

Economic and Banking Performance
in the Twelfth Federal Reserve District

First Glance 12L

Hiring and Lending Expanded despite a
Clouded Outlook

2Q22

August 26, 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 economy continued to grow in 2Q22, despite rising interest rates and declining consumer and business confidence. By June, the District recovered practically all of the payroll jobs it lost early in the pandemic and employment growth remained robust. Unemployment rates declined during the quarter and in June were near or below pre-pandemic levels in all District states except Hawaii and Nevada. However, sharply higher mortgage rates slowed home sales and 1-4 family permit activity, and home price growth in some District states turned negative in June. Commercial real estate (CRE) prices continued to appreciate on the quarter, and CRE fundamentals remained strong for the apartment and industrial sectors but weaker for offices and retail. The outlook is uncertain, however, as monetary tightening and negative sentiment may weigh on the economy.

Banking Conditions: Rising interest rates and strong loan growth lifted bank net interest margins and profits quarter-over-quarter. District banks' median net loan growth – excluding Paycheck Protection Program (PPP) loans – accelerated to 16% year-over-year, led by CRE categories. This marked the strongest pace of annual loan growth in the District since 2006 and prompted higher provision expenses during the quarter. Problem loan levels remained low, but bankers expressed increasing caution about the economy. Median on-balance sheet liquidity receded as banks used liquid instruments to fund loan growth, and rising interest rates exacerbated net unrealized losses among bond portfolios. The shift in banks' asset mix towards loans crimped risk-based capital measures notwithstanding capital accretion.

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A product of SF Fed | Supervision + Credit

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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

Cyberthreats

- + Cyber remains a top risk given an ever-evolving multitude of threats, particularly amid ongoing geopolitical developments. Ransomware and supply chain compromises remained the primary cyber issues facing supervised institutions, their customers, and their suppliers. Hybrid work environments continued to offer 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 more widespread. The increase of digital financial services and mobile banking has exponentially expanded the attack surface that criminals can exploit. On July 6, the Cybersecurity and Infrastructure Security Agency (CISA) issued a [Cybersecurity Advisory](#) jointly with the FBI and Treasury Department to address North Korean state-sponsored cyber actors' use of the Maui Ransomware. Although the issuance discusses healthcare sector incidents, it urges other critical infrastructure organizations to apply the included recommendations.

Bank Secrecy Act/Anti-Money Laundering (BSA/AML) 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 issued new and revised guidance to focus financial institutions' efforts on emerging and persistent money laundering and fraud threats. In particular, an [advisory on elder financial exploitation](#) (EFE) was issued on June 15 to bring attention to the growth in financial crimes perpetrated against seniors. This advisory identifies newer EFE typologies as well as financial and behavioral red flags to aid financial institutions in identifying and reporting on these events.
- + FinCEN also issued an interagency statement with the Fed, FDIC, NCUA, and OCC to remind financial institutions to take a risk-based approach when assessing customer relationships and conducting customer due diligence (see [SR Letter 22-5](#)). The guidance reinforces federal regulatory agencies' perspectives that no customer typology presents a uniform level of risk exposure. Rather, a risk-based approach that considers multiple factors may best determine the level of money laundering/terrorist financing risk presented by any specific customer relationship.



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

CRE loan concentrations

- + At 334%, District banks' median CRE loan-to-capital and reserves ratio was well above a nationwide median of 196%. Roughly two-thirds of this lending related to nonowner-occupied properties, which are reliant on CRE for both the primary and secondary sources of repayment. Exposures were especially high among banks in California and Washington, but median midyear concentration ratios in most District states exceeded the U.S. (see table).
- + Rising interest rates may pressure CRE cash flows, particularly among the COVID-sensitive hotel, retail, and office sectors. Also, valuations could suffer if cap rates respond to higher interest rates.
- + Forward risks may have contributed to tightening CRE standards among a growing share of lenders (see page 14).

C&I credit risks

- + As of 2Q22, District banks' non-PPP C&I balances represented 61% of tier 1 capital plus loan and lease loss allowances on a median basis, comparable to the national average.
- + Lingering or renewed stress on business borrowers – from economic slowing, persistent supply chain disruptions, rising input and debt service costs, or labor shortages – may amplify risks inherent in this business line.
- + [Shared National Credit](#) reviews have found particular vulnerabilities in leveraged lending, which is also prone to upward rate repricing.

CECL implementation

- + As of 2Q22, more than 80% of District banks had yet to adopt CECL. These generally smaller, non publicly traded institutions need to finalize their approaches under the new allowance standard by 2023.
- + The Federal Reserve hosts a [CECL Resource Center](#), which serves as a one-stop shop for smaller institutions implementing CECL. The site includes the agency's Scaled CECL Allowance for Losses Estimator (SCALE) and Expected Loss Estimator (ELE) tools for community banks.

Median CRE Loan Concentration % of tier 1 capital + allowances for loan and lease losses		
	Total CRE	NOO CRE
California	376.1%	264.2%
Washington	341.3%	241.0%
Arizona	318.9%	193.2%
Oregon	287.2%	201.6%
Idaho	253.1%	154.9%
Nevada	248.7%	150.5%
Alaska	245.1%	155.1%
Hawaii	209.8%	163.1%
Utah	164.9%	95.2%
Nation	195.9%	124.1%

Nonowner-occupied (NOO) excludes owner-occupied nonfarm-nonresidential; Source: Bank Call Reports/Uniform Bank Performance Reports.

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

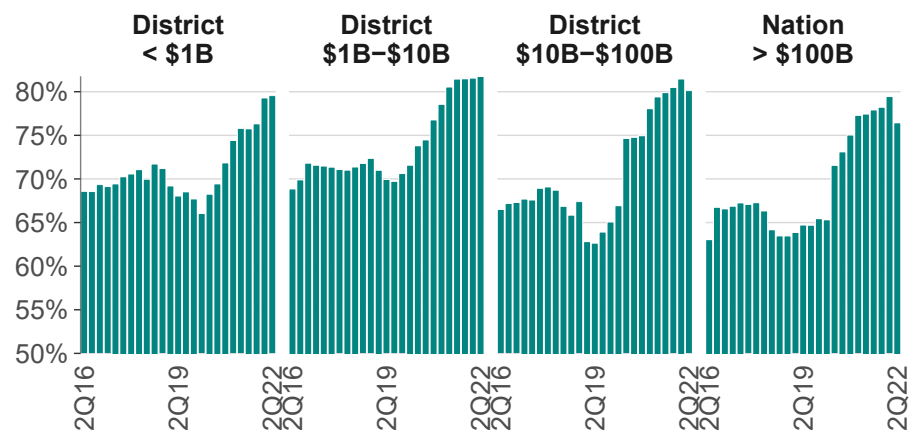
Funding mix and deposit competition

- + Annual growth in deposits, particularly low/noninterest-bearing nonmaturity deposits (NMDs) surged in 2020 and 2021, led by flight-to-safety and stimulus-related funding. However, median quarterly NMD growth stalled among community banks and turned negative among Mid-Sized and Large banks in 2Q22 (see chart).
- + Ebbing pandemic-era NMDs may migrate to more price sensitive deposit products or banks may need to replace runoff with pricier CDs or noncore funding sources.
- + An [IntraFi Network survey](#) conducted in June found that 71% of bankers in the West expected deposit competition to worsen in the coming twelve months (up 10 points from April 2022) and 86% expected funding costs to increase (up 8 points from April 2022).

Drought-related impacts

- + According to the [U.S. Drought Monitor](#), 47% of land area in the West Climate Region remained in drought through August 2 (see chart). The intensity of drought eased slightly, primarily in Washington, northern Oregon, and the Idaho panhandle. Still, the [National Oceanic and Atmospheric Admin.](#) and the [National Interagency Fire Center](#) have forecast that widespread drought will persist and that wildfire potential may remain elevated in some areas.
- + Water-related restrictions have been issued in several parts of the West. On August 16, the [U.S. Department of the Interior](#) announced further reductions to water allocations for Arizona and Nevada beginning in 2023 because of extremely low water levels in Lakes Powell and Mead. Pending negotiations among seven states reliant on the Colorado River may result in additional cuts.
- + Drought threatens water quality and availability, reduces hydropower potential, and contributes to wildfire risks. Ongoing wildfire threats pose financial and operational risks for banks, their employees, and their customers.

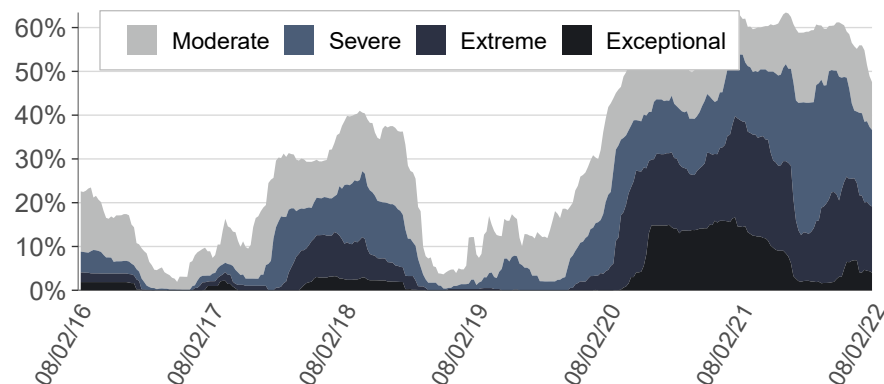
Median Nonmaturity Deposits / Total Assets by Bank Size



Source: Bank Call Reports/Uniform Bank Performance Reports.

Drought Severity, West Region

Percent of land in drought, by severity



West = Twelfth District plus MT and NM. Source: Univ. of Nebraska-Lincoln, U.S. Dept. of Ag., Nat. Oceanic and Atmospheric Admin., 8/10/2022.

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

Increasing enterprise complexity

- + Networks of multiple complex third/fourth party relationships, growing use of cloud services, the widening adoption of cryptoasset services, and acquisition of fee-generating non-bank businesses in response to earnings pressures are drivers for heightened concern. This is especially true if the risk appetite for outsourcing and engaging with non-bank partners gets head of the control environment.
- + Recent volatility in cryptocurrency markets has highlighted operational and financial risks for institutions that have expanded into this area. To help manage these risks, the Fed issued SR Letter 22-6: [Engagement in Crypto-Asset-Related Activities by Federal Reserve-Supervised Banking Organizations](#) on August 16, which discusses idiosyncratic risks and legal permissibility, and requests notification prior to engagement in cryptoasset activity.

Consumer compliance regulatory developments

- + Pending rulemaking includes the Consumer Financial Protection Bureau's (CFPB) [Small Business Lending Data Collection proposed rule](#) (published in October 2021, final rule expected March 2023) and the [Interagency Community Reinvestment Act \(CRA\) proposed rule](#) (published in May 2022).
- + An [Ask the Regulators/Connecting Communities webinar, CRA Reform Update: Overview of the Interagency CRA Notice of Proposed Rulemaking](#) – held May 11 but available on replay – provides an overview of the proposal.
- + In January, the CFPB also sought public comment on [Fees Imposed by Providers of Consumer Financial Products or Services](#). The inquiry has garnered thousands of comments (see [Docket ID CFPB-2022-0003](#)).

LIBOR transition

- + LIBOR transition continued without market disruption and will remain an area of focus ahead of the mid-2023 sunset of LIBOR. The Federal Reserve's [LIBOR Transition website](#) provides guidance on instruments with tenors beyond June 2023, which may require renegotiation, fallback language, and/or an alternative reference rate.
- + Exposure is generally low among most District banks, primarily via securities, derivatives, and/or subordinated debt. LIBOR-based lending is limited. Preferred remediation for LIBOR-based loans is a replacement rate – such as the Secured Overnight Financing Rate (SOFR) – and for derivatives, central counterparty conversions.
- + The Adjustable Interest Rate Act (LIBOR Act), signed into law on March 15 as part of the 2022 [Consolidated Appropriations Act](#), outlines a method for replacing LIBOR in legacy contracts that lack a clearly defined or practicable replacement benchmark rate. In July, the Federal Reserve issued [proposed rules](#) outlining which SOFR-based replacement rate and spreads would apply to contracts covered under the LIBOR Act.

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](#).



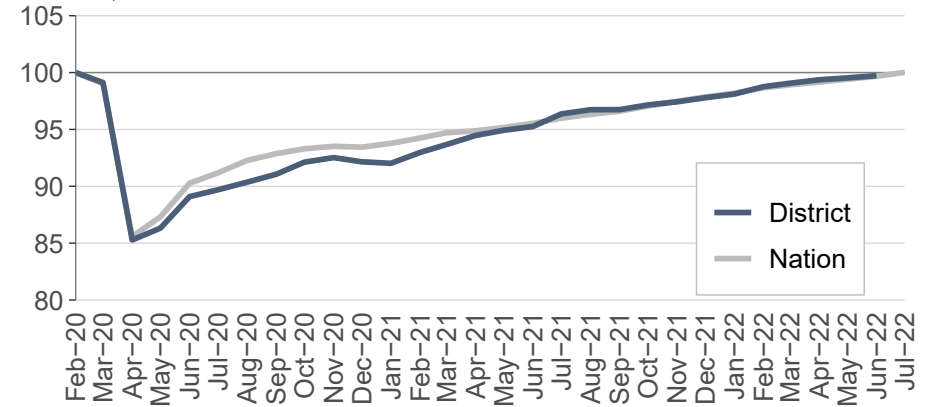
Twelfth District Economy | Employment

District job growth remained robust through June 2022.

- + By June 2022, the District recovered nearly all of the jobs it lost at the outset of the pandemic. Nonfarm payrolls were only 0.3% below their February 2020 pre-pandemic peak. In July, nonfarm jobs nationally exceeded the pre-pandemic level for the first time (see chart).
- + Districtwide job growth was 4.7% year-over-year in June, down from its early-2022 pace, but ticked up month-over-month after three months of deceleration through May. Additionally, the pace of national job growth continued to re-accelerate in July.
- + Growth was fastest in the information, leisure/hospitality, and wholesale trade sectors during 2Q22, but the number of leisure/hospitality jobs remained well below its pre-pandemic peak.
- + At the state level, recent year-over-year job growth was fastest in Nevada and California (among District states).

Nonfarm Jobs

Indexed, Feb-20 = 100

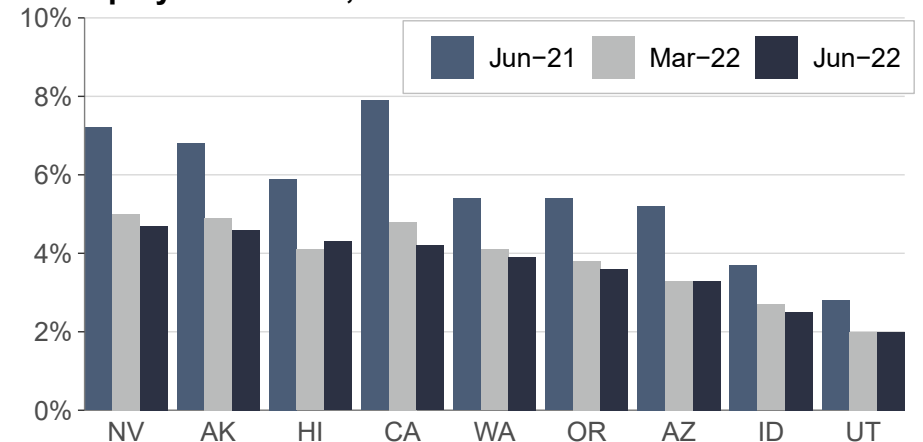


Source: Bureau of Labor Statistics.

The District's unemployment rate fell below its pre-pandemic level in Q2, but initial unemployment claims increased.

- + The Districtwide unemployment rate continued to decline in 2Q22, to 3.9% in June, and has been below the pre-pandemic rate of 4.0% since May. The District's labor-force participation rate also continued to increase, reaching 60.4% in June versus 60.7% in February 2020.
- + State-level unemployment rates also declined across the District during 2Q22, except for Hawaii (see chart), and labor-force participation increased. By June 2022, unemployment rates were near or below pre-pandemic rates in all District states except tourism-dependent Hawaii and Nevada, which also had notably lower labor-force participation relative to pre-pandemic trends.
- + By early August, initial claims for unemployment insurance in the District increased by more than 50% from April 2022 lows. Notwithstanding the trend, recent weekly initial claims were similar to levels typical of the pre-pandemic period.

Unemployment Rates, Twelfth District States

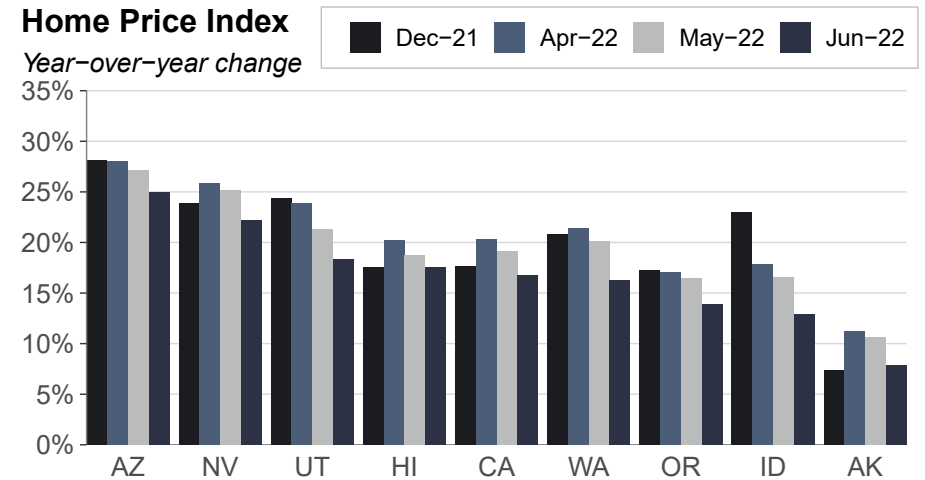


Source: Bureau of Labor Statistics.

Twelfth District Economy | Housing

Home-price growth slowed in Q2 across the District as rising mortgage rates led to worsening affordability.

- + Single-family home-price growth in the District cooled in 2Q22, to 17.5% year-over-year in June, from 21.7% in March. Notably, monthly average price growth across the District was negative in June, even as national average prices continued to increase that month.
- + Price appreciation slowed in all District states during 2Q22 (see chart). The Sunbelt states of Arizona and Nevada maintained the fastest growth, while Idaho – which showed the fastest growth in the nation for much of the pandemic – had the second-slowest pace of growth across the District as of June.
- + With mortgage interest rates at their highest level since 2008, housing affordability continued to fall sharply per the Wells Fargo/NAHB Housing Opportunity Index. These forces more than offset large increases in median family incomes across all District states.



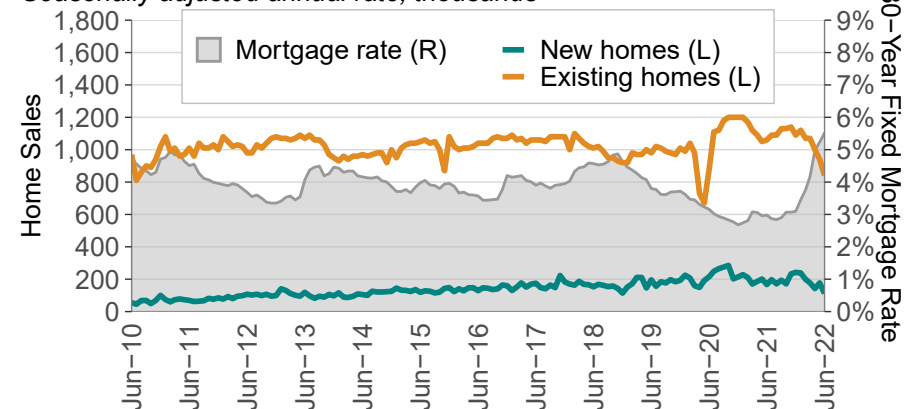
Index covers attached and detached single-family homes, including distressed sales. Source: CoreLogic.

Home sales declined sharply in Q2 as mortgage rates and for-sale inventory increased.

- + Single-family home sales in the West region declined sharply as mortgage rates increased rapidly in 2022 (see chart). By June, existing home sales in the region reached their lowest level since 2007-08 (excepting the brief plunge at the start of the pandemic), while new home sales reached lows not seen since mid-2014.
- + Notably, West region pending home sales in June were off 30% from 2021 levels according to the [National Association of REALTORS®](#).
- + Per Redfin, housing markets remained tight, but eased slightly as sales declined and for-sale inventories increased. In June, the Districtwide inventory of homes increased to 1.8 months' worth of sales, from an extreme low of 0.9 months in December 2021. However, this remained well below levels typical before the pandemic. At the state level, Idaho reported the largest increase in unsold inventories during the quarter, reaching 3.0 months' supply by June.

Single-Family Home Sales, West Region

Seasonally adjusted annual rate, thousands



West = District plus CO, MT, NM, and WY. Sources: National Association of REALTORS® (© 2022, reprinted with permission), Census Bureau, Freddie Mac.

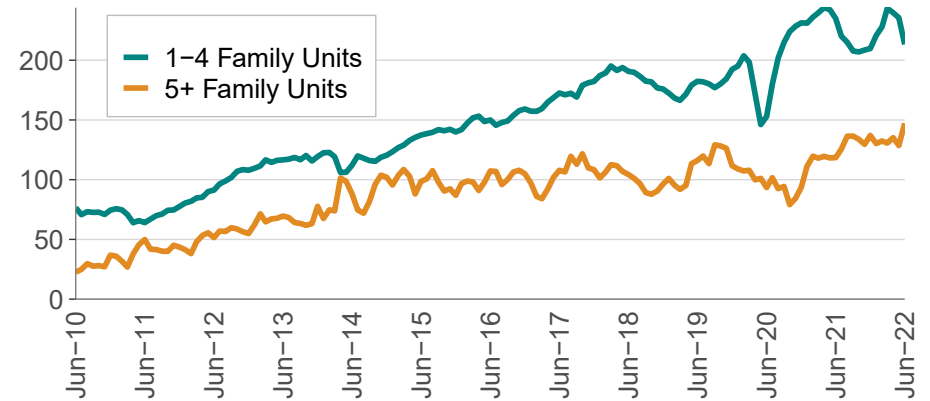
Twelfth District Economy | Housing + Interest Rates

One-to-four family housing permit issuance slowed as homebuilder confidence fell sharply.

- + 1-4 family housing permits issued in the District declined in 2Q22, but as of June remained above levels typically seen prior to the pandemic (see chart). This decline in 1-4 family permit issuance was shared across all District states.
- + On the other hand, 5+ family permits issued in the District remained well above the pre-pandemic trend and even jumped in June 2022, led by Oregon, Washington, and California.
- + Homebuilder confidence in the West has declined since March 2022 per the NAHB/Wells Fargo Housing Market Index, with survey respondents citing mortgage rates, supply chain problems, and housing affordability as weighing on conditions. This index was below 50 in July and August, indicating that a majority of respondents had negative views of market conditions. Builder confidence in the West has trailed the national average since June.

Housing Permits, Twelfth District

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



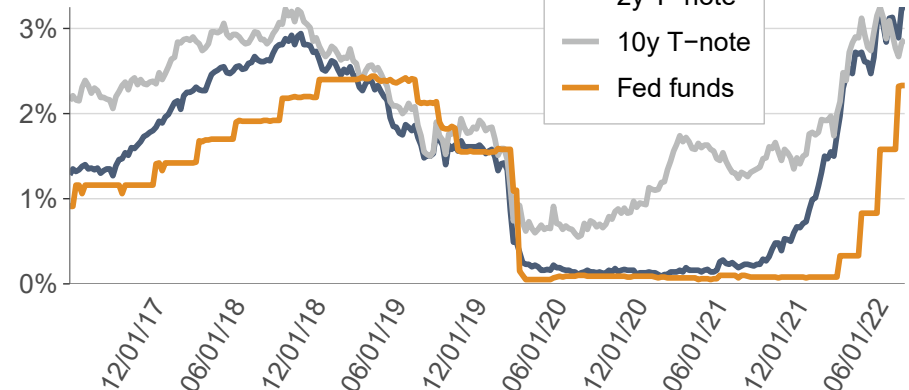
Source: Census Bureau via Haver Analytics.

Consumer sentiment and business activity declined with higher rates, but supply chain pressure eased recently.

- + Interest rates rose rapidly this year to levels last seen in late-2018. The yield curve also flattened as short-term rates increased faster than long-term rates, and inverted (2-year Treasury yields above 10-year yields) starting in July 2022 (see chart).
- + These developments have affected consumer confidence, with surveys by the Conference Board and University of Michigan both showing sharp deterioration since mid-2021.
- + Small business optimism declined in June to the lowest level since 2012, according to the National Federation of Independent Business. The Institution for Supply Management composite purchasing managers' index, which reflects broad U.S. business activity, was also down since late-2021, but stabilized in July 2022.
- + Favorably, some indicators suggest easing supply chain problems, including declines in the New York Fed's global supply chain pressure index since April and lower gasoline prices since mid-June.

Interest Rates

Weekly, end-of-period



Source: Federal Reserve Board via FRED.

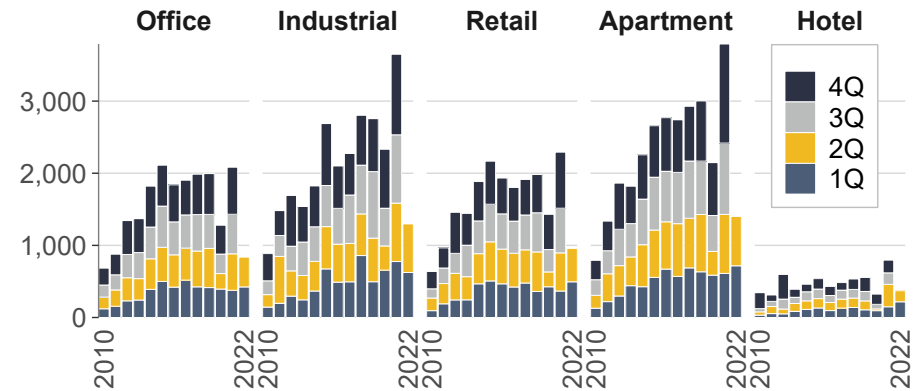
Twelfth District Economy | Commercial Real Estate

CRE transactions eased across sectors in 2Q22 but remained comparable to pre-pandemic trends.

- + Second quarter CRE transaction counts in the West declined from 2021's elevated pace across sectors, but YTD activity remained comparable to pre-pandemic levels (see chart).
- + The hotel and office sectors saw the largest year-over-year declines in transactions, with offices in central business districts (CBD) declining faster than suburban properties.
- + Industrial and apartment transactions declined moderately from particularly high levels in 2021.
- + Per Real Capital Analytics (RCA), the dollar volume of CRE transactions at the national level increased year-over-year in 2Q22 despite a decline in the number of properties traded, suggesting that market activity shifted towards larger institutional investors that are less sensitive to short-term changes in interest rates.

CRE Transactions, West Region

Number of properties sold



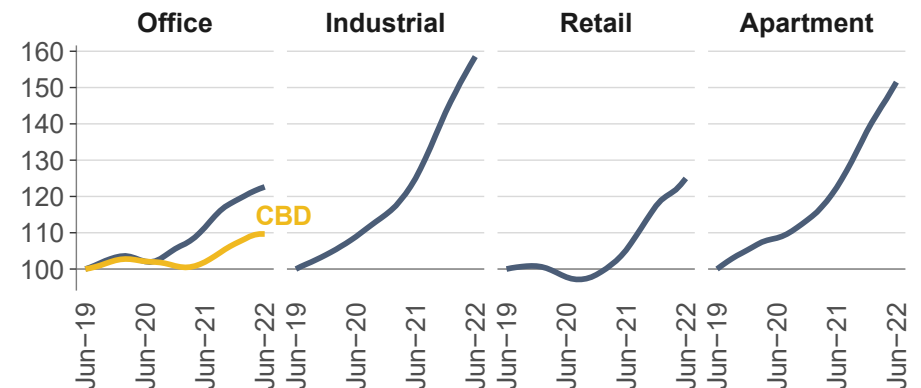
Includes transactions of properties valued \$2.5 million and above; West = District plus CO, MT, NM, and WY. Source: Real Capital Analytics.

CRE price growth slowed but remained positive in 2Q22, while cap rate spreads narrowed sharply.

- + Nationwide, CRE price growth eased slightly but remained positive on a yearly basis in Q2 across all major sectors except apartment, where growth was stable (see chart).
- + The office sector saw the largest deceleration in price growth, which was shared across the CBD and suburban subsectors.
- + Despite still-rising CRE prices based on transactions, prices of equity real estate investment trust (REIT) shares in public markets declined year-over-year in June and July 2022 (per the FTSE NAREIT All Equity REIT index). RCA analysts noted that declines in REIT prices have sometimes, but not always, led declines in transacted CRE prices.
- + Further increases in interest rates led to sharply narrowing spreads of CRE cap rates to U.S. Treasury rates, indicating lower compensation for risk for CRE investors. By 2Q22, West region cap rate spreads for the industrial and apartment sectors were near pre-pandemic lows.

Commercial Property Price Indices, Nation

Jun-19 = 100



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

Twelfth District Economy | Commercial Real Estate

Office vacancy rates increased further in 2Q22, but vacancies remained low in other sectors.

- + Average CRE vacancy rates for District markets largely maintained their recent trends in 2Q22. Although industrial and apartment vacancies remained historically low, they ticked up and may increase further (see chart). Retail vacancies continued to trend downward to levels not seen since prior to the Great Recession.
- + Average office vacancies continued to increase in the District, although CBRE-EA forecasts suggest they are close to topping out.
- + San Francisco remained the District market with the largest increase in office vacancies since the start of the pandemic, followed by Portland and Salt Lake City. Conversely, the office vacancy rate in Las Vegas was below its pre-pandemic level as of 2Q22, and office vacancies in Riverside were about even.
- + In the industrial sector, Phoenix, Riverside, and Ventura saw notably large declines in industrial vacancies since 4Q19.

Avg. CRE Vacancy Rates, Twelfth District Markets

Weighted by stock, shaded area = 3-year forecast



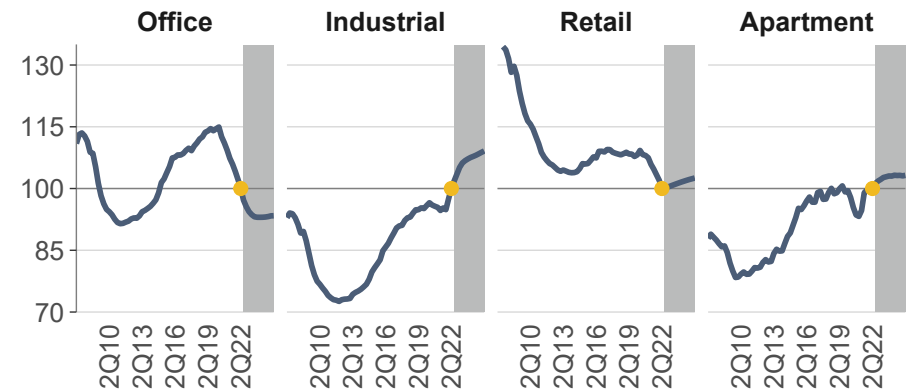
Includes the 16 to 18 largest markets in the District, depending on the sector. Source: CBRE-EA, SF Fed calculations.

Industrial and apartment rents matched multi-decade highs in 2Q22, while office and retail rents extended their slide.

- + Average real apartment rents in the District ticked higher in 2Q22, matching pre-pandemic peaks, although growth moderated. Average real industrial rent growth accelerated during the quarter, to the highest level recorded in more than 20 years (see chart).
- + On the other hand, average real office and retail rents were down 12.3% and 7.2% as of 2Q22 from before the pandemic, respectively, and continued to slide.
- + As with vacancies, San Francisco had the largest year-over-year declines in office and retail rents across all District markets in 2Q22, and had the largest gap relative to pre-pandemic rents in all sectors except industrial, where it was second to Bay Area neighbor, Vallejo.
- + On the other hand, Phoenix, Tucson, Riverside, and Las Vegas saw large apartment rent increases since the start of the pandemic, while Portland experienced the largest increase in industrial rents.

CRE Real Rent Indices, Twelfth District Markets

Weighted by stock, shaded area = 3-year forecast, 2Q22 = 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.

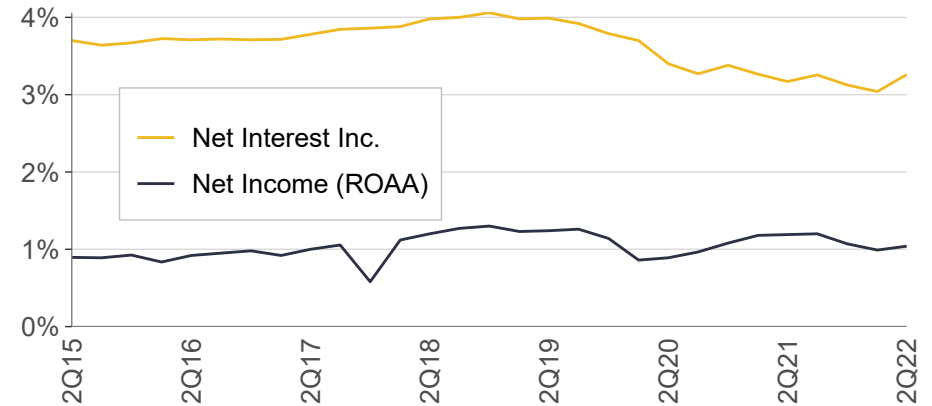
Twelfth District Banking Conditions | Earnings

Earnings performance improved quarter-over-quarter as did banker optimism about future profits.

- + During 2Q22, District banks reported a median quarterly ROAA (adjusted for Subchapter S effects) of 1.04%, up 5 bps from the prior quarter but down 15 bps from the year-ago quarter, led by stronger net interest income performance (see chart).
- + District banks' median YTD adjusted ROAA also edged up quarter-over-quarter but was weaker year-over-year.
- + According to the 2Q22 [CSBS Community Bank Sentiment Survey](#), community bankers in the “West,” became more optimistic about earnings prospects during the quarter in spite of increasing caution about business conditions. This divergence suggests that bank executives expect interest rate-driven improvements in net interest margins to exceed potential increases in credit costs.

Median Interest Margin & Net Income, Twelfth District

% of avg. assets, 1-quarter annualized



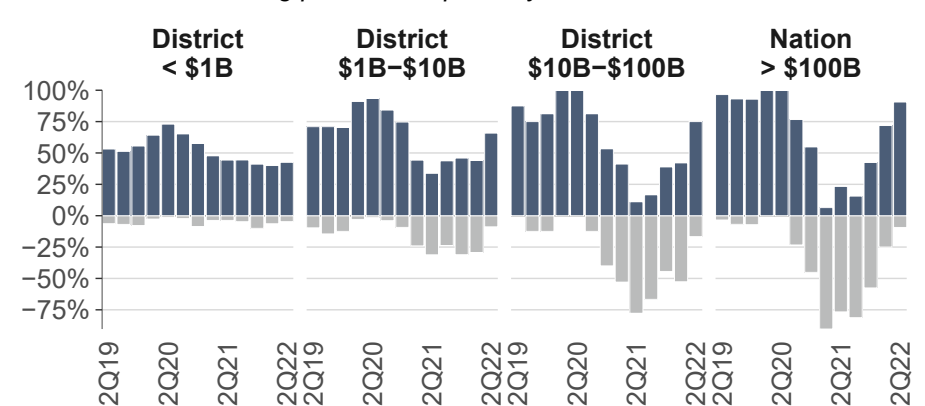
ROAAs among Subchapter-S filing banks are shown net of theoretical tax expense. Source: Bank Call Reports/Uniform Bank Performance Reports.

Quarterly net interest margins expanded strongly; offset in part by adverse trends in other earnings components.

- + The median one-quarter net interest income-to-average assets ratio among District banks improved to 3.26% in 2Q22, up 22 bps from 1Q22. Median yields received on earning assets responded more quickly to interest rate increases than funding costs. The trend was led in part by a shift in assets towards loans and a heavy reliance on less rate-sensitive transaction accounts for funding.
- + On a median basis, margin expansion was offset slightly by a 4 bps increase in overhead and a 5 bps slip in noninterest income ratios.
- + Provision expenses also inched higher at many banks as they built reserves in response to loan growth and/or slower economic prospects (see chart). In 2Q22, 55% of District banks booked positive provisions for loan losses, up from 42% in 1Q22. Likewise, only 7% of District banks released reserves, down from 18% in 1Q22. As noted on page 14, provisioning generally trailed increases in net new lending.

Provisions by Bank Size

Share of banks making provisions, quarterly



Source: Bank Call Reports/Uniform Bank Performance Reports.

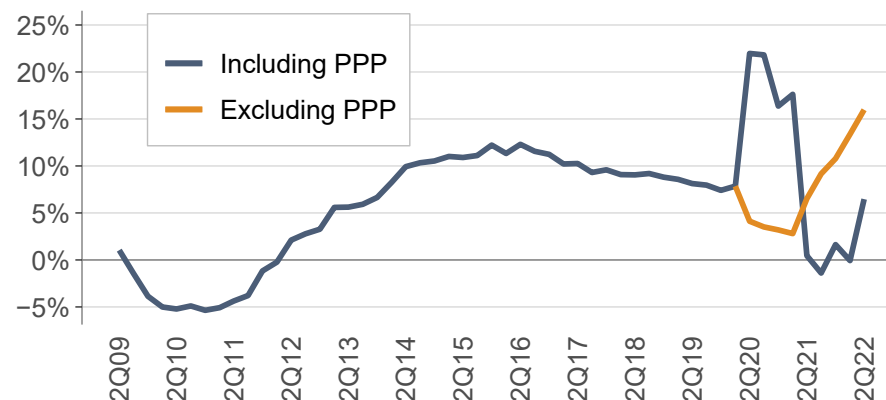
Twelfth District Banking Conditions | Growth + Concentrations

Non-PPP loan and lease growth far outpaced PPP forgiveness, but may face headwinds prospectively.

- + District banks' median annual non-PPP loan growth rate accelerated to 16.0% (see chart). Likewise, the median one-quarter growth rate for non-PPP loans reached 4.7%. These marked the fastest annual and second quarter loan growth rates since 2006.
- + Year-over-year loan growth was led primarily by CRE originations, with C&LD, MF, and NFNR balances expanding at median paces of 17.6%, 15.7%, and 12.4%, respectively. One-to-four family mortgages grew at a more modest but accelerating median rate of 7.3%. Due to PPP forgiveness, C&I loan growth remained negative year-over-year.
- + [IntraFi Network's](#) 2Q22 survey found that bank executives' loan growth expectations eased. By late June, 48% of bankers in the "West" expected loan demand to weaken in the ensuing year, up significantly from 26% who responded similarly in April.

Median Net Loan Growth, Twelfth District

Year-over-year % change



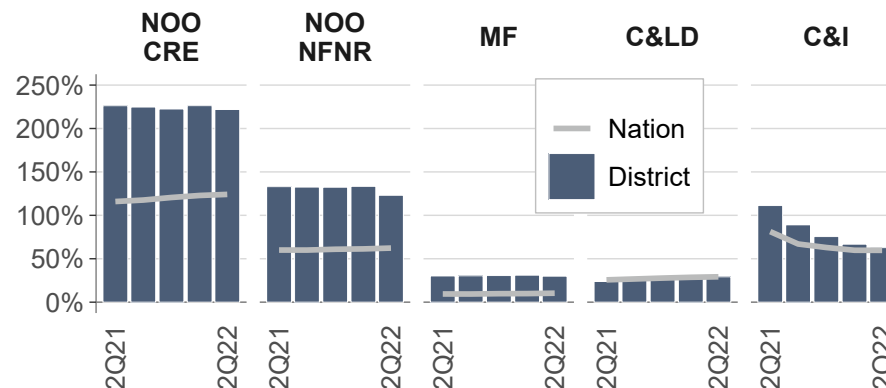
Growth rates include changes from mergers as well as organic growth. Source: Bank Call Reports/Uniform Bank Performance Reports.

CRE loan concentrations remained high; continued forgiveness activity all but eliminated PPP at most banks.

- + District bank loan portfolios continued to center in CRE categories, including those backed by owner-occupied (OO) and nonowner-occupied (NOO) collateral.
- + At 222%, the District's median NOO CRE concentration ratio – which includes NOO NFNR, MF, C&LD, and other CRE purpose loans – far exceeded a national median of 124% (see chart).
- + Separately, OO CRE mortgages represented 87% of tier 1 capital plus allowances in the District, also above a national median of 58%.
- + Per the [Small Business Administration](#), 94% of PPP funds had been fully or partially forgiven through July 4. As a result, by mid-2022, the District's median PPP concentration ratio shrank to less than 1% of tier 1 capital and allowances, down from a mid-2020 peak of 82%. Overall C&I loan concentrations declined in tandem.

Median Loan Concentrations

% of tier 1 capital + ALLL or ACL



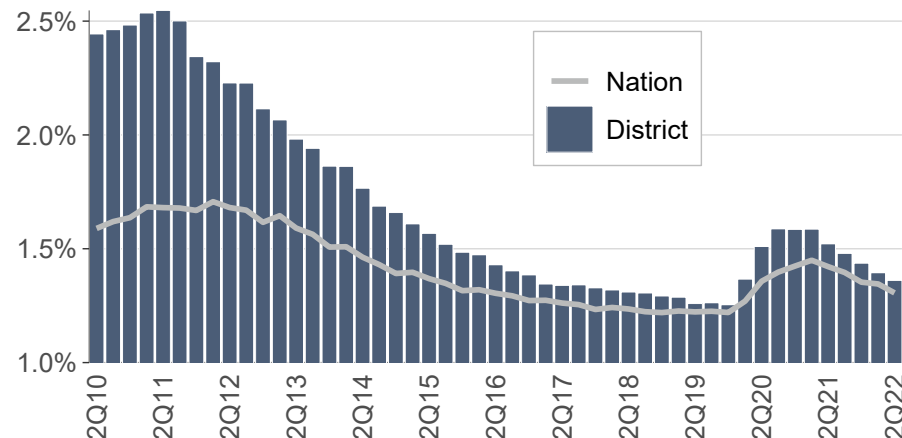
Source: Bank Call Reports/Uniform Bank Performance Reports.

Twelfth District Banking Conditions | Allowances + Underwriting

Median allowance coverage of non-PPP loans slipped further.

- + Non-PPP loan growth continued to outpace provisions for credit losses. As a result, the ratio of ALLL (or ACL)-to-non-PPP loans eased to a median of 1.36%, down 3 bps and 16 bps from the prior and year-ago quarters, respectively. However, District banks' coverage remained slightly above a national median of 1.31% (see chart).
- + In the District, median coverage ratios among Very Small (1.44%) and Small (1.32%) District banks were higher than among Mid-Sized (1.06%) banks. Notably, Mid-Sized firms tended to have higher 1-to-4 family (SFR) loan concentrations and were largely CECL adopters.
- + Among District banks with assets exceeding \$1 billion – which report allowance detail by loan type – median reserve coverage ratios for consumer (2.45%), C&LD (1.61%), and C&I (1.42%) loans exceeded MF/NFNR (1.09%) and SFR mortgages (0.83%) by a notable margin. District bank medians for the latter two categories trailed the nation slightly.

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

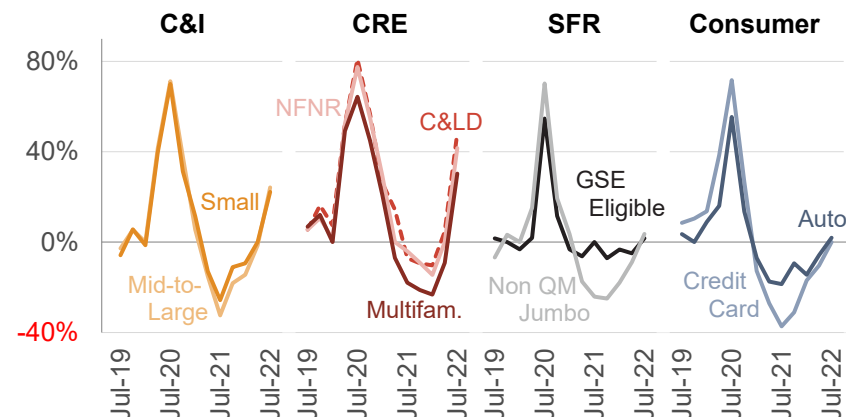


Limited to loan and lease related allowances. Source: Bank Call Reports/Uniform Bank Performance Reports.

Nationally, fewer lenders eased underwriting; some may tighten standards for certain products going forward.

- + Per the Federal Reserve's [July 2022 Senior Loan Officer Opinion Survey \(SLOOS\)](#), a growing share of lenders tightened standards for C&I and CRE loan categories (see chart). Reports of weakening NFNR and C&LD loan demand became more widespread.
- + Fewer banks eased residential mortgage and consumer loan standards during the quarter and mortgage demand ebbed further.
- + The [July SLOOS](#) also asked about expected changes in lending standards for C&I loans, residential mortgages, and consumer loans during the second half of 2022 (CRE not covered). More than one-third of respondents anticipated at least "somewhat" tightening standards for mid-large C&I loans (55%), small C&I loans (50%), and nonconforming jumbo mortgages (37%). Among those planning to tighten, more than 70% cited expected deterioration in debt-servicing capacity, collateral values, or credit quality, or reduced risk tolerance as at least "somewhat important" to the decision.

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.

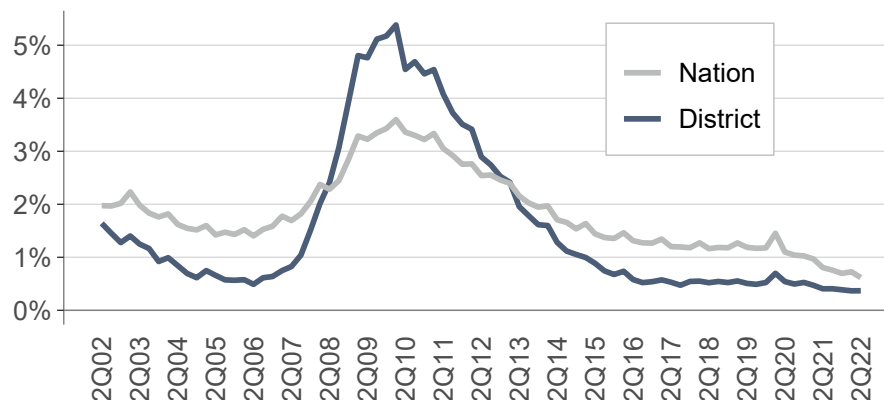
Twelfth District Banking Conditions | Loan Performance

Loan delinquencies remained low.

- + District banks' median noncurrent loan ratio – which includes credits 90+ days delinquent or on nonaccrual – edged down to just 0.18% as of June 30 (adjusted for PPP, see chart). It remained the lowest median rate among the Fed's twelve districts and marked a record low for second quarters stretching back to 2006.
- + Including early stage delinquencies (30–89 days past due), the District's median overall past due non-PPP loan ratio was low and steady at 0.37%, and bested a (declining) national median of 0.62%.
- + Overall delinquency rates tended to be comparable across community and Mid-Sized banks based in the District. In contrast, the median past due loan rate at Large banks nationwide remained comparatively high at 1.11%, in part because of their more retail-oriented loan portfolios. Still, delinquency ratios generally eased quarter-over-quarter among these larger lenders.

Median Past Due Loan Rates

Excluding PPP loans



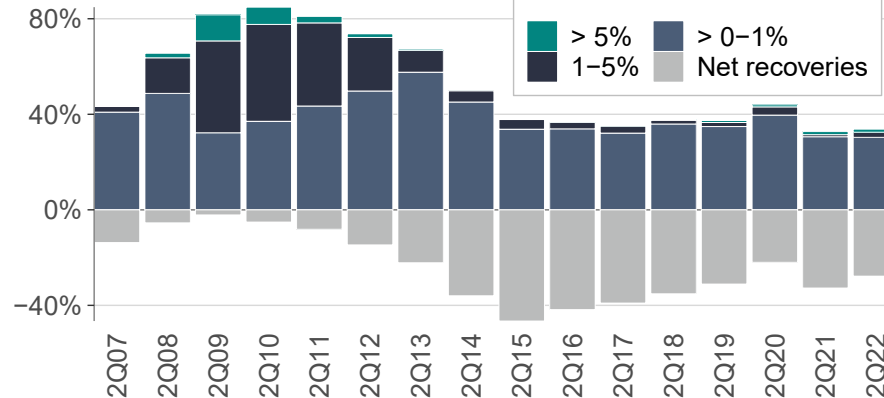
Past due includes 90+ days or nonaccrual (noncurrent) plus 30–89 days past due. Source: Bank Call Reports/Uniform Bank Performance Reports.

Net chargeoff activity remained limited.

- + Roughly 34% of District banks recorded net loan losses through the first half of 2022, comparable to the same period in 2021. An increasing share (38%) reported zero loan losses mainly because fewer banks reported net recoveries YTD (see chart). Among those with losses, annualized chargeoff rates were predominantly below 1%. Consistent with prior years, the share recording net losses by June exceeded that seen in March.
- + Credit performance may normalize or worsen going forward given the prospect of economic deceleration. The June [CSBS Community Bank Sentiment](#) sub-index reading for future business conditions sank to 38, down 45 points quarter-over-quarter. Among respondents in the West, the sub-index plummeted 76 points to a reading of 50. Likewise, [IntraFi Network](#) reported that two-thirds of bankers in the West surveyed in June expected economic conditions to worsen in the coming year, nearly double the 39% who responded similarly in April.

Share of Banks with Net Chargeoffs, Twelfth District

Year-to-date, second quarter of each year, as % of avg. loans & leases



Source: Bank Call Reports/Uniform Bank Performance Reports.

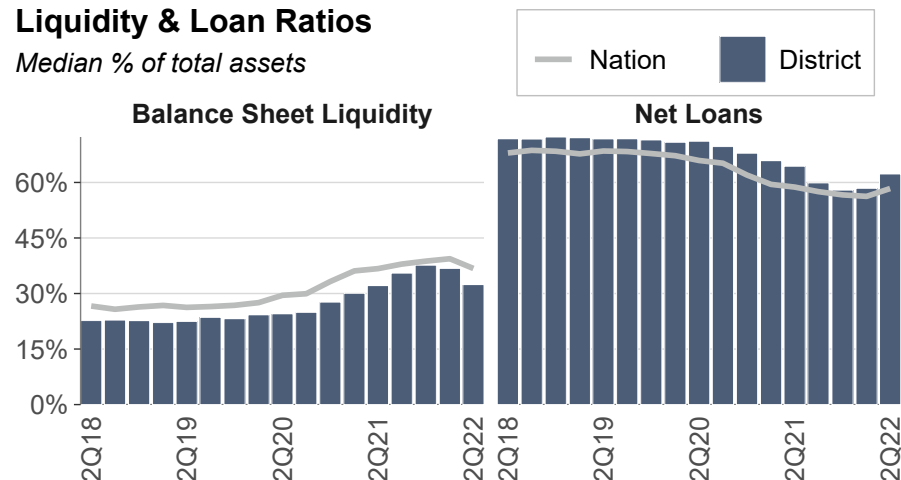
Twelfth District Banking Conditions | Liquidity

On-balance sheet liquidity tightened and net unrealized losses on securities intensified.

- + Most banks deployed liquid instruments on hand to fund new loans, causing overall asset growth to be relatively flat. As a result, the median loan-to-asset ratio in the District increased by 4 percentage points to 62%. Still, this trailed pre-pandemic levels (see chart).
- + Increases in long-term interest rates amplified declines in AFS bond valuations, and as a result, accumulated other comprehensive income (AOCI) levels within capital. YTD declines in AOCI tended to weigh more heavily on “book” capital at Mid-Sized and Small banks than at Very Small banks in the District, influenced by the size of AFS holdings in relation to the balance sheet and the mix of investments.
- + Other than for the largest firms, swings in AFS bond values are excluded from federal regulatory capital at most banks by way of “opt-out” provisions. However, “book” capital may be used for other state or federal rules, such as FHLB tangible equity requirements.

Liquidity & Loan Ratios

Median % of total assets

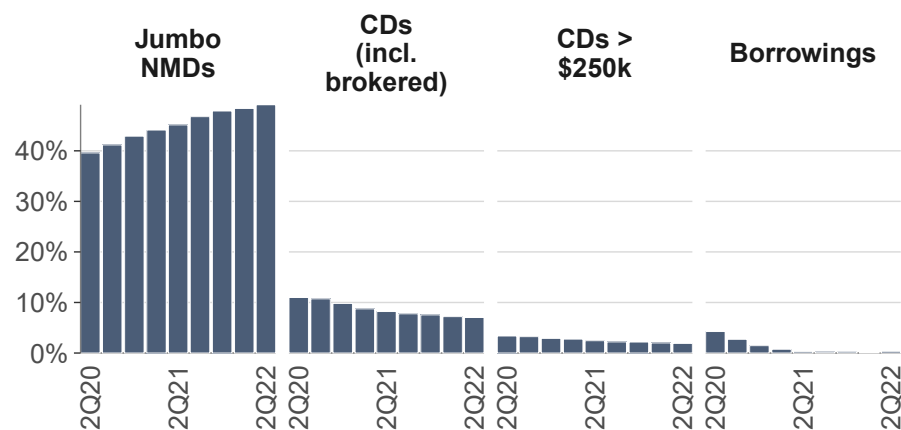


Source: Bank Call Reports/Uniform Bank Performance Reports.

NMD growth stalled, driven by depositor preferences and seasonal trends.

- + Median quarterly NMD growth slowed to just 8 bps among the District’s community banks. And at District Mid-Sized and Large banks nationally, quarterly NMD growth turned slightly negative. Given pre-pandemic patterns, the trend may have been driven in part by seasonal factors.
- + Although slowing, NMDs remained a key source of funding, supporting 80% of District bank assets on a median basis. Jumbo NMDs – accounts exceeding \$250K each – supported nearly half of banks’ assets in the District versus a U.S. median of 32% (see chart).
- + Banks’ median reliance on CDs and borrowings remained limited, which was important since pricing for such instruments responded more strongly to interest rate increases than NMDs.
- + At midyear, some depositors may have been awaiting further rate hikes before locking in higher-cost accounts such as CDs, so a further rotation out of NMDs and into CDs remains possible.

Median Liability Category / Assets, Twelfth District



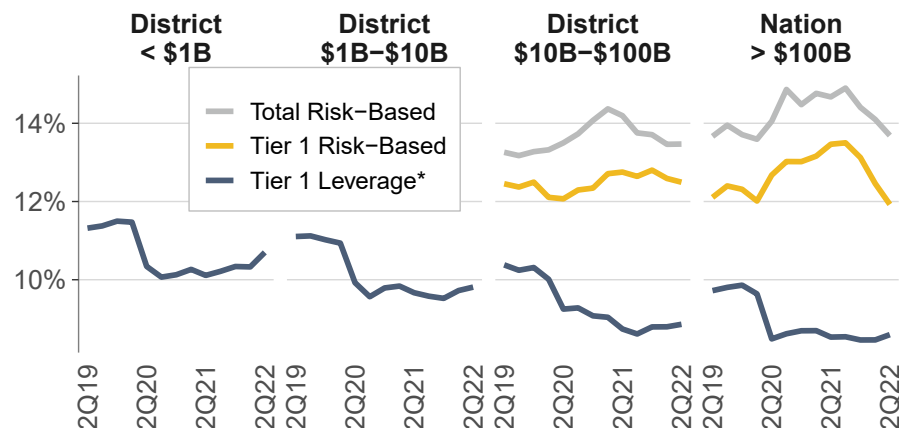
Source: Bank Call Reports/Uniform Bank Performance Reports.

Twelfth District Banking Conditions | Capital

Leverage capital ratios edged higher but strong loan growth and tightening liquidity hurt risk-based capital ratios.

- + Tier 1 leverage ratios improved in 2Q22 amid moderating asset growth and higher earnings retention. Districtwide, the median tier 1 leverage ratio was 9.93%, up slightly from 1Q22. Improvement was seen across banks of varying sizes (see chart).
- + In contrast, banks' shift away from PPP and liquid instruments into other loans and securities pressured risk-based capital (RBC) ratios, especially among Large banks. On a median basis, tier 1 and total RBC ratios in the District measured 13.71% and 14.71% in 2Q22, down 40 bps and 65 bps, respectively, quarter-over-quarter.
- + Surveys by [IntraFi Network](#) suggest easing banker confidence about access to capital. In June, 9% of bankers in the West expected capital access to improve in the next twelve months, versus 25% of respondents in January. Meanwhile, 20% expected capital access to worsen, up from 2% at the beginning of the year.

Median Regulatory Capital Ratios by Bank Size



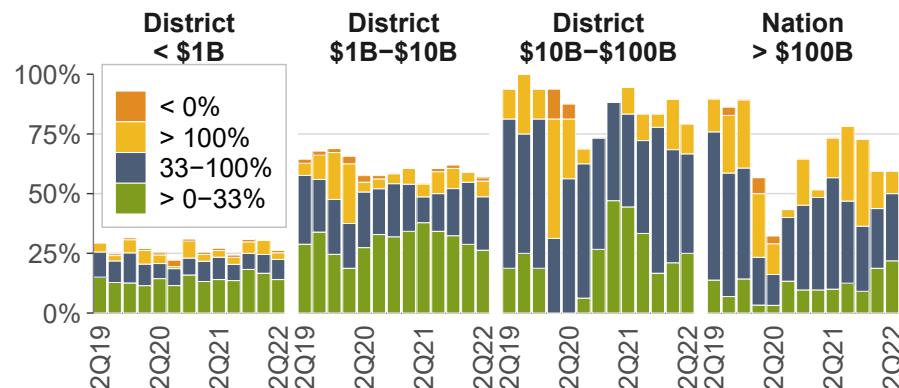
*Includes community bank leverage ratio (CBLR) reporters. Source: Bank Call Reports/Uniform Bank Performance Reports.

Median District bank dividend payouts were comparable to last quarter and the same period in 2021.

- + Among the District's non-Subchapter S banks, roughly 44% paid dividends in 2Q22, comparable to 2Q21 but down slightly from 1Q22. Dividend payouts in the District remained least common among Very Small banks and most common among Mid-Sized banks (see chart).
- + Districtwide, 20% of non-Subchapter S banks paid dividends representing of up to one-third of quarterly net income. Another 17% paid dividends that were higher than that but less than net profit, and 7% paid dividends in excess of quarterly net income.
- + Stronger profits and moderate dividend payouts helped boost capital accretion rates. On a median basis, 2Q22 retained earnings-to-average equity ratios improved quarter-over-quarter to 7.3%, 9.4%, and 6.6% among Very Small, Small, and Mid-Sized banks based in the District.

Cash Dividends by Bank Size

Share of C-corp banks paying dividends, as % of quarterly net income



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 + Abbreviations

Summary of Institutions by State & Technical Notes

Area	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Jun-22	Jun-21	Jun-22	Jun-21	Jun-22	Jun-21
Alaska	4 (0)	4 (0)	-	-	1 (0)	1 (0)
Arizona	16 (3)	13 (0)	-	-	1 (0)	-
California	120 (2)	130 (2)	3 (0)	3 (0)	9 (0)	10 (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)	13 (0)	-	-	2 (0)	2 (0)
Utah	26 (1)	26 (1)	15 (2)	16 (2)	1 (0)	1 (0)
Washington	34 (0)	32 (0)	-	-	7 (0)	8 (0)
District	240 (7)	246 (2)	23 (2)	24 (2)	27 (0)	28 (1)
Nation	4,148 (30)	4,308 (27)	24 (2)	26 (2)	593 (0)	616 (1)

Based on preliminary 2Q22 data.

Common 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

- + 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. Beginning in 1Q22, statistics are predominantly shown on a median rather than a “trimmed average” basis, so comparisons with prior editions of this report should be made with caution. 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 (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 medians and trimmed averages.

HFS	held for sale
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