

Banking CONDITIONS

Providing Tenth District insights on regional and national banks

Second Quarter 2022 Banking Conditions

By Mary Bongers

The Federal Reserve Bank of Kansas City dedicates staff to monitor banking trends nationally and across our seven-state region.

Significant swings in balance sheet composition largely explain changes seen in second quarter banking conditions. Overall, balance sheet sizes at District banks decreased during the first half of the year (see Chart C3), with assets declining almost 2 percent during the second quarter, the largest quarterly drop since the 1980s. Cash balances saw the steepest decline of all asset categories (see Charts C15-C16), decreasing \$17 billion or 35 percent quarter-over-quarter, as a result of loan growth and deposit runoff in the second quarter. Investment security portfolios experienced only a slight overall decrease (see Charts C13-C14), though banks continued to buy US Treasury securities.

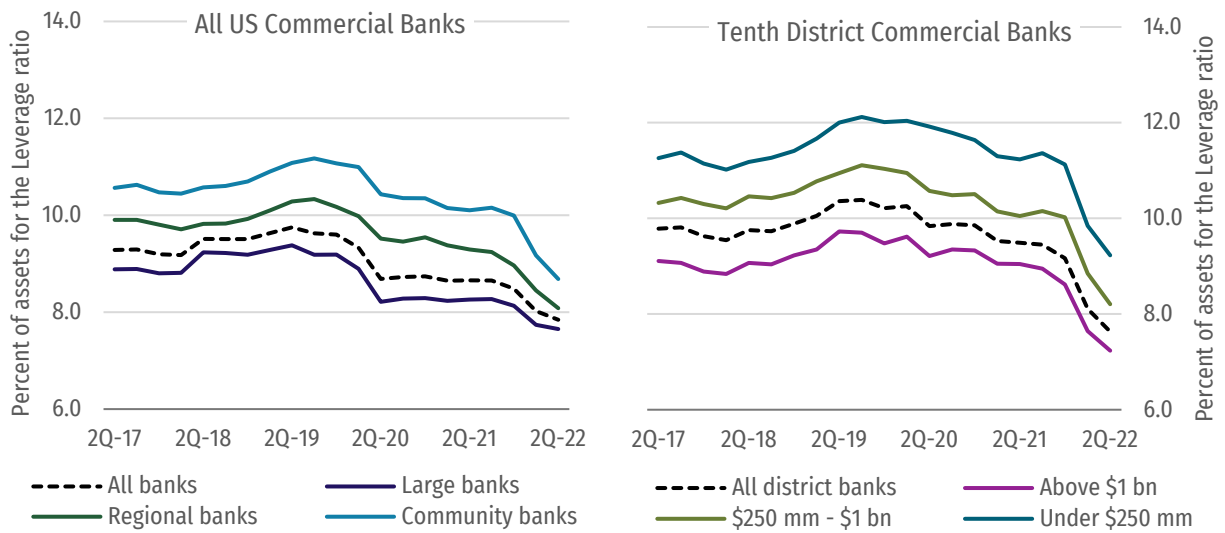
Despite the decline in balance sheet size, loans grew significantly during the quarter (see Charts C8-C9). When excluding Paycheck Protection Program (PPP) loans, loan growth totaled almost 12 percent year-over-year, or 4 percent quarter-over-quarter, the highest rate in decades. Lending across all major loan types increased, with the greatest gains in CRE and 1-4 family (see Charts C10-C11). Problem loans and charge-offs remain low (see Charts B4-B5).

Liquidity metrics continued to moderate as a result of recent balance sheet shifts. The liquid asset ratio (-415 bp) and the loan-to-deposit ratio (+385 bp) experienced the largest quarterly swings in decades, though the liquid asset ratio (21 percent) remains elevated, and the loan-to-deposit ratio (68 percent) remains low, historically (see Charts D5-D9). Additionally, deposit levels declined, with over half of District banks experiencing deposit run-off, while borrowings increased (see Chart C3).

The net interest margin increased in the second quarter, reversing a previously declining trend (see Charts A10-A11). Margins benefited from increasing interest income (see Charts A12-A13), driven by greater yields across earning assets and significant loan growth, while interest expense increased only marginally. As a result, the District ROAA increased to 1.2 percent despite slight upticks in overhead and provision expenses (see Charts A4-A6).

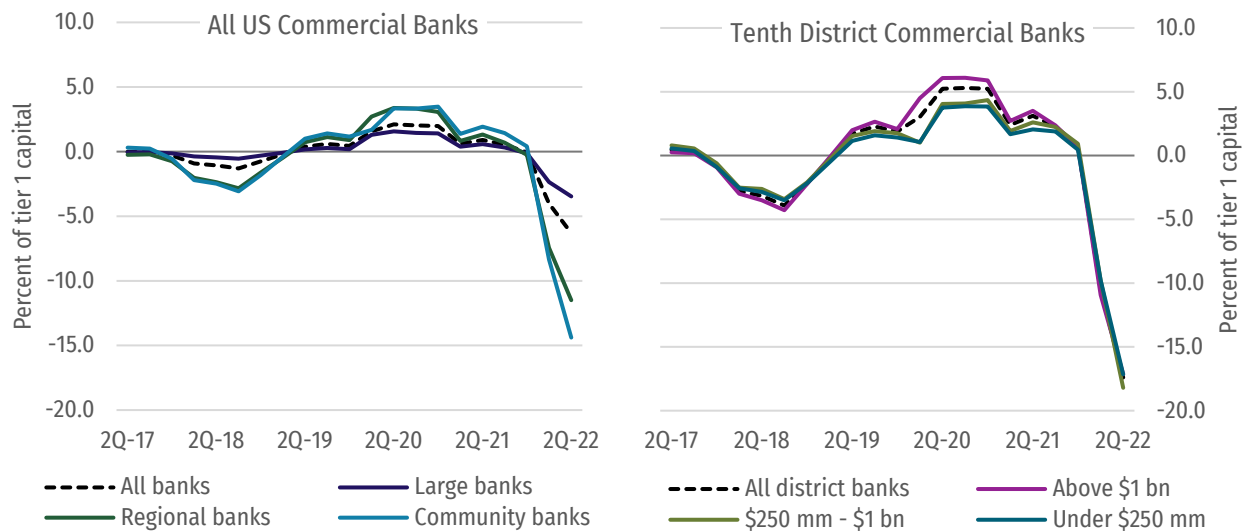
The Tier 1 Leverage ratio benefitted from the decline in balance sheet size, increasing to 9.3 percent (see Charts A1-A2). However, risk-weighted assets continued to increase as a result of lending activity, causing risk-based capital ratios to decline slightly (see the recent Community Banking Bulletin, [“Capital Adequacy Measures Diverge During Pandemic”](#), which illustrates this trend). Tangible capital* also decreased, totaling 7.6 percent of average assets (net of deductions, for the Leverage ratio) due to mounting unrealized losses on available-for-sale (AFS) securities (see Supplemental Chart 1, below). Unrealized loss positions continued to grow during the quarter and now represent 17 percent of Tier 1 capital (see Supplemental Chart 2, below).

Supplemental Chart 1. Tangible Capital*



* Tangible capital is calculated as total equity capital, including other comprehensive income, less goodwill and other intangible assets

Supplemental Chart 2. Unrealized Gains/Losses on Available-for-Sale Securities



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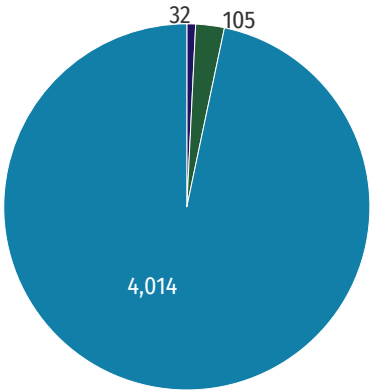
Select Ratios by Tenth District State

Banking Institutions Overview

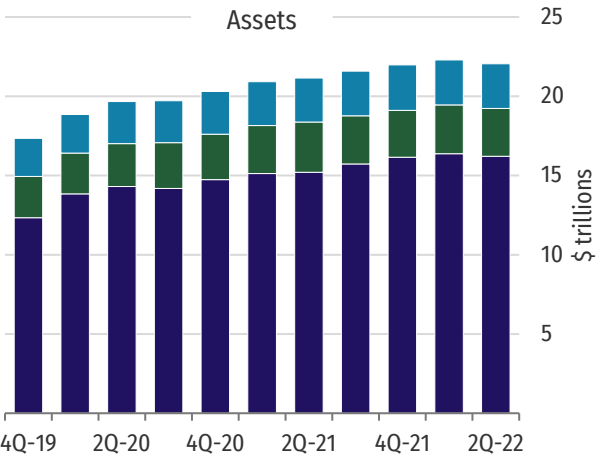
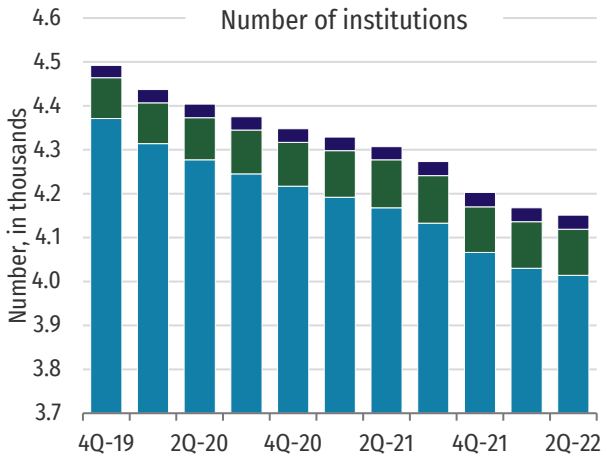
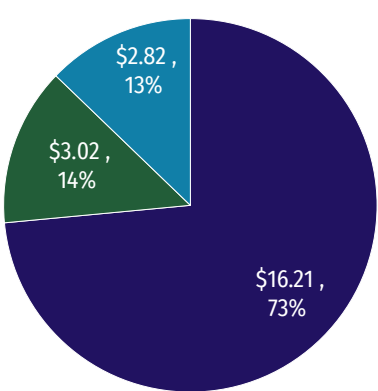
All U.S. Commercial Banks

Large banks Regional banks Community banks

Number of institutions



Assets, in trillions

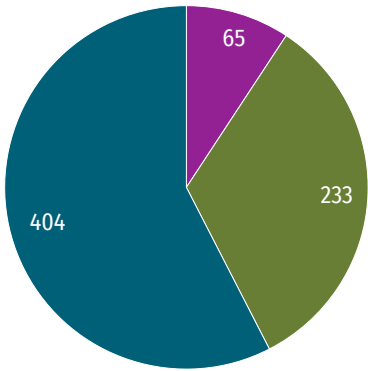


Banking Institutions Overview

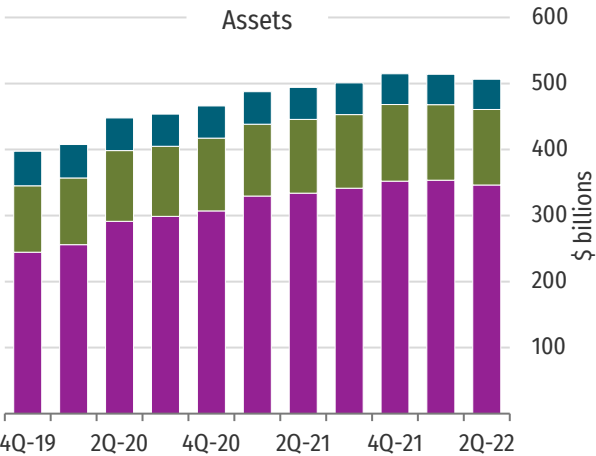
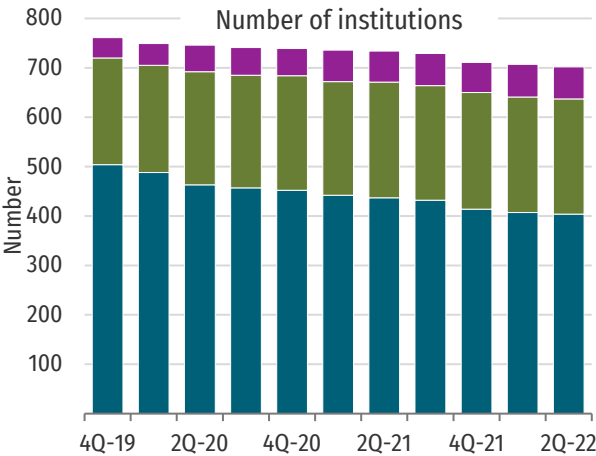
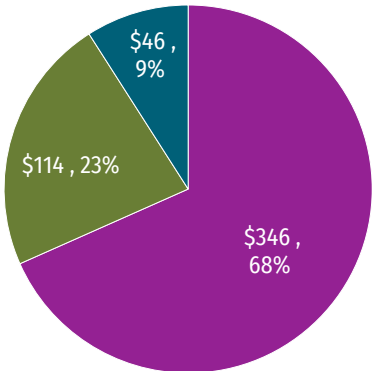
Tenth District Commercial Banks

Above \$1 bn \$250 mm - \$1 bn Under \$250 mm

Number of institutions



Assets, in billions



A. Capital and Earnings

- The Tier 1 Leverage ratio increased during the quarter, benefiting from the decline in assets, though remains below pre-pandemic levels.
- Earnings performance improved in the second quarter, though remains below year-ago levels. Improvement is largely attributable to increasing margins, as well as slight improvement in noninterest income, despite increases in expenses.

Chart A1. Leverage Ratio, All U.S. Commercial Banks

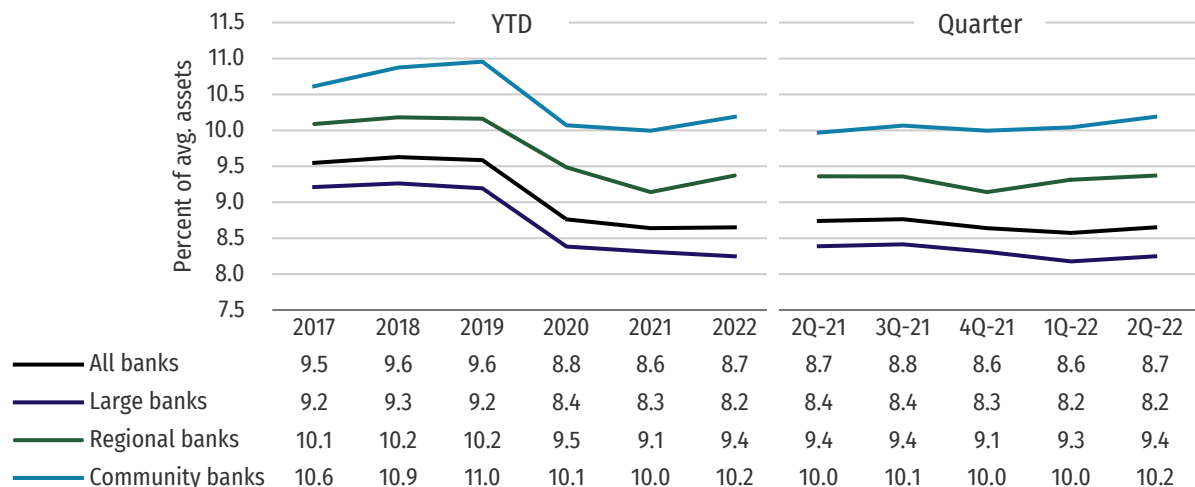


Chart A2. Leverage Ratio, Tenth District Commercial Banks

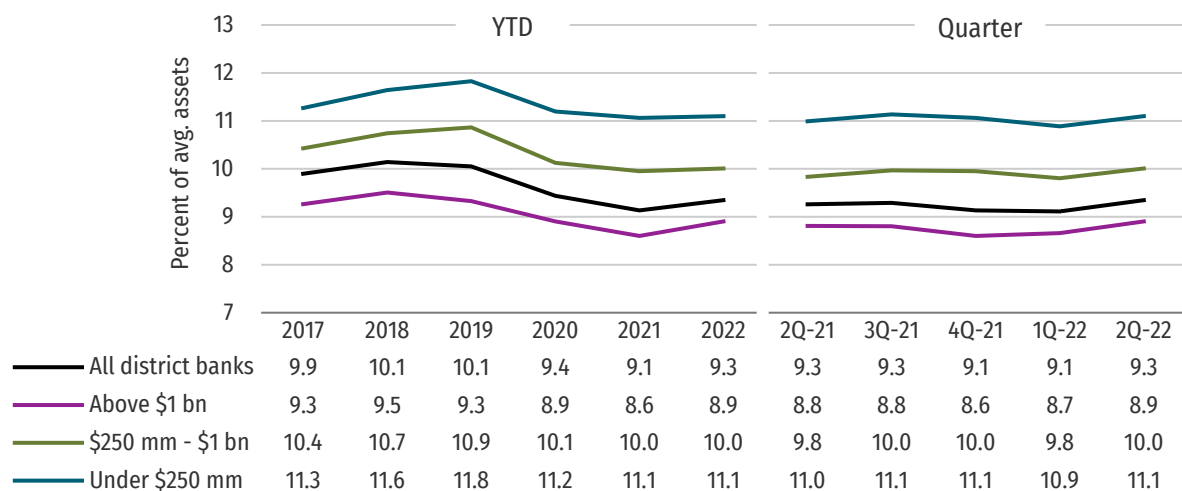


Chart A3. Quarterly Dividend Trends

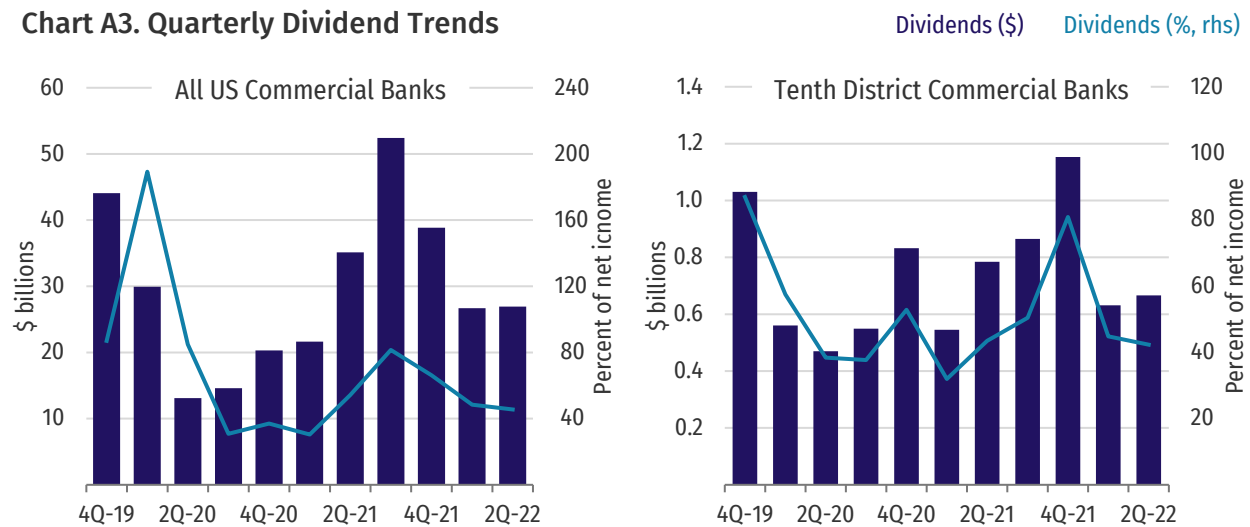


Chart A4. Return on Average Assets Summary

	All US Commercial Banks				y/y change	q/q change	Tenth District Commercial Banks				y/y change	q/q change
	4Q-19	4Q-20	4Q-21	2Q-22			4Q-19	4Q-20	4Q-21	2Q-22		
Net interest income	3.00	2.53	2.29	2.38	▲ 0.25	▲ 0.21	3.54	3.22	3.00	2.93	▲ 0.03	▲ 0.24
Noninterest income	1.51	1.38	1.34	1.31	▼ (0.06)	▼ (0.01)	1.21	1.30	1.16	0.99	▼ (0.18)	▲ 0.07
Total revenue	4.51	3.91	3.64	3.69	▲ 0.19	▲ 0.20	4.75	4.52	4.16	3.92	▼ (0.15)	▲ 0.30
Provisions	0.29	0.64	(0.14)	0.12	▲ 0.38	▲ 0.11	0.24	0.40	0.02	0.08	▲ 0.13	▲ 0.06
Noninterest expense	2.61	2.43	2.25	2.25	▲ 0.04	▲ 0.01	2.96	2.77	2.53	2.44	▼ (0.05)	▲ 0.07
Total expenses	2.90	3.07	2.11	2.38	▲ 0.41	▲ 0.11	3.20	3.17	2.55	2.52	▲ 0.09	▲ 0.13
Pre-tax operating income	1.61	0.83	1.53	1.31	▼ (0.23)	▲ 0.09	1.54	1.35	1.61	1.40	▼ (0.24)	▲ 0.17
Net Income	1.29	0.70	1.23	1.04	▼ (0.17)	▲ 0.07	1.30	1.20	1.36	1.16	▼ (0.24)	▲ 0.13

Chart A5. Return on Average Assets, All U.S. Commercial Banks

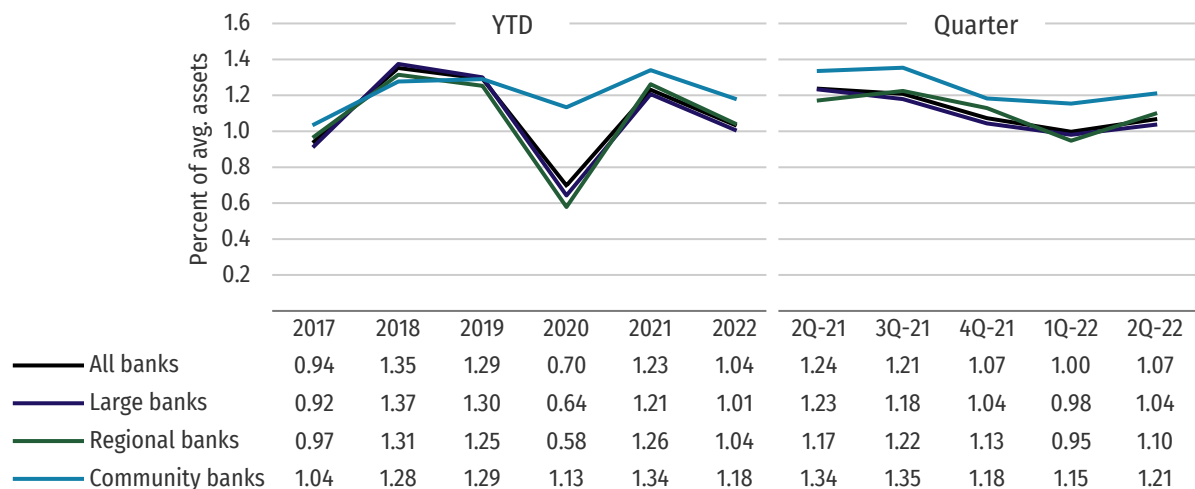


Chart A6. Return on Average Assets, Tenth District Commercial Banks

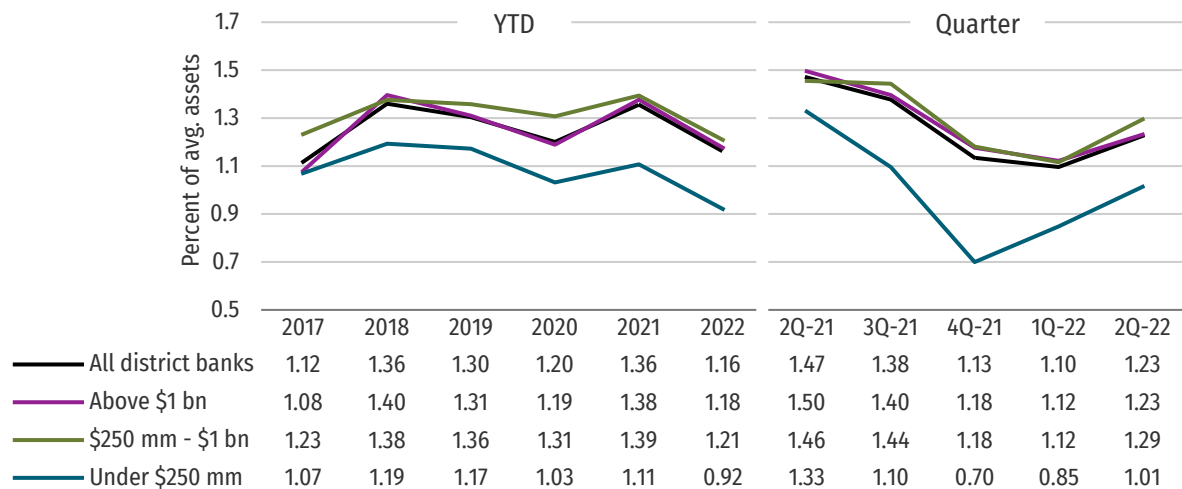


Chart A7. Quarterly Revenue Trends

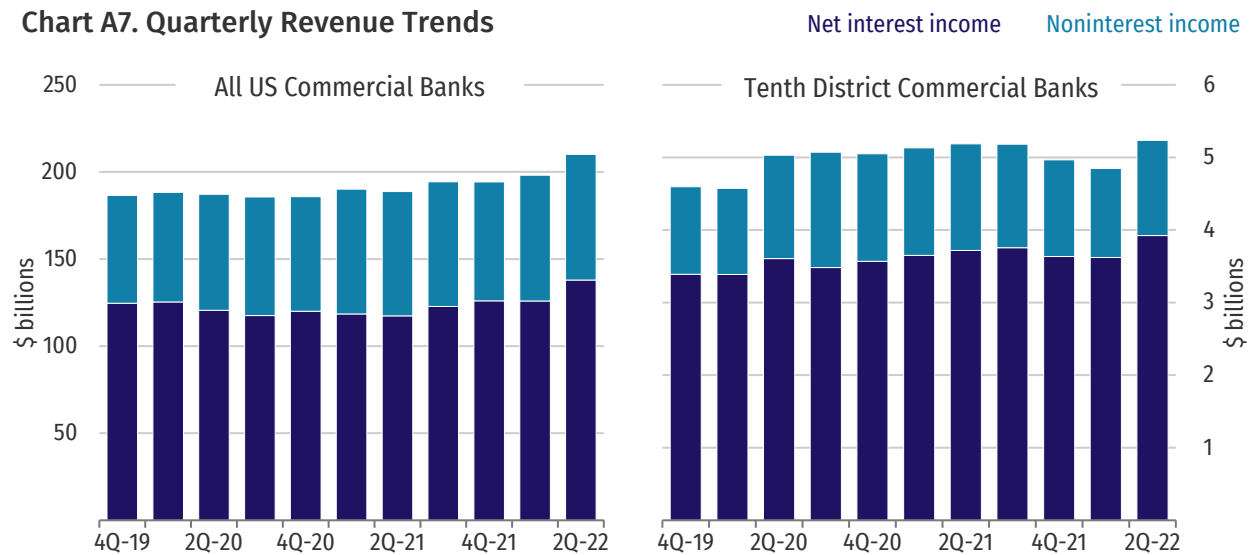


Chart A8. Year-Over-Year Change in Income & Expense Items, All U.S. Commercial Banks

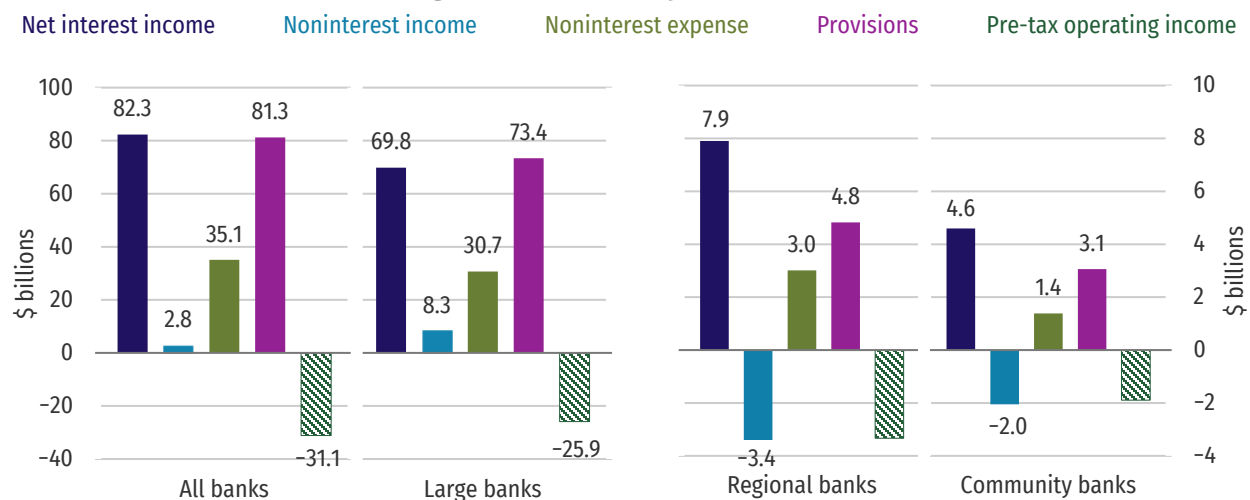


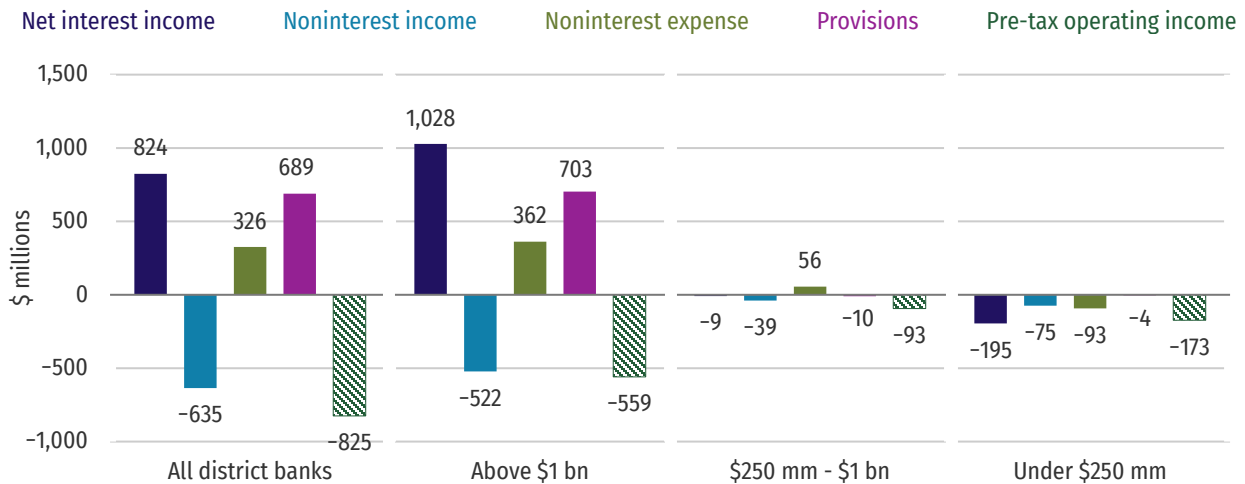
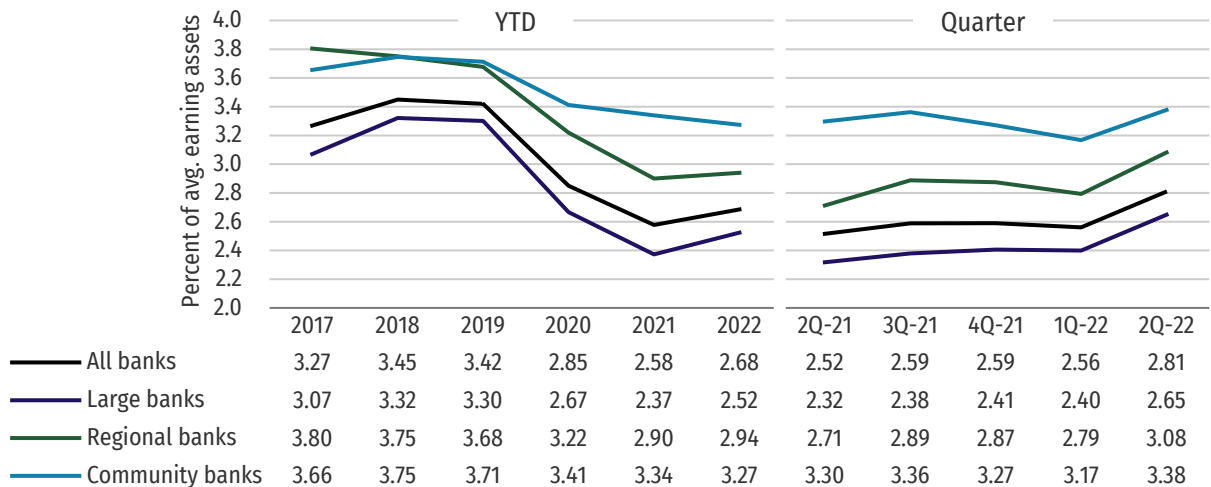
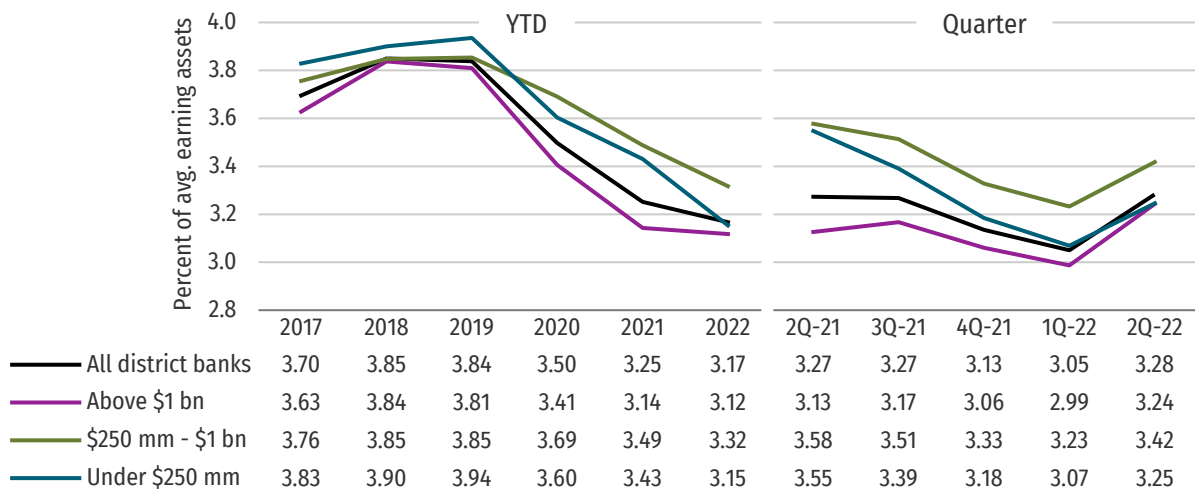
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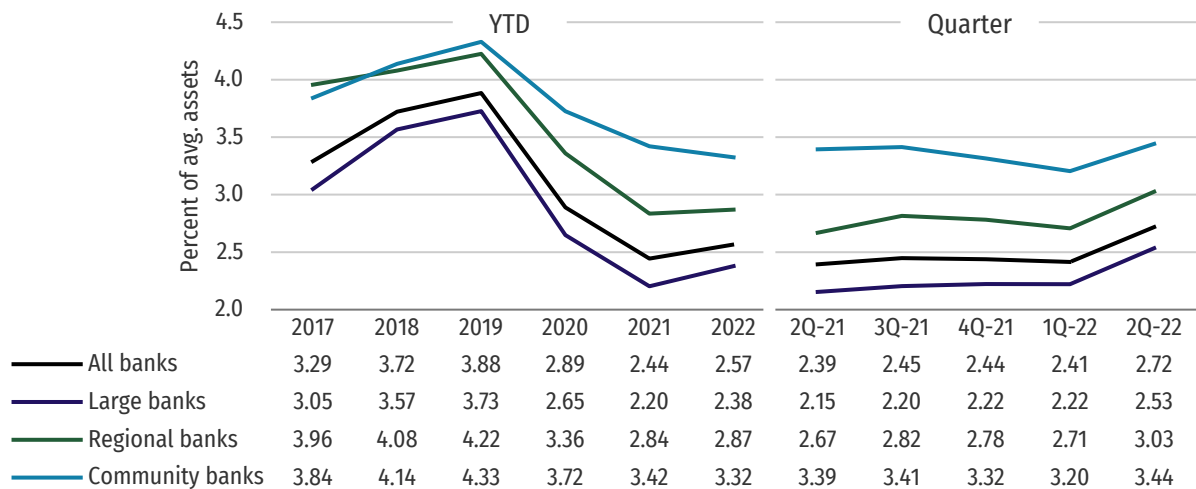
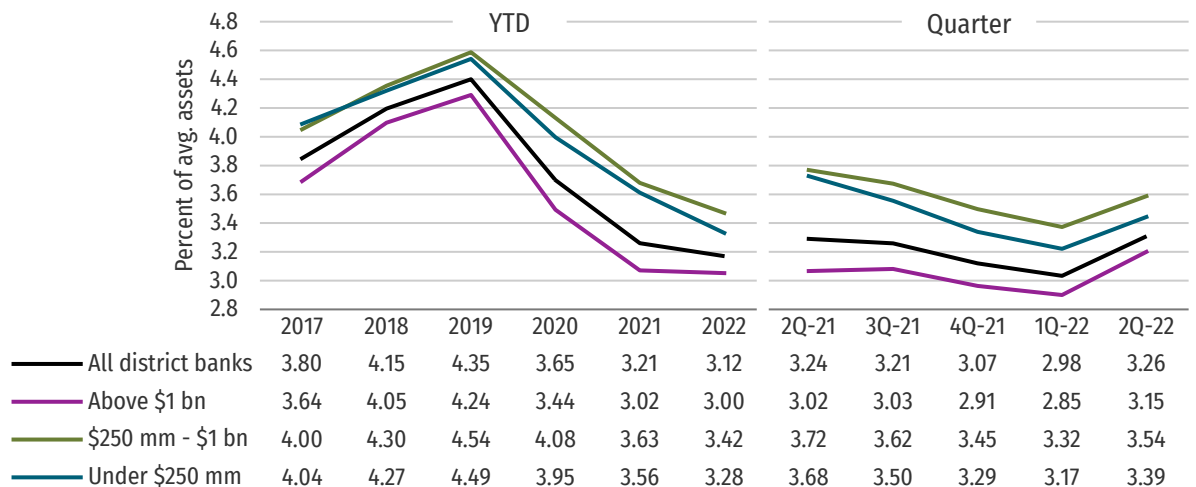
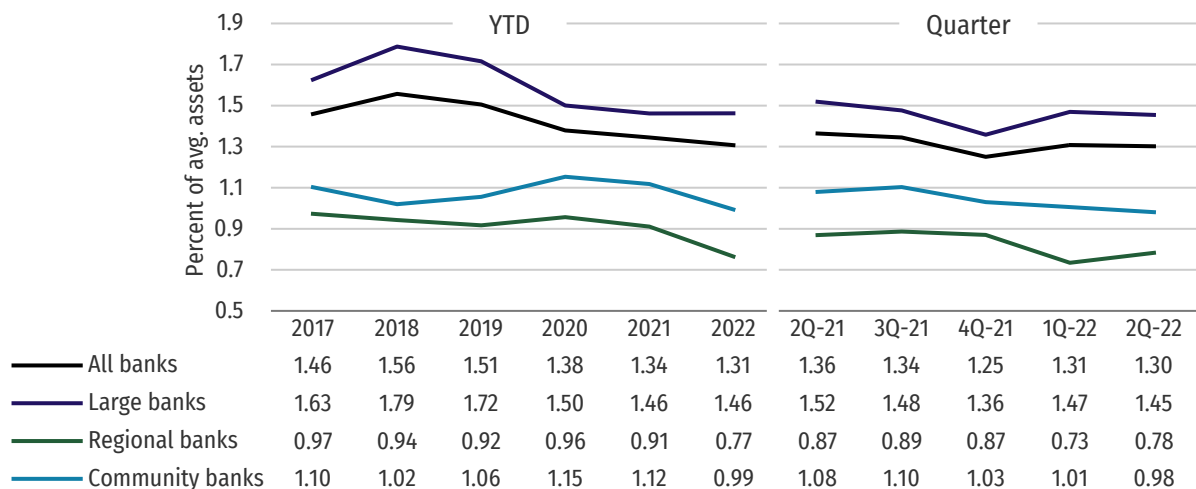
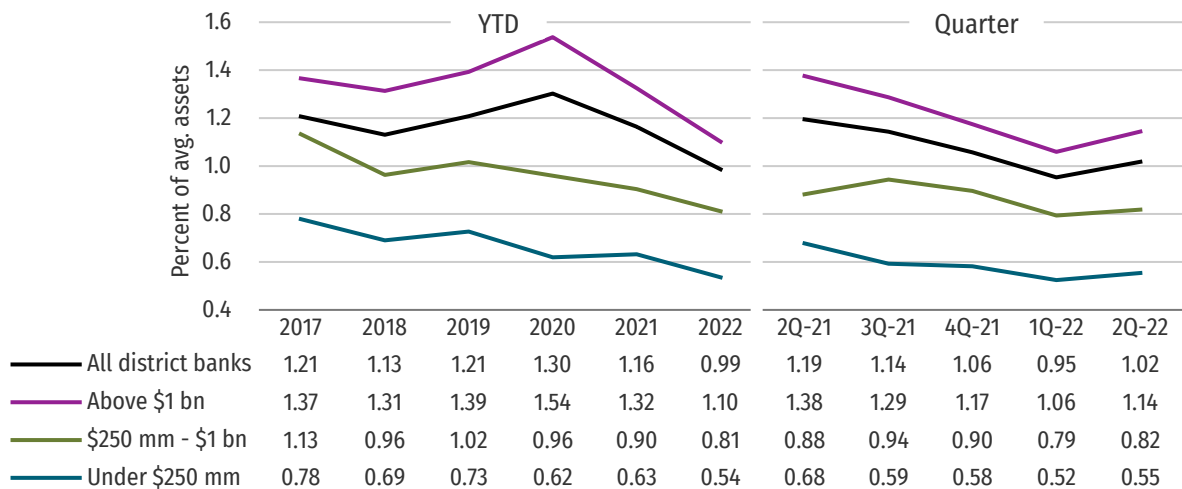
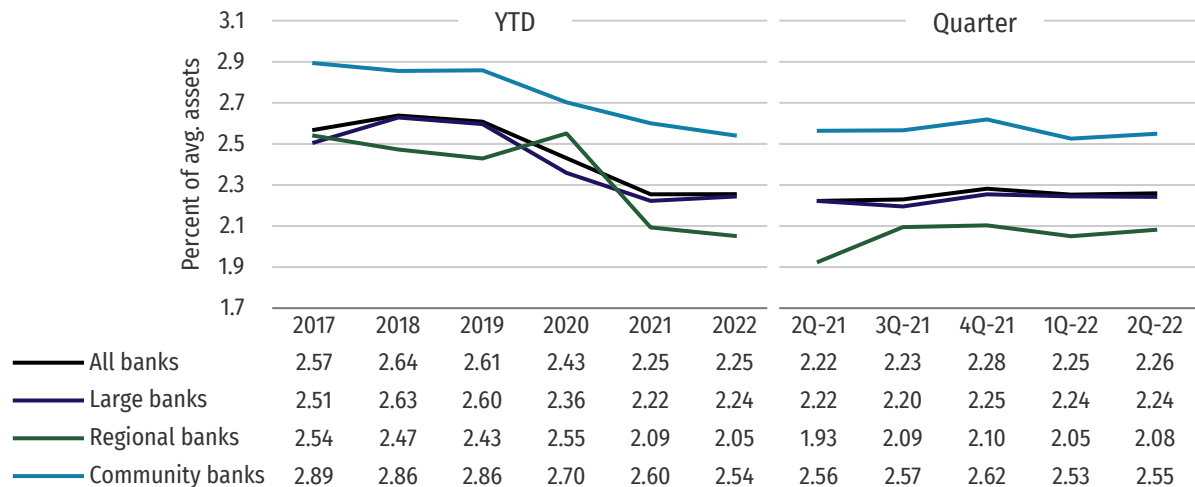
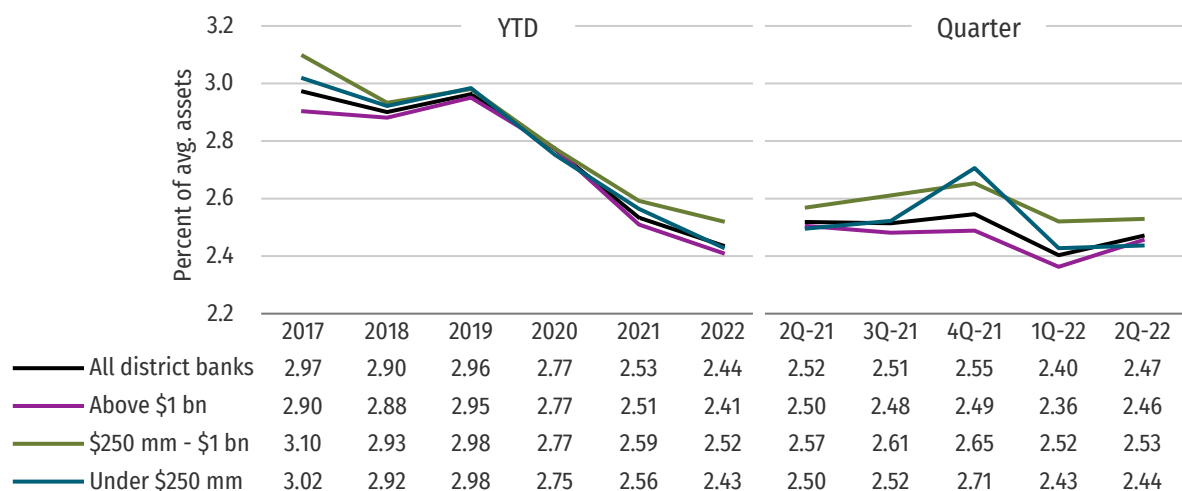
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Chart A15. Noninterest Income, Tenth District Commercial Banks**Chart A16. Noninterest Expense, All U.S. Commercial Banks****Chart A17. Noninterest Expense, Tenth District Commercial Banks**

B. Loan Loss Reserves and Credit Conditions

- Banks increased provisions during the quarter, though allowance levels have not kept pace with aggressive loan growth.
- Credit conditions remained sound with low levels of problem assets across all major loan types.

Chart B1. Loan Loss Provisions, All U.S. Commercial Banks

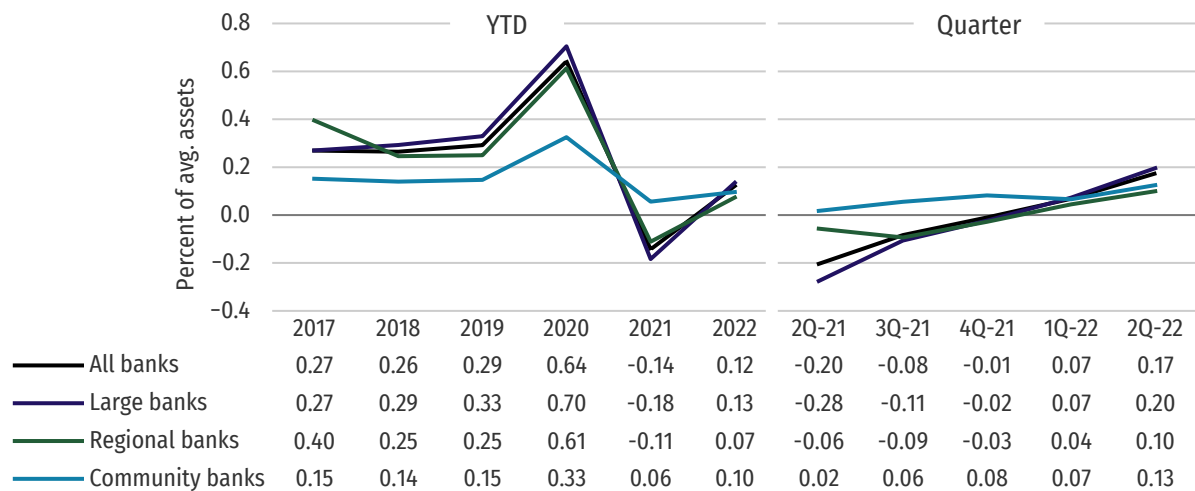


Chart B2. Loan Loss Provisions, Tenth District Commercial Banks

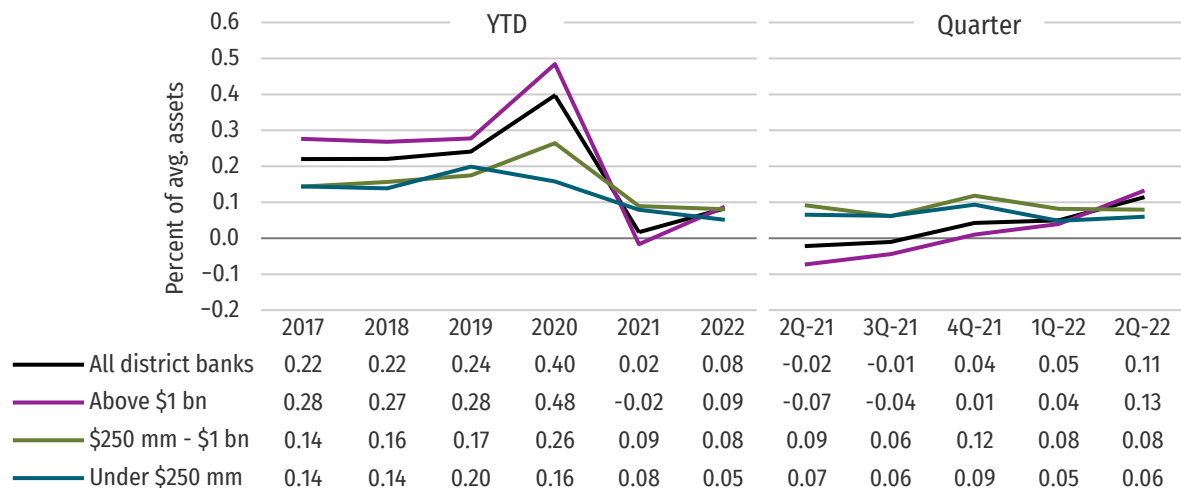


Chart B3. Quarterly Allowance for Loan and Lease Losses Trends

Provisions

Net chargeoffs

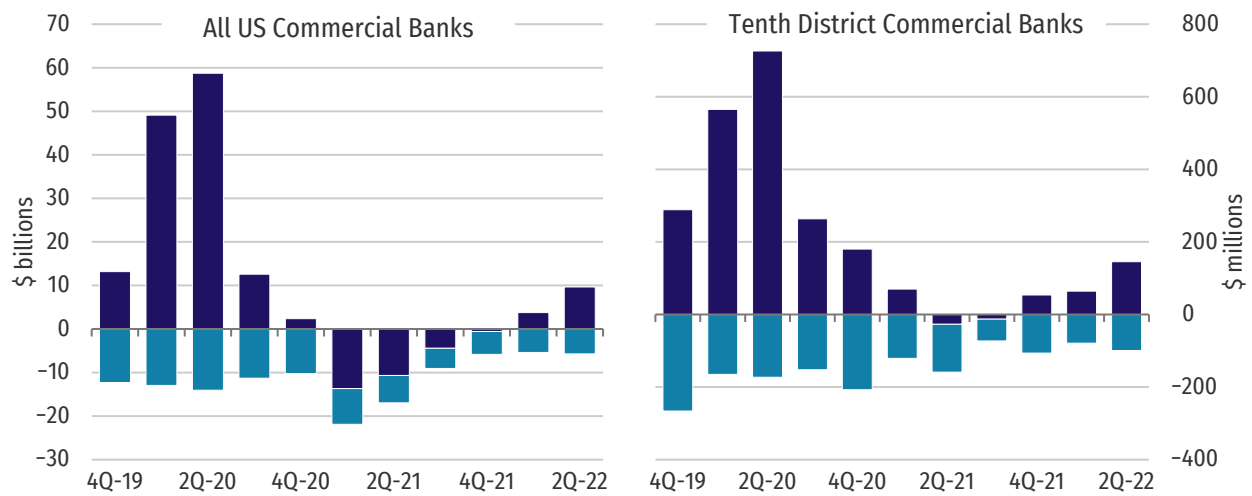


Chart B4. Problem Assets, All U.S. Commercial Banks

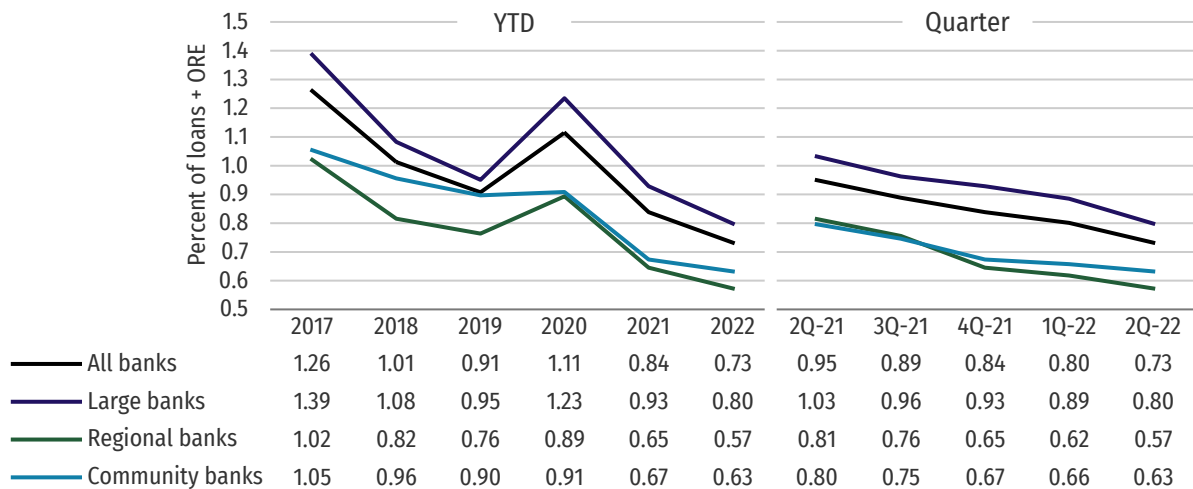


Chart B5. Problem Assets, Tenth District Commercial Banks

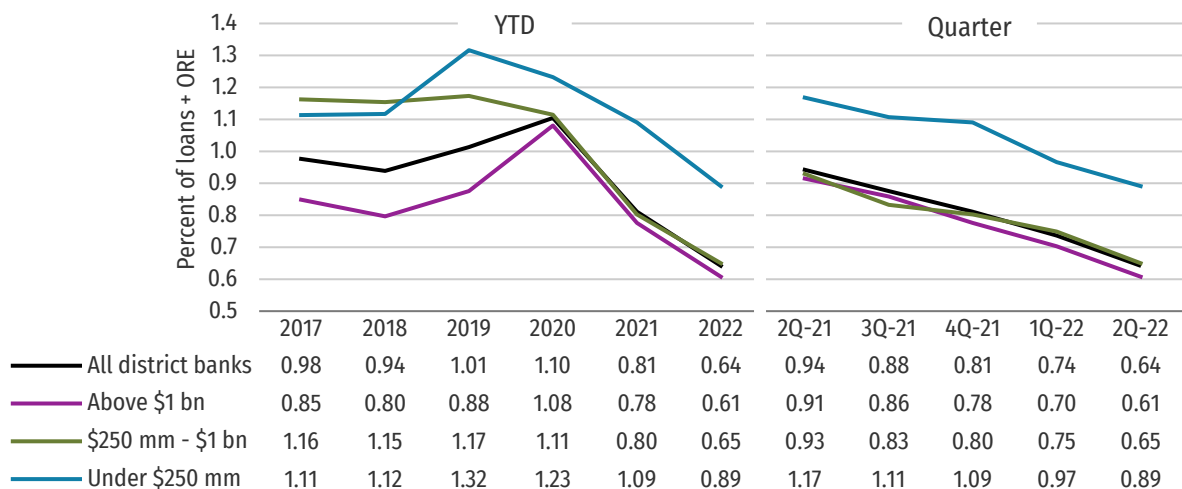


Chart B6. Noncurrent CLD and CRE Loans

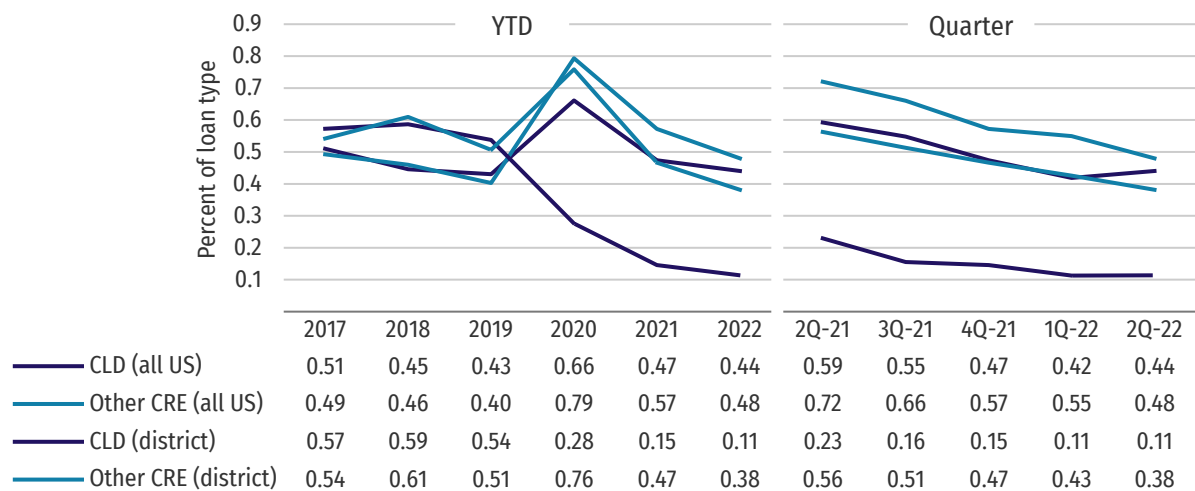


Chart B7. Noncurrent Loans by Other Loan Types, All U.S. Commercial Banks

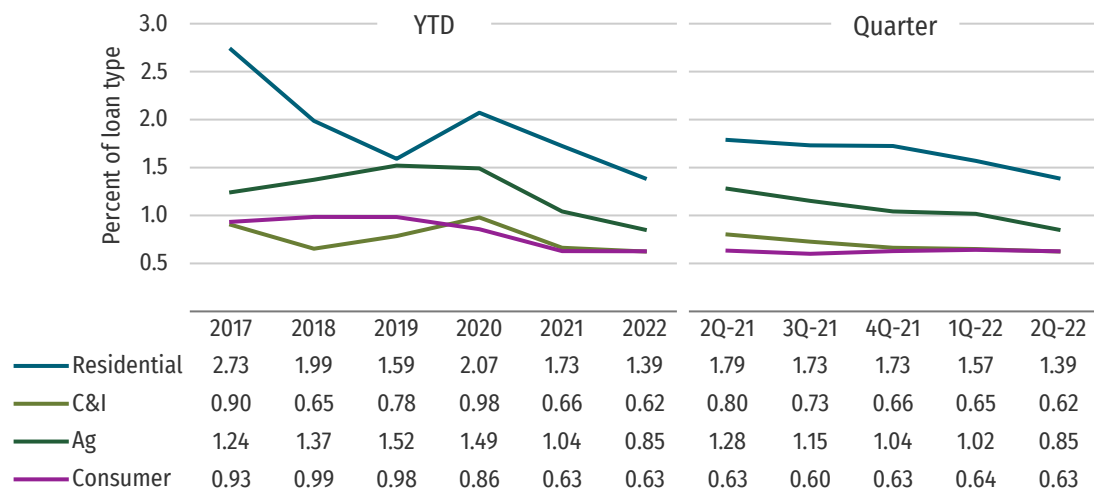


Chart B8. Noncurrent Loans by Other Loan Types, Tenth District Commercial Banks

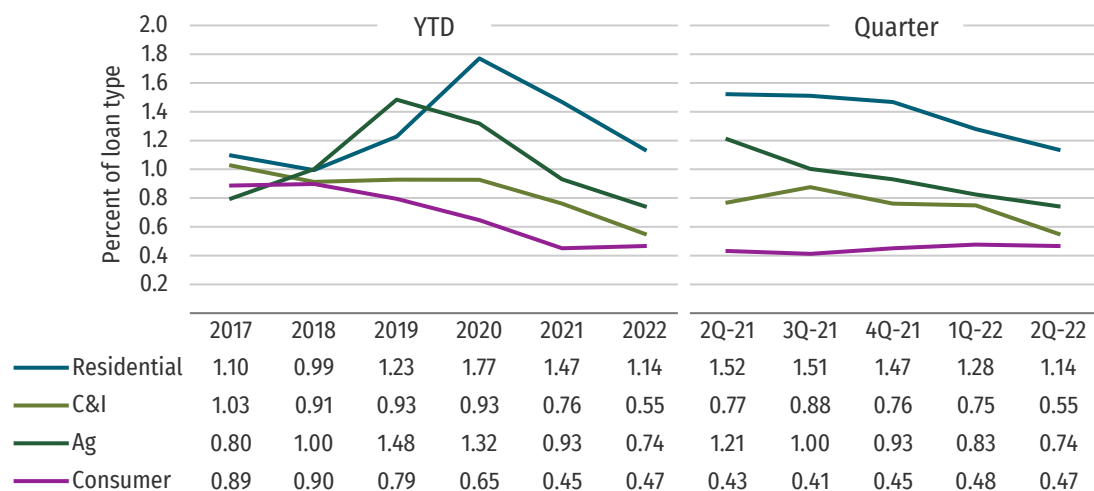


Chart B9. Noncurrent Loans by Loan Type, Tenth District States

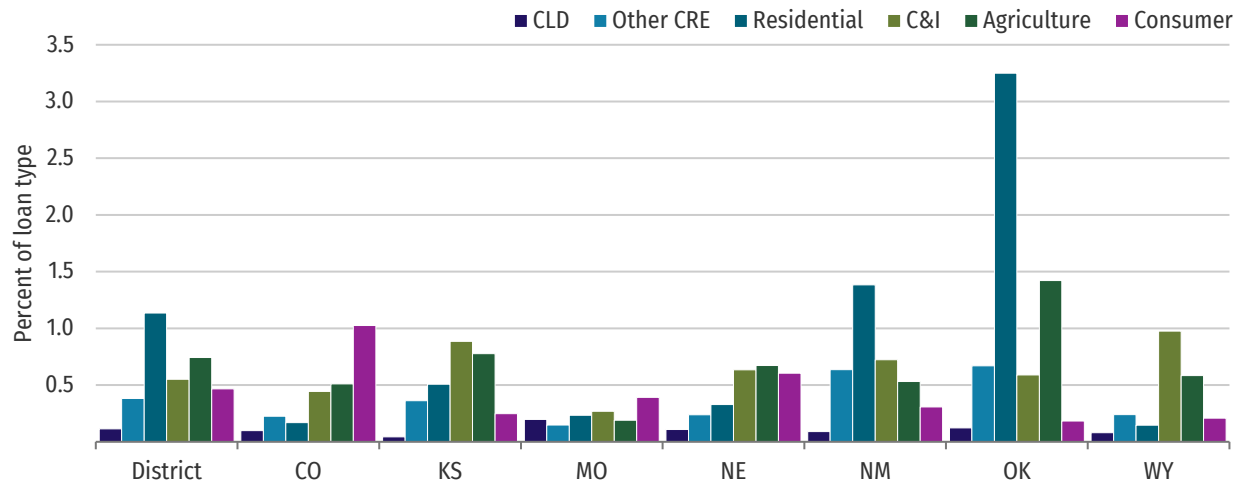


Chart B10. Texas Ratio, All U.S. Commercial Banks

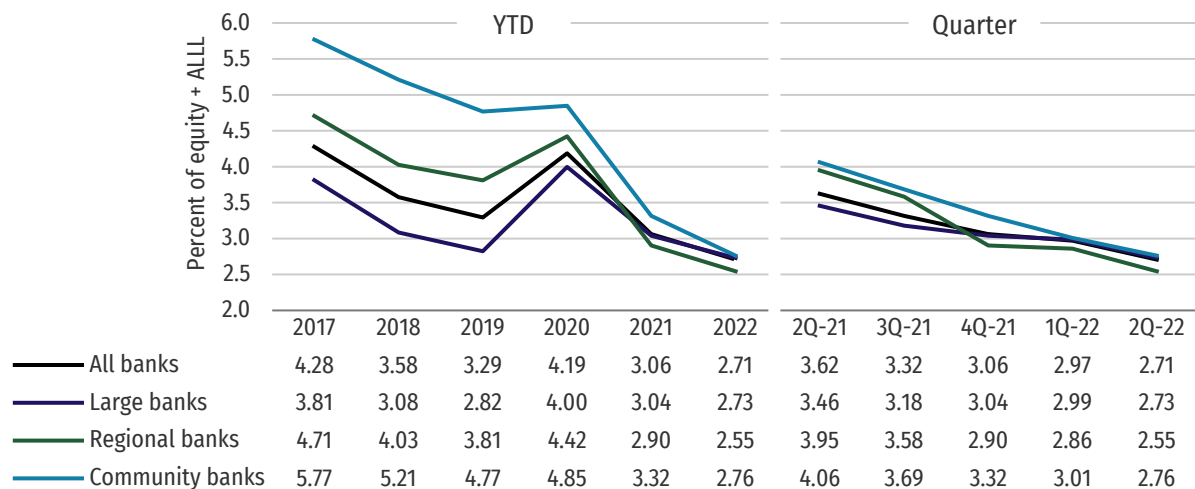


Chart B11. Texas Ratio, Tenth District Commercial Banks

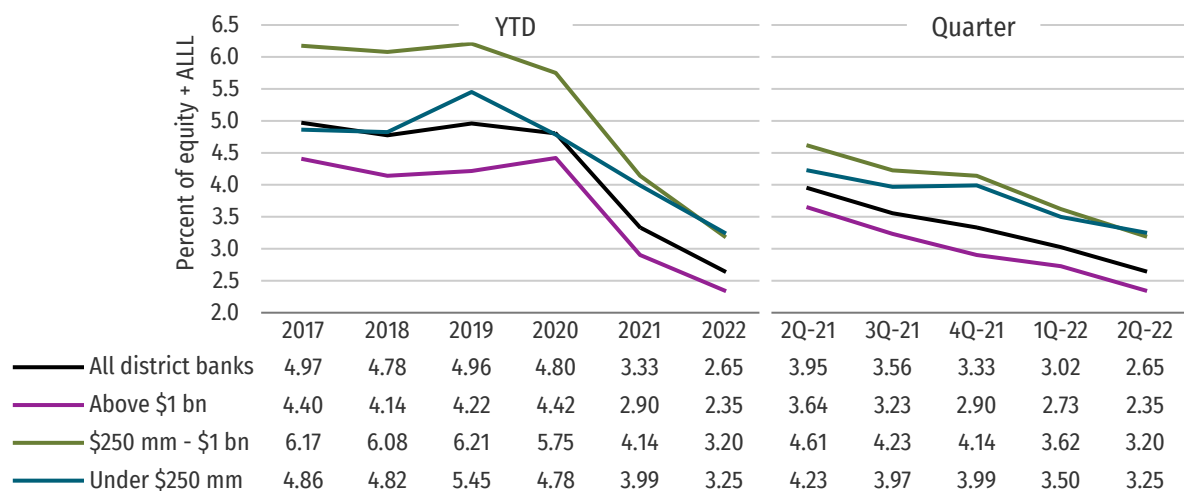
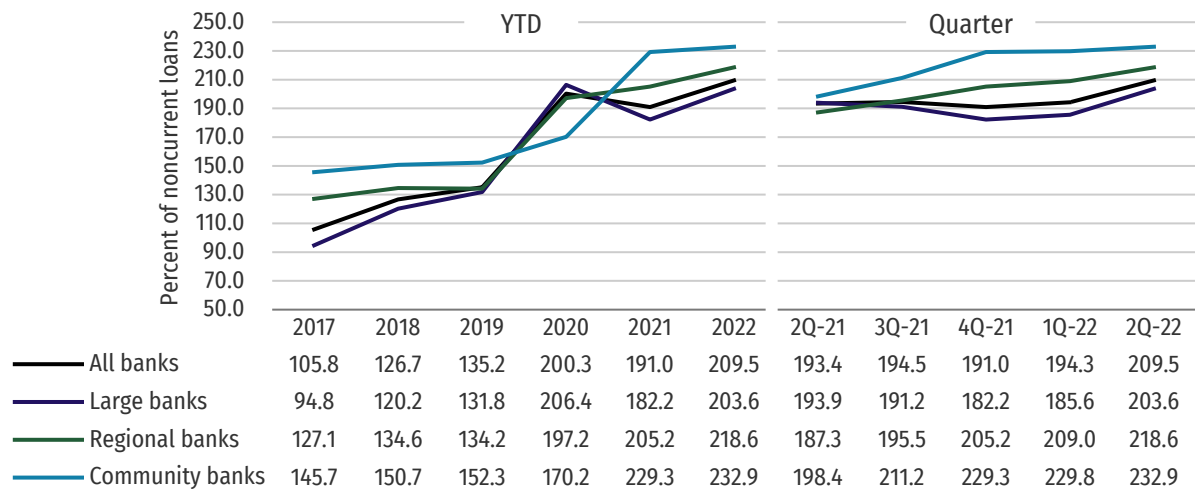
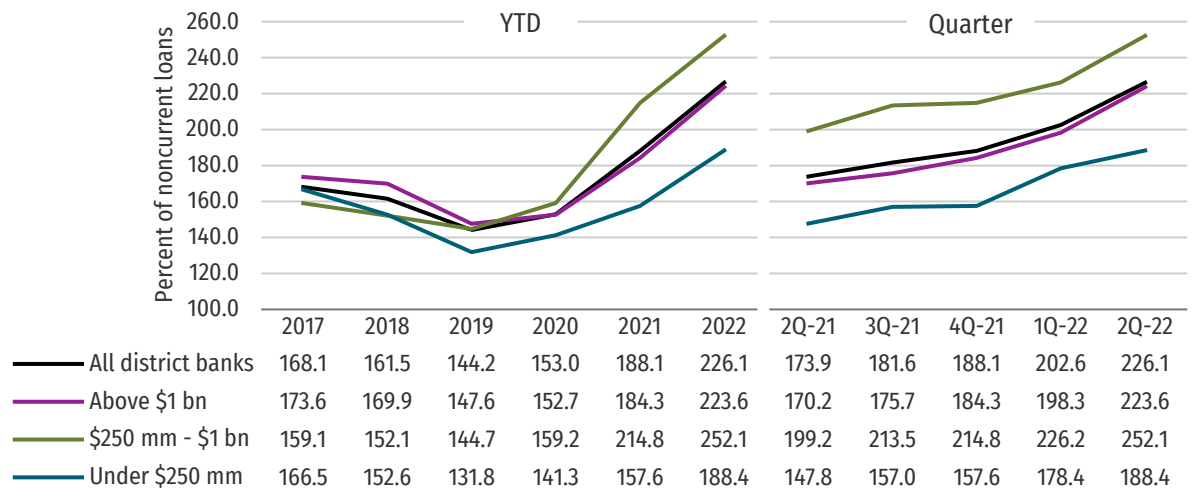


Chart B12. Coverage Ratio, All U.S. Commercial Banks**Chart B13. Coverage Ratio, Tenth District Commercial Banks**

C. Balance Sheet Composition

- Banks experienced deposit run-off and elevated levels of loan growth, funded by decreases in cash balances and increases in other borrowings. Overall, balance sheets shrunk during the quarter.

Chart C1. Loan Portfolio Breakdown, All U.S. Commercial Banks

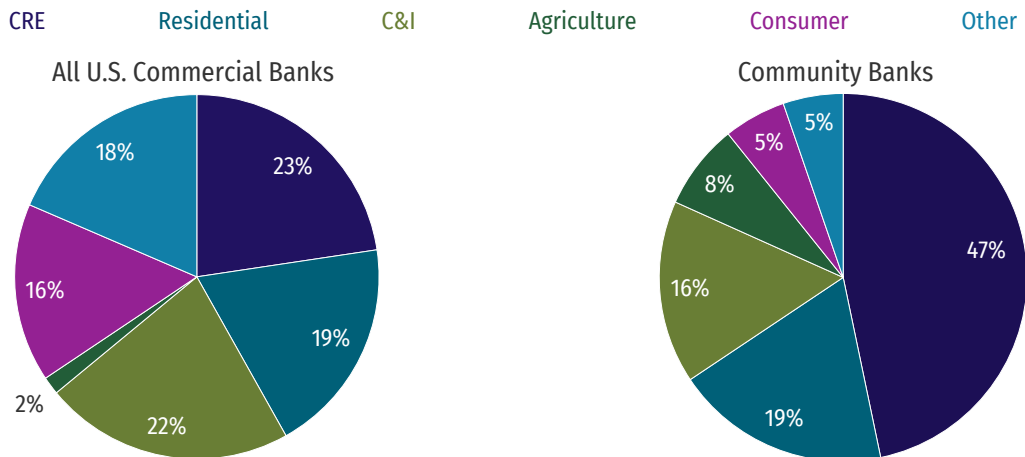


Chart C2. Loan Portfolio Breakdown, Tenth District Commercial Banks

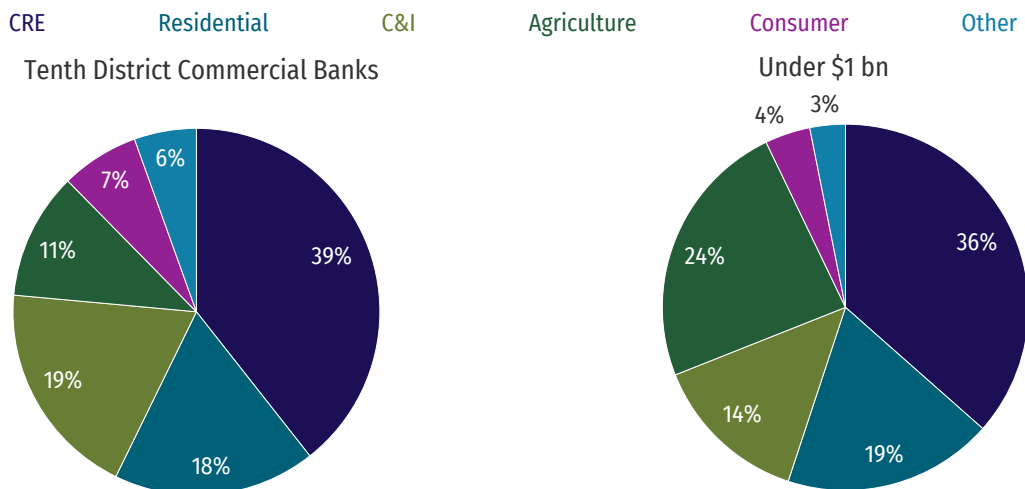


Chart C3. Balance Sheet Shifts, in Billions

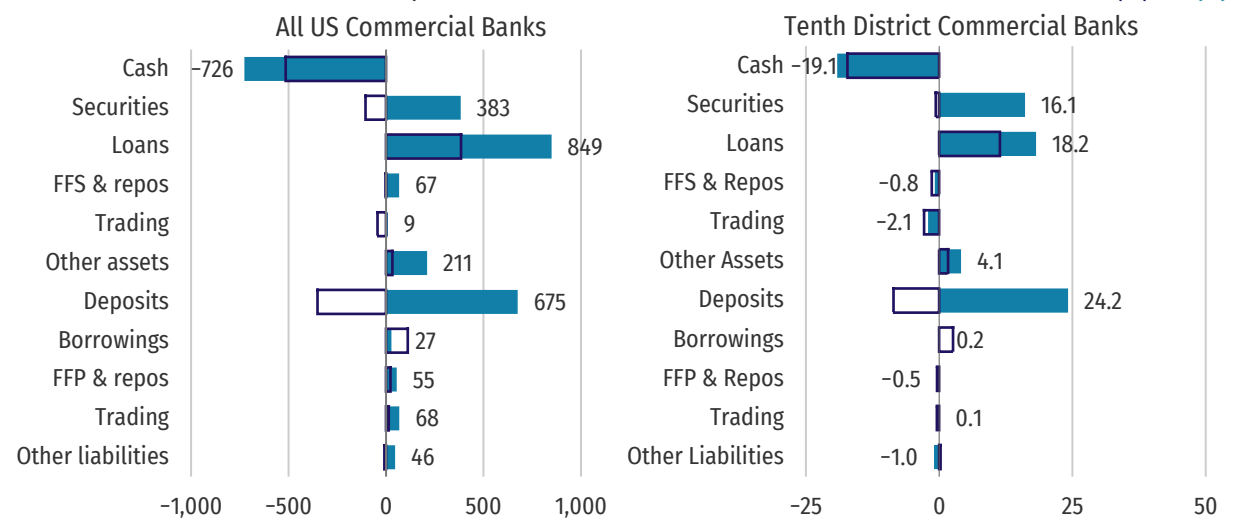


Chart C4. Change in Loan Portfolio Composition, in Billions

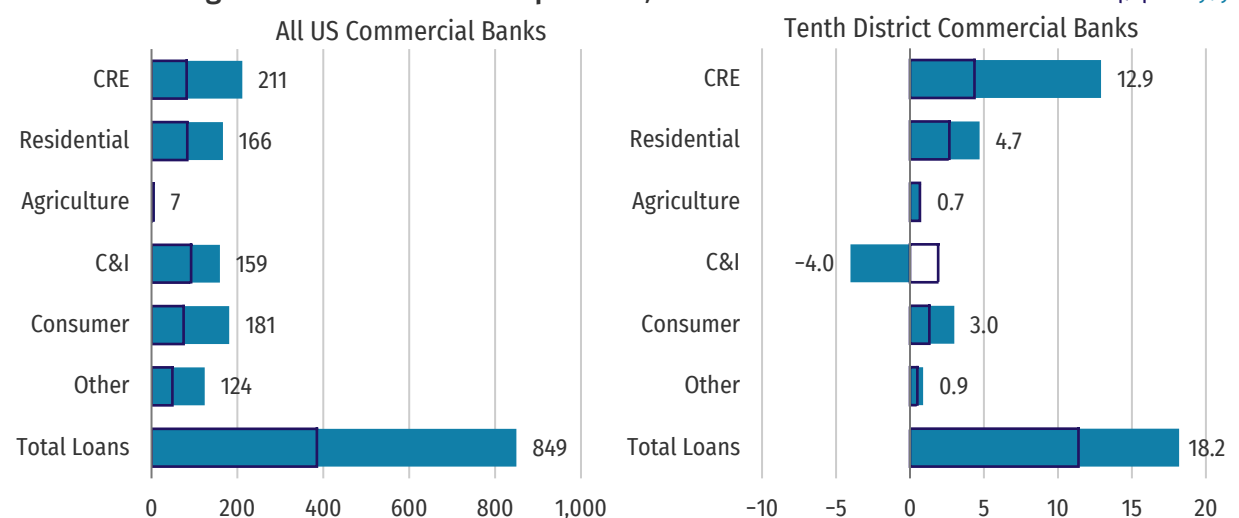


Chart C5. Loans to Assets, All U.S. Commercial Banks

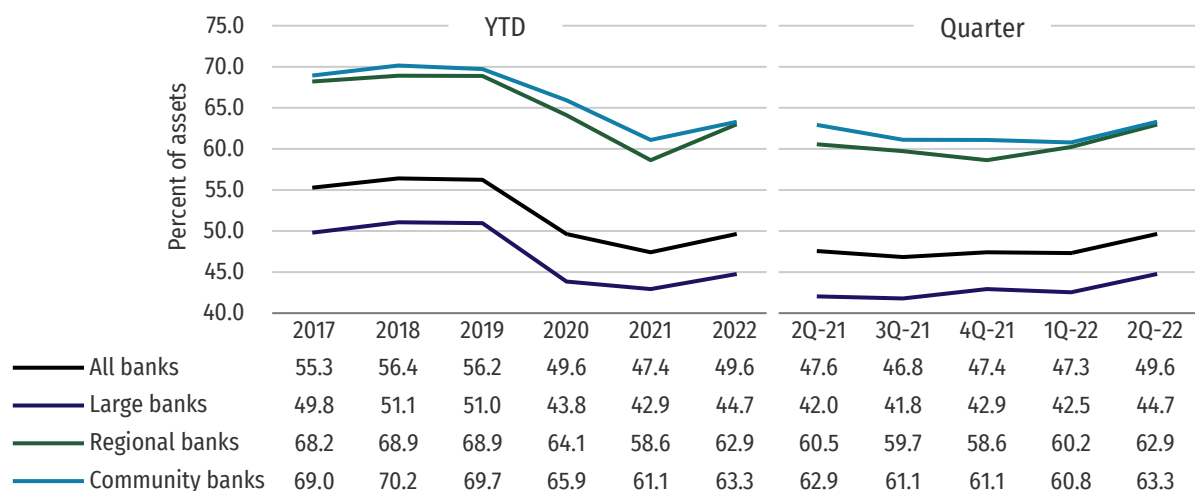


Chart C6. Loans to Assets, Tenth District Commercial Banks

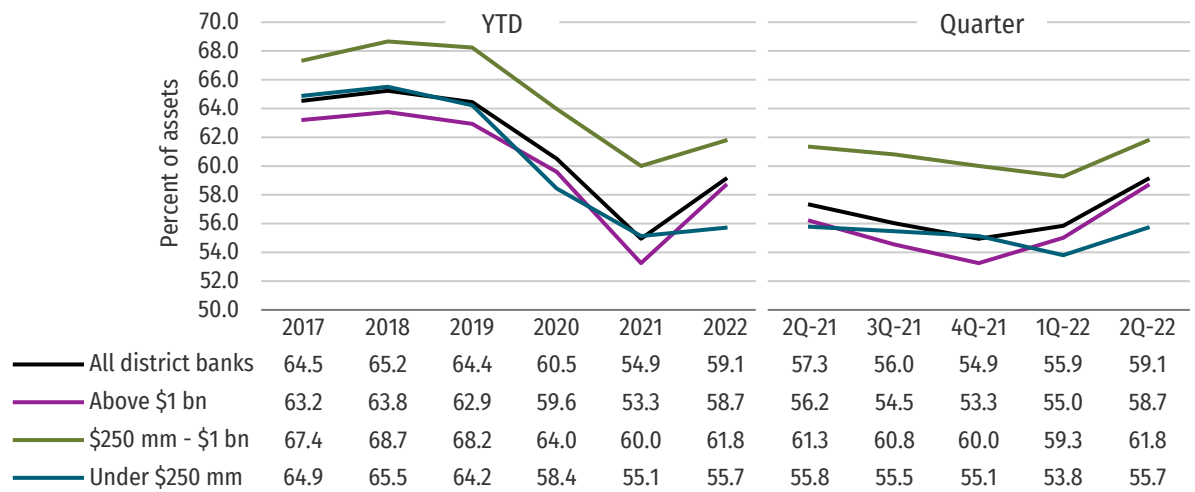


Chart C7. Loans to Assets, Tenth District States

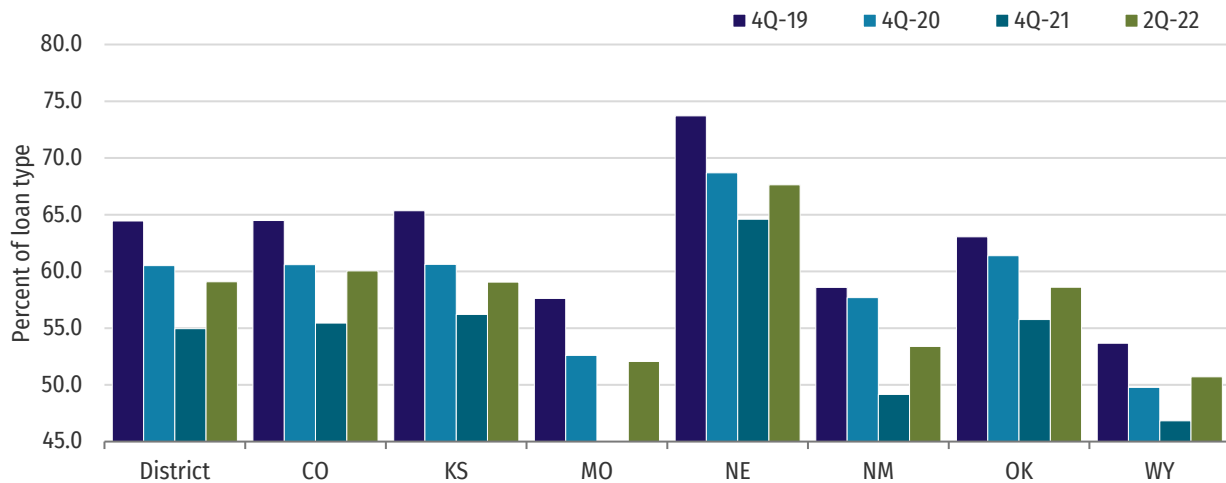


Chart C8. Year-Over-Year Loan Growth, All U.S. Commercial Banks

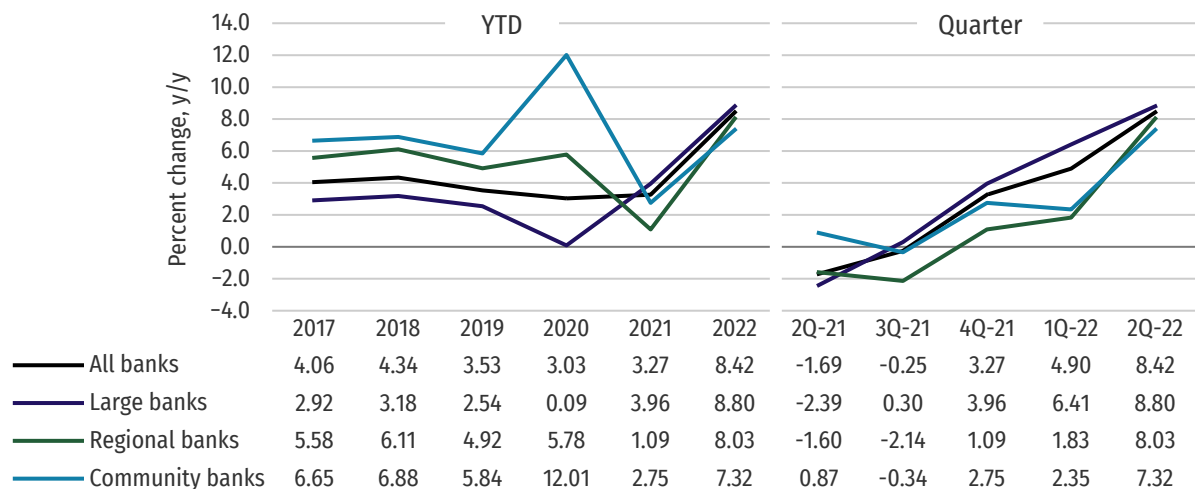


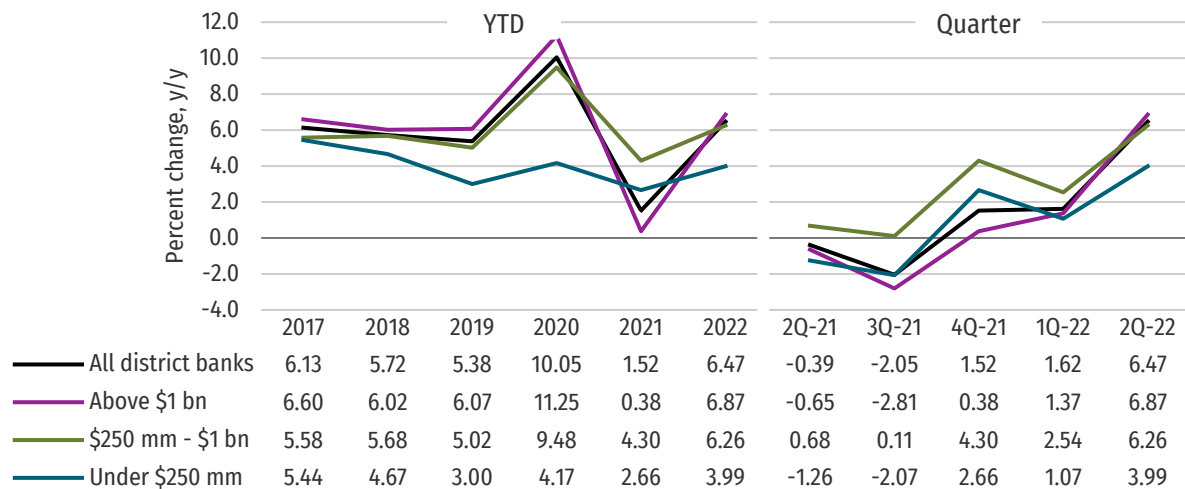
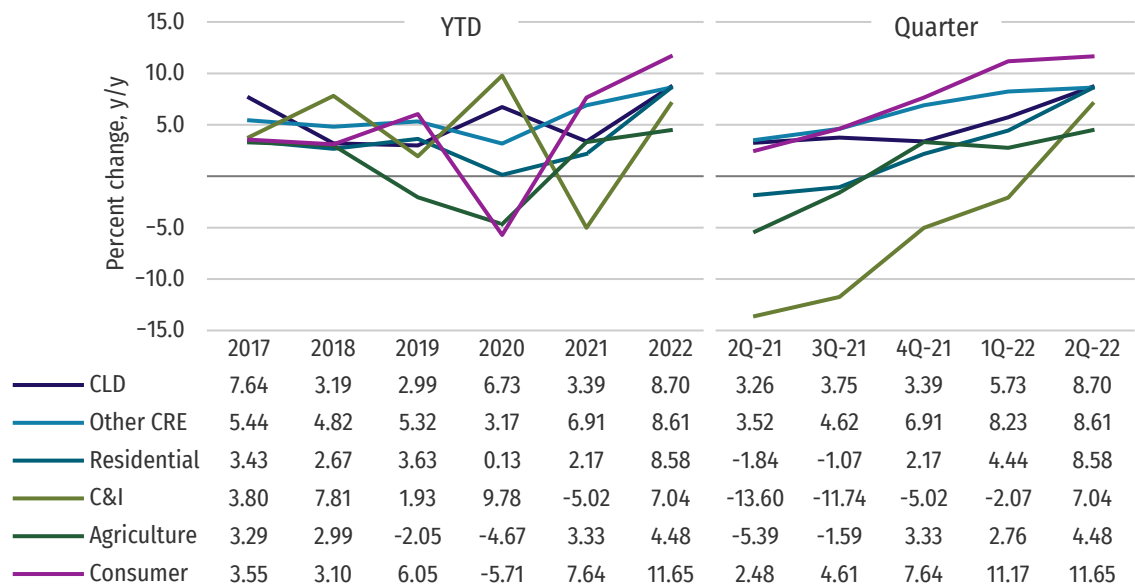
Chart C9. Year-Over-Year Loan Growth, Tenth District Commercial Banks**Chart C10. Year-Over-Year Loan Growth by Loan Type, All U.S. Commercial Banks**

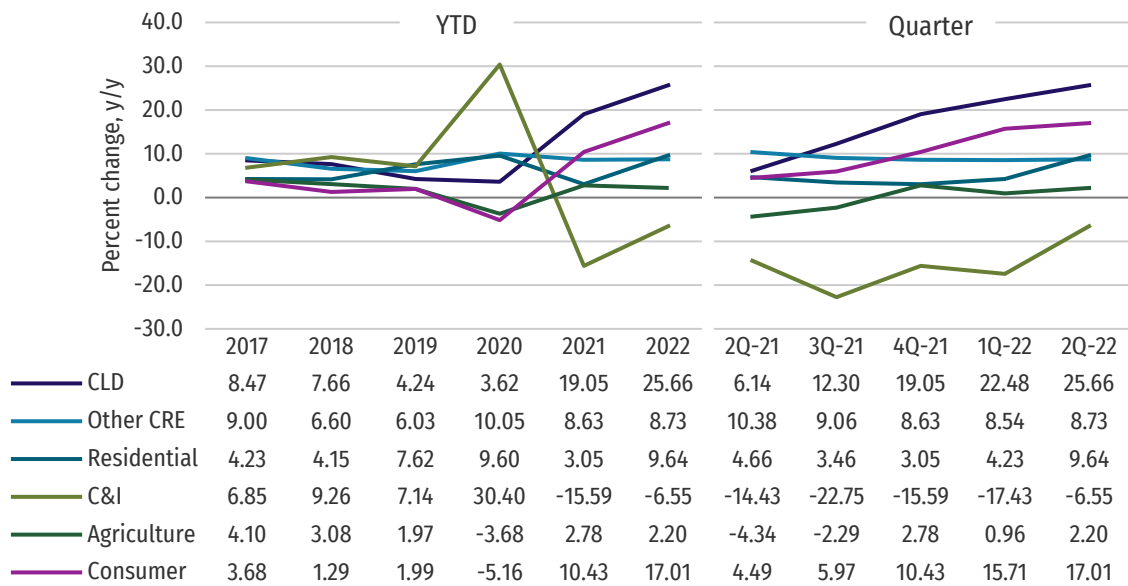
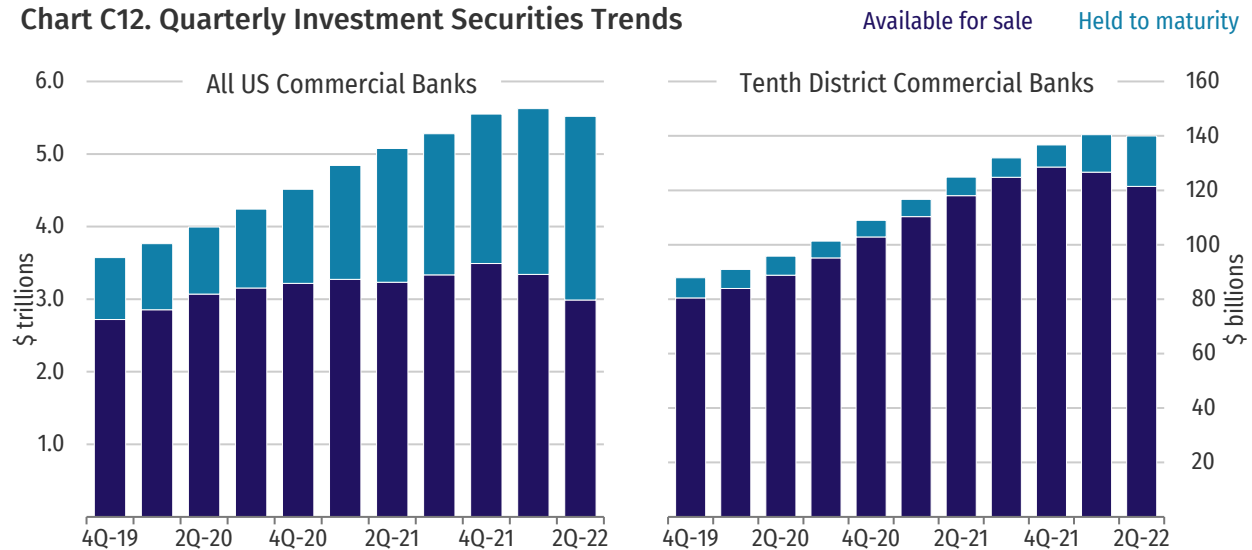
Chart C11. Year-Over-Year Loan Growth by Loan Type, Tenth District Commercial Banks

Chart C12. Quarterly Investment Securities Trends


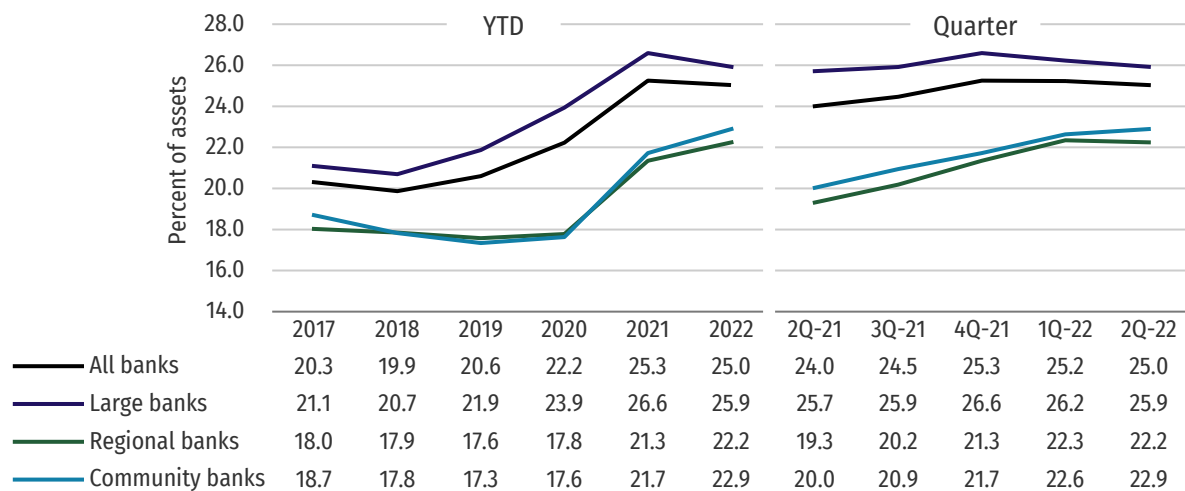
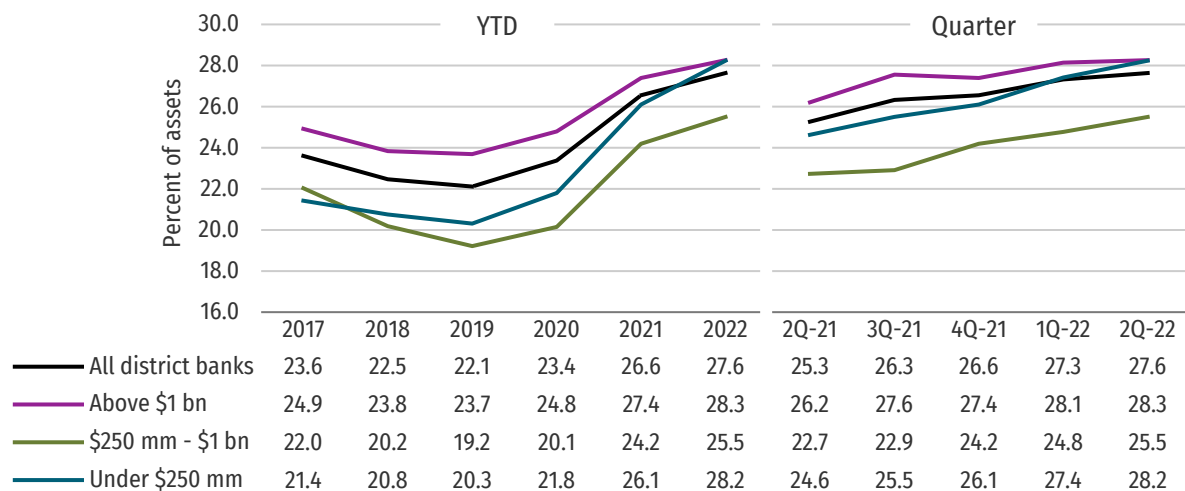
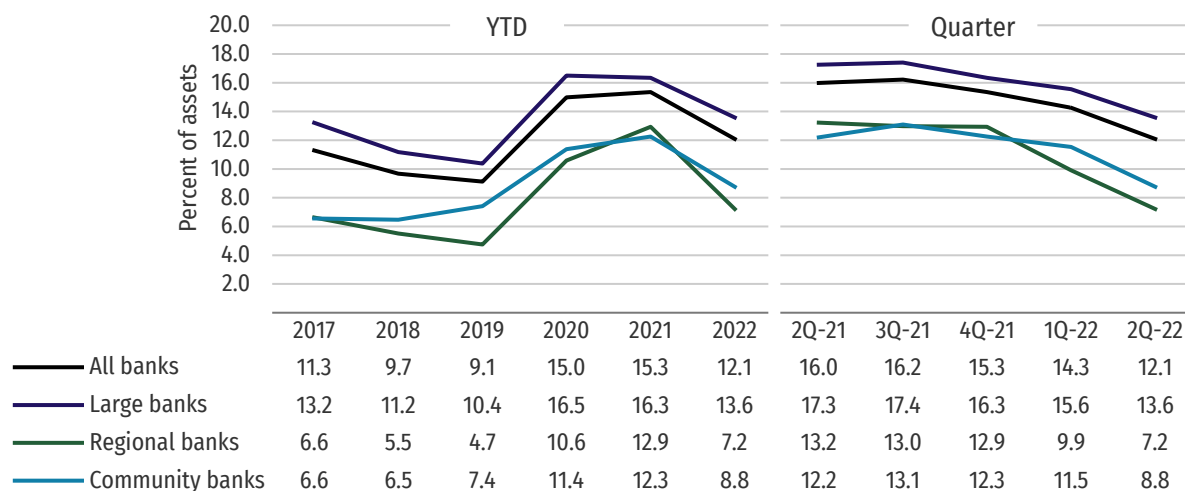
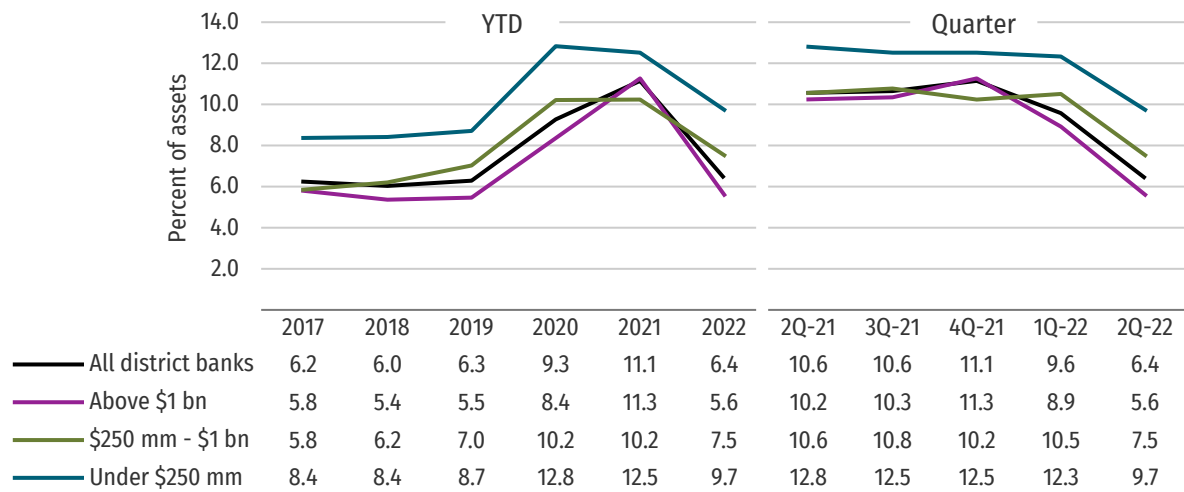
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Chart C16. Cash and Reserve Holdings, Tenth District Commercial Banks

D. Maturity and Funding

- Liquidity metrics continued to moderate as a result of balance sheet shifts.
- Banks continue efforts to shorten asset portfolios in consideration of the rising rate environment.

Chart D1. Loan Portfolio Maturity & Repricing Distribution, All U.S. Commercial Banks

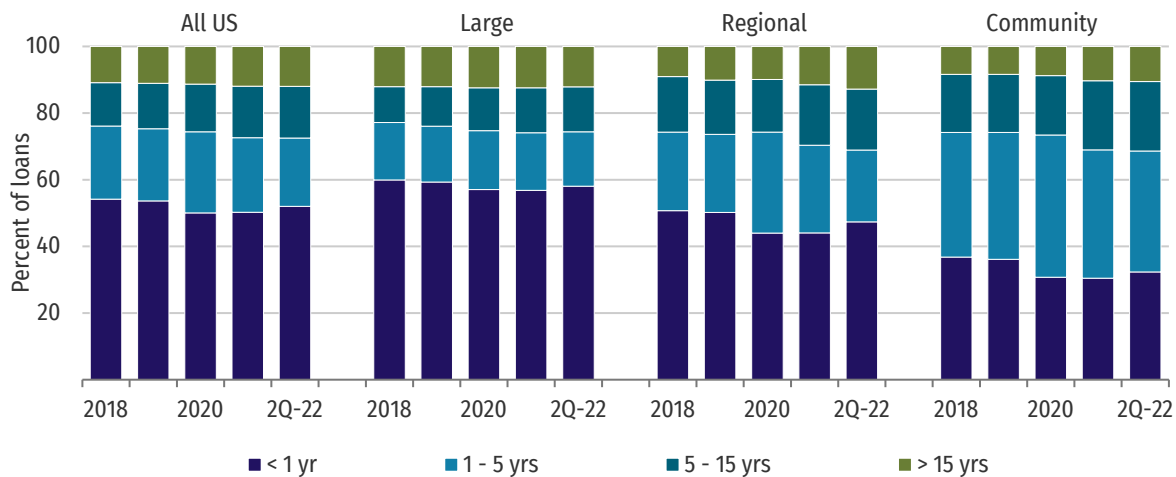


Chart D2. Loan Portfolio Maturity & Repricing Distribution, Tenth District Commercial Banks

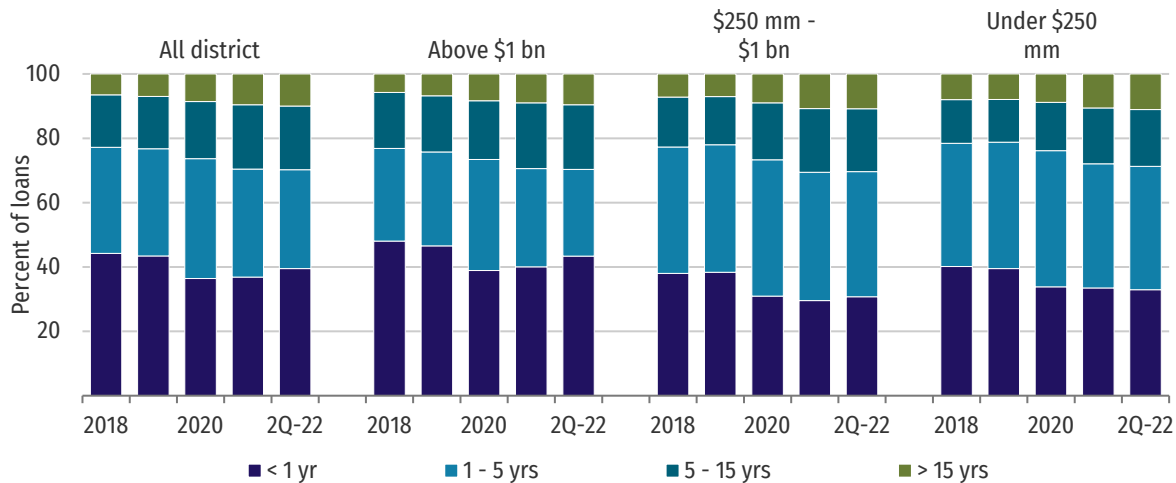


Chart D3. Securities Maturity & Repricing Distribution, All U.S. Commercial Banks

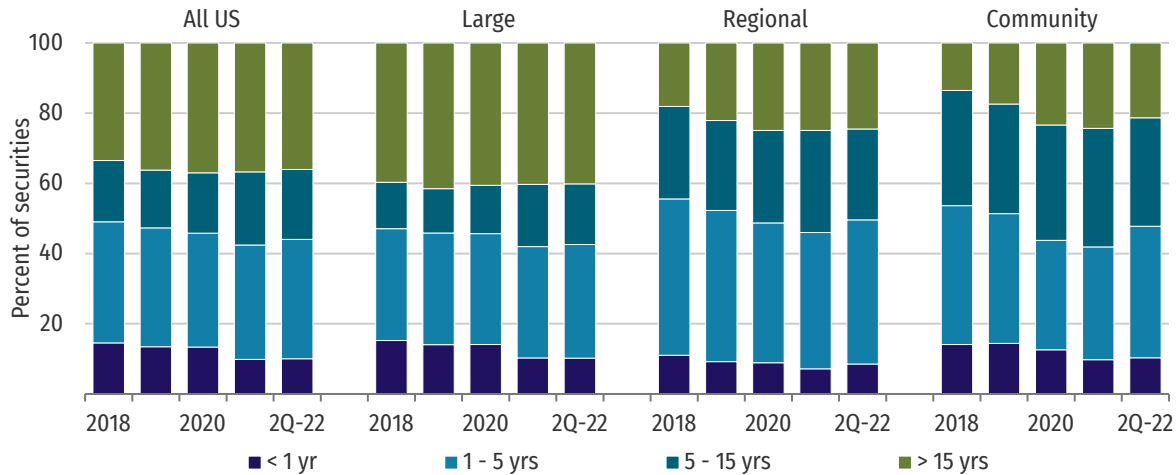


Chart D4. Securities Maturity & Repricing Distribution, Tenth District Commercial Banks

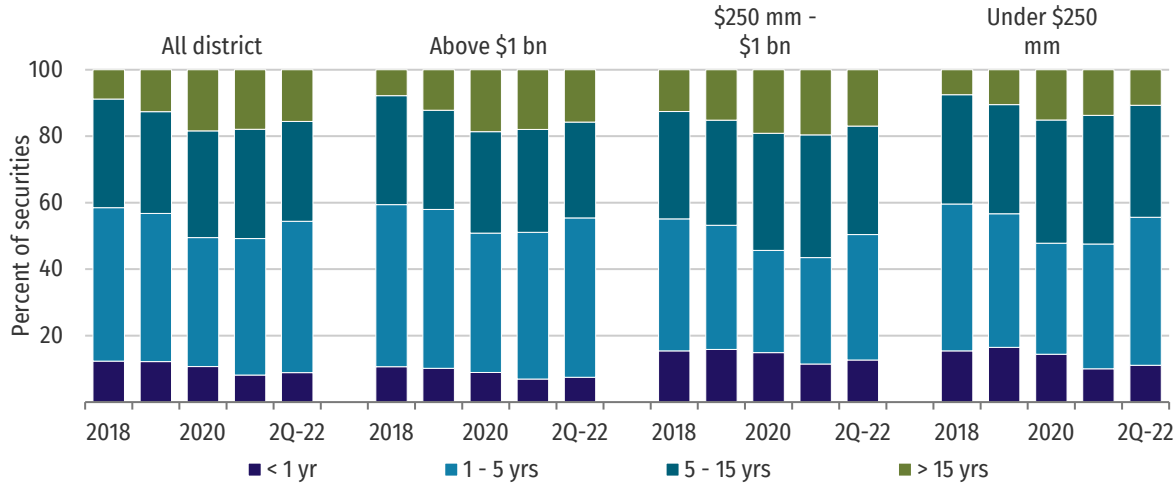


Chart D5. Loan-to-Deposit Ratios, All U.S. Commercial Banks

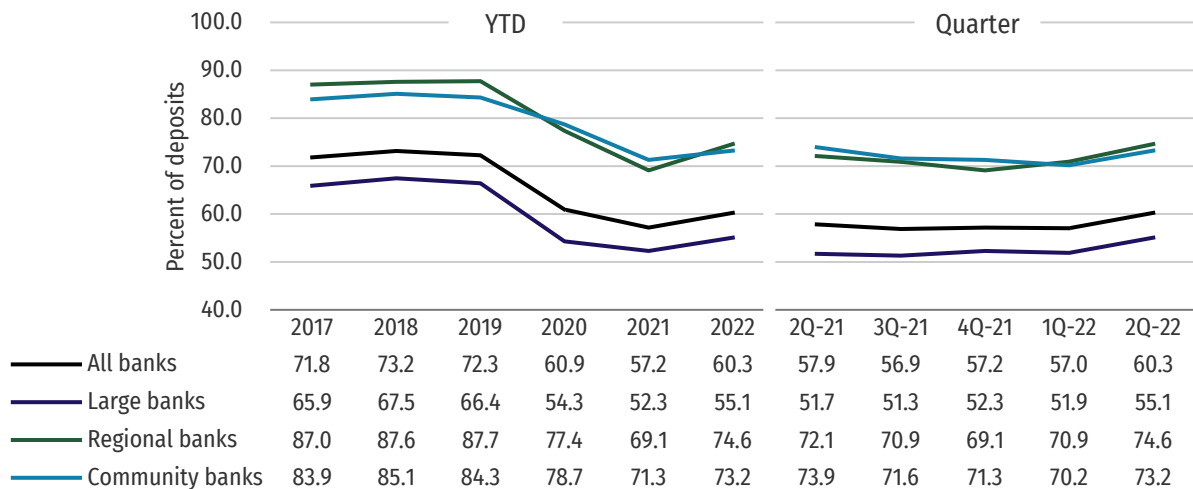


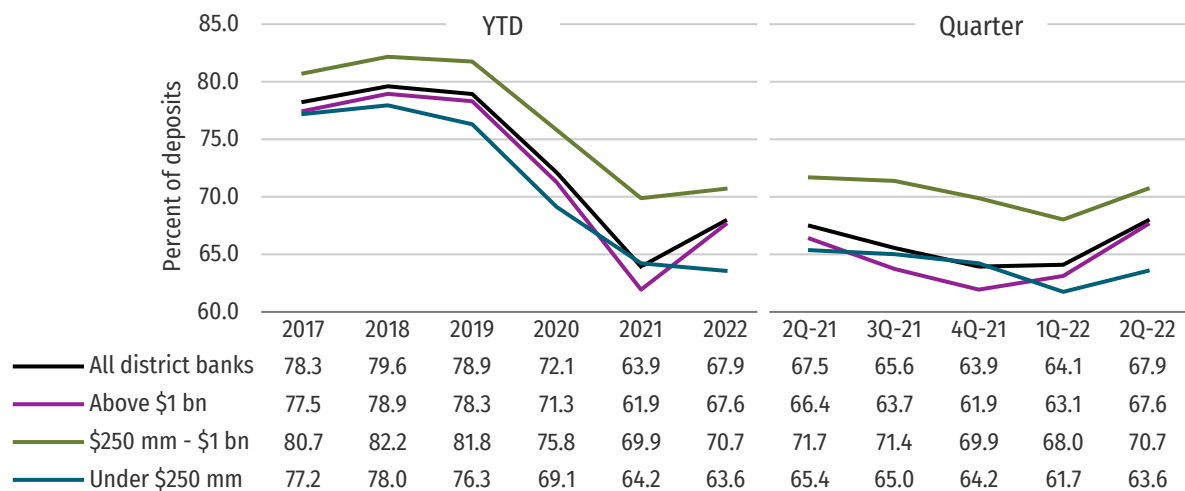
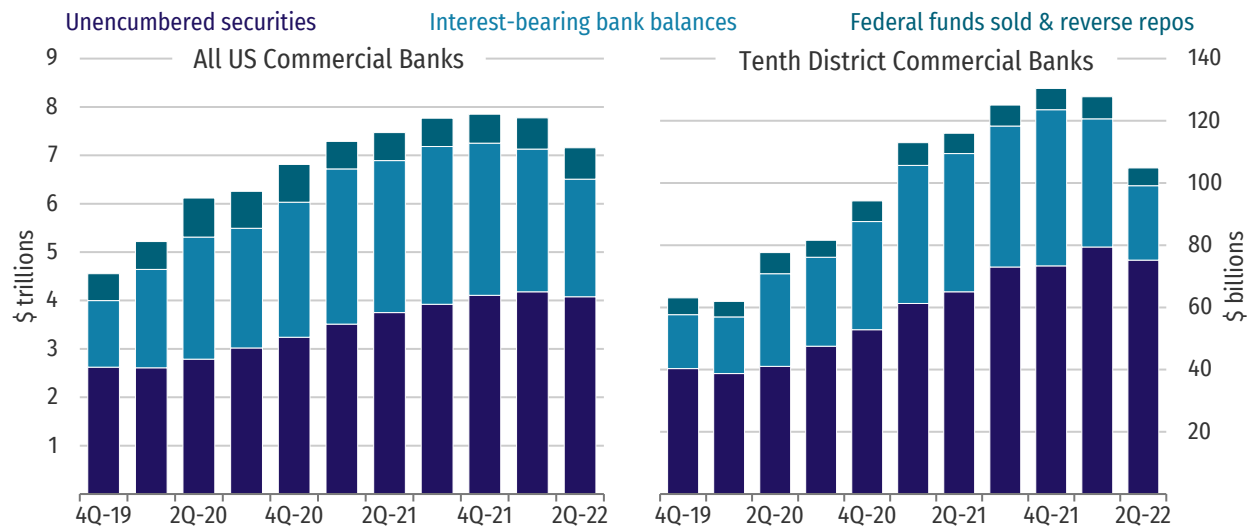
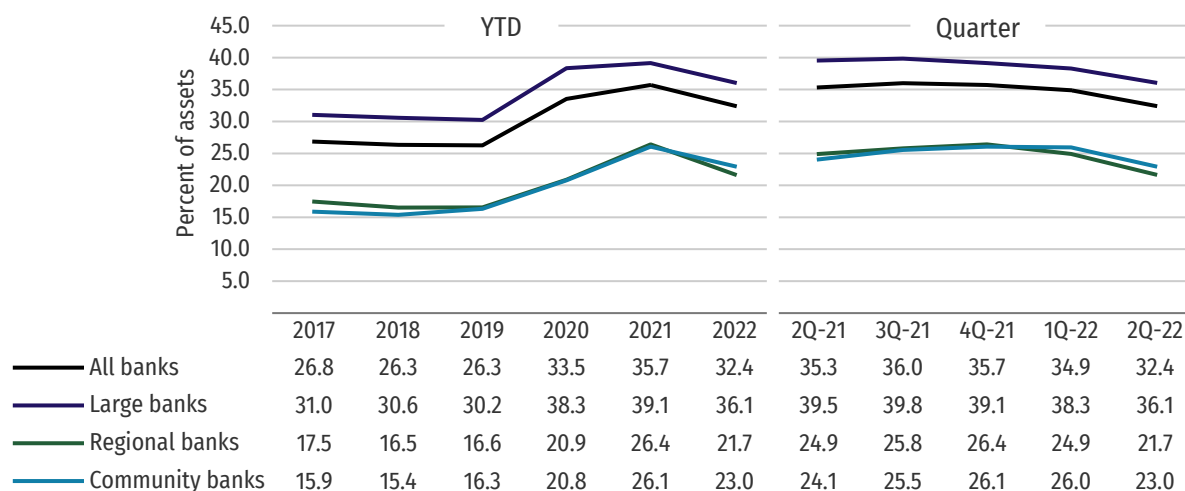
Chart D6. Loan-to-Deposit Ratios, Tenth District Commercial Banks

Chart D7. Quarterly Liquid Asset Trends

Chart D8. Liquid Asset Ratios, All U.S. Commercial Banks


Chart D9. Liquid Asset Ratios, Tenth District Commercial Banks

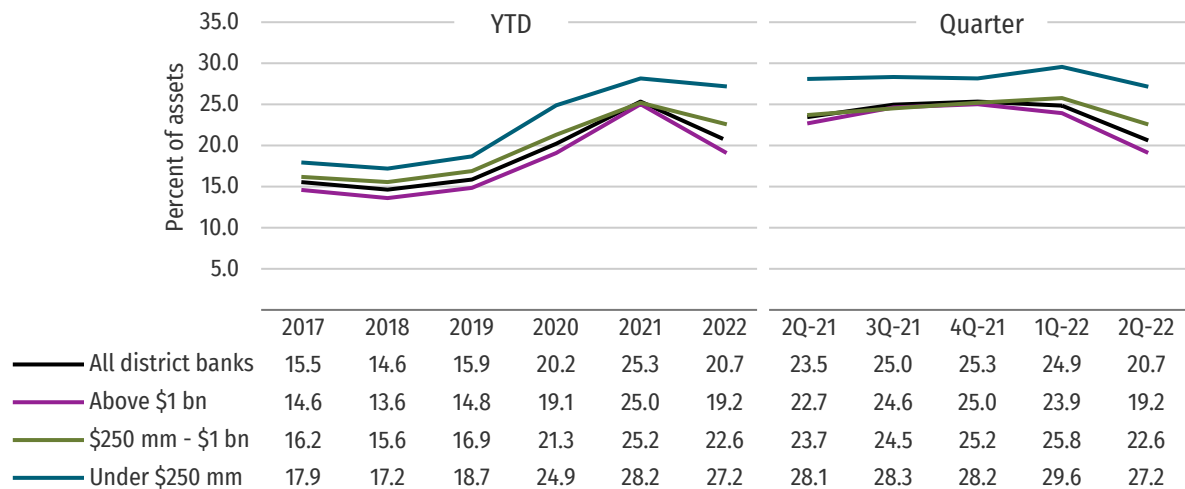


Chart D10. Quarterly Wholesale Funding Trends

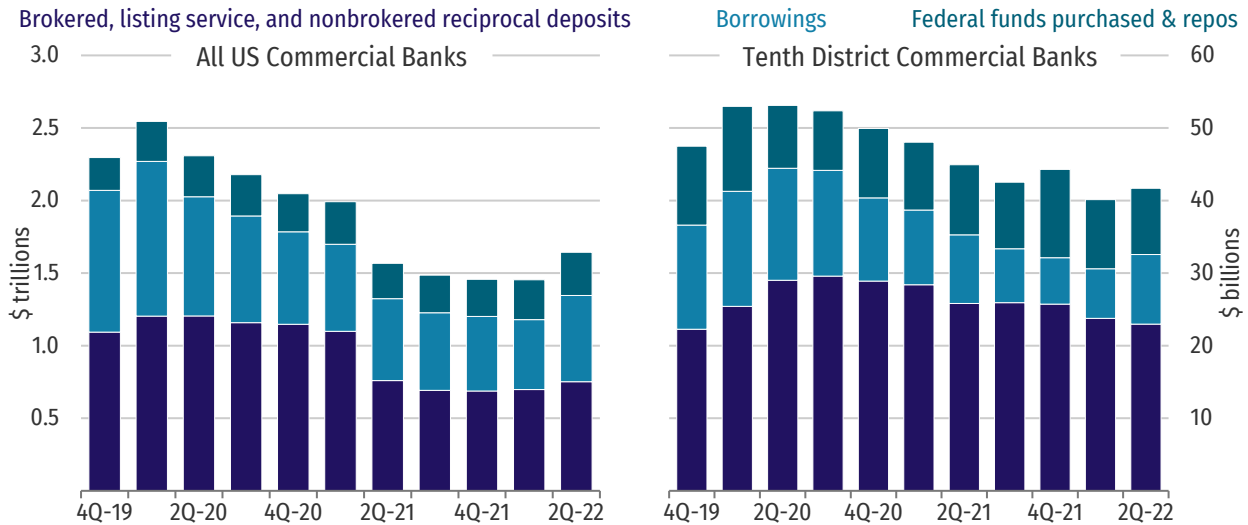


Chart D11. Wholesale Funding Ratios, All U.S. Commercial Banks

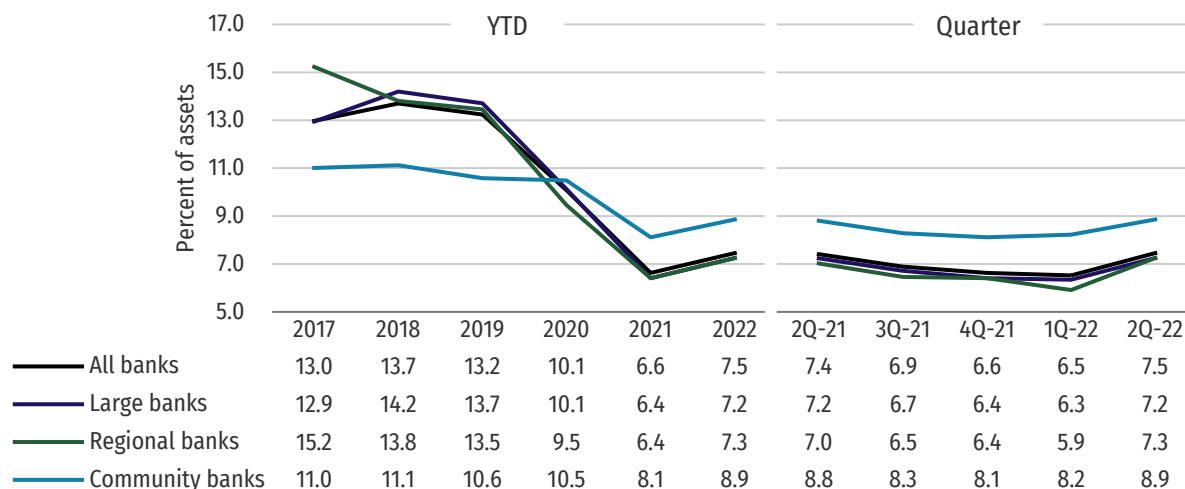
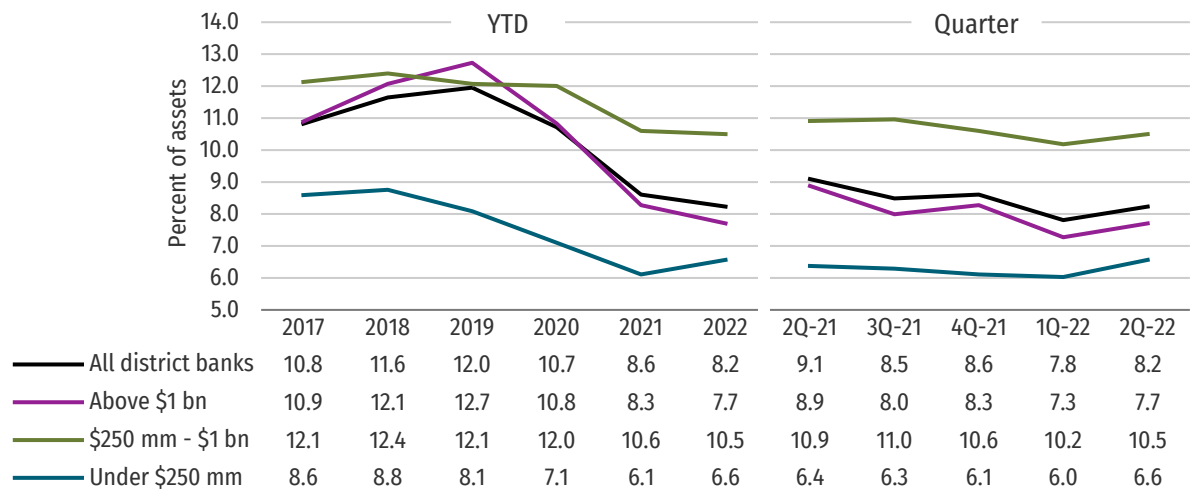


Chart D12. Wholesale Funding Ratios, Tenth District Commercial Banks

Select Ratios by Tenth District State

	Colorado		Kansas		Missouri		Nebraska		New Mexico		Oklahoma		Wyoming	
	2Q-22	2Q-21	2Q-22	2Q-21	2Q-22	2Q-21	2Q-22	2Q-21	2Q-22	2Q-21	2Q-22	2Q-21	2Q-22	2Q-21
Overview¹														
Number of Commercial Banks ²	65	67	203	211	211	229	147	154	31	31	178	186	26	28
Total Assets	\$81,536	\$76,216	\$79,234	\$77,374	\$228,708	\$214,095	\$92,346	\$87,125	\$16,675	\$14,870	\$140,814	\$137,932	\$10,630	\$10,949
Total Loans	\$48,956	\$43,211	\$46,792	\$45,255	\$139,791	\$125,411	\$62,455	\$56,963	\$8,323	\$7,436	\$82,516	\$80,019	\$5,390	\$5,588
Total Deposits	\$73,602	\$67,413	\$68,271	\$65,442	\$198,589	\$181,344	\$78,866	\$74,024	\$15,052	\$12,995	\$121,812	\$115,366	\$9,783	\$9,704
Equity Capital	\$5,882	\$6,779	\$6,925	\$8,434	\$18,782	\$20,403	\$8,763	\$9,272	\$1,186	\$1,445	\$13,012	\$14,484	\$741	\$1,093
Problem Assets	\$142	\$217	\$284	\$479	\$492	\$620	\$303	\$331	\$60	\$75	\$994	\$1,350	\$20	\$29
Earnings³														
Banks With Losses	6.15%	7.46%	2.46%	3.32%	2.84%	1.75%	3.40%	1.30%	0.00%	0.00%	2.25%	3.76%	7.69%	3.57%
Return on Average Assets	1.12%	1.32%	1.20%	1.32%	1.20%	1.40%	1.27%	1.77%	1.37%	1.52%	1.11%	1.45%	1.11%	1.45%
Net Interest Income to Average Assets	2.88%	2.95%	2.94%	3.05%	2.77%	2.85%	3.50%	3.64%	3.08%	3.29%	2.85%	2.97%	2.74%	2.98%
Provisions to Average Assets	0.06%	0.01%	0.03%	0.07%	0.04%	0.01%	0.27%	0.04%	0.02%	0.06%	0.05%	0.00%	0.03%	0.01%
Loan Losses to Average Loans	0.01%	0.03%	0.06%	0.11%	0.09%	0.12%	0.26%	0.40%	0.02%	0.05%	0.08%	0.15%	0.01%	0.05%
Asset Quality⁴														
Problem Assets to Total Loans + OREO	0.29%	0.50%	0.61%	1.06%	0.35%	0.49%	0.48%	0.58%	0.72%	1.01%	1.20%	1.68%	0.37%	0.51%
Noncurrent CLD	0.10%	0.29%	0.04%	0.09%	0.41%	0.56%	0.11%	0.09%	0.06%	0.46%	0.12%	0.25%	0.08%	0.04%
Noncurrent Other CRE	0.23%	0.34%	0.36%	0.68%	0.26%	0.41%	0.24%	0.38%	0.49%	0.64%	0.67%	0.76%	0.24%	0.29%
Noncurrent Residential	0.17%	0.25%	0.51%	0.71%	0.25%	0.37%	0.33%	0.37%	1.02%	0.57%	3.25%	4.26%	0.15%	0.21%
Noncurrent C&I	0.44%	0.57%	0.89%	1.33%	0.32%	0.42%	0.63%	0.38%	0.76%	1.13%	0.59%	1.02%	0.98%	0.56%
Noncurrent Farm	0.33%	0.37%	0.54%	0.95%	0.27%	0.28%	0.48%	0.99%	0.00%	0.06%	1.15%	2.00%	0.69%	0.74%
Noncurrent RE Farm	0.61%	1.47%	0.94%	1.84%	0.41%	0.65%	0.87%	0.92%	0.43%	0.26%	1.60%	2.25%	0.51%	1.54%
Other Financial Ratios														
Coverage Ratio	455.69%	294.68%	274.77%	172.82%	388.12%	311.10%	332.33%	320.10%	252.92%	208.92%	115.39%	91.96%	423.75%	369.75%
Leverage Ratio	8.49%	8.40%	10.40%	10.17%	8.89%	8.88%	10.22%	10.15%	9.04%	9.22%	9.31%	9.20%	9.50%	9.64%
Tangible Equity Capital to Total Assets	6.07%	8.32%	7.71%	10.38%	7.26%	8.96%	8.71%	10.08%	6.53%	9.43%	8.03%	9.50%	6.61%	9.83%
Noncore Funding to Total Assets	4.18%	4.14%	9.86%	9.74%	6.98%	8.19%	8.58%	8.54%	5.68%	5.92%	7.75%	9.93%	8.19%	8.39%

¹ Balance sheet items shown in millions.

² Includes all commercial banks located within each state.

³ Income statement items shown as year-to-date. Average assets are calculated by using the average of YTD average assets.

⁴ Problem assets consist of loans 90+ days past due, in nonaccrual status, and other real estate owned (OREO). Noncurrent loans consist of loans 90+ days past due or in nonaccrual status.

Appendix

- The appendix provides technical notes and definitions of the financial ratios presented in this report. Questions or comments relating to this report may be directed to KC.SRM.SRA.DistrictBankingConditions@kc.frb.org.

Technical Notes:

The population of banks included in this report is limited to commercially chartered state member, nonmember, and national banks. The Tenth District encompasses organizations headquartered in western Missouri, Kansas, Nebraska, Oklahoma, Colorado, Wyoming, and northern New Mexico.

All financial metrics presented in this report are weighted averages. Banks are grouped into asset categories based on total assets reported as of each financial date. For purposes of this report, large banks include banks with total assets greater than \$100 billion, regional banks include banks with assets between \$10 billion and \$100 billion, and community banks include banks with assets of less than \$10 billion. Assets are measured as of each financial date. Charts that present growth rates and changes in balance sheet levels are merger-adjusted consistent with the process that FDIC analysts use to account for mergers.¹

Items from the Reports of Income are reported on a calendar year-to-date (YTD) basis by financial institutions. Ratios utilizing these items are calculated differently when presented as YTD versus quarterly. For YTD calculations, items are annualized based on values reported calendar YTD and divided by an average of the balance sheet item(s) reported for each quarter YTD. For quarterly calculations, items are annualized based on values reported for the quarter and divided by the balance sheet item(s) for that quarter.

¹ Merger-adjusted calculations add the assets and liabilities of acquired institutions to the acquiring institutions in previous periods. The analysis treats acquired and acquiring institutions as if the merger had already occurred by the beginning of the period being analyzed (Breitenstein and Thieme 2019).

References

Breitenstein, Eric C., and Derek K. Thieme. 2019. "Merger-Adjusting Bank Data: A Primer." *FDIC Quarterly*, vol. 13, no. 1, pp. 31–49.

Glossary of Terms:

Agriculture Loans

The sum of loans secured by farmland (including farm residential and other improvements) and loans to finance agricultural production and other loans to farmers.

Allowance for Loan & Lease Losses (ALLL)

The purpose of the ALLL is to reflect estimated credit losses within a bank's portfolio of loans and leases. Estimated credit losses are estimates of the current amount of loans that are probable that the bank will be unable to collect given the facts and circumstances

since the evaluation date (generally the balance sheet date).

Assets

The sum of cash and balances due from depository institutions, securities, federal funds sold and securities purchased under agreements to resell, loans and leases (net of unearned income and the allowance for loan and lease losses), trading assets, premises and fixed assets (including capitalized leases), other real estate owned, investments in unconsolidated subsidiaries and associated

companies, direct and indirect investments in real estate ventures, intangible assets, and other assets.

Cash and Reserve Holdings

The sum of interest-bearing balances (including time certificates of deposit not held for trading) and noninterest-bearing balances, currency and coin (includes cash items in process of collection and unposted debits).

Commercial and Industrial (C&I) Loans

Loans for commercial and industrial purposes to sole proprietorships, partnerships, corporations, and other business enterprises, which are secured (other than by real estate) or unsecured, single-payment or installment.

Commercial Real Estate (CRE)

The sum of CLD and other CRE.²

Construction and Land Development Loans (CLD)

Construction, land development, and other land loans. Includes 1–4 family residential construction loans and other construction loans and all land development and other land loans.

Consumer Loans

Loans to individuals for household, family, and other personal expenditures. Includes credit cards, other revolving credit plans, automobile loans, and other consumer loans (includes single payment and installment loans other than automobile loans, and all student loans).

Coverage Ratio

The ALLL divided by noncurrent loans.

Earning Assets

The sum of interest-bearing balances due from depository institutions, investment securities, federal funds sold and securities purchased under agreements to resell, loans and leases (net of unearned income and the allowance for loan and lease losses), and trading assets.

Equity Capital

The sum of perpetual preferred stock (including surplus), common stock and surplus, retained earnings, accumulated other comprehensive income,

and other equity capital components, less treasury stock.

Interest Income

The sum of interest and fee income on loans, income from lease financing receivables, interest income on balances due from depository institutions (including interest income on time certificates of deposit not held for trading), interest and dividend income on securities, interest income from trading assets, federal funds sold and securities purchased under agreements to resell, and other interest income.

Investment Securities

The sum of the amortized cost of held-to-maturity securities and fair value of available-for-sale debt securities.

Leverage Ratio

Tier 1 capital divided by total assets for the leverage ratio. Total assets for the leverage ratio include quarterly average assets less deductions from common equity tier 1 capital and other deductions to total assets for leverage capital purposes.

Liquid Asset Ratio

The sum of interest-bearing balances, federal funds sold, securities purchased under agreements to resell, and unencumbered securities divided by total assets. Unencumbered securities include total securities net of pledged securities.

Loan Loss Provisions

Adjustments (charges or credits) to the ALLL level to reflect management's current estimate of expected credit losses.

Loans to Assets

Total loans and leases held for investment and held for sale (less unearned income) divided by total assets.

Loan-to-Deposit Ratio

Total loans and leases held for investment and held for sale (less unearned income) divided by total interest-bearing and noninterest-bearing deposits.

Net Interest Margin (NIM)

Interest income net of interest expense divided by average earning assets.

Nonaccrual Loans

Loans and lease financing receivables that are required to be reported on a nonaccrual basis because (a) they are maintained on a cash basis due to a deterioration in the financial position of the borrower, (b) payment in full of interest or principal is not expected, or (c) principal or interest has been in default for 90 days or longer, unless the obligation is both well secured and in the process of collection.

Noncurrent Loans

Loans past due 90 days or more and still accruing and nonaccrual loans.

Noninterest Expense

Salaries and employee benefits, expenses of premises and fixed assets (net of rental income), goodwill impairment losses, amortization expense and impairment losses for other intangible assets, and other noninterest expense.

Noninterest Income

The sum of income from fiduciary activities, service charges on deposit accounts, trading revenue, income from securities-related and insurance activities, venture capital revenue, net servicing fees, net securitization income, net gains (losses) on sales of loans and leases, other real estate owned, and sales of other assets, and other noninterest income.

Other Commercial Real Estate (CRE)

Loans secured by multifamily (5 or more) residential properties, owner-occupied nonfarm nonresidential properties, and other nonfarm nonresidential properties, and loans to finance commercial real estate, construction, and land development activities (not secured by real estate).

Other Loans

The sum of loans to foreign governments and official institutions (including foreign central banks), obligations (other than securities and leases) of states and political subdivisions in the U.S., loans to nondepository financial institutions,

loans for purchasing or carrying securities (secured and unsecured), all other loans and lease financing receivables.

Other Real Estate Owned (OREO)

Other real estate owned.

Problem Assets

Loans past due 90 days or more and still accruing, nonaccrual loans, and OREO divided by total loans plus OREO.

Residential Loans

Loans secured by 1–4 family residential properties. Includes revolving, open-end loans secured by 1–4 family residential properties and extended under lines of credit, closed-end loans secured by 1–4 family residential properties secured by first or second liens.

Restructured Loans

Loans and lease financing receivables that have been restructured or renegotiated because of a deterioration in the financial position of the obligor but remain in compliance with the modified terms of the restructuring.

Return on Average Assets (ROAA)

Net income (loss) attributable to bank divided by average assets. See technical notes for year-to-date and quarter calculations.

Revenue

Net interest income and noninterest income.

Texas Ratio

Restructured loans, nonaccrual loans, and OREO divided by equity capital plus the ALLL.

Wholesale Funding Ratio

Federal funds purchased and securities sold under agreements to repurchase, brokered deposits, deposits obtained using deposit listing services that are not brokered deposits, nonbrokered reciprocal deposits, Federal Home Loan Bank advances, and other borrowings divided by total assets.

² Loans to finance commercial real estate, construction, and land development activities (not secured by real estate) is a memorandum item on the call report and are reported C&I or other loans of Schedule RC-C, Part I. This item is excluded as part of Other CRE when presented on charts with the C&I or other loan categories to avoid double counting of this item in the loan type groupings.