April 2018

Data for this report were collected March 20–28, and 71—10 credit unions and 61 banks— financial institutions responded.

Over the past six weeks, the Eleventh District financial sector has continued to strengthen and at a faster rate compared with the previous period. Banking leaders indicated that both loan volume and loan demand continued to expand at a faster pace over the past six weeks. The loan volume index was 18.3, up from 13.3. The loan demand index moved up to 14.3 from 5.9.

While the survey suggests that nonperforming loans decreased over the past six weeks overall, residential real estate loans continued to experience an increase in nonperforming loans over the past six weeks. Loan pricing continued to increase but at a slower pace, with an index of 36.3, down from 39.4. Overall, credit standards and terms continued to tighten, with most of the tightening being seen in commercial real estate and residential real estate loans. General business activity expanded over the past six weeks and at a faster rate compared with the previous period, with a reading of 40.8, up from 37.7.

Increases in loan volume were seen across all loan categories, with the exception of consumer loans which experienced a decrease over the past six weeks.

Core deposit volumes continued to expand over the past six weeks and at a faster rate. Cost of funds also continued increasing and at a quicker pace, up to 75.7 from 65.3. According to respondents, net interest margins have continued to increase and at a quicker rate. Noninterest income decreased over the past six weeks for the first time since the November 2017 report, with an index reading of –5.7, down from 5.8.

The outlook for the Eleventh District financial sector is slightly less optimistic compared with sentiments six weeks ago. Expectations for total loan demand point to expansion but at a slower rate compared with the previous period; nonperforming loans are still expected to decline six months from now but also at a slower pace. Expectations for general business activity are still optimistic, with an index value of 51.4, slightly down from 59.5.

Next Release: May 30, 2018

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	18.3	13.3	45.1	28.2	26.8
Loan demand	14.3	5.9	38.6	37.1	24.3
Nonperforming loans	–5.8	–4.7	7.4	79.4	13.2
Loan pricing	36.3	39.4	43.5	49.3	7.2

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–7.8	–12.1	6.3	79.7	14.1

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	13.8	4.8	29.2	55.4	15.4
Nonperforming loans	–1.5	–5.1	4.8	88.9	6.3

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–7.7	–8.1	3.1	86.2	10.8

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	19.7	10.9	40.9	37.9	21.2
Nonperforming loans	–3.1	–8.5	1.6	93.8	4.7

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–9.1	–7.8	4.5	81.8	13.6

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	17.3	33.3	50.0	16.7
Nonperforming loans	1.6	1.8	3.3	95.0	1.7

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–8.3	–3.4	1.7	88.3	10.0

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	–6.0	1.6	15.2	63.6	21.2
Nonperforming loans	–9.2	6.6	0.0	90.8	9.2

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–6.1	–9.7	0.0	93.9	6.1

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	18.6	11.6	38.6	41.4	20.0
Cost of funds	75.7	65.3	78.6	18.6	2.9
Net interest margin	10.0	7.3	35.7	38.6	25.7
Noninterest income	–5.7	5.8	8.6	77.1	14.3

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	45.6	52.2	58.8	27.9	13.2

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	–13.1	–14.5	7.2	72.5	20.3

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	40.8	37.7	50.7	39.4	9.9
Six months from now	51.4	59.5	60.0	31.4	8.6

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.

- Competition for both new business and retaining existing business has notably increased with consequential negative implications for both loan pricing and structure. While measures of economic health being reported would suggest the economy is on sound footing, this is not presently being confirmed through demand for credit. In fact, the lack of quality lending opportunity is creating a somewhat irrational response from lenders–inappropriate credit structures and arguably ridiculous loan pricing–especially if sensibly considered on a risk/reward scale. Banks appear to be giving away the benefits received from tax reform as well as much of the potential net interest margin pickup through Federal Open Market Committee rate actions.
- Conditions are improving in the oilfield, and drilling activity is increasing. Timber will improve as prices increase.
- We are concerned about Federal Reserve rate policy.
- The flat yield curve is negatively affecting net interest margins.
- I wonder how the real estate market will be impacted by the increase and expected increases in interest rates. I also wonder how long banks and credit unions will be able to delay increasing their deposit rates.
- There are inadequate funds coming into the area to handle Hurricane Harvey recovery. Rising rates are taking a small toll and causing greater consternation. Economic activity is slightly reduced due to prolonged recovery and rising rates.
- The increasing interest rate environment could put a temporary squeeze on net interest margins until assets can price adjust. Increasing interest rates have driven bond prices down, adding to reluctance to sell at a loss for liquidity.
- Loan demand appears to be increasing slightly for our institution, particularly in the real estate category. We are seeing competition among institutions in our area for deposits, and several competitors are raising deposit interest rates at a moderate pace. Management has taken notice of the rising rate environment we are in and is starting to adjust the bank's portfolio accordingly. The bank is somewhat concerned about having three potential rate hikes this year as this appears to be a more aggressive strategy than the bank had planned for.
- Mortgage nonperforming loans are up due to Harvey; many customers purchased mortgages from Quicken, and others allowed borrowers to not pay for 90 days, but they then had a balloon payment to catch up on. We are seeing the impact of that in our purchased consumer mortgage portfolio. We are preparing for a recession in 2020 and are tightening credit standards appropriately.

- The effort and time required to address the ever-increasing regulatory compliance matters divert management and line personnel from the primary goal of a community bank. Additionally, the increased cost of complying with ever-increasing regulatory compliance matters is a drag on earnings.
- There is some optimism in the market due to tax reform.
- We are seeing uncertainty about how new tariffs will impact Texas businesses.
- We are concerned about weakening credit and pricing standards from both smaller and larger banks.
- Our financial institution needs reduced burden from Home Mortgage Disclosure Act and Community Reinvestment Act compliance.