

Economic and Banking Performance
in the Twelfth Federal Reserve District

First Glance 12L

Strains on Banks' Funding and Margins Eased

3Q23

December 8, 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: Overall, District job growth slowed quarter-over-quarter, and unemployment rates edged higher within a growing number of District states. Although still down from prior year peaks, home price indices increased in most markets during the three months ending September. Meanwhile, homebuilder sentiment eased amid higher mortgage interest rates and reduced sales and buyer traffic. Growing affordability strains prompted many builders to offer incentives or adjust pricing. Commercial real estate (CRE) continued to be an area of concern. Economic uncertainty, property price pressures, subdued transaction volumes, and tighter credit conditions both reflected and influenced investor and lender sentiment.

Banking Conditions: District banks' median return on average assets ratio eased slightly. Net interest margins compressed, but not as severely as in the prior quarter. On a median basis, funding costs increased at a slower pace and were offset mostly by higher asset yields. Loan loss provision activity ticked higher amid lingering economic concerns and slight increases in problem loan levels. Loan growth tended to slow on net, partly influenced by weaker demand and seasonal factors. Meanwhile, growth in costlier time deposits and noncore funding sources usually decelerated as nonmaturity deposit runoff abated. Bond portfolio values continued to weaken given rising intermediate-term interest rates, placing persistent pressure on banks' liquidity options and "book" equity. Regulatory capital ratios generally improved, with performance continuing to vary by bank size.

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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.

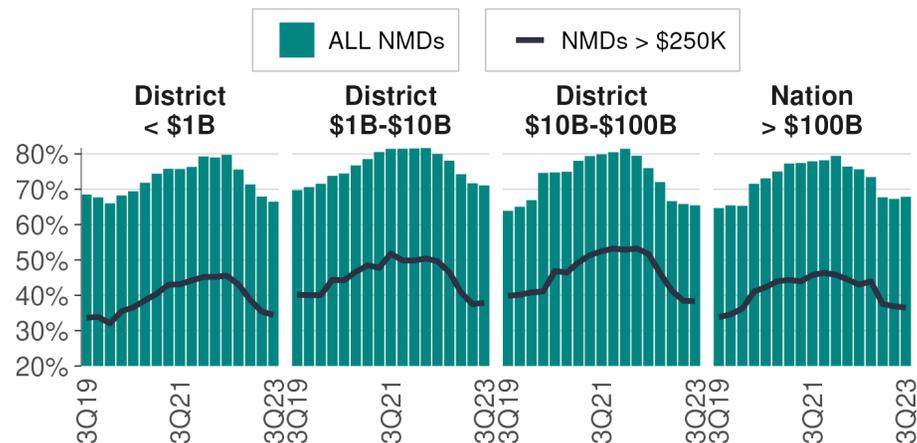
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Issues on Our Radar | Liquidity + Market Risk

Shifts in funding mix and cost

- + Low yielding nonmaturity deposits (NMDs) dipped further at most District banks as funds continued to migrate to higher-yielding options. However, the pace of NMD attrition slowed, signaling some stabilization of deposit activity. Large accounts have contributed materially to the pace of NMD growth and runoff (see chart).
- + Costlier "noncore" sources (e.g., CDs above \$250 thousand, smaller brokered deposits, foreign deposits, federal funds purchased, repurchase agreements, and borrowings) continued to replace NMD runoff, increasing from 5% to 13% of District banks' assets in the twelve months ending September. Mid-Sized District banks (assets \$10 billion to \$100 billion) tended to be most reliant on noncore funds.
- + Higher noncore funds usage and rising interest rates pushed the District's median cost to fund earning assets from 0.26% in 3Q22 (lowest among twelve districts) to 1.47% by 3Q23.

Median Nonmaturity Deposits / Total Assets by Bank Size



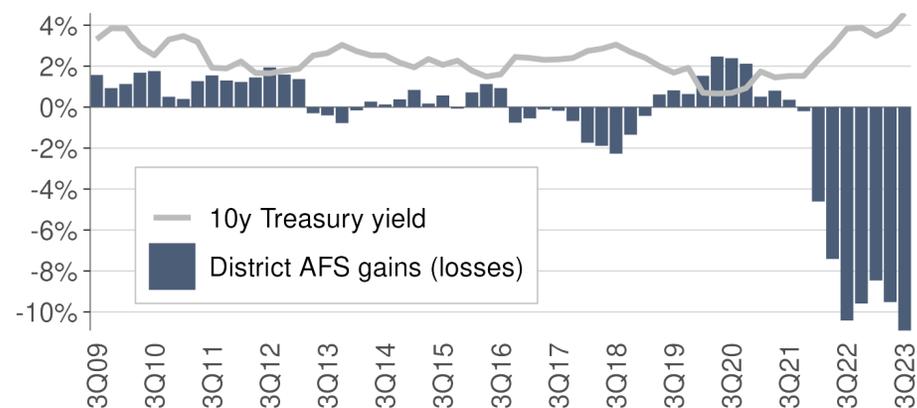
Nonmaturity deposits (NMDs) include checking, money market, and passbook type accounts but excludes time deposits. Source: Bank Call Reports.

Investment portfolio valuation trends

- + In 2022 and 2023, rising interest rates reduced the fair value of banks' available-for-sale (AFS) and held-to-maturity (HTM) bond holdings.
- + Net unrealized losses on District banks' AFS securities – which reduce accumulated other comprehensive income (AOCI) within "book" capital per accounting rules – deteriorated to 11% of fair value by the end of 3Q23 (see chart). Median net unrealized losses on HTM securities likewise worsened.
- + For most banks, AOCI declines do not affect regulatory capital ratios because of [opt-out election provisions](#) within capital statutes. Still, there are practical risks to capital posed by declining investment portfolio values. For instance, unrealized losses on securities can narrow funds management options since liquidating investments can force the recognition of losses. Securities can be pledged against borrowing lines instead, albeit at a generally higher rate of interest than deposits.

Median Net Unrealized Gains (Losses) on AFS Securities

Annualized yield or % of portfolio value



AFS = available for sale. Sources: U.S. Treasury via Haver Analytics; Bank Call Reports/Uniform Bank Performance Reports (UBPRs).

Issues on Our Radar | Asset Quality

Real estate loan concentrations

- + Banks in the West tend to hold loan portfolios that are concentrated in real estate lending, in particular commercial real estate (CRE). The District’s median CRE loan-to-capital and allowances ratio of 323%, led by banks based in California, Arizona, and Washington, remained well above a national median of 203% (see table). Income producing, nonowner-occupied (NOO) collateral backed most of the lending.
- + Rising interest rates may pressure repayment capacity if not offset by a corresponding increase in net operating income. Also, loans with balloon payments maturing in the near-term may face refinancing risk if collateral protection and/or debt service coverage have eroded. Challenges may be most pronounced among office collateral, particularly if located in central business districts.
- + 1-to-4 family mortgage (SFR) lending also exposes banks to real estate markets. The Districtwide median SFR exposure to tier 1 capital and allowances ratio of 56% was less than half of the nationwide median; however, exposures tended to be above-average among the District’s Mid- Sized banks. Mortgage performance may slip if job or housing markets weaken.
- + Real estate loan performance has held up well so far notwithstanding interest rate and pricing pressures. But given vulnerabilities posed by concentrations and the market environment, the federal banking agencies issued guidance on [Prudent CRE Loan Accommodations and Workouts](#) (SR 23-5) in June 2023. The statement updates and supersedes previous guidance and provides examples of how to classify and account for loans subject to short-term accommodation or longer-term workout.

C&I credit risks

- + As of 3Q23, District banks’ commercial and industrial (C&I) loan balances eased further to 51% of tier 1 capital plus allowances on a median basis. C&I loan concentrations usually trail CRE but can be more rate-sensitive and less tangibly collateralized.
- + Leveraged C&I loans, which are extended to more heavily indebted borrowers and usually feature adjustable-rate pricing, continue to pose heightened risks (see [Shared National Credit](#) results).
- + C&I loan delinquencies and net chargeoffs have edged higher among some District banks in the past year, but overall remain modest on average. Economic slowing or rising input and debt service costs may challenge some C&I borrowers.

Median CRE Loan Concentration		
% of tier 1 capital + allowance		
September 30, 2023		
	Total CRE	NOO CRE
California	369%	259%
Arizona	338%	201%
Washington	330%	241%
Oregon	319%	213%
Nevada	287%	180%
Alaska	252%	172%
Idaho	236%	171%
Hawaii	217%	175%
Utah	172%	109%
Nation	203%	132%

Based upon state of bank headquarters; commercial real estate (CRE) includes owner- and nonowner-occupied (NOO) non-farm-nonresidential (NFNR), multifamily (MF), construction and land development (C&LD), and other CRE purpose loans; NOO CRE excludes owner-occupied (OO) NFNR mortgages. Sources: Call Reports/UBPRs.

Issues on Our Radar | Operations

Cybersecurity

- + Cyber remains a top risk given an ever-growing multitude of threats, particularly amid nation-state sponsored cyber activity. Ransomware attacks culminating from phishing campaigns, and external facing application vulnerabilities such as API security gaps, cloud misconfiguration, unpatched systems, and supply chain compromises continue to be the primary cyber issues facing supervised institutions, their customers, and their suppliers. Nation-state sponsored ransomware attacks on cyberactivity resulted in separate large scale ransomware attacks on [casinos](#) and a [U.S. subsidiary of an international bank](#).
- + [Distributed Denial of Service \(DDoS\) attacks](#) have continued to evolve with threat actors leveraging new techniques and larger botnets but they have not been able to compromise systems or disrupt core operations due to strong mitigating controls at the institutions.
- + The increase in digital financial services and mobile banking has exponentially expanded the attack surface that criminals can exploit. In addition, cybercrime tools backed by artificial intelligence, including deepfake voice phishing and Quick Response (QR) code phishing have paved the way for sophisticated and convincing phishing campaigns and malware mutations, leading to increased risk.
- + MOVEit-related vulnerabilities, first identified in late May, [continue to persist](#). Organizations have received additional notifications from third party service providers as their investigations and data reviews have continued.
- + On July 17, 2023 the Cybersecurity and Infrastructure Security Agency (CISA) published a [fact sheet](#) for free tools for cloud environments, and on August 21, 2023, CISA, the National Security Agency (NSA) and the National Institute of Standards and Technology (NIST) published a [fact sheet](#) on quantum readiness.

Enterprise complexity due to novel activities

- + Networks of multiple complex third/fourth party relationships stemming from the adoption of crypto-asset services, bank-fintech partnerships (such as Banking-as-a-Service models), and other novel activities are drivers for heightened concern. Vulnerabilities can be compounded if revenues, funding, or assets are concentrated in a novel business line or if the risk appetite for engaging with nonbank partners gets ahead of the control environment.
- + On June 7, the banking agencies issued [Interagency Guidance on Third-Party Relationships: Risk Management](#) (SR 23-4), which applies to all types of third-party relationships, including those with new or non-traditional structures or features. The guidance offers principles that banks should consider when developing and implementing risk management for all stages in the life cycle of third-party relationships.
- + In August, the Federal Reserve announced a [Novel Activities Supervision Program](#) (SR 23-7) to enhance the supervision of tech-/crypto-driven activities or partnerships at supervised banking organizations.



Issues on Our Radar | Compliance + Other

Real time payment (RTP) adoption

- + The [FedNow® Service](#), launched by the Federal Reserve in July, had been adopted by more than [220 financial institutions](#) nationwide by early November, including 180 banks and thrifts and 41 credit unions.
- + RTP activity has increased significantly in recent years. For instance, in 3Q23 alone, the number and dollar volume of transactions on The Clearing House's [RTP® Network](#) grew 11% and 18% to 64 million and \$34 billion, respectively.
- + As noted in an [Atlanta Fed article](#), the instantaneous and irrevocable nature of RTPs requires heightened risk controls around liquidity, third-party vendor relationships, fraud, and BSA/AML and consumer compliance.

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 digital asset related services, and the evolving nature of threats and regulatory guidance.
- + On August 2, 2023, the Federal Financial Institutions Examination Council (FFIEC) [updated six sections](#) of the BSA/AML Examination Manual centered on banking with Foreign Financial Institutions and Private Banks. The updates offer further transparency into the examination process and support risk-focused examination work.
- + On September 8, 2023, FinCEN [alerted](#) banks to a prominent virtual currency investment scam known as “pig butchering” and requested that financial institutions reference the alert in Suspicious Activity Reports. The fraud type is conducted by con persons abroad who find victims via social media and encourage them to “invest” in a virtual currency scheme with the promise of large returns but are ultimately swindled out of their money.

Consumer compliance regulatory developments

- + Federal bank regulatory agencies issued a final rule to strengthen and modernize the regulations implementing the Community Reinvestment Act (CRA). Most of the rule's requirements will be applicable beginning January 1, 2026. Some aspects, including the data reporting requirements, will be applicable on January 1, 2027. The Federal Reserve Board's [press release](#) includes the final rule and other supporting material (including a [factsheet](#) and [overview of key objectives](#)).
- + On October 23, 2023, the U.S. District Court for the Southern District of Texas imposed a nationwide injunction on the CFPB's [Small Business Lending Data Collection](#) rule. As a result, the deadlines for compliance with the rule currently are stayed for all covered financial institutions.
- + Through supervisory examinations, the Federal Reserve recently analyzed the practice of imposing fees on re-presented transactions at several supervised institutions (see [Compliance Spotlight: Supervisory Observations on Representation Fees](#)).



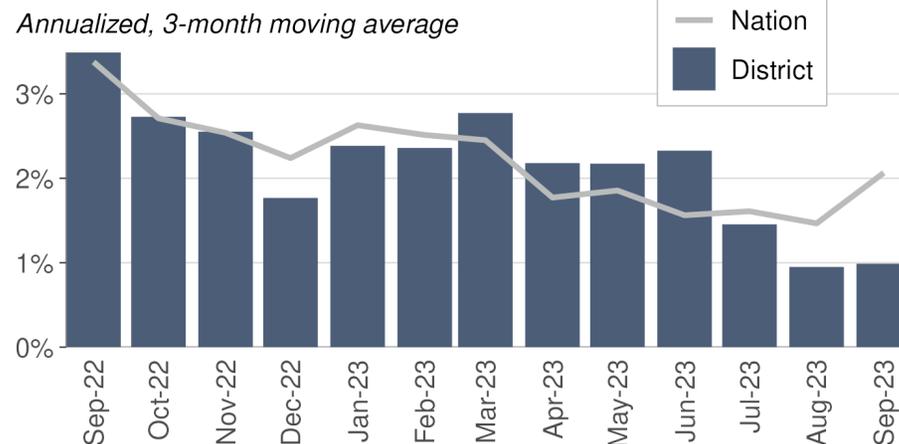
Twelfth District Economy | Employment

The District's average monthly job growth slowed quarter-over-quarter.

- + On average, the monthly job growth eased during 3Q23, slowing to just under 1.0% (annualized, three-month moving average basis). The Districtwide job growth trend diverged from the nation which accelerated to 1.8% (see chart).
- + The education/health, leisure/hospitality, and government sectors remained important drivers of net new hiring in the District. In contrast, the information (e.g., entertainment, media, and some tech-related jobs), professional and business services, transportation/utilities, and manufacturing sectors shed payrolls on average.
- + Among the District's states, average annualized job growth was strongest in Idaho (+4.4%) and Nevada (+4.2%). In contrast, average payroll growth slowed by two percentage points quarter-over-quarter in California, Washington, and Utah. [Actor and writer strikes](#) weighed on California's growth particularly, but a subsequent resolution of these labor disputes may reverse payroll losses.

Monthly Nonfarm Job Growth

Annualized, 3-month moving average

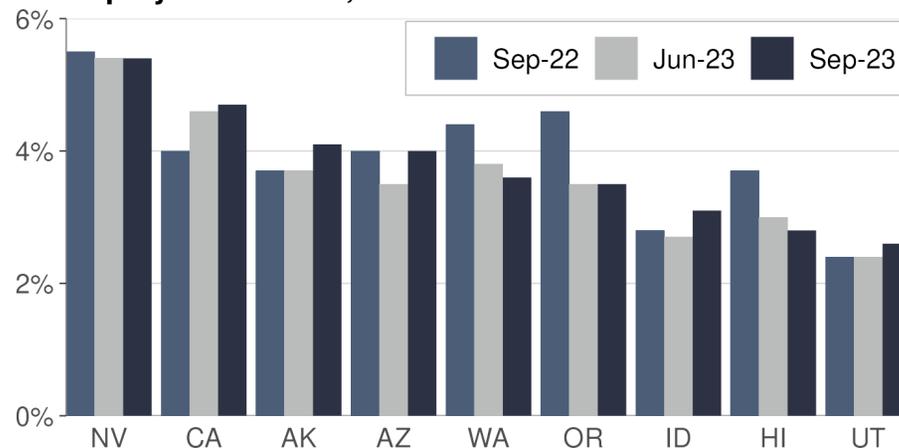


Seasonally adjusted. Source: Bureau of Labor Statistics.

Unemployment rates edged higher quarter-over-quarter in most of the District's states.

- + On a seasonally-adjusted basis, the District's aggregate unemployment rate ticked up 14 bps to 4.3% during the three months ending September. The jobless rate remained above an also-rising nationwide average of 3.8%.
- + State level unemployment rates moved higher in five District states over the three-month period: Arizona, Alaska, Idaho, Utah, and California (see chart). Rates were generally stable in Oregon and Nevada and improved in Washington and Hawaii.
- + Unemployment rates in Nevada (5.4%) and California (4.7%) continued to rank among the three highest in the nation. Arizona's jobless rate (4.0%) increased 50 bps over the three-month period, placing it tenth highest among all states by September.
- + Initial unemployment claims drifted higher after September in most District states. After spiking in the wake of Maui's Wildfires – [possibly in part due to fraud](#) – Hawaii's initial jobless claims activity eased.

Unemployment Rates, Twelfth District States



Seasonally adjusted. Source: Bureau of Labor Statistics.

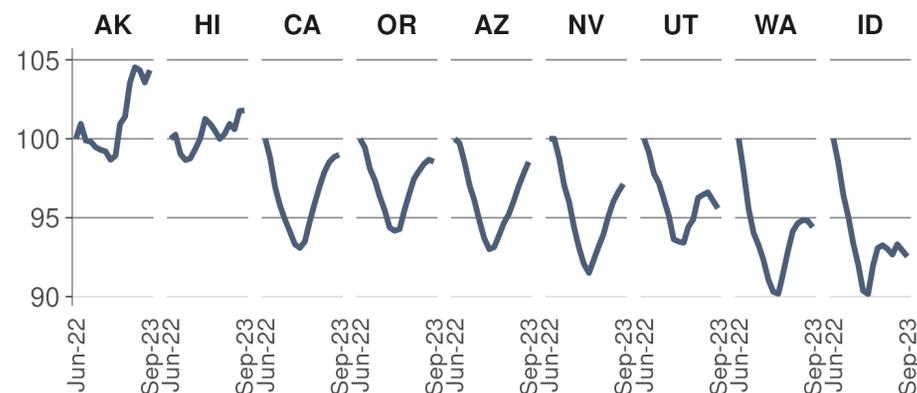
Twelfth District Economy | Housing Markets

Home price indices, which were on the mend during 2023, dipped again in some states by September.

- + Per CoreLogic, single-family home price indices (HPIs) peaked in most District states around mid-2022 and then weakened during the second half of last year. By early 2023, prices started to improve month-over-month amid tight for-sale inventories.
- + In most District states, September 2023 price indices remained below mid-2022 levels. Declines over the fifteen-month period tended to be widest in Idaho (-7%), Washington (-6%), and Utah (-4%), where HPIs faced renewed pressures after recovering earlier in 2023 (see chart). California's statewide HPI had nearly recovered, but some of the state's pricier markets – primarily in and around the San Francisco Bay Area – remained down 5% to 10% from June 2022 levels.
- + Notwithstanding volatility since 2022, HPIs exceeded September 2020 levels across all District states. Three-year cumulative gains remained steepest in Arizona (+47%), Nevada (+37%), and Utah (+35%), where in-migration from higher cost areas influenced prices.

Home Price Index, Twelfth District States

Jun-22 = 100



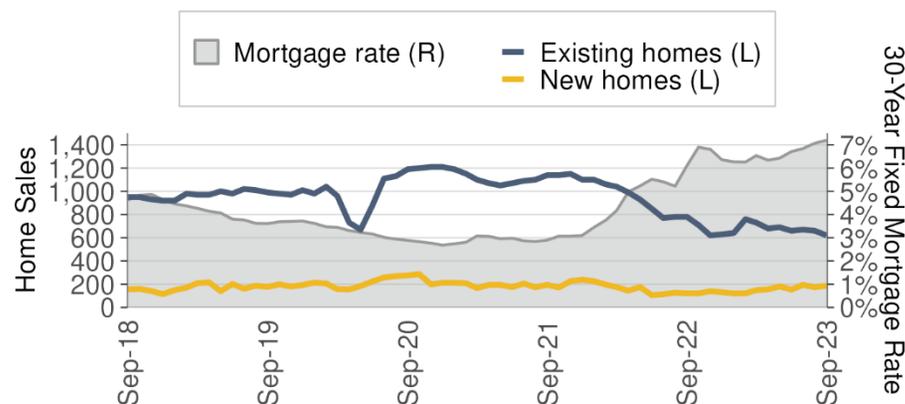
Index covers attached and detached single-family homes, including distressed sales. Sources: CoreLogic, SF Fed calculations.

Rising mortgage interest rates and limited for-sale inventories continued to affect the volume of home sales.

- + The number of existing single-family home sales in the West softened further, while the volume of new home sales improved (see chart).
- + Tight, albeit improving, inventories contributed to weak existing sales volumes and upward price pressures in 2023. Data from [Redfin](#) (not seasonally adjusted) suggests aggregate for-sale inventories in the District averaged 2.4 months' worth of sales during the three months ending September. Although this was up from 2.1 months in 2Q23, it was off from 2.8 months in the same quarter of 2022.
- + The [National Association of REALTORS®](#) pending home sales index for the West, which leads finalized sales, continued to trail prior year levels in September 2023. The index also weakened month-over-month, unlike the nation's three other broad regions. Future sales will remain reliant on the volume of listings, the path of mortgage interest rates, and the health of the economy.

Single-Family Home Sales, West Region

Seasonally adjusted annual rate, thousands



West = District plus CO, MT, NM, and WY. Sources: National Association of REALTORS® (© 2023; all rights reserved; reprinted with permission), Census Bureau, Freddie Mac.

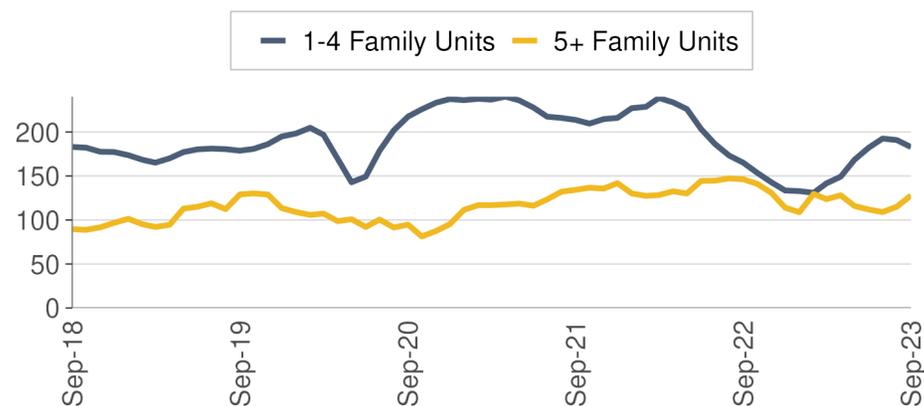
Twelfth District Economy | Housing + Commercial Real Estate Markets

Overall housing permit volumes were stable, but the mix shifted; homebuilder sentiment waned.

- + The volume of 1-4 family housing permits authorized across the District's states started to ease during 3Q23 (see chart). Quarterly trends differed by state, with Arizona, Utah, Oregon, and Idaho increasing permits during the three-month period while other states reported declines on net.
- + The District's aggregate multifamily (5+ unit) permit issuance volume expanded 14% quarter-over-quarter. Higher levels of multi-housing authorizations in Arizona, California, Idaho, and Utah more than offset reductions elsewhere in the District.
- + An increasing share of homebuilders became bearish by Fall 2023. In October, the [NAHB/Wells Fargo Housing Market Index](#), a measure of homebuilder confidence, slid to 36 in the West. This reading was down 18 points from a July 2023 peak. Per NAHB, rising interest rates hurt buyer traffic, raised builder credit costs, and prompted most developers to offer discounts and/or sales incentives.

Housing Permits, Twelfth District

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



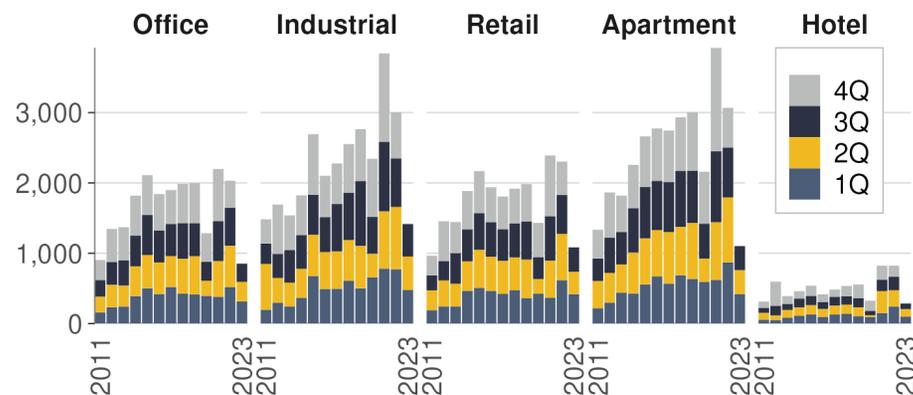
Source: Census Bureau via Haver Analytics.

CRE sales transaction volumes were weak amid higher interest rates and subdued investor and lender appetite.

- + Per MSCI/Real Capital Analytics (RCA), 3Q23 CRE transaction volumes in the West lagged year ago and pre-pandemic levels (see chart). The aggregate number of sales (YTD all sectors) was down 47% relative to the first nine months of 2022. Last year's elevated deal count contributed in part to the magnitude of decline.
- + In addition to a normalizing pace, sales trends reflected higher interest rates, rising capitalization (cap) rates, slowing economic activity, tightening lending, and divergent buyer-seller expectations.
- + CRE investor sentiment remained weak. A 4Q23 [Real Estate Roundtable](#) CRE sentiment reading of 44 (out of 100) reflected ongoing "concerns about liquidity, capital availability, interest rates, and remote work." Significantly, 68% of respondents observed weaker overall CRE market conditions in the past year, with 92% reporting declining CRE values and 86% and 70% noting tightening debt and equity availability, respectively.

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.

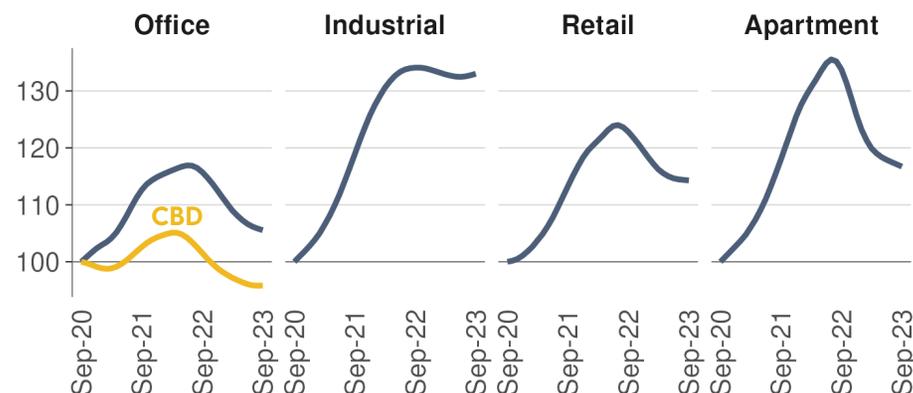
Twelfth District Economy | Commercial Real Estate Markets

Nationwide commercial property price indices continued to ease for all but the industrial sector.

- + MSCI/RCA's national office price index slipped further during 3Q23, settling nearly 9% below prior year levels (see chart). Central business district (CBD) offices continued to face longer-term price pressures amid the shift to hybrid/remote work, trading at levels last seen in 2018. One-year declines in price per square foot were significantly worse than average in some District office markets, including San Francisco (-40%), Orange County (-17%), and Portland (-16%).
- + MSCI/RCA's apartment and retail property price indices also slipped during the quarter and were down 13% and 7%, respectively, over the past year (see chart). Among the District's major metros, one-year declines in apartment price per unit were most severe in the Inland Empire (-16%), Las Vegas (-15%), and San Jose (-12%) markets.
- + Industrial property prices have been comparatively resilient, improving slightly during the quarter and easing less than 1% year-over-year.

Commercial Property Price Indices, Nation

Sep-20 = 100



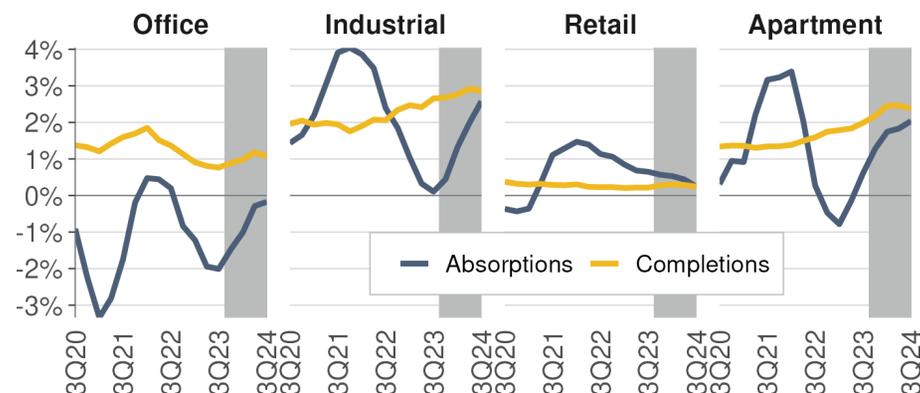
Based upon repeat-sales transactions; CBD = central business district. Sources: MSCI/Real Capital Analytics, SF Fed calculations.

New CRE completions may outpace absorption in most CRE sectors.

- + The trailing four-quarter absorption rate remained negative in the District's office sector in 3Q23 (see chart). A lingering construction pipeline will likely outpace demand in the near term.
- + Most major District apartment markets recorded positive net absorption during the twelve-month period ending September. Although CBRE-EA expects demand to strengthen, net absorption may trail new completions in aggregate.
- + Industrial absorption rates slowed to a trickle in aggregate during the twelve-month period, with half of the District's 18 major industrial markets registering negative net absorption. Prospectively, CBRE-EA expects additions to stock to outpace improvements in demand.
- + Aggregate retail absorption in the District continued to slow but remained mildly positive. Per CBRE-EA, the pace of absorption may slow further in the coming quarters; however, construction is likewise expected to be modest, limiting pressures on vacancies and rents.

CRE Absorption and Completion Rates

Rolling 4-quarter rates as % of ending stock, shaded area = forecast



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

Twelfth District Economy | Commercial Real Estate Markets

Vacancy rates increased quarter-over-quarter and year-over-year across all but the retail sector.

- + Office vacancy rates continued to edge higher across most of the District's sixteen key markets during the quarter, topping 20% within six metros and 15% within six others. CBRE-EA expects office vacancy rates will move higher as tenants adjust space needs (see chart).
- + Industrial availability increased further from very tight levels amid new construction. Industrial availability, which was 6.2% in aggregate across eighteen major markets, may edge up further as new construction outpaces absorption.
- + Retail property vacancy rates, which hovered near 6.3% in aggregate across the District's major metros, generally improved quarter-over-quarter given limited new supply.
- + Although still generally in the mid-single digits, apartment vacancies increased quarter-over-quarter in twelve of sixteen major District markets. CBRE-EA expects apartment vacancies will stabilize.

Avg. CRE Vacancy Rates, Twelfth District, 3Q08 - 3Q26

Weighted by stock, shaded area = 3-year forecast



Weighted across 16 to 18 large District markets; office/apartment = vacancy rate; industrial/retail = availability rate. Sources: CBRE-EA, SF Fed calculations.

Real rents declined among office, apartment, and to a lesser degree, retail markets; real industrial rents increased.

- + Inflation-adjusted (real) rents for office space slipped quarter-over-quarter across nearly all sixteen major District markets. In aggregate, CBRE-EA expects real office rents to contract another 6.3% within these metros by 3Q24.
- + Meanwhile, CBRE-EA has forecasted improving real industrial rents in the near term in most District markets, albeit at a slowing pace given the amount of new industrial space slated for completion.
- + Real retail rents also continued to dip in a majority of the District's largest markets. Retail property rents may slip modestly in the near term before stabilizing per CBRE-EA (see chart).
- + Average real apartment rents declined year-over-year and may ease further in the next twelve months. Overall, CBRE-EA forecast data suggest that landlords may need to curb rent increases as markets absorb an elevated pace of new supply.

CRE Real Rent Indices, Twelfth District, 3Q08 - 3Q26

Weighted by stock, shaded area = 3-year forecast, 3Q23 = 100



Weighted across 16 to 18 large District markets; office/industrial = real asking rents; retail/apartment = real effective rents. Sources: CBRE-EA, SF Fed calculations.

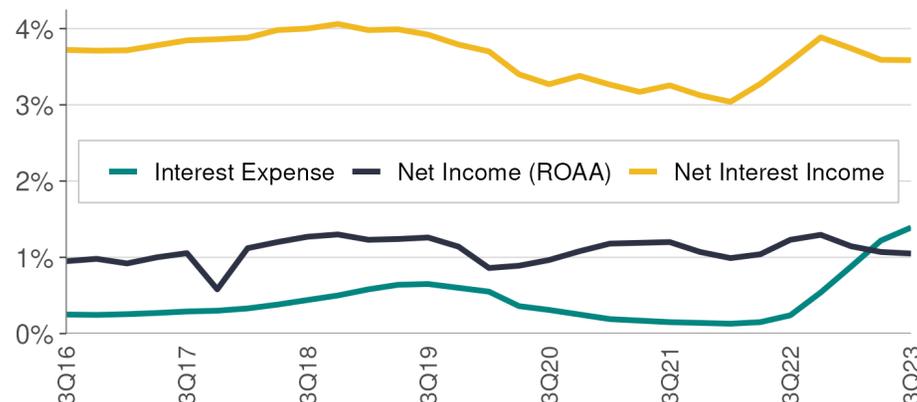
Twelfth District Banking Conditions | Earnings

Profit ratios generally dipped among the District’s banks; funding costs remained a top concern.

- + During 3Q23, District banks earned a median quarterly return on average assets (ROAA) of 1.05%, down 2 bps from 2Q23 and off 18 bps from 3Q22 (adjusted for Subchapter S effects).
- + Although mildly weaker, quarterly earnings outpaced a nationwide median of 0.97%, which also slipped quarter-over-quarter.
- + A growing share of bankers became optimistic about future earnings. Per the 3Q23 Conference of State Bank Supervisors (CSBS) [Community Bank Sentiment Survey](#), 37% of bankers in the West (Twelfth District plus Montana) expected profits to improve in the next twelve months, a 15 percentage-point gain from 2Q23.
- + Funding costs and margins will be important drivers. In response to the [CSBS’s 2023 national community bank survey](#), 87% of bankers cited funding costs as “extremely” or “very” important external risks facing their institutions, up from 48% in the [2022 survey](#).

Median Earnings Ratios, Twelfth District

% of avg. assets, 1-quarter annualized



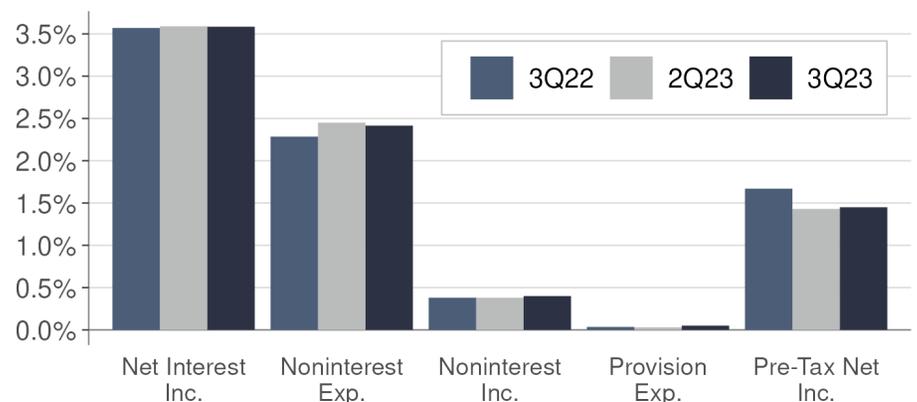
ROAA (net income / average assets) for Subchapter-S filing banks is adjusted for theoretical tax expense. Sources: Bank Call Reports/UBPRs.

The pace of quarterly funding cost increases slowed and was nearly offset by higher asset yields.

- + Within the District, funding cost increases were almost matched by improvements in asset yields. Quarter-over-quarter, the median interest income-to-average assets ratio expanded 16 bps to 5.04% and the median interest expense ratio increased 17 bps to 1.39%. As a result, the one-quarter net interest income ratio moved only modestly lower (see chart).
- + Funding cost ratios were generally the highest they have been in fourteen years. But the pace of quarterly increase slowed noticeably from 2Q23.
- + Meanwhile, noninterest income and expense ratios each improved slightly on a median basis.
- + Possibly in response to normalizing credit performance trends, loan loss provision activity edged higher at many firms. Overall, 61% of District banks incurred generally mild provision expenses during the quarter, up from 58% in 2Q23.

Median Pre-Tax Net Income Breakdown, Twelfth District

% of avg. assets, 1-quarter annualized



Sources: Bank Call Reports/UBPRs.

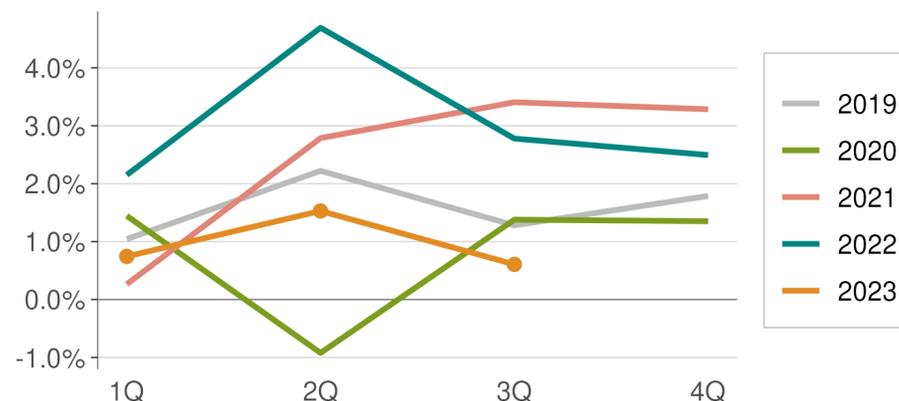
Twelfth District Banking Conditions | Growth + Concentrations

Annual and quarterly loan and lease growth slowed.

- + Year-over-year, most District banks expanded their loan portfolios, but the pace of increase slowed to 6.9% on a median basis, down from 9.4% in the twelve months ending June. Growth trailed an also-slowing nationwide median of 9.0%.
- + Median quarterly loan growth also dipped to 0.6% (not annualized), the slowest pace among all twelve districts and less than half the rate recorded in 2Q23. The quarterly trend may have been influenced in part by seasonal factors (see chart). Quarter-over-quarter median growth rates tended to slow among C&I, agriculture, and nonfarm nonresidential mortgage portfolios but accelerate within the C&LD, consumer, and multifamily segments.
- + Nearly half (49%) of respondents surveyed by [IntraFi Network](#) in 3Q23 reported weaker loan demand year-over-year, and 43% expected future loan demand to soften. These represented slight improvements from 52% and 46%, respectively, in the 2Q23 survey.

Median Net Loan Growth, Twelfth District

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



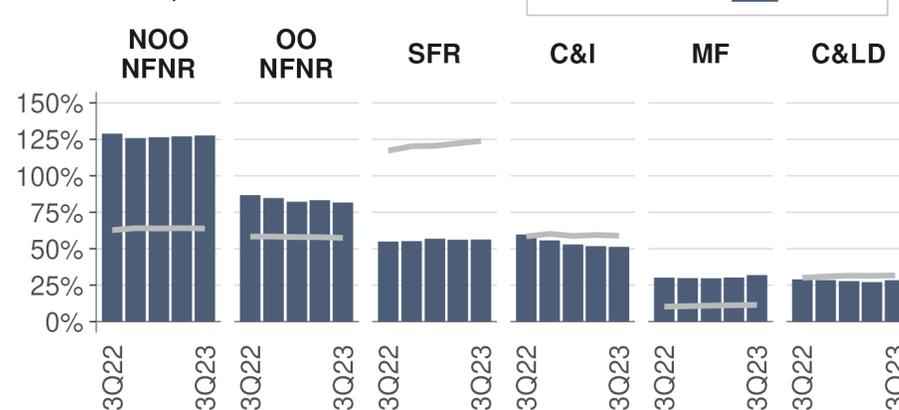
Growth rates are not adjusted for merger-related growth; excludes ebbs and flows of Paycheck Protection Program (PPP). Sources: Bank Call Reports.

District bank loan portfolios centered heavily in commercial real estate loans.

- + At 234%, the District's median nonowner-occupied (NOO) CRE concentration ratio – including NOO NFNR, multifamily (MF), C&LD, and other CRE purpose loans – remained roughly 100 points above the nation (see chart). In general, these loans rely upon CRE to provide both the primary and secondary source of repayment, leaving them more susceptible to changes in CRE markets.
- + Separately, owner-occupied (OO) CRE mortgages represented 82% of tier 1 capital plus allowances, also above a national median (57%). Unlike NOO loans, repayment tends to be tied to a single business.
- + SFR loan concentration ratios hovered near 56% of capital and allowances on a median basis, still less than half of what banks typically reported nationwide.
- + C&I loan exposures continued to ease in relation to capital and allowances, settling at 52%, which trailed the national median by 7 percentage points.

Median Loan Concentrations

% of tier 1 capital + ALLL or ACL



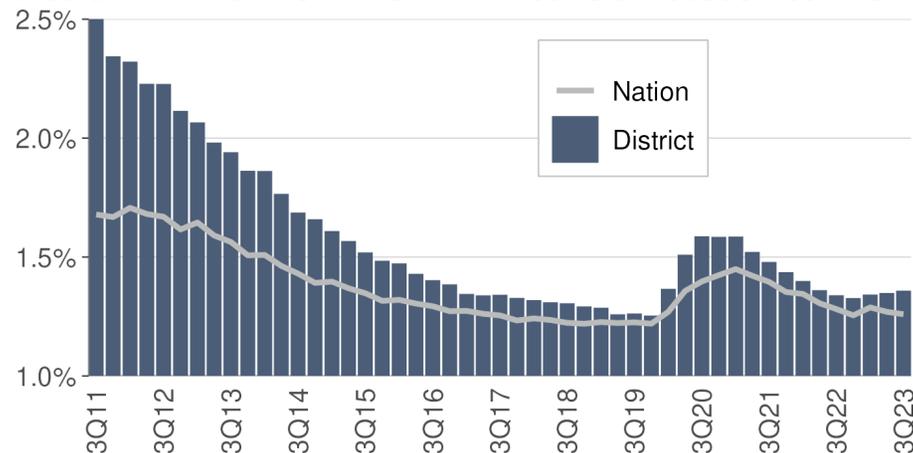
Sources: Bank Call Reports/UBPRs.

Twelfth District Banking Conditions | Allowances + Underwriting

Allowances for credit losses drifted higher but sentiment about prospects improved among some bankers.

- + The median ratio of ACL (or ALLL)-to-non-PPP loans among District banks was 1.36%, up slightly from the prior quarter and year-ago levels. District banks' allowance ratios exceeded the nationwide bank median, which slipped to 1.26% (see chart).
- + Based upon data from Call Report filers that disclose disaggregated ACL detail (banks with total assets exceeding \$1 billion), District banks tend to hold higher ACLs in relation to loans across most major loan types on a median basis.
- + Some bankers' perceptions of business outlook have improved. According to the 3Q23 [CSBS Community Bank Sentiment Survey](#), just over half (53%) of bankers in the West expected business conditions to weaken in the coming year. This was down from 69% and 57% who were similarly pessimistic in the preceding and year-ago quarters, respectively.

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



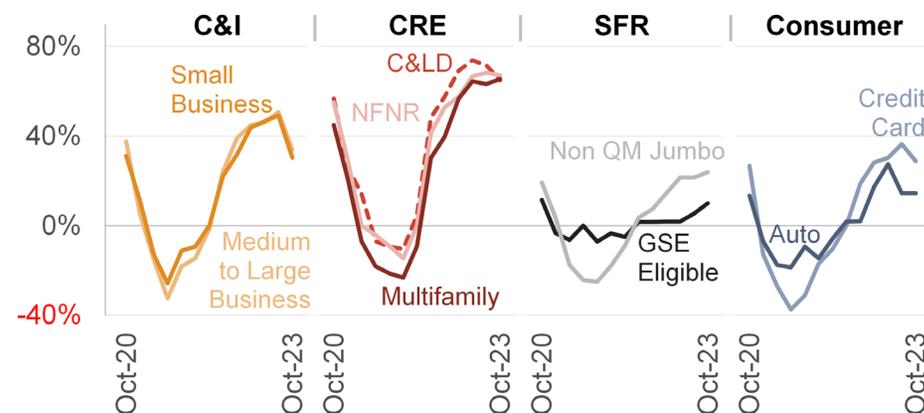
Limited to loan and lease related allowances; denominator excludes Paycheck Protection Program (PPP) loans. Source: Bank Call Reports.

Loan standards tightened, especially for CRE.

- + Per the Federal Reserve's [October 2023 SLOOS](#), the net share of lenders tightening standards for C&I eased slightly to roughly 30%, while CRE tightening persisted among nearly two-thirds of respondents (see chart). Lenders were also more likely to report weakening than strengthening C&I and CRE loan demand.
- + Some lenders also tightened standards on loans to households, with more than 20% making terms more conservative for jumbo mortgages, credit cards and other non-auto consumer loans. Demand for mortgages of all types also reportedly worsened.
- + With regards to recent tightening, lenders most frequently pointed to a less favorable or more uncertain economic outlook (98%), reduced tolerance for risk (70%), funding cost increases (67%), deterioration in credit quality (67% for CRE/56% other types) and weakening collateral values (65%) as somewhat or very important drivers.

Net Percent Reporting Tighter (Easier) Loan Standards

% of surveyed loan officers



Share reporting tighter minus share reporting easier standards; QM = qualified mortgage; GSE = government sponsored enterprise. Source: Federal Reserve.

Twelfth District Banking Conditions | Loan Performance

Signs of mild credit softening emerged but problem loan levels remained low overall.

- + District banks' median noncurrent loan ratio – which includes credits 90+ days delinquent or on nonaccrual – edged up 5 bps to 0.23% during 3Q23. This was comparable to pre-pandemic levels (3Q19) and ranked as the second lowest median noncurrent loan rate among all twelve districts.
- + Including credits 30-89 days past due, the overall delinquency rate moved up 7 bps to 0.47% of non-PPP loans. Although higher than the preceding and year-ago quarters, the ratio remained below a similarly rising nationwide median of 0.69% (see chart).
- + Repayment issues among C&I loans often drove the level and trend of delinquencies among District banks. The median ratio of past-due NFNR loans – a key lending category – ticked higher but remained relatively low overall, contributing to the District's relatively mild delinquency metrics vis-à-vis the nation.

Median Past Due Loan Rates

Excluding PPP loans



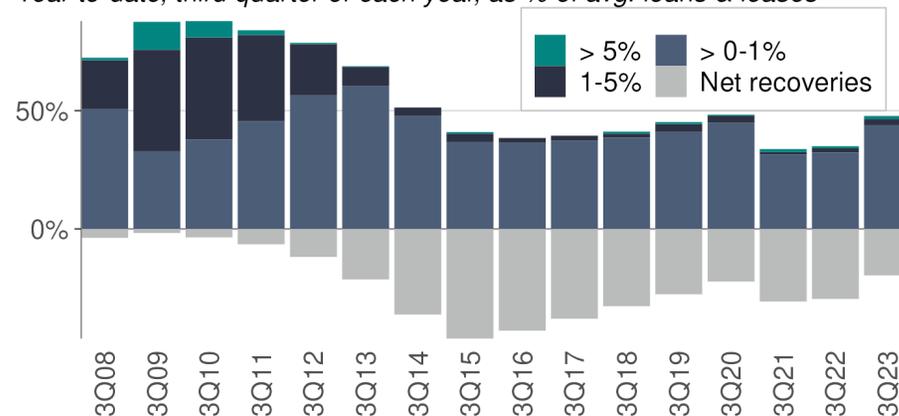
Past due includes 90+ days or nonaccrual (noncurrent) plus 30-89 days past due; excludes Paycheck Protection Program (PPP). Source: Bank Call Reports.

Year-to-date (YTD) net chargeoff activity outpaced the first nine months of 2022.

- + Just under half (48%) of the District's banks recorded net loan losses YTD through September, up from 35% during the same period last year. Likewise, fewer reported net recoveries. Although the share incurring net losses increased, annualized loss rates generally remained below 1% (see chart).
- + Mid-Sized banks in the District and Large banks nationally tended to report higher rates of and larger increases in YTD net chargeoffs than community banks (assets under \$10 billion).
- + Write-downs among C&I and consumer loan portfolios were common contributors to the one-year increase in net chargeoffs.
- + Future economic conditions could affect loss rates prospectively. As noted on page 14, roughly half (53%) of community bankers in the West surveyed by [CSBS](#) in 3Q23 expected business conditions to weaken prospectively.

Share of Banks with Net Chargeoffs, Twelfth District

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



Sources: Bank Call Reports/UBPRs.

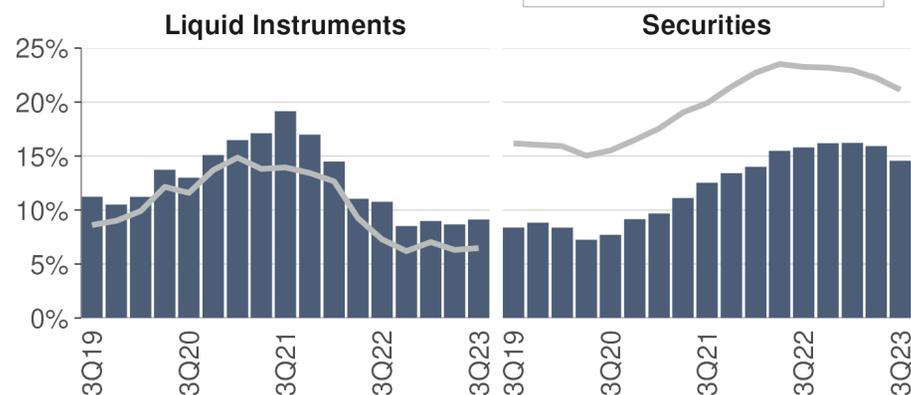
Twelfth District Banking Conditions | Liquidity

On-balance sheet liquidity improved slightly during the quarter.

- + By September, liquid instruments (i.e., cash, due from accounts, federal funds sold, and reverse repurchase agreements) edged up to 9.1% of assets on a median basis but continued to trail pre-pandemic (3Q19) levels.
- + Meanwhile, securities eased to 14.6% of District banks' assets on a median basis. The trend was likely influenced by paydowns on amortizing securities as well as declines in the fair value of AFS securities amid higher intermediate-term interest rates.
- + Unrealized losses on investment portfolios continued to pose headwinds for liquidity and "book" capital among banks. Combined, accumulated other comprehensive losses and tax-adjusted net unrealized losses on HTM securities represented roughly 11.5% of District banks' tier 1 capital on a median basis. Notably, this was the lowest median among the Fed's twelve districts, due mainly to comparatively smaller securities portfolios.

On-Balance Sheet Liquidity

Median % of total assets

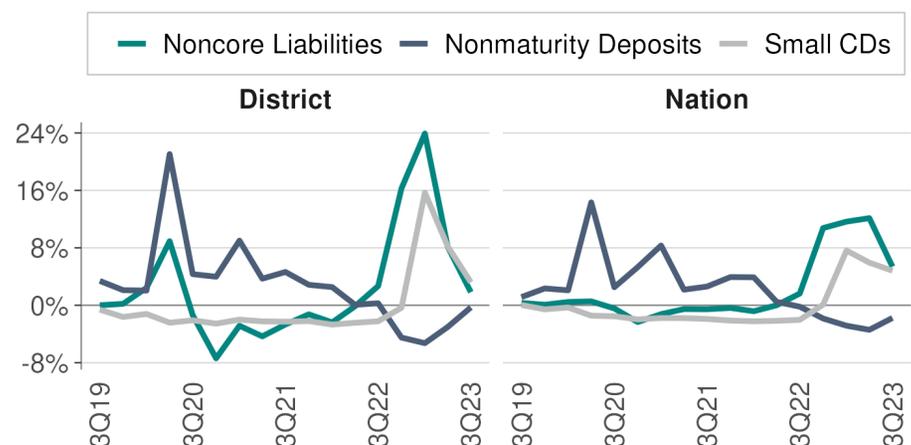


Liquid instruments include cash, due from accounts, federal funds sold, and reverse repurchase agreements. Sources: Bank Call Reports.

NMD runoff and growth in small certificates of deposit (CDs) and noncore funds continued to slow.

- + Quarterly outflows of NMDs (i.e., deposits other than CDs) continued to slow. NMD balances declined by a median rate of less than 1% across the District's banks versus a runoff rate of more than 5% in the first quarter. By the end of September, NMDs backed just under 70% of District banks' assets, down 10 percentage points from a mid-2022 peak, but comparable to pre-pandemic levels.
- + NMD runoff was replaced with small CDs (less than \$250 thousand each) and/or noncore liabilities, also at a slowing pace. Quarter-over-quarter, growth in small CDs slowed 5 percentage points to 3.2% and quarterly growth in noncore funding decelerated sharply to 1.8%. Swings in funding within the District were generally more pronounced than seen nationally (see chart).
- + By the end of September, noncore liabilities and small CDs funded 13.2% and 6.7% of District bank assets, respectively, on a median basis, each up slightly quarter-over-quarter.

Median Quarterly Liability Growth



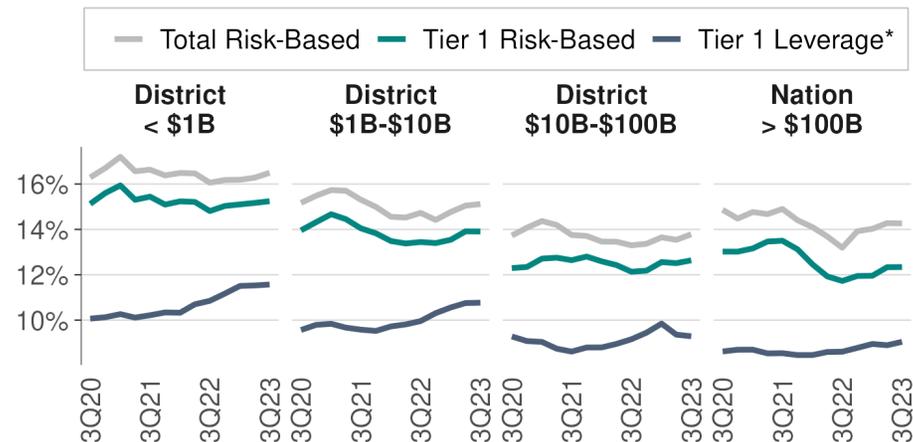
Noncore includes large CDs, small brokered accounts, foreign deposits, federal funds purchased, repurchase agreements, and borrowings; non-maturity deposits excludes CDs. Sources: Bank Call Reports/UBPRs.

Twelfth District Banking Conditions | Capital

Regulatory capital measures were generally stable-to-higher, with some variation by bank size.

- + Quarter-over-quarter, District banks' median tier 1 leverage ratio edged up 14 bps to 10.99%. Improvement continued to be more common among the District's community banks than its Mid-Sized firms (see chart).
- + Median tier 1 and total risk-based capital (RBC) ratios also generally increased.
- + At most banks, earnings retention allowed tier 1 and total capital accretion to outpace subdued growth in average and risk-weighted assets.
- + Among all but the largest banks, regulatory capital ratios generally exclude AOCI impacts via a one-time opt-out election provision within capital statutes. However, negative AOCI continued to weigh on "book" capital measures.

Median Regulatory Capital Ratios by Bank Size



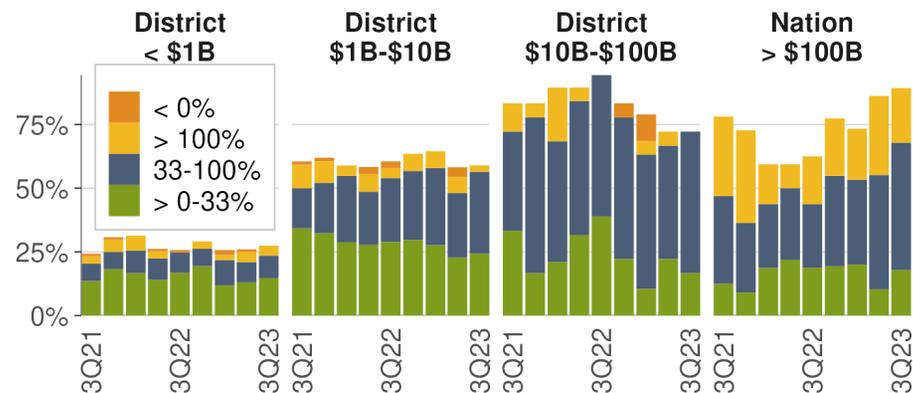
*Includes community bank leverage ratio (CBLR) adopters, which ceased RBC ratio reporting beginning in 2020. Sources: Bank Call Reports/UBPRs.

The share of banks paying dividends varied by tax status and bank size.

- + Less than half (44%) of the District's non-Subchapter S banks paid dividends during 3Q23, comparable to the same quarter last year.
- + The frequency and magnitude of dividend payouts remained higher with increasing bank size (see chart).
- + With size, banks and/or their holding companies are more likely be publicly traded and engage in capital actions.
- + Payout rates tend to be higher among Subchapter S tax filing banks, which use distributions to cover pass-through shareholder tax obligations atop investor returns. The District's 25 Subchapter S banks paid out a median 46% of profits during the quarter compared with 39% among Subchapter S-filing banks nationwide. In both the District and nationally, median payout rates were down from the prior quarter but up from the same period last year.

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 atop investor returns. Sources: 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)	
	Sep-23	Sep-22	Sep-23	Sep-22	Sep-23	Sep-22
Alaska	4 (0)	4 (0)	-	-	1 (0)	1 (0)
Arizona	12 (3)	15 (3)	-	-	1 (0)	1 (0)
California	117 (5)	118 (2)	3 (0)	3 (0)	9 (0)	9 (0)
Guam	3(0)	2 (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 (0)	4 (0)	4 (0)	1 (0)	2 (0)
Oregon	13 (0)	13 (0)	-	-	2 (0)	2 (0)
Utah	25 (0)	25 (1)	15 (2)	15 (2)	1 (0)	1 (0)
Washington	32 (0)	34 (0)	-	-	7 (0)	7 (0)
District	231 (8)	236 (6)	23 (2)	23 (2)	25 (0)	27 (0)
Nation	4,021(29)	4,135 (29)	24 (2)	24 (2)	565 (1)	586 (0)

+ 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 AK, AZ, CA, HI, ID, NV, OR, UT, and WA, as well as Guam.

+ Banking Statistics: Unless otherwise noted, data are for commercial banks based upon headquarters location. 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. Also, other than the table to the left, Twelfth District banking statistics include banks that are either supervised by or physically located within the Federal Reserve’s Twelfth District.

+ Groups by Asset Size: “Very Small”, “Small”, and “Mid-Sized” bank groups are based on total asset ranges of less than \$1 billion, \$1 to \$10 billion, and \$10 to \$100 billion, respectively. The “Large” bank group uses banks with assets exceeding \$100 billion nationwide because these banks typically operate beyond the District’s geographic footprint and a larger statistical population is preferred for medians.

Based on preliminary 3Q23 data (Call Reports filed through November 6, 2023).

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)
TE	tax equivalent
YTD	year to date