Banking Conditions Survey

Federal Reserve Bank of Dallas

May 2017

Data for this report were collected May 2–10, and 69 financial institutions—12 credit unions and 57 banks—responded.

Over the past six weeks, the Eleventh District financial sector has shown signs of further improvement. Banking leaders indicated that loan volume and loan demand continued to expand and at a faster pace compared with the previous period. The loan volume index was 43.5, up from 24.3. Similarly, the loan demand index increased to 26.9 from 18.3.

The survey suggests that nonperforming loans declined overall and at a faster pace than in the last period, with an index of −20.3 that followed a reading of −10.1. Loan pricing continued to increase but at a slower pace, with an index of 27.7, down from 49.3. The index for credit standards and terms suggests moderate tightening, with a reading of −4.7. Similar to last period, most of the tightening was seen in commercial real estate loans, but there was also moderate tightening in commercial and industrial loans. General business activity expanded at a faster pace, with a reading of 42.6, up from 38.4.

The recent gains in loan volume were mainly driven by commercial real estate and commercial and industrial loans. Residential real estate loan volume continued to expand but at a slower pace, with an index of 15.2, down from 21.6. Also, consumer loan volume continued to decline, but only slightly.

Core deposit volumes continued to grow strongly over the period, with an index of 33.3. The cost-of-funds index also increased but at a slightly slower pace, to 39.1 from 43.2. The net interest margin index increased over the period, to 17.4 from 2.7. Over the past six weeks, noninterest income has increased considerably, from −1.3 to 19.1.

The outlook for the Eleventh District financial sector remains optimistic. Banking leaders expected continued expansion in total loan demand and general business activity, though they were slightly less optimistic about general business activity than they were last period. The respondents also expected nonperforming loans to decline over the next six months.

Next Release: July 12, 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. Note: Percentages may not add to 100 due to rounding.

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	43.5	24.3	55.1	33.3	11.6
Loan demand	26.9	18.3	40.3	46.3	13.4
Nonperforming loans	–20.3	–10.1	9.4	60.9	29.7
Loan pricing	27.7	49.3	29.2	69.2	1.5

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–4.7	–8.7	4.7	85.9	9.4

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	22.0	10.6	35.6	50.8	13.6
Nonperforming loans	–19.6	–13.1	3.6	73.2	23.2

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–6.6	–3.2	1.7	90.0	8.3

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	40.3	12.1	51.6	37.1	11.3
Nonperforming loans	–16.9	–13.1	5.1	72.9	22.0

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–13.2	–11.1	1.6	83.6	14.8

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	15.2	21.6	28.8	57.6	13.6
Nonperforming loans	–7.1	–1.6	5.4	82.1	12.5

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–1.7	–4.8	0.0	98.3	1.7

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	–1.5	–10.0	15.4	67.7	16.9
Nonperforming loans	–3.3	–3.0	4.8	87.1	8.1

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–1.5	–4.3	4.8	88.9	6.3

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	33.3	36.5	47.8	37.7	14.5
Cost of funds	39.1	43.2	42.0	55.1	2.9
Net interest margin	17.4	2.7	30.4	56.5	13.0
Noninterest income	19.1	–1.3	29.4	60.3	10.3

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	55.9	60.8	61.8	32.4	5.9

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	–25.0	–21.9	5.9	63.2	30.9

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	42.6	38.4	48.5	45.6	5.9
Six months from now	47.7	65.8	52.2	43.3	4.5

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 primarily concerned over prospects for further increases in market interest rates, potential reductions in regulatory burden, and prospects for business and individual tax reform that are creating a lot of hesitation on the part of customers and prospective customers relative to their business plans—this includes expansions, hiring, capital expenditure, etc.

- I am primarily concerned about potential adverse impacts to bank lending activities due to some of the tax-reform proposals. These proposals could significantly reduce the number of individual taxpayers that qualify to itemize and deduct mortgage interest expense and thus could negatively impact mortgage-lending activities. Also, these proposals could eliminate the deduction of interest expense by most businesses, and this would in turn negatively impact commercial lending activities. Furthermore, our institution continues to experience the negative impact of cost burdens and process constraints attributed to the burden from, in my opinion, excessive regulation on well-capitalized community banks.

- I feel consumers and businesses will put things on hold until there is political stability and positive prospects on tax reform.

- Loan demand seems to be outpacing deposit growth.

- We're looking forward to some regulatory relief with the new administration.

- We have no special concerns at this point. My response reflects normal variations over short periods of time. We do see slight increases in deposit costs and some resistance to negotiating rates on loans. Overall loan and investment income is on track. Hiring is good, with sufficient qualified applicants. Banks appear to be doing some local consolidation, with branches closing.

- Personally, I think we have entered a "new normal" in the economy, which includes the following: continued low interest rates, low and declining productivity, minimum economic growth (if any), a shrinking pool of qualified labor, increasing deficit and national debt, relatively flat wage growth in the labor markets, more pressure to socialize more and more from the American people, and the Fed thinking it can borrow the country out of its problems, with a current $4.5 trillion balance sheet with possibilities of increasing. Unfortunately, when I look around the various world economies, I feel like I see this same trend in all of them. I have no clue as to how the government or anyone else can reverse the trend.

- I am concerned specifically with regulations on mortgage loans.

- I am concerned with the current regulatory burden.

- I am still concerned about regulatory burden and lack of clarity going forward. New Home Mortgage Disclosure Act reporting places additional costs and an operating burden on banks, with no tangible benefit to consumers, regulators or the banks.

- The amount of regulatory "guidance," "best practices," regulations and laws has increased to the level that a small bank cannot follow them all. Additionally, the field examiners seem to have no authority to address substantive issues. Everything is compliance with guidance and best practices. It is miserable to be in the banking business today. I have owned two community banks for over 30 years and until the past five years was able to make a reasonable return. The cost of complying with the "oversight" by the regulatory authorities (Federal Deposit Insurance Corp., Office of the Comptroller of the Currency, Federal Reserve, Consumer Financial Protection Bureau and Texas Department of Banking), along with competition from federal-income-tax-exempt entities, federally sponsored entities (Small Business Association, Farm Credit Bureau, etc.) and nondepository lenders, has made it very difficult for a smaller bank to be profitable.

- I am concerned with the unknown impact of regulatory issues for the future. Will community banks be successful in achieving a tiered regulatory examination and reporting process?

- I see unclear direction and oversight from the regulatory agencies due to perceived and/or pending changes in Washington.

- I am concerned with vendor cooperation in developing technology.

- We are post-peak in the credit cycle and others are relaxing credit or structure standards, which creates a tough market to be profitable. The auto finance market continues to face increased default and loss severity.

- We continue to be burdened with regulatory compliance issues.