



March 2020

Data for this report were collected Feb. 5–12, and 56 financial institutions—48 banks and eight credit unions—responded.

The Eleventh District financial sector shows continued expansion, according to respondents to the most recent Banking Conditions Survey. The indexes for total loan volume and loan demand fell but remained positive, indicating growth at a slightly slower pace than the previous period.

Loan volume growth was broad based across most lending categories. Residential real estate continued to lead the expansion, while the commercial and industrial (C&I) loan volume declined; the C&I loan volume index reached its lowest level in the three-year history of the survey at -14.6.

Nonperforming loans declined overall, with the indexes falling in all categories except commercial real estate loans. The sharpest decline came from C&I loans, where the nonperforming index plummeted from 19.2 to -8.3.

Loan pricing continued to erode. The index was -39.3, marking its fifth consecutive negative reading. The majority of respondents reported no change from the previous period in credit standards and terms across categories.

Survey respondents indicated accelerated growth in general business activity, with the index up 9.8 points at 25.0.

Core deposit volume growth normalized over the six-week period, with an index reading of 19.6, down from a record high of 57.6 in the previous period. Net interest margins continued to weaken as the index fell to -19.6—the ninth consecutive period of decline. The cost of funds index remained negative, reaching the lowest point in the three-year history of the survey. The noninterest income index dropped dramatically from 15.6 to -5.4.

The outlook for the Eleventh District financial sector has strengthened and is more optimistic compared with the previous six weeks. Expectations for total loan demand six months from now point toward growth, with the index rising from 24.2 to 39.3. Expectations for general business activity six months ahead improved, with the index reading increasing from 3.0 to 23.6.

Next Release: April 15, 2020



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	16.1	24.2	39.3	37.5	23.2
Loan demand	19.6	24.2	32.1	55.4	12.5
Nonperforming loans	-7.3	6.3	9.1	74.5	16.4
Loan pricing	-39.3	-30.3	1.8	57.1	41.1

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-8.0	-9.7	4.0	84.0	12.0

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	-14.6	10.7	14.6	56.3	29.2
Nonperforming loans	-8.3	19.2	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	-6.3	-10.7	0.0	93.8	6.3



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	7.8	17.2	23.5	60.8	15.7
Nonperforming loans	-2.0	-7.1	4.0	90.0	6.0

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-6.0	-10.3	6.0	82.0	12.0

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	27.5	17.9	37.3	52.9	9.8
Nonperforming loans	2.0	3.6	4.0	94.0	2.0

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	0.0	0.0	0.0	100.0	0.0



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	5.5	9.7	16.4	72.7	10.9
Nonperforming loans	-1.9	6.5	1.9	94.4	3.7

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-3.6	0.0	1.8	92.7	5.5

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	19.6	57.6	37.5	44.6	17.9
Cost of funds	-23.2	-21.2	8.9	58.9	32.1
Net interest margin	-19.6	-12.1	17.9	44.6	37.5
Noninterest income	-5.4	15.6	8.9	76.8	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	39.3	24.2	50.0	39.3	10.7

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	-5.5	3.0	9.1	76.4	14.5

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	25.0	15.2	30.4	64.3	5.4
Six months from now	23.6	3.0	38.2	47.3	14.5



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.

Economic Concerns

- I have concerns about the impact of the coronavirus on international trade and IMO 2020 on the cost and availability of diesel fuel and the ripple effect on the economy.
- I have concerns about the overall impact of the coronavirus and tensions with Iran. I am certainly cautious about 2020.

Political Concerns

- I am concerned about our state and national political situation for this year. This will have a huge impact on our economy. Cybersecurity is ever-changing and increasing and is such an unknown as to "what is next and when."

Banking Concerns

- There is increased pressure on loan rates. Competition for loans is intense and is forcing loan rates down.
- There is increased competition for deposits.

Regulatory Concerns

- Banking regulations and reportings continue to impede bank growth and efficiency. Governmental-related organizations provide an unfair advantage over banks.
- Still hoping for CECL [current expected credit loss] to go away for smaller institutions. I am spending as little as possible while I prepare and hired a firm to work the data and provide analysis—a waste of good money and time I don't have. We have five members delinquent over 60 days; the worst is 90 days.
- Current expected credit loss is still a concern for our bank. Knowing if we are following proper guidelines is difficult and complex. Also, we are having to draw extra time and resources from several departments to ensure compliance with CECL. It feels unfair that CECL puts a large extra burden on community banks where resources are already limited.
- Our market's economy is vibrant. One obscure federal regulation regarding the TRID [TILA RESPA Integrated Disclosure] interest rate calculation has been a thorn in our side and may cause the bank to pay restitution to the customers



affected even though the customers have not been overcharged or negatively affected.