Federal Reserve Bank of Dallas

January 2019

Data for this report were collected Dec. 18–26, and 60 financial institutions—12 credit unions and 48 banks—responded.

Over the past six weeks, the Eleventh District financial sector has shown some signs of slowing. According to respondents, loan volume declined over the past six weeks, with the index moving from 20.9 to –5.0. Loan demand, however, held steady over the past six weeks, moving from an index of –1.5 to 0.

Survey respondents suggest that nonperforming loans increased over the past six weeks, with the index rising from –8.0 to 5.3. The overall increase in nonperforming loans was driven by commercial real estate and residential real estate loans. Loan pricing increased, with the index at 54.2, up from 50.0. Overall, credit standards and terms tightened, and tightening was seen across all loan categories. Survey respondents indicated that general business activity has expanded over the past six weeks but at a slower rate than the previous period, with a reading of 6.7, down from 23.9.

Declines in loan volume were seen across all categories with the exception of commercial real estate loans. However, commercial real estate loan volume did increase at a slower rate according to respondents, with the index falling from 18.9 to 1.9.

According to respondents, the indexes of cost of funds and noninterest income all pointed to expansion but at a slower pace over the last six weeks. Core deposit volumes increased at a faster clip. Net interest margins went from declining last period to increasing over the past six weeks.

The outlook for the Eleventh District financial sector is less optimistic than it was six weeks ago. Expectations for total loan demand six months from now are pointing toward continued expansion but at a slower rate. Nonperforming loans are expected to continue declining over the next six months but at a slower pace. For the first time on record, respondents are projecting a decline in general business activity over the next six months.

Next Release: March 6, 2019

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	–5.0	20.9	25.0	45.0	30.0
Loan demand	0.0	–1.5	28.8	42.4	28.8
Nonperforming loans	5.3	–8.0	19.3	66.7	14.0
Loan pricing	54.2	50.0	54.2	45.8	0.0

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–7.7	–11.5	0.0	92.3	7.7

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	–5.9	3.3	19.6	54.9	25.5
Nonperforming loans	–8.3	–8.9	2.1	87.5	10.4

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–6.0	–10.3	0.0	94.0	6.0

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	1.9	18.9	29.4	43.1	27.5
Nonperforming loans	4.1	−3.7	8.2	87.8	4.1

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	−8.0	−12.1	0.0	92.0	8.0

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	−12.0	6.8	20.0	48.0	32.0
Nonperforming loans	2.1	−7.3	6.3	89.6	4.2

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	−10.0	−3.5	2.0	86.0	12.0

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	–3.6	7.8	17.5	61.4	21.1
Nonperforming loans	–1.8	–1.7	5.5	87.3	7.3

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	–8.8	–4.9	0.0	91.2	8.8

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	8.9	47.5	30.5	22.0
Cost of funds	76.6	79.1	78.3	20.0	1.7
Net interest margin	11.6	–3.0	33.3	45.0	21.7
Noninterest income	8.4	9.1	16.7	75.0	8.3

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	10.0	25.7	35.0	40.0	25.0

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	–5.0	–19.7	13.3	68.3	18.3

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	6.7	23.9	25.0	56.7	18.3
Six months from now	–18.7	23.9	18.6	44.1	37.3

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.

- I am concerned about the CECL [current expected credit loss] being eliminated for smaller nonprofit financial institutions.
- Compliance and regulations continue to be a major concern.
- I am concerned that increases in the target rate for fed funds will negatively and unnecessarily impact the economy.
- Currently, significant decisions are being vetted extensively at our institution regarding the effect of stock market conditions and increasing recession concerns.
- General uncertainties in world markets, U.S. trade relations, the price of oil, low unemployment and interest rates are creating a difficult environment to operate in. Cost of funds are beginning to rise among local community financial institutions but not at large banks. This is eroding some of the financial advantages local community financial institutions used to have over larger banks.
- I am a bit concerned about the recent downward trend of the stock market and the potential for negative repercussions of international trade tariffs.
- I feel like regulatory "best practices" and "guidance" are code speak for "required." The regulatory environment raises the cost of operating a small community bank to a level that make the operations only marginally profitable.
- We are concerned over the current rising interest rate environment.
- We are feeling uneasy due to parallels with 2008 suggesting that a recession may begin in first quarter 2019 rather than 2020 or 2021. Parallels include: increases in mortgage rates impacting homes sales with pending home sales down for months in a row; applications for jobless benefits increased to a six-month high in recent employment report; and price of oil at $76 per barrel earlier in the year has now dipped below $50 per barrel as global activity slows.
- We expect loan demand to remain strong in 2019, and if the stock market continues to struggle, we are strongly positioned to allow for additional deposit growth as well.
- We see the economy slowing from its pace of the prior couple of years. This is evident in the area of construction and sale of single-family residential homes.