



July 2019

Data for this report were collected June 18–26, and 59 financial institutions—48 banks and 11 credit unions—responded.

Over the past six weeks, the Eleventh District financial sector has shown continued signs of strength overall. According to survey respondents, loan demand accelerated, with the index rising notably from 6.2 to 24.1. Loan volume increased at a faster pace, with the index jumping from 15.4 to 32.2. All loan categories—commercial and industrial (C&I), commercial real estate (CRE), residential real estate and consumer—experienced accelerated loan volume growth. Loan pricing increased at a slower pace over the past six weeks, with the index at 5.0, down from 12.3. Overall, credit standards and terms tightened in all loan categories: C&I, CRE, residential real estate and consumer.

Survey respondents indicated that general business activity has expanded at a slightly slower clip since the previous survey, with the index falling from 30.8 to 27.1.

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

The outlook for the Eleventh District financial sector is mixed. Expectations for total loan demand six months from now point toward continued expansion. However, nonperforming loans are expected to increase slightly over the next six months, and expectations for general business activity dipped negative for the first time this year, with the index falling from 24.7 to -1.7.

Next Release: September 4, 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 | 32.2 | 15.4 | 50.8 | 30.5 | 18.6 |
| Loan demand | 24.1 | 6.2 | 43.1 | 37.9 | 19.0 |
| Nonperforming loans | 5.2 | -4.8 | 20.7 | 63.8 | 15.5 |
| Loan pricing | 5.0 | 12.3 | 18.6 | 67.8 | 13.6 |

| Indicator | Current index | Previous index | Percent reporting eased | Percent reporting no change | Percent reporting tightened |
|----------------------------|---------------|----------------|-------------------------|-----------------------------|-----------------------------|
| Credit standards and terms | -12.9 | 0.0 | 1.9 | 83.3 | 14.8 |

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 | 16.0 | 0.0 | 26.0 | 64.0 | 10.0 |
| Nonperforming loans | 0.0 | -3.6 | 8.3 | 83.3 | 8.3 |

| Indicator | Current index | Previous index | Percent reporting eased | Percent reporting no change | Percent reporting tightened |
|----------------------------|---------------|----------------|-------------------------|-----------------------------|-----------------------------|
| Credit standards and terms | -4.0 | -3.8 | 0.0 | 96.0 | 4.0 |



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 | 16.3 | 10.5 | 34.7 | 46.9 | 18.4 |
| Nonperforming loans | -4.3 | 0.0 | 8.5 | 78.7 | 12.8 |

| Indicator | Current index | Previous index | Percent reporting eased | Percent reporting no change | Percent reporting tightened |
|----------------------------|---------------|----------------|-------------------------|-----------------------------|-----------------------------|
| Credit standards and terms | -8.1 | -5.5 | 4.1 | 83.7 | 12.2 |

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 | 20.4 | 16.6 | 34.7 | 51.0 | 14.3 |
| Nonperforming loans | -2.1 | 0.0 | 2.0 | 93.9 | 4.1 |

| Indicator | Current index | Previous index | Percent reporting eased | Percent reporting no change | Percent reporting tightened |
|----------------------------|---------------|----------------|-------------------------|-----------------------------|-----------------------------|
| Credit standards and terms | -2.1 | 1.9 | 2.0 | 93.9 | 4.1 |



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 | 12.7 | 1.7 | 21.8 | 69.1 | 9.1 |
| Nonperforming loans | 0.0 | -1.7 | 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 | -5.4 | -1.7 | 0.0 | 94.6 | 5.4 |

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 | 17.5 | 13.9 | 38.6 | 40.4 | 21.1 |
| Cost of funds | 50.8 | 66.2 | 52.6 | 45.6 | 1.8 |
| Net interest margin | -10.5 | -12.5 | 21.1 | 47.4 | 31.6 |
| Noninterest income | 1.7 | -1.6 | 17.5 | 66.7 | 15.8 |



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 | 23.7 | 25.4 | 39.0 | 45.8 | 15.3 |

| Indicator | Current index | Previous index | Percent reporting more | Percent reporting no change | Percent reporting fewer |
|---------------------|---------------|----------------|------------------------|-----------------------------|-------------------------|
| Nonperforming loans | 6.7 | -1.6 | 22.0 | 62.7 | 15.3 |

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 | 27.1 | 30.8 | 33.9 | 59.3 | 6.8 |
| Six months from now | -1.7 | 24.7 | 28.8 | 40.7 | 30.5 |



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.

- Cotton prices continue to fluctuate downward, while fuel, chemicals and cotton seed prices continue to have a large impact on the farmer's budget.
- Speculation about Fed rates and tariffs is causing uncertainty.
- Interest rate indicators show a recession/slowdown coming in the next 12–18 months. We have to hunker down.
- Global tension with the Middle East, trade issues and the amount of global debt are reasons to slow the enthusiasm about the economic outlook.
- We have loan concentrations in agriculture and consumer real estate. Our customers in the agricultural and construction areas have experienced weather conditions that this area has never seen in regard to rainfall and muddy conditions. We have experienced historical rain since September 2018. Fall crops in many locations were not harvested, and most of the fall and spring crops were not planted. This has put a major burden on our customers' cash flow and the ability to make the necessary principal reductions this year. Construction and excavation are facing the same situations. We have had to extend our construction loans due to not being able to complete construction. Also, one of our excavation customers has worked less than 60 days since September. I hope that the regulators are aware of this situation and will work with us as we work with our customers to overcome these factors.
- Real estate prices are starting to increase more sharply in mid-sized markets, benefiting from urban center growth.
- Uncertainty in the overall economic environment is taking away from the generally positive labor market and underlying business conditions. Uncertainty regarding the interest rate environment is resulting in challenges in effectively pricing loan and deposit offerings.
- Deposit growth is not keeping up with loan demand.
- We are seeing competition for deposits in our area, particularly in the interest-bearing deposit arena. Several competing institutions are offering higher-yield CDs with longer terms. Some customers with large balances appear to be receptive to this. This, coupled with competition from online banks that offer high-yield savings products, as well as fintech companies that offer products to a greater market area, make retaining customers more difficult.