Banking Conditions Survey

Federal Reserve Bank of Dallas

March 2019

Data for this report were collected Feb. 5–13, and 70 financial institutions—9 credit unions and 61 banks—responded.

Over the past six weeks, the Eleventh District financial sector has shown some mixed signals. According to respondents, loan volume increased over the past six weeks, with the index moving from –5.0 to 4.3. Loan demand, however, declined over the past six weeks, moving from an index of 0.0 to –2.9.

Survey respondents suggest that nonperforming loans decreased over the past six weeks, with the index falling from 5.3 to –6.1. All loan categories had declining nonperforming loans with the exception of residential loans. Residential nonperforming loans have increased over the past two survey periods. Loan pricing increased at a slower pace over the past six weeks, with the index at 50.0, down from 54.2. Overall, credit standards and terms tightened. In fact, tightening was seen across all loan categories, with the exception of residential loans, which experienced no changes in credit standards and terms over the past six weeks. Survey respondents indicated that general business activity has expanded at a faster clip, with a reading of 10.0, up from 6.7.

Increases in loan volume were seen in consumer loans and commercial real estate lending over the past six weeks. Residential and commercial and industrial lending, however, experienced declines in loan volume.

According to respondents, core deposit volumes and net interest margins have both declined over the past six weeks. Noninterest income has stayed the same, and cost of funds has increased at a faster pace, with the index rising from 76.6 to 78.6.

The outlook for the Eleventh District financial sector is mixed. Expectations for total loan demand six months from now are pointing toward continued expansion and at a faster rate. Nonperforming loans are expected to increase over the next six months for the first time on record. General business activity is expected to increase six months from now.

Next Release: April 17, 2019

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	4.3	−5.0	34.3	35.7	30.0
Loan demand	−2.9	0.0	31.9	33.3	34.8
Nonperforming loans	−6.1	5.3	15.4	63.1	21.5
Loan pricing	50.0	54.2	52.9	44.1	2.9

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	−13.6	−7.7	1.7	83.1	15.3

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	−9.8	−5.9	19.7	50.8	29.5
Nonperforming loans	−5.4	−8.3	7.3	80.0	12.7

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	−12.3	−6.0	0.0	87.7	12.3

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	6.2	1.9	28.1	50.0	21.9
Nonperforming loans	–1.7	4.1	8.6	81.0	10.3

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–12.9	–8.0	1.6	83.9	14.5

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	–5.0	–12.0	21.7	51.7	26.7
Nonperforming loans	1.7	2.1	7.0	87.7	5.3

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	0.0	–10.0	3.4	93.2	3.4

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	−3.6	13.4	74.6	11.9
Nonperforming loans	−3.2	−1.8	1.6	93.5	4.8

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	−3.0	−8.8	0.0	97.0	3.0

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	−4.3	25.5	25.7	44.3	30.0
Cost of funds	78.6	76.6	80.0	18.6	1.4
Net interest margin	−7.1	11.6	22.9	47.1	30.0
Noninterest income	0.0	8.4	14.3	71.4	14.3

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	20.0	10.0	38.6	42.9	18.6

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	7.1	–5.0	20.0	67.1	12.9

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	10.0	6.7	20.0	70.0	10.0
Six months from now	7.1	–18.7	27.1	52.9	20.0

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.

- Current Expected Credit Loss (CECL) is still the biggest concern for small institutions. It is absolutely a waste of time, money and resources. We have five families in our over-60-day-delinquent category.
- We are concerned about competitive pricing pressure on loans and deposits.
- We are concerned the Fed will raise rates unnecessarily.
- Concerns: properly investing in technology to stay relevant; a slowing economy; lack of deposit growth; cybersecurity.
- We are having difficulty in making real estate loans due to the complicated required disclosures.
- I expected savings and CD deposits to drop in the first quarter of 2019, but they haven't. My feeling is that this is due to the recent volatility of the stock market and the looming trade tariffs kicking in next month.
- In general, there seems to be a marked sense of uncertainty with regard to the economy. The Fed appears to be giving the economy time to absorb the past interest rate hikes, which is good, but it leaves questions regarding where we go from here. We'll likely experience some economic turbulence until a new path is charted.
- I am concerned about increased expenses related to compliance and regulatory issues.
- Our increase in consumer loans was primarily attributed to the government shutdown. There were loan requests from government workers affected by the shutdown to pay their normal living expenses. In addition, we granted numerous mortgage loan extensions for January and February mortgage payments. We helped our customers with what we determined was responsible help on an individual basis. A continued shutdown will limit our options, and we are likely to see a deterioration in nonperforming loans. Due to the length of the shutdown, we had commercial loan customers starting to talk about their business volumes decreasing and possible short-term lending needs.
- Political malfunction is creating unease in the business outlook.
- Regulatory requirements for operating (not just lending) make it almost impossible to operate a small community bank.
- Rising rates have caused borrowers to defer projects and purchases that require financing. We are seeing political instability, rising rates, tariffs, potential conflicts with Russia and China, as well as other global conflicts, which are causing businesses to pull back on spending and hiring. Businesses are uncomfortable with the level of instability.

- The trade deal with China, Brexit, the political arena of Republicans versus Democrats, stock market volatility, stability in the price of oil, Venezuela's political unrest and investigations involving Trump's ties to Russia are all areas of concern.
- I am concerned about the uncertainty of governmental decisions, mainly nationally, where I question how long the current tax rate will be in affect at the state level.
- We are concerned about interest expense costs rising faster than earning asset rates over the next few months.
- We are seeing some aggressive deposit pricing by banks in our market (and local advertisements by out-of-market banks) because they desperately need liquidity. A bank in our market has 60 percent of its deposit portfolio comprising brokered and listing service deposits.
- We are seeing the ripple effects of tariffs on agricultural producers—specifically, nut and bean crops. General border unrest and the political environment over immigration issues have this region very uptight.
- We continue to see increased competition from the credit unions and farm credit system that offer what we think are unrealistic rates both on loans and deposits. They also offer structure and terms we refuse to allow in our portfolio.
- With our agriculture customers, they seem to be worried about the Trump tariffs and trade war and how they should budget in the future. We are seeing a continued increase in deposits in our markets. Competition for core deposits still seems to be at the forefront in the minds of our executive officers. Budgeting for the upcoming year will be tricky. Fed fund futures suggested one, if not two, rate increases in December. However, now futures point to no rate change in 2019. This makes rate projections more difficult and could add some volatility in the upcoming year.
- With the tax changes in 2018, the refunds in 2019 are expected to be much lower, which in turn may slow down consumer lending.