Banking Conditions Survey

Federal Reserve Bank of Dallas

June 2019

Data for this report were collected May 7–15, and 65 financial institutions—55 banks and 10 credit unions—responded.

Over the past six weeks, the Eleventh District financial sector has shown continued signs of strength overall. According to respondents, loan volume increased over the period, with the index moving from 14.9 to 15.4. Loan demand also increased over the past six weeks, though at a slower rate, with the index moving from 12.3 to 6.2.

Survey respondents suggest that nonperforming loans decreased over the past six weeks, with the index falling from 4.7 to -4.8. Declines were seen in nonperforming commercial and industrial (C&I) loans as well as nonperforming consumer loans, while no change was seen in commercial real estate (CRE) and residential real estate nonperforming loans. Loan pricing increased at a slower pace over the past six weeks, with the index at 12.3, down from 24.6. Overall, credit standards and terms remained unchanged, with tightening in the C&I, CRE and consumer loan categories offset by easing in residential real estate loans. Survey respondents indicated that general business activity has expanded at a markedly faster clip over the past six weeks, with the index rising from 4.5 to 30.8.

Increases in loan volume were seen in consumer, residential real estate and CRE loans over the past six weeks, though for CRE at a slower pace than in the previous survey. C&I lending experienced no change in volume.

According to respondents, core deposit volumes and cost of funds continued to increase over the past six weeks, although for the latter at a slower rate than during the previous period. Noninterest income and net interest margins both increased.

The outlook for the Eleventh District financial sector remains strong. Expectations for total loan demand six months from now are pointing toward continued expansion, albeit at a slower rate. Nonperforming loans are expected to decline slightly over the next six months, and general business activity is expected to improve.

Next Release: July 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	15.4	14.9	44.6	26.2	29.2
Loan demand	6.2	12.3	35.4	35.4	29.2
Nonperforming loans	–4.8	4.7	9.7	75.8	14.5
Loan pricing	12.3	24.6	16.9	78.5	4.6

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	0.0	–9.9	5.1	89.8	5.1

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	0.0	–10.1	20.7	58.6	20.7
Nonperforming loans	-3.6	1.9	7.3	81.8	10.9

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-3.8	–1.9	0.0	96.2	3.8

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	10.5	23.7	38.6	33.3	28.1
Nonperforming loans	0.0	0.0	7.3	85.5	7.3

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-5.5	–3.4	3.6	87.3	9.1

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	16.6	5.6	33.3	50.0	16.7
Nonperforming loans	0.0	-5.8	7.5	84.9	7.5

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

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	1.7	–1.5	21.7	58.3	20.0
Nonperforming loans	-1.7	–6.4	8.1	87.9	6.9

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-1.7	–3.2	1.7	94.9	3.4

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	13.9	8.9	38.5	36.9	24.6
Cost of funds	66.2	71.6	67.7	30.8	1.5
Net interest margin	-12.5	–16.7	25.0	37.5	37.5
Noninterest income	-1.6	–12.3	16.9	64.6	18.5

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	25.4	31.4	41.3	42.9	15.9

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	-1.6	–6.0	15.6	67.2	17.2

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	30.8	4.5	40.0	50.8	9.2
Six months from now	24.7	14.9	38.5	47.7	13.8

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.

- CD pricing is very competitive.
- CECL [current expected credit loss] appears to be of concern with senior officers. The regulatory burden CECL puts on small institutions seems unfair, and guidance continues to come out with no clear direction of how to account for future credit losses. There is not a one-size-fits-all approach, which is concerning, as it feels like it penalizes smaller institutions. The amount of resources to stay compliant in this area is burdensome to small community banks.
- CECL is still a major concern for smaller financial institutions.
- Increased competition from either nonregulated or lightly regulated entities is fierce competition for our banking industry. We see elevated risk-taking by other institutions, both in rate/term and guarantees. All is well as the economy is somewhat stable, but if we were to experience a correction, there are some them might have some problems.
- There is a level of uncertainty surrounding the future direction of interest rates, and equity markets have increased the level of difficulty in making forward projections and assessing member confidence.
- Maintaining deposits is a challenge. The biggest competitors are nonbanks.
- My primary area of concern right now is the extreme amount of competition that is happening in all areas of banking. From the loan side of things, it seems like every day I see a new online lender pop up in our area. From the deposit point of view, a real area of concern of mine is the large number of nonbanks that are in effect taking our customers away from the bank on a daily basis. Just one small example of this is that nearly every convenience store has become a competitor. They are all currently cashing checks for a fee, they all have their own ATM machine in the store and they have all become payday lenders. The only difference is they are not regulated.
- One area of concern that will have a long-term impact on community banks is the aggressive advertising by larger financial institutions and fintechs for deposits.
- Regulatory matters make it difficult for small community banks. "Regulatory guidance" and "best practices" along with regulations and laws are so numerous and complex that compliance is very difficult and costly. Dodd–Frank and related CFPB [Consumer Financial Protection Bureau] regulations/guidance are the best example.
- TRID [TILA-RESPA Integrated Disclosure] loans continue to be a nightmare. They are almost impossible to make.
- There is uncertainty over taxation and regulation.

- We are a $9 million credit union, and we simply cannot compete with the broad field of membership that NCUA [National Credit Union Administration] has allowed. We are profitable and viable in our community; however, I foresee NCUA merging all credit unions into one major dominating credit union with branches in each state. When that is done, we will look and act like banks, so therefore, we should then be taxed like banks.