



October 17, 2024

CDIAC Members in Attendance:

Byron Bexley, American Bank (Council Chair)

George Cummings III, Progressive Bank

Gail Enda, American Airlines Federal Credit Union

Isaac Johnson, TDECU

Sushil Patel, State Bank of Texas

Deborah Romero, First National Bank

Raymond Rust III, Commercial Bank of Texas, N.A.

Max Villaronga, Raiz Federal Credit Union

Federal Reserve Bank of Dallas Directors in Attendance:

Robert Hulsey, American National Bank of Texas

Federal Reserve Bank Staff in Attendance:

Lorie Logan, Robert Triplett, Emily Greenwald, Alison Schmidt, David Teeples, Rebecca Zarutskie, Donald Bowers, Christine Docherty, Lorenzo Garza, Amy McGregor, Pia Orrenius, Tim Stearns, Kseniya Benderskaya, Amy Chapel, Meeoak Cho, Marvin Dagg, Ally Hoffman, Nicki Korb, Armida Riojas, Karen Smith, Jody Stanley, Stephen Clayton, Reid Cook, Rebin Kawani, Kedra Lilly, Kristy Nutt, Seth Dunbar, Kelly Klemme, Ozge Ozden, Jane Santa Cruz, Mariam Yousuf

Agenda:

After the meeting was called to order, and introductory remarks were made, council members received updates on the economy and banking conditions from Federal Reserve staff. The meeting then transitioned to a roundtable discussion during which Council members shared their views on banking and economic conditions and related topics.

Administrative:

The meeting was called to order at 9:00 AM. Bank senior leadership made introductory remarks.

Banking Conditions Update:

Emily Greenwald, senior vice president, delivered a presentation on banking conditions to the Council. Subsequent discussion centered on the methods community financial institutions are using

to calculate Allowance for Credit Losses and underlying trends that have contributed to a decline in loan growth for credit unions over recent quarters.

Council members were asked to share their views on the following topics as part of the roundtable discussion:

Economic Conditions:

Council members primarily reported continued stable to positive economic growth across the 11th District. Council members reported that the labor market remains strong and unemployment low; and that some industries continue to struggle to attract and retain qualified talent. Further discussion ensued regarding consumer spending, where council members noted that it remains strong, especially on travel; although this led to discussion about whether this spending was outpacing income, leading to an accumulation of consumer debt. Members opined that the Fed's rate cut in September has led to some consumers moving off the sidelines. Along the Gulf Coast, further discussion ensued regarding dissipating concerns about the dockworkers strike and that any negative impacts are expected to remain localized to the ports. Concerning immigration, members discussed the value immigration provides to the regional economy and services community depository institutions can offer to connect recent immigrants to the banking system. Along the U.S.-Mexico border, council members observed that crossings have dropped due to the introduction of harsher penalties and increase uptake of an app to schedule appointments for asylum cases, which has led to the closure of one of the largest shelters in El Paso because of a lack of demand. Council members noted that the El Paso region has also seen an increase in demand for skilled labor in the aerospace, engineering, and advanced manufacturing fields, and that this demand is partially driven by re-shoring activity in the region. Finally, some members reported that the Boeing strike is having a negative impact on airlines on passenger capacity due to the slower delivery of new aircraft, which could have broader implications on the economy, given the number of positions that serve the air transport industry.

Small Businesses and Commercial Lending:

Council members discussed that small business credit availability and loan demand in the 11th District has been stable since the last meeting. Further discussion ensued regarding the overall increase in commercial loan demand and prepayments on commercial loans.

Commercial Real Estate Lending:

Council members indicated that demand for Commercial Real Estate (CRE) loans was steady to moderately weaker when compared to the spring season, although loan performance has largely met expectations. Concerning lending to the hospitality sector, members reported that transaction



volume has been low, likely due to difficulty forecasting the path of interest rates, but is showing some signs of picking up. Some members expressed that the pace of business and group travel has increased, benefitting mid- to upper-tier hotel chains, and that conditions are expected to stabilize in the next year or two. Discussion ensued on the level of classifications seen in CRE loans, how contingent liabilities may be contributing to this, and the rate of payoffs on these loans. Members also reported that they have seen increased demand for longer amortization periods on CRE loans, and that more credit unions appear to be entering the commercial real estate market.

Residential Mortgage Lending:

Council members reported that residential mortgage demand remains steady to moderately weaker over the previous period, and that demand is largely being driven by in-migration to the area tied to business growth. Discussion ensued regarding observations that the region continues to suffer from a shortage of housing, which is driving prices higher. Members reported that speculative home building activity remains very low, likely due to the interest rate environment, but some activity has been seen among custom home builders. Finally, members noted that refinance activity remains low.

Consumer Lending:

Council members discussed that the demand for consumer loans has remained steady. However, Council members were split on loan performance, with half indicating it has remained stable and half reporting moderate weakness. Members provided commentary on increasing delinquencies on auto loans and are seeing more instances of consumers being underwater on their auto loans due to the inflated prices they paid for cars during the pandemic.

Deposits:

Council members presented mixed perspectives regarding deposits. Some indicated that deposits had remained stable, despite reducing deposit rates ahead of the rate cut by the Fed in September. Others reported that they are seeing an increase in deposit competition and are seeing movement in deposits where historically there had been none. Discussion ensued regarding how some community depository institutions have benefited from increased deposit competition as some larger banks have reduced their deposit rates in response to the Fed's rate cut due to index arrangements. Further discussion ensued regarding how banks and credit unions are also considering short-term deposit products, such as short-term share certificates or NOW accounts, in response to the interest rate environment and anticipated path of rates.

Impact of Interest Rate Reduction:

Council members were asked to share their observations of the impact of the Fed's rate cut on their customers. Members reported that the decrease in rates has complicated loan pricing and has created a "wild west" environment regarding loan pricing. Member discussion described how some

customers have moved off the sidelines in response to the rate decrease, potentially signaling pent-up demand; while other customers may have unrealistic expectations on what the neutral rate will be, believing that interest rates will return to the extremely low level seen in recent years. Members reported that bankers are having to educate their customers on the potential path of rates. Discussion ensued on the Fed's forward guidance communication and its effectiveness among consumers. Council members agreed that consumers are more focused on the impact these actions will have on their finances.

Fraud:

Fraud was identified as a top risk facing community depository institutions by Council members. Discussion ensued regarding fraud-related expenses, including both losses and investment in talent and technology to combat it, which are having a material impact. Council members reported that bad actors are increasingly porting phone numbers to mimic those used by trusted parties to steal funds, leading members to suggest that telecom firms be enlisted to combat this tactic. Council members further identified check washing and title and wire fraud as additional significant issues. Services like positive pay can help significantly, along with Artificial Intelligence-based tools that can identify potentially fraudulent items.

The Discount Window and Other Sources of Contingency Liquidity

Discussion ensued on the discount window and the Federal Home Loan Bank (FHLB) as sources of contingent liquidity. Council members provided feedback on the discount window, including the Fed requiring the pledging of specific call report line items for collateral versus the FHLB, which requires a blanket pledge, along with the use of Discount Window Direct, which can be cumbersome. Members suggested that the Fed investigate a faster and more efficient method to move collateral back and forth and consider rebranding the window to cut down on stigma. Concerning stigma, members noted that this was only an issue among some banks' respective boards of directors and that customers were not concerned. Regarding the Bank Term Funding Program, members noted that some had encountered resistance from regulators to using the facility.

Adjournment

The meeting was adjourned at 12:00 pm CT.