

# **Preparing The President** ***Analyzing the Banking System***

**Economic Summit 2016**

***Kory Killgo***

*The opinions expressed in this presentation do not necessarily reflect the positions of the Federal Reserve Bank of Dallas or the Federal Reserve System.*

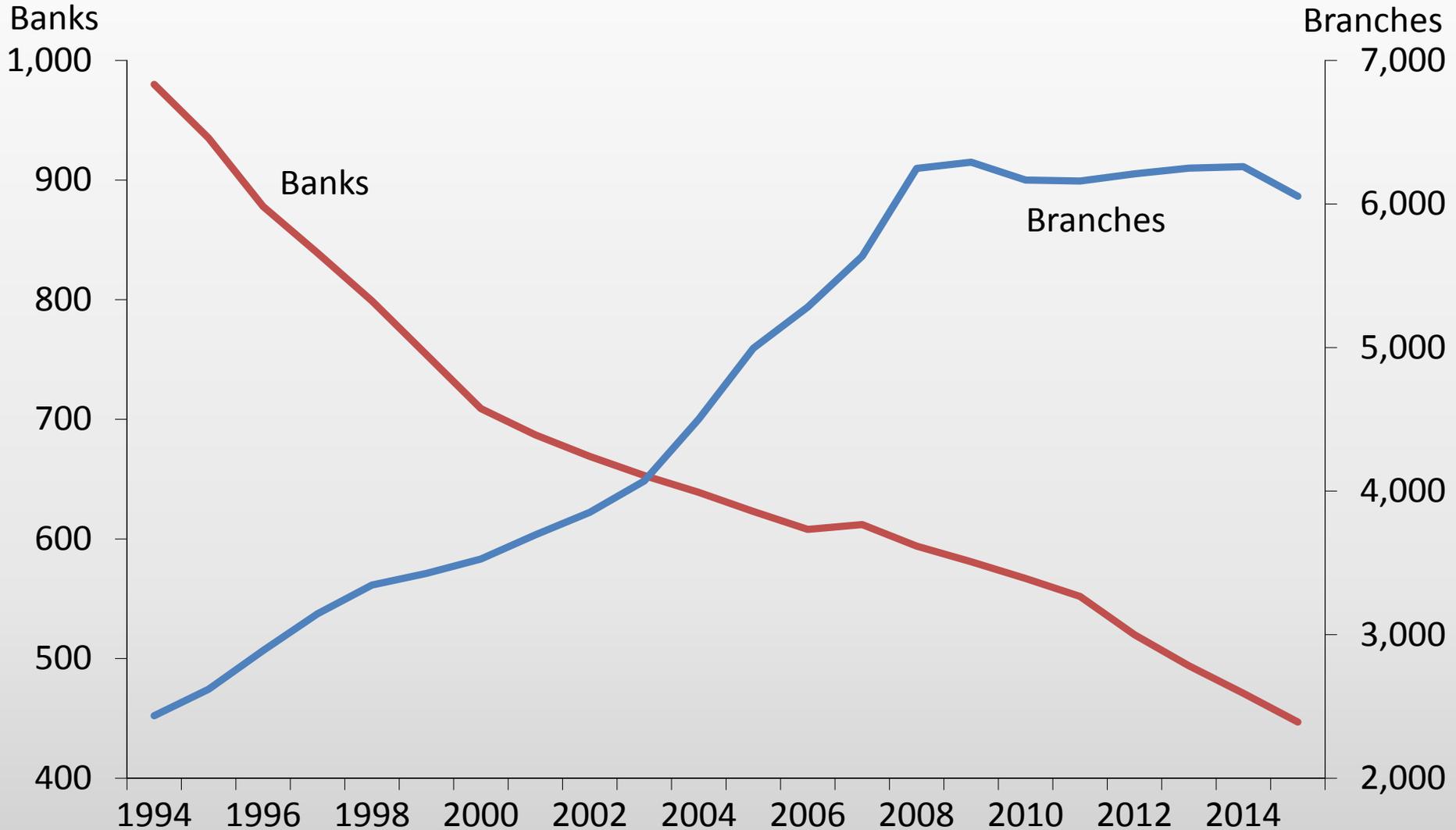
# Overview

- ▶ Modern banking in context
  - ▶ Consolidation
  - ▶ Concentration
  - ▶ Complexity
- ▶ Condition and performance
  - ▶ Key aggregate indicators
- ▶ Particular concerns
  - ▶ Commercial real estate
  - ▶ Energy lending

# Modern Banking in Context

# Consolidation

## Banks and Branches in Texas



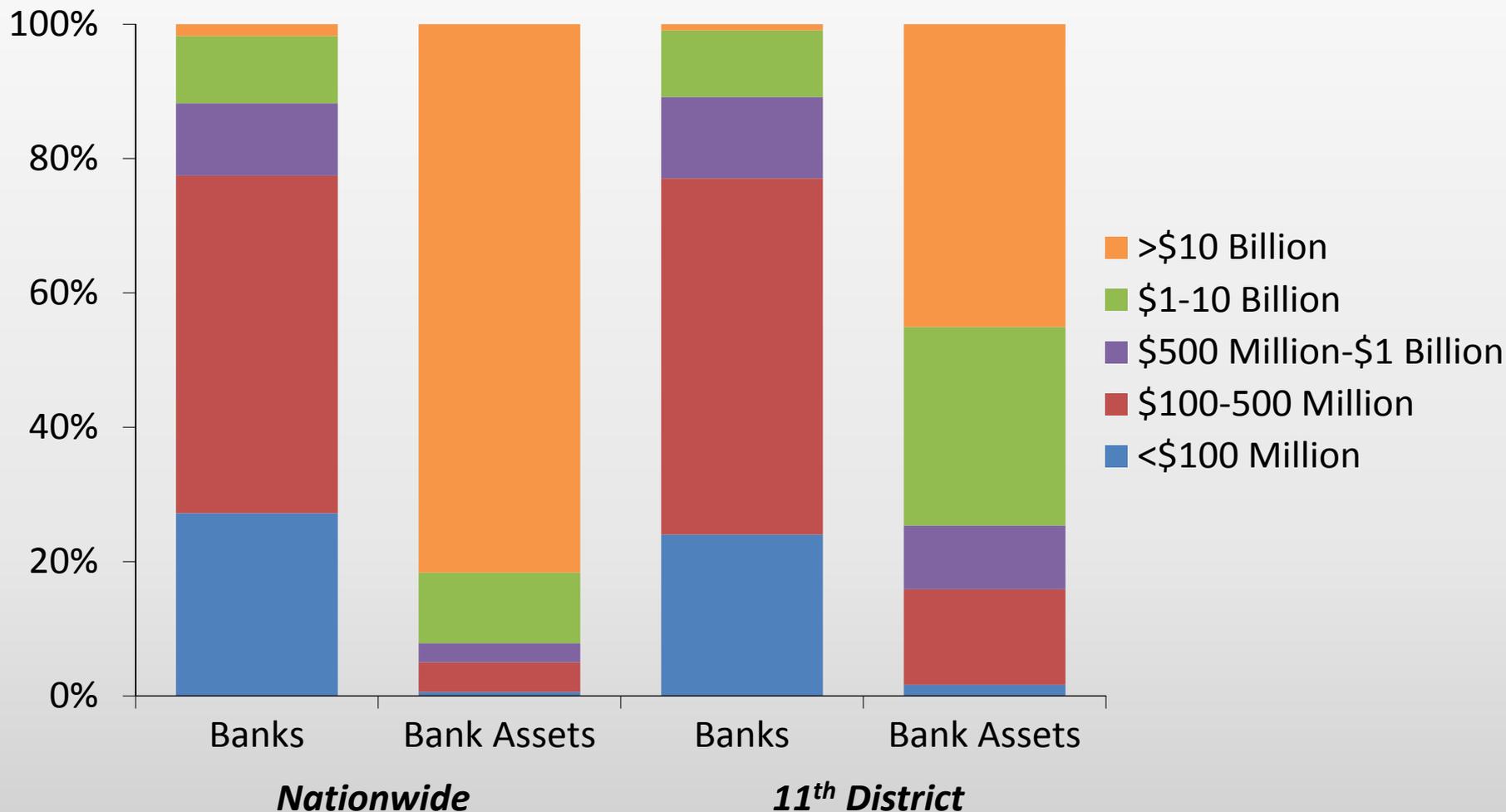
SOURCE: FDIC Historical Statistics on Banking and Summary of Deposits.

# Concentration

## Banks by Asset Size

*March 31, 2016*

Percent of Total



# Complexity

Financial reporting items:

1960: 241

2014: 1,955

Banking Laws:

Glass-Steagall (1933): 37 pages

Dodd-Frank (2010): 800+ pages



# Condition and Performance

# Condition and Performance

A safety and soundness rubric:

## CAMELS

Capital adequacy

Asset quality

Management

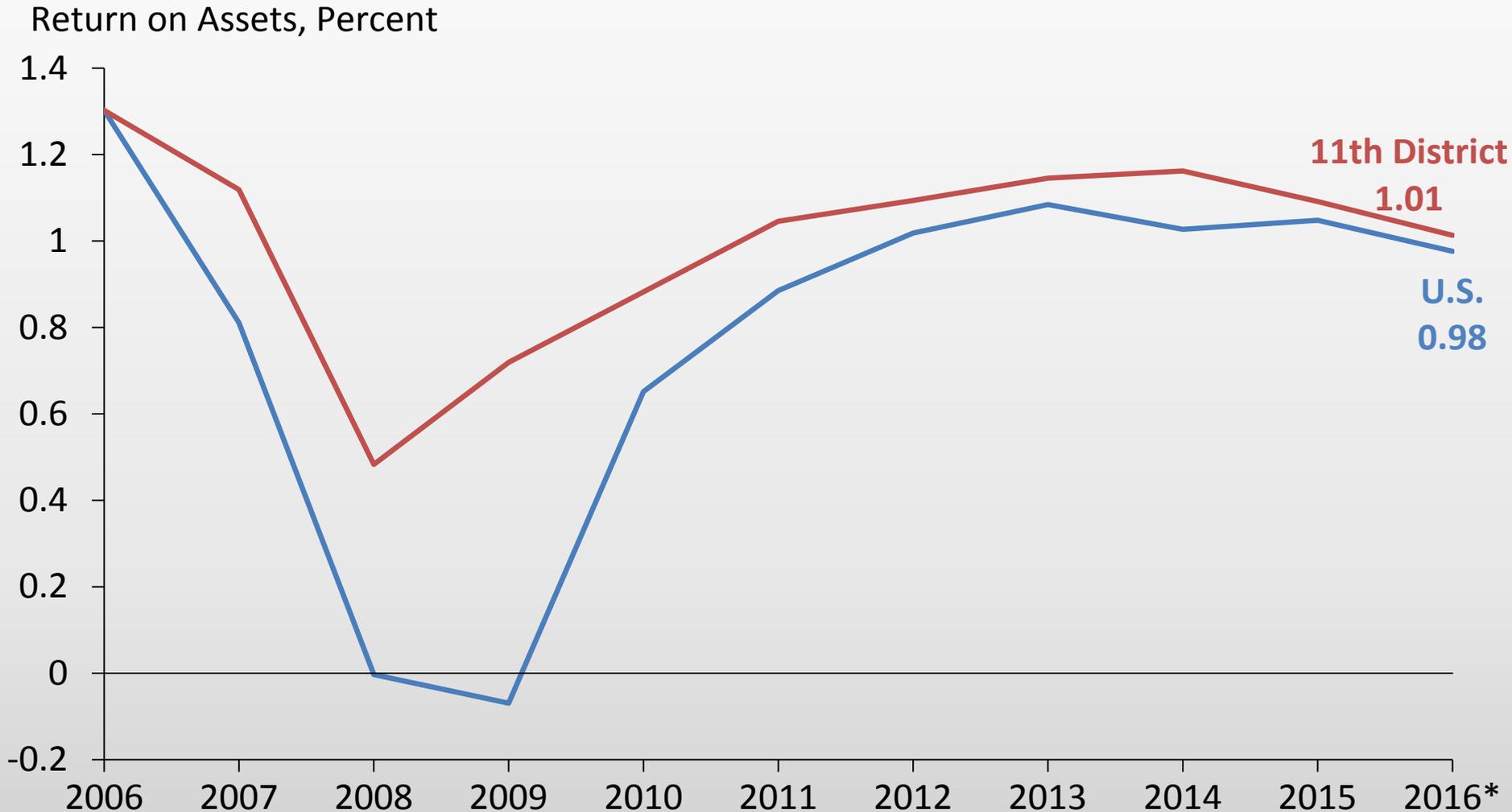
Earnings

Liquidity

Sensitivity to market risk

# Condition and Performance: Earnings

## Profitability Trending Down



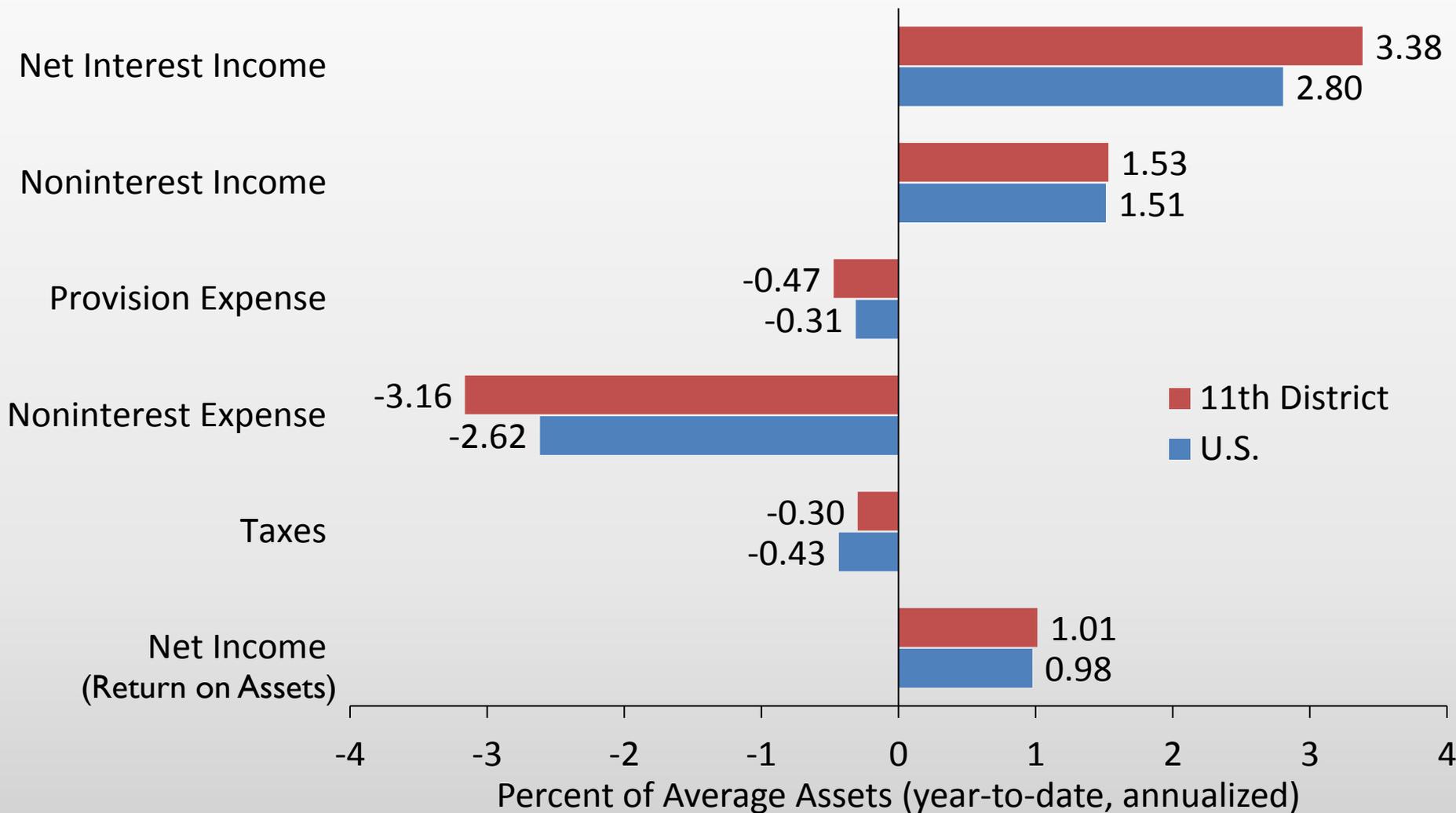
\*2016 data are as of March 31<sup>st</sup>, annualized.

SOURCE: Federal Financial Institutions Examination Council *Quarterly Report of Condition and Income*

# Condition and Performance: Earnings

## District Profitability Driven by Higher Net Interest Income

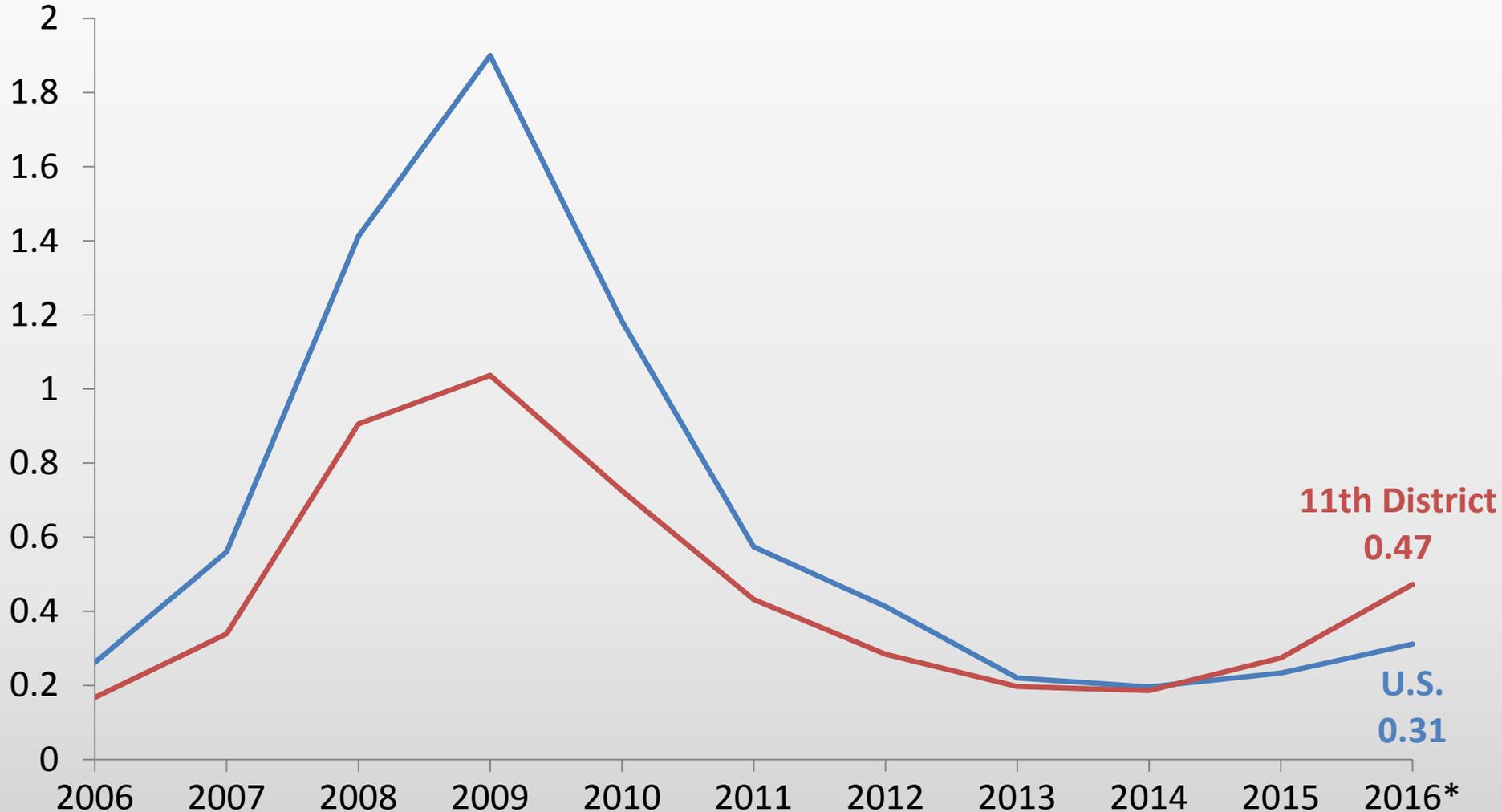
March 31, 2016



# Condition and Performance: Earnings

## Provision Expense Trend

Percent of Average Assets



\*2016 data are as of March 31<sup>st</sup>, annualized.

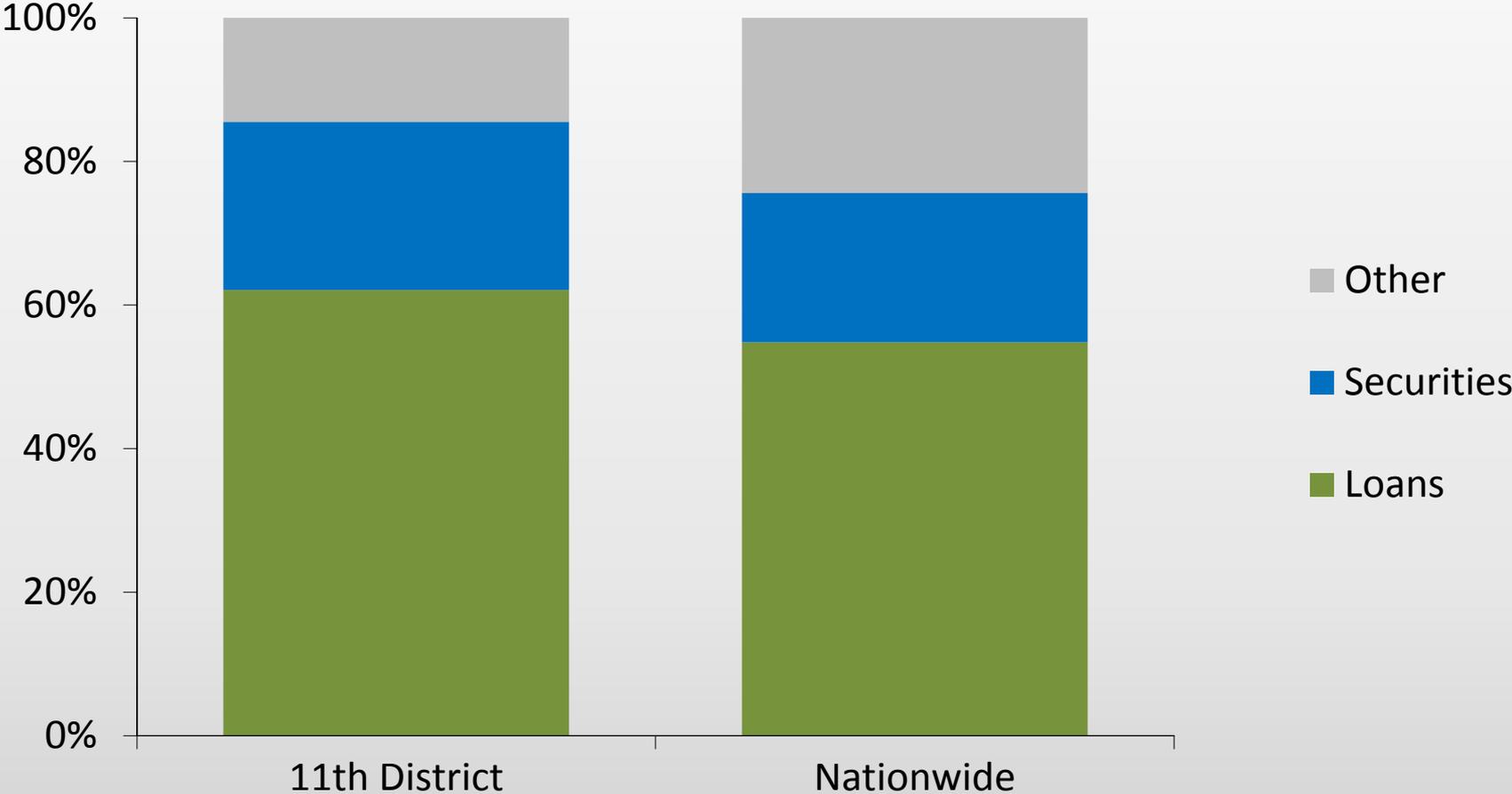
SOURCE: Federal Financial Institutions Examination Council *Quarterly Report of Condition and Income*

# Condition and Performance: Assets

## Assets by Type

March 31, 2016

Percent of Total



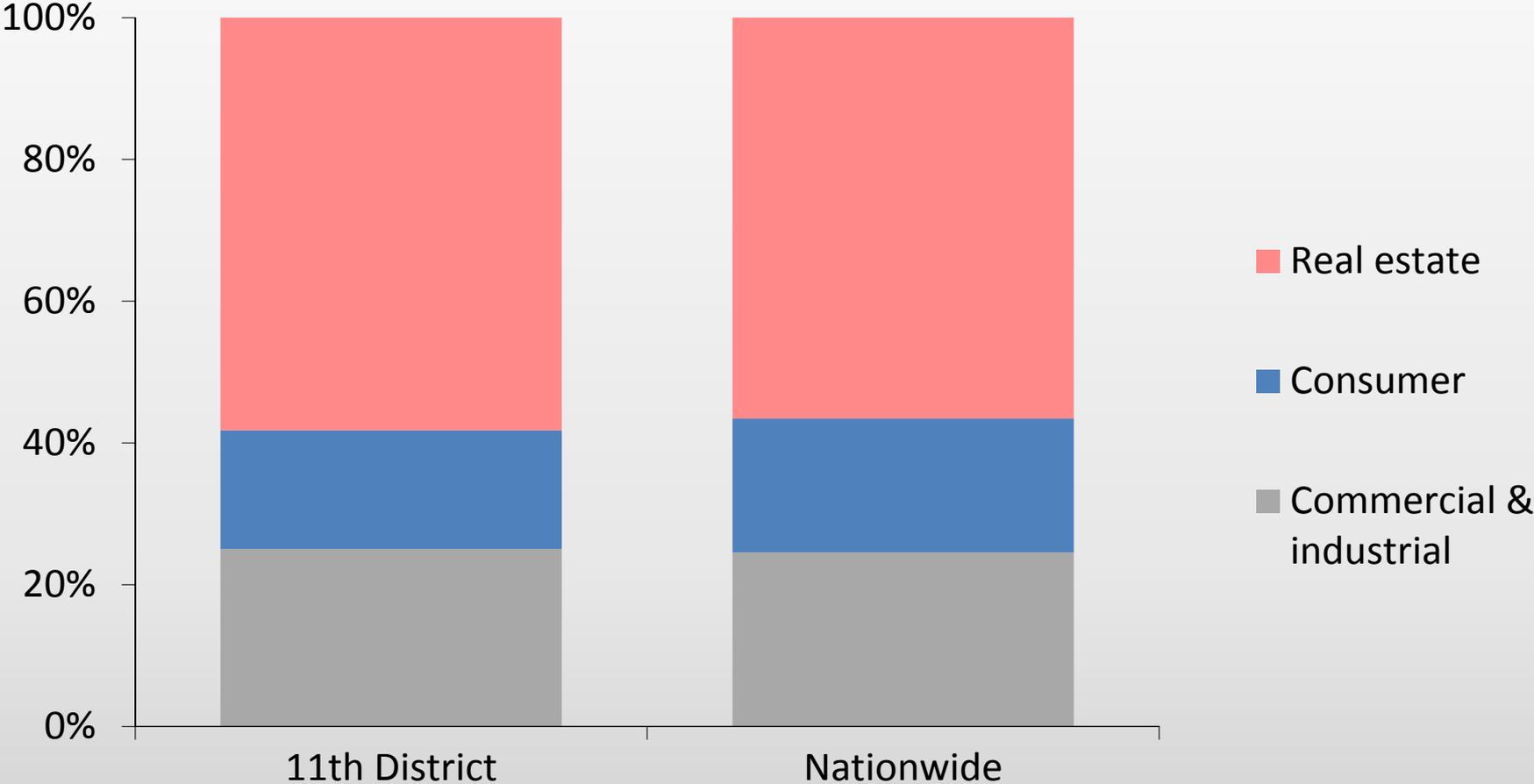
SOURCE: Federal Financial Institutions Examination Council *Quarterly Report of Condition and Income*

# Condition and Performance: Assets

## Loans by Type

*March 31, 2016*

Percent of Total



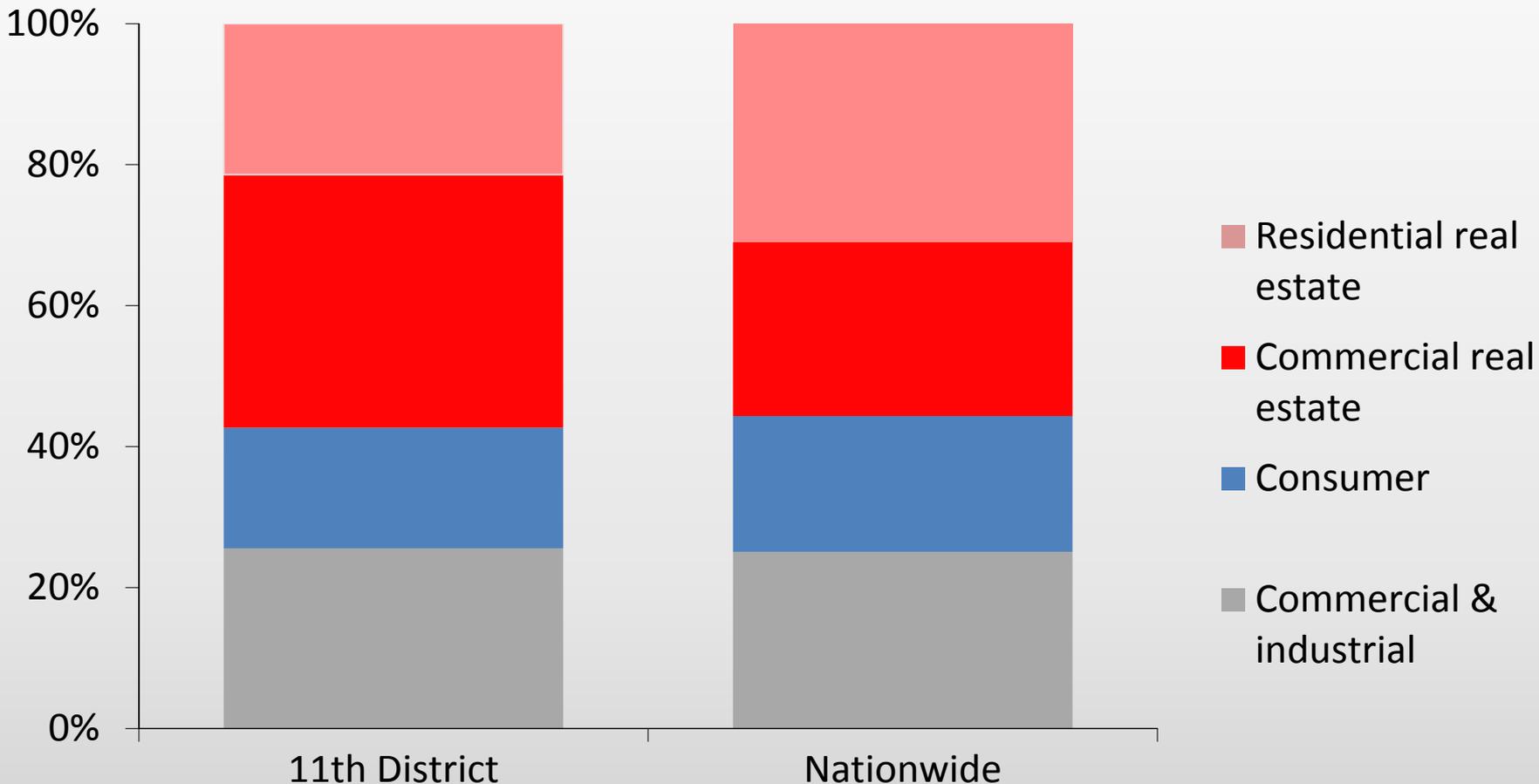
SOURCE: Federal Financial Institutions Examination Council *Quarterly Report of Condition and Income*

# Condition and Performance: Assets

## Loans by Type

*March 31, 2016*

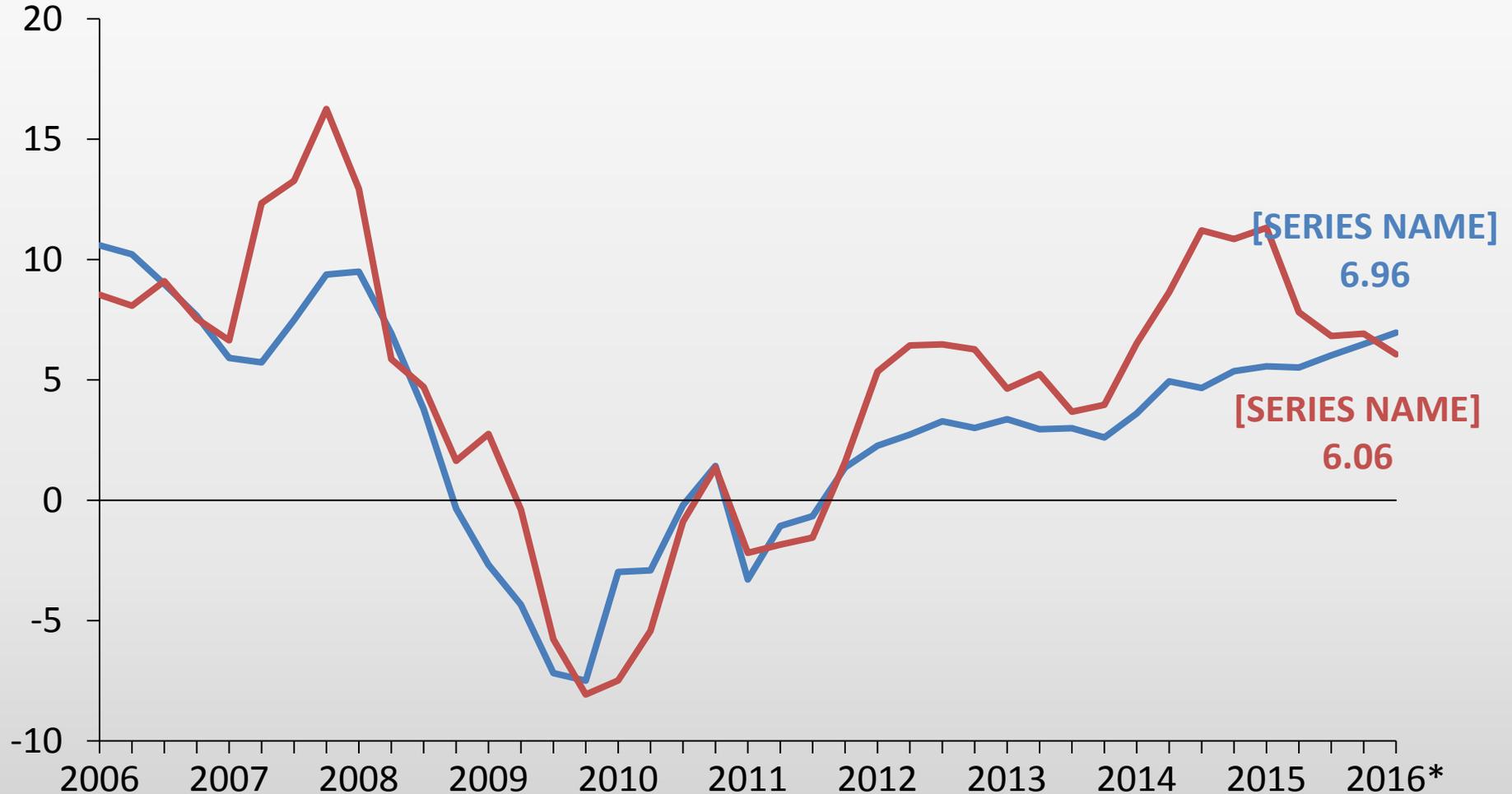
Percent of Total



# Condition and Performance: Assets

## Loan Growth Continues

Year-over-Year Growth, Percent



\*2016 data are as of March 31<sup>st</sup>, annualized.

SOURCE: Federal Financial Institutions Examination Council *Quarterly Report of Condition and Income*

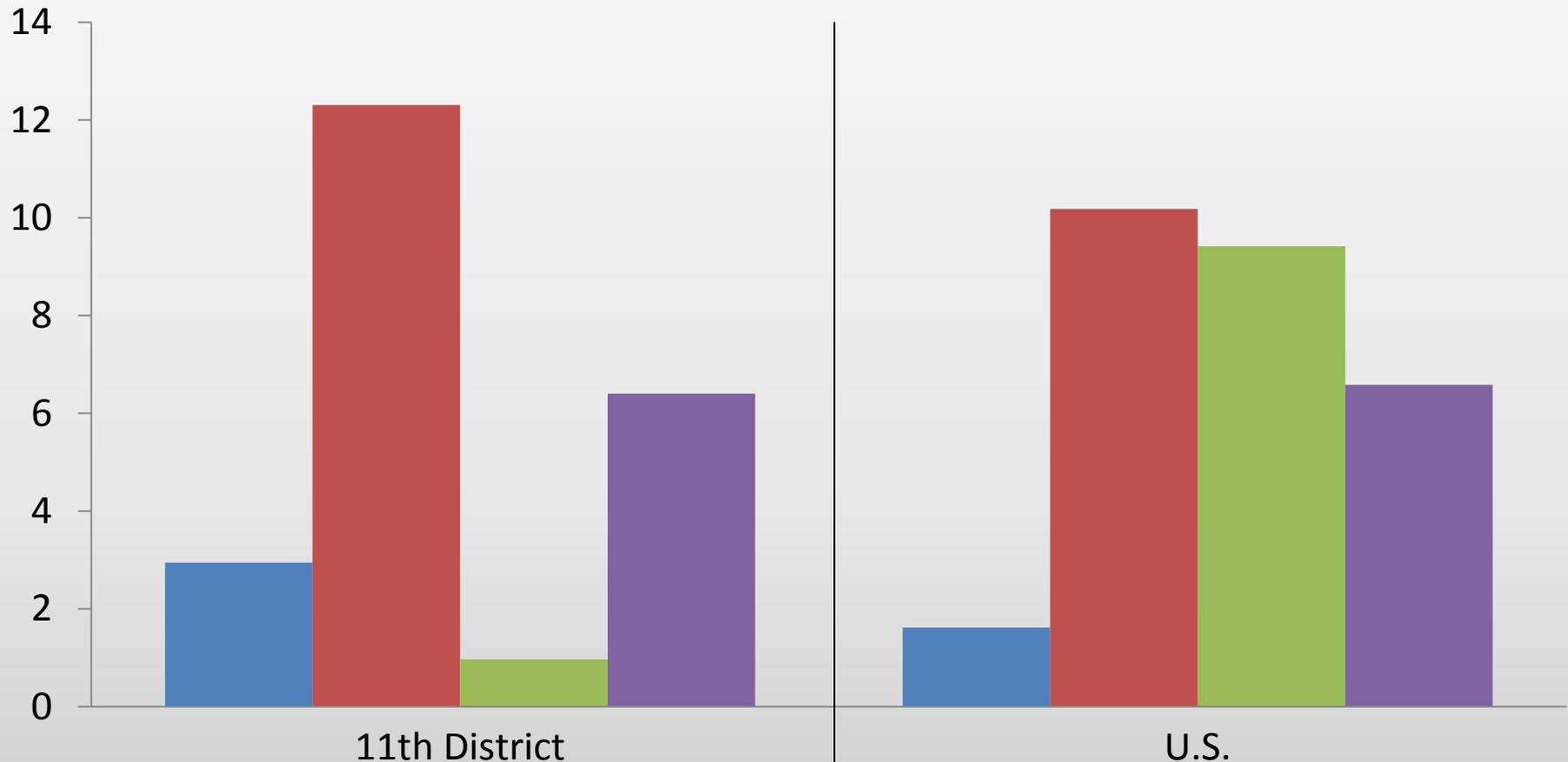
# Condition and Performance: Assets

## CRE Loan Growth Especially Strong

3/31/2015 – 3/31/2016

■ Residential RE ■ Commercial RE ■ C&I ■ Consumer

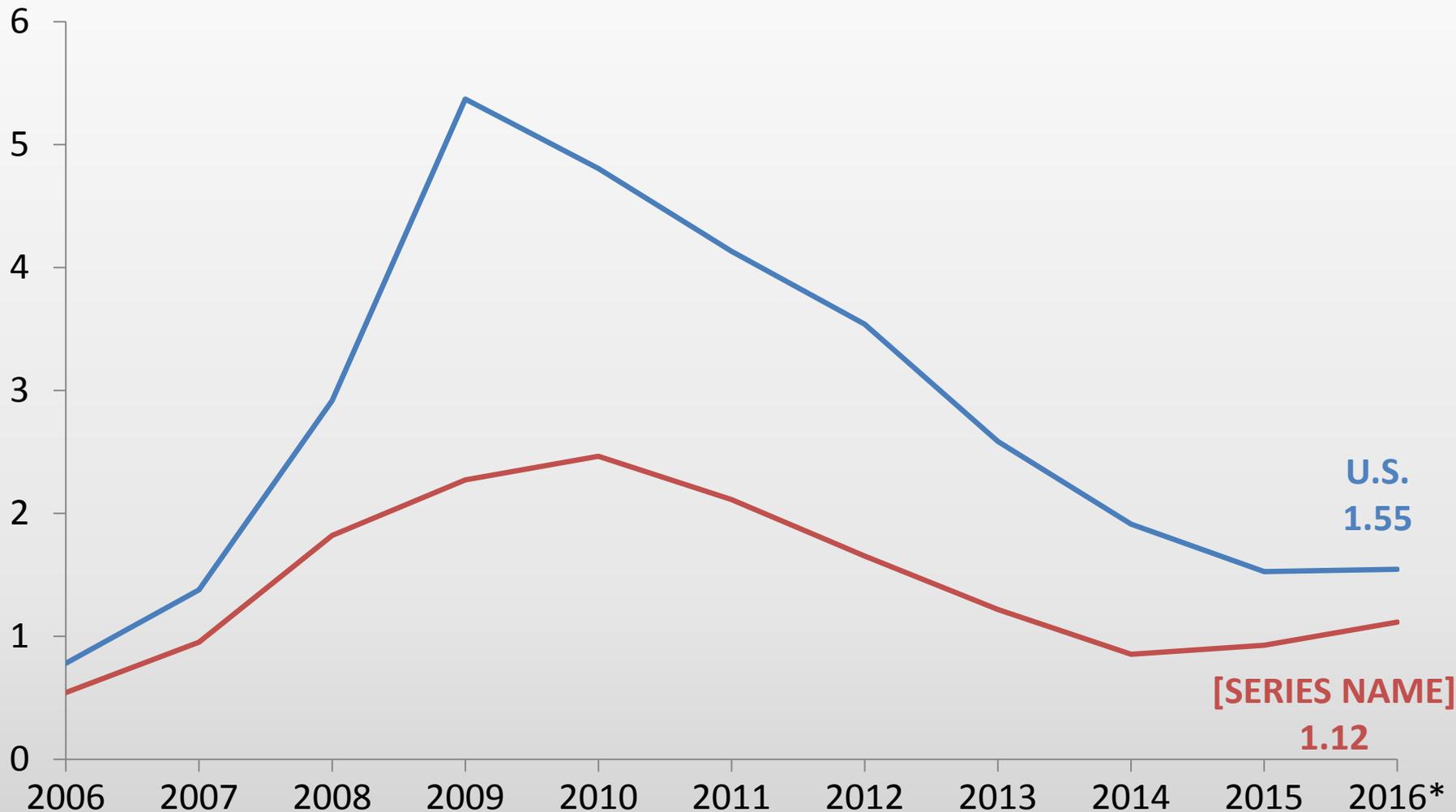
Percent Change



# Condition and Performance: Assets

## Nonperforming Loans

Percent of Loans



\*2016 data are as of March 31<sup>st</sup>.

SOURCE: Federal Financial Institutions Examination Council *Quarterly Report of Condition and Income*

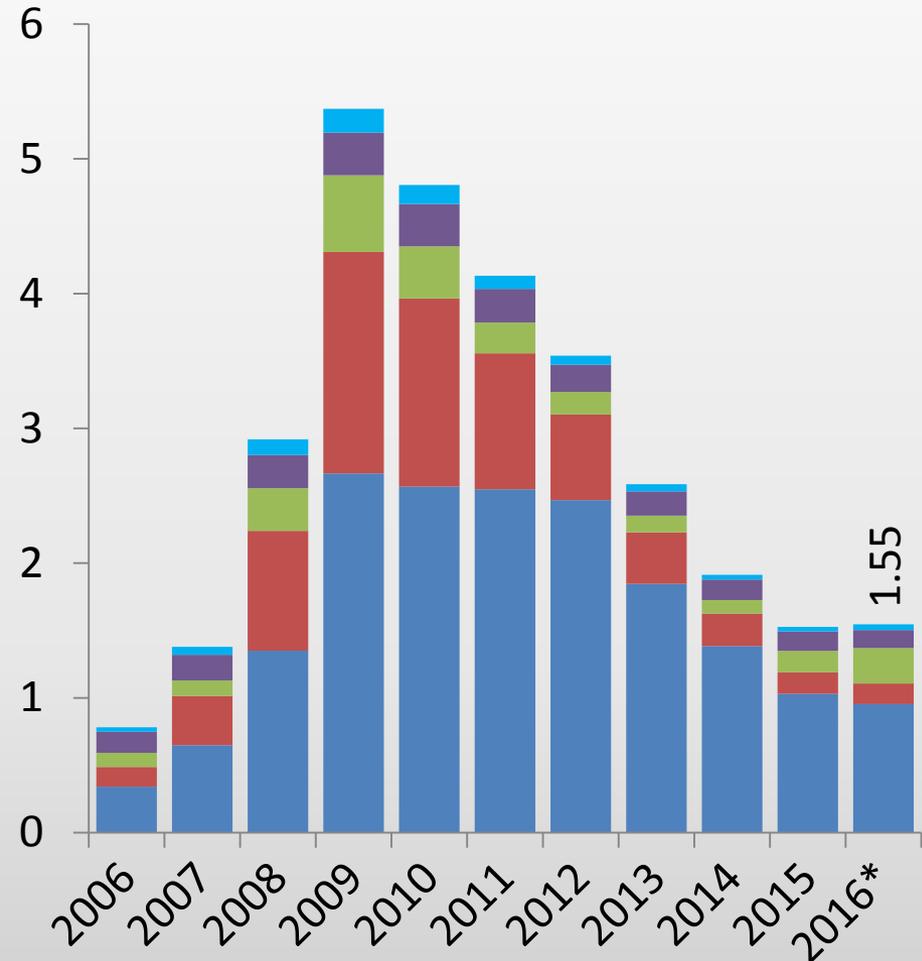
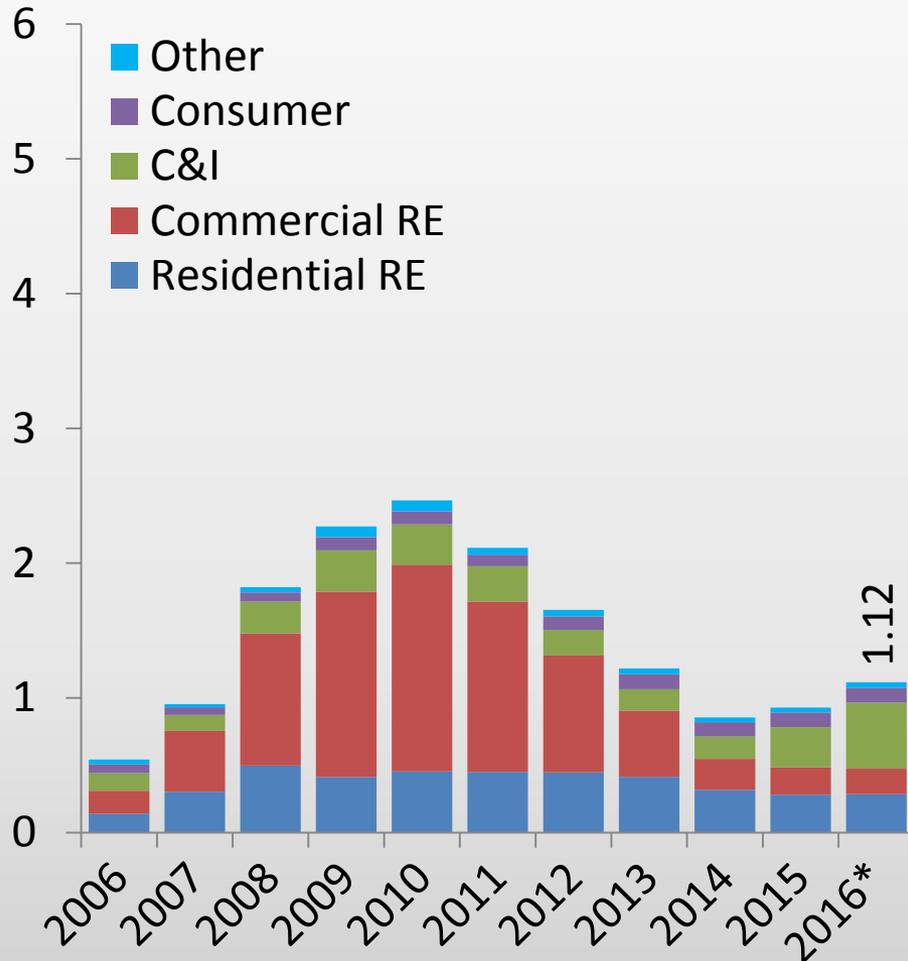
# Condition and Performance: Assets

## Noncurrent Loans by Loan Type

(Percent of Total Loans)

**11<sup>th</sup> District**

**U.S.**



\*2016 data are as of March 31<sup>st</sup>.

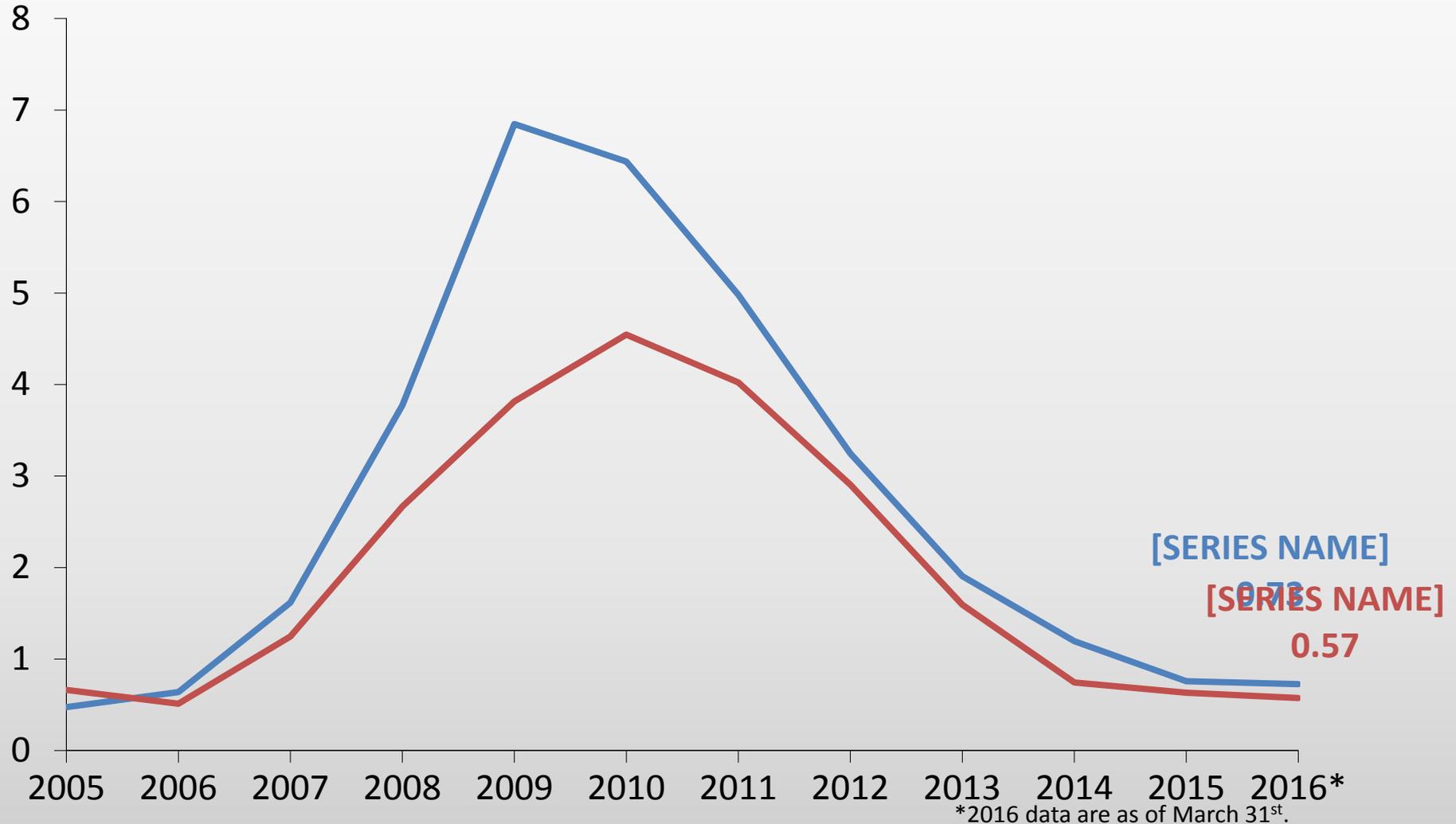
SOURCE: Federal Financial Institutions Examination Council *Quarterly Report of Condition and Income*

# Particular Concerns

# Particular Concerns: CRE

## Commercial Real Estate Loan Quality

CRE Loans (% Noncurrent)

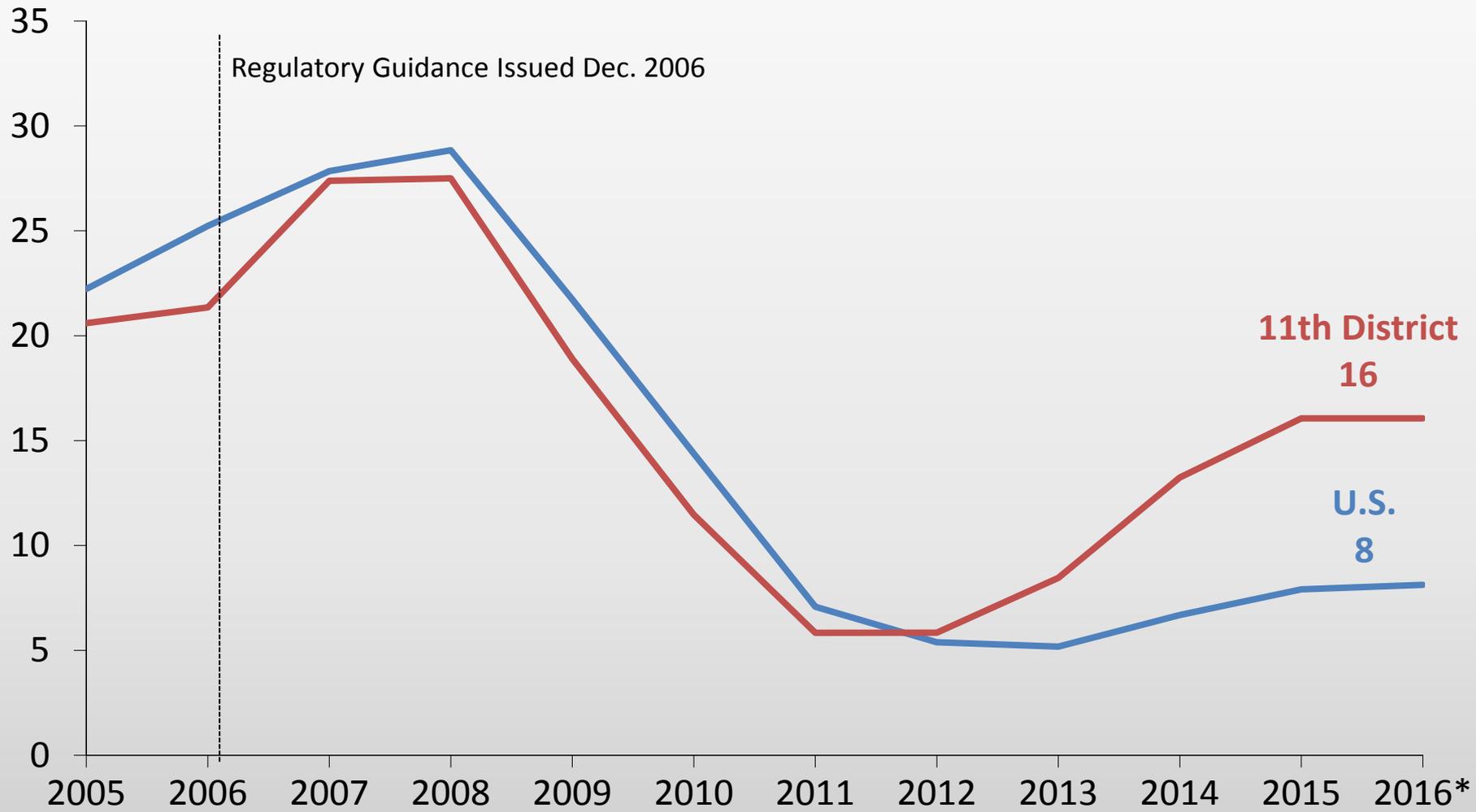


SOURCE: Federal Financial Institutions Examination Council *Quarterly Report of Condition and Income*

# Particular Concerns: CRE

## Commercial Real Estate Loan Concentration

Percent of Banks Exceeding CRE Guidance Thresholds



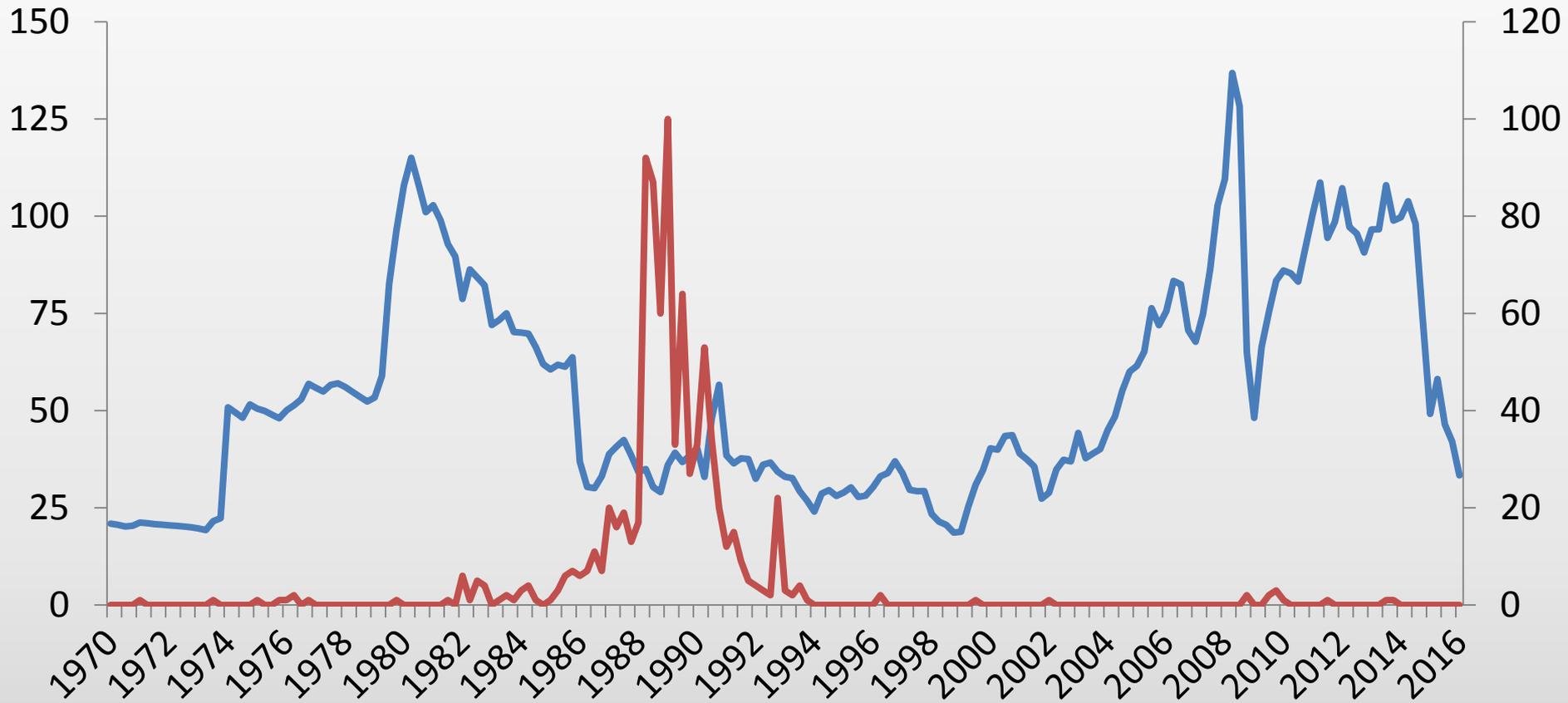
\*2016 data are as of March 31<sup>st</sup>.

# Particular Concerns: Energy Lending

## Texas Bank Troubles Lag Oil Price Declines

— Oil Price per Barrel (WTI Spot Price, 2016 \$)

— Texas Bank & Thrift Failures



\*2016 data are as of March 31<sup>st</sup>.

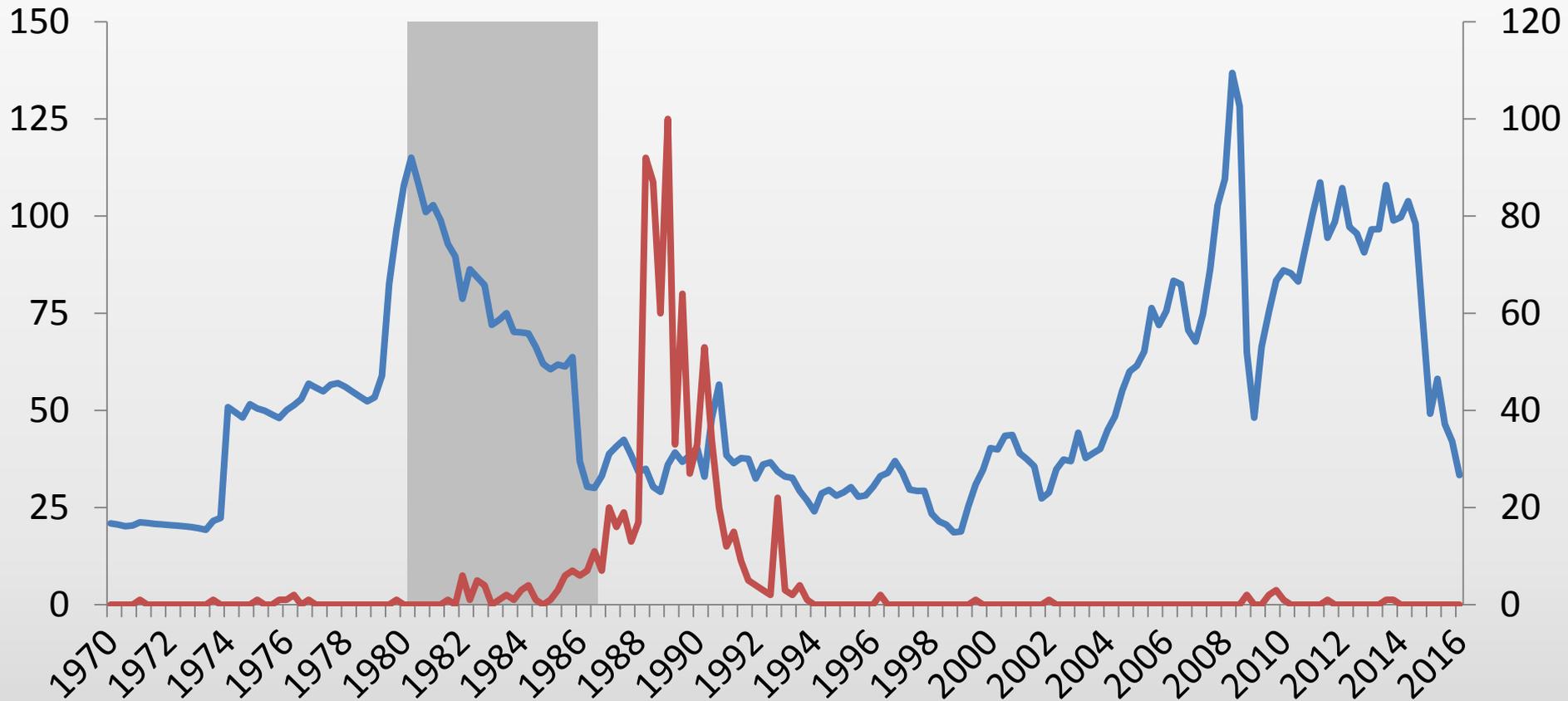
SOURCE: Haver Analytics, FDIC Historical Statistics on Banking

# Particular Concerns: Energy Lending

## Texas Bank Troubles Lag Oil Price Declines

— Oil Price per Barrel (WTI Spot Price, 2016 \$)

— Texas Bank & Thrift Failures



From June 1980 to September 1986, oil prices declined 74%. From September 1986 to year-end 1990, a total of 706 Texas banks and thrifts failed.

\*2016 data are as of March 31<sup>st</sup>.

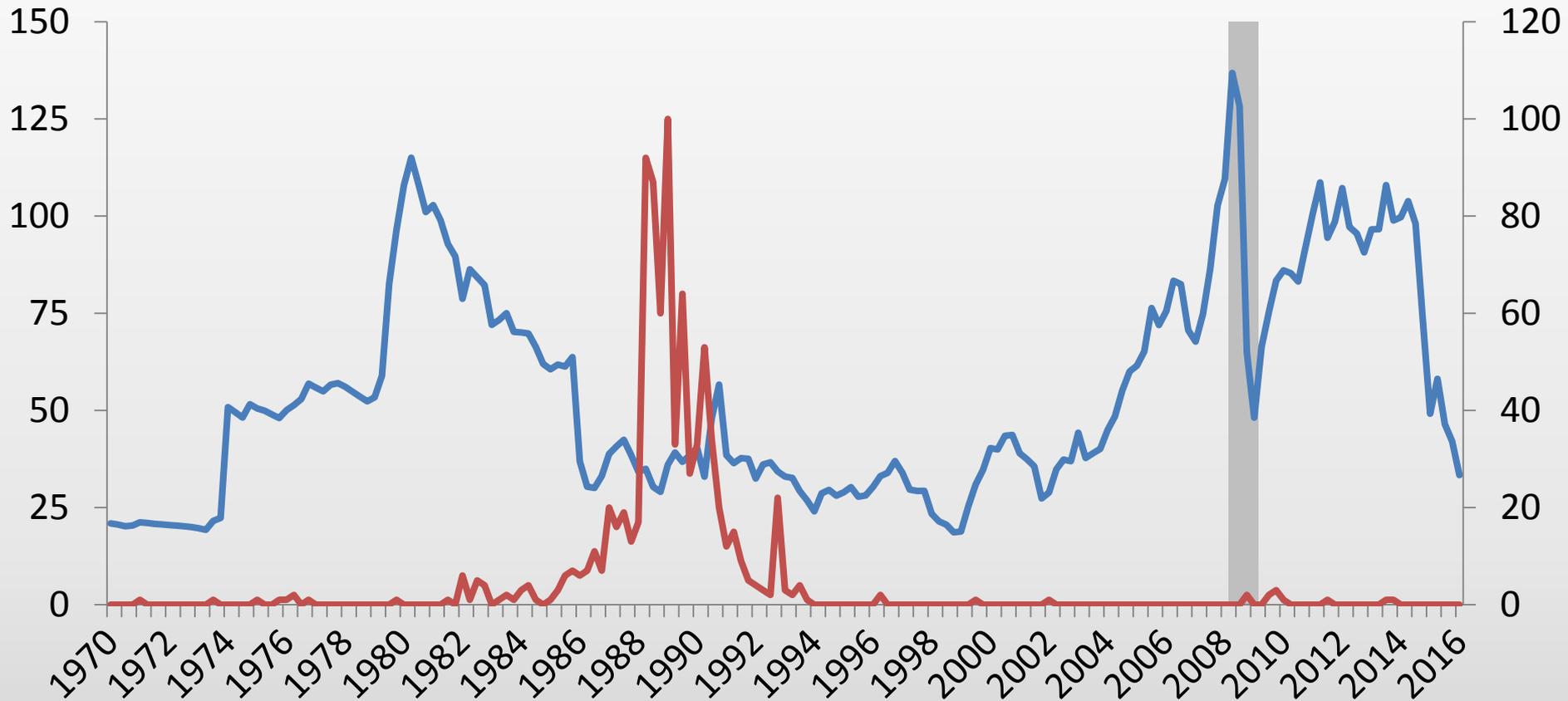
SOURCE: Haver Analytics, FDIC Historical Statistics on Banking

# Particular Concerns: Energy Lending

## Texas Bank Troubles Lag Oil Price Declines

— Oil Price per Barrel (WTI Spot Price, 2016 \$)

— Texas Bank & Thrift Failures



From June 2008 to March 2009, oil prices declined 65%. In 2008 and 2009, there were only seven Texas failures.

\*2016 data are as of March 31<sup>st</sup>.

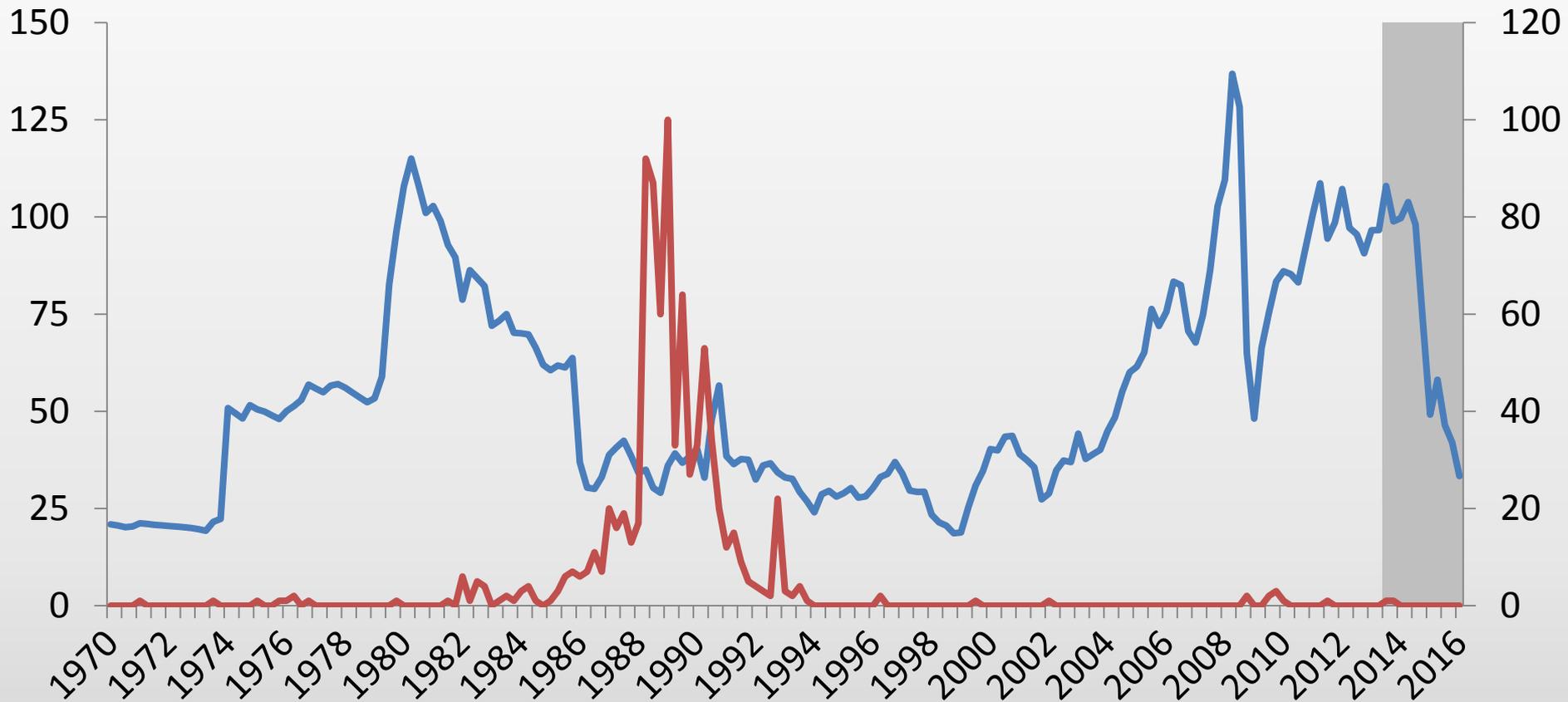
SOURCE: Haver Analytics, FDIC Historical Statistics on Banking

# Particular Concerns: Energy Lending

## Texas Bank Troubles Lag Oil Price Declines

— Oil Price per Barrel (WTI Spot Price, 2016 \$)

— Texas Bank & Thrift Failures



From September 2013 to March 2016, oil prices declined 70%. Since September 2013, only one Texas bank has failed.

\*2016 data are as of March 31<sup>st</sup>.

SOURCE: Haver Analytics, FDIC Historical Statistics on Banking

# Conclusion

- ▶ Modern banking in context
  - ▶ The structural realities
- ▶ Condition and performance
  - ▶ Safety and soundness, with a focus on
    - ▶ Earnings
    - ▶ Loan concentration and performance
- ▶ Particular concerns
  - ▶ Commercial real estate
  - ▶ Energy lending



**Questions?**

