



Washington State Department of Financial Institutions

Division of Banks

WINTER 2021/2022 UPDATE

SAFE RETURN TO FIELD WORK

Although the trajectory of the COVID-19 pandemic remains uncertain, the Division of Banks management is hopeful for a safe return to some onsite examination work in 2022. The Division has operated entirely remote since the onset of the COVID-19 pandemic in March 2020, performing safety and soundness and specialty examination work on schedule to meet the statutory mandate for supervision. Although offsite examination work has been successful, Division management intends to re-enter institutions to some degree in 2022 for business needs. Examiners will continue to leverage virtual collaboration tools to do examination work offsite while working closely with our federal supervisory partners.

In preparing for the hybrid approach to examinations in 2022, a survey went out to all state-chartered banks and trust companies in November 2021 to gather information about each institution's capabilities with respect to facilitating both offsite and onsite examination work. The results of the survey indicate significant ability to continue most examination functions offsite for the majority of institutions. All decisions to complete examination work on or offsite will depend on examination and business needs of the Division. The Division will also work with federal counterparts to align on onsite versus offsite presence on examinations. The extent of any onsite examination work will also depend on COVID-19 guidelines and safety protocols.

CLIMATE RISK TO INSTITUTIONS

In 2021, the Biden administration issued an [Executive Order on Climate-Related Financial Risk](#), addressing the economic threat of climate change. Other bank regulatory agencies began to issue preliminary guidance on climate change, and in July 2021, DFI released a [Climate Alert](#) to all Washington-State regulated financial institutions on the topic of climate change and its potential impact on the financial risk in the banking industry.

Climate risk to financial institutions is broken down into two categories: physical risk and transition risk. At a high level, physical risk is the potential for environmental disasters, extreme weather, rising temperatures and sea levels to impact the communities that banks serve. Transition risk involves policy changes, innovations in technology, and the opportunity cost of missing out on changing industries. Transition to less carbon emitting industries also presents an opportunity for institutions as these new technologies and businesses will be seeking funding and banking relationships. Both types of risk can have profound impacts on local and global economies, and could impact every type of financial institution in a variety of ways. At this stage, there are no regulatory standards for how community banks should manage the risks posed by climate change. However, examiners will begin to gather information on what bank management teams and boards are currently doing to learn more about the impacts of climate change and the potential risks in which their institutions may be exposed.



BANKING AT A GLANCE

Although there have been no new bank charters in Washington, there have been 19 new bank charter applications in the nation throughout 2021. The industry continues to see loan and asset growth; loan growth in Washington has held steady at around 2.5%. Paycheck Protection Program (PPP) loan funds to customers have paid down throughout 2021, with nearly a 50% reduction in balances in the third quarter. The average total asset size of Washington chartered banks increased from \$2.06 billion as of Sept. 30, 2020, to \$2.36 billion as of Sept. 30, 2021. Balance sheet liquidity also increased in the third quarter of 2021 because deposit customers are holding on to savings and spending less during the various COVID-19 surges. Earnings have remained largely stable throughout the year despite the low interest rate environment and economic uncertainties resulting from the pandemic.

STATE CHARTERED NUMBERS AT A GLANCE AS OF SEPTEMBER 30, 2021

