Banking Conditions Survey

Federal Reserve Bank of Dallas

April 2017

Data for this report were collected March 21–29, and 74 financial institutions—14 credit unions and 60 banks—responded.

Over the past six weeks, the Eleventh District financial sector has shown signs of further strengthening. Banking leaders indicated that loan volume and loan demand continued to expand but at a slower pace compared with the previous period. The loan volume index was 24.3, down from 31.4. Similarly, the loan demand index dropped to 18.3 from 31.4.

The survey suggests that nonperforming loans declined overall, with a corresponding index of −10.1 that followed a reading of −13.2. Loan pricing increased at a faster pace, with an index of 49.3, up from 35.1. The index for credit standards and terms points to tightening, with a reading of −8.7. Most of the tightening was seen in the commercial real estate space. General business activity continued to expand within the region, remaining strong at an index level of 38.4.

The recent gains in loan volume were mainly driven by residential real estate loans. The one category that did not experience an increase in volume was consumer loans, which dropped from a 4.0 index value to −10.0.

Core deposit volumes grew strongly over the period, with the corresponding index at 36.5, up from 5.5. The cost-of-funds index also increased, to 43.2 from 29.6. Net interest margins increased at a slower pace, and noninterest income largely remained the same.

The outlook for the Eleventh District financial sector remained optimistic. Banking leaders expect continued expansion in total loan demand and general business activity. They also expect nonperforming loans to decline over the next six months.

Next Release: May 31, 2017

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 are also asked to 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 Eleventh District 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	24.3	31.4	47.3	29.7	23.0
Loan demand	18.3	31.4	38.0	42.3	19.7
Nonperforming loans	–10.1	–13.2	8.7	72.5	18.8
Loan pricing	49.3	35.1	53.5	42.3	4.2

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–8.7	–3.9	2.9	85.5	11.6

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	10.6	12.2	24.2	62.1	13.6
Nonperforming loans	–13.1	–8.5	4.9	77.0	18.0

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–3.2	0.0	1.6	93.5	4.8

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	12.1	25.0	30.3	51.5	18.2
Nonperforming loans	–13.1	–2.2	0.0	86.9	13.1

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–11.1	–8.5	1.6	85.7	12.7

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	21.6	4.4	35.4	50.8	13.8
Nonperforming loans	–1.6	0.0	1.7	95.0	3.3

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–4.8	–2.3	0.0	95.2	4.8

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	–10.0	4.0	15.7	58.6	25.7
Nonperforming loans	–3.0	–2.0	6.0	85.1	9.0

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–4.3	–4.1	0.0	95.7	4.3

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	36.5	5.5	51.4	33.8	14.9
Cost of funds	43.2	29.6	44.6	54.1	1.4
Net interest margin	2.7	12.9	31.5	39.7	28.8
Noninterest income	–1.3	0.0	19.2	60.3	20.5

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	60.8	61.1	63.5	33.8	2.7

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	–21.9	–37.7	8.2	61.6	30.1

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	38.4	46.3	42.5	53.4	4.1
Six months from now	65.8	67.9	69.9	26.0	4.1

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.

- I am concerned with the rapid appreciation of Central Texas real estate values.
- The adverse impact from regulatory burden on our community bank continues to hamper our ability to bank the underserved, discourages lending to small business, and perpetuates the inequities of an un-level playing field with credit unions and alternative financing companies.
- We are looking forward to regulatory easing.
- The greatest obstacle to recovery of the business sector is the incredible overreach of the federal regulatory burden borne by every business in this country. I have grown to feel there is no possible way for any significant recovery for our country because of this issue. Eight years of the previous administration has pretty much reduced the economic engine known as the United States to what we see today. In the past, the U.S. has been able to lift the world out of major recessions, but I don't see that as being possible any longer. Much the pity.
- I am concerned about uncertainty surrounding the current regulatory environment. We just can't read the tea leaves to see what, if any, changes will impact us. We are hoping for fewer new regulatory initiatives. We also hope for relaxed regulatory requirements for one-to-four single-family loans held in our portfolio. New data collection for the Home Mortgage Disclosure Act is adding cost, and we see no tangible benefit to borrowers, bankers or the public.
- I am concerned about cybersecurity vendor management. I am also concerned about the complexity of managing the program loss of consumer products and [about] market share due to regulatory burden.
- I am concerned about rising interest rates. We need to closely monitor interest rate risk during rising rate periods. I am also concerned about flows of deposits. This seems to be improving with marketing but is also typical for this time of year. I need deposits to fund what is still good loan volume. Finally, I am also concerned with oil.
- Political uncertainty is my primary concern at the moment.
- We continue to have families struggling with cut hours, cuts in pay and layoffs. This has caused our nonperforming loans to increase. However, at the same time, our area continues to add jobs and see growth in the service sector, medical and food industry, and this has had a positive impact on our new accounts, new checking accounts and loan requests, too.

- Our concerns stem from technology, both cybersecurity and the pace with which technology is changing our industry. It is very difficult to keep a handle on either one.

- Some experienced, but perhaps less-sophisticated, borrowers are “surprised” when we advise them that the Federal Reserve has raised rates twice over the last six months and that we anticipate three more increases in 2017. We are shortening our fixed rate terms and moving to floating loan rates, where possible.

- Since our local economy is highly dependent upon the oil and gas extraction industry, a stable or increasing crude oil price will be a key determinant of the level of economic activity in the near future.

- I am concerned with regulatory compliance in general, but especially loans secured by dwellings.

- The current agriculture market is seeing margins decrease due to commodity prices and drought in our market.

- We are seeing negative effects on net interest margin due to flattening of the yield curve.

- We are a conservative lender, hence the moderate scorecard above. However, the overall loan process and deposit process continue to be hindered by the burden of regulation. It has both slowed the underwriting and closing process for loans and increased the cost. We will add at least two more full-time employees to our payroll this year as a result of regulatory compliance.

- We need regulatory relief.

- Compliance continues to be the most worrisome aspect in banking.

- Overall commercial loan activity is soft, and competitive conditions have worsened in that available pricing is lower and prudent underwriting is being compromised to win a share of the limited business available. Mortgage volumes have declined markedly with the increase in rates—with the greatest impact being on refinance activity.

- People from Mexico have the impression that the border will be shut down and limit trade between Mexico and the U.S. This is causing a lot of concern by Mexicans.

- We are located at the Texas border, and I notice a decrease in financial activity. The Mexican nationals are not visiting our region as much since the election date, resulting in a deterioration of commercial activity. This may impact unemployment and spending activity.