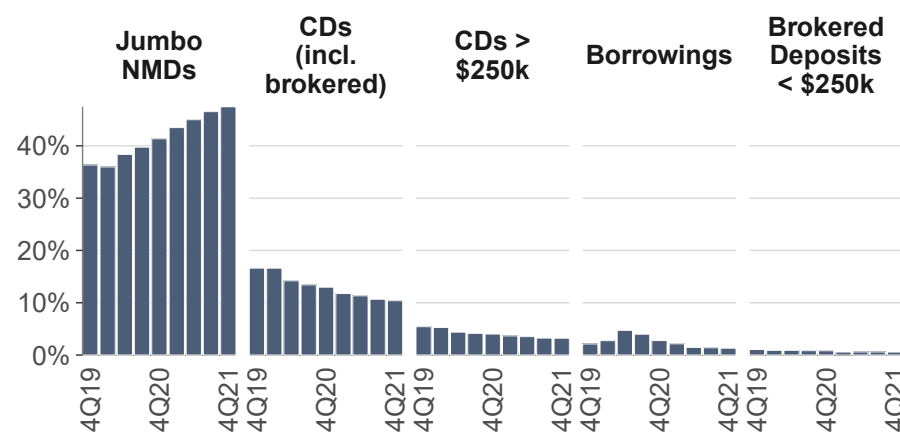


Liquid instruments include cash, due from balances, and fed funds sold/reverse repos. Source: Bank Call Reports/Uniform Bank Performance Reports.

Funding continued to skew towards jumbo NMDs and away from time deposits and “noncore” sources.

- + NMDs, which backed roughly 66% of District bank assets on average pre-pandemic, swelled to 76% of overall funding by 4Q21. Much of the growth came from “jumbo” accounts above \$250K, which supported 47% of assets on average by year end (see chart).
- + Meanwhile, “noncore” funding sources such as jumbo CDs, small brokered funds, and interbank and other borrowings ebbed.
- + Overall, the annual change reflected customer caution, an influx of stimulus-related funds, and limited depositor appetite for CDs in the low interest rate environment.
- + Banks wishing to retain deposits in a more competitive market may need to offer higher pricing or cut fees. Per a January 2022 [IntraFi Network survey](#), many bankers in the “West” expected worsening deposit competition (44% of respondents) and higher funding costs (67% of respondents) in the coming twelve months.

Avg. Liability Category / Assets, Twelfth District Banks



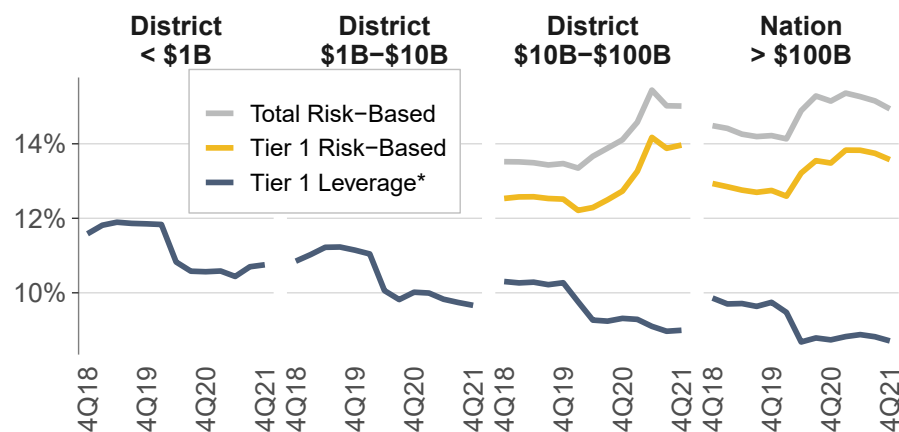
Source: Bank Call Reports/Uniform Bank Performance Reports.

Twelfth District Banking Conditions | Capital

Capital ratio trends varied by measure and size of institution.

- + Tier 1 leverage ratios remained under pressure among all but the smallest banks because deposit-fueled asset growth outpaced equity formation. Districtwide, the average tier 1 leverage ratio eased slightly to 10.1% in 4Q21.
- + Community Bank Leverage Ratio (CBLR) adopters - which are able to opt out of risk-based capital calculations given certain criteria - face a higher qualifying tier 1 leverage ratio threshold of 9.0% in 2022.
- + Tapering PPP balances, growth in higher-weighted loan and securities categories, and quarterly dividend payouts have generally moderated RBC measures since mid-2021 (see chart).
- + On average, tier 1 and total risk-based capital (RBC) ratios among non-CBLR District banks measured 15.02% and 16.19% in 4Q21, down 50 bps and 56 bps, respectively, from their 1Q21 peaks.

Avg. Regulatory Capital Ratios by Bank Size



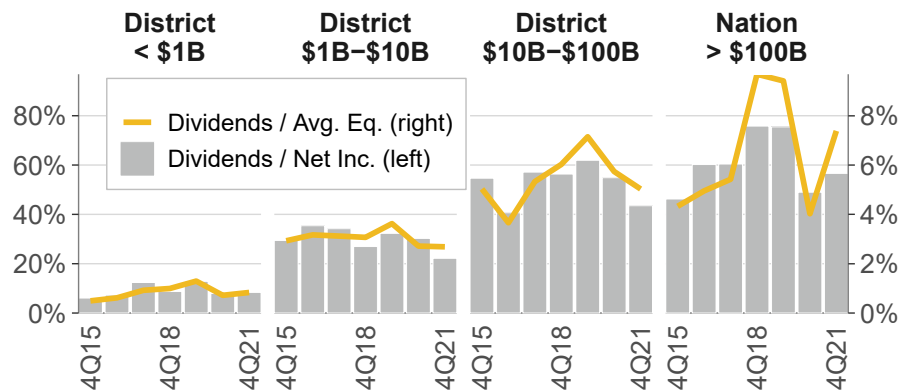
Source: Bank Call Reports/Uniform Bank Performance Reports.

As a share of net income, full year District bank dividend payouts trailed 2020.

- + Among the District's non-Subchapter S banks, the average annual dividend-to-net income ratio was 25.9%, down from 30.1% during 2020.
- + Stronger net income levels drove the trend rather than lower dividend distributions. On average, the dollar amount of annual dividends paid by non-Subchapter S banks in the District increased 15% compared with 2020, while year-to-date net income surged 55%.
- + The proportion of net income distributed continued to correlate with bank size, with higher relative payouts by larger banks (see chart).
- + Likewise, capital accretion tended to be better among smaller banks. On average, 2021 retained earnings-to-average equity ratios were 8.4% and 9.6% among Very Small and Small banks based in the District versus 7.0% and 4.5% among District Mid-Sized and nationwide Large banks, respectively.

Avg. Cash Dividends by Bank Size

Year-to-date, fourth quarter of each year



Excludes banks with Subchapter-S tax treatment, which distribute funds to cover owners' taxes. Source: Bank Call Reports/Uniform Bank Performance Reports.

Appendix | Technical Information and Abbreviations

Summary of Institutions by State & Technical Information

Area	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20
Alaska	4 (0)	4 (0)	-	-	1 (0)	1 (0)
Arizona	13 (0)	13 (0)	-	-	-	-
California	124 (1)	130 (2)	3 (0)	3 (0)	9 (0)	11 (0)
Guam	2 (0)	2 (0)	-	-	1 (0)	1 (0)
Hawaii	4 (0)	5 (0)	1 (0)	1 (0)	2 (0)	2 (0)
Idaho	10 (0)	10 (0)	-	-	1 (0)	1 (0)
Nevada	11 (1)	11 (1)	4 (0)	4 (0)	2 (0)	2 (1)
Oregon	13 (0)	14 (0)	-	-	2 (0)	2 (0)
Utah	26 (1)	25 (1)	15 (2)	15 (1)	1 (0)	1 (0)
Washington	33 (0)	32 (0)	-	-	7 (0)	9 (0)
District	240 (3)	246 (4)	23 (2)	23 (1)	26 (0)	30 (1)
Nation	4,205 (28)	4,349 (27)	25 (2)	25 (1)	608 (0)	627 (1)

Based on preliminary 4Q21 data.

Abbreviations

AFS	available for sale
ACL	allowance for credit losses
ALLL	allowance for loan and lease losses
BSA/AML	Bank Secrecy Act/anti-money laundering
C&I	commercial & industrial
C&LD	construction & land development
CBLR	community bank leverage ratio
CD	certificate of deposit
CECL	current expected credit loss
CRE	commercial real estate

HFS/HTM	held for sale/held to maturity
MF	multifamily (5+ unit housing)
MMDA	money market deposit account
NFNR	nonfarm-nonresidential
NMD	nonmaturity deposit
PPP	Paycheck Protection Program
ROAA	return on average assets
SFR	single-family residential (1-4 family housing)
TE	tax equivalent
YTD	year to date

- + 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, unless noted otherwise. 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 (less than three 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-\$100 billion, respectively. The “Large” bank group uses banks with assets >\$100 billion nationwide because these banks typically operate beyond the District’s geographic footprint and a larger statistical population is preferred for trimmed means.