Economic and Banking Performance
in the Twelfth Federal Reserve District

First Glance 12L

Economic and Liquidity Pressures Intensified for Banks

4Q22

March 3, 2023

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: District job and real estate markets cooled further. In aggregate, the pace of District job growth slowed, and unemployment rates edged higher in most District states. Home price indices mostly declined, approaching or dipping below year-ago levels in Idaho, Washington, and California's San Francisco Bay Area and Sacramento markets. In the West, December's existing home sales reached the slowest pace since 1993 and one-to-four family permit activity continued to contract. Homebuilder sentiment remained weak but improved slightly in early 2023. Across several commercial real estate types, transaction volumes and/or price indices declined amid rising debt service and operating costs, slowing rent growth, and growing economic uncertainty.

Banking Conditions: Quarterly earnings improved among the District's banks but liquidity tightened. Increases in asset yields outpaced rising interest costs, overhead expenses, and provisions for credit losses. This lifted the median return on average assets ratio slightly quarter-over-quarter. However, funding costs moved notably higher during the quarter as nonmaturity deposit runoff became more widespread, deposit competition intensified, and banks shifted balance sheet funding towards pricier sources. Banks used liquid instruments to fund loan growth and/or deposit withdrawals, contributing to tighter on-balance sheet liquidity. Net unrealized losses among bond portfolios moderated but continued to constrain liquidity options and crimp "book" capital. Problem loan levels remained low. Still, surveys showed a growing share of bankers tightened standards and expected loan performance to weaken.

Table of Contents

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This report is based upon preliminary data from commercial bank Condition & Income (Call) Reports, Uniform Bank Performance Reports (UBPRs) 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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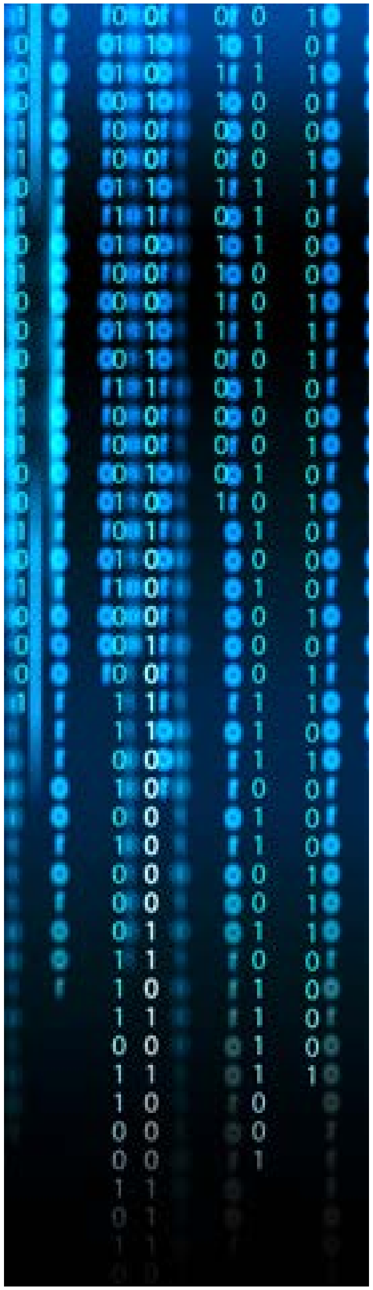
Issues on Our Radar | Selected issues we are watching most closely

Cybersecurity



+ Cyber remains a top risk given an ever-growing multitude of threats, particularly amid evolving geopolitical developments. Ransomware with double extortion, phishing campaigns, API security misconfiguration, patch management, rising cyber insurance premiums, and supply chain compromises are the primary cyber issues facing supervised institutions, their customers, and their suppliers. Cloud computing adoption continued to increase, escalating the need for effective risk and vendor management programs.
+ The increase in digital financial services and mobile banking has exponentially expanded the attack surface that criminals can exploit.
+ On November 9, 2022, the New York Department of Financial Services released proposed amendments to its Cybersecurity Regulation, which may impact District banks with operations in that state. Changes include increased mandatory controls associated with common attack vectors and more stringent cybersecurity requirements for larger institutions, among other enhancements.
+ The National Institute for Standards and Technology (NIST) issued a series of special publications and interagency reports in November 2022 covering critical cyber topics, including Securing Enterprise Landscape, Measuring the Common Vulnerability Scoring System Base Score Equation, and Using Business Impact Analysis to Inform Risk Prioritization and Response.

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, including crypto-asset related services, and the evolving nature of threats and regulatory guidance.
+ On January 25, 2023, FinCEN alerted financial institutions to potential investments in the U.S. CRE sector by sanctioned Russian elites via their associates and entities. CRE transactions routinely involve highly-complex financing methods and opaque ownership structures, which diminish transparency, helping bad actors to hide illicit funds. The alert lists potential red flags and outlines typologies used to evade sanctions.
+ On January 13, 2023, FinCEN issued an alert, including red flags, to assist financial institutions in their detection and reporting of transactions that may relate to human smuggling along the U.S. southwest border.
+ On December 15, 2022, FinCEN issued a Notice of Proposed Rulemaking (NPRM) to implement the provisions of the Corporate Transparency Act that govern access to beneficial ownership information (BOI). The NPRM specifies how government officials and regulators would access, use, and secure BOI to support law enforcement, intelligence, and/or supervisory activities.

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

Real estate loan concentrations

+ District banks engage heavily in real estate-related lending, in particular commercial real estate (CRE) mortgages. At 339%, the District's median total CRE loan-to-capital and allowances ratio far surpassed a national median of 203%. Within the District, exposures continued to be highest among banks based in California, Washington, and Arizona (see table).
+ Rising interest rates may pressure repayment capacity or hurt collateral values if higher financing costs are not offset by a corresponding increase in net operating income. These factors could cause repayment problems, including refinancing risks for balloon payments on maturing CRE loans.
+ 1-4 family mortgage (SFR) concentrations, which tend to be much higher among Mid-Sized than community banks in the District, increased during 2022. Higher mortgage interest rates slowed housing markets, which could affect demand for SFR and residential C&LD loans and collateral.

C&I credit risks

+ As of 4Q22, District banks' C&I balances represented 56% of tier 1 capital plus allowances on a median basis, comparable to the nation (60%).
+ Lingering or renewed stress on business borrowers – from economic slowing, rising input and debt service costs, or labor shortages – may amplify risks for some C&I borrowers.
+ Leveraged loans, which predominantly have variable interest rates, continue to pose heightened risks (see Shared National Credit results).

Community bank CECL implementation

+ As of 4Q22, more than 80% of District banks – generally smaller, non-publicly traded firms – had yet to adopt the CECL method of allowance accounting. For them, the standard will become effective in 2023.
+ The Federal Reserve's CECL Resource Center offers resources, including 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
December 31, 2022

	Total CRE	NOO CRE
California	365%	270%
Washington	348%	235%
Arizona	340%	225%
Oregon	293%	212%
Nevada	286%	159%
Alaska	256%	172%
Idaho	239%	161%
Hawaii	222%	175%
Utah	179%	107%
Nation	203%	130%

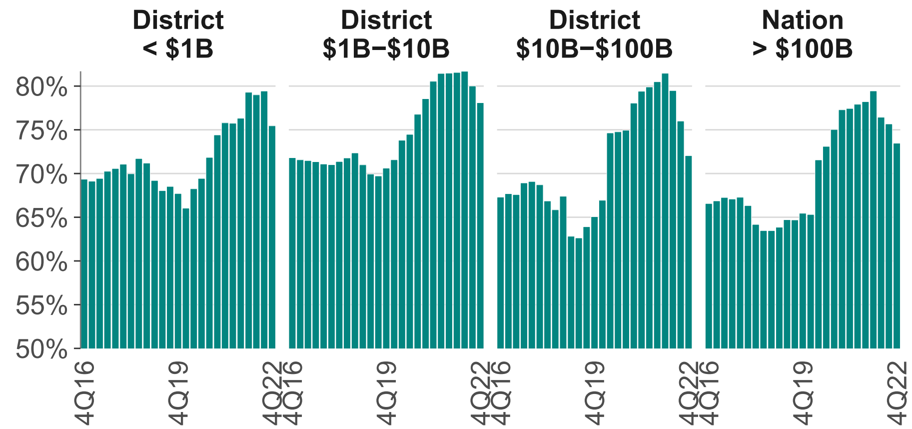
Commercial real estate (CRE) includes owner- and nonowner-occupied NFNR, multifamily, C&LD, and other CRE purpose loans; nonowner-occupied (NOO) excludes owner-occupied NFNR mortgages. Source: Bank Call Reports/Uniform Bank Performance Reports (UBPRs).

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

Funding mix and investment portfolio valuations

- 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, quarterly NMD runoff intensified across bank size groupings by late 2022 (see chart).
- Some pandemic-era NMDs have migrated to higher yielding deposit products, and banks – especially Mid-Sized and Large ones – have increasingly turned to pricier, noncore sources to replace funding. Districtwide, noncore funds increased to 7.7% of assets on a median basis by year's end, up from a mid-2022 trough of 4.5%.
- Notwithstanding a dip in long-term interest rates during 4Q22, net unrealized losses persisted among bank bond portfolios. As further described on pages 16 and 17, unrealized losses may hamper on-balance sheet liquidity, borrowing capacity, and "book" capital.

Median Nonmaturity Deposits / Total Assets by Bank Size



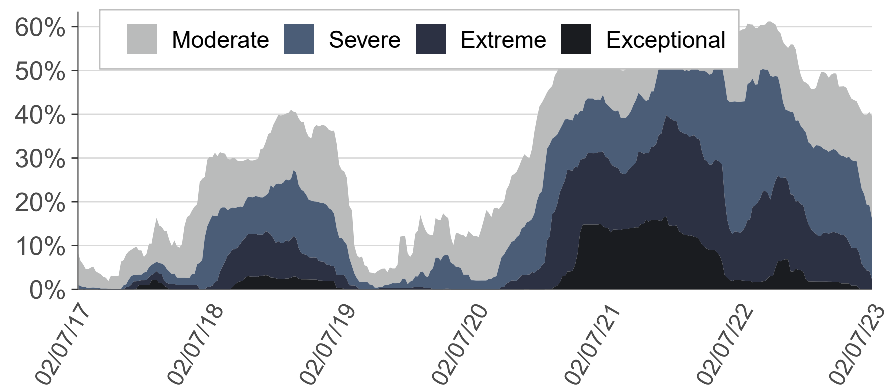
Nonmaturity deposits include checkable, money market, and passbook-type deposit accounts. Source: Bank Call Reports/UBPRs.

Drought-related impacts

- According to the U.S. Drought Monitor, just under 40% of the land area in the West Climate Region was in drought through February 7, down from nearly 60% at the same point in 2022 (see chart). Winter storms significantly curtailed the severity of drought in Central California, Nevada, and Utah especially.
- Notwithstanding seasonal rains, water levels in Lakes Mead and Powell along the Colorado River remain critically low. Seven Western states reliant on the Colorado River, including Arizona, California, Nevada, and Utah in the District, were unable to agree on voluntary conservation guidelines by a January 31 deadline. Ultimately, cuts to water allocations across several states will be necessary given limited water flows.
- Drought threatens water quality and availability, reduces hydro-power potential, and contributes to wildfire risks, posing challenges to banks, their employees, and their customers.

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., 2/7/2023.

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

Increasing enterprise complexity including fintech-related activities

- Networks of multiple complex third/fourth party relationships, growing use of cloud services, adoption of crypto-asset services, and acquisition of novel fee-generating businesses are drivers for heightened concern. In particular, bank-fintech partnerships, such as Banking-as-a-Service models, can lead to a growing reliance on nonbank firms for revenue sources and technology firms as service providers. Vulnerabilities can be compounded if the risk appetite for outsourcing and engaging with nonbank partners gets ahead of the control environment.
- Given developments in the marketplace and attendant risks, the banking agencies have recently issued guidance related to crypto-asset and other novel business models, including a Joint Statement on Crypto-Asset Risks to Banking Organizations (January 3, 2023), a Federal Reserve Policy Statement to Promote a Level Playing Field for All Banks with a Federal Supervisor (January 27, 2023), and a Joint Statement on Liquidity Risks Resulting from Crypto-Asset Market Vulnerabilities (February 23, 2023).

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 1Q23) and the Interagency Community Reinvestment Act (CRA) proposed rule (published in May 2022). An Ask the Regulators 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 CRA proposal.
- In January 2022, the CFPB launched an initiative to identify "exploitative junk fees" (see Docket ID CFPB-2022-0003), which resulted in guidance covering debt collection "pay-to-pay" fees and overdraft/returned deposited item fees. Relatedly, on February 1, 2023, the agency proposed a rule to curb excessive credit card late fees.

LIBOR transition

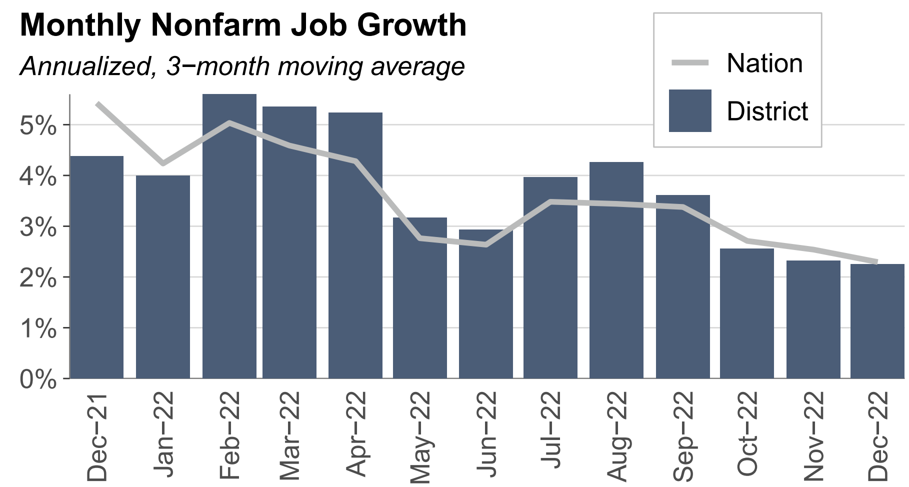
- LIBOR transition will remain an area of focus ahead of the mid-2023 sunset of LIBOR. The Federal Reserve's LIBOR Transition website provides guidance on instruments with tenors beyond June 2023, which may require renegotiation, fallback language, and/or an alternative reference rate.
- On December 16, 2022, the Federal Reserve issued a final rule implementing the Adjustable Interest Rate (LIBOR) Act. Substantially similar to an earlier proposal, the rule outlines which Secured Overnight Financing Rate (SOFR)-based replacement rate and spreads would apply to certain legacy contracts after June 30, 2023.
- Exposure is generally low among most District banks, primarily via securities, derivatives, and/or subordinated debt. LIBOR-based lending is limited.

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

Job gains persisted but at a slowing pace.

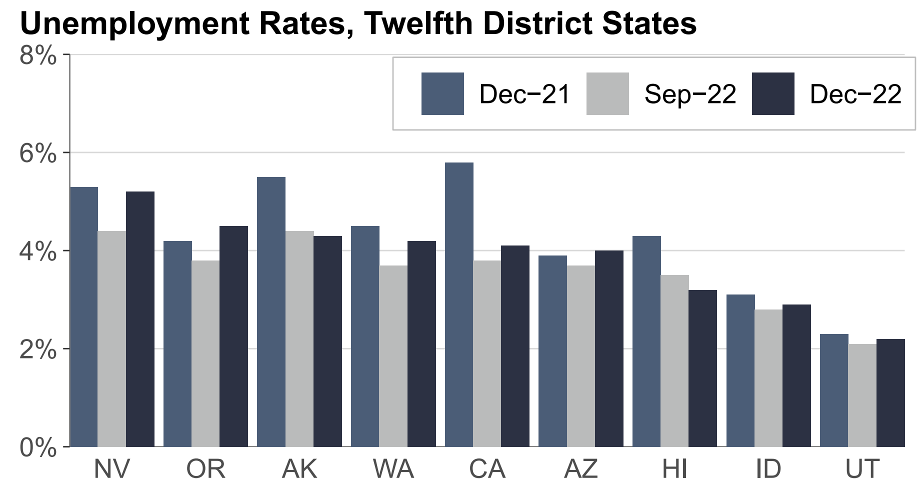
- Monthly job growth in the District generally eased over the course of 2022, settling at 2.25% in December (on an annualized, three-month moving average basis). Growth slightly trailed a nationwide pace of 2.29% (see chart).
- On average, the education/health and leisure/hospitality sectors led job gains during 4Q22. In contrast, the retail trade, information (including media and some technology-related jobs), and government sectors shed payrolls.
- Among the District's states, average monthly annualized job growth was strongest in Alaska (4.87%), Oregon (4.07%), Nevada (3.28%), and Hawaii (3.12%). Meanwhile, average 4Q22 growth was slowest in Utah (0.37%).
- Although job gains were solid on average in 4Q22, payrolls in Hawaii and Alaska remained below pre-pandemic (Feb. 2020) levels.



Seasonally adjusted. Source: Bureau of Labor Statistics.

Unemployment rates edged up in most District states, and aggregate initial unemployment claims increased.

- The Districtwide unemployment rate edged up to 4.02% in December, from 3.72% in September, both because of an increase in unemployed persons (+102K) and a decline in the labor force (-22K). Although comparable to a pre-pandemic (Feb. 2020) level, it remained above a nationwide rate of 3.5%.
- Jobless rates increased in all District states except Alaska and Hawaii over the quarter, with the most significant three-month percentage point (pp) increases in Nevada (+0.8 pp), Oregon (+0.7 pp), and Washington (+0.5 pp) (see chart).
- By February 11, 2023, seasonally-adjusted initial claims for unemployment insurance in the District increased to a 4-week average of 75K, up from 67K in December. The increase was driven by California and Utah. While well below a pandemic-era peak of 852K, initial filings topped pre-pandemic averages closer to 60K.



Seasonally adjusted. Source: Bureau of Labor Statistics.

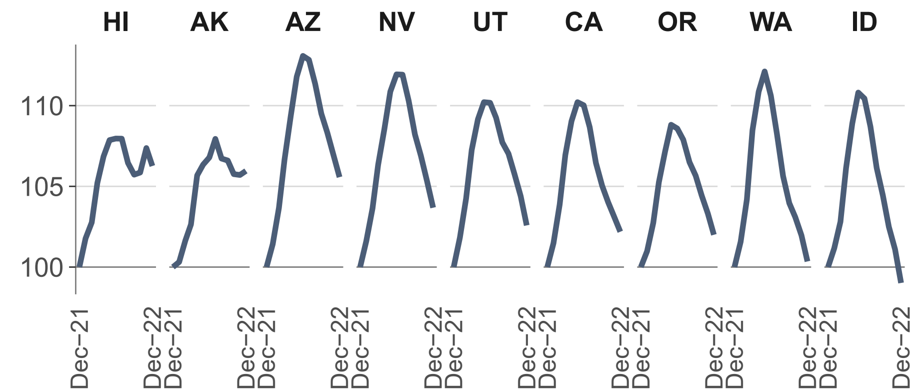
Twelfth District Economy | Housing

Home prices remained under pressure, turning negative year-over-year in some areas.

- Average single-family home prices peaked in most District states around mid-2022 and subsequently eased. In Idaho and Washington, CoreLogic's December price indices had fully or nearly retraced gains from earlier in the year, respectively (see chart). In most other District states, year-end home prices were down roughly 7% from 2022 peaks. Alaska and Hawaii were both exceptions.
- Although home price indices remained above prior year levels in California overall, markets in the San Francisco Bay Area (Bay Area) and Sacramento posted year-over-year declines at the metro level.
- Notwithstanding price declines, housing affordability remained strained in the West. Eighteen of the twenty least affordable housing markets in the U.S. were in California based upon the NAHB/Wells Fargo Housing Opportunity Index.

Home Price Index, Twelfth District States

Dec−21 = 100



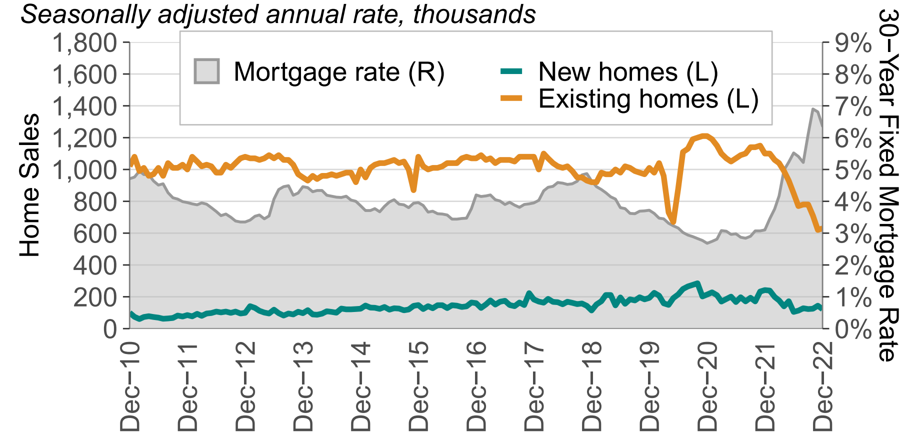
Index covers attached and detached single-family homes, including distressed sales. Source: CoreLogic.

Existing home sales continued to recede; new home sales were comparatively stable.

- The pace of existing home sales in the West slowed notably in 4Q22, dipping in December to the lowest seasonally adjusted annual rate since 1993. Meanwhile, new home sales in the region edged higher, but remained below pandemic-era peaks (see chart).
- The West's January 2023 pending home sales index, which leads closed existing sales by one to two months, improved slightly from December 2022, but remained down 29% from year-ago levels according to the National Association of REALTORS®.
- Based upon data from Redfin, for-sale inventories in the District averaged 3.0 months' worth of sales in 4Q22, up slightly from 2.7 months in the prior quarter, and significantly above the 1.2 month average in 4Q21. The overall trend was driven mainly by falling sales activity rather than increasing unsold inventories.

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.

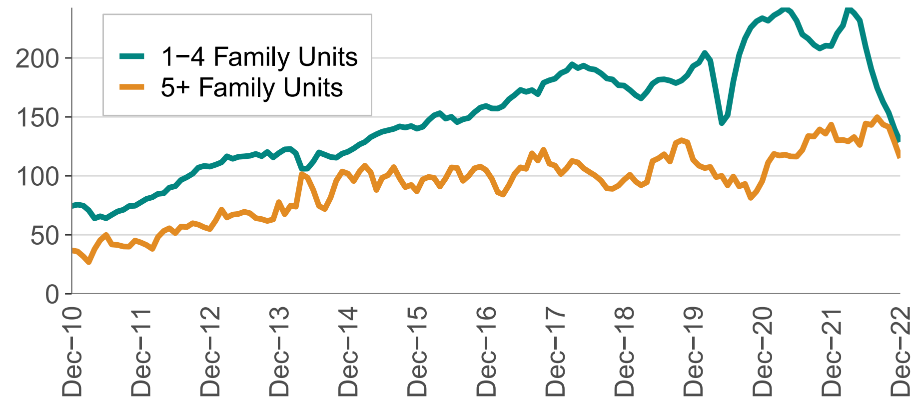
Twelfth District Economy | Housing + Commercial Real Estate

Housing permit activity eased through year end but homebuilder confidence improved slightly in early 2023.

+ 1-4 family housing permits issued in the District continued to struggle. December's three-month trailing average sank below the early 2020 trough and marked the lowest level since early 2015 (see chart).
+ Multifamily (5+ unit) permit issuance remained elevated by historical standards, but declined quarter-over-quarter in seven of the District's nine states.
+ Single-family homebuilder confidence in the West was also weak at the end of 2022, but rebounded slightly after the turn of the year. During the first two months of 2023, the region's NAHB/Wells Fargo Housing Market Index improved by 12 points to a reading of 37, likely benefiting from receding mortgage interest rates. Still, the sub-50 index level indicated more homebuilders considered current and/or prospective conditions to be poor rather than good.

Housing Permits, Twelfth District

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



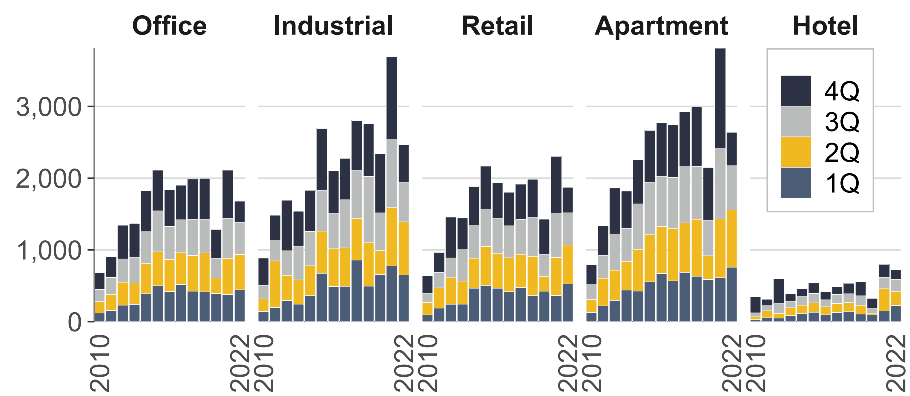
Source: Census Bureau via Haver Analytics.

CRE transaction volumes slowed sharply in 4Q22 amid weakening real estate investor sentiment.

+ Per MSCI/Real Capital Analytics (RCA), the pace of CRE transactions in the West slowed further in 4Q22. Full year transaction volumes were well-below 2021 levels and remained off from the 2019 pace for all major sectors except hotel (see chart).
+ The industrial and apartment sectors saw the largest declines in sales transactions year-over-year, following extreme peaks in 2021. Office and retail property sales also sank, hurt in particular by 4Q22.
+ Lower sales activity likely reflects both a normalization after record levels in 2021 and the binding effects of higher interest rates, slowing economic activity, and divergent buyer-seller expectations.
+ Roughly 90% of respondents to RCLCO's 2H22 Real Estate Market Survey indicated that CRE conditions worsened in 2022 and most expected further weakening. The Real Estate Roundtable's 1Q23 survey of investors noted lower prices and tighter capital availability.

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: MSCI/Real Capital Analytics.

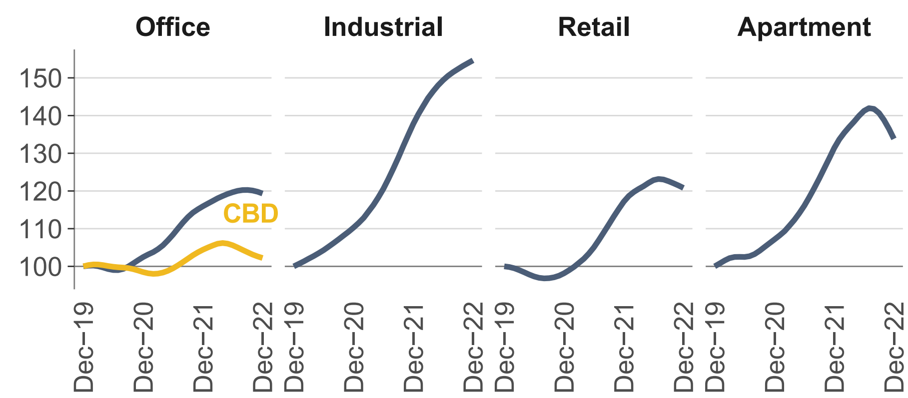
Twelfth District Economy | Commercial Real Estate

CRE price growth slowed across property sectors, turning negative in several cases.

- Among office properties, the central business district (CBD) sub-index has struggled since May 2022 (see chart). By 4Q22, the suburban property sub-index also began to edge lower, crimping the overall office index. Persistent hybrid/remote work arrangements have weighed on office sector demand, prospects, and prices.
- Retail and apartment property prices also slid, with the apartment price index notably losing value during the last five months of 2022.
- Industrial price appreciation eased after runaway growth during the pandemic, with the month-over-month annualized pace of appreciation slowing to the mid-single digits by December 2022.
- MSCI/RCA's broad commercial price index (office + industrial + retail) declined year-over-year in Las Vegas, the Greater Bay Area, Sacramento, and Phoenix. Apartment price indices in Phoenix, the Greater Bay Area, and Sacramento also lost value in 2022.

Commercial Property Price Indices, Nation

Dec−19 = 100



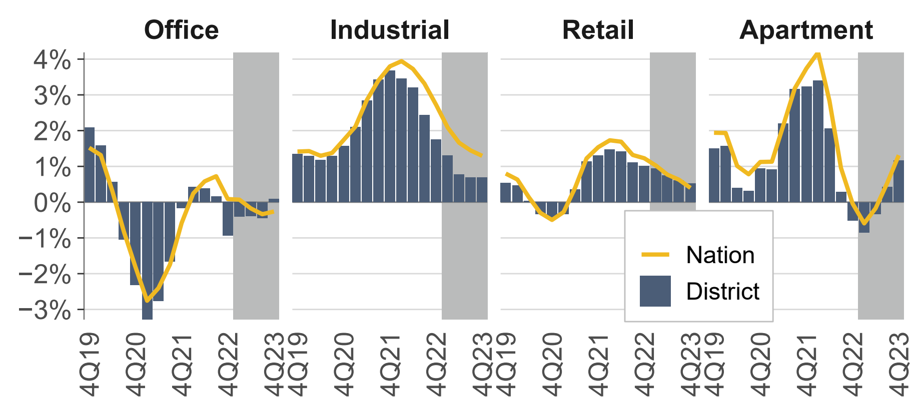
Based upon repeat-sales transactions; CBD = central business district.
Source: MSCI/Real Capital Analytics.

Demand for CRE space continued to wane, especially in the office and apartment sectors.

- Trailing four-quarter absorption rates turned negative in the office sector by late 2022. The Salt Lake City and San Francisco markets had among the weakest office absorption rates in the District during the year. CBRE-EA expects office demand to remain subdued given hybrid/remote work trends and weaker economic prospects.
- Apartment absorption rates slowed in 2022 (see chart). Inflation and economic pressures tempered renter household formation as new construction added to stock. Markets with the weakest apartment absorption rates in 2022 tended to include inland areas like Tucson, Las Vegas, Riverside, and Sacramento. Still, coastal markets also generally followed the trend. Forecast data from CBRE-EA suggests apartment absorption rates will ease before returning by late 2023.
- Industrial and retail absorption rates exceeded pre-pandemic levels through 4Q22 but were also expected to slow further.

CRE Absorption Rates

Rolling 4−quarter absorption as % of ending stock, shaded area = forecast



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

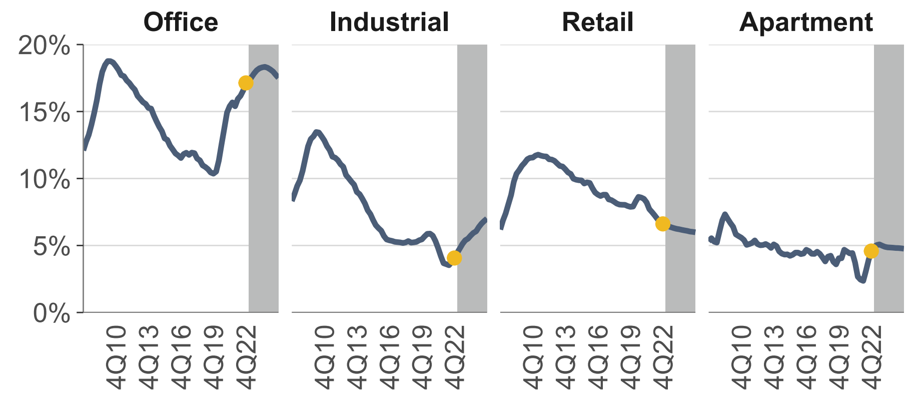
Twelfth District Economy | Commercial Real Estate

Vacancy rates generally drifted higher for office, apartment, and industrial properties.

+ Office vacancies increased across most District markets in 4Q22 but remained below Great Recession peaks in aggregate (see chart). By the end of 2022, vacancy rates topped 18% in six of the District's major markets: Portland, Salt Lake City, Los Angeles, Phoenix, San Francisco, and Oakland. CBRE-EA expects office vacancies to rise further amid weakening demand.
+ Apartment vacancies continued to rise from troughs reached in 1Q22, with the most notable year-over-year increases in Tucson, Phoenix, and Las Vegas. For most markets, vacancies remained in the low-to-mid single digits, however.
+ Industrial vacancy rates ticked higher from very low levels in several metros. San Francisco and San Jose continued to report among the highest availability rates in the District.
+ Retail property vacancy rates generally edged lower.

Avg. CRE Vacancy Rates, Twelfth District Markets

Weighted by stock, shaded area = 3−year forecast



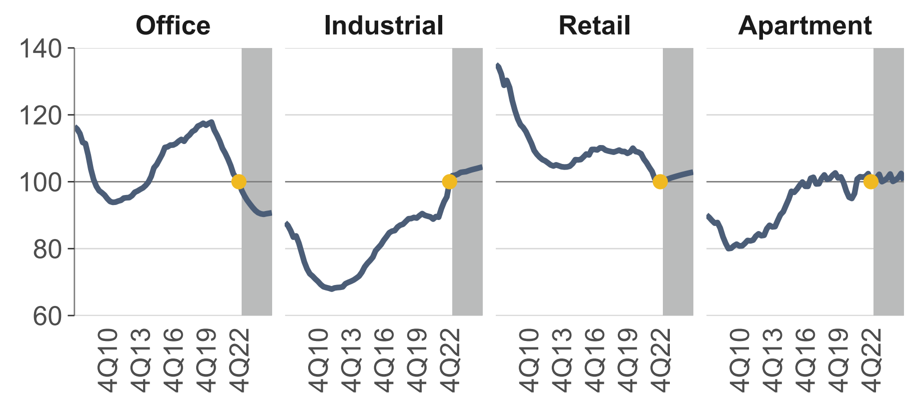
Includes the 16 to 18 largest markets in the District, depending on the sector.
Sources: CBRE-EA, SF Fed calculations.

Real office rents declined further and apartment rent growth decelerated.

+ Inflation-adjusted (real) office rents continued to decline year-over-year across most major District markets. CBRE-EA expects them to ease further in coming quarters.
+ Real retail rents also continued to fall, remaining universally below pre-pandemic levels. However, CBRE-EA forecasts suggest that limited availability will support rents prospectively (see chart).
+ By 4Q22, average real apartment rent growth had slowed notably across the District, turning slightly negative year-over-year. New apartment completions amid cooling demand may pose headwinds for apartment rent growth in the coming quarters.
+ Real industrial rents in the District continued to rise to fresh multi-decade highs and CBRE-EA has forecast further increases.
+ Honolulu and Bay Area markets' real rent indices remained below 4Q19 levels across sectors, including apartment and industrial.

CRE Real Rent Indices, Twelfth District Markets

Weighted by stock, shaded area = 3−year forecast, 4Q22 = 100



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

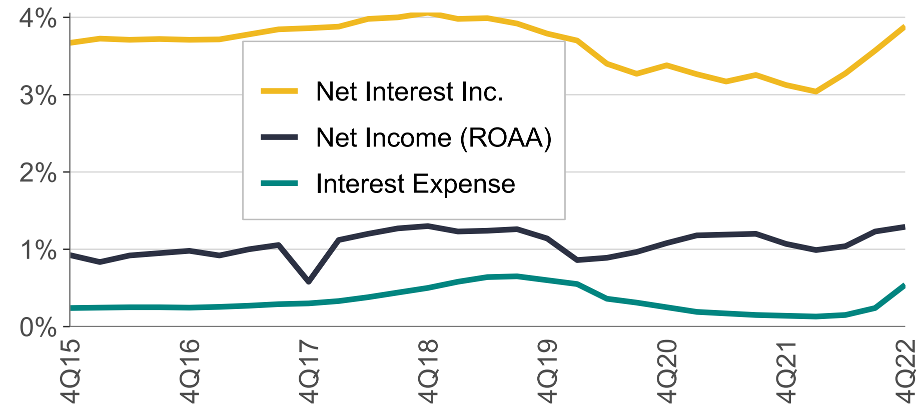
Twelfth District Banking Conditions | Earnings

Earnings performance improved, but bankers' outlook for profits dimmed.

- During 4Q22, District banks reported a median quarterly ROAA (adjusted for Subchapter S effects) of 1.29%, up 6 bps from the prior quarter and 22 bps from the year-ago quarter, led by stronger net interest income ratios (see chart).
- District banks' median full-year ROAA was 1.15%, comparable to 2021 results because the prior year benefited from nonrecurring Paycheck Protection Program (PPP) fee income and reserve releases.
- According to the 4Q22 CSBS Community Bank Sentiment Survey, just over half (54%) of community bankers in the "West," felt profits would improve in the coming year, down from two-thirds in the prior quarter's survey. Increased funding cost sensitivity as well as growing concerns about business conditions likely influenced the trend. Weaker conditions may contribute to profit pressures via slower loan growth and increased provision expense burdens.

Median Earnings Ratios, Twelfth District

% of avg. assets, 1−quarter annualized



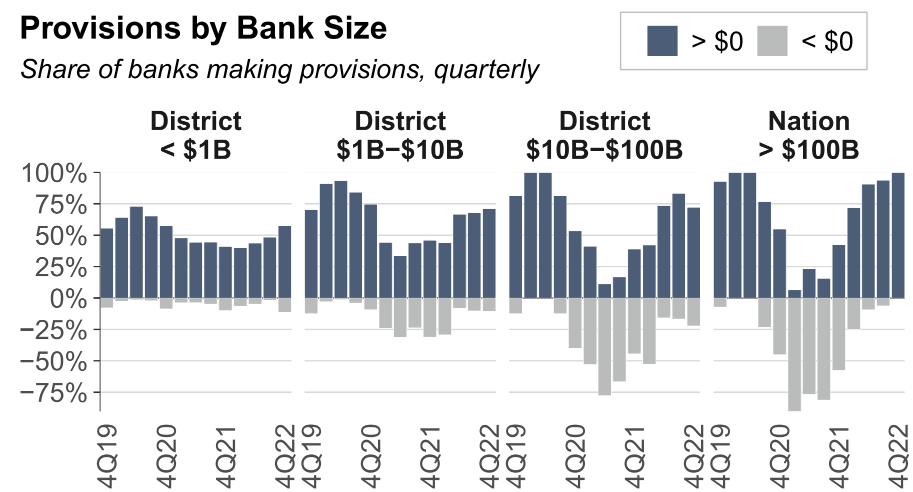
ROAAs among Subchapter-S filing banks are shown net of theoretical tax expense. Source: Bank Call Reports/UBPRs.

Quarterly net interest income ratios expanded; provision expense burdens ticked higher.

- The median one-quarter net interest income-to-average assets ratio among District banks improved to 3.89% in 4Q22, up 32 bps from the prior quarter and 76 bps from the final quarter of 2021. Effective funding cost ratios reacted more strongly to interest rate increases in 4Q22 than previously in the year given competitive factors and shifting funding mixes, but increases were exceeded by gains in earning asset yields.
- Net interest income expansion was typically partially offset by weaker noninterest income ratios, and in the case of community banks, seasonally-driven increases in overhead ratios.
- The share of banks incurring quarterly provisions in response to loan growth and/or slower economic prospects edged higher (see chart). Overall, 64% of District banks booked positive provisions for loan losses in 4Q22, up from 59% in the prior quarter and 43% in late 2021.

Provisions by Bank Size

Share of banks making provisions, quarterly



Source: Bank Call Reports/UBPRs.

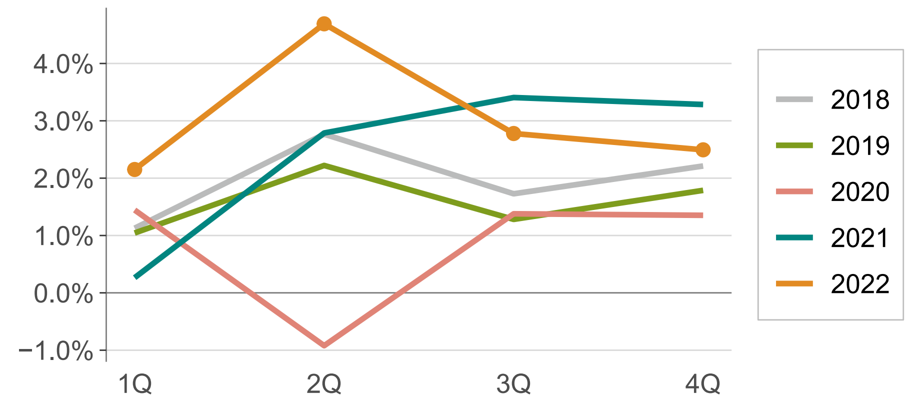
Twelfth District Banking Conditions | Growth + Concentrations

Quarterly loan and lease growth eased from the high pace observed earlier in the year.

+ District banks' median annual non-PPP loan growth rate decelerated slightly to 13.4%, but still outpaced a nationwide median of 12.6%. Quarterly loan growth slowed to 2.5% in late 2022, unlike a pre-pandemic pattern of accelerating fourth quarter growth (see chart).
+ Based on results of the Fed's January Senior Loan Officer Opinion Survey and IntraFi Network's 4Q22 banker survey, weakening loan demand may have weighed on loan growth. The surveys also noted that many bankers expected loan demand to soften prospectively.
+ Year-over-year loan growth was led primarily by CRE, and to some degree, SFR mortgage originations. During 2022, C&LD, MF, and NFNR balances each expanded at double-digit rates on a median basis. Median annual SFR mortgage growth, including home equity lines, also accelerated, reaching 13.1% by the end of 2022, albeit from a smaller base than CRE.

Median Net Loan Growth, Twelfth District

1–quarter % change (not annualized), excluding PPP



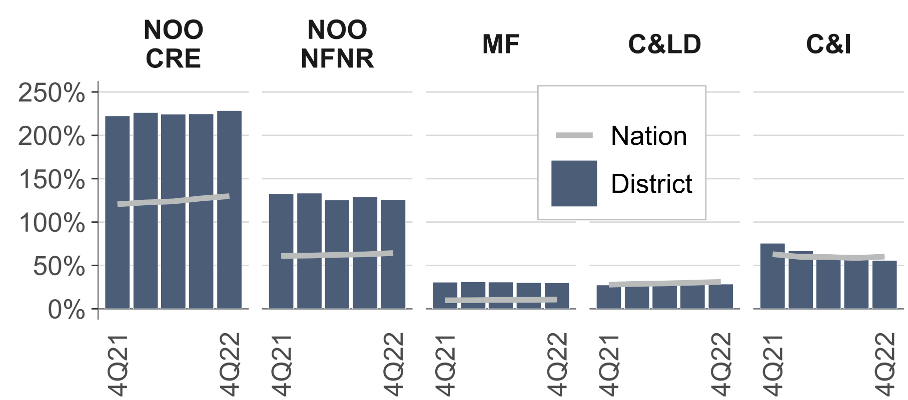
Growth rates include changes from mergers as well as organic growth. Source: Bank Call Reports/UBPRs.

CRE loan concentrations remained high but stable; C&I exposures receded further.

+ CRE loans, including those backed by owner-occupied (OO) and nonowner-occupied (NOO) collateral, continued to feature prominently in District banks' credit portfolios.
+ At 229%, the District's median NOO CRE concentration ratio – which includes NOO NFNR, MF, C&LD, and other CRE purpose loans – continued to far exceed a national median of 130% (see chart).
+ Separately, OO CRE mortgages represented 85% of tier 1 capital plus allowances in the District, also above a national median of 58%.
+ Non-PPP C&I loan concentrations held by District banks continued to edge lower, reaching 55% on a median basis at the end of 2022, down from 75% pre-pandemic (4Q19).
+ SFR loans climbed slightly to 55% of capital and allowances on a median basis, still less than half of a nationwide figure of 120%.

Median Loan Concentrations

% of tier 1 capital + ALLL or ACL



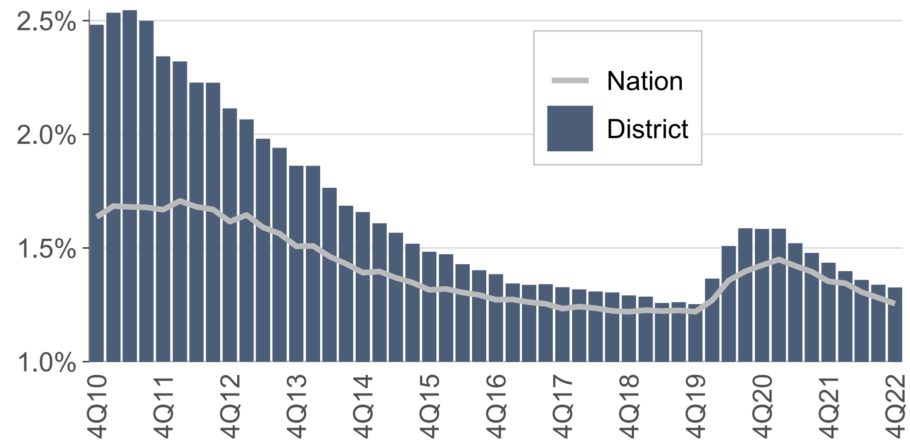
Source: Bank Call Reports/UBPRs.

Twelfth District Banking Conditions | Allowances + Underwriting

Median allowance coverage of non-PPP loans continued to recede.

+ The ratio of ALLL (or ACL)-to-non-PPP loans among District banks was 1.33%, down 1 bp from 3Q22 and 11 bps year-over-year. District banks' coverage remained slightly above a likewise-waning national median of 1.26% (see chart).
+ In the District, median coverage ratios among Very Small (1.38%) and Small (1.26%) District banks remained higher than at Mid-Sized (1.05%) banks. Lower overall coverage ratios among Mid-Sized firms were driven partly by their much higher SFR loan concentrations, which are often accorded more moderate allowance cushions.
+ Allowance coverage ratios may increase if banks' economic outlooks deteriorate materially. Also, in 2023, smaller/non-public banks will adopt CECL and be required to take a longer-term view of future credit conditions. A mid-2022 depository survey by Abrigo found that 44% expected an increase in allowances under CECL.

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

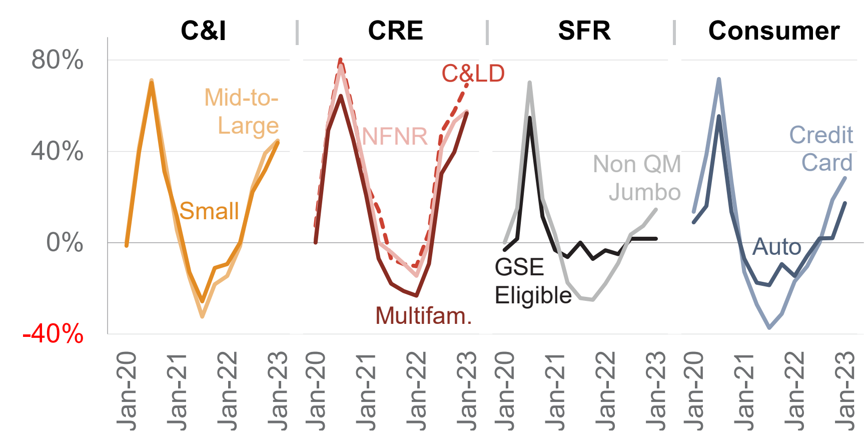


Limited to loan and lease related allowances. Source: Bank Call Reports/UBPRs.

Surveyed lenders tightened standards among waning demand and expect more of the same in 2023.

+ Per the Federal Reserve's January 2023 Senior Loan Officer Opinion Survey (SLOOS), the share of lenders tightening standards for C&I and CRE loans increased further (see chart). A less favorable or more uncertain economic outlook continued to factor most heavily into the decision to tighten C&I standards. Meanwhile, reports of weakening CRE and C&I loan demand became more widespread.
+ Lending to households tightened among a comparatively small share of lenders. Nationally, demand for loans among households also eased, especially for SFR mortgages.
+ The January SLOOS also surveyed bankers about their 2023 outlook. Most lenders expected to tighten standards for C&I, NFNR, and C&LD loans but indicated multi- and single-family mortgage and consumer loan standards were more likely to remain stable. Respondents were far less sanguine about prospective loan demand and credit quality than in early 2022.

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.

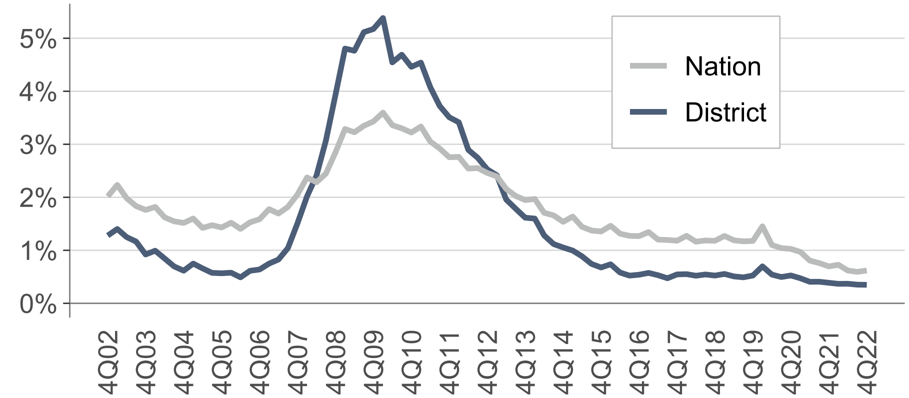
Twelfth District Banking Conditions | Loan Performance

Loan and lease delinquencies remained low.

- District banks' median noncurrent loan ratio – which includes credits 90+ days delinquent or on nonaccrual – eased further to 0.14% by the end of 2022 (denominator adjusted for PPP). It marked a record low in more than 20 years of data reviewed.
- Overall delinquencies – including credits 30-89 days past due – were stable at 0.35% of gross loans, outperforming a national median of 0.62% (see chart). Median past due rates among SFR, consumer, and NFNR portfolios held by District banks ticked up quarter-over-quarter, but remained comparatively low.
- Delinquency metrics were generally stable-to-lower among the District's Small and Very Small banks, but inched up among Mid-Sized banks. At Large banks nationwide, median delinquencies eased but were comparatively high at 1.12%, in part because of these banks' more retail-oriented lending.

Median Past Due Loan Rates

Excluding PPP loans



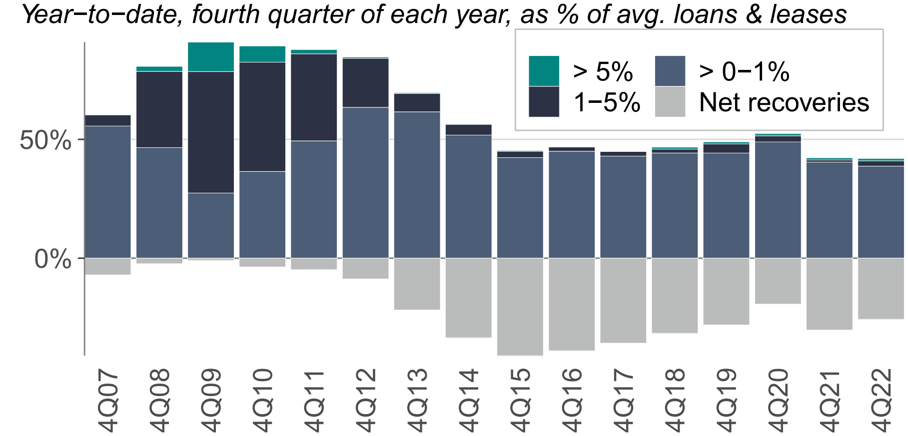
Past due includes 90+ days or nonaccrual (noncurrent) plus 30-89 days past due. Source: Bank Call Reports/UBPRs.

Net chargeoff activity remained limited.

- Less than half of District banks (42%) recorded net loan losses during 2022, similar to 2021 (see chart). A slightly smaller share reported net loan recoveries compared the prior year. Among those with net loan losses, annualized chargeoff rates were predominantly below 1%.
- Net chargeoff activity could worsen should the economy slow. The 4Q22 CSBS Community Bank Sentiment found that 61% of bankers in the "West" expected business conditions to worsen in 2023. Likewise, an early January 2023 survey by IntraFi Network found that 24% of bank executives believed the U.S. economy was already in recession and another 70% expected one to occur during 2023.
- Per the January SLOOS, half or more of domestic respondents expected loan performance to slip in 2023 among most C&I and CRE categories as well as nonprime consumer and 1-4 family mortgage portfolios.

Share of Banks with Net Chargeoffs, Twelfth District

Year−to−date, fourth quarter of each year, as % of avg. loans & leases



Source: Bank Call Reports/UBPRs.

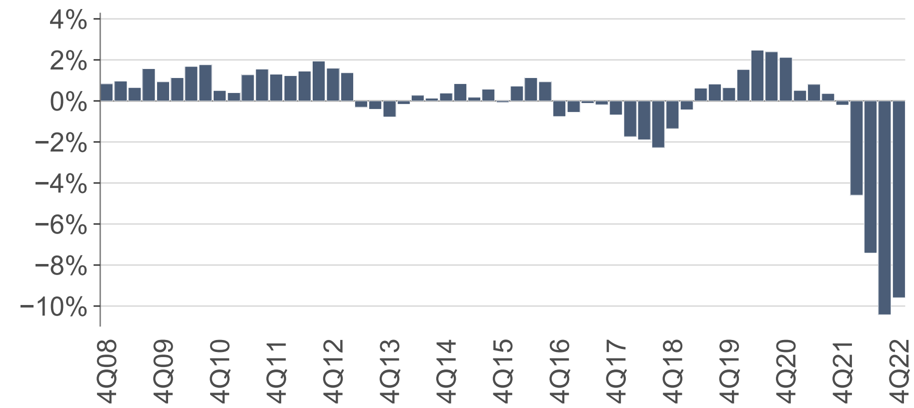
Twelfth District Banking Conditions | Liquidity

On-balance sheet liquidity tightened despite a slight recovery in bond values.

+ District banks continued to reduce liquid instrument holdings in favor of loans. By year end, median cash, Fed funds sold, and reverse repurchase agreements edged down to 8.5% of assets on a median basis, roughly half the prior year median.
+ The median share of banks' assets held in securities ticked higher quarter-over-quarter, possibly owing in part to a dip in intermediate-term interest rates. Still, net unrealized losses on AFS bonds – which detract from accumulated other comprehensive income (AOCI) within "book" capital accounts – remained negative (see chart).
+ Bond valuations have reduced some banks' willingness to sell securities to meet liquidity needs. They may also affect borrowing capacity. In particular, [Federal Home Loan Bank (FHLB) rules] restrict a bank's ability to obtain or renew borrowings should "tangible capital" – including AOCI adjustments – drop below zero.

Median Net Unrealized Gains (Losses) on AFS Securities

% of portfolio value

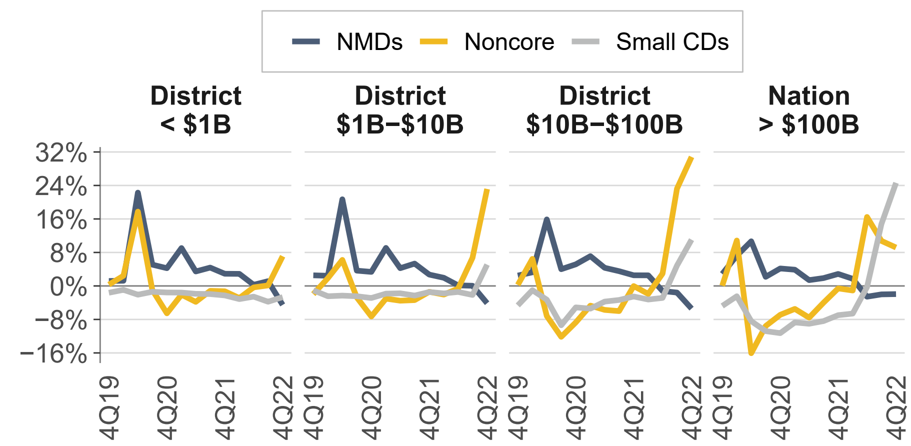


Source: Bank Call Reports/UBPRs.

Nonmaturity deposit (NMD) runoff spread; banks turned to costlier sources of funding.

+ Net withdrawals of NMDs (e.g., checking, money market, and passbook deposit accounts) spread to smaller banks by year's end (see chart). On a median basis, District banks lost 4.5% of NMD balances in 4Q22, the largest pace of decline among all districts nationally. The region's more rapid pace of decline may relate to its higher exposure to NMD accounts exceeding $250K each.
+ The share of funding from small certificates of deposit (CDs) and/or noncore liabilities increased as a result (see chart). Although rising, median noncore liability-to-asset ratios trailed pre-pandemic levels among the District's community banks. But the median ratio among Mid-Sized banks surged to the highest year-end level since 2010.
+ The Fed's [Survey of Senior Financial Officers] found that respondents would likely pursue noncore sources (FHLB borrowings, Federal funds purchased, and brokered/wholesale deposits) rather than sell securities or raise retail deposit pricing should they need reserves.

Median Quarterly Liability Growth by Bank Size



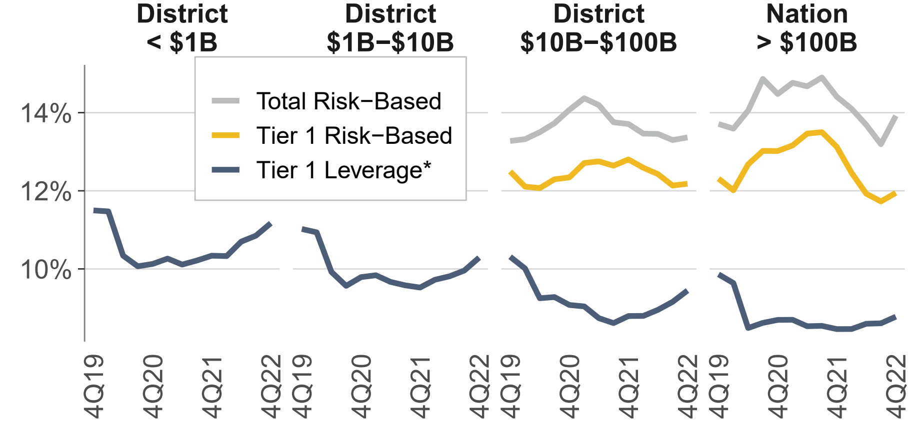
Noncore includes CDs > $250K, small brokered accounts, foreign deposits, fed funds purchased/repos, and borrowings. Source: Bank Call Reports/UBPRs.

Twelfth District Banking Conditions | Capital

Leverage capital ratios improved but risk-based measures remained under pressure.

+ District-wide, the median tier 1 leverage ratio was 10.45%, up 22 bps quarter-over-quarter, fueled by earnings-driven capital accretion and slowing/modest asset growth. Improvements were seen across medians for all bank sizes (see chart).
+ Districtwide median tier 1 and total risk-based capital (RBC) ratios slipped 12 bps and 26 bps, respectively, led mainly by trends at community banks. Although capital levels expanded, risk-weighted assets increased faster amid a continued to shift out of (lower risk-weighted) liquid instruments and into (higher risk-weighted) loans.
+ Except at large firms, AOCI is generally ignored for federal regulatory capital measures via "opt-out" provisions, but the FHLB and some states have rules tied to "book" capital. Regardless of regulatory and accounting nuances, net unrealized investment losses are a reality and may pose financial, contractual, legal, and/or reputational risks.

Median Regultory Capital Ratios by Bank Size



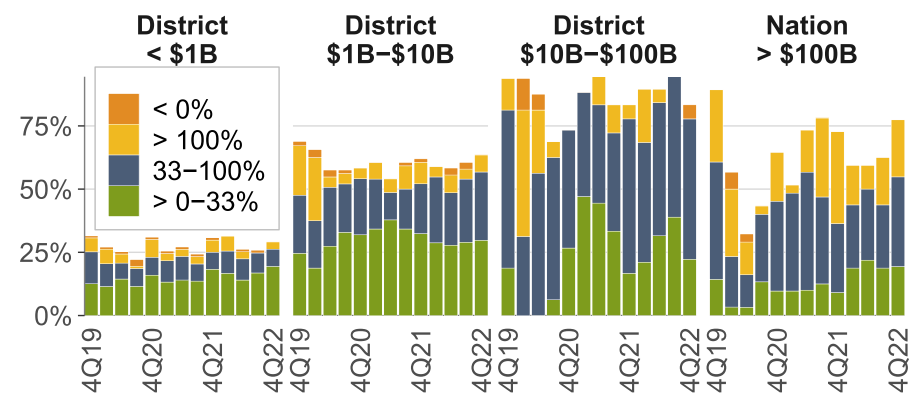
*Includes community bank leverage ratio (CBLR) reporters. Source: Bank Call Reports/UBPRs.

Less than half of District non-Subchapter S banks paid dividends.

+ Among the District's non-Subchapter S banks, roughly 48% paid dividends during 4Q22, up slightly from the prior and year-ago quarters. For community banks, which are not as likely to be publicly traded, quarterly dividend patterns were likely boosted in part by seasonality – some banks wait until the end of the year to make payouts.
+ Dividend payouts remained least common among Very Small banks and most common among Mid-Sized banks (see chart).
+ For the full year, the District's non-Subchapter S tax filing banks paid dividends equivalent to 13% of net income on a median basis, roughly half the national median. Meanwhile, Subchapter S banks – which are taxed at the shareholder rather than corporate level – meted out half of profits in order to fund shareholder tax obligations atop shareholder returns, a level typical of such banks nationally.

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/UBPRs.

Appendix | Technical Information + Abbreviations

Summary of Institutions by State & Technical Notes

Area	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Dec-22	Dec-21	Dec-22	Dec-21	Dec-22	Dec-21
Alaska	4 (0)	4 (0)	-	-	1 (0)	1 (0)
Arizona	13 (3)	13 (0)	-	-	1 (0)	-
California	119 (3)	124 (1)	3 (0)	3 (0)	9 (0)	9 (0)
Guam	2 (0)	2 (0)	-	-	1 (0)	1 (0)
Hawaii	4 (0)	4 (0)	1 (0)	1 (0)	2 (0)	2 (0)
Idaho	10 (0)	10 (0)	-	-	1 (0)	1 (0)
Nevada	11 (0)	11 (1)	4 (0)	4 (0)	1 (0)	2 (0)
Oregon	13 (0)	13 (0)	-	-	2 (0)	2 (0)
Utah	25 (1)	26 (1)	15 (2)	15 (2)	1 (0)	1 (0)
Washington	34 (0)	33 (0)	-	-	7 (0)	7 (0)
District	235 (7)	240 (3)	23 (2)	23 (2)	26 (0)	26 (0)
Nation	4,102 (28)	4,205 (28)	24 (2)	25 (2)	579 (0)	608 (0)

Based on preliminary 4Q22 data (Call Reports filed through February 12, 2023).

- General: This report focuses on the financial trends and performance of commercial banks supervised by or 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.

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