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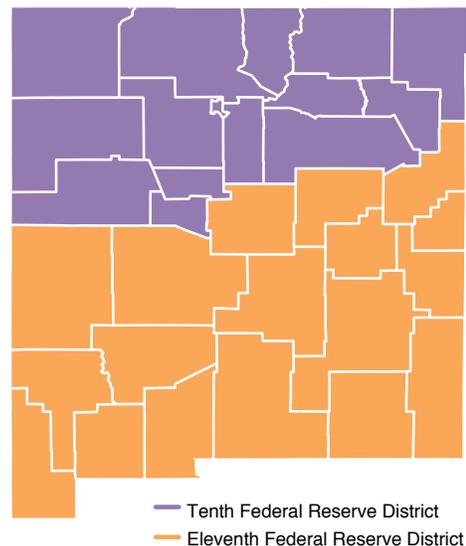
## New Mexico Banking: One State, Two Experiences

by Kory Killgo

Compared with other states, New Mexico is relatively large and sparsely populated, and lags the rest of the U.S. economically. The U.S. Bureau of Economic Analysis reports that, in 2015, per capita personal income (PCPI) was \$37,938—79 percent of the national average state PCPI—ranking New Mexico 48th. An interesting characteristic of the state is the difference between the economic conditions and banking performance in northern versus southern New Mexico, as differentiated by the boundary separating the Tenth and Eleventh Federal Reserve Districts (*Map 1*). In short, banks in the more populous and more densely populated north are underperforming banks in the south.

The recession highlighted the gap between the two parts of the state. The population centers in the north have yet to recover the ground they lost in the recession. In contrast, the south experienced a smaller downturn during the recession and a speedier recovery.<sup>1</sup>

**Map 1** Northern vs. Southern New Mexico Counties



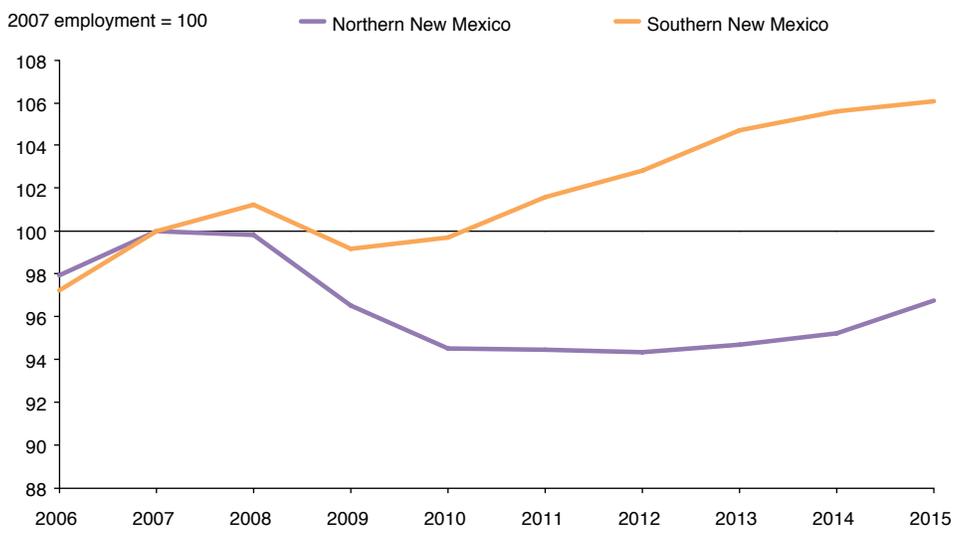
Per capita personal income has been slightly higher in the north for several years, but in six of the last eight years, PCPI has grown more in the south. Also, unemployment has been lower in the south for six of the last eight years. Employment growth bears that out; Chart 1 divides the number of workers employed in New Mexico's 19 counties that make up metropolitan and micropolitan statistical areas and groups them into northern versus southern New Mexico, with employment indexed to 2007 levels. By 2011, areas in the south had regained employment lost to the recession, while 2015 data show northern New Mexico employment still below pre-crisis levels. The southern part of the state benefited from strong

commodity prices and increasing trade and manufacturing partnerships with firms in Mexico. The gap between the two areas has narrowed in recent months, however, as the north has gained momentum and the south has experienced the effect of softening in commodity prices.<sup>2</sup>

### The States of Banking

As of Sept. 30, 2016, 40 banks were headquartered in New Mexico, reporting combined assets of \$14.6 billion.<sup>3</sup> The largest had assets of less than \$2 billion, so comparisons in this article will be made to banks with assets of less than \$2 billion nationwide. Banks this size account for 93 percent of banks nationwide. The average bank in northern New Mexico is larger (average assets of \$511 million) than the average bank in the south (\$270 million).

## Chart 1 | Employment in Northern and Southern New Mexico



SOURCE: Bureau of Labor Statistics.

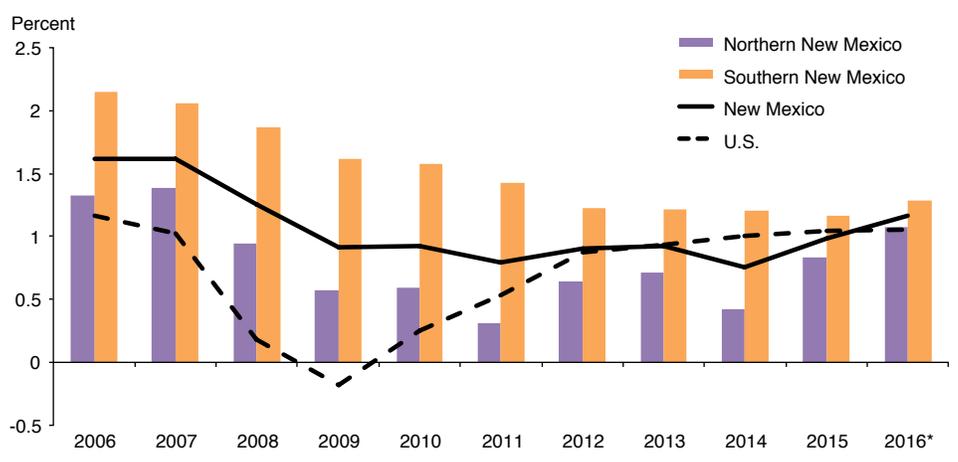
Institutions headquartered outside the state have a noticeably larger presence in northern New Mexico compared with southern New Mexico. In the north, banks headquartered outside the state operate 68 percent of branches and control 73 percent of deposits for the state, while in the south they control 41 percent of branches and 36 percent of deposits.

### Different Performance

Banking performance in these two parts of New Mexico generally parallels economic trends. As a group, banks in southern New Mexico navigated the recession better, an observation confirmed in measures of profitability and asset quality.

Nationwide, banks saw their lowest annual return on average assets (ROAA; net income expressed as a percent of average assets) in 2009, when ROAA was -0.18 percent for U.S. banks (Chart 2). The lowest ROAA for New Mexico banks in the recession and its immediate recovery was 0.79 percent in 2011. Banks in the northern part of the state, however, saw an ROAA of 0.31

## Chart 2 | Return on Assets for Commercial Banks and Savings Associations Assets Less Than \$2 Billion



\* Data through Sept. 30, annualized.

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

### CALENDAR OF EVENTS

#### March 27

Dialogue with the Fed  
College Station, Texas

#### March 29

Community Depository  
Institution Advisory Council  
Meeting  
Dallas, Texas

For more information about these events, email FIRM at Dallas\_Fed\_Firm@dal.frb.org.

## ABOUT FINANCIAL INSIGHTS AND FIRM

*Financial Insights* is published periodically by FIRM—Financial Institution Relationship Management—to share timely economic topics of interest to financial institutions. The views expressed are those of the authors and should not be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System.

FIRM was organized in 2007 by the Federal Reserve Bank of Dallas as an outreach function to maintain mutually beneficial relationships with all financial institutions throughout the Eleventh Federal Reserve District. FIRM's primary purpose is to improve information sharing with district financial institutions so that the Dallas Fed is better able to accomplish its mission. FIRM also maintains the Dallas Fed's institutional knowledge of payments, engaging with the industry to understand market dynamics and advances in payment processing.

FIRM outreach includes hosting economic roundtable briefings, moderating CEO forums hosted by Dallas Fed senior management, leading the Dallas Fed's Community Depository Institutions Advisory Council and Corporate Payments Council, as well as creating relevant webcast presentations and this publication. In addition, the group supports its constituents by remaining active with financial trade associations and through individual meetings with financial institutions.

percent that year, as southern New Mexico banks reported an ROAA of 1.42 percent. Profitability for New Mexico banks was strong and increasing as of Sept. 30, 2016; annualized ROAA was 1.17 percent, up 19 basis points from year-end 2015.<sup>4</sup> ROAA for southern New Mexico banks was 1.29 percent, up 12 basis points, and ROAA for northern banks was 1.08 percent, up 24 basis points. ROAA was 1.06 percent for nationwide banks (up one basis point from year-end 2015).

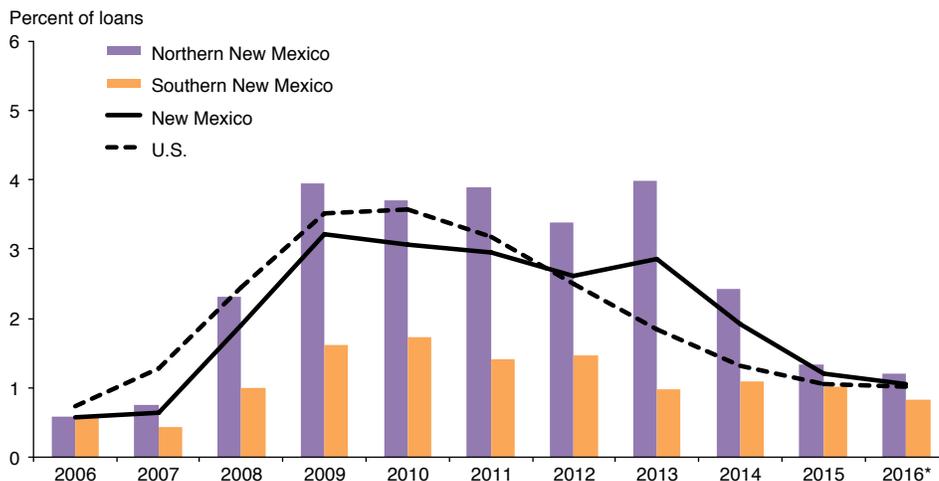
The drivers of profitability are different in the north and the south. Net interest income—the difference between interest earned on loans and other assets, and interest paid on deposits and other liabilities—is higher in the north. Net interest income was 3.44 percent of average assets through the first nine months of 2016, eight basis points higher than in the south. The northern banks' net interest income advantage is driven by interest income, which totals 3.69 percent of average assets in the north and 3.57 percent in the south.

Southern New Mexico banks make up this difference in noninterest items. Noninterest income—revenue from fee-based services—was 0.90 percent of average assets at southern New Mexico banks, 19 basis points above northern New Mexico banks. On the expense side, banks in the south posted noninterest expense—essentially overhead expenses—of 2.87 percent of average assets, 15 basis points lower than the 3.02 percent in the north.

Loan problems in the U.S. peaked in 2010 (*Chart 3*), when 3.57 percent of loans at banks nationwide were noncurrent (either past due 90 days or more, or on nonaccrual status). At that time, 3.06 percent of loans at New Mexico banks were noncurrent, but conditions differed at northern and southern banks. Banks in southern New Mexico reported a noncurrent loan rate of 1.74 percent (the peak for the south), and banks in the northern part of the state reported 3.69 percent. Problem loans would peak in the northern part of the state in 2013, when 3.98 percent were noncurrent. Current loan performance data show continuing improvement in New Mexico. For the state as a whole, 1.06 percent of loans were noncurrent, down 15 basis points since year end 2015. The rate for northern New Mexico banks was 1.21 percent, down 13 basis points, and southern New Mexico banks were at 0.83 percent, down 18 basis points. By comparison, the U.S. noncurrent rate was 1.01 percent, down five basis points.

There are similarities between banks in the two parts of the state in their loan mix. For both groups, consumer loans are a small part of their lending (less than 4 percent of gross loans). Commercial and industrial loans are similarly weighted (just over 16 percent of loans for both), as are real estate loans (77.0 percent of gross loans in the north and 75.5 percent in the south).

**Chart 3** Noncurrent Loans for Commercial Banks and Savings Associations  
Assets Less Than \$2 Billion



\* Data as of Sept. 30.

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

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The similarity in real estate obscures an important difference, however. Loans secured by residential real estate are 18.5 percent of gross loans in the north and 25.9 percent in the south, while loans secured by commercial real estate (CRE) are 55.9 percent in the north and 44.5 percent in the south. U.S. CRE levels were 40.4 percent.

This concentration in CRE lending in the north may be a cause for future concern. Loans secured by commercial real estate can be more volatile than other loan types, particularly during an economic downturn. As of Sept. 30, CRE concentrations in northern and southern New Mexico were at 97 percent or more of their postcrisis peak.

Currently, CRE loans are not as strong in the northern part of New Mexico, which compounds concerns. Noncurrent CRE loans were 1.4 percent of total CRE loans at northern New Mexico banks as of Sept. 30, compared with 0.4 percent in the south and 0.9 percent nationwide.

### Looking Ahead

Banks are performing better in the southern part of New Mexico, mirroring economic conditions. The south regained economic ground that was lost in the recession before the north did, thanks in part to the strength of commodities markets and growing international trade with Mexico. While banks in the south maintain an edge over their peers in the north, overall loan quality and profitability are improving across the state. Much of the continued health of New Mexico banking depends on the ability of the state's economy to experience continued, stable growth.

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The author is indebted for regional insight and economic analysis to Roberto Coronado, assistant vice president in charge and senior economist, and Marycruz De Leon, senior research analyst, both of the El Paso Branch of the Federal Reserve Bank of Dallas.

### NOTES

<sup>1</sup> For a more detailed discussion of the New Mexico economy, see "New Mexico Recovery Lags amid Energy, Government Sector Weakness," by Roberto Coronado and Marycruz De León, Federal Reserve Bank of Dallas *Southwest Economy*, Fourth Quarter, 2016.

<sup>2</sup> In-depth analysis of the southern New Mexico economy is available quarterly in "Southern New Mexico Economic Indicators," a publication of the El Paso Branch of the Federal Reserve Bank of Dallas, [www.dallasfed.org/research/indicators/snm.aspx](http://www.dallasfed.org/research/indicators/snm.aspx).

<sup>3</sup> Two New Mexico institutions are excluded from the aggregate analysis. First Community Bank, Taos, failed in January 2011, and Vectra Bank Colorado, Farmington, was acquired by an out-of-state institution at the end of 2015. Their inclusion would skew the data for the current New Mexico banks.

<sup>4</sup> All current period income statement ratios are annualized.

## Noteworthy Items

### **Federal Reserve Releases Federal Open Market Committee Statement (Dec. 14, 2016)**

### **Fed Governor Lael Brainard Gives Speech Before the Conference on Financial Innovation in Washington, D.C. (Dec. 2, 2016)**

Fed Governor Brainard acknowledged how innovative Fintech has become in disrupting the way financial services are delivered and designed, but she also focused on the importance of financial firms, customers, regulators and other stakeholders to fully understand the associated risks of Fintech.

### **Dallas Fed President Rob Kaplan Gives Remarks Before the Economic Club of New York in New York City, New York (Nov. 30, 2016)**

Kaplan reviewed economic conditions and secular trends and their implications for monetary policy. He made clear that monetary policy is not designed, by itself, to address the key structural issues the economy faces today stemming from demographic changes, lower levels of productivity growth, high levels of debt to gross domestic product and the dislocations created by globalization and increasing rates of technology-enabled economic disruption.

### **Meredith N. Black Named Dallas Fed First Vice President, COO (Nov. 28, 2016)**

The Federal Reserve Bank of Dallas announced the appointment of Meredith N. Black as first vice president and chief operating officer, effective Dec. 1. She succeeds Helen Holcomb, who retired Nov. 30. Holcomb had served as the Dallas Fed's first vice president since 1996 and worked for the Bank for over 42 years in a variety of important roles.

As first vice president, Black will be responsible for operational and financial performance of the Dallas Fed, including its branches in Houston, San Antonio and El Paso. She will also participate in numerous Federal Reserve System initiatives.

## Did You Know?

The Fed is composed of 12 regional reserve banks—private, nonprofit corporations operating in the public interest—and the Board of Governors, a government agency in Washington, D.C.