Federal Reserve Bank of Dallas

September 2018

Data for this report were collected Aug. 14–22, and 60 financial institutions—eight credit unions and 52 banks—responded.

Over the past six weeks, the Eleventh District financial sector has continued to strengthen and at a moderately faster pace than the previous period. The loan demand index moved up slightly to 33.3 from 32.8, and the loan volume index was 38.3, up from 34.3.

Survey respondents suggest that the index of nonperforming loans decreased but at a much slower pace over the past six weeks overall, with most of the decline seen in commercial real estate (CRE) loans. Loan pricing increased at a slower pace, with the index at 46.7, down from 63.1. Overall, credit standards and terms continue to tighten, mostly in commercial and industrial and CRE loans. Survey respondents indicated that general business activity has expanded over the past six weeks at a faster clip than the previous period, with a reading of 48.4, up from 45.2.

Increases in loan volume were seen across all loan categories, but only CRE and consumer loan volumes expanded at a slower rate compared with the last period. All other loan categories experienced growing loan volumes and an increasing rate relative to the previous period.

According to respondents, the indexes of core deposit volumes and net interest margins point to expansion at a faster pace over the last six weeks. Cost of funds and noninterest income have all continued to grow as well over the past six weeks but at a slower rate, according to survey respondents.

The outlook for the Eleventh District financial sector is slightly more optimistic than it was six weeks ago. Expectations for total loan demand and general business activity six months from now are pointing toward continued expansion. Nonperforming loans are expected to continue declining over the next six months but at a decreasing rate.

Next Release: Oct. 24, 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	38.3	34.3	50.0	38.3	11.7
Loan demand	33.3	32.8	45.0	43.3	11.7
Nonperforming loans	–17.8	–5.7	3.6	75.0	21.4
Loan pricing	46.7	63.1	55.0	36.7	8.3

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–9.4	–13.7	1.9	86.8	11.3

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	26.7	13.9	32.1	62.5	5.4
Nonperforming loans	–9.8	–8.0	2.0	86.3	11.8

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–10.5	–12.1	0.0	89.5	10.5

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	32.1	35.9	46.4	39.3	14.3
Nonperforming loans	–15.1	–14.0	0.0	84.9	15.1

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–7.3	–14.9	0.0	92.7	7.3

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	34.0	31.3	47.2	39.6	13.2
Nonperforming loans	–8.2	–4.9	0.0	91.8	8.2

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–1.9	–7.9	1.9	94.3	3.8

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	1.8	7.0	15.8	70.2	14.0
Nonperforming loans	–9.2	–2.9	7.2	87.0	11.1

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–5.6	–2.8	0.0	94.4	5.6

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	25.5	1.4	45.8	33.9	20.3
Cost of funds	86.4	87.7	86.4	13.6	0.0
Net interest margin	20.4	6.8	40.7	39.0	20.3
Noninterest income	8.5	15.3	15.3	78.0	6.8

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	55.0	46.6	58.3	38.3	3.3

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	–11.8	–26.0	6.8	74.6	18.6

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	48.4	45.2	51.7	45.0	3.3
Six months from now	40.7	38.3	47.5	45.8	6.8

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 time deposits is intensifying in our market, especially from out-of-market institutions (of all sizes) that are advertising their rates in our market.
- Competition from credit unions is increasing. Margins are being compressed as a result.
- We continue to be concerned about regulatory burden, especially affecting real estate loans.
- Continued and evolving cybersecurity threats are negatively affecting how we use technology to interact with our customers. We want to use technology to make it easier and more efficient to do business between us and the consumer, but potential cybersecurity threats are making it difficult to do so.
- Core deposits continue to be a concern for all community banks. Another concern would be the ability for community banks to stay ahead of technology advancements and the directions they take in order to stay competitive. The biggest concern (also an ongoing concern) would be fraud and cyberattacks on our systems and our customers, which would be a huge detriment on the financial industry.
- Our ability to close one to four residential or any TRID loans has created longer closing times for the consumer. I would like to suggest that the Federal Reserve engage in a survey that would test the consumer's feelings about the disclosures and the benefit perceived by the consumer versus the increased time to close.
- Overall regulatory requirements, best practices, etc., have expanded to the point where community banks are being operated for regulatory compliance rather than customer service.
- Overall, there just does not seem to be much optimism in any of our markets ... not negative necessarily but mostly a "wait and see" attitude on the economy.
- People and businesses are confident but cautious. Uncertainty has created conflicting feelings.
- Regulations are the top concern on our radar.
- We are concerned about tariffs and risks of an inverted yield curve.
- The level of our business activity is driven by oil and gas exploration and related activity. The price of oil is a key factor and leading indicator of the level of economic activity in our market area. The political uncertainty in the world is a concern.
- We are seeing increased competition for deposits, with consumers starting to expect higher rates being paid on deposits, particularly in the certificate-of-deposit area. Managing our margin in the upcoming months will be our focus.