Banking Conditions Survey

Federal Reserve Bank of Dallas

January 2020

Data for this report were collected Dec. 18–24, and 33 financial institutions—26 banks and seven credit unions—responded.

The Eleventh District financial sector continues to expand, according to respondents to the most recent Banking Conditions Survey. The indexes for total loan volume and loan demand pushed further positive, indicating growth at a faster pace than in the previous period.

Loan volume growth was broad based across all lending categories. Both commercial and residential real estate continued to lead the expansion, though at a slightly slower pace than in the prior period. Consumer loan volumes also grew as the index rose from -4.2 to 9.7.

Nonperforming loans increased during the period in all categories except commercial real estate loans. Respondents noted an increase in commercial and industrial nonperforming loans. The index reached its highest level in the three-year history of the survey, rising from 2.3 to 19.2.

Loan pricing continued to decline, although the index recovered slightly from the previous period. The majority of respondents reported no change in credit standards and terms from the previous period across categories.

Survey respondents indicated general business activity continued to expand.

Core deposit volumes rose significantly over the six-week period, with an index reading of 57.6, the highest in the three-year history of the survey. Net interest margins continued to erode, though the pace of erosion slowed markedly. The index now stands at -12.1, up from -27.5 in the prior period and -40.4 two periods ago. The cost of funds index remained negative, and the noninterest income reading increased to 15.6 from -6.0.

The outlook for the Eleventh District financial sector is optimistic compared with the previous six weeks. Expectations for total loan demand six months from now point toward growth, with the index rising from zero to 24.2. Expectations for general business activity six months ahead improved, with the index flipping from negative to positive.

Next Release: March 4, 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	24.2	21.5	51.5	21.2	27.3
Loan demand	24.2	17.6	51.5	21.2	27.3
Nonperforming loans	6.3	0.0	21.9	62.5	15.6
Loan pricing	-30.3	-45.1	6.1	57.6	36.4

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-9.7	-8.9	0.0	90.3	9.7

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	10.7	0.0	28.6	53.6	17.9
Nonperforming loans	19.2	2.3	23.1	73.1	3.8

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-10.7	-4.3	0.0	89.3	10.7

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	17.2	25.5	44.8	27.6	27.6
Nonperforming loans	-7.1	-13.4	3.6	85.7	10.7

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-10.3	-8.7	3.4	82.8	13.8

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	17.9	31.9	35.7	46.4	17.9
Nonperforming loans	3.6	-4.3	7.1	89.3	3.6

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	0.0	-2.1	3.6	92.9	3.6

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	9.7	-4.2	29.0	51.6	19.4
Nonperforming loans	6.5	0.0	12.9	80.6	6.5

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	0.0	-4.3	0.0	100.0	0.0

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	57.6	35.3	66.7	24.2	9.1
Cost of funds	-21.2	-23.6	15.2	48.5	36.4
Net interest margin	-12.1	-27.5	24.2	39.4	36.4
Noninterest income	15.6	-6.0	21.9	71.9	6.3

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	24.2	0.0	51.5	21.2	27.3

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	3.0	5.9	18.2	66.7	15.2

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	15.2	13.8	36.4	42.4	21.2
Six months from now	3.0	-9.8	27.3	48.5	24.2

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.

- Our recession fear diminished and business is better.

- We are concerned with compliance.

- We are still concerned with CECL [current expected credit loss accounting standards].

- We feel the presidential election will cause business customers to pause mid-year expansion until the election creates greater policy clarity for the next few years. Meanwhile, Texas continues to expand, with a housing shortage, which we feel will support real estate lending throughout the year—probably faster in the first half, with greater uncertainty in the second causing some slowing of growth in second half.

- We don’t have great areas of concern. We are experiencing normal seasonal lending patterns (real estate down, consumer unsecured up) along with reduced uncertainty from recent FOMC [Federal Open Market Committee] communications and overall economic trends. We are cautiously optimistic heading into 2020, with longer-term interest in the future of auto lending and in fintech regulations.