Banking Conditions Survey

April 2020

Data for this report were collected March 18–25, and 63 financial institutions—52 banks and 11 credit unions—responded.

The Eleventh District financial sector is showing signs of strain, according to respondents to the most recent Banking Conditions Survey. Total loan volume contracted suddenly, with the index falling from 16.1 to -20.6.

Loan volume contracted across most lending categories, with the sharpest declines seen in commercial real estate and commercial and industrial lending. However, volumes of residential real estate loans continued to increase but at a slightly slower pace than last period, with an index reading of 20.3. Loan pricing continued to erode, with the index falling 20 points to -59.0.

Nonperforming loans increased in all categories except residential real estate. The index measuring expectations for nonperforming loans six months from now rose from -5.5 to 75.8, suggesting financial institutions anticipate a sharp rise in delinquent loans.

Core deposit volumes grew, with the index up almost 14 points, while cost of funds declined significantly. Net interest margins and noninterest income continued to erode.

Survey respondents indicated sharp declines in general business activity, and the outlook for the Eleventh District financial sector worsened notably. Expectations for total loan demand and general business activity six months ahead turned sharply negative, at -69.4 and -67.7, respectively.

Next Release: May 20, 2020

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	-20.6	16.1	25.4	28.6	46.0
Loan demand	-23.0	19.6	26.2	24.6	49.2
Nonperforming loans	5.1	-7.3	11.9	81.4	6.8
Loan pricing	-59.0	-39.3	3.3	34.4	62.3

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-24.1	-8.0	5.6	64.8	29.6

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	-32.8	-14.6	6.9	53.4	39.7
Nonperforming loans	3.6	-8.3	7.3	89.1	3.6

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-24.6	-6.3	3.5	68.4	28.1

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	-24.1	7.8	13.8	48.3	37.9
Nonperforming loans	5.4	-2.0	7.1	91.1	1.8

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-26.3	-6.0	1.8	70.2	28.1

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	20.3	27.5	37.3	45.8	16.9
Nonperforming loans	0.0	2.0	3.4	93.1	3.4

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-16.1	0.0	1.8	80.4	17.9

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	-13.1	5.5	16.4	54.1	29.5
Nonperforming loans	3.4	-1.9	11.9	79.7	8.5

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-8.2	-3.6	4.9	82.0	13.1

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	19.6	44.4	44.4	11.1
Cost of funds	-73.0	-23.2	3.2	20.6	76.2
Net interest margin	-33.3	-19.6	12.7	41.3	46.0
Noninterest income	-27.4	-5.4	6.5	59.7	33.9

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	-69.4	39.3	9.7	11.3	79.0

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	75.8	-5.5	79.0	17.7	3.2

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	-45.2	25.0	11.3	32.3	56.5
Six months from now	-67.7	23.6	11.3	9.7	79.0

9. Issues of concern: Please feel free to comment on any issue that may be affecting your business.

These comments are from respondents and have been edited for publication.

Coronavirus Concerns

Economic Disruption

- The destruction to the economy by the decisions around COVID-19 concerns me.
- My concerns are that the government has taken drastic measures to curtail a virus that will kill less than the common flu in a year and that these measures will send the economy into a depression.
- We anticipate an increase in problem assets and expect economic productivity to decline significantly as a result of COVID-19. I also anticipate unemployment will be increasing significantly.
- The economic disruption caused by COVID-19 is unprecedented, resulting in the institution working diligently to provide flexibility and accommodations to members impacted or to be impacted by this event. Government support is needed and will be needed for a long period of time.
- Macro effects of the pandemic concern me.
- Like most others in banking, I am very concerned how COVID-19 will impact the economy in the short and long term.
- In light of recent events, many of our competitors and clients are concerned about COVID-19 and the impact it is having on the economy. The extreme measures being taken by the government and Federal Reserve are deeply concerning. While we have not yet seen any major liquidity problems, we are preparing and working with our larger clients to meet their needs during this time.
- The effects of COVID-19 concern me.
- The unknown length of the pandemic is the main focus these days.

Disruption to Business

- We have not seen the effects the coronavirus will have on our bank.
- The past six weeks don't account for the last 10 days as COVID-19 starts to unfold and impact business. I anticipate significantly lower business activity over the next 30 days.
- I am concerned about COVID-19 and the decline in oil prices.
- We have significant concerns about COVID-19 and its adverse impact on the economy. We expect many businesses to shut down, and we anticipate a significant rise in unemployment. As a result, we expect an increase in loan defaults and losses to the bank in the next six months.
- It is my expectation that the consequences from shutting down the economy as the way to deal with the COVID-19 virus will lead to major issues in the banking industry due to

consumers and commercial customers not having the cash flow necessary to provide for their needs. This will be a nightmare!
- COVID-19 and payment deferrals are taking up most of our time now, along with pandemic planning and employee staffing issues.
- We are certainly in uncharted waters; however, our pandemic planning has been a tremendous help. As a community bank, our preparedness has allowed us to help our small business customers in attempts to eliminate potential panic. Our senior management team now meets twice a day to discuss the situation and make future plans.
- Backstops needed for distressed borrowers due to COVID-19.

Business Concerns

- Declining interest rates will have a negative effect on my earnings.
- String demand for payment deferrals.
- The collapse in the price of crude oil will adversely impact our market area significantly.
- My concerns are oil and gas pricing, shutdown of the oil and gas industry, and massive layoffs.

Regulation Concerns

- TRID [TILA-RESPA Integrated Disclosure Rule Implementation] loans are needlessly cumbersome and difficult to do, costing our customers and the bank undue hardship.
- Overwhelming compliance regulations.

10. Special Questions: Regarding the coronavirus (COVID-19)

Indicator	Percent reporting yes	Percent reporting no
Have you observed an increase in draws on existing commercial credit lines that you would attribute to the coronavirus?	24.6	75.4

Indicator	Percent reporting yes, increased demand	Percent reporting yes, decreased demand	Percent reporting no
Have you observed any changes in demand for new loans or lines of credit that you would attribute to the coronavirus?	25.8	21.0	53.2

Indicator	Percent reporting yes	Percent reporting no
If you have observed increased demand, do you have plans in place to meet that demand?	100.0	0.0

11. Special Questions: What are the main challenges you foresee in meeting customers' financing needs during the coronavirus outbreak?

No Concerns at the Time

- I don't expect any significant challenges. My bank is very well-capitalized with significant liquidity. I need more loans.
- We are managing, with no problem meeting our customer needs on a one-on-one basis by appointment.
- To be determined.
- Too early to make an assessment.

Staffing

- Determining who will be available to service the customers.
- Keeping employees well. We run a "lean ship." Increased absenteeism could get to be a real problem.
- Uncertainty in employment.
- Employment disruption.
- I am anticipating an increase in demand for credit and an extension of payments over the next several months. I am concerned we may have a shortage in personnel in the lending area due to either being ill or taking care of ill family members.
- Staffing in the short term may become an issue.
- Unemployment and ability to keep up with expenses.
- Availability of staff driven in part by closure of schools and the nature of the event.
- We are having trouble finding gloves and cleaning supplies. Our customers are reacting in a panic fashion as they watch too much media. We are also concerned with staffing levels of our employees.

Regulatory

- We need regulatory help clarifying what kind of forbearance is acceptable to offer interest-only solutions over the next six months without creating a TDR [troubled debt restructuring], problem asset or nonaccrual.

- Understanding the new guidelines for SBA [Small Business Administration] and stimulus programs.
- We need assistance from regulators in tools to assist. Suspend troubled debt restructuring concern. Raise FDIC [Federal Deposit Insurance Corp.] insurance levels. Expand SBA guarantees.
- Need to balance regulatory compliance and income statement considerations with long-term member benefits. Inability to accurately forecast future direction the event will take.
- Appraisal requirements. Please give us a temporary stay, 120 days lack of forbearance, and guidance from regulators telling us if we can match what FNMA [Federal National Mortgage Association] is doing to alleviate appraisal concerns during the pandemic.

Lending

- Borrowers' qualifying. There are adequate liquidity and personnel to process.
- Establishing feasible payback plans for customers to service loans in a timely manner.
- Working on modifications and separating the customers affected by the virus and those who are not showing the need. Cash availability is also important.
- Customers need some breathing room to weather this storm, but it doesn’t mean they are not good loans with good managers that will come out of this in good shape.
- Requests for delayed payment, interest only and an increase in bank TDR loans. Making loans to support customers without adequate cash flow and collateral. Businesses who will be severely impacted are requesting financing while existing cash flow is not sufficient due to recent events. We will need to assess what buckets we want to fill and how much for these loans and adequately reserve for them.
- Payment extensions and increase in past-due loans because of business closures or loss of employment.
- Regulatory impediments: ATRQM [Ability to Repay/Qualified Mortgage Rule] will prevent banks from providing new residential mortgage loans or refinancing existing mortgage loans. Uncertainty related to how long the economic disruption caused by the virus will continue. Concerns that the restructured loans will negatively impact our borrowing base at the Federal Home Loan Bank. Challenges related to providing working capital loans to restart businesses with sustained losses as a result of the shutdown during this pandemic.
- Most of the financing needs are attributed to requesting some sort of relief by the way of deferring future payments to assist them in getting through the crisis.
- Banks will not be able to provide financing because of the uncertainty associated with the borrower's or company's ability to repay any new or existing loans.
- Credit underwriting.
- Continued requests for extensions and rate decreases on loans.
- Loan repayment and liquidity needs in the near term. Funding by deposits seems adequate, and we do not see any large withdrawal of funds presently. However, due to the closure of several businesses by government decree, we realize there will be increased past-due loans and impacts to repayment in the near future.
- The amount of refinancing requests for lower interest rates.

- Repayment for 0 percent loans. If long-term unemployment, loan losses.
- Underwriting will not look like it has historically looked. We are going to get requests that we would typically decline; some of these we will eventually approve in an effort to help the customers and the economy in general. We are concerned about how regulators will evaluate loan modifications. Will they be classified as TDRs? Nonaccrual? If we provide modified payments programs that differ from the original note? We plan to create a "Sub-Watch List" to separately monitor loans that we modified as a result of the coronavirus.
- Payment deferment as cash flow has been wiped out by government restrictions in the hospitality and other industries.
- My main challenge will be to implement any government regulations for postponing or modifying consumer real estate loans.
- Deferred payments.
- How quickly we can respond to the needs they face. And trying to determine the fate of those directly impacted and how much risk they may face when looking to assist our borrowers.
- Loan extensions up to six months. We would like to know more about how the Fed [Federal Reserve] will get more money to Main Street.
- Making small business loans while their revenue is declining.
- Extending principal payments and maturities. Short-term loans to assist with cash flow and liquidity shortages.

Cash

- The main challenge is keeping customers aware that it is safer to keep cash in a bank account rather than in a safe at home.
- Customers are pulling deposits due to bad information. They think their money is safer under their mattress at home than in an insured financial institution.
- Providing nonqualified mobile deposits or large cash withdrawals if branches are required to or need to close.
- Speed in delivery of loans, cash needs and payroll needs of customers.

Customer

- We have implemented several programs to assist members. I think the biggest challenges in serving them is the concern over uncertainty of the market. Some will be impacted by layoffs, unemployment or reduced hours. We can handle the short term, but if the virus is long term, it will be difficult.
- Customer uncertainty about the economy going forward. Customer revenue interruption. Modified work-from-home staffing/loan processing.
- Business shutdown due to major lines of business coming to complete shutdown. Consumers are losing their jobs and cannot make rent or mortgage payments.
- Not knowing how long [customers'] business will be closed.
- Customer cash flow decreasing.

- Lack of cash flow. Uncertainty of when the business can open up. Decline in consumer confidence. Financial losses taken in the stock market.
- The uncertain time frame of the shelter-in-place orders and ability of businesses to return to operation.
- Good loan customers losing income. [Their] ability to repay.
- Uncertainty in revenue streams due to COVID-19.
- Not knowing how long this will last. Not understanding customers' cash flow for the near future.
- With business being shut down, obviously cash flow is negative, and the availability of any additional collateral will be limited. The future is so unknown with not knowing how long this might last and the long-term impacts on our economy.
- Business cash flow with industries shut down.
- Forecasting future cash flow and how the virus will affect that.

Economic

- Financial crisis.
- The double hit taken in this area due to the decrease in economic activity due to the falling price of oil and the service industry shutdowns due to state-mandated social distancing is creating immediate cash flow problems for businesses, along with credit quality issues in the longer term.
- Will it get worse before it gets better?
- Uncertainty regarding how long this pandemic and its effects will last and what federal programs will be available to help our customers navigate the short-term problems.
- The unknown length of time before economic conditions and cash flows return to normal, providing for appropriate repayment ability.
- Lack of information. Decreased productivity. Fear in the marketplace. Making margin calls. Businesses not open (primarily service businesses).