Office of the Comptroller of the Currency

FACT SHEETS

Western District Summary

The OCC's Western District, headquartered in Denver, Colorado, supervises 345 community institutions consisting of 232 national banks, 86 thrifts (including 29 mutual charters), five trust companies, and 22 technology service providers, located in 19 states.

National Banks and Federal Savings Associations (collectively, banks) account for total assets of $156 billion in the Western District. Institutions range in size from $8 million to $13.6 billion in assets. More than half of the banks are located in Kansas, California, and Iowa; one-quarter of supervised assets are held by California banks.

Banks tend to offer traditional products and services, with credit concentrations in commercial & industrial, commercial real estate, multi-family, 1-4 family residential, and agriculture loans. Unique business lines present in district banks include: mortgage banking, Small Business Administration (SBA) lending, payment processing, and asset-based lending.

Economic Conditions

The district covers a very large geographic area. There has been overall improvement in economic conditions, but the pace of the recovery has been uneven throughout the district.

Economic conditions have improved substantially over the past year in the southern and western parts of the district. Arizona, California, and Nevada suffered among the worst job losses in the country during the housing downturn, but employment growth surpassed the national average in all these states over the past year, and home prices increased sharply. However, unemployment rates remain above the national average in these states, as total employment remains well below pre-recession levels, despite recent increases.

Conditions are relatively healthier in the northern and eastern parts of the district. Unemployment is generally below 7 percent, and recent employment growth in Utah, Colorado, Washington and Idaho has been among the strongest in the country. Recovering housing markets, a growing technology sector, and high agriculture and energy prices are supporting the economy in these parts of the district.

Western District Bank and Thrift Performance and Condition

- Approximately 77 percent of district banks are highly rated, 1 and 2 category, banks as of the end of the first quarter 2013, up from the low point of 64 percent in the latter half of 2010. The OCC anticipates continued improvement in the condition of the community banks under its supervision. Banks are rated on a 5-point scale that measures capital, asset quality, capability of management, earnings, liquidity and sensitivity to market risk. The OCC considers a bank with a 1 or 2 rating as highly rated, and banks with a 3, 4 or 5 rating as problem institutions.

- Most financial performance metrics stabilized or improved modestly over the past two years. Earnings have improved, largely because of reduced provision expense, and capital levels are satisfactory overall.
- While asset quality has improved, commercial credit continues to present the highest risk to bank earnings. While credit metrics show improving trends, they are still weak relative to historical performance.
- Most banks have ample sources of liquidity and moderate interest rate risk.

Looking Ahead

- Profitability remains under pressure due to sluggish loan growth, lack of investment alternatives, and declining non-interest income. Banks are looking to bolster income through new products and services, expansion of existing business lines, and/or cost reductions.
- Bankers are challenged to modify policies and practices to ensure compliance with regulatory changes and maintain effective compliance risk management systems.

The OCC charters, regulates, and supervises all national banks and federal savings associations and supervises the federal branches and agencies of foreign banks. In total, the OCC regulates and supervises 1,955 institutions. These institutions include 46 large banks, 47 midsize banks, 47 federal branches, and 1,815 community banks. The OCC's Community Bank Supervision unit oversees 1,248 national banks and 567 federal savings institutions. Assets subject to OCC supervision total $10 trillion, which represent 69 percent of total U.S. commercial banking assets.

Headquartered in Washington, D.C., the OCC has four district offices, which oversee the supervision of community banks. In addition, the OCC maintains a London office to supervise the international activities of national banks.

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Western District: Banks with Agricultural Concentrations

- One-third of banks have agricultural loan concentrations exceeding 100 percent of capital. Examinations in these banks indicate that underwriting remains sound.
- Commodity and farmland prices remain high in many areas of the district. A drop in land values may not be a near term threat, but a possible farmland price bubble remains a concern.
- Primary threats to farm profits and land values include rising interest rates, decreasing commodity prices, increasing input costs, continuing drought conditions, and changing government support programs.
- Farm profits remain healthy. Grain producers have benefitted from crop insurance and high commodity prices. Persistent drought conditions and high input costs have had the greatest impact on feedlot operators and ranchers.
- OCC examiners are following up with bank management to see if bankers are performing stress tests to ensure their borrowers can service debt with lower crop prices and yields, and higher input costs and interest rates.
- OCC supervised banks have access to an agricultural stress testing worksheet via OCC Banknet.*

  * *OCC BankNet is an OCC-operated Web site exclusive for national banks. BankNet goes beyond standard Web-based services and enhances the private exchange of information between the OCC and the banks it charters, and provides a range of services intended to help community banks manage risks, improve profitability, and better serve their customers.*

Western District: Banks with Commercial Real Estate Concentrations

- Despite a reduction in commercial real estate (CRE) concentrations, many banks continue to deal with a high volume of problem loans in this asset class. CRE fundamentals remain weak in a number of markets.
- Construction and development (C&D) concentrations have declined sharply, but stress in these portfolios remains high.
- Loans secured by investor-owned CRE are performing better than C&D loans, but higher vacancy rates and lease rollover risk warrant close monitoring.
- The volume of Other Real Estate Owned (OREO), a category that includes property acquired as a result of loan defaults, in District banks has declined from peak levels, but continues to negatively impact earnings.
- Actions to diversify CRE portfolios have led to intense competition for commercial and industrial lending opportunities. Examiners will continue to focus on the quality of underwriting and the identification and tracking of underwriting exceptions.