Banking Conditions Survey

Federal Reserve Bank of Dallas

April 2019

Data for this report were collected March 18–26, and 67 financial institutions—55 banks and 12 credit unions—responded.

Over the past six weeks, the Eleventh District financial sector has shown some signs of strengthening. According to respondents, loan volume increased over the past six weeks, with the index moving from 4.3 to 14.9. Loan demand also increased over the past six weeks, moving from an index of –2.9 to 12.3.

Survey respondents suggest that nonperforming loans increased over the past six weeks, with the index rising from –6.1 to 4.7. All loan categories had declining nonperforming loans with the exception of Commercial and Industrial (C&I) loans and Commercial Real Estate (CRE) loans. C&I loans saw an uptick in nonperforming loans over the past six weeks, whereas CRE loans experienced no change. Loan pricing increased at a slower pace over the past six weeks, with the index at 24.6, down from 50.0. Overall, credit standards and terms tightened. In fact, tightening was seen across all loan categories over the past six weeks. Survey respondents indicated that general business activity has expanded at a slower clip, with the index reading 4.5, down from 10.0.

Increases in loan volume were seen in residential real estate loans and CRE lending over the past six weeks. Consumer and C&I lending, however, experienced declines in loan volume.

According to respondents, core deposit volumes and cost of funds have both increased over the past six weeks. Noninterest income and net interest margins both declined.

The outlook for the Eleventh District financial sector is stronger than when surveyed six weeks ago. Expectations for total loan demand six months from now are pointing toward continued expansion and at a faster rate. Nonperforming loans are expected to decline over the next six months, and general business activity is expected to increase six months from now.

Next Release: June 5, 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	14.9	4.3	38.8	37.3	23.9
Loan demand	12.3	−2.9	32.3	47.7	20.0
Nonperforming loans	4.7	−6.1	18.8	67.2	14.1
Loan pricing	24.6	50.0	33.8	56.9	9.2

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	−9.9	−13.6	1.6	86.9	11.5

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	−10.1	−9.8	13.6	62.7	23.7
Nonperforming loans	1.9	−5.4	9.3	83.3	7.4

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	−1.9	−12.3	0.0	98.1	1.9

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	23.7	6.2	37.3	49.2	13.6
Nonperforming loans	0.0	−1.7	10.9	78.2	10.9

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	−3.4	−12.9	5.2	86.2	8.6

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	5.6	−5.0	27.8	50.0	22.2
Nonperforming loans	−5.8	1.7	3.8	86.5	9.6

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	−1.9	0.0	0.0	98.1	1.9

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	1.5	20.0	58.5	21.5
Nonperforming loans	−6.4	−3.2	8.1	77.4	14.5

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	−3.2	−3.0	1.6	93.5	4.8

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	8.9	−4.3	37.3	34.3	28.4
Cost of funds	71.6	78.6	71.6	28.4	0.0
Net interest margin	−16.7	−7.1	19.7	43.9	36.4
Noninterest income	−12.3	0.0	10.8	66.2	23.1

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	31.4	20.0	47.8	35.8	16.4

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	−6.0	7.1	11.9	70.1	17.9

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	4.5	10.0	23.9	56.7	19.4
Six months from now	14.9	7.1	34.3	46.3	19.4

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.

- A flattening yield curve suggests we are getting late in the economic cycle. We have been adjusting our investment portfolio accordingly. Also, uncertainty still remains with what the Fed will do in 2019 and the beginning of 2020.
- CECL for smaller institutions is still a major concern. As an example, we have four families that are delinquent 30 days or more; this really needs to be addressed for smaller financial institutions.
- Competition for mortgage loans continues to increase.
- Compliance burden continues to decrease the ability to function as a bank should.
- There is continued concern related to the loss of a major employer in our region.
- Cost of funds continues to be a concern for our institution.
- There are concerns over cybersecurity, deposit and loan growth, and community banking's relevance in an increasing technical industry.
- Flat-to-declining general economic trends are concerning.
- Increased operating cost due to wage pressures, continued cost of meeting regulatory expectations regarding BSA and CECL, in addition to the cost of technology related to delivery of and providing self-serve consumer products while operating in a low-rate environment are troubling.
- IT fraud is a major concern for our institution.
- We believe a recession is looming.
- The number and details of regulations and "best" practices is a problem. It is also impossible to comply with all the regulations, regulatory guidance and "best practices."
- Our county has had historical rainfall since September, and this has had a major impact on the agricultural economy. Crops were not able to be harvested, and summer wheat has not been planted. We have lost one hay-cutting business, and this has had a major impact on our ranchers. Cost of hay has increased by more than 100 percent and must now be imported from other states. Many of our farmers will be forced to take preventive planting and USDA assistance. The rainfall has also had a major impact on construction, with interim loans having to be renewed to allow for the completion of the construction.
- Pricing for deposits has been more aggressive, which continues to increase margin pressure as well as our efforts to attract more deposits. We are also seeing less demand and activity for commercial loans for working capital and capital expenditures.
- Regulatory burden is a major concern, as well as increased competition from credit unions in commercial and real estate loans and deposits.

- The New Mexico Legislature has been in session for the past 60 days. Its overall anti-oil-and-gas attitude has adversely affected business and loan demand in our primary market area.
- There is too much talk about slowdown and recession!
- Wet weather has been an issue for our entire trade territory. The ability to do the work, especially for farmers, ranchers and the people that work for them, has slowed, so then it has impacted their cash flow. This should straighten out this spring, but it has been an issue for the last five to six months.