March 2017

Data for this report were collected Jan. 31–Feb. 8, and 54 financial institutions—eight credit unions and 46 banks—responded.

The Federal Reserve Bank of Dallas conducts the Banking Conditions Survey twice each quarter to obtain a timely assessment of activity at banks and credit unions headquartered in the Eleventh Federal Reserve District. CEOs or senior loan officers of financial institutions report on how conditions have changed for indicators such as various loan types, deposits and loan pricings. Respondents also report on their banking outlook and how they perceive broader economic conditions to have changed (general business activity).

The answers serve a dual function: They provide supplemental anecdotal information for the Federal Reserve's Beige Book and supply timely information on banking conditions in preparation for monetary policy deliberations before the eight Federal Open Market Committee meetings each year.

Participants are asked whether they are seeing changes in a series of indicators. In addition, participants are given the opportunity to submit comments on current issues that may be affecting their business.

Survey responses are used to calculate an index for each indicator. Each index is calculated by subtracting the percentage of respondents reporting a decrease (or tightening or worsening) from the percentage reporting an increase (or easing or improvement). When the share of firms reporting an increase exceeds the share of firms reporting a decrease, the index will be greater than zero, suggesting the indicator has increased over the prior reporting period. If the share of firms reporting a decrease exceeds the share reporting an increase, the index will be below zero, suggesting the indicator has decreased over the prior reporting period. An index will be zero when the number of firms reporting an increase is equal to the number reporting a decrease.

1. Total loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	31.4	n.a.	48.1	35.2	16.7
Loan demand	31.4	n.a.	40.7	50.0	9.3
Nonperforming loans	-13.2	n.a.	13.2	60.4	26.4
Loan pricing	35.1	n.a.	37.0	61.1	1.9

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-3.9	n.a.	3.8	88.5	7.7

2. Commercial and industrial loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	12.2	n.a.	26.5	59.2	14.3
Nonperforming loans	-8.5	n.a.	6.4	78.7	14.9

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	0.0	n.a.	6.1	87.7	6.1

3. Commercial real estate loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	25.0	n.a.	35.4	54.2	10.4
Nonperforming loans	-2.2	n.a.	6.5	84.8	8.7

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-8.5	n.a.	4.3	83.0	12.8

4. Residential real estate loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	4.4	n.a.	31.1	42.2	26.7
Nonperforming loans	0.0	n.a.	4.7	90.7	4.7

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-2.3	n.a.	0.0	97.7	2.3

5. Consumer loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	4.0	n.a.	14.0	76.0	10.0
Nonperforming loans	-2.0	n.a.	4.1	89.8	6.1

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-4.1	n.a.	2.0	91.8	6.1

6. Other banking developments: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Volume of core deposits	5.5	n.a.	29.6	46.3	24.1
Cost of funds	29.6	n.a.	29.6	70.4	0.0
Net interest margin	12.9	n.a.	29.6	53.7	16.7
Noninterest income	0.0	n.a.	14.8	70.4	14.8

7. Banking outlook: What is your expectation for the following items six months from now?

Indicator	Current index	Previous index	Percent reporting better	Percent reporting no change	Percent reporting worse
Total loan demand	61.1	n.a.	64.8	31.5	3.7

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	-37.7	n.a.	3.8	54.7	41.5

8. General business activity: What is your evaluation of the level of activity?

Indicator	Current index	Previous index	Percent reporting improved	Percent reporting no change	Percent reporting worsened
Over the past six weeks	46.3	n.a.	55.6	35.2	9.3
Six months from now	67.9	n.a.	73.6	20.8	5.7

9. Issues of concern: Please feel free to comment on any issue that may be affecting your business.

These comments are from respondents' completed surveys and have been edited for publication.

- Regulatory relief is needed badly for smaller financials. The Financial Choice Act will go a long way toward relief.
- With tightening expected over the next 12 months, loan demand will still be positive but perhaps not as strong as in the previous year. For institutions (specifically credit unions), improved net interest margins with higher-yielding loans should offset the decline in interest income from lower volume. Additionally, the transition to a new administration with so many changes being discussed at all levels will certainly have an impact on the economic outlook.
- We're actually pretty well situated at the institution and in our markets right now. Loan demand has been good; pricing is not really competitive. Deposits remain a bit weak, but overall sentiment is positive/optimistic.
- Regulations continue to be a deterrent to smooth lending procedures. Dodd–Frank continues to be a bottleneck to business, as do various consumer protection regulations, especially for small community banks.
- Rapidly rising interest rates will further squeeze our net interest margins. Slowly increasing rates will improve our margins.
- I am still concerned about oil and gas prices and the impact on commercial real estate and general economic conditions in the market. Uncertainty over events in Washington continues to be a concern, but it appears business clients are more optimistic than in third quarter 2016. From a bank perspective, regulatory changes are still top of mind.
- Regulations in general are too detailed and too many.
- Debit card fraud is increasing.
- The volume of regulatory burden continues to drive our strategic thoughts. We feel the credit unions making commercial loans and exceeding their authority is being ignored by their regulators. It is frustrating.
- Clients are expressing cautious optimism about the business-friendly ambitions of the new Trump administration, but generally they are taking a wait-and-see approach rather than immediately committing their resources toward business expansion, such as increases in workforce and/or capital investments. Actual progress toward meaningful tax reform (i.e., tax cuts) would be more important than public works projects to incent business owners and CEOs to commit to expanding their businesses. Regulatory relief is also important but varies in importance by industry. Again, business executives are awaiting better evidence that such relief is in fact forthcoming.

- There is overregulation from the Consumer Financial Protection Bureau. Qualified Mortgages (QM) and TILA–RESPA Integrated Disclosure (TRID) requirements are overkill for traditional banks. At a minimum, mortgages held in portfolio should be deemed QM compliant. The high-cost mortgage language and the balloon payment prohibitions in Title XIV of Dodd–Frank should be eliminated for FDIC-insured lenders. These changes will allow rural areas in Texas to again have access to mortgage credit.

- Most leaders in the community-banking sector have concern regarding the future of the industry due to the present regulatory environment and its negative impact on a business model that has proven to be a success for our bank since 1905. Regulations such as Basel II, CECL, Home Mortgage Disclosure Act, Bank Secrecy Act, Fair Lending and last, but definitely not least, Dodd–Frank hinder our ability to focus on serving the needs of our retail customers. This encourages future growth opportunism away from the consumer and over to the commercial sectors. As of Jan. 1, 2017, we now can look forward to further competition from the tax-exempt credit unions due to their regulator, the National Credit Union Administration, expanding commercial lending restrictions and exceeding congressional limitations.

- We are looking forward to regulatory relief.

- It appears that the Fed rate increase did not result in an increase in loan rates in this market. The market is very competitive.

- Government policy with Mexico could have a big impact on our business.

- Economic activity in our area is improving slowly. Continued improvement will depend on a stable or increasing price of crude oil.

- Until regulatory burden is mitigated in our industry and our customer's industries, I really do not anticipate any significant changes in our market or our bank's operation in the foreseeable future.

- The Fed seems to be putting pressure on banks over the 100/300 guideline to decrease lending, even with good loans in good areas. I think this should either be a guideline or a hard line.

- Issues affecting our business include the impact of rising mortgage rates on new and existing home sales, the potential for auto sales to drop off in 2017, the potential for business confidence to fall if the Trump administration policies do not live up to expectations, disruptions to supply chains due to Trump administration trade policies, and Dodd–Frank.

- Credit unions are aggressively underpricing investment real estate loans.

- Regulatory abatement is needed.

- Regulatory pressure is affecting our business.

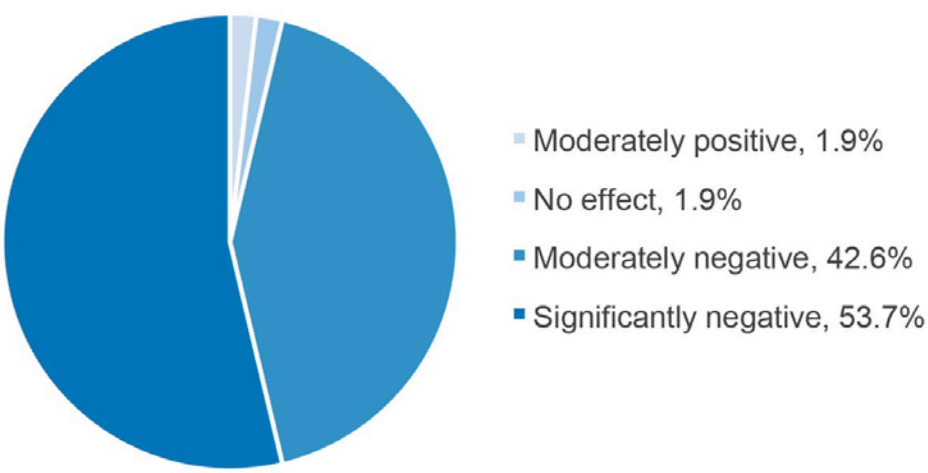
- Our business is affected by credit unions and other nonbanking entities actively targeting our deposit customers and loan customers.

Special Questions

10. Top concerns: What are your top three concerns for the financial industry over the next year?

Concerns	Percent reporting primary	Percent reporting secondary	Percent reporting tertiary
Economic factors	18.5	28.3	13.5
Regulations	57.4	22.6	13.5
Interest rates	7.4	9.4	23.1
Financial technology competition	0.0	1.9	9.6
Cybersecurity	11.1	28.3	19.2
Policy uncertainty	3.7	5.7	9.6
Competition with other financial Institutions	1.9	3.8	11.5
Other	0.0	0.0	0.0

11. What is the effect of financial regulations on your institution?



NOTE: Percentage reporting "significantly positive" was 0.0.