March 31, 2010

# Condition of the Texas State Banking System

Prepared by:

Texas Department of Banking
Texas Department of Savings and Mortgage Lending

Financial Data as of December 31, 2009

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| **Key for Symbols Used Throughout this Report**: | **Abbreviations Used Throughout this Report**: |
|---|---|
| ⇧ Improving or strong conditions | FDIC – Federal Deposit Insurance Corporation |
| ⇩ Deteriorating or weak conditions | OCC – Office of the Comptroller of the Currency |
| ⇳ Mixed conditions | FRB – Federal Reserve Board |
| ❖ Interest item | OTS – Office of Thrift Supervision |


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This publication is also located on the Texas Department of Banking website: www.banking.state.tx.us

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## BANKING SYSTEM OVERVIEW

In early March, Forbes ranked ten cities as best at surviving the recession, four of which are Texas metros. This ranking is not to say that the state has gone unscathed, but merely to point out its resilience. Similar to the state's economy, Texas banks have experienced their fair share of problems but managed to perform better than the rest of the nation, remaining mostly healthy. Experiencing only a slight deterioration in 2009, the Texas economy has steadied and is expected to outperform other states in 2010.

A stable and resilient economy, and stronger asset quality continues to make the Texas banking market desirable for banks in and out of the state to do business here. With fewer failures and healthier balance sheets, regulatory assisted transactions are almost non-existent. Reports indicate that larger banks are watching for possible acquisitions and/or branch purchases in order to enter the Texas banking market.

Texas is desirable for many reasons; and one notable aspect is the housing market. Although slightly affected, the home prices in Texas did not collapse as it did in other states. Strong home equity lending laws prohibited consumers from depleting their equity and helped stabilize home values. As a consequence, Texas lenders have not been exposed to a significant volume of residential foreclosures, as those seen in other states like California, Arizona, and Nevada.

Our view of the state's banking industry is tempered however by concerns over high loan concentrations in commercial real estate. Analysts and regulators expect this to remain a heightened concern in 2010 as reports indicate that half of all commercial real estate loans could be underwater by the end of this year, having the potential of affecting approximately 40% of all banks nationwide.

It is notable that since 2008, only seven banks have failed in the state, the most recent failure being La Coste National Bank, La Coste, Texas.  This is less than 1% of all bank failures between January 2008 and March 2010.  An analysis of these failures however, shows that several of these banks failed because of their business activities conducted outside Texas.

The general synopsis of the performance of institutions regulated by the Texas Department of Banking and Texas Department of Savings and Mortgage Lending below provides detailed information and insight into the condition of the Texas banking industry.

### STATE-CHARTERED BANKS

While state-chartered banks encountered some problems in 2009, they continue to perform better than the rest of the nation. For the year ending 2009, state-chartered banks reported a stable return on assets of 0.69%, compared to 0.09% nationally.  The loss allowance for loans and leases remains a reasonable 1.80%, while noncurrent assets plus other real estate owned stands at 1.92%.  In comparison, these ratios are 3.27% and 3.36% respectively for commercial banks nationwide. Core capital remains satisfactory at 9.40%.

In contrast, net interest margins eroded 13 basis points during the last 12 months due to a decreasing yield on earning assets. Further, net charge-offs to loans doubled during the same period to 1.23% of total loans. Even though net charge-offs have increased, our state-chartered banks appear to have adequate loan loss reserves to absorb potential losses.

The Texas banking system is generally sound, stable and continues to perform with remarkable resilience. Notwithstanding these results, certain economic sectors remain troubled. However, without additional or prolonged deterioration in the Texas economy, most institutions are meeting current economic challenges and should be able to manage and eventually resolve their problems without overly extensive regulatory assistance.

### State-Chartered Thrifts

State-chartered thrifts reported $3.6 million in net income at year end 2009, compared to $8 million the prior year. Reduced earnings were primarily affected by increased provisions for loan and lease losses. Net interest income decreased slightly or 7 basis points, which continues to fall due to compression of the net interest margin through greater volumes of non-earning assets. State thrifts increased total assets by $478 million or 12% due to most of the recent *de novo* institutions growing into their initial capital levels. The number of thrift charters remained constant at twenty-eight. Net loans comprised 50% of the asset growth with cash on hand comprising 45% of the growth. Deposits increased by 17% or $525 million. Nonperforming, nonaccrual loans and other real estate foreclosed total $98 million or 2.2% of total assets, increasing by $13 million, and continues to be monitored closely by regulators.

## Texas Economic Profile

The consensus among most economists is that Texas has reached the bottom of the recession and is poised to begin a mild recovery. The economic recession may not have lasted as long in Texas due to the State's generally stable home prices, reasonable weather, and a favorable business environment for companies seeking to relocate or conduct business.

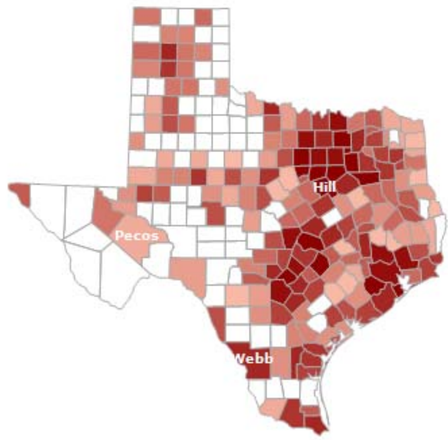
Texas has a diverse economy, with various industries being regional in nature.  For example, the timber industry is important in East Texas but a non-factor elsewhere. Houston stands at the center of the petrochemical, biomedical research, shipping, and aerospace (particularly NASA) industries. Dallas/Fort Worth houses the state's defense manufacturing interests and the expansive information technology labor market. West Texas and the Panhandle are dominated by ranching and petroleum. Austin's economy is dominated by the state government, educational institutions, and information technology industries.  Each of these industries, as well as others, contributes to Texas' gross state product (GSP), which declined more slowly than the U.S. economy in 2009. The Texas Comptroller of Public Accounts estimates that Texas' GSP will grow by 2.6% during 2010.

Although the unemployment rate was over 8.0% for the first time in 20 years, Texas' jobless rate rose at a slower pace than the nation in 2009, remaining at or below the national level for 36 consecutive months. By January 2010, unemployment was at 8.2%. Although slightly higher, this level remained constant from the last quarter of 2009 indicating some stabilization. Reports indicate that companies seeking to relocate to the Lone Star State will further improve the unemployment figures; however, there may be a lag between the relocation of a business and the hiring of new workers.

Analysts share some concern about future job losses related to legislation intended to implement a cap and trade system to control carbon emissions. The American Clean Energy and Security Act of 2009 reportedly has the potential of increasing production costs for the energy sector that could potentially lead to a reduction in force. The Comptroller of Public Accounts estimates that Texas could lose 137,000 to 313,000 jobs by 2020 and 170,000 to 425,000 jobs by 2030 as a result of increased energy prices due to the proposed cap and trade program. The average Texas household could pay an extra $1,136 per year on household goods and services with a total potential cost to Texas families of $6.9 billion.

The housing industry was not immune to the real estate crunch in 2009; however, it fared substantially better than other areas of the nation. Single-family building permits issued in January 2010 increased for a fourth consecutive month; however the total number of permits for the current 12-month period were 10% less than the same period last year.  Multi-family building permits declined over last year, as well as existing single-family home sales. Although these areas of the real estate market have been impacted, other areas of the market show signs of strengthening. For example, the median home value increased 4.0% between January 2009 and January 2010. Additionally, as of January 2010, the Texas foreclosure rate was one in every 785 mortgages. Comparable rates in other states include Nevada's one in 95, Arizona's one in 129 and both California and Florida at one in 187. On a national level, more than

308,000 Americans were in some stage of foreclosure in February. That's one in every 418 homes.




The dark red areas have the most foreclosure activity.

**Source: RealtyTrac**

The oil and natural gas industry reached an all-time high crude oil price in July 2008 of $145.29. By February 2009, the price had fallen to $33.98. A little over a year later, on March 4, 2010, oil futures closed at $80.21 per barrel. Tax collection revenues for both natural gas and oil production have see-sawed over this period as prices fluctuate.

Sectors of the Texas economy that reflect growth include government, health care, and education. Although Texas entered a recessionary period, the population continued to grow. Changes in the population generally drive the health care and education industries. As the population not only grows but gets older, health care demand increases. Texas, as well as other parts of the nation, is seeing strong construction levels in the medical arena as hospital and other medical care facilities continue to expand. Economists predict that the national health care reform bill will drive growth in this sector when and if uninsured individuals begin using the health care system.

## A Snap Shot of Texas Weather and Agriculture

As of March 9, 2010
*Source: Texas AgriLife Extension Service. Robert Burns*

**SOUTH PLAINS**: From 0.5 inch to 1 inch of rain fell. Temperatures remained mild. Soil-moisture levels were adequate. Many producers were behind on field work because of wet conditions but were expecting a good crop year. Winter wheat was in fair to good condition and continued to mature. Pastures and rangeland were in fair to good condition and were expected to improve with warmer weather. Livestock were in good condition as producers supplied supplemental feed on cold, wet days.

**ROLLING PLAINS**: Daytime temperatures began to warm to the 60s. Farmers were trying to prepare fields and put out fertilizer for this year's crop, but some areas were still too wet to plow. However, high soil moisture levels were encouraging for spring crops. Wheat looked good and was expected to really take off as soon as warmer, sunnier weather arrived. Pastures were in good condition, and as a result cattle were in good condition too. In response, producers reduced supplemental feeding and moved cattle to winter wheat fields.

**WEST CENTRAL**: Rain and cool weather changed to warmer days with cool nights later in the reporting period. Soil-moisture levels remained very good. Farmers in most areas could not get into fields because of wet conditions. The potential for above-average wheat yields looked good. Rangeland and pastures began to green up. Stock water tank levels were very good. Livestock producers continued supplemental feeding. Livestock remained in fair to good condition.


**CENTRAL**: Where weather permitted, producers began top-dressing fields. Wet fields were still an issue in most areas. Winter pastures showed improvement with the warmer temperatures and sunshine. Further weather conducive to drying out fields was needed. Livestock were in fair to good condition.

**FAR WEST**: As much as 1 inch of rain fell in parts of the region. Brewster County reported winds as high as 90 mph. Fall-planted onions were at fourth-leaf stage. Farmers started entering fields to apply herbicides in preparation for planting. Pecan trees were being hedged. Soil was chiseled to break up compaction. Alfalfa came out of dormancy and began growing. Alfalfa farmers were selling last year's production and dealing with greenbug aphids. Perennial grasses also were emerging from dormancy. Ranchers expected rangeland to improve early due to received moisture. Loco weed was popping up in large quantities due to winter precipitation.

**EAST**: Parts of the region received as much as 1.5 inches rain, followed by warmer, sunny weather. Winter forages looked better, but AgriLife Extension personnel deemed that the improvement might be too late in the season to produce much forage. Producers struggled to stretch limited hay supplies. Some were already out of hay. Livestock showed the effects of limited forage and hay. Incidents with disease on newborn calves increased. Feral hog activity increased as wet weather drove them out of the river bottoms.

**PANHANDLE**: Except the far northeast corner of the region, soil-moisture levels were good. A slow snow melt during the past month resulted in deep penetration of moisture, which will be a good for spring crops. Warmer days helped wheat start to grow again. Producers were still trying to get into fields to prepare for upcoming planting of spring crops, but because of wet conditions, most were only able to speculate on what crops to plant. Cattle were in fair condition with some improvement as feedlots started to dry out and wheat fields became grazable again. Producers continued to provide supplemental feed to cattle on rangeland.

**NORTH**: Soil moisture ranged from adequate to surplus, and the region saw a little sunshine and warmer temperatures. However, even with the milder and drier conditions, most crop fields were still very wet, and only a few farmers have been able to prepare for corn planting. The drier weather was expected to improve grazing somewhat. The sunshine was also good for small grains, but wheat was way behind and didn't look very good. Much of the problem with wheat was it needed to be fertilized, but producers were unable to get in the fields to do so. Even with a few days of sunshine, it was still too sloppy to get hay out to cattle. More rain came on May 8. Producers said the ground was "like soup" where they had to go through gates or around hay lots. More hay has been fed than in a normal year because of the extremely wet weather, and producers were running out. With supplies running short, many producers were trying to locate some hay to finish out the feeding season. Livestock seemed to be in good condition. Feral hogs continued to be a problem in some areas. In spite of everything, peach trees appeared to be in good condition. Rangeland and pastures were in poor to fair condition.

**SOUTHEAST**: Temperatures in the 30s hindered pasture and rangeland green-up. Warm-season grasses were mostly dormant. A little sunshine late in the reporting period promoted some winter-annual grass growth. Clovers showed more growth than ryegrass. Moisture levels were still adequate. Less than 1 inch of rain was received by most of the region. Land preparation for spring planting continued to be delayed due to wet conditions in most of the region. Rangeland conditions remained favorable.

**COASTAL BEND**: There was very little rainfall received and below-normal temperatures. Field activities included field preparations for planting and some actual planting. Most areas will need a week or two of drying out before field work can be done. Due to later-than-normal corn planting, many growers will fertilize after planting. Pastures were slow to grow and green up due to abnormally cool nights. Livestock producers continued to feed supplemental forage and protein.

**SOUTH**: Soil moisture was adequate except for Kleberg and Kenedy counties, where it was 80 percent surplus, and Zavala County, where it was 100 percent short. Mild temperatures and no rainfall in the northern part of the region let farmers either begin preparing fields for planting or to plant crops, including some corn. Row-crop farmers in the eastern part of the region were able to plant crops in better-drained areas. Cooler-than-normal soil temperatures in the western part of the region delayed crop growth. Also in that area, growers had to resume irrigating due to dry conditions. Dryland wheat, oats and sorghum crops needed rain. The harvesting of spinach and cabbage continued. Onions were doing well. In the southern part of the region, growers were steadily planting. Onions were doing well there too. The harvesting of sugarcane, vegetables and citrus continued. Rangeland and pastures were recovering with light stocking. Producers lowered supplemental feeding of livestock.

**SOUTHWEST**: February rainfall was close to twice the long-term rate, further improving the agricultural outlook for the region. The extra rains will minimize irrigation costs. Spinach, cabbage, potatoes, lettuce, wheat and oats made excellent progress. Sorghum planting gained momentum. The harvesting of spinach, cabbage, broccoli and carrots was ongoing. Ranchers continued to concentrate on calving, lambing and kidding.

## STATE-CHARTERED BANKING PROFILE

The number of Texas state banks declined in the last half of 2009 from 326 to 318, partially because no new banks opened, the first such period in many years. Five banks (First Texas Bank, Belton; First Texas Bank—Winnie; The First Bank, Roxton; Pilgrim Bank Texas, Clarendon; and Crosby State Bank, Crosby) merged into affiliate banks in corporate reorganizations, and, with the exception of Crosby State Bank, their assets remained in the state banking system. Three state banks were involuntarily closed: Millennium State Bank of Texas, Dallas; North Houston Bank, Houston; and Madisonville State Bank, Madisonville. Millennium State Bank was acquired by State Bank of Texas, Dallas. The latter two banks were part of the simultaneous closure of the nine banks owned by FBOP Corporation, Oak Park, Illinois. All of these banks were acquired by U.S. Bank, N.A., Cincinnati, Ohio; however, Prosperity Bank, El Campo, is acquiring the locations and deposits of the two Texas state banks, as well as those of Citizens National Bank, Teague, also one of the nine banks involved, from U.S. Bank in the first quarter of 2010.

In transactions increasing state banking system total assets, Happy State Bank, Happy acquired The First National Bank of Canadian, Canadian; Herring Bank, Amarillo, acquired the failed First State Bank of Altus, Altus, Oklahoma; and United Central Bank, Garland, acquired the failed Mutual Bank, Harvey, Illinois, in a transaction that more than doubled the bank's size.

Given the persistence of the current recession, short term predictions are difficult. It is likely that there will be little chartering activity until a strong economic recovery is attained. However, the comparatively healthy Texas economy and relatively limited loan demand have many state banks with the capital and liquidity to pursue opportunities in failed bank acquisitions, or asset acquisitions from banks seeking to augment capital positions.

## STATE-CHARTERED THRIFT PROFILE

State-chartered thrift assets under the Department's jurisdiction totaled $4.47 billion as of December 31, 2009, and increased by 12% or $478 million from December 31, 2008. The total number of state chartered savings banks at December 31, 2009 is 28, which is the same as the end of last year.

The Department continues to receive and process a fair volume of applications. During the past six months there have been three *de novo* charter applications, two change of control applications and various other types of applications.

Other than a conversion from a federal savings bank to a state savings bank that occurred after the reporting period, the total industry is projected to remain at current level in number and total assets.

## SUPERVISORY CONCERNS

Nationally, the number of problem banks has increased significantly over the last year. The FDIC recently released a statement indicating that problem banks top over 700 banks. Although Texas has not seen a significant volume of failures, both the Texas Department of Banking and the Texas Department of Savings and Mortgage Lending are monitoring the state banking system closely. Areas of concern and the action taken by the agencies is noted in Table 1 (See page 9).

Supervisory concerns not only involve the latest problem areas, they also include fraud, home equity lending, corporate governance, compliance, and bank holding company strength. Both the Texas Department of Banking and the Texas Department of Savings and Mortgage Lending diligently monitor all these areas to ensure that any changes or disruptions receive prompt supervisory action. Bank management's ability to identify, monitor and control these various risk elements significantly influences how each Department responds to these supervisory concerns.

*Table 1*

| Concerns | Responses |
|---|---|
| ★ Concentrations in:<br>▪ Interim Construction<br>▪ Land Development<br>▪ Commercial Real Estate (CRE) (non-owner occupied)<br>▪ High level of volatile funding sources:<br>• Brokered Deposits<br>• Internet Deposits<br>• FHLB Borrowings<br>★ State banking system liquidity<br>★ Bank management's risk management practices | ★ Horizontal or targeted reviews<br>★ More frequent examinations<br>★ Enhanced off-site monitoring<br>★ Increased use of enforcement actions<br>★ Expanded use of supervisor program |

### Other Areas Receiving Increased Attention

Given the historically low interest rate environment, additional resources and attention is being focused on interest rate risk. It is important that bankers adhere to their policies and procedures commensurate with their complexity, business model, risk profile, and scope of operations. A joint guidance issued by Federal regulators in January 2009 entitled "Advisory on Interest Rate Risk Management" encourages banks to implement robust processes for measuring and, where necessary, mitigate their exposure to potential increases in interest rates.

The Texas Department of Banking and the Texas Department of Savings and Mortgage Lending have conducted targeted examinations of banks that have significant holdings of private label collateralized mortgage obligations (PL CMO). Proper classification, accounting, and recognition of credit losses where appropriate is the primary focus, with an emphasis on the third party consultants used to provide the market valuations and estimates of credit losses that form the basis for a bank's reporting.

## Supervisory Measures Being Taken

Each Department is sensitive to the repercussions of the economic downturn and the challenges that lie ahead. It is imperative to identify individual banks that demonstrate difficulty in the current economic situation. The number of problem financial institutions is likely to increase over the next six to twelve months as financial problems in institutions often lag in periods of economic instability. Problem status can sometimes be minimized and turnaround measures implemented by timely regulatory identification, oversight, and positive management response.

Some measures being taken by each agency to ensure that safe and sound banking practices are being followed are listed below:

### The Department of Banking

- Frequent on-site examinations of problem institutions;
- Communicating and coordinating on a continual basis with other state and federal regulators;
- Monthly calls to state banks to obtain industry input on prevailing economic conditions;
- Conducting targeted reviews of high risk area, such as CRE and exposure to the devaluation of private-label collateralized mortgage obligations; asset concentrations, liquidity, and funding sources;

- Expanded off-site monitoring to include areas of greatest concerns;
- Increased usage of enforcement actions;
- Expanded use of supervisor program;
- Developing a more defined risk-focused examination process to free up resources;
- Internal monitoring of state, national, and world political and economic events impacting the industry such as federal programs designed to stabilize the financial markets; and,
- Increasing internal communication and training to improve examiner awareness of issues.

## THE DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

- Regular conference calls and close coordination with other state and federal regulators;
- Regular correspondence with state savings banks regarding institution specific issues and industry issues;
- Quarterly analysis of Call Report financial data including telephone inquiries of thrift management for explanation of unusual items and variation in quarterly operating results;
- Off-site monitoring of each institution's activity (i.e., regulatory correspondence and approvals, independent audit reports, reports of examination, and institution responses to examination comments, criticisms and recommendations);
- Joint review by the FDIC and the Department of a savings bank's contingency / disaster recovery plans;
- Regular assessments of each institution's activities, strengths and weaknesses, and revising the Department's plan of examination and monitoring for the institution, including the downgrading of institutions if deemed necessary by the Department and the FDIC;
- Monitoring increased foreclosure activity and changes in the housing market;
- Working with various community groups on foreclosure prevention / education;
- Reviewing concentrations in commercial real estate and monitoring compliance with Commercial Real Estate Lending Joint Guidance, issued December 12, 2006;
- Internal monitoring of local, state, national and world political and economic events impacting the industry;
- Monitoring of any state savings bank's participation in the U. S. Treasury's Troubled Asset Relief Program and Capital Purchase Program, and the FDIC's Temporary Liquidity Guarantee Program, and other effects of the Emergency Economic Stabilization Act of 2008, and proposals for increased FDIC assessments; and,
- Conducting targeted examinations of high risk areas of state savings banks.

## STATE-CHARTERED BANKS

State-chartered banks have held up well during the last six months of 2009. For the year ending 2009, state-chartered banks reported a combined return on assets of 0.69%. The loss allowance for loans and leases remains a reasonable 1.80%, while noncurrent assets plus other real estate owned stands at 1.92. The core capital ratio position remains healthy at 9.40.

State-chartered banks showed stable return on assets (ROA) from 2008 to 2009. Commercial banks reported a ROA of 0.69% in 2009 compared to 0.70 in 2008. In contrast, the core capital ratio for banks increased from 8.91% to 9.40% during this period. However, net interest margins eroded 13 basis points due to a decreasing yield on earning assets. Overall, 50% of our state-chartered banks reflect earnings gains over the prior year. Conversely, 16.67% of the banks ended the year unprofitable, which is up slightly from 15.90% last year.

As expected, net charge-offs increased during the last 12 months. Bank charge-offs increased to 1.23% of total loans from 0.61% a year ago. This compares favorably to the nationwide average of 2.57%. State-chartered banks appear to have adequate reserves to absorb potential losses as their loss allowance to loan account is now at 1.80%.

For the year 2009, state bank charters reduced by nine through mergers and acquisitions, while five out-of-state banks ceased operations in Texas. The number of state-chartered institutions doing business in Texas decreased by 14, but total assets of these institutions increased $6.9 billion. The number of federal charters diminished as well with the number of national banks reducing by four and out-of-state state federal charters doing business in Texas decreasing by two. Overall, the number of both state and federal charters, in state and branches of out-of-state institutions, decreased by 20 while total assets increased by $91.9 billion.

The financial results to date are in line with economic comments throughout this report that indicate the banking system in general is sound, and despite some hardships our bankers and the Texas economy sustained over the last year, our state-chartered banks managed to perform with remarkable strength. However, select institutions that have concentrations in certain lending or business activities may experience above normal difficulties.

## STATE-CHARTERED THRIFTS

In 2009, state thrifts had $3.6 million in net income, but a 12% increase or $478 million in assets. Return on assets for thrifts decreased to 0.08% at year-end 2009, down from 0.23% at the end of last year. The level of unprofitable savings banks has remained the same at 42.9%. Nearly 36% of savings banks are newly chartered, reorganized or converted which further influences the profitability ratio. Provisions for loan and lease losses to average assets have increased 6 basis points. Non-interest income and non-interest expenses to average assets have also increased by 12 and 17 basis points, respectively. Earnings on securities have decreased by 66 basis points.

State thrifts experienced a 3 basis point increase in their regulatory capital levels between year-end 2008 and 2009 from 10.88% to 10.91%. The slight increase in thrift capital ratio is due to the capital raises of $60 million. Thrifts also continue to exceed the national capital ratios for all savings institutions, which was 9.84% for year-end 2009, and 8.09% for year-end 2008.

Net interest margins for state thrifts posted a slight 8 basis point decrease from 3.86% to 3.79% at year end. Year to date provisions to the allowance for loan losses increased for thrifts increased $6 million during the year. Thrift provisions were $23 million from the $17 million reflected in December 2008. The Texas thrift allowances for loan and lease losses to non-current loans and leases, presently at 61.05%, is above the ratio of 44.7% for all FDIC-regulated savings banks nationwide.

Thrifts' noncurrent assets plus other real estate owned to total assets increased 16 basis points to a total of 2.2% at December 2009. Thrifts experienced a decrease in noncurrent loans – those 90 days or more past due, plus those no longer accruing interest – from 2.36% to 1.93% at year-end 2009.

Net charge-offs increased for thrifts, from $8 million at year-end 2008 to $20 million in 2009. A considerable portion (50%) is related to construction and land development loans. Loss reserves now represent 1.18% for savings institutions. This is an 8 basis point increase for savings institutions since December 2008.

## Number of Institutions and Total Assets

| | 12-31-2009* No. of Institutions | 12-31-2009* Assets | 12-31-2008 No. of Institutions | 12-31-2008 Assets | Difference No. of Institutions | Difference Assets |
|---|---|---|---|---|---|---|
| Texas State-Chartered Banks | 318 | $163.0 | 327 | $164.7 | -9 | -$1.7 |
| Texas State-Chartered Thrifts | 28 | $4.5 | 28 | $4.0 | 0 | +$0.5 |
| | 346 | $167.5 | 355 | $168.7 | -9 | -$1.2 |
| Other states' state-chartered: | | | | | | |
| Banks operating in Texas* | 20 | $36.7 | 23 | $28.1 | -3 | +$8.6 |
| Thrifts operating in Texas* | 0 | 0 | 0 | 0 | 0 | 0 |
| | 20 | $36.7 | 23 | $28.1 | -3 | +$8.6 |
| **Total State Chartered Activity** | 366 | $204.2 | 378 | $196.8 | -12 | +$7.4 |
| National Banks Chartered in Texas | 263 | $153.6 | 267 | $108.8 | -4 | +$44.8 |
| Federal Thrifts Chartered in Texas | 20 | $50.4 | 22 | $87.6 | -2 | -$37.2 |
| | 283 | $204.0 | 289 | $196.4 | -6 | +$7.6 |
| Other states' federally-chartered: | | | | | | |
| Banks operating in Texas* | 19 | $220.1 | 21 | $181.7 | -2 | +$38.4 |
| Thrifts operating in Texas* | 8 | $1.0 | 11 | $73.6 | -3 | -$72.6 |
| | 27 | $221.1 | 32 | $255.3 | -5 | -$34.2 |
| **Total Federally-Chartered Activity** | 310 | $425.1 | 321 | $451.7 | -11 | -$26.6 |
| **Total Banking/Thrift Activity** | 676 | $629.3 | 699 | $648.5 | -23 | -$19.2 |

*Assets in Billions*

**Indicates estimates based on available FDIC information.*

## Ratio Analysis

*As of December 31, 2009*

| *Number of Banks* | *State-Chartered Banks* 318 | *Texas National Banks* 263 | *All Texas Banks* 581 | *State-Chartered Thrifts* 28 | *Texas Federal Thrifts* 20 | *All Texas Thrifts* 48 |
|---|---|---|---|---|---|---|
| % of Unprofitable Institutions | 16.67% | 12.17% | 14.63% | 42.86% | 25.00% | 35.42% |
| % of Institutions with Earnings Gains | 50.00% | 38.40% | 44.75% | 57.14% | 60.00% | 58.33% |
| Yield on Earning Assets | 4.71% | 4.79% | 4.75% | 5.78% | 5.36% | 5.39% |
| Net Interest Margin | 3.50% | 3.82% | 3.66% | 3.77% | 3.86% | 3.85% |
| Return on Assets | 0.69% | 0.25% | 0.47% | 0.08% | 0.91% | 0.84% |
| Return on Equity | 6.81% | 2.51% | 4.69% | 0.78% | 9.63% | 8.80% |
| Net Charge-offs to Loans | 1.23% | 1.51% | 1.19% | 0.69% | 1.62% | 1.56% |
| Earnings Coverage of Net Loan C/Os | 2.14 | 2.26 | 2.20 | 1.62 | 2.63 | 2.60 |
| Loss Allowance to Loans | 1.80% | 2.21% | 2.00% | 1.18% | 2.23% | 2.16% |
| Loss Allowance to Noncurrent Loans | 72.44% | 54.84% | 61.51% | 61.05% | 106.17% | 103.35% |
| Noncurrent Assets+OREO to Assets | 1.92% | 3.11% | 2.50% | 2.20% | 1.92% | 1.94% |
| Net Loans and Leases to Core Deps | 103.22% | 112.44% | 107.64% | 101.73% | 104.51% | 104.32% |
| Equity Capital to Assets | 10.47% | 10.80% | 10.63% | 10.91% | 9.85% | 9.94% |
| Core Capital (Leverage) Ratio | 9.40% | 9.00% | 9.20% | 10.31% | 9.80% | 9.84% |

*Data for other state chartered institutions doing business in Texas is not available and therefore excluded*

# Comparison Report

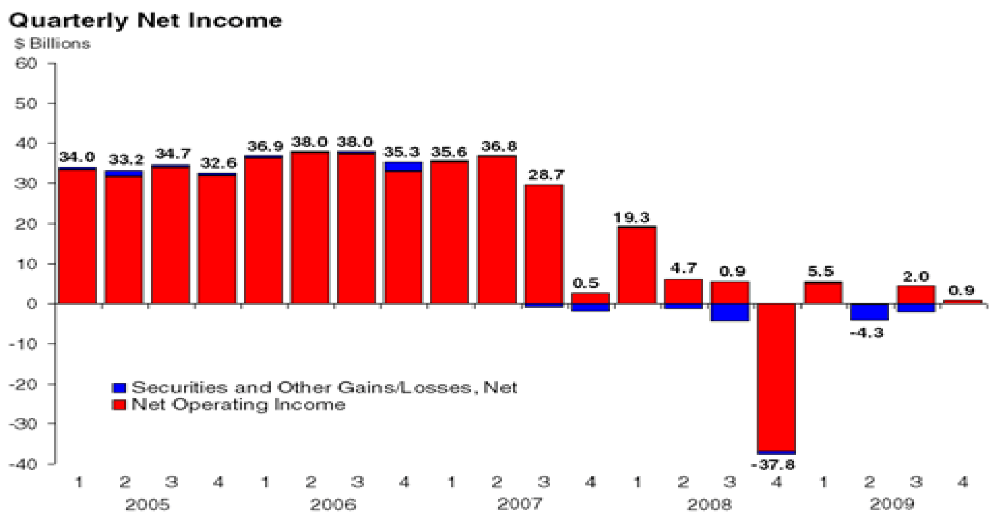
Select Balance Sheet and Income/Expense Information
December 31, 2009

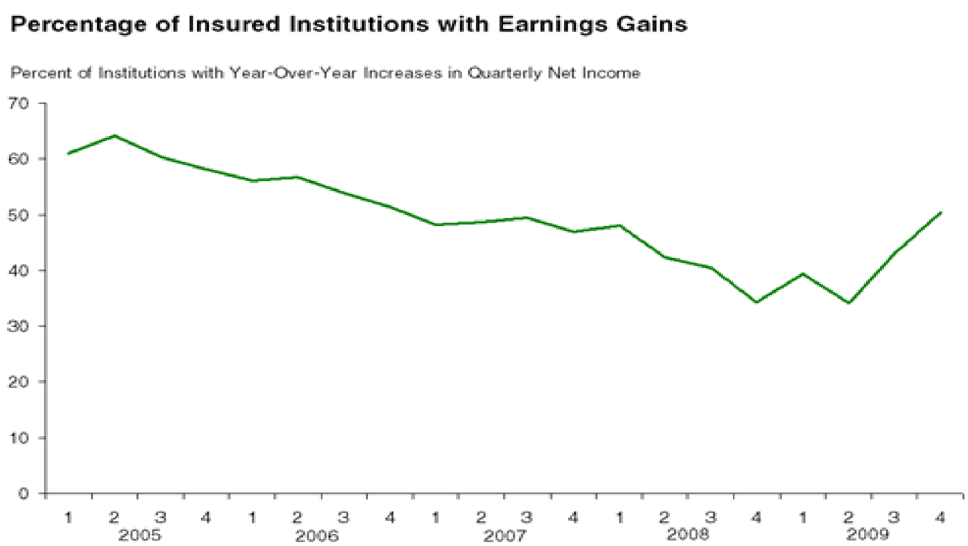
| | State Banks* | | State Thrifts | |
|---|---|---|---|---|
| | **End of Period** | ***% of Total Assets*** | **End of Period** | ***% of Total Assets*** |
| Number of Institutions | 318 | | 28 | |
| Number of Employees (full-time equivalent) | 36,689 | | 1,062 | |
| *(In millions)* | | | | |
| Total Assets | $162,950 | | $4,466 | |
| Net Loans and Leases | $100,614 | 61.75% | $2,767 | 61.95% |
| Loan Loss Allowance | $1,841 | 1.13% | $33 | 0.74% |
| Other Real Estate Owned | $594 | 0.36% | $44 | 0.99% |
| Goodwill and Other Intangibles | $2,144 | 1.32% | $19 | 0.43% |
| Total Deposits | $124,320 | 76.29% | $3,645 | 81.61% |
| Federal Funds Purchased and Repurchase Agreements | $3,789 | 2.33% | $5 | 0.10% |
| Other Borrowed Funds | $13,581 | 8.33% | $308 | 6.89% |
| Equity Capital | $17,064 | 10.47% | $487 | 10.91% |
| Memoranda: | | | | |
| Noncurrent Loans and Leases | $2,541 | 1.56% | $54 | 1.21% |
| Earning Assets | $146,624 | 89.98% | $4,104 | 91.89% |
| Long-term Assets (5+ years) | $34,671 | 21.28% | $1,206 | 27.00% |
| | **Year-to Date** | ***% of Avg. Assets*** | **Year-to Date** | ***% of Avg. Assets*** |
| Total Interest Income | $6,956 | 4.26% | $228 | 5.32% |
| Total Interest Expense | $1,782 | 1.09% | $79 | 1.85% |
| Net Interest Income | $5,174 | 3.17% | $149 | 3.47% |
| Provision for Loan and Lease Losses | $1,708 | 1.05% | $23 | 0.54% |
| Total Noninterest Income | $2,398 | 1.47% | $26 | 0.61% |
| Total Noninterest Expense | $4,803 | 2.94% | $144 | 3.36% |
| Securities Gains | $330 | 0.20% | -$3 | -0.06% |
| Net Income | $1,127 | 0.69% | $4 | 0.08% |
| Memoranda: | | | | |
| Net Loan Charge-offs | $1,296 | 0.79% | $19 | 0.44% |
| Cash Dividends | $464 | 0.28% | $15 | 0.34% |

**Excludes branches of state-chartered banks of other states doing business in Texas. As of 12-31-09 an estimate is twenty institutions with $36.7 billion in assets. No branches of state-chartered thrifts of other states conducted business in Texas as of 12-31-09.*

***Quarterly Banking Profile – National Level***
***First Quarter 2010***
***Federal Deposit Insurance Corporation***

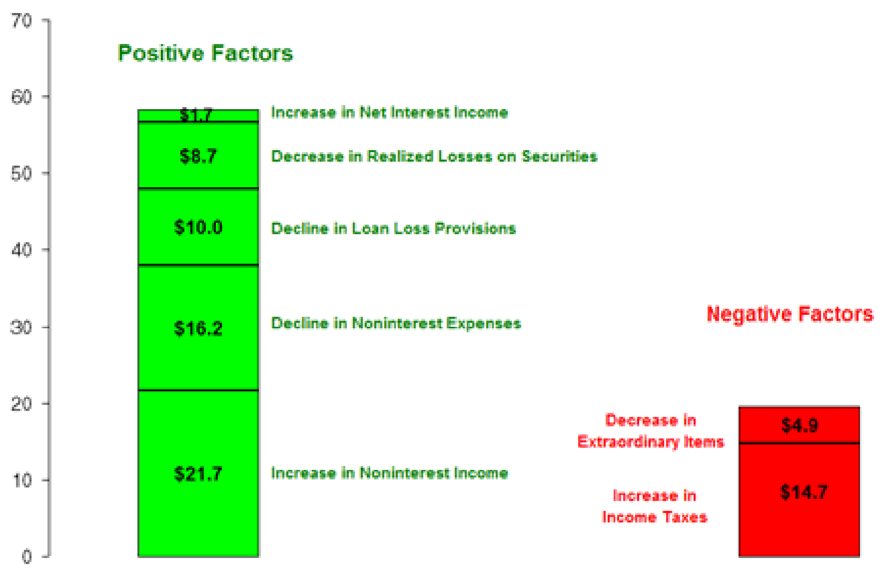
⇧ **Earnings Performance -** The benefits of a recovering economy and stable financial markets in year-over-year comparisons were evident in the performance of insured depository institutions in the fourth quarter. The small profit reported by the industry in the quarter essentially represented break-even performance, but it contrasted sharply with the record quarterly loss posted in the fourth quarter of 2008. Fourth quarter bank net income for the industry was $914 million, compared with a $37.8 billion net loss a year earlier. While much of the year-over-year earnings improvement was concentrated among the largest banks, there was also evidence of a broader improving trend. For the first time in three years, more than half of insured institutions reported year-over-year improvement in net income. The percentage of institutions reporting a net loss for the quarter was lower than a year ago. The average return on assets (ROA) for all four of the asset size groups featured in the Quarterly Banking Profile was better than a year ago, although only the largest size group—institutions with more than $10 billion in assets—had a positive average ROA for the quarter.



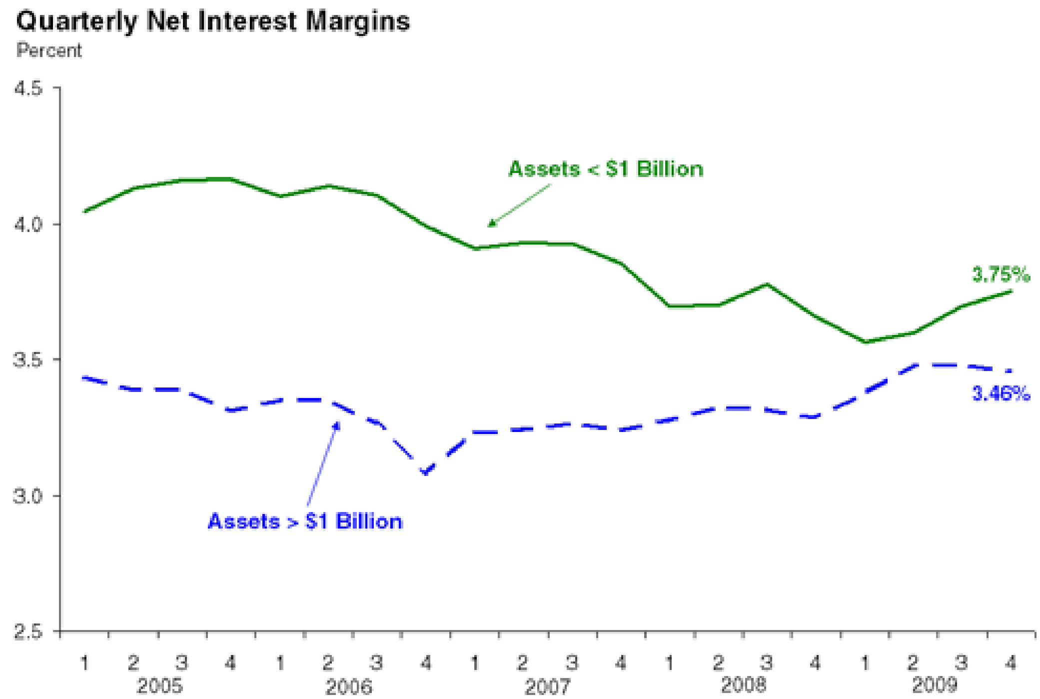



⇧ **Revenues Rebound from Fourth Quarter 2008 -** A number of factors contributed to the year-over-year improvement in quarterly earnings. Noninterest income was $21.7 billion (53.2 percent) higher than in the fourth quarter of 2008, as several categories of noninterest income that were negative a year ago swung back into positive territory. Trading revenues totaled $2.8 billion in the quarter, compared with $9.2 billion in trading losses a year earlier. Servicing income also rebounded strongly, from a $390 million loss a year ago to a gain of $8.0 billion. Loan sales produced $1.3 billion in gains, versus $1.3 billion in losses in the fourth quarter of 2008. Another significant contribution to the improvement in earnings came from a $16.2 billion (14.2 percent) decline in noninterest expense. This decline was the result of an $18.1 billion (77.2 percent) reduction in charges for goodwill impairment and other intangible asset expenses. Quarterly loan-loss provisions posted a year-over-year decline for the first time since the third quarter of 2006, falling by $10.0 billion (14.1 percent). Provisions remained above $60 billion for the fifth consecutive quarter, but the $61.1 billion that institutions set aside in the quarter was the smallest quarterly total since the third quarter of 2008. Realized gains on securities and other assets totaled $158 million, an $8.7 billion improvement over the $8.6 billion in realized losses reported by the industry a year ago. Net interest income was higher than a year ago but only by $1.7 billion (1.8 percent).

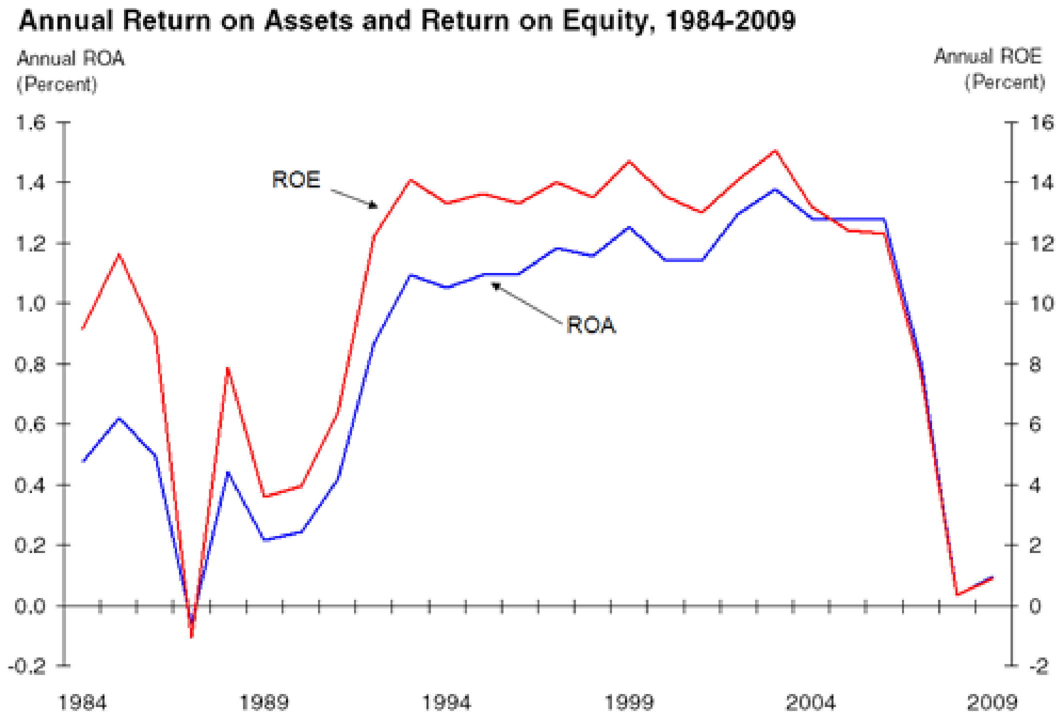
**Major Factors Contributing to the Year-Over-Year Change in Quarterly Earnings**
($ Billions)




⇳ **Margins Register Improvement -** The average net interest margin (NIM) in the fourth quarter was 3.49 percent, but higher than the 3.33 percent average in the fourth quarter of 2008. More than half of all institutions (55.5 percent) reported higher NIMs compared to third quarter levels. Also, quarterly NIMs at a majority of institutions (53.0 percent) increased from a year ago, with larger institutions reporting the biggest gains. Margin improvements helped offset declines in interest-bearing assets. Earning assets declined by $138.8 billion (1.2 percent) during the fourth quarter and fell by $477.2 billion (4.1 percent) for the full year.

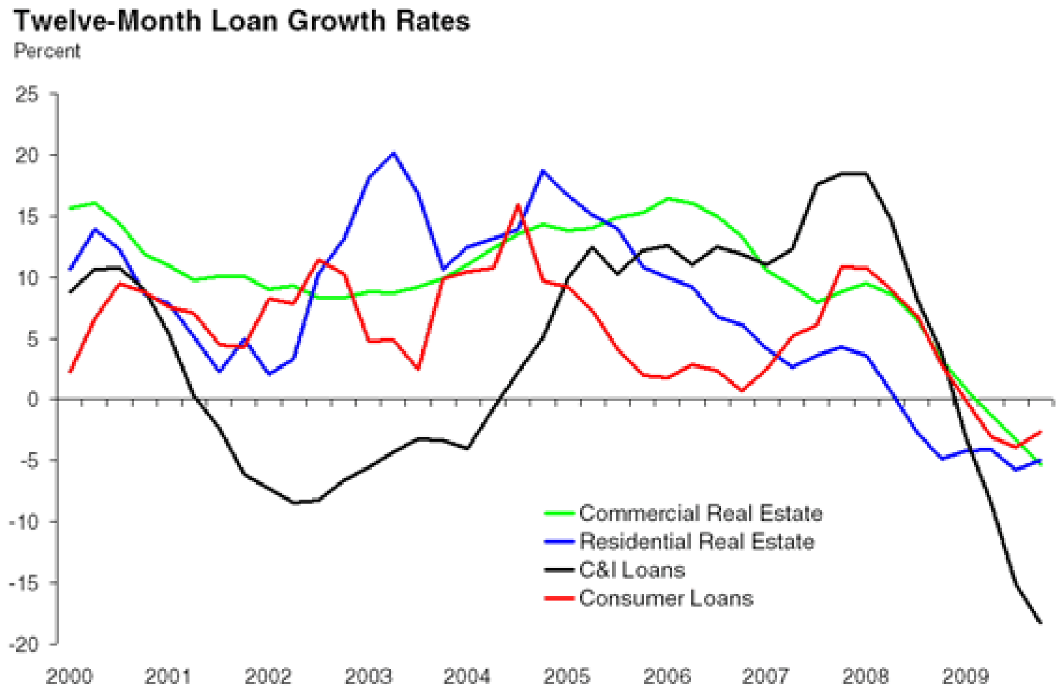



⇧ **Full Year Earnings Remain Well below Historical Norms -** Full-year 2009 net income was $12.5 billion, up from $4.5 billion in 2008, but well below the $100 billion in net income the industry reported for 2007. Increased noninterest income, higher net interest income, and lower realized losses on securities and other assets outstripped increased noninterest expenses and higher loan loss provisions to produce the increase in earnings. Noninterest income was $52.8 billion (25.4 percent) higher than in 2008, with trading revenue registering a $26.6 billion improvement. Net interest income was $38.1 billion (10.6 percent) higher, as the full-year industry NIM rose for the first time in seven years. The average NIM in 2009 was 3.47 percent, the highest annual average since 2005. Realized losses on securities and other assets fell from $15.4 billion in 2008 to $1.4 billion in 2009. These positive contributions to the rise in full-year earnings were partially offset by a $71.5 billion (40.6 percent) increase in loan loss provisions and a $16.3 billion (4.4 percent) increase in noninterest expense. More than one in four institutions (29.5 percent) reported negative net income for the year, up from 24.8 percent in 2008. This is the highest proportion of unprofitable institutions in any year since at least 1984. The average ROA in 2009 was 0.09 percent, up from 0.03 percent in 2008. As was the case in 2008, full-year industry earnings for 2009 (which consist of calendar-year net income of 8,012 insured institutions filing December 31 financial reports) would have been significantly lower if losses experienced by institutions that failed during the year were reflected in year-end reporting. (See chart on next page.)




⇩ **Loan Losses Rise for Twelfth Consecutive Quarter -** Asset quality indicators worsened in the fourth quarter. Net charge-offs (NCOs) totaled $53.0 billion, an increase of $14.4 billion (37.2 percent) over the same period in 2008. The annualized net charge-off rate rose to 2.89 percent, up from 1.95 percent a year earlier and 2.72 percent in the third quarter of 2009. This is the highest quarterly NCO rate reported by the industry in the 26 years for which quarterly NCO data are available. NCOs in all major loan categories increased from a year ago. The largest increases occurred in residential mortgage loans, where NCOs rose by $3.3 billion (47.7 percent); credit cards (up by $2.7 billion, or 41.4 percent); loans to commercial and industrial (C&I) borrowers (up $2.3 billion, or 37.0 percent); home equity loans (up $1.9 billion, or 58.6 percent); and real estate loans secured by nonfarm nonresidential properties (up $1.9 billion, or 130.9 percent). This is the 12th consecutive quarter that NCOs have posted a year-over-year increase.

⇩ **Growth in Noncurrent Loans Slows -** Noncurrent loans and leases continued to rise through the end of the year, with a few notable exceptions. The total amount of loans and leases that were noncurrent (90 days or more past due or in nonaccrual status) increased by $24.3 billion (6.6 percent) in the fourth quarter, to $391.3 billion, or 5.37 percent of all loans and leases at year-end. This is the highest level for the industry's noncurrent rate in the 26 years that all insured institutions have reported noncurrent loan data. The increase in noncurrent loans in the quarter was largely driven by noncurrent residential mortgage loans, which rose by $23.2 billion (14.9 percent). Much of this increase—$19.1 billion—consisted of rebooked GNMA mortgages that have government guarantees. The amount of real estate loans secured by nonfarm nonresidential real estate properties that were noncurrent rose by $4.5 billion (12.2 percent). In contrast, noncurrent commercial & industrial loans declined by $3.5 billion (7.7 percent), and noncurrent real estate construction and development (C&D) loans fell by $2.0 billion (2.7 percent). This was the first time in three years that noncurrent C&I loans have declined and the first time in four years that noncurrent C&D loans have fallen.




⇳ **Reserves Exceed Three Percent of Total Loans -** Reserves for loan and lease losses increased by only $7.0 billion (3.2 percent) in the fourth quarter, as institutions added $8.1 billion more in loss provisions to their reserves than they took out in net charge-offs. The average coverage ratio of reserves to noncurrent loans and leases fell from 60.1 percent to 58.1 percent, ending the year at the lowest level since midyear 1991. In contrast, the industry's ratio of reserves to total loans and leases rose from 2.97 percent to 3.12 percent during the quarter, and is now at its highest level since the creation of the FDIC.

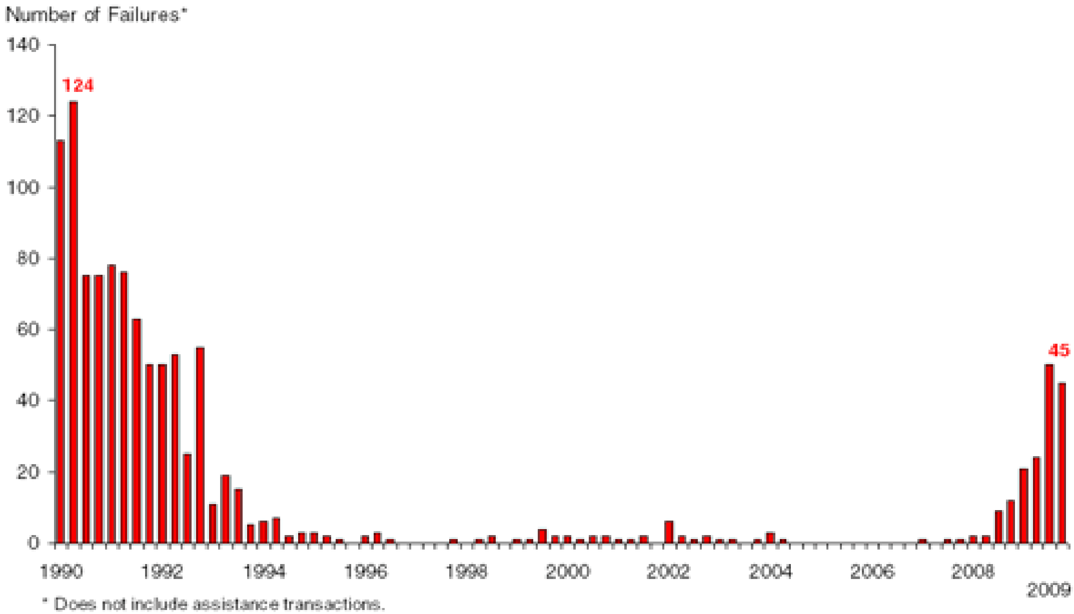
⇧ **Capital Ratios Improve -** The industry's capital also registered relatively slow growth in the quarter. Bank equity increased by only $4.1 billion (0.3 percent), the smallest increase in the last four quarters. Leverage capital (as defined for Prompt Corrective Action purposes) increased by $11.9 billion (1.1 percent). Despite the slow growth in capital, the industry's regulatory capital ratios all improved, as industry assets fell.

⇳ **Fluctuations in Assets -** Total assets of insured institutions fell for a fourth consecutive quarter, declining by $137.2 billion (1.0 percent). During the year, total industry assets declined by a net $731.7 billion (5.3 percent), the largest percentage decline in a year since the inception of the FDIC. Total loan and lease balances declined for the sixth quarter in a row, falling by $128.8 billion (1.7 percent). The fourth-quarter decline was led by C&I loan balances, which fell by $54.5 billion (4.3 percent); real estate C&D loans (down $41.5 billion, or 8.4 percent); loans to depository institutions (down $21.2 billion, or 15.9 percent); and residential mortgage loans (down $11.2 billion, or 0.6 percent). Credit card balances increased $29.1 billion during the quarter (7.4 percent), but balances in all other major loan categories declined. Insured institutions continued to add to their securities holdings. Slightly more than half of all insured institutions (52 percent) reported declining loan balances in the fourth quarter. Total securities increased by $103.7 billion (4.3 percent) during the quarter, with mortgage-backed securities rising by $44.8 billion (3.3 percent), and U.S. Treasury securities increasing by $15.9 billion (18.3 percent). During 2009, insured institution securities holdings increased by $465.1 billion (22.9 percent).

⇧ **Deposit Growth Remains Strong -** Institutions continued to increase their reliance on deposit funding in the fourth quarter. Even as assets were declining, total deposits increased by $125.7 billion (1.4 percent), as domestic noninterest-bearing deposits rose by 89.8 billion (6.1 percent). Nondeposit liabilities fell by $268.1 billion (10.0 percent) during the quarter, led by a $184.1 billion (23.3 percent) decline in Federal funds purchased and securities sold under repurchase agreements. Federal Home Loan Bank advances fell by $42.6 billion (7.4 percent). During the quarter, the percentage of industry assets funded by deposits rose from 68.7 percent to 70.4 percent, the highest level since March 31, 1996.

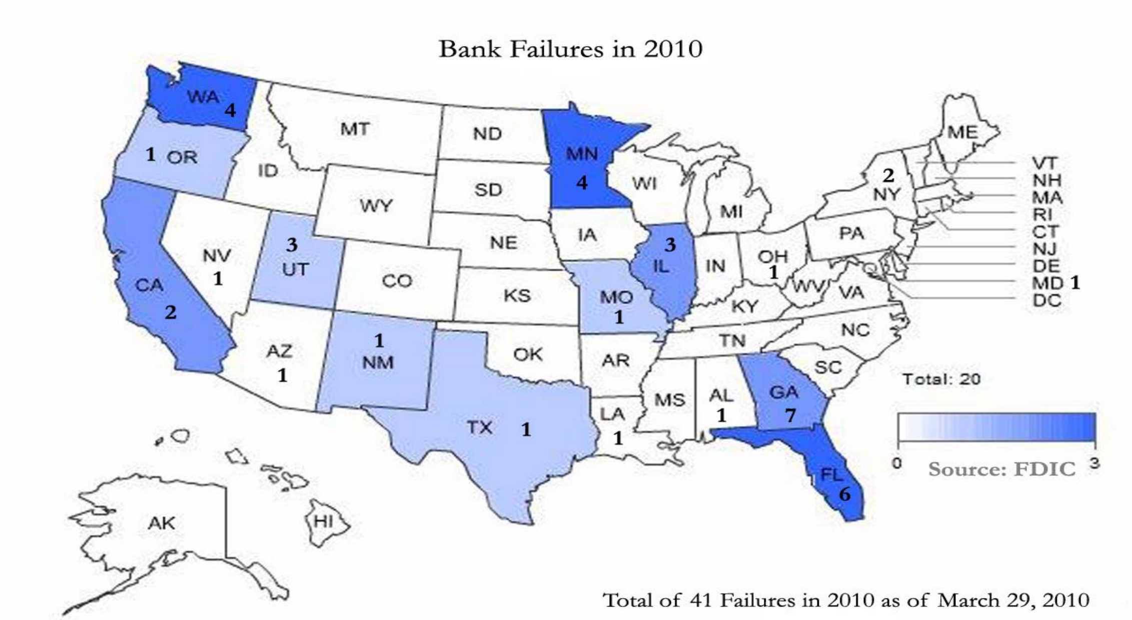
⇩ **Industry Failures and Consolidations Continues -** The number of insured commercial banks and savings institutions reporting financial results declined by 87 during the fourth quarter. Only three new charters were added during the quarter, while 43 institutions were absorbed by mergers and 45 institutions failed. For the full year, the number of reporting institutions fell from 8,305 to 8,012. Only 31 new charters were added in 2009, the smallest annual total since 1942. Mergers absorbed 179 institutions during the year, and 140 insured institutions failed. This is the largest number of bank failures in a year since 1992. The number of institutions on the FDIC's "Problem List" rose to 702 at the end of 2009, from 552 at the end of the third quarter and 252 at the end of 2008. Total assets of "problem" institutions were $402.8 billion at year-end 2009, compared with $345.9 billion at the end of September and $159.0 billion at the end of 2008. Both the number and assets of "problem" institutions are at the highest level since June 30, 1993.

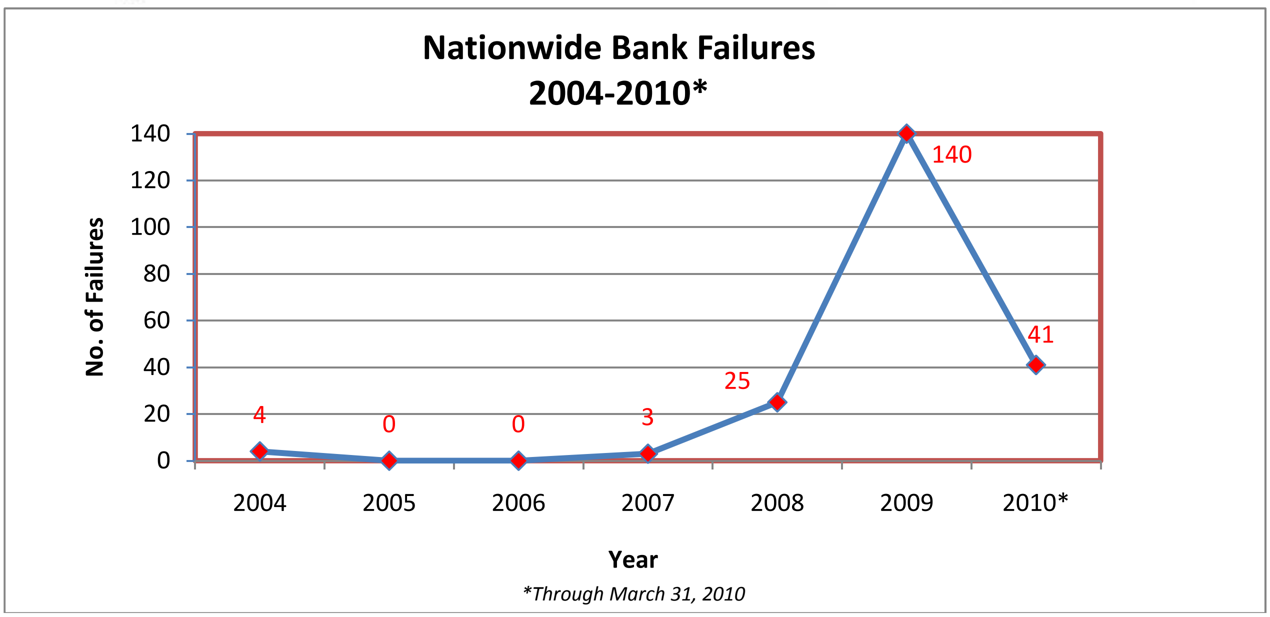
**Number of Insured Commercial Bank and Savings Institution Failures by Quarter, 1990 - 2009**




* Does not include assistance transactions.

***Bank and Thrift Closures Nationwide***
***Federal* Deposit Insurance Corporation**




Source: FDIC

| Texas Failures in 2009 and 2010* | Charter | Date Closed | Total Assets |
|---|---|---|---|
| The La Coste National Bank, La Coste, TX | National | 02-19-10 | $53.9 Million |
| North Houston Bank, Houston, TX | State | 11-30-09 | $325.5 Million |
| Madisonville State Bank, Madisonville, TX | State | 11-30-09 | $256.3 Million |
| Citizens National Bank, Teague, TX | National | 11-30-09 | $118.2 Million |
| Guaranty Bank, Austin, TX | Federal Thrift | 08-21-09 | $13.5 Billion |
| Millennium State Bank of Texas, Dallas, TX | State Bank | 07-02-09 | $118.6 Million |

**Through March 31, 2010*

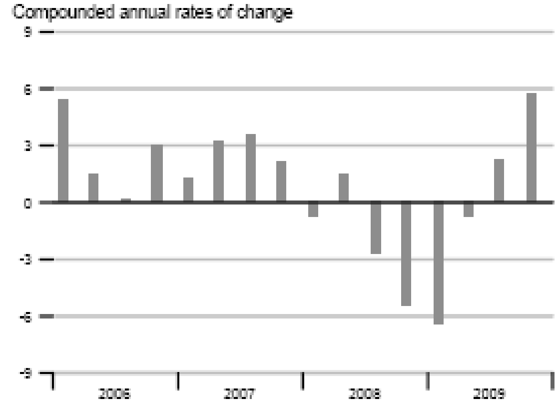
***Stock Performance***
***Southwest Regional Banks***

| Name | Last Trade | | 52 Wk Range | | PE | EPS | Mkt Cap | Div/Shr | Div Yld |
|---|---|---|---|---|---|---|---|---|---|
| Bancfirst Corporation | 03/05 | 25.10 | 22.07 | 27.10 | N/A | N/A | N/A | N/A | N/A |
| Banco Bilbao Vizcaya Argentaria | 03/09 | 14.24 | 5.68 | 19.78 | N/A | N/A | 53.13B | 0.52 | 3.70% |
| Bok Financial Corporation | 03/09 | 46.54 | 22.58 | 50.78 | 15.66 | 2.97 | 3.16B | 0.96 | 2.10% |
| Cass Information Sys Inc | 03/09 | 31.16 | 24.89 | 36.19 | 18.01 | 1.73 | 292.25M | 0.56 | 1.80% |
| Cobiz Incorporated | 03/09 | 6.47 | 3.99 | 8.09 | N/A | -2.98 | 235.94M | 0.04 | 0.60% |
| Comerica Inc. | 03/09 | 35.70 | 11.91 | 37.32 | N/A | -0.772 | 5.40B | 0.20 | 0.50% |
| Community Shores Bank Corp | 03/09 | 1.30 | .50 | 3.50 | N/A | -2.51 | 1.91M | N/A | N/A |
| Cullen Frost Bkrs Incorporated | 09/18 | 33.77 | 28.77 | 40.00 | N/A | N/A | N/A | N/A | N/A |
| Enterprise Fin Serv Corp | 03/09 | 9.10 | 7.00 | 12.25 | N/A | -3.92 | 117.24M | 0.21 | 2.30% |
| First Comnty Corp S C | 03/08 | 6.40 | 5.26 | 8.23 | N/A | -7.95 | 20.92M | 0.16 | 2.50% |
| First Financial Bankshares | 03/09 | 54.17 | 36.49 | 55.94 | 20.98 | 2.58 | 1.13B | 1.36 | 2.50% |
| First ST Bancorporation | 03/09 | 0.51 | 0.36 | 2.79 | N/A | -5.36 | 10.56M | N/A | N/A |
| Firstcity Finl Corp | 03/09 | 5.56 | 0.88 | 9.00 | N/A | -2.48 | 54.88M | N/A | N/A |
| Great Southn Bancorp Inc | 03/09 | 23.91 | 9.04 | 24.60 | 5.39 | 4.44 | 320.54M | 0.72 | 3.00% |
| Guaranty Fed Bancshares Inc | 03/09 | 5.51 | 4.00 | 7.50 | N/A | -1.29 | 14.47M | N/A | N/A |
| Heartland Financial USA Inc | 03/09 | 16.49 | 8.51 | 17.56 | 219.87 | 0.08 | 269.55M | 0.40 | 2.50% |
| International Bancs Cor | 03/09 | 21.64 | 6.55 | 22.10 | 11.62 | 1.86 | 1.48B | 0.34 | 1.60% |
| Landmark Bancorp Inc | 03/08 | 16.50 | 12.81 | 17.50 | 12.59 | 1.31 | 41.07M | 0.76 | 4.60% |
| Liberty Bancorp Inc | 03/08 | 6.40 | 5.80 | 8.35 | 10.42 | 0.61 | 23.04M | N/A | N/A |
| Mackinac Finl Corp | 03/09 | 4.80 | 2.63 | 6.37 | 8.60 | 0.56 | 16.41M | N/A | N/A |
| Metrocorp Bancshares Inc | 03/09 | 2.80 | 2.40 | 4.46 | N/A | -0.72 | 30.59M | N/A | N/A |
| MidWest One Finl Group Inc | 03/09 | 11.35 | 6.14 | 11.49 | 26.90 | 0.42 | 97.67M | 0.20 | 1.80% |
| Osage Bancshares Inc | 03/08 | 8.35 | 7.25 | 10.25 | 34.22 | 0.244 | 22.07M | 0.34 | 4.10% |
| Prosperity Bancs Inc | 03/09 | 41.89 | 20.04 | 42.55 | 17.35 | 2.41 | 1.95B | 0.62 | 1.50% |
| QCR Holdings Inc | 03/09 | 9.68 | 7.06 | 11.00 | N/A | -0.46 | 44.07M | 0.08 | 0.90% |
| Sterling Bancshares Inc | 03/09 | 5.05 | 4.50 | 8.69 | N/A | -0.28 | 413.04M | 0.06 | 1.20% |
| Team Financial Inc | 02/03 | 0.0010 | N/A | N/A | N/A | -6.352 | 0.00 | N/A | N/A |
| Tex Capital Bancs Inc | 03/09 | 17.24 | 6.66 | 18.30 | 31.63 | 0.55 | 623.33M | N/A | N/A |
| TierOne Corporation | 03/09 | 0.67 | 0.55 | 4.05 | N/A | -1.63 | 12.08M | N/A | N.A |
| UMB Financial Corporation | 03/09 | 40.28 | 33.84 | 48.72 | 18.31 | 2.20 | 1.63B | 0.74 | 1.80% |
| West Bancorp Incorporated | 03/09 | 5.75 | 4.28 | 9.50 | N/A | -0.97 | 99.43M | N/A | N/A |
| Zions Bancorp | 03/09 | **19.26** | 7.11 | 20.97 | N/A | -9.92 | 2.90B | 0.04 | 0.20% |

*Source: Yahoo Finance (March 2010)*
*NA – Indicates information was not available.*

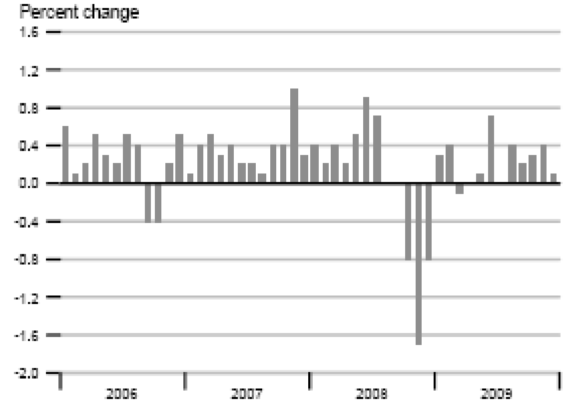
## Real GDP Growth

Compounded annual rates of change



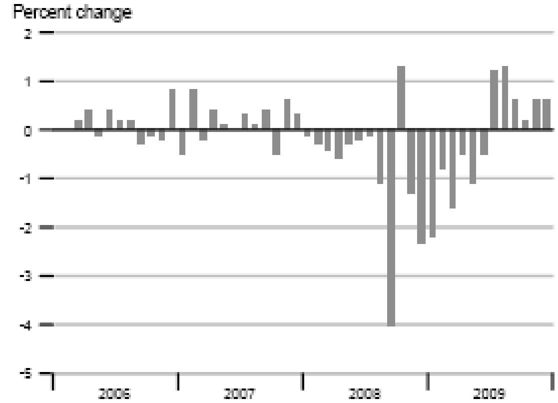

## Consumer Price Index

Percent change




## Industrial Production

Percent change

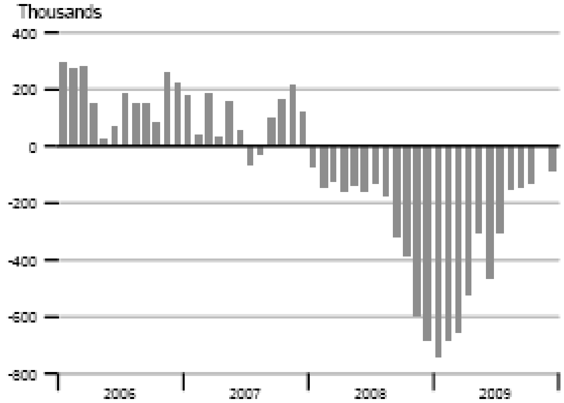



## Interest Rates

Percent


## Change in Nonfarm Payrolls

Thousands

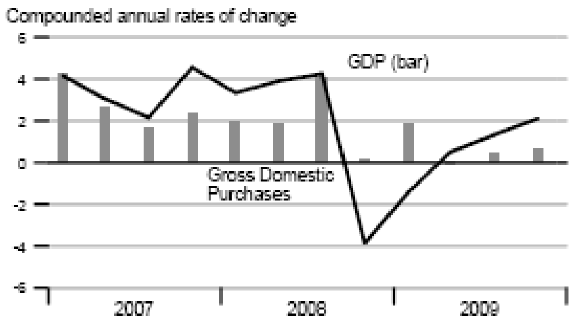



## Unemployment Rate

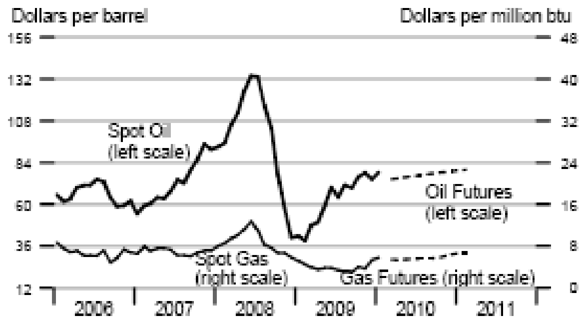
Percent of labor force


*Provided by the Federal Reserve Bank of St. Louis, National Economic Trends.*
*Updated February 2, 2010.*

## NIPA Chain Price Indexes

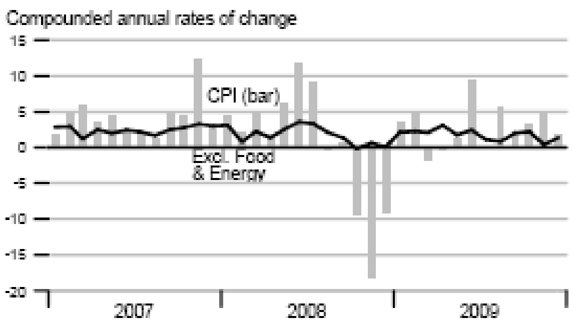



## Oil & Natural Gas Prices: Spot & Futures

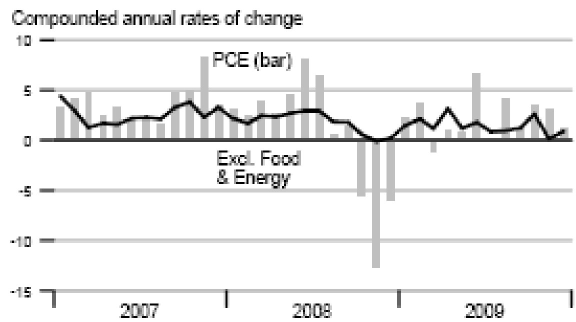



Note: Futures prices as of 2/1/2010.

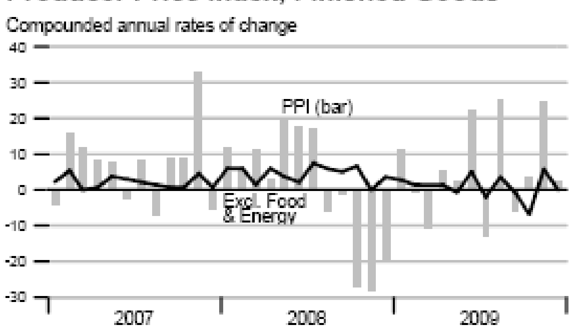
## Consumer Price Index



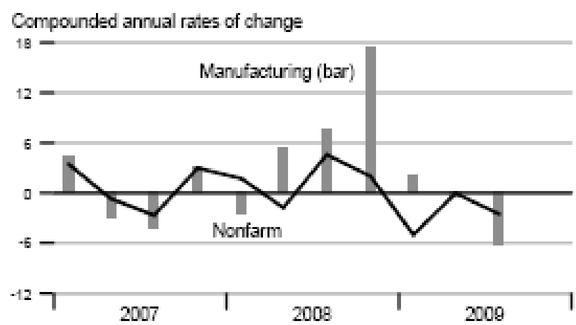

## Consumption Chain Price Index



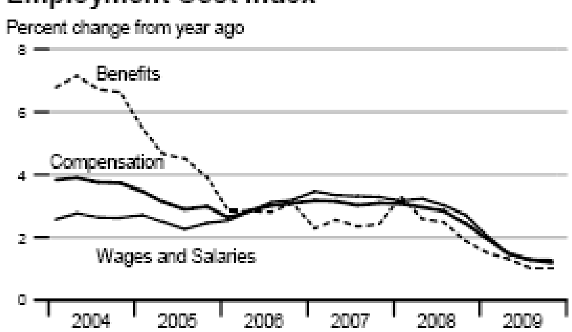

## Producer Price Index, Finished Goods



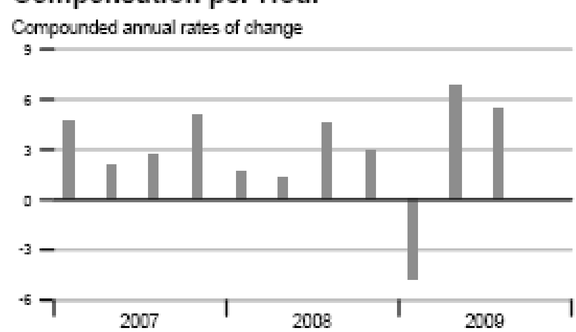

## Unit Labor Cost




## Employment Cost Index

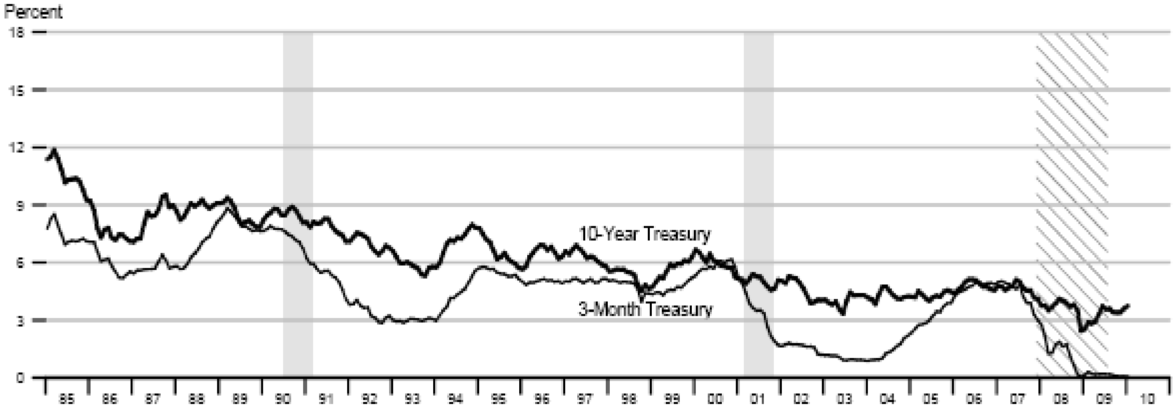



## Compensation per Hour

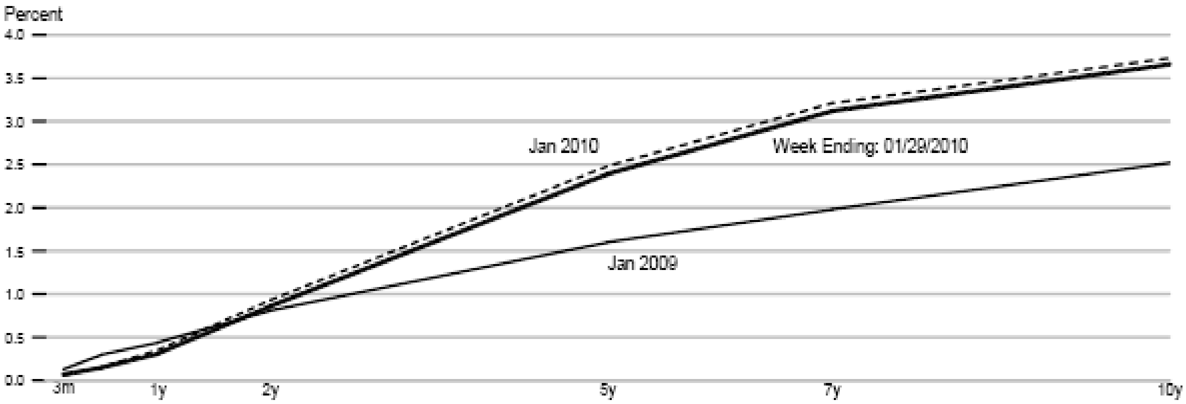



*Provided by the Federal Reserve Bank of St. Louis, National Economic Trends.*
*Updated February 2, 2010.*

## Interest Rates




## Treasury Yield Curve



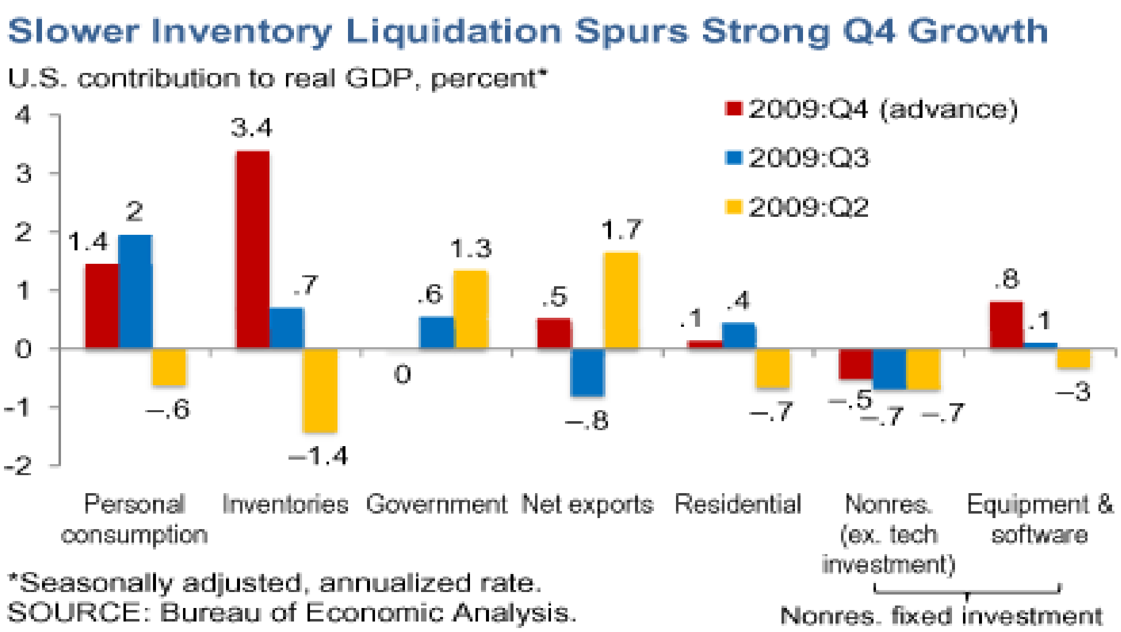

## Standard and Poor's 500 Index with Reinvested Dividends


*Provided by the Federal Reserve Bank of St. Louis, National Economic Trends.*
*Updated February 2, 2010.*

***National Update – February 2010***
***Federal Reserve Bank of Dallas***

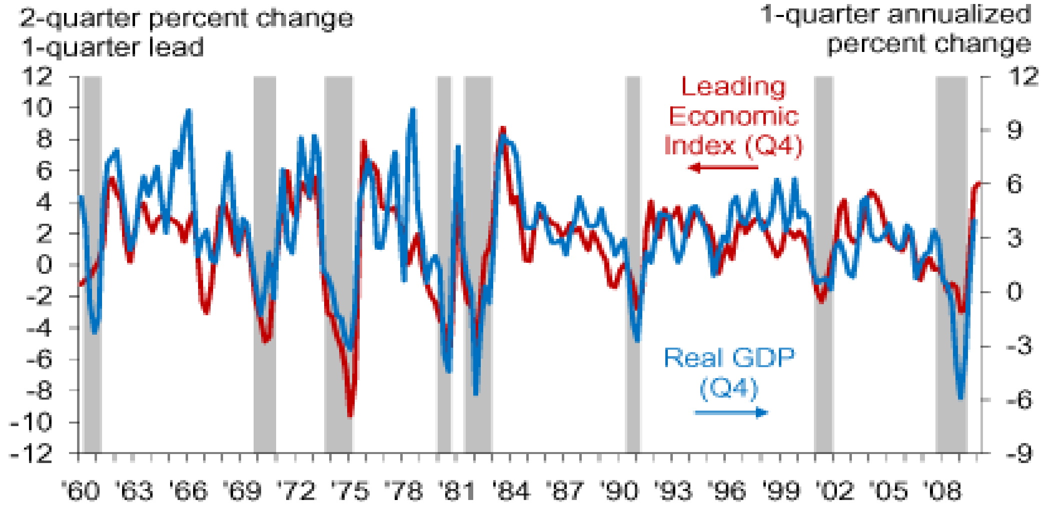
⇳ **<u>Overall Economy</u>** - Recent data suggest economic growth may be nearing a pace at which job losses might give way to modest gains. However, debt deleveraging and tight credit conditions will continue to restrain the economic recovery. Growth has been aided by conventional monetary and fiscal policy stimulus efforts and by increased financial flows as once-frozen credit markets continue to thaw.

⇧ **<u>Gross Domestic Product</u>** - Real gross domestic product (GDP) grew at a better-than-expected 5.7 percent seasonally adjusted annualized rate in the fourth quarter—the fastest since third quarter 2003 and the second consecutive quarter of growth. Much of last quarter's strength came from a pickup in production to offset the pace of inventory liquidation, which was $105.7 billion slower than in third quarter 2009. The result was the addition of 3.4 percentage points to overall GDP growth. Real final sales, which exclude inventories, grew 2.2 percent. This is 1.7 percentage points from rising domestic demand and 0.5 percentage points from higher net exports.




The Conference Board's Leading Economic Index points to a growth pace above those of the prior two "jobless" recoveries but below the robust recoveries that followed the deep recessions of the mid-1970s and early 1980s. This index jumped 1.1 percent in December, the ninth consecutive monthly rise. December's increase was broad-based across the index's components. Over the prior six months, the index rose at a sharp 10.8 percent annualized rate. This suggests first-half 2010 GDP growth above the 2.9 percent Blue Chip average forecast. It should be noted that the leading index did not closely track the unusual financial factors that adversely impacted GDP during late 2008. As reviewed below, the negative effects of those omitted factors are unwinding. The index's recent surge implies that the conventional indicators it tracks are pointing to continued economic recovery. (See chart on next page.)

**Leading Indicators Suggest Pace of Recovery Falls Between Earlier Episodes**



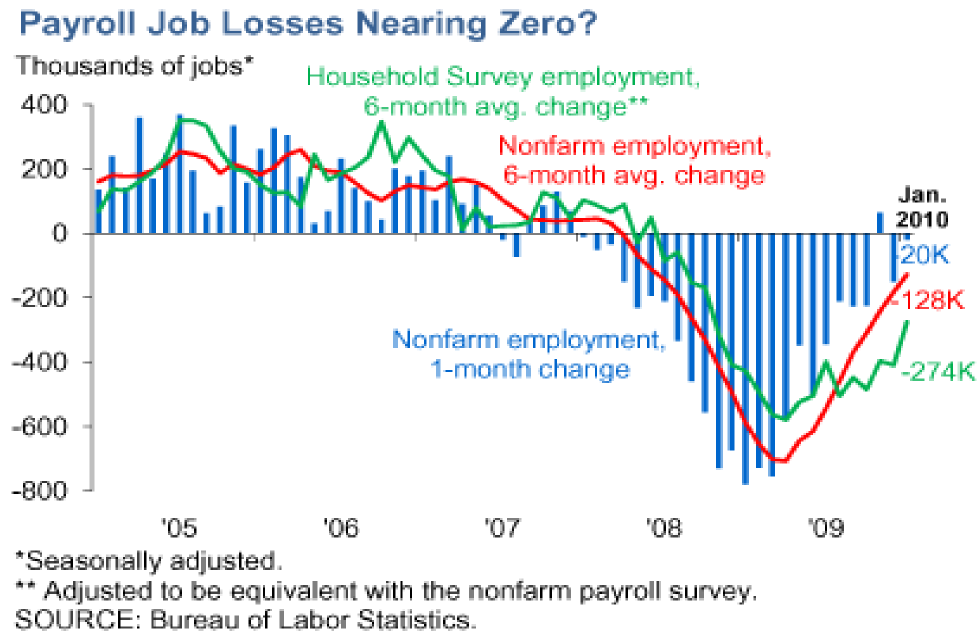

NOTE: Shaded areas indicate recession.
SOURCES: Bureau of Economic Analysis; Conference Board.

⇧ **Manufacturing** - The Institute for Supply Management (ISM) composite manufacturing index rose to 58.4 percent in January, the highest level since August 2004 and the sixth consecutive month of readings pointing to manufacturing growth. Led by a 5.9 percent rise in utility output, industrial production rose at a 0.6 percent rate in December, the same pace as in November. But following a 0.9 percent increase in November, total manufacturing output dipped 0.1 percent in December, pulled down by big drops in output of construction-related supplies. The level of manufacturing activity is still very low due to huge declines between September 2008 and July 2009. Moreover, with capacity utilization at 68.6 percent, much manufacturing capacity remains unused. In contrast to the sector's improvement, January's ISM nonmanufacturing index showed that business activity outside the goods sector has improved little, with readings pointing to a very modest recovery so far. However, recent Beige Book reports indicate that "while economic activity remains at a low level, conditions have improved modestly further" and those "improvements are broader geographically" than in December's report.

⇧ **Consumer Spending** - Cutting through monthly changes, the underlying pace of consumer spending has firmed to a moderate level. Retail sales declined 0.3 percent in December, only slightly undoing the 1.8 percent jump in November. Total retail sales rose 5.4 percent from a year earlier—5.2 percent excluding autos. After falling below 1981–82 recession levels, the Conference Board's overall consumer confidence index has recovered only about one-quarter of its drop since mid-2007. The comeback has been stronger in the index's future jobs component, which reflects the percent of households expecting more jobs six months from now, minus the percent expecting fewer jobs. This component plunged at the height of the financial crisis but has recovered to slightly negative levels since mid-2009. These readings are consistent with the recent improvement in real consumer spending.


⇳ **Housing** - Hurt by bad weather, housing starts fell in December, while the less-weather-sensitive housing permit series jumped for the second straight month, with total permits rising 10.3 percent in December and 15.8 percent from a year earlier. This jump was likely spurred by the extension of the homebuyer tax credit, which now expires in June. Nevertheless, the housing rebound appears somewhat vulnerable to future negative payback effects after the tax credit expires. For example, home sales moved up ahead of the old deadline of Nov. 30, which was followed in December by a record 16.7 percent plunge in existing-home sales and a larger-than-expected 7.6 percent drop in new-home sales.

⇳ **Labor Pains: Approaching Job Growth** - The January labor market report was mixed. The Bureau of Labor Statistics revised nonfarm payrolls downward to reflect that 8.4 million jobs have been lost since the recession began in December 2007. The survey of employers showed a 20,000 decline in nonfarm payrolls. However, the more volatile household survey registered an employment jump of 441,000 that followed a 489,000 drop in December. Last month, the overall unemployment rate fell from 10 percent to 9.7 percent as the underutilization rate (measuring marginally attached, discouraged and part-time workers) declined from 17.3 percent to 16.5 percent. This sharp improvement is encouraging; however, it remains to be seen how quickly the labor market rebounds as the labor force participation rate returns from 25-year lows.




Despite the mixed readings in the January report, the job and productivity patterns of recent months suggest that net job losses are nearing an end. Real productivity growth, a harbinger of job growth, surged an annualized 6.2 percent last quarter. It is typical for productivity to climb in the early stages of recovery when firms increase production and existing workers' hours before they add more staff. January's 0.3 percent increase in overall hours worked and 0.5 percent jump in average hourly earnings are consistent with this pattern. Also of note, within the industry breakdown of the nonfarm payroll survey, temporary hiring rose for the fifth straight month. Like productivity, this component usually leads a pickup in overall payrolls early in economic recoveries because firms hire tentatively before they add to regular staffing. Thus, recent indicators suggest that job losses will give way to net gains as the year unfolds; however, substantial labor market slack remains from the deepest economic contraction since the 1930s.

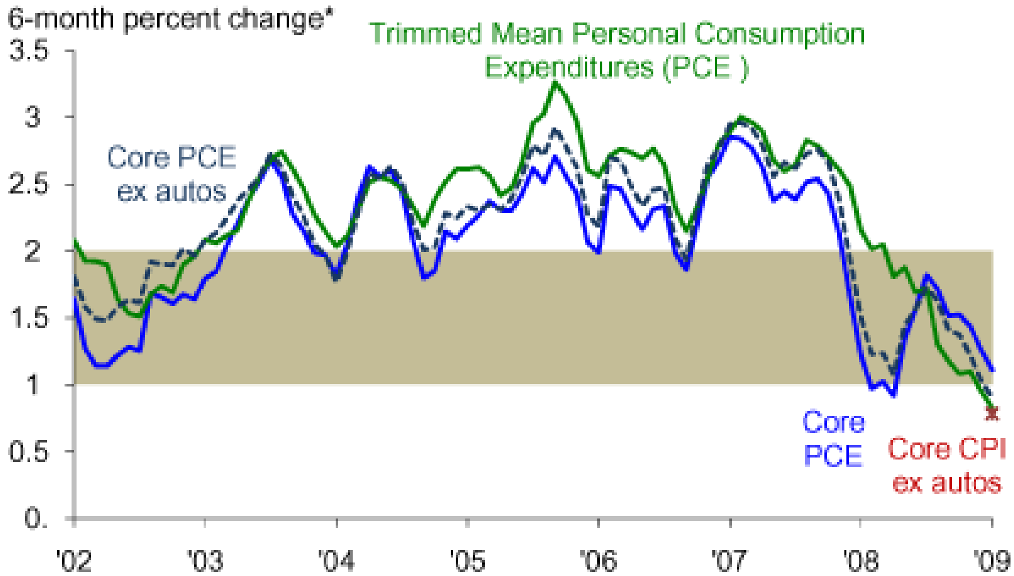
⇳ **Financial Markets** - Investment-grade corporate bond yield spreads have continued falling, with the Baa–Aaa spread dropping to levels seen in the recovery from the deep 1981–82 recession. Because the liquidity premium between Treasury securities and top-grade bonds remains a little elevated, the Baa Treasury spread is down but still near the high levels seen in the recessions of the early 2000s, mid-1970s and early 1980s. Similarly, junk spreads have recovered more slowly from their crisis highs than money market spreads, such as the commercial paper–Treasury spread. Money market conditions have been well maintained even after the Federal Open Market Committee reiterated at its last meeting that several liquidity and asset programs would end in early 2010. These developments reflect a fallback in risk aversion associated with the unwinding of the financial crisis, an improvement in the economic outlook and the stabilization of the financial system.

⇳ **Prices** - Recent data indicate continued downward pressure on consumer price inflation but some stabilization of commodity prices. Reflecting a partial rebound in energy prices, overall Producer Price Index (PPI) inflation appears to be returning to a 2 percent year-over-year pace. Although the financial crisis has abated, the high degree of slack that accumulated during the recession is imparting considerable disinflationary pressure. This is reflected in core PPI inflation, which decelerated to 0.9 percent for all of 2009 after rising 4.5 percent in 2008. Further reflecting domestic slack, core consumer prices edged up only 0.1 percent in December after they were unchanged in

November. Annualized core Consumer Price Index inflation is falling rapidly on a six-month basis. Indeed, excluding recent outliers from new and used auto prices that were distorted by the cash-for-clunkers program, the trimmed mean consumer inflation measure reveals a more continuous disinflationary trend.

⇳ **Economic Recovery Outlook** – With two quarters of real GDP growth to build on, the economic recovery will likely broaden even though several headwinds have not fully died down. GDP growth will probably ebb from last quarter's 5.7 percent surge as support from the fiscal stimulus and inventory cycle begins to fade. Going forward, structural drags from tight credit and household deleveraging will restrain the economy, while traditional stimulus from monetary policy and pent-up demand from the recession will help growth. Much will depend on how quickly financial headwinds abate, as well as how long it takes domestic demand to soak up labor market slack and unused resource capacity.

**Excluding Cash for Clunkers, Core Consumer Inflation Measures Fall Below 1 Percent**




*Seasonally adjusted, annualized rate.
NOTE: The shaded area represents the unofficial range of acceptable inflation measures by several members of the Federal Open Market Committee.
SOURCES: Bureau of Labor Statistics; Bureau of Economic Analysis; Federal Reserve Bank of Dallas.

***U.S. Economy at a Glance***
***U. S. Bureau of Labor Statistics***

| Data Series | Aug 2009 | Sep 2009 | Oct 2009 | Nov 2009 | Dec 2009 | Jan 2010 |
|---|---|---|---|---|---|---|
| **Unemployment Rate** (1) | 9.7 | 9.8 | 10.1 | 10.0 | 10.0 | 9.7 |
| **Change in Payroll Employment** (2) | -211 | -225 | -224 | 64 | -150(P) | -20 (P) |
| **Average Hourly Earnings** (3) | 22.28 | 22.30 | 22.35 | 22.39 | 22.41 (P) | 22.45 (P) |
| **Consumer Price Index** (4) | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Producer Price Index** (5) | 1.5 | -0.5 | 0.4(P) | 1.5(P) | 0.4(P) | 1.4(P) |
| **U.S. Import Price Index** (6) | 1.5 | 0.2 | 0.8(R) | 1.5(R) | 0.2(R) | 1.4(R) |

**Footnotes:**
(1) In percent, seasonally adjusted. Annual averages are available for not seasonally adjusted data.
(2) Number of jobs, in thousands, seasonally adjusted.
(3) For production and nonsupervisory workers on private nonfarm payrolls, seasonally adjusted.
(4) All items, U.S. city average, all urban consumers, 1982-84=100, 1-month percent change, seasonally adjusted.
(5) Finished goods, 1982=100, 1-month percent change, seasonally adjusted.
(6) All imports, 1-month percent change, not seasonally adjusted.
(R) Revised.
(P) Preliminary.

| Data Series | 4th Qtr 2008 | 1st Qtr 2009 | 2nd Qtr 2009 | 3rd Qtr 2009 | 4th Qtr 2008 |
|---|---|---|---|---|---|
| **Employment Cost Index** (1) | 0.6 | 0.3 | 0.4 | 0.4 | 0.5 |
| **Productivity** (2) | 0.8 | 0.3 | 6.9 | 7.2 | 6.2 |

**Footnotes:**
(1) Compensation, all civilian workers, quarterly data, 3-month percent change, seasonally adjusted.
(2) Output per hour, nonfarm business, quarterly data, percent change from previous quarter at annual rate, seasonally adjusted.

*Data extracted on: February 24, 2010*

***The Beige Book – March 3, 2010***
***The Federal Reserve Board***

- Reports from the twelve Federal Reserve Districts indicated that economic conditions continued to expand since the last report, although severe snowstorms in early February held back activity in several Districts. Nine Districts reported that economic activity improved, but in most cases the increases were modest. Overall conditions were described as mixed in the Atlanta and St. Louis Districts, though St. Louis noted further signs of improvement in some areas. Richmond reported that economic activity slackened or remained soft across most sectors, due importantly to especially severe February weather in that region.

  Consumer spending improved slightly in many Districts since the last survey, but the severe snowstorms noted above limited activity in some Districts. Tourist activity was reported as increased or mixed, with some improvement in hotel occupancies. The demand for services was generally positive across Districts, most notably for health-care and information technology firms. Of the five Districts reporting on transportation, three characterized activity as improved over the previous survey. Manufacturing activity strengthened in most regions, particularly in the high-tech equipment, automobile, and metal industries. Residential real estate markets improved in a number of Districts, although several Districts noted that activity softened or remained weak partly due to extreme winter weather. Most Districts characterized commercial real estate and construction activity as weak or having declined further, but some Districts noted slight stabilization and a few signs of modest improvement. Loan demand remained weak, and lending standards remained tight across the country. Harsh weather continued to negatively affect agricultural activity, although some Districts reported favorable crop conditions. Districts reporting on energy activity said it continued to strengthen, particularly drilling for natural gas.

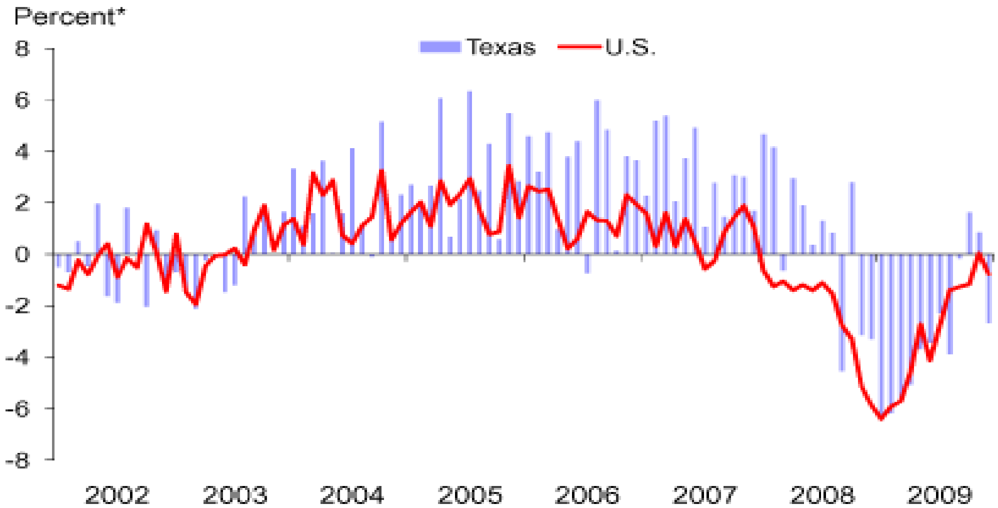
  Price pressures were mostly limited, with the exception of some increases in raw materials prices. Even with input costs rising, selling prices remained stable due to competitive pressures and limited pricing power. Although some Districts reported an uptick in hiring or a slowdown in layoffs, labor markets generally remained soft throughout the nation, which resulted in minimal wage pressures.

***Regional Economic Update – February 2009***
***Federal Reserve Bank, Dallas***

⇧ **Overall Economy** - Continuing improvement in the regional economy supports the prospects of a mild recovery. Notably, Texas real GDP increased at a 3.3 percent annualized pace in the third quarter. In addition, total nonfarm employment increased in both October and November and fell slightly in December. Overall, from September to December, jobs were essentially unchanged.

⇳ **Employment Decline Slows** - Recent employment data indicate that the Texas economy is beginning to recover but at a tepid pace. The improvement, along with the data substantiating it, is unlikely to follow a smooth upward trend. The latest nonfarm employment figures highlight the ongoing headwinds. After increasing in both October and November, employment dropped 0.2 percent in December or 2.7 percent on an annualized basis. Private employment also declined, falling 0.3 percent in December after rising 0.1 percent in November. In comparison, both U.S. nonfarm employment and private payrolls declined 0.1 percent in December. Over the course of the year, Texas payrolls declined by 3.1 percent—shedding 329,400 jobs; U.S. employment dropped by the same amount, 3.1 percent, over the same period. The Texas unemployment rate rose slightly in December to 8.3 from 8 percent, but remains below the national rate of 10 percent.

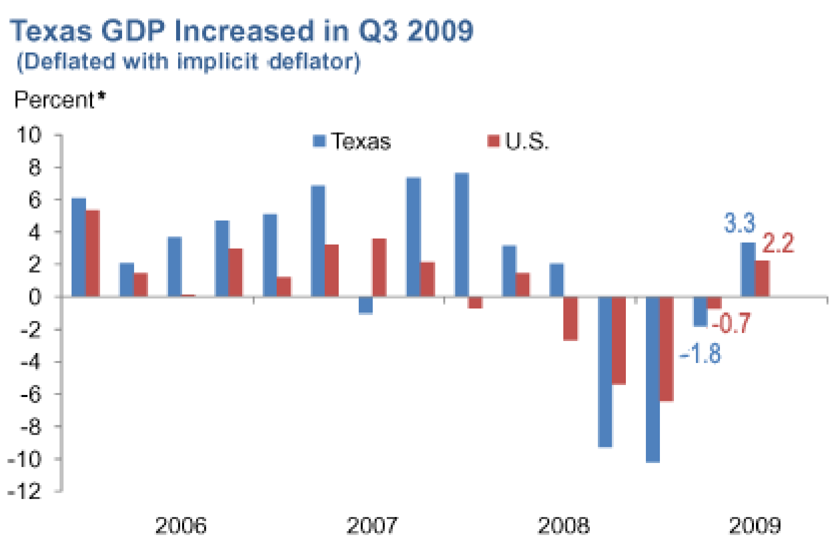
**Texas Job Growth Stabilizing**




*Month/month; seasonally adjusted, annualized rate.
SOURCES: Bureau of Labor Statistics; seasonal and other adjustments by the Dallas Fed.

⇧ **Output** - Texas real GDP grew at a 3.3 percent annualized rate in the third quarter after declining 1.8 percent in the second quarter. This was the first increase after three consecutive quarters of decline and bested the nation's 2.2 percent growth. The manufacturing industry has risen off its lows and is poised for modest expansion, according to the Texas Manufacturing Outlook Survey (TMOS). The majority of respondents expect increases in production, new orders and shipments in the next six months. The future company outlook measure is now at its highest level in almost three years.

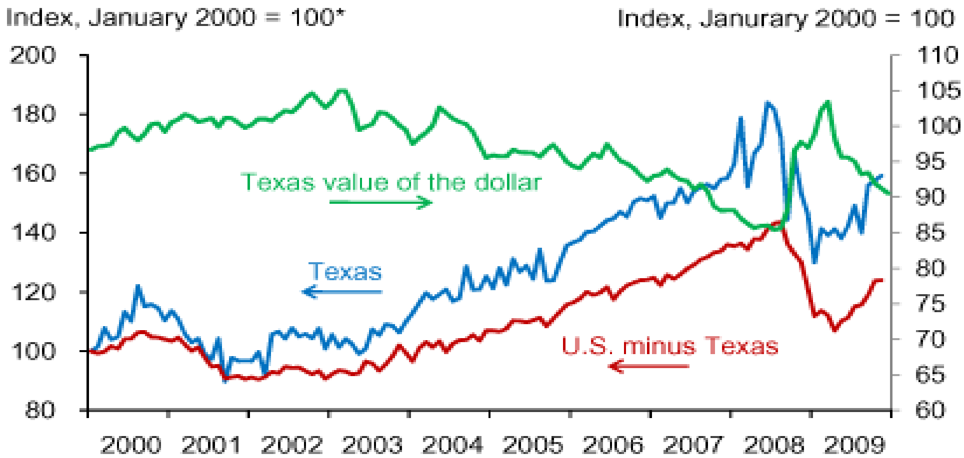

SOURCE: Dallas Fed.




*Quarter/quarter; seasonally adjusted, annualized rate.
SOURCES: Bureau of Economic Analysis; seasonal and other adjustments by the Dallas Fed.

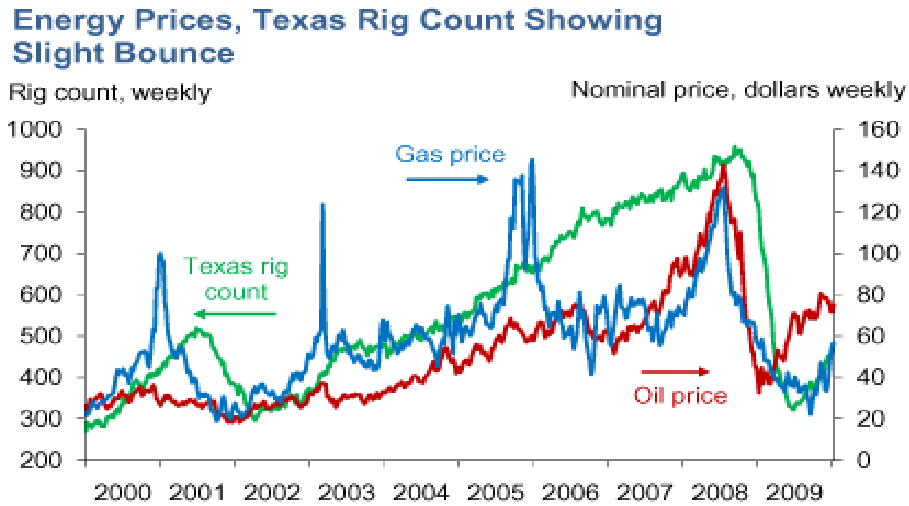
⇧ **Exports** - Real Texas exports are also providing support to the Texas economy. Exports increased 1.1 percent in November to their highest level in over a year and surged 12 percent since June. U.S. exports excluding Texas rose only 0.1 percent in November. Maquiladora activity in Juarez continues to improve, driving an increase in border traffic and demand for exports. The dollar remains relatively weak compared to the currencies of Texas' trading partners, helping to make our exports more attractive.

Texas (and U.S.) Exports Rising



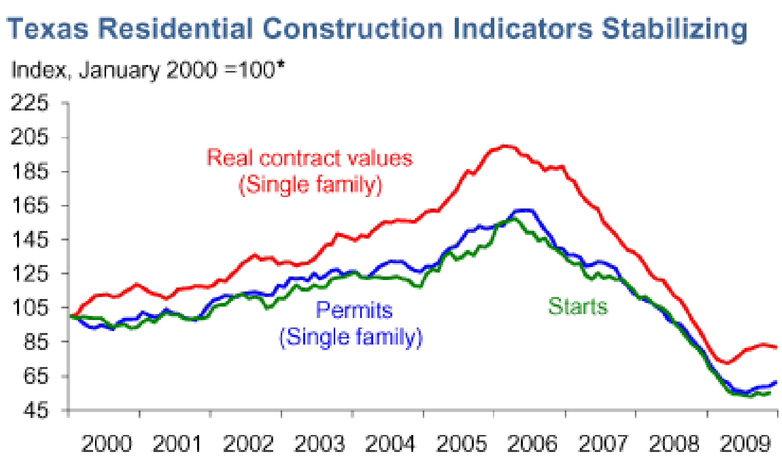

*Real, seasonally adjusted.
SOURCES: Bureau of Labor Statistics; Census Bureau; adjustments by the Dallas Fed.

⇳ **Energy** - The energy sector continues to stabilize after the large declines of 2009. The rig count has now redeployed approximately one quarter of the total rigs idled since 2008, though it is still about 50 percent below the high reached in August 2008. Oil and gas extraction employment has increased from recent lows as well, partly driven by improving oil and natural gas prices as compared with earlier in 2009. Oil prices have ticked down recently as market participants reevaluate the strength of the economic recovery. West Texas Intermediate averaged almost $77 per barrel in the week ending January 22, slightly below the $80 per barrel average from the week prior, but substantially higher than the year-ago level of $37. Gas prices have held fairly steady recently after rising in late December due to cold weather across the U.S. Prices were just above $5.50 per million Btu for the week of January 22, well above the year-ago price of $4.80.




NOTE: Gas price is multiplied by 10.
SOURCES: *Wall Street Journal*; Baker Hughes, Inc.; adjustments by the Dallas Fed.

⇳ **Housing -** Residential building activity appears to be stabilizing as single-family permits and contract values have leveled off. The share of mortgage loans delinquent greater than 90 days continues to rise, however, suggesting foreclosures will continue to increase in the coming quarters—potentially suppressing new home starts. Repeat sales home prices climbed in both the second and third quarter, though, showing the market is gradually improving.




*Seasonally adjusted, five-month moving average.
SOURCES: Bureau of Labor Statistics; Bank of Tokyo–Mitsubishi UFJ; Census Bureau; adjustments by the Dallas Fed.

⇧ **Outlook -** The Texas Leading Index of economic indicators rose 2.1 percent in November, the largest gain since it jumped 2.2 percent in July. Historically, the Leading Index has strengthened sharply as Texas emerged from recession. Taking into account the most recent leading index data and the December employment figures, the Dallas Fed employment forecast suggests Texas job growth may come in between 1 and 2 percent in 2010.

***Texas Economic Statistics***
***U.S. Bureau of Labor Statistics***

**Texas**

| Data Series | Sept 2009 | Oct 2009 | Nov 2009 | Dec 2009 | Jan 2010 | Feb 2010 |
|---|---|---|---|---|---|---|
| Labor Force Data | | | | | | |
| Civilian Labor Force (1) | (5) 11,990.8 | (5) 12,013.0 | (5) 12,028.2 | (5) 12,046.3 | (P) 12,091.4 | |
| Employment (1) | (5) 11,022.8 | (5) 11,036.0 | (5) 11,047.2 | (5) 11,059.2 | (P) 11,094.5 | |
| Unemployment (1) | (5) 968.0 | (5) 977.0 | (5) 981.0 | (5) 987.2 | (P) 996.9 | |
| Unemployment Rate (2) | (5) 8.1 | (5) 8.1 | (5) 8.2 | (5) 8.2 | (P) 8.2 | |
| Nonfarm Wage and Salary Employment | | | | | | |
| Total Nonfarm (3) | 10,211.8 | 10,228.4 | 10,240.1 | 10,218.9 | (P) 10,233.7 | |
| 12-month % change | -3.7 | -3.7 | -3.4 | -3.4 | (P) -2.7 | |
| Mining and Logging (3) | 197.2 | 195.8 | 197.7 | 199.2 | (P) 198.0 | |
| 12-month % change | -16.2 | -17.1 | -16.0 | -14.9 | (P) -12.9 | |
| Construction (3) | 578.7 | 560.4 | 561.7 | 554.0 | (P) 553.7 | |
| 12-month % change | -14.1 | -17.2 | -16.0 | -16.3 | (P) -14.7 | |
| Manufacturing (3) | 817.6 | 817.4 | 815.7 | 812.5 | (P) 814.9 | |
| 12-month % change | -11.2 | -10.9 | -10.5 | -10.1 | (P) -8.8 | |
| Trade, Transportation, and Utilities (3) | 2,044.9 | 2,047.1 | 2,048.0 | 2,043.8 | (P) 2,051.4 | |
| 12-month % change | -4.5 | -4.4 | -3.8 | -3.6 | (P) -2.8 | |
| Information (3) | 201.7 | 201.1 | 200.5 | 200.7 | (P) 198.2 | |
| 12-month % change | -6.3 | -6.4 | -6.4 | -6.0 | (P) -6.7 | |
| Financial Activities (3) | 623.5 | 624.3 | 626.4 | 626.2 | (P) 624.8 | |
| 12-month % change | -3.4 | -3.1 | -2.5 | -2.4 | (P) -2.2 | |
| Professional & Business Services (3) | 1,224.7 | 1,230.8 | 1,229.1 | 1,223.2 | (P) 1,227.4 | |
| 12-month % change | -8.0 | -7.9 | -7.4 | -7.1 | (P) -5.7 | |
| Education & Health Services (3) | 1,342.6 | 1,359.7 | 1,359.9 | 1,361.2 | (P) 1,360.4 | |
| 12-month % change | 4.0 | 4.7 | 4.5 | 4.1 | (P) 3.9 | |
| Leisure & Hospitality (3) | 1,000.5 | 999.2 | 1,005.4 | 1,001.6 | (P) 1,004.0 | |
| 12-month % change | 0.0 | -1.0 | -0.6 | -1.0 | (P) -0.7 | |
| Other Services (3) | 361.0 | 357.7 | 357.7 | 356.6 | (P) 358.3 | |
| 12-month % change | -0.5 | -2.0 | -1.9 | -2.2 | (P) -1.6 | |
| Government (3) | 1,819.4 | 1,834.9 | 1,838.0 | 1,839.9 | (P) 1,842.6 | |
| 12-month % change | 2.0 | 2.7 | 2.4 | 2.3 | (P) 2.2 | |
| Mass layoffs | | | | | | |
| Layoff events, all industries (4) | 65 | 85 | 69 | 56 | 85 | 56 |
| Initial claimants, all industries (4) | 5,715 | 8,378 | 6,817 | 6,148 | 8,509 | 4,894 |

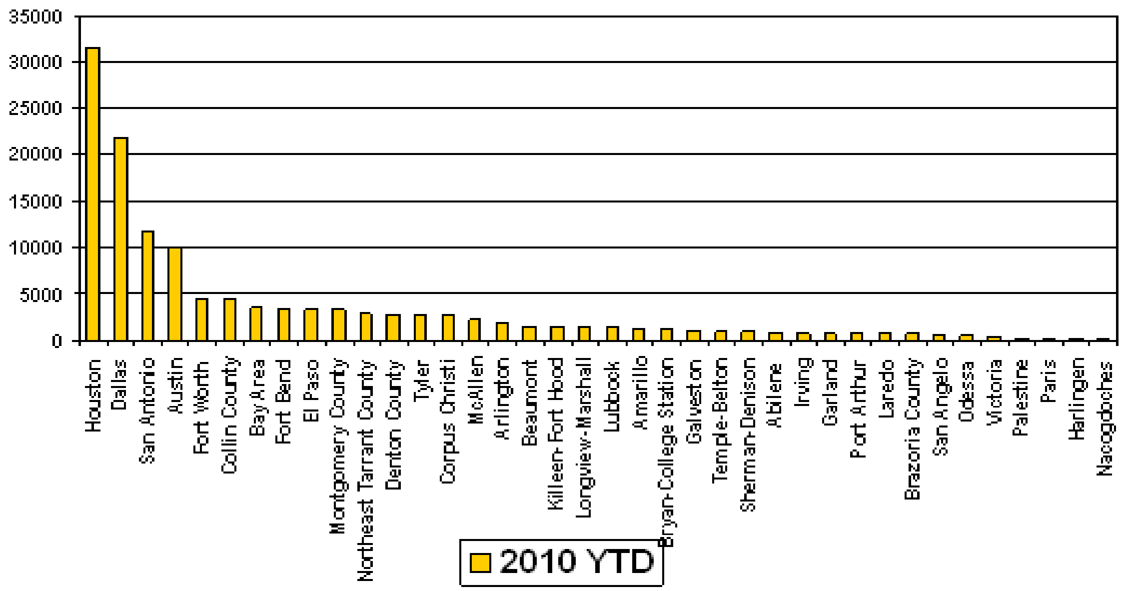
Footnotes
(1) Number of persons, in thousands, seasonally adjusted.
(2) In percent, seasonally adjusted.
(3) Number of jobs, in thousands, seasonally adjusted.
(4) See About the data.
(5) Reflects revised population controls, model reestimation, and new seasonal adjustment.
(P) Preliminary.

**Data extracted on:** March 23, 2010

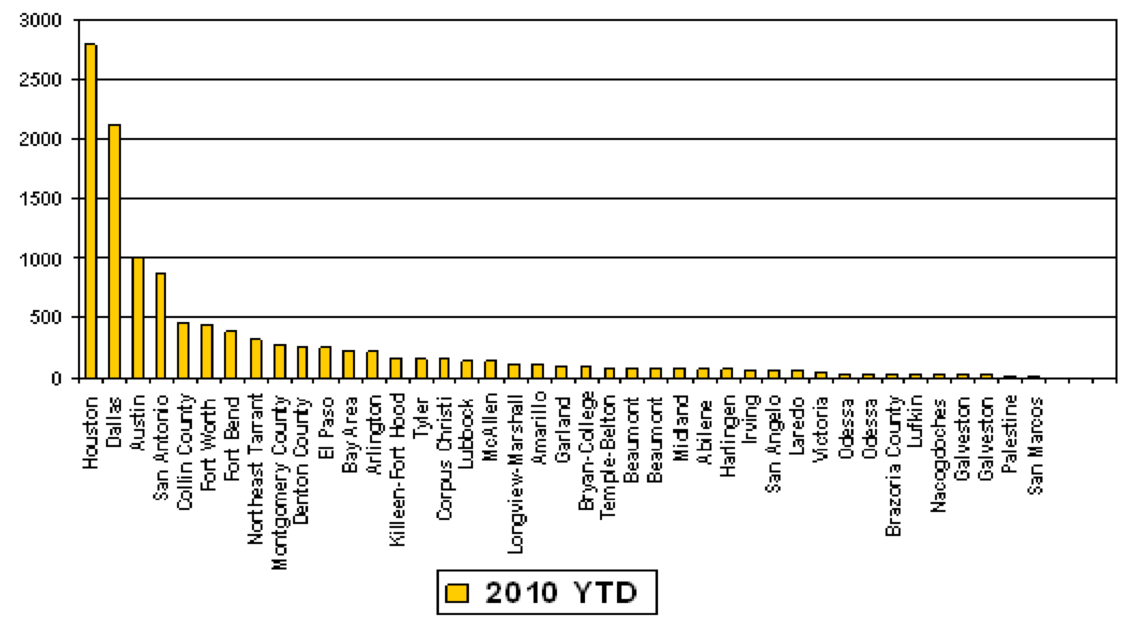
**Source:** U.S. Bureau of Labor Statistics

***Texas MLS Residential Housing Activity***
***Real Estate Center – Texas A&M University***

## Texas Residential MLS Activity
## Number of Houses for Sale




## Texas Residential MLS Activity
## Number of Homes Sold



❖ **Senior Loan Officer Opinion Survey -** The Federal Reserve's January 2010 survey of lending practices addresses changes in the supply of, and demand for, bank loans to businesses and households over the past three months. The survey is based on responses from 55 domestic banks and 23 U.S. branches and agencies of foreign banks

- **Commercial and Industrial Lending** - Overall, banks reported little net change in their standards for C&I loans in the fourth quarter of 2009. However, moderate net percentages of domestic banks continued to tighten both price and nonprice terms on C&I loans to large and middle-market firms as well as to small firms. In general, the net fractions of banks that reported further tightening of loan terms over the past three months were considerably below those from recent surveys, though the net fraction of banks that reported further increases in loan rate premiums for risky borrowers remained somewhat elevated. Some of the largest domestic banks (those with assets greater than $20 billion) reported having eased loan terms to large and middle-market firms, particularly terms pertaining to loan maturities and loan spreads. Similarly, branches and agencies of foreign banks reported, on net, that they had eased most loan terms over the past three months. Almost all of the domestic and foreign institutions that reported having eased credit standards or loan terms over the past three months cited more aggressive competition from other banks or nonbank lenders as an important reason for the change in their lending posture. In addition, a majority of banks that eased some of their loan terms cited a more favorable or less uncertain economic outlook as an important reason for the change in their credit policies. In contrast, moderate net percentages of smaller domestic bank respondents (those with total assets below $20 billion) continued to tighten terms on loans to firms of all sizes. The net fractions of domestic banks that tightened terms on loans to small firms were generally a little larger than the net fractions that tightened terms on loans to large and middle-market firms. Most banks that tightened standards and terms continued to point to a less favorable or more uncertain economic outlook as one of the reasons for the tightening, and many banks reported reduced tolerance for risk as well. At domestic banks, demand for C&I loans from firms of all sizes weakened further, on net, over the past three months. The net fraction that reported weaker demand was somewhat smaller than it was in the October survey. In contrast, foreign institutions reported that loan demand was unchanged, on net, over the same period. Almost all banks that reported weaker loan demand indicated that their customers' financing needs for investment in plant or equipment had decreased as had needs to finance inventory and accounts receivable. Most of the handful of banks that experienced an increase in loan demand cited a shift in customer borrowing to their banks from other credit sources, as well as customers' increased need to finance mergers or acquisitions and accounts receivable. The number of inquiries for new or expanded C&I credit lines weakened again, on net, at domestic banks, but at a more moderate pace than in recent quarters; foreign institutions, in contrast, reported little change in the number of inquires for new or expanded C&I credit lines over the survey period.
  - **Delinquency rates on C&I loans by firm size.** In response to a special question about the quality of C&I loans on banks' books in the fourth quarter, banks reported higher delinquency rates on loans to small firms than on loans to large and middle-market firms. On net, nearly 65 percent of domestic respondents indicated that at the end of the fourth quarter of 2009, the delinquency rate on their outstanding loans to small firms was higher than the rate on outstanding loans to large and middle-market firms.
  - **Commercial real estate lending.** In contrast to C&I lending, a substantial share of domestic banks, on net, reported having tightened standards on CRE loans and having experienced weaker demand for such loans again in the fourth quarter of 2009. Moderate net fractions of foreign banks also reported having tightened standards on CRE loans and having seen weaker demand for such loans over the past three months.
  - **Commercial real estate lending.** In response to a special question (repeated on an annual basis since 2001), large net fractions of both domestic and foreign institutions again reported having tightened a range of terms on CRE loans over the course of 2009. The

largest net tightening was reported on the spreads of loan rates over banks' cost of funds, debt-service coverage ratios, and loan-to-value ratios.

- **Residential real estate lending.** Banks continued to tighten standards on residential real estate loans over the past three months. In line with recent patterns, a small net fraction of banks tightened standards on prime residential real estate loans over that period, and somewhat larger net fractions of banks tightened standards on nontraditional residential real estate loans. In addition, a moderate net fraction of banks reported weaker demand from prime borrowers for residential real estate loans. Demand from customers seeking nontraditional mortgages also weakened further over the survey period. Only a small net fraction of banks reported having tightened standards on revolving home equity lines of credit over the past three months, but a large net fraction of banks continued to report lower demand for such loans.

- **Consumer lending.** For the first time in nearly three years, a small net fraction of banks reported an increased willingness to make consumer installment loans now as opposed to three months ago. However, demand for consumer loans of all types reportedly had weakened further since the previous survey.

- Regarding credit card loans, a very small net fraction of banks reported having tightened standards on such loans over the past three months. However, substantial net fractions of banks indicated that they had reduced credit limits on credit cards and had become less likely to issue cards to customers not meeting credit scoring thresholds. A moderate fraction reported having increased spreads. These results are consistent with responses to the October 2009 survey, in which banks indicated that they would tighten a wide range of their credit card policies following the enactment of the Credit CARD Act. For consumer loans other than credit card loans, banks reported no change, on net, in their standards. Moreover, respondents indicated little change in most terms on such loans.

Austin American-Statesman, Austin, TX
Banco Bilbao Vizcaya Argentaria's (BBVA) U.S. Economic Research Department, Houston, TX
The Council of Economic Advisers, Washington, D.C.
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Texas Department of Savings and Mortgage Lending, Austin, TX
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