Banking Conditions Survey

Federal Reserve Bank of Dallas

October 2019

Data for this report were collected Sept. 17–25, and 48 financial institutions—42 banks and six credit unions—responded.

The Eleventh District financial sector has shown some signs of stronger growth over the past six weeks, according to survey respondents. The index for loan demand rose from 15.5 to 29.8, while the index for loan volume rose from 20.7 to 29.8.

Survey respondents indicated that loan volume grew at a faster clip for residential real estate loans. Volumes in the commercial and industrial (C&I) loan category edged up, while the consumer loan volume index fell from -1.8 to -6.6. The commercial real estate loan volume index remained steady at 19.2.

Nonperforming loans increased slightly over the period, with the index rising from -1.8 to 2.1, although there was variance by loan type.

Loan pricing declined further, with the index reaching its lowest level in the three-year history of the survey after falling from -31.0 to -42.6. Credit standards and terms tightened in all loan categories, according to survey respondents.

Survey respondents indicated that general business activity has expanded at a faster pace since the previous survey, with the index pushing further positive from 7.0 to 17.0.

According to respondents, core deposit volumes increased much faster over the past six weeks, with the index jumping from 5.3 to 27.7. The net interest margin index plunged to the lowest level in the three-year history of the survey, to -40.4 from -10.6. Respondents indicated that cost of funds and noninterest income continued to increase, as both indexes remained positive.

The outlook for the Eleventh District financial sector is more optimistic than it was six weeks ago. Expectations for total loan demand six months from now point toward some growth, with the index rising from 0 to 13.0. The six-months-ahead nonperforming loan index held steady at 8.7. Finally, expectations for general business activity remain neutral, with the index coming in at 0.

Next Release: November 27, 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	29.8	20.7	48.9	31.9	19.1
Loan demand	29.8	15.5	44.7	40.4	14.9
Nonperforming loans	2.1	-1.8	21.7	58.7	19.6
Loan pricing	-42.6	-31.0	2.1	53.2	44.7

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-19.0	-11.8	0.0	81.0	19.0

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	2.5	-9.5	17.1	68.3	14.6
Nonperforming loans	-2.6	-7.8	12.8	71.8	15.4

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-9.8	-7.7	0.0	90.2	9.8

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	19.2	19.2	32.7	53.8	13.5
Nonperforming loans	8.0	8.0	10.0	88.0	2.0

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-12.5	-5.8	5.0	77.5	17.5

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	32.5	19.6	45.0	42.5	12.5
Nonperforming loans	-7.9	0.0	2.6	86.8	10.5

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-2.6	3.9	0.0	97.4	2.6

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	-6.6	-1.8	13.0	67.4	19.6
Nonperforming loans	0.0	1.9	11.4	77.3	11.4

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-4.4	-3.6	0.0	95.6	4.4

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	27.7	5.3	46.8	34.0	19.1
Cost of funds	2.1	5.2	34.0	34.0	31.9
Net interest margin	-40.4	-10.6	8.5	42.6	48.9
Noninterest income	8.5	7.1	21.3	66.0	12.8

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	13.0	0.0	30.4	52.2	17.4

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	8.7	8.6	26.1	56.5	17.4

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	17.0	7.0	29.8	57.4	12.8
Six months from now	0.0	-19.3	25.5	48.9	25.5

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.

Trade Concerns
- Several customers are expressing concern about the uncertain business climate we are currently in. Specifically, if the U.S. and China trade war will have an effect on their business and the overall economy. It seems like an uncertain Fed [Federal Reserve] in regard to interest rate cuts will make this a tricky and difficult upcoming budget season.

Political Concerns
- The public tension and comments by the president about the Federal Reserve creates unnecessary negative attention and uncertainty.

Economic Concerns
- Seasonal motivation by auto dealers to move the prior year's inventory has resulted in unreasonable financing impacting auto loan demand. For real estate, rate decreases have increased volume, but continued rate decreases will adversely impact us as a portfolio lender. Overall economic and geopolitical uncertainty is challenging the ability to reliably predict future trends.
- The impacts of the Fed rate changes on net interest margin.
- Macro and world pressures.
- The interest rate environment is hurting community banks.
- More caution as a result of recession concerns.

Banking Concerns
- The largest use of a community bank’s resources (personnel's time as well as nonpersonnel expense) is devoted to complying with the laws, regulations and "best practices" that are applicable to community banks.
- Slowing loan demand.
- We are still not happy with CECL [current expected credit losses] and small credit unions needing to comply when we are not part of any problem.
- We were outbid by 50 basis points for a local municipal loan by an out-of-market larger “big” bank. Regulatory expense burdens are hitting smaller community banks more than the larger “big” banks, creating a competitive imbalance.