March 31, 2011

Condition of the Texas State Banking System

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Texas Department of Banking
Texas Department of Savings and Mortgage Lending

Financial Data as of December 31, 2010

Table of Contents

	Page
1. Economic Review and Outlook	1
2. Performance Summary and Profile of Texas Banking System	8
3. Performance Summary of United States Banking System	11
4. National Economic Trends *Tables and charts provided by the Federal Reserve Bank of St. Louis*	18
5. Economic Reports and Forecasts	
United States	21
State of Texas	27
6. Federal Reserve Bank Survey *Senior Loan Officer Opinion Survey*	33
7. Acknowledgements	36

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.dob.texas.gov**.** For more information about this publication, you may contact Wendy Rodriguez, Director of Strategic Support by telephone at (512) 475-1320 or by email wrodriguez@dob.texas.gov.

BANKING SYSTEM OVERVIEW

Strength in the energy sector, along with stabilizing residential real estate markets, and diverse industries (education, energy, healthcare, and military) helped Texas during the tough economic times. While, the state is clearly not immune to the problems plaguing other regions of the country, Texas surpassed other states in 2010. Moderate economic expansion continues, and although post-recession Texas is leading in the recovery, overall recuperation continues to be fragile.

Federal stimulus payments helped thousands of Texans keep their jobs and ride out the recession; however, these payments have ceased and our state legislators are likely to enact spending cuts. Nationally, the loss of tax revenue has forced states and local governments to cut services and lay off workers. With a budget deficit of its own, the 82nd Texas Legislature is working on a plan to address the budget shortfall. As of March 2011, the debate continues over spending cuts and realignment of funds for the next biennium. Although it is only a preliminary recommendation or proposal, fears are that as many as 9,000 state jobs could be eliminated. The impact of any actions taken and the risk they may pose to the economy will not be known until long after the session is over.

As of March 1, 2011, Texas' last commercial bank failure was a national bank in February 2010 and no state-chartered bank or thrift has failed since 2009. Problem banks[1] are still a concern for regulators; however, the departments believe problems may have reached the peak and are forecasting a slight improvement in the overall health of the banking industry in 2011. Those financial institutions that remain in a troubled status will have significant challenges to overcome. Those challenges will require shareholder support, along with improvement in the commercial real estate (CRE) sector before they can return to a satisfactory condition.

Merger and acquisition activity in the United States was widespread in 2010; however, Texas had little to no new charter activity. Changes in the law concerning interstate branching, a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), is dampening de novo bank activity as discussed later in this publication.

Legislatively, Dodd-Frank will impact financial institutions large and small. Passed in the summer of 2010 after the financial crisis, provisions are slowly being implemented. Of particular interest is the Consumer Financial Protection Bureau (CFPB), in which the transfer date is set for the summer of 2011. Experts and analysts report that community banks will possibly feel the largest impact of this legislation since their staffs are small and it is likely that consultants will be needed to sort through Dodd-Frank's numerous new rules. Compliance is cost driven, not revenue generating, and recouping the cost for implementation and compliance with these new laws will ultimately affect bank customers. Reports are circulating that free checking may be a thing of the past as many banks are beginning to phase out this long standing product.

The Texas Department of Banking and Texas Department of Savings and Mortgage Lending provide a general synopsis and insight into the condition of the Texas banking industry below.

STATE-CHARTERED BANKS

As a group, Texas state-chartered banks are performing satisfactorily given the recession and modest recovery. However, a small number of banks continue to experience asset quality issues that are consuming their resources. At year-end, there were 314 state-chartered banks with total assets of $162.8 billion. Since December 2008, the number of state-chartered banks has declined; but, profitability has improved over a two year period with over 87% being profitable as of December 31, 2010. With a 59 basis point increase over year-end 2009, state banks continue to be well capitalized with a core capital ratio of 9.96%.

[1] *Problem banks are defined by the Texas Department of Banking as any financial institution with a composite rating of "3", "4", or "5".*

Earnings rebounded to pre-recession figures for state banks. Net income of slightly less than $1.3 billion was exhibited for 2010; a modest increase from year-end 2009 of $1.1 million. The increase can be attributed in part to the $326 million reduction in net charge-offs over the previous year. Also noted, return on assets continues to improve. Although loan loss reserves remain higher than a year ago, there was a decrease in the total reserve between June and December 2010.

This being said, the economic situation continues to affect financial institutions in the state. Asset quality continued to weaken as evidenced by the noncurrent assets plus other real estate ratio increasing for a fourth year, rising to 2.14% from 0.65% in 2007. The percentage of noncurrent loans to total loans and leases also increased slightly at year-end to 2.65%, or 13 basis points from year-end 2009.

Overall, net loans and leases decreased from $100.6 billion to $98 billion for the period between December 2009 and December 2010. Of continued interest will be CRE values, which continued to decline in 2010, and are projected to remain stagnate. Looking forward, financial institutions have the fundamental strength to keep the Texas banking system sound and stable as the state progresses through a moderate recovery.

STATE-CHARTERED THRIFTS

State-chartered thrifts reported $88.4 million in net income at year-end 2010, compared to $3.6 million the prior year. Increased earnings were primarily affected by the federal savings bank that converted to a state savings bank during 2010 with net income of $60.7 million. Additionally, 68% of the thrift institutions increased their profitability during 2010. Net interest income increased 121 basis points, due to both an increase in the yield on earning assets and a decrease in the cost of funds. State thrifts increased total assets by $314.4 million or 7.04% not including the addition of the referenced conversion from a federal savings bank. The number of thrift charters increased by one to a total of twenty-nine. Net loans comprised 61% of the asset growth with cash on hand comprising 30% of the growth. Nonperforming, nonaccrual loans and other real estate foreclosed total $723.6 million or 8.45% of total assets, increasing by $625.6 million, and continues to be monitored closely by regulators.

One of our state savings banks acquired a failed bank from the Federal Deposit Insurance Corporation (FDIC) with total assets of approximately $1.5 billion under a Purchase and Assumption Agreement and two Loss Share Agreements, which covers 80 percent of losses up to $274 million, and 95 percent of losses above that threshold. Over half of the other real estate portfolio was acquired in the failed bank acquisition and is subject to the Loss Share Agreements with the FDIC.

TEXAS ECONOMIC PROFILE

In Texas, eight of the state's eleven major industries added jobs during fiscal 2010. The largest job gains were in the oil and gas industry, while the information services industry exhibited the largest losses. [2]

While Texas added over 231,000 jobs in the last year, unemployment remained persistently high; this caused credit quality to deteriorate and weighed heavily on state and local finances. The unemployment rate in the state continues to remain below that of the nation, and as of January 2011 stood at 8.3%. This is 0.01% higher than January 2010; however, the Comptroller

Economic Progress Report
(Change from previous year)

Texas Unemployment	↑ Increasing
Texas Nonfarm Employment	↑ Increasing
Sales Tax Collections, Retail Establishments	↑ Increasing
Texas Leading Indicator Index	↑ Increasing
Gasoline and Diesel Retail Prices	↑ Increasing

Source: Texas Comptroller of Public Accounts March 2011

[2] *The U.S. economy is exhibiting economic growth; however, it recently showed signs of slowing down. The U.S. unemployment rate was 8.9% in February 2011, the lowest since April* 2009.

of Public Accounts reports that half the jobs lost during the state's short recession have been regained. All industries, with the exception of trade and information industries, added jobs by December 2010.

The moderate paced recovery has been supported by the state's multi-regional economic attributes, such as the oil and gas industry and agriculture.

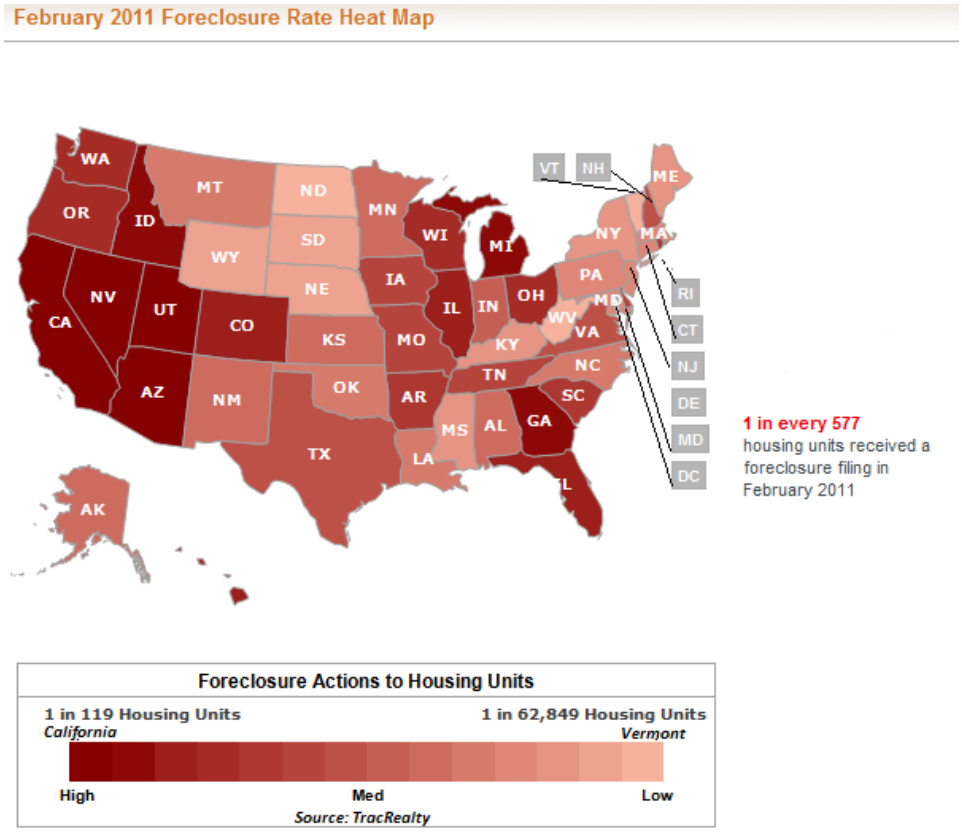
The state benefits significantly from the oil and gas industry which includes exploration, drilling and production; oilfield equipment manufacturing; pipelines; natural gas distribution; refining; petrochemicals; and petroleum product wholesaling. The capital investment in Texas from the industry leads to the creation of jobs. Additionally, the industry pays both state and local taxes, and royalties that go toward funding a variety of state programs, roads, and police and fire departments, etc. In 2010, oil prices averaged $79 per barrel, ranging from a low of $67 in late May to a high of $92 in December. Analysts forecast the average price for 2011 will be around $93.The Texas Railroad Commission's February 25th report listed the Texas average rig count as of February 18th at 743, representing about 44 percent of all active land rigs in the United States. This level is similar to that of pre-recession levels. Texas natural gas production represents approximately 29 percent of total U.S. natural gas demand.

West Texas has benefited from an unprecedented increase in agriculture prices and production in both grain and cotton. The United States is the number one cotton exporter exporting 80% of its production, with Texas being the number one cotton-producing state. Heavy rains in China, Pakistan, and India hampered cotton production, thus driving cotton prices up considerably. The lack of precipitation in the Panhandle this winter may have a negative impact on the 2011 crop that could reverse any gains experienced in the previous year.

Another example of continued growth is the ongoing Base Realignment and Closure related construction that is taking place at military bases and the Brook Army Medical Center in San Antonio, which is destined to become a major medical and medical education training facility for the military. As the construction is completed, additional instructors and healthcare professionals will begin work and will include civilian hiring for the military.

Mining and logging, construction, professional and business services, educational and health services, manufacturing, leisure and hospitality, transportation and utilities, financial activities, and government industries are all expected to continue to see some level of growth.

While some improvement is evident in housing, development activity and commercial real estate face significant headwinds, though to a lesser extent than most other parts of the country.



Single-family housing permits, housing starts and existing-home sales showed an increase in January. Analysts note that the national real estate crunch had minimal effect on Texas causing little to no damage to property values.

However, sales and construction activity dropped to pre-2007 levels but began to shows signs of recovery in 2010. Home sales figures may be affected with the end of government incentive programs. According to TracRealty, Texas experienced 11,562 foreclosure filings in February 2011. The Texas foreclosure rate was one in every 841 mortgages. This was substantially better than Nevada's one in 119, Arizona's one in 178, California's one in 239, and Florida's one in 472.

The national recession that began in 2008 did not spare Texas; however, the impact was not as severe as it was in other states. Texas' economy began a period of recovery in 2010, and forecasts from economists and analysts predict that the state will continue to experience modest growth over the next two years.

STATE-CHARTERED BANKING PROFILE (DEPARTMENT OF BANKING)

The number of Texas state-chartered banks declined from 318 to 314 in the last half of 2010, with the mergers of Town Center Bank, Coppell, and First Bank, Farmersville, into Independent Bank, McKinney; the merger of Community Trust Bank of Texas, Dallas, into affiliate Community Trust Bank, Choudrant, Louisiana; and the merger of First State Bank, Frankston, into affiliate Austin Bank, Texas, N.A., Jacksonville. However, even though the banks which merged out of the state system had combined assets exceeding the other two by $300 million, total assets of state banks over the period increased by over $600 million to $162.8 billion, with deposits growing by $2.7 billion, or 4.26% (annualized).

A major change in procedures affecting the Texas banking structure occurred with the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law July 21, 2010. Prior law prohibited an out-of-state bank from entering the state by establishing a new branch unless a Texas bank could do the same in their home state. This "reciprocity" requirement proved to be a significant impediment to interstate branching as many states were not reciprocal, including major banking states such as California and Florida. Dodd-Frank preempts Texas state law in this regard by mandating de novo branching nationwide. As a direct result, we have received notices of Texas branch establishment from two California banks, several Louisiana banks, and a New York bank. More are expected.

A transaction which will consummate in the first half of 2011 will result in a significant change in the ranks of the largest state banks, with our fifth largest, Sterling Bank, Houston, merging into our largest, Comerica Bank, Dallas. And although no bank de novo charter applications are in process, the Department has received an application for a national bank conversion, and preliminary inquiries from several other financial institutions considering conversion.

Although the general economy seems to be improving, we do not expect any new bank chartering activity until the recovery strengthens and is clearly sustainable. However, banks and investor groups remain well-positioned for strategic acquisitions, and interest in these opportunities should remain fairly high.

STATE-CHARTERED THRIFT PROFILE (DEPARTMENT OF SAVING AND MORTGAGE LENDING)

State-chartered thrift assets under the Department's jurisdiction totaled $8.56 billion as of December 31, 2010, and increased by 91% or $4.09 billion from December 31, 2009. The total number of state chartered savings banks at December 31, 2010 was twenty-nine, an increase of one from the end of 2009, causing the asset increase.

The Department continues to receive and process a fair volume of applications. During the past six months there have been eight branch office applications, one de novo charter application, two name change applications and various other types of applications.

Other than a conversion from a federal savings bank to a state savings bank that occurred during 2010, the total industry is projected to remain at the current level in number and total assets. It is unknown at this time if the merger of the Office of Thrift Supervision into the Office of Comptroller of the Currency will induce some federal savings banks to seek a state thrift charter.

SUPERVISORY CONCERNS

Problems banks and other systemic problems have kept both the Texas Department of Banking and the Texas Department of Savings and Mortgage Lending working diligently with regulated entities to ensure compliance with banking laws and to ensure operations are handled in a safe and sound manner.

Highlights of Departmental Concerns/Actions	
Concerns	**Responses**
★ Concentrations in: ▪ Interim construction ▪ Land development ▪ Lots loans ▪ Commercial Real Estate (CRE) (non-owner occupied) ★ State banking system liquidity ★ Management's risk management practices	★ Participating in joint horizontal or targeted reviews ★ More frequent examinations ★ Enhanced off-site monitoring ★ Increased use of enforcement actions ★ Expanded use of supervisor program

Bankers understand that a major factor standing in the way of meaningful improvement in their financial condition relates to the level of adversely classified assets and the ability of bank management to effectively divest of those troubled assets without sustaining major losses. Working with problem banks who have troubled asset totals that well exceed their capital and overwhelm their management resources has been the agencies' focus. During an examination of a problem bank, examiners perform an analysis of problem loans, called the Analysis of Loans Subject to Adverse Classification. A bank must be able to reduce classified loans; however, improvement can sometimes be offset by a dramatic increase in credit downgrades. Banks in a problem status will likely continue to struggle with these issues throughout 2011, and some will not survive without significant infusions of new capital.

Bank management's ability to identify, monitor and control various risk elements significantly influences how each Department responds to these supervisory concerns. The Departments continue to proactively address regulatory and compliance issues before they become severe.

As mentioned previously, the provisions of Dodd-Frank are slowly being implemented. Regulators and bankers together share concerns over increased cost of compliance to financial institutions as a result of the new law. Concerns over the CFPB and its vast regulatory authority have been well publicized. Recently, Congressional members noted that the CFPB was given unprecedented authority, and further legislation will be needed to oversee the Bureau. The immediate impact will be felt by the repeal of Regulation Q, which essentially prohibited payment of interest on commercial checking accounts. This will create a competition for deposits that have been historically stable. Small community banks have traditionally been able to retain business accounts based on the quality of services and relationships; however, this may no longer be the case on July 22, 2011, the effective repeal date. It is anticipated that larger banks will take an aggressive approach by offering higher rates to entice small businesses and commercial account customers. This coupled with heavy advertising, which smaller banks cannot fiscally match, will intensify competition for these lucrative deposits.

OTHER AREAS RECEIVING INCREASED ATTENTION

Consumer protection has been the hot topic for the last year, and is anticipated to continue to dominate

the banking industry. As an example, overdraft protection guidelines have been undergoing considerable debate among regulators, bankers, and consumers. Guidances and new regulations relating to overdraft protection programs and associated fees are having an impact on bankers and consumers. In response, the Banking Commissioner recently submitted a letter to FDIC Chairman Sheila Bair regarding the Final Overdraft Payment Supervisory Guidance, FIL-81-2010. The Commissioner expressed his concerns over the impact of the guidance, noting that mandating compliance could drive smaller institutions to eliminate overdraft protection services.

The 82nd Texas Legislature is also taking an interest in the subject, and on March 11, 2011, a bill was filed related to a financial institution's action regarding withdrawals and deposits. In general, the bill requires that a deposit contract between a bank, savings bank or credit union and an account holder must provide that deposits are credited before withdrawals, if the deposit and withdrawal are made on the same business day. The bill further prohibits a financial institution from charging a fee for an overdraft or for insufficient funds if on the day the institution seeks to withdraw funds from the account there are sufficient funds to pay a check drawn on the account, regardless of the date of the check. Both Departments are monitoring the movements related to overdrafts.

Other areas of concern are listed below.

Overdraft programs	Capital levels
Internal Watch List	Make-up of classified assets
Bank Secrecy Act/Anti-Money Laundering	Private label collateralized mortgage obligations
Fraud	Compliance
Tax Liens	Bank Holding Company Strength

SUPERVISORY MEASURES BEING TAKEN

A bank's problem status can sometimes be minimized and improved by timely regulatory identification, intervention oversight, and positive management responses. It is imperative to identify individual banks that demonstrate difficulty in the current economic situation. Some measures being taken by each agency to ensure that safe and sound banking practices are being followed are noted below:

The Texas Department of Banking is concentrating in the following areas:

- Conducting frequent on-site examinations of problem institutions;
- Communicating and coordinating joint enforcement actions and other supervisory activities with other state and federal regulators;
- Initiating enforcement actions early in the detection of deteriorating trends;
- Placing monthly calls to state banks to obtain industry input on prevailing economic conditions;
- Conducting targeted reviews of high risk areas, such as CRE and exposure to the devaluation of private-label collateralized mortgage obligations, asset concentrations, liquidity, and funding sources;
- Expanding off-site monitoring to include follow-up of examination criticisms;
- Utilizing a more defined risk-focused examination process to free up resources for problem institutions;
- 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 pertinent issues.

The Texas Department of Savings and Mortgage Lending's supervisory monitoring and enforcement staff are taking the following actions:

- 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 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

The financial condition of state-chartered banks continues to show improved performance given the precarious times and the tenacious hold the Texas and national economy appear to have on their recovery efforts.

At year-end 2010, there were 314 Texas state-chartered banks operating in the state. Total assets increased slightly during the second half of the year and remain stable at $162.8 billion.

Texas state-chartered banks reported net income of approximately $1.3 billion for year-end 2010, which is an improvement of $199 million over the prior year. Core capital ratios increased from 9.40% to 9.96% during the last 12 months even though $441 million was paid out in cash dividends for the year.

While asset yields have fallen slightly, a declining cost of funds assisted in producing a 0.79% return on assets compared to 0.66% for the same period last year. More than half of the state-chartered banks (65.9%) reported year-over-year improvements in their quarterly net income while 12.4% reported net losses for the year, compared to 17.9% a year earlier. A net interest margin of 3.7% remained steady during the last half of the year, with overall profitability primarily enhanced by reduced levels of loan loss provisions compared to 2009.

Asset quality showed signs of bottoming out during the last half of the year when the ratio of noncurrent assets plus other real estate to total assets rose by only three basis points to 2.14% from 2.11% from the period six months earlier. Despite the rise in noncurrent assets, the median ratio for Texas banks is 98 basis points less than the national average.

State-chartered banks appear to have increased reserves to absorb potential losses as their allowance for loan and leases loss allowance to loan account remains at 1.91%. In addition, net charge-offs decreased slightly during the last 12 months to 0.97% from 1.24% a year ago. This compares favorably to the nationwide average of 2.67%.

STATE-CHARTERED THRIFTS

In 2010, state thrifts had $88.4 million in net income. Return on assets for thrifts increased to 1.08% at year-end 2010, up from 0.08% at the end of the previous year. The level of unprofitable savings banks has decreased to 17.2% from 42.9%. Nearly 36% of savings banks are new charters, reorganized or converted, but are aging to the point of primarily profitable operations. Provisions for loan and lease losses to average assets have increased 38 basis points. Net non-interest expense to earning assets has also decreased by 32 basis points. Earnings on securities have decreased by 49 basis points.

State thrifts experienced a 137 basis point increase in their regulatory capital levels between year-end 2009 and 2010 from 10.32% to 11.69%. The increase in thrift capital ratio is due to the industry raising over $40 million in capital and the high capital level of the institution added in 2010. Texas state thrifts also continue to exceed the national capital ratios for all savings institutions, which was 10.43% for year-end 2010, and 9.84% for year-end 2009.

Net interest margins for state thrifts posted a 118 basis point increase from 3.79% to 4.97% at year-end. Year to date provisions to the allowance for loan losses increased for thrifts $55.4 million during the year. The Texas thrift allowances for loan and lease losses to non-current loans and leases, presently at 11.91%, is below the ratio of 41.44% for all FDIC-regulated savings institutions nationwide; however, the Texas thrifts ratio includes a large volume of covered assets.

Thrifts' noncurrent assets plus other real estate owned to total assets increased to a total of 8.45% at December 2010. Thrifts experienced an increase in noncurrent loans – those 90 days or more past due, plus those no longer accruing interest to 9.2%.

Net charge-offs increased for thrifts to $64.5 million in 2010. Almost all of these are related to residential property loans. Loss reserves now represent 1.32% for savings institutions. This is a 14 basis point increase for savings institutions since December 2009.

Number of Institutions and Total Assets

	12-31-2010		12-31-2009		Difference	
	No. of Institutions	*Assets*	*No. of Institutions*	*Assets*	*No. of Institutions*	*Assets*
Texas State-Chartered Banks	314	$162.8	318	$163.0	-4	-$0.2
Texas State-Chartered Thrifts	29	$8.6	28	$4.5	+1	+$4.1
	343	$171.4	346	$167.5	-3	+$3.9
Other states' state-chartered:						
Banks operating in Texas*	20	$34.8	20	$36.7	0	-$1.9
Thrifts operating in Texas*	0	0	0	0	0	0
	20	$34.8	20	$36.7	0	-$1.9
Total State Chartered Activity	363	$206.2	366	$204.2	-3	$2.0
National Banks Chartered in Texas	253	$149.5	263	$153.6	-10	-$4.1
Federal Thrifts Chartered in Texas	19	$54.0	20	$50.4	-1	+$3.6
	272	$203.5	283	$204.0	-11	-$0.5
Other states' federally-chartered:						
Banks operating in Texas*	20	$214.7	19	$220.1	+1	-$5.4
Thrifts operating in Texas*	12	$1.3	8	$1.0	+4	+$0.3
	32	$216.0	27	$221.1	+5	-$5.1
Total Federally-Chartered Activity	304	$419.5	310	$425.1	-6	-$5.6
Total Banking/Thrift Activity	667	$625.7	676	$629.3	-9	-$3.6

Assets in Billions

**Indicates estimates based on available FDIC information.*

Ratio Analysis

As of December 31, 2010

Number of Banks	*State-Chartered Banks* 314	*Texas National Banks* 253	*All Texas Banks* 567	*State-Chartered Thrifts* 29	*Texas Federal Thrifts* 19	*All Texas Thrifts* 48
% of Unprofitable Institutions	12.42%	12.25%	12.35%	17.24%	26.32%	20.83%
% of Institutions with Earnings Gains	65.92%	59.29%	62.96%	68.97%	78.95%	72.92%
Yield on Earning Assets	4.48%	4.75%	4.61%	6.04%	5.35%	5.44%
Net Interest Margin	3.67%	4.10%	3.88%	4.97%	4.20%	4.31%
Return on Assets	0.79%	1.06%	0.92%	1.08%	0.96%	0.98%
Return on Equity	7.30%	9.57%	8.41%	6.94%	10.83%	9.97%
Net Charge-offs to Loans	0.97%	1.13%	1.05%	1.18%	1.98%	1.89%
Earnings Coverage of Net Loan C/Os	2.57	2.84	2.72	2.63	1.98	2.03
Loss Allowance to Loans	1.91%	2.37%	2.14%	1.32%	2.51%	2.37%
Loss Allowance to Noncurrent Loans	71.78%	71.73%	71.75%	11.91%	253.99%	111.15%
Noncurrent Assets+OREO to Assets	2.14%	2.70%	2.41%	8.45%	0.89%	1.92%
Net Loans and Leases to Core Deps	93.31%	93.85%	93.58%	93.87%	104.45%	103.11%
Equity Capital to Assets	10.94%	11.33%	11.12%	15.54%	8.97%	9.87%
Core Capital (Leverage) Ratio	9.96%	9.41%	9.69%	15.55%	8.91%	9.81%

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, 2010

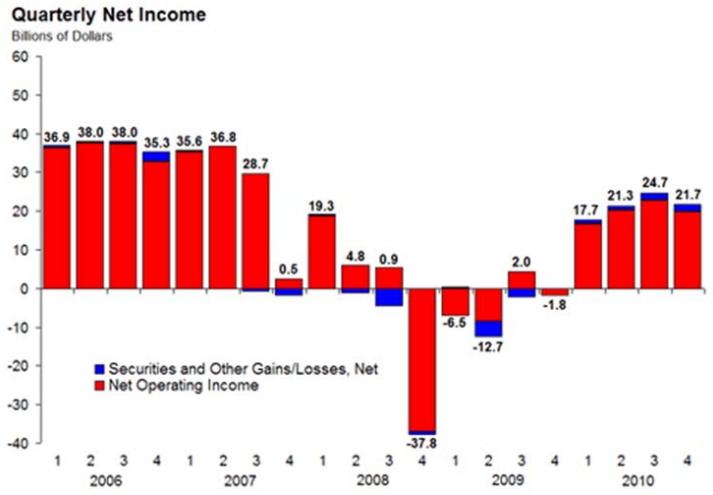
	State Banks*		State Thrifts	
	End of Period	***% of Total Assets***	**End of Period**	***% of Total Assets***
Number of Institutions	314		29	
Number of Employees (full-time equivalent)	36,170		1,569	
(In millions)				
Total Assets	$162,800		$8,559	
Net Loans and Leases	$97,993	60.19%	$5,248	61.32%
Loan Loss Allowance	$1,903	1.17%	$70	0.82%
Other Real Estate Owned	$834	0.51%	$134	1.57%
Goodwill and Other Intangibles	$2,180	1.34%	$18	0.21%
Total Deposits	$129,396	79.48%	$6,720	78.51%
Federal Funds Purchased and Repurchase Agreements	$3,297	2.03%	$26	0.30%
Other Borrowed Funds	$8,108	4.98%	$335	3.91%
Equity Capital	$17,805	10.94%	$1,330	15.54%
Memoranda:				
Noncurrent Loans and Leases	$2,652	1.63%	$589	6.88%
Earning Assets	$146,743	90.14%	$7,792	91.03%
Long-term Assets (5+ years)	$40,135	24.65%	$3,040	35.52%
	Year-to Date	***% of Avg. Assets***	**Year-to Date**	***% of Avg. Assets***
Total Interest Income	$6,545	4.04%	$450	5.47%
Total Interest Expense	$1,182	0.73%	$80	0.97%
Net Interest Income	$5,363	3.31%	$370	4.50%
Provision for Loan and Lease Losses	$1,007	0.62%	$82	0.99%
Total Noninterest Income	$2,204	1.36%	$90	1.09%
Total Noninterest Expense	$5,053	3.12%	$291	3.54%
Securities Gains	$114	0.07%	$5	0.06%
Net Income	$1,282	0.79%	$88	1.08%
Memoranda:				
Net Loan Charge-offs	$977	0.60%	$65	0.78%
Cash Dividends	$441	0.27%	$9	0.11%

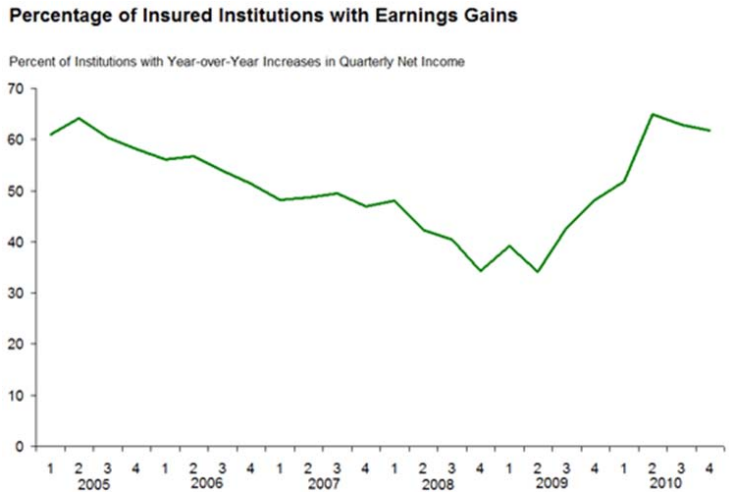
**Excludes branches of state-chartered banks of other states doing business in Texas. As of 12-31-10, there are an estimated twenty out-of-state state-chartered institutions with $34.8 billion in assets.*

No branches of state-chartered thrifts of other states conducted business in Texas as of 12-31-10.

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

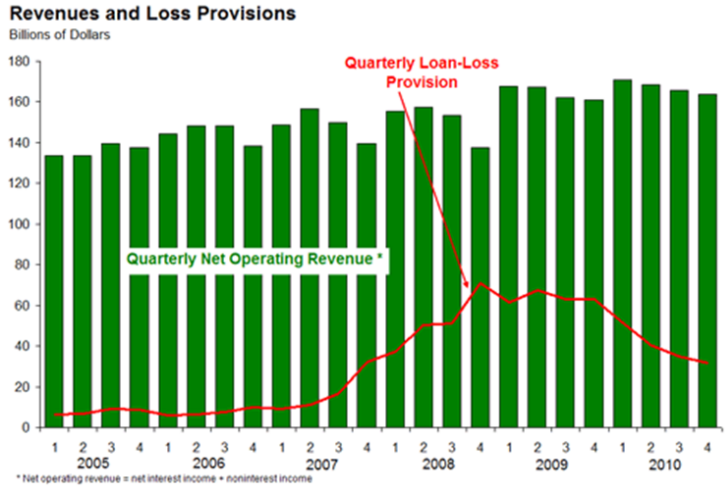
⇧ **Earnings Performance** - Lower expenses for troubled loans continued to boost the earnings of insured commercial banks and savings institutions in fourth quarter 2010. The 7,657 institutions filing year-end reports posted quarterly net income of $21.7 billion, a substantial improvement over the $1.8 billion net loss in fourth quarter 2009 and the second-highest quarterly total reported since second quarter 2007. The greatest year-over-year improvement in earnings occurred at the largest banks, but almost two out of every three institutions (62 percent) reported better net income than a year ago. One in four institutions reported a net loss in the fourth quarter, an improvement from a year ago when more than one in three (35 percent) were unprofitable.



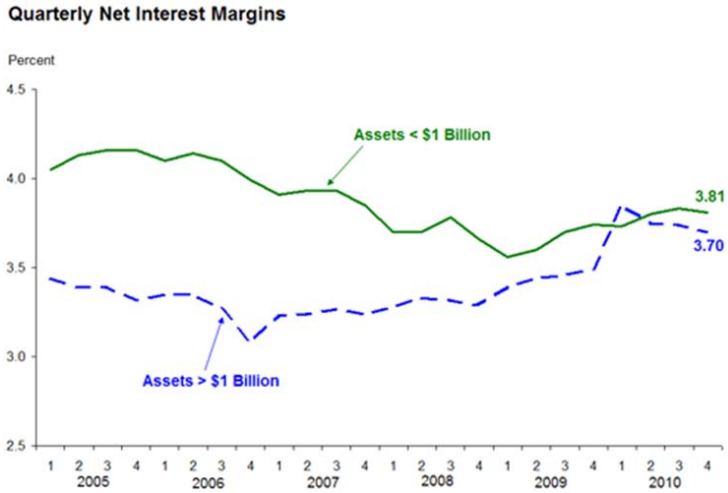


⇧ **Provisions Fall to Lowest Level in More than Three Years** - Insured institutions set aside $31.6 billion in provisions for loan losses in the fourth quarter, almost 50 percent less than the $62.9 billion they set aside a year earlier. This is the smallest quarterly loss provision for the industry since third quarter 2007. Much of the year-over-year reduction in provisions was concentrated among some of the largest banks. Seven large institutions accounted for more than half of the $31.3 billion reduction. However, a majority of insured institutions (54 percent) reduced their provisions in the fourth quarter compared to a year ago.

⇩ **Revenue Growth Slows** - Revenue growth was sluggish in the fourth quarter. Net operating revenue (net interest income plus total noninterest income) was $163.6 billion, only $2.8 billion (1.7 percent) higher than a year earlier and $2.1 billion (1.3 percent) less than in third quarter 2010. This is the second-smallest year-over-year increase in quarterly net operating revenue in the past two years (after the $911 million year-over-year increase in second quarter 2010). Despite the small size of the aggregate increase, revenues were up at almost two-thirds of all institutions (62.4 percent).



⇩ **Fee Income Declines** - Among the notable areas of noninterest revenue weakness, service charge income on deposit accounts at banks filing Call Reports was $2.1 billion (20.7 percent) lower than a year earlier. This is the second consecutive quarter that deposit account fees have declined by 20 percent or more from the prior year. Asset servicing income was $2.2 billion (32.3 percent) lower, and securitization income was down by $1.5 billion (90.7 percent). Both declines were primarily the result of changes in accounting rules that affected financial reporting in 2010. The new accounting rules also were responsible for much of the $7.5 billion (7.5 percent) year-over-year increase in quarterly net interest income. A majority of institutions (59.8 percent) reported higher net interest margins than a year ago, but fourth quarter margins were lower than third quarter margins at 55 percent of institutions.



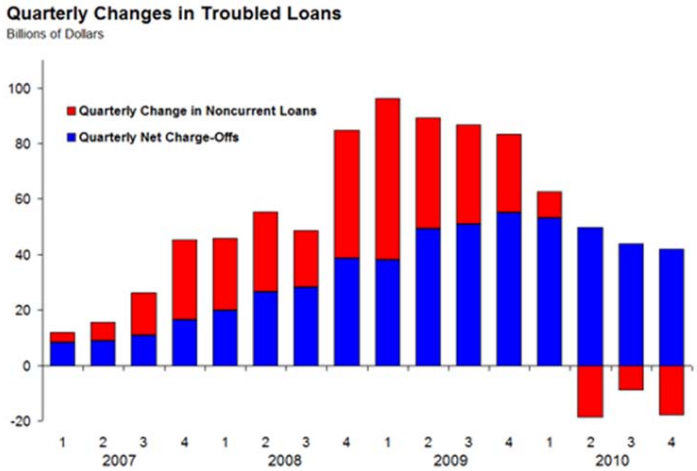
⇧ **Higher Asset Values Contribute to Income Improvement** - The industry's bottom line also benefited from improvement in asset values. Gains on sales of loans and other assets totaled $4 billion in the fourth quarter, more than three times the $1.3 billion in gains that sales produced in fourth quarter 2009. Realized gains on securities totaled $2.3 billion, compared to $5 million in realized losses a year earlier.

⇧ **Full-Year Earnings Represent Sharp Improvements from Revised 2009 Loss** - Full-year 2010 net income totaled $87.5 billion, compared to a revised net loss of $10.6 billion in 2009. This is the highest full-year earnings total for the industry since 2007. More than two out of every three institutions (67.5 percent) reported higher earnings in 2010 than in 2009. The proportion of unprofitable institutions fell from 30.6 percent in 2009 to 21 percent in 2010. This is the first time in six years that the percentage of institutions reporting full-year net losses has declined. The largest factor in the improvement in the industry's net income was a $92.6 billion (37.1 percent) reduction in loan-loss provisions. The second-largest source of improvement was a $28.7 billion decline in charges for goodwill impairment. An additional contribution came from realized gains on securities and other assets, which were $10.8 billion higher. The improvement in full-year earnings was limited by increased income taxes, which were $32.2 billion higher than in 2009. Overall net operating revenue growth was relatively weak in 2010. The $10.8 billion (1.6 percent) increase was the second-worst year-over-year change in the past 16 years, after the $20.4 billion decline registered in 2008. Noninterest income from service charges on deposit accounts was $5.5 billion (13.1 percent) lower than in 2009. This is the first time in the 69 years that these data have been collected that full-year service charge income has declined. Insured institutions paid $53.9 billion in dividends in 2010, an increase of $6.7 billion (14.3 percent) over 2009, but less than half the annual record of $110.3 billion paid in 2007. Retained earnings totaled $33.6 billion, marking the first year since 2006 that the industry as a whole has reported internal capital growth.

⇧ **Loan Losses Continue to Decline across Most Major Categories** - Net loan and lease charge-offs (NCOs) totaled $41.9 billion in the fourth quarter, a decline of $13 billion (23.7 percent) compared to fourth quarter 2009. With the exception of credit cards (which reflected the application of new accounting rules in 2010), almost all major loan categories posted year-over-year declines in quarterly charge-offs. Real estate construction and development loan charge-offs were $4.2 billion lower, while charge-offs of commercial and industrial (C&I) loans were down by $4 billion. Closed-end one-to-four family residential real estate NCOs were $3.1 billion lower, and home equity line of credit NCOs fell by $1.5 billion. NCOs of nonfarm nonresidential real estate loans were only $101 million higher than a year earlier. Reported credit card NCOs were $2.9 billion higher due to the inclusion in 2010 of NCOs on securitized credit card balances that were not included in prior years. Even with the reporting change, the year-over-year increase in quarterly credit card NCOs was the smallest in two years. On a consecutive-quarter basis, credit card NCOs have fallen in each of the past three quarters.

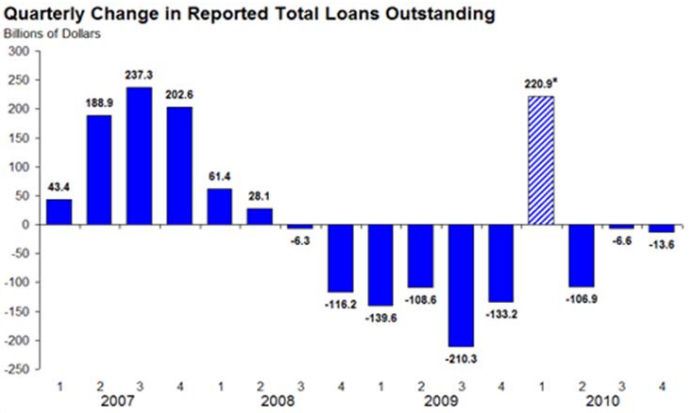
⇧ **Nonperforming Asset Balances Fall for Third Quarter** - The amount of loan and lease balances that were noncurrent (90 days or more past due or in nonaccrual status) fell for a third consecutive quarter, declining by $17.9 billion (4.7 percent). Noncurrent balances declined in all major loan categories, led by real estate construction loans (down $7.4 billion), C&I loans (down $3.2 billion), multifamily residential real estate loans (down $2.1 billion), and closed-end one-to-four family residential real estate loans (down $2 billion). The industry's inventory of other real estate owned (primarily property acquired through foreclosure) declined for the first time since fourth quarter 2005, falling by $374 million. At the end of 2010, noncurrent assets and other real estate owned represented 3.11 percent of total industry assets, the lowest share since the end of third quarter 2009. (See chart on next page.)

⇧ **Reserve Balance Shrinks as Loss Provisions Trail Net Charge-Offs** - Reserves for loan and lease losses declined for a third consecutive quarter, falling by $11.1 billion (4.6 percent), as net charge-offs of $41.9 billion exceeded loss provisions of $31.6 billion. Four large banks accounted for more than half of the decline in industry reserves, as more than a third of all institutions (39.4 percent) reduced their loss reserve balances in the fourth quarter. However, owing to the decline in noncurrent loans, the industry's "coverage ratio" of reserves to noncurrent loans and leases remained essentially unchanged from the previous quarter, at 64.2 percent. More than half of all institutions (52.3 percent) increased their coverage ratios in the fourth quarter, while 39.3 percent reported coverage ratio declines.



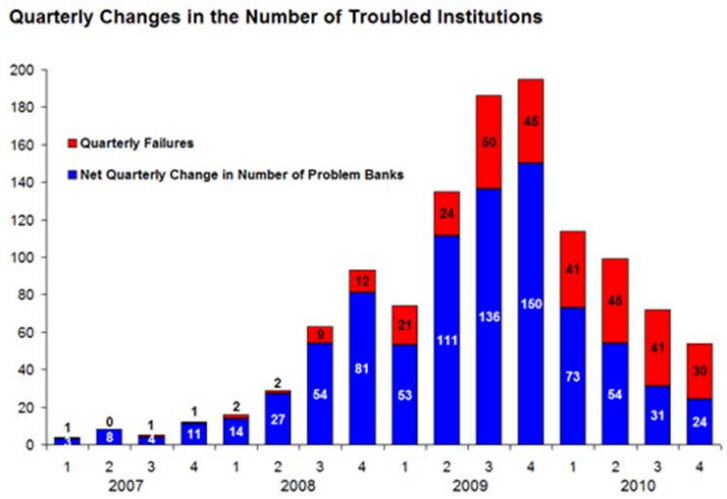
⇧ **Tier 1 Capital Posts Small Increase** - Equity capital fell by $8.5 billion (0.6 percent) in the fourth quarter, the first quarterly decline since fourth quarter 2008. The drop was caused by a $16.2 billion (71.9 percent) decline in unrealized gains on securities held for sale. In contrast, insured institution tier 1 leverage capital, which is not affected by changes in securities values, increased by $3.4 billion (0.3 percent). Total regulatory capital declined by $616 million, reflecting the reduction in loan-loss reserves in the fourth quarter. At the end of 2010, almost 96 percent of all insured institutions, representing more than 99 percent of all insured institution assets, met or exceeded the minimum requirements of the highest regulatory capital category, according to the calculations used for purposes of Prompt Corrective Action.

⇧ **Loan Balances Decline at a Majority of Institutions** - Total assets of insured institutions declined by $51.8 billion (0.4 percent) in the fourth quarter. Assets in trading accounts fell by $43.1 billion (5.6 percent), while total loan and lease balances dropped by $13.6 billion (0.2 percent). The largest reductions in loan portfolios occurred in real estate construction and development loans, where balances fell by $32.5 billion (9.2 percent); non-credit card consumer loans (down $29 billion, or 4.9 percent); and home equity lines of credit, where drawn balances shrank by $11 billion (1.7 percent). Securities portfolios rose by $26.1 billion (1 percent), as institution holdings of mortgage-backed securities increased by $42.7 billion (3 percent). Among loan categories that posted increases during the quarter, credit cards had a seasonal increase of $18.1 billion (2.6 percent); one-to-four family residential mortgage loans increased for the second quarter in a row, rising by $17 billion (0.9 percent); and C&I loans also posted a second consecutive quarterly increase, rising by $11.8 billion (1 percent). Loan balances fell at almost 60 percent of insured institutions in the fourth quarter.

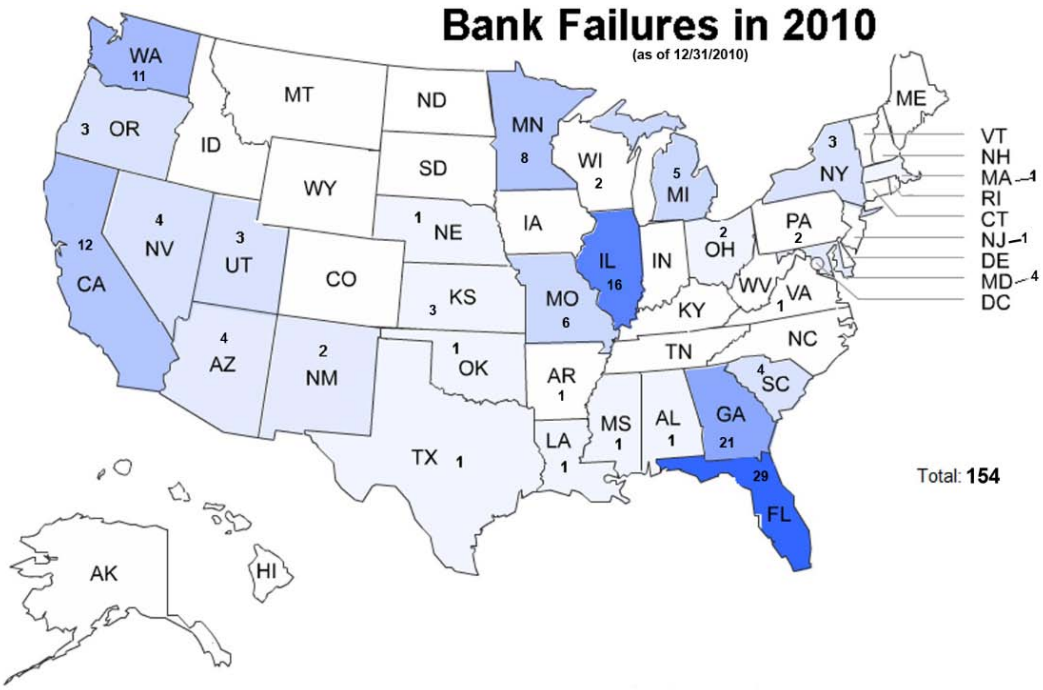


⇧ **Deposit Growth Remains Strong** - Deposits grew strongly for a second consecutive quarter, rising by $149.3 billion (1.6 percent), after a $132.7 billion (1.5 percent) increase in the third quarter. Noninterest-bearing deposits in domestic offices increased by $81.6 billion (5.1 percent). Nondeposit liabilities fell by $200.4 billion (7.8 percent), as Federal Home Loan Bank advances declined by $15.9 billion (4 percent), other secured borrowings dropped by $64.9 billion (14.3 percent), and liabilities in trading accounts fell by $30.2 billion (9.5 percent). At year-end, deposits funded 70.7 percent of total industry assets, the highest proportion since the end of first quarter 1996.

⇩ **Failures Reached an 18-Year High in 2010** - The number of insured institutions reporting quarterly financial results fell from 7,761 to 7,657 in the fourth quarter. Thirty insured institutions failed during the quarter and an additional 73 were absorbed in mergers. There were three new charters added in the quarter. For all of 2010, mergers absorbed 197 institutions, while 157 insured commercial banks and savings institutions failed. This is the largest annual number of bank failures since 1992, when 181 institutions failed. Only 11 new reporters were added during 2010, the smallest annual total in the FDIC's 77-year history. The number of institutions on the FDIC's "Problem List" increased from 860 to 884 in the fourth quarter. Total assets of "problem" institutions increased from $379 billion to $390 billion.



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



Source: FDIC

	Charter	Date Closed	Total Assets
The La Coste National Bank, La Coste, TX	National	02-19-10	$53.9 Million

Nationwide Bank Failures 2004-2011*

Source: FDIC

***Through March 31, 2011**

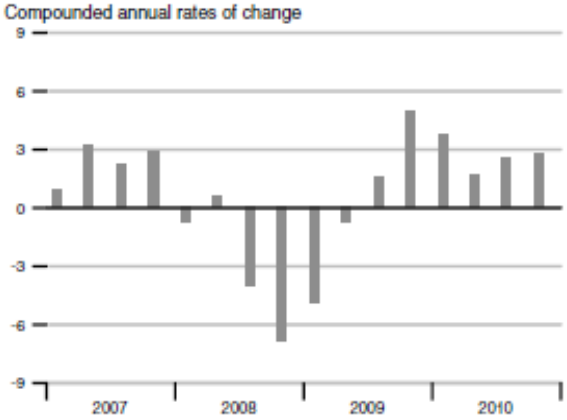
Stock Performance
Southwest Regional Banks

Name	Last Trade		52 Wk Range		PE	EPS	Mkt Cap	Div/Shr	Div Yld
Bancfirst Corporation	3/14	**42.25**	34.87	47.15	15.65	2.70	649.30M	1.00	2.40%
Banco Bilbao Vizcaya Argentaria	3/14	**12.41**	8.65	15.40	9.37	1.32	47.16B	0.38	3.30%
Bancfirst Cp-ok	3/15	**42.28**	34.87	47.15	15.66	2.70	649.4M	0.25	2.37%
Bok Financial Corporation	3/14	**51.99**	42.56	56.58	14.39	3.61	3.55B	1.00	1.90%
Cass Information Sys Inc	3/14	**36.96**	30.11	40.49	17.19	2.15	347.20M	0.64	1.70%
Cobiz Incorporated	3/14	**6.85**	4.71	8.29	N/A	-0.72	250.81M	0.04	0.60%
Comerica Inc.	3/14	**38.30**	33.11	45.85	43.62	0.88	6.77B	0.40	1.00%
Commerce Bancshares, Inc	3/15	**38.77**	33.43	42.67	15.39	2.52	3.37B	0.23	2.38%
Community Shores Bank Corp	3/11	**0.60**	0.36	2.24	N/A	-6.05	N/A	N/A	N/A
Cullen Frost Bkrs Incorporated	3/14	**57.96**	50.04	62.59	16.85	3.44	355B	1.80	3.10%
Encore Bancshares, Inc.	3/15	**11.90**	5.90	12.67	N/A	-2.25	136.02M		
Enterprise Fin Serv Corp	3/14	**12.45**	7.95	13.50	27.67	0.45	185.36M	0.21	1.70%
First Comnty Corp S C	3/14	**6.40**	4.80	6.99	17.78	0.36	20.92M	0.16	2.50%
First Financial Bankshares	3/14	**49.49**	43.55	54.94	17.29	2.86	1.04B	1.36	2.70%
Firstcity Finl Corp	3/14	**6.95**	5.26	8.69	3.72	1.87	70.88M	N/A	N/A
First State Bancorporation	3/15	**0.025**	0.01	1.36	N/A	-5.40	521,425	0.09	1440.0%
Great Southn Bancorp Inc	3/14	**19.87**	19.37	26.32	13.61	1.46	267.33M	0.72	3.60%
Guaranty Fed Bancshares Inc	3/11	**5.80**	4.30	7.14	30.53	0.19	14.40M	N/A	N/A
Heartland Financial USA Inc	3/14	**14.97**	13.77	20.85	13.25	1.13	245.88M	0.40	2.50%
International Bancs Cor	3/14	**17.96**	15.11	25.14	10.44	1.72	1.22B	0.38	2.10%
Landmark Bancorp Inc	3/14	**16.36**	15.05	18.99	20.97	0.78	43.12M	0.76	4.30%
Liberty Bancorp Inc	3/10	**9.70**	6.90	10.06	15.42	0.63	36.45M	0.10	1.00%
Mackinac Finl Corp	3/10	**6.00**	3.95	7.39	N/A	-0.34	20.51M	N/A	N/A
Metrocorp Bancshares Inc	3/14	**6.88**	2.43	7.14	N/A	-0.28	91.02M	N/A	N/A
MidWest One Finl Group Inc	3/14	**14.27**	11.25	17.00	13.34	1.07	122.92M	0.20	1.40%
Osage Bancshares Inc	3/08	**8.05**	6.50	9.25	32.99	0.24	21.28M	0.34	4.20%
Prosperity Bancs Inc	3/14	**40.38**	28.27	43.66	14.79	2.73	1.89B	0.70	1.70%
QCR Holdings Inc	3/14	**7.73**	6.75	14.40	14.58	0.53	35.64M	0.08	1.00%
Sterling Bancshares Inc	3/14	**8.93**	4.34	9.37	893.00	0.01	910.72M	0.06	0.70%
Tex Capital Bancs Inc	3/14	**24.86**	14.86	26.00	24.96	1.00	922.70M	N/A	N/A
UMB Financial Corporation	3/14	**38.83**	31.77	44.68	17.18	2.26	1.57B	0.78	2.00%
West Bancorp Incorporated	3/14	**7.12**	5.51	9.04	11.12	0.64	122.67M	N/A	N/A
Zions Bancorp	3/14	**23.10**	17.91	30.29	N/A	-2.48	4.23B	0.04	0.20%

Source: Yahoo Finance (March 2011)
NA – Indicates information was not available.

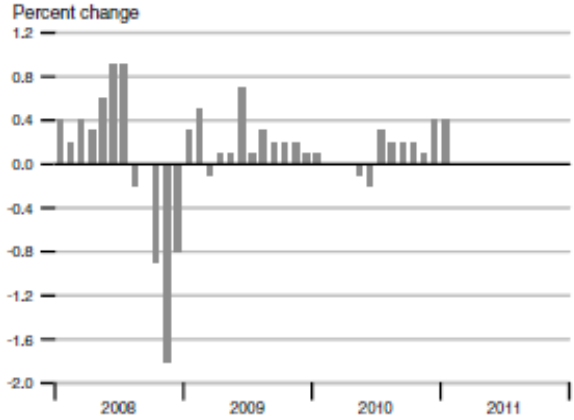
Real GDP Growth

Compounded annual rates of change



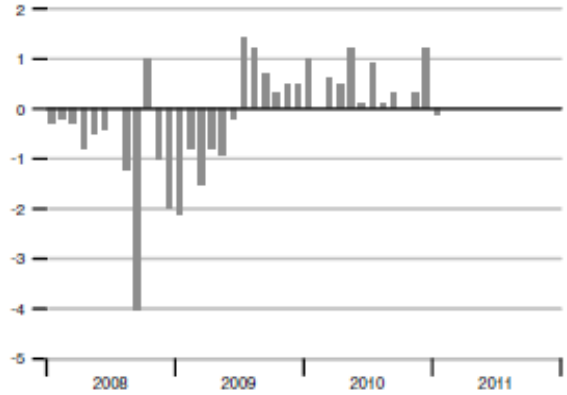
Consumer Price Index

Percent change



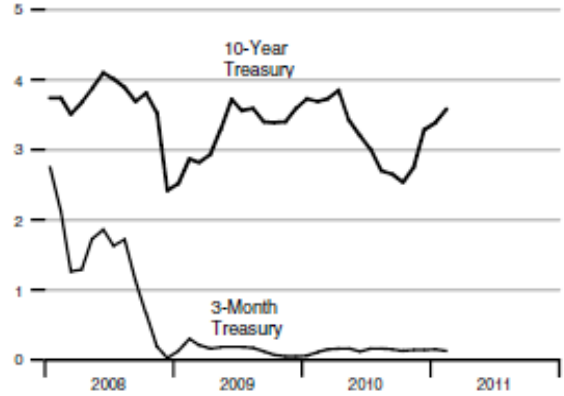
Industrial Production

Percent change



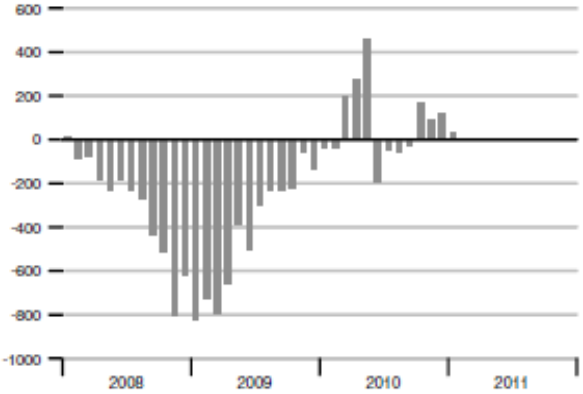
Interest Rates

Percent



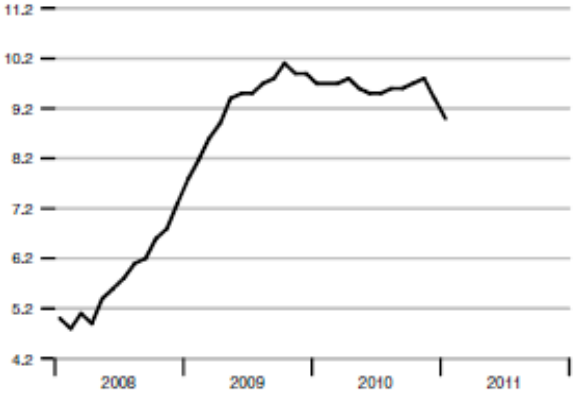
Change in Nonfarm Payrolls

Thousands



Unemployment Rate

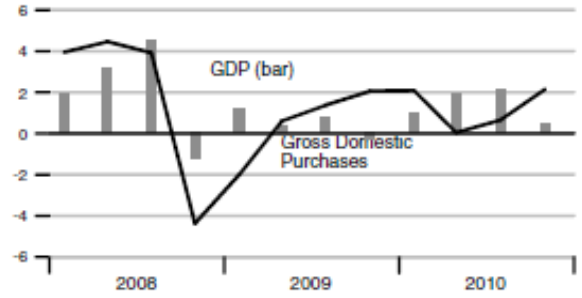
Percent of labor force



Provided by the Federal Reserve Bank of St. Louis, National Economic Trends.
Updated March 1, 2011.

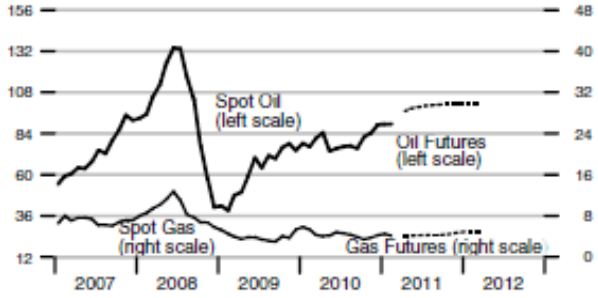
NIPA Chain Price Indexes

Compounded annual rates of change



Oil & Natural Gas Prices: Spot & Futures

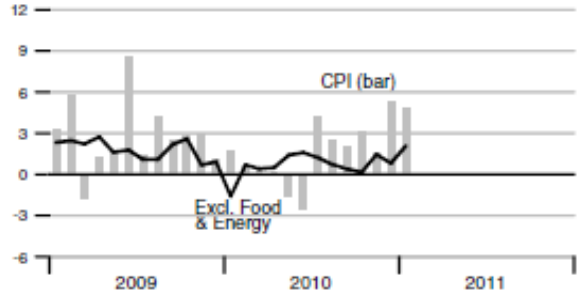
Dollars per barrel | Dollars per million btu



Note: Futures prices as of 2/28/2011.

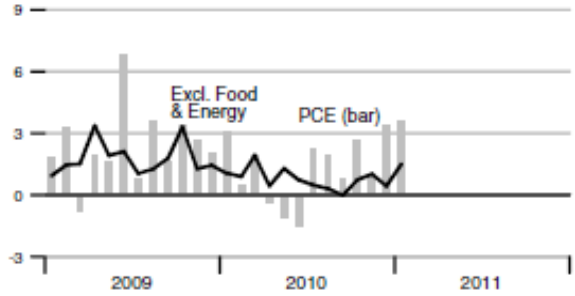
Consumer Price Index

Compounded annual rates of change



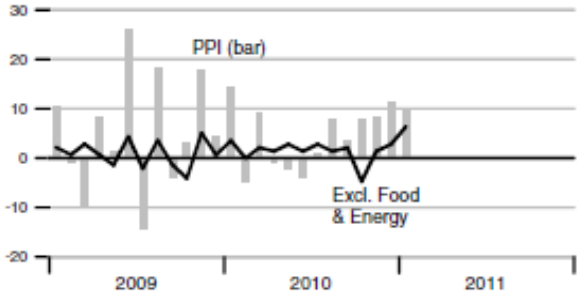
Consumption Chain Price Index

Compounded annual rates of change



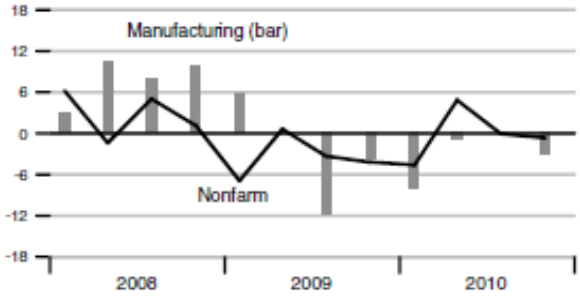
Producer Price Index, Finished Goods

Compounded annual rates of change



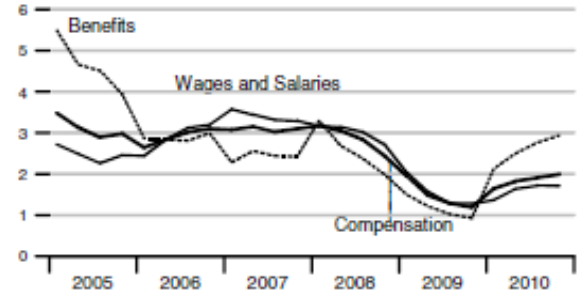
Unit Labor Cost

Compounded annual rates of change



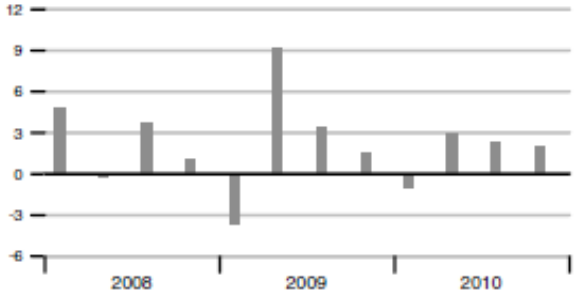
Employment Cost Index

Percent change from year ago



Compensation per Hour

Compounded annual rates of change



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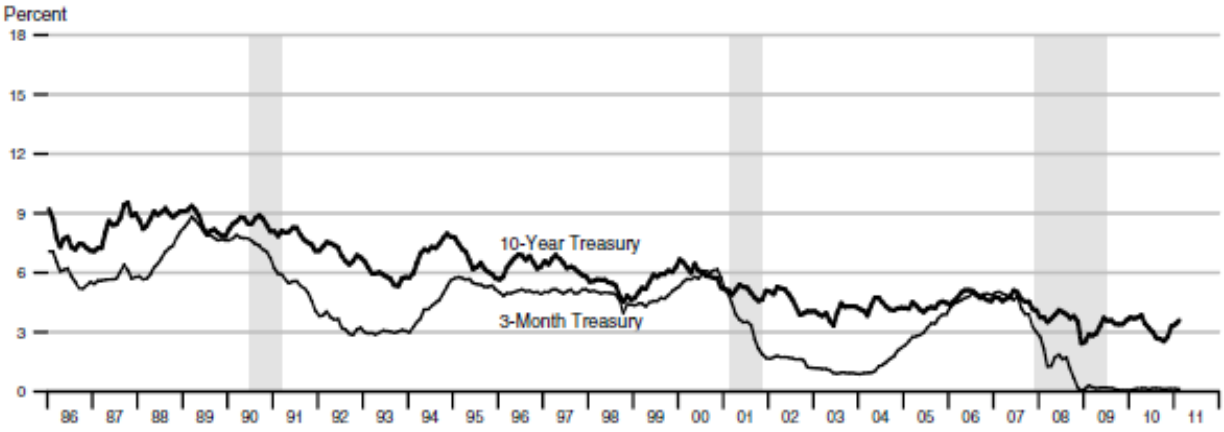
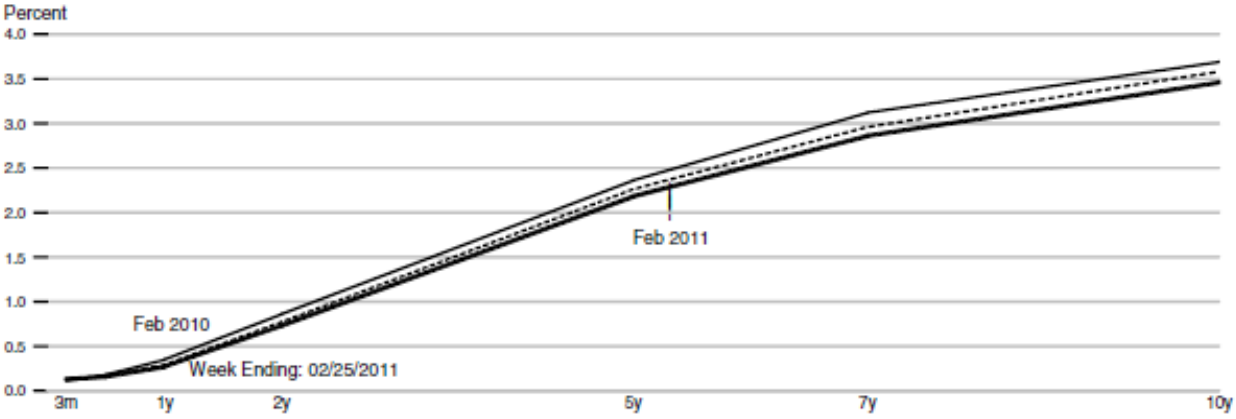
Updated March 1, 2011.

Interest Rates

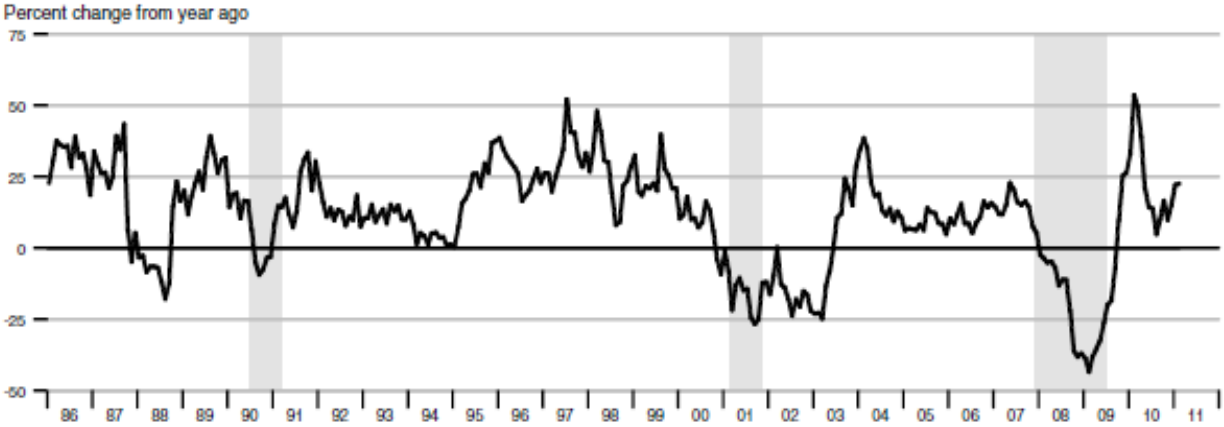


Treasury Yield Curve



* Treasury Yield Curve for January 2011 is almost identical to Week Ending 01/28/2011.

Standard and Poor's 500 Index with Reinvested Dividends

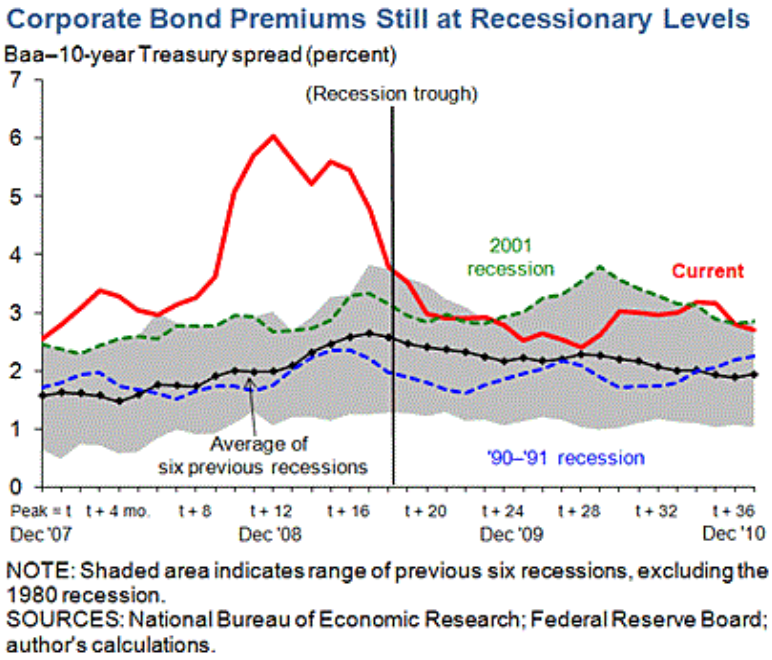


Provided by the Federal Reserve Bank of St. Louis, National Economic Trends.
Updated March 1, 2011.

National Update – January 2011
Federal Reserve Bank of Dallas

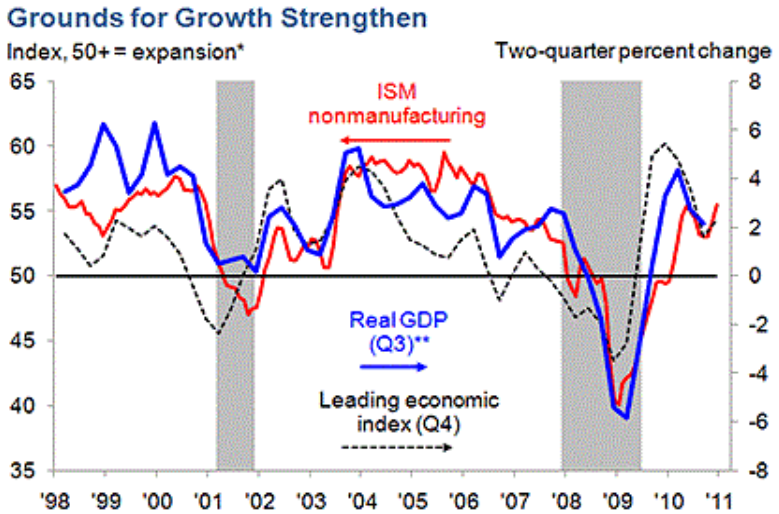
- **Overall Economy** -The outlook for U.S. gross domestic product (GDP) growth has firmed, probably to a 3 to 4 percent range for fourth quarter 2010 and 2011. Upside factors seem likely to outweigh downside factors. Gradual improvements in credit availability, solid consumer spending, moderate job creation and less uncertainty about new regulations and taxes should work to reinforce the economic recovery. Downside risks remain, mostly in the form of drags from housing, state and local finance, and uncertain financial spillover from the euro debt crisis.

- **Financial Frictions** - Unusual financial frictions contributed to the recession and lackluster recovery, but they are abating, as they have done since second quarter 2010. The unusual weakness in the recovery may partly owe to higher risk premiums in securities markets that make direct financing more costly and less accessible than usual. This can be seen in above-normal spreads between interest rates on Baa-rated corporate and 10-year Treasury bonds. Prior to the recession trough, this spread was much wider than seen in other recessions, and it is still about 80 basis points above the average for six of the last seven recessions.



Contributing to the tepid nature of the current recovery, risk premiums in various securities markets remain vulnerable to euro-area debt troubles, though less so than in mid-2010. Stock prices have recovered to levels preceding Lehman's collapse, and various medium and long-run inflation risk premiums have returned to precrisis levels. Real bond yields and corporate rates have also moved higher. Real rates are returning to ranges that prevailed from the mid-1980s to early 2000s, an arguably more normal time, before the arrival of unusually low risk premiums in the mid-2000s that accompanied the euphoria of the structured finance boom. Revisiting levels associated with a less recession-panicked and stressed psychology may be reflective of expectations that the U.S. economy will return to normal, albeit over a long period.

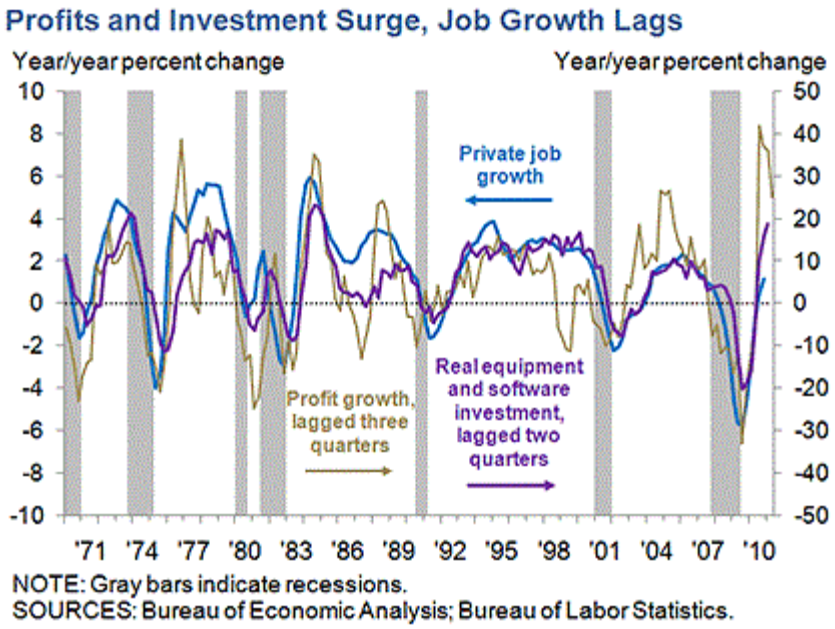
⇧ **Some Strength to Build On** – Several sectors of the real economy have begun to show clear positive momentum. The underlying pace of consumer spending was healthy at the end of 2010, rising notably in October and November, before the coldest winter since 1985 boosted heating bills and likely deterred even more shopping. Retail sales increased 0.6 percent in December after surging 0.8 percent in November. Excluding autos, sales rose 0.5 percent, following a 1 percent jump in November. This strong growth around the turn of the year should be viewed with the caveat that the data are subject to sizable revisions in December and January due to large seasonal factors, difficulties tracking nonstore retail sales, and the timing of gift card purchases. Consumer credit availability has gradually improved, helping bolster underlying trends in consumer durables excluding transportation and aircraft orders. Other data show that GDP growth may be firming. For example, both the Conference Board's index of leading economic indicators and the Institute for Supply Management (ISM) nonmanufacturing composite index point to a near-term pickup in GDP growth. However, the leading indicators have been less reliable in the recent cycle, suggesting a more normal downturn and recovery than the decline and subsequent rebound seen in the actual GDP data.



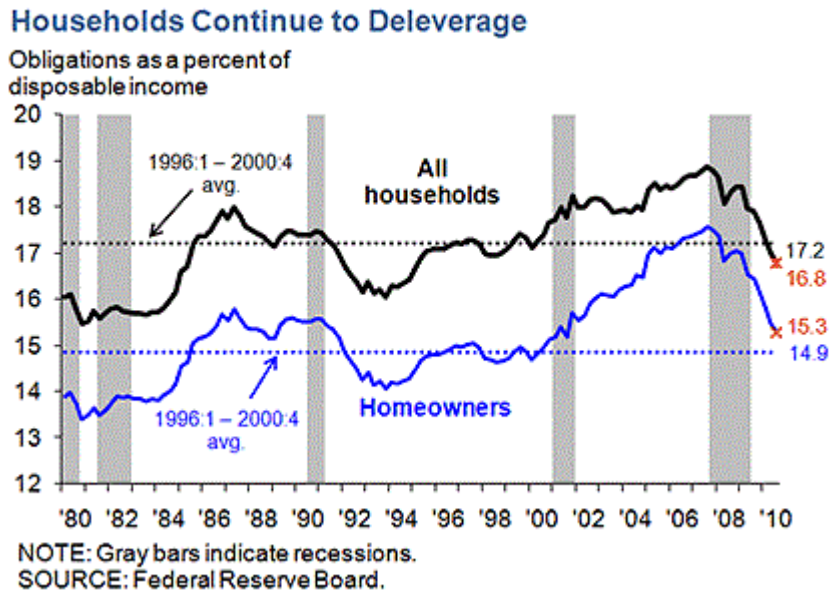
* Seasonally adjusted, three-month moving average.
** Annualized.
SOURCES: Institute for Supply Management; Bureau of Economic Analysis; Conference Board; author's calculations.

Manufacturing output resumed its 4 percent annualized growth pace in the fourth quarter after nearly stalling out in the third quarter. Industrial production jumped 0.8 percent in December, led by a 4.3 percent surge in utility output associated with the unusually cold winter weather. The manufacturing component rose 0.4 percent in December, up from a 0.3 percent gain in November. The ISM manufacturing composite and new orders readings for January confirm the strengthening in manufacturing growth after a summer pause.

⇕ **Belabored Recovery** - Relative to historical patterns, private payrolls have recovered more slowly on a year-over-year basis than have business equipment investment and corporate profits. This deviation may reflect business reactions to uncertainties about future staffing needs emanating from health care reform and globalization trends. In addition to the cyclical behavior of labor productivity, the rise of information technology has encouraged substitution of labor with capital, contributing to this cycle's high excess capacity and labor market slack. A near-term pickup in job growth is likely, though the subpar performance of payroll increases in the early phases of the recovery suggests that the pickup may fail to significantly impact unemployment figures or impart robust output growth. (See chart on next page.)



⇩ **<u>Remaining Headwinds and Uncertainties</u>** - Tighter credit standards and reduced demand have likely both contributed to household deleveraging. Although there are several ways of gauging household debt burdens, the Federal Reserve Board's financial obligations ratio (FOR) is a relatively straightforward measure. The FOR rose notably during the subprime boom but has dropped 2 percentage points since 2007, reflecting lower consumer demand, the write-down of bad loans, tighter credit standards, and regulatory changes. It appears that a large portion of the fallback in the FOR is over, though new regulations and a different credit climate make it unclear when and where the FOR will bottom out.



Data released since December's Federal Open Market Committee meeting have generally indicated a weak housing market, with some relative improvement in the trajectory of home sales. During the

housing boom, residential construction grew far above the need to replace depreciation and meet population growth. The resulting oversupply of homes and the effect of probable further price declines reveal residential construction as a foundering engine of economic growth.

Other notable downside risks to the economic outlook involve challenges facing government finance. Possible spillover of Europe's debt crisis into U.S. risk premiums, or any type of euro-zone slowdown, might limit U.S. growth. But there are also stresses on government finance within the nation's borders. Exacerbating continued cuts in state and local spending is the pull-forward effect of municipal issuance, given December's expiration of the Build America Bonds program. This program subsidized infrastructure spending, and its expiration may slow municipal spending after 2011 because many states had moved up issuance of these bonds to fund future projects. Further, outsized state budget deficits have led to elevated credit default swap spreads and borrowing costs for states with large budget shortfalls.

⇧ **Economic Outlook** – Recent data indicate that the risks of a double-dip recession and deflation have ebbed. Although the regenerating channels of credit and finance remain vulnerable to shocks, renewed signs of a self-sustaining recovery in consumer and business spending are growing as the underlying factors behind the recession and subpar recovery continue to unwind. While housing, municipal finance and labor market slack continue to detract from a more robust recovery, the near-term outlook has improved.

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

Data Series	Sept 2010	Oct 2010	Nov 2010	Dec 2010	Jan 2011	Feb 2011
Unemployment Rate (1)	9.6	9.7	9.8	9.4	9.0	8.9
Change in Payroll Employment (2)	-29	171	93	152	63(P)	192 (P)
Average Hourly Earnings (3)	22.70	22.77	22.76	22.77	22.86 (P)	22.87 (P)
Consumer Price Index (4)	0.2	0.2	0.1	0.4	0.4	0.5
Producer Price Index (5)	0.3	0.6	0.7 (P)	0.9 (P)	0.8 (P)	1.6 (P)
U.S. Import Price Index (6)	0.0	1.1	1.7 (R)	1.4 (R)	1.3 (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) Average Hourly Earnings for all employees on private nonfarm payrolls.
(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 2009	1st Qtr 2010	2nd Qtr 2010	3rd Qtr 2010	4th Qtr 2010
Employment Cost Index (1)	0.5	0.6	1.5	0.4	0.4
Productivity (2)	6.7	4.6	-1.7	2.3	2.6

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: March 23, 2011

The Beige Book – March 2, 2011
The Federal Reserve Board
Excerpt

⇧ Reports from the twelve Federal Reserve Districts indicated that overall economic activity continued to expand at a modest to moderate pace in January and early February. Both Kansas City and San Francisco noted that their economies expanded further. Boston and Philadelphia cited conditions as improving. New York, Cleveland, Richmond, Atlanta, and St. Louis described activity as modestly improving, while Minneapolis and Dallas experienced moderate growth. Chicago reported that although there was an increase in activity, it was at a pace not quite as strong as during the previous reporting period.

Retail sales increased in all Districts, except Richmond and Atlanta, although Boston, New York, Philadelphia, Atlanta, and Kansas City noted that severe snowstorms had a negative impact on merchant activity. Retail inventory levels were described as desirable in New York, Cleveland, Dallas, and San Francisco. Tourism improved in Richmond, Atlanta, and San Francisco, while New York and Kansas City noted a slowdown in activity as hotel occupancy rates declined. Some Districts reported a slight increase in the level of residential real estate activity, although all Districts maintained that the overall level of home sales and construction remained low. Several Districts indicated improvements in commercial real estate sales and leasing activity, including Boston, Richmond, Chicago, Kansas City, Dallas, and San Francisco. Most reports characterized nonresidential construction as weak.

All Districts, except St. Louis, experienced solid growth in manufacturing production, and new orders improved for Philadelphia, Atlanta, Chicago, Kansas City, and San Francisco. Most regions observed an increase in nonfinancial services. Boston, Philadelphia, and San Francisco reported that sales advanced for services related to information technology, while Kansas City noted softer sales of IT services.

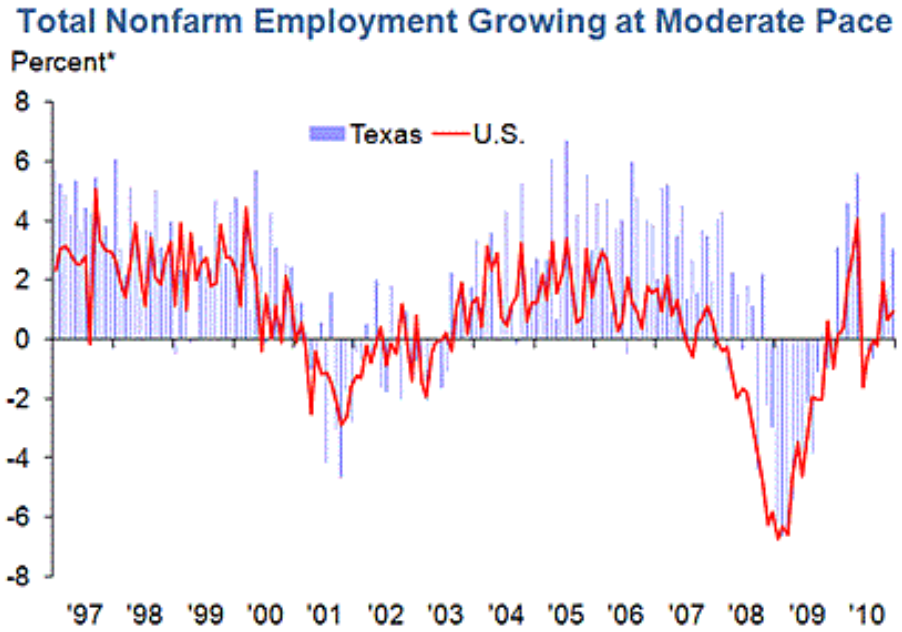
Changes in loan demand were mixed across Districts, with Richmond, Dallas, and San Francisco experiencing increased loan demand and Kansas City noting a decrease. Lending standards remained tight across most Districts. Labor markets modestly improved across the country. Boston, Richmond, and Chicago reported more permanent job placements occurring in the market, while Atlanta businesses reported a continued preference for hiring temporary workers rather than permanent workers. Several Districts described an increase in demand for staffing services, especially for high-skilled IT positions. Adverse weather conditions continued to hamper agricultural production in many Districts, but strong prices helped producers of cotton, corn, soybeans, wheat, poultry, hogs and cattle. Energy production expanded or remained stable, according to reporting Districts.

Non-wage input costs increased for manufacturers and retailers in most Districts. Manufacturers, in a number of Districts reported having greater ability to pass through higher input costs to customers. Retailers in some Districts mentioned they had implemented price increases or were anticipating such action in the next few months. Homebuilders in Cleveland and Atlanta had limited ability to pass through cost increases to buyers. Most reporting Districts noted continued strong agricultural commodity prices. Wage pressures remained minimal across all Districts; although Philadelphia, Dallas, and San Francisco noted that most wage increases were for workers with specialized skills.

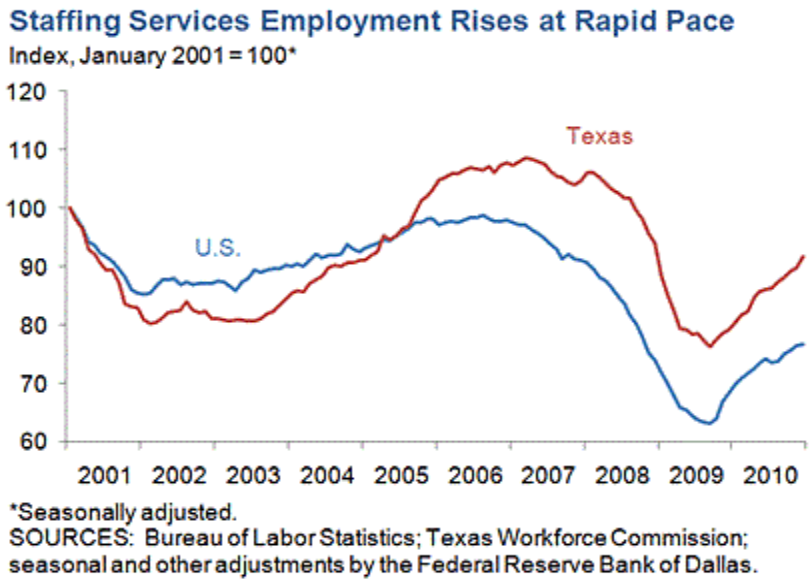
Regional Economic Update – January 2011
Federal Reserve Bank, Dallas

⇧ **Overall Economy** - Texas' economy continues to expand at a moderate pace, with some notable acceleration in the final weeks of 2010 and early 2011. Payroll employment continues to grow as indicators increasingly point to an improved labor market in 2011. The energy sector remains strong, and while construction and housing activity are only now beginning to stabilize, hard-hit sectors such as manufacturing are increasing current and planned future production levels. The Federal Reserve Bank of Dallas' Texas Leading Index suggests further economic growth in the spring.

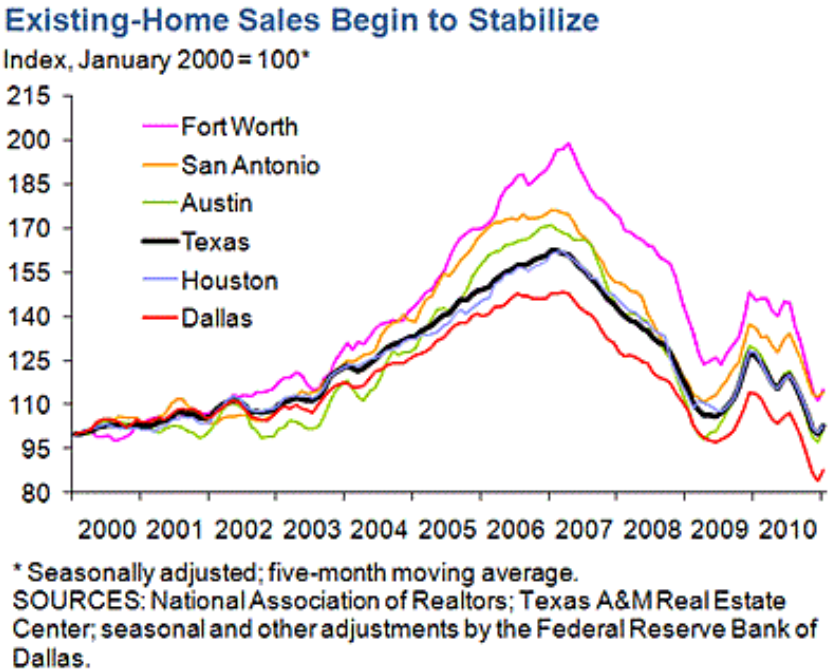
⇧ **Labor Market** - Texas payroll employment growth continued an upward trajectory, rising at annual rates of 1.7 percent in November and 3 percent in December. Private-sector employment, which excludes government, grew at similar rates. Most firms responding to the Dallas Fed's anecdotal survey of economic conditions, the Dallas Beige Book, report a stable to slightly rising labor force and an increasingly positive outlook on medium-term hiring prospects. Additionally, staffing services employment—a leading indicator of overall economic activity—shot up in December at a 29 percent annual rate. (See next page for chart.) Texas' unemployment rate ticked up 0.1 percentage points for the second month in a row in December, rising to 8.3 percent. However, unemployment is a lagging indicator that reflects the labor market's recent past rather than its future.



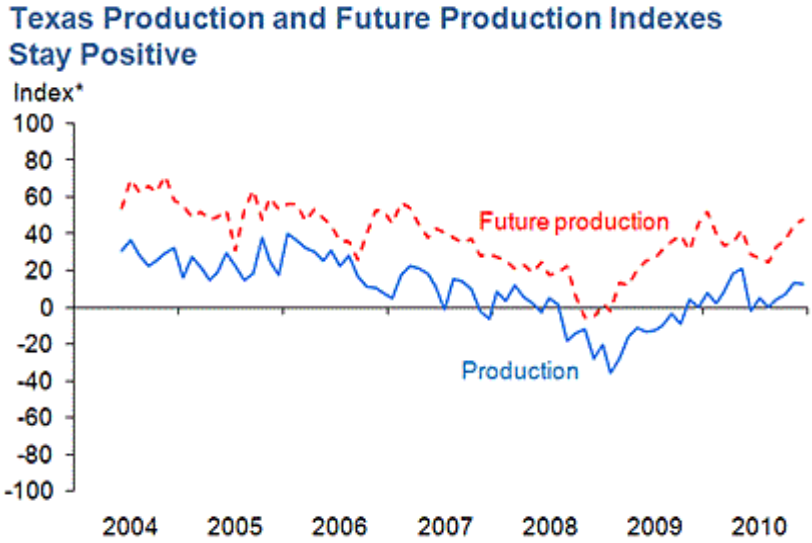
*Month/month; seasonally adjusted, annualized rate.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.



⇧ **Construction and Real Estate**- Construction employment recently posted solid gains, growing at annual rates of 9.2 percent and 21.9 percent in November and December, respectively. Construction activity, as measured by construction contract values, also showed modest gains in December, consistent with a pickup in economic activity. While the increase was broad-based across the major sectors of residential, nonresidential and nonbuilding (such as streets, highways and bridges), overall construction remains at low levels. The market for existing homes remains soft following last year's expiration of the homebuyer tax credit, although sales have trended up slightly over the past few months and rose solidly in December. Existing-home inventories, measured as the number of months' supply at the current sales pace, have stabilized recently after rising for much of 2010.

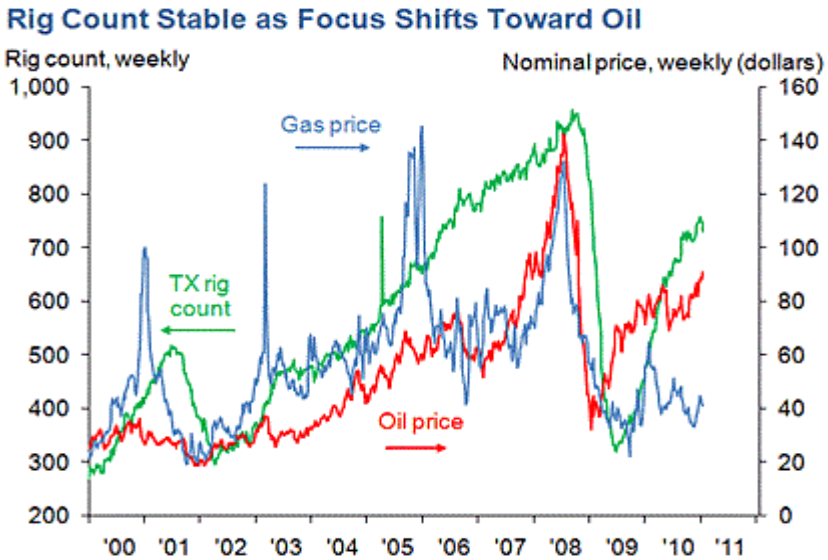


⇧ **Manufacturing Activity -** Texas manufacturing activity finished 2010 on a positive note, expanding for the fourth consecutive month, according to the Dallas Fed's Texas Manufacturing Outlook Survey. Manufacturers expect production activity to be stronger than current levels six months from now.



* Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey.

⇧ **Energy -** The energy sector is still going strong as oil prices creep upward and the overall rig count holds near two-year highs. Energy employment increased at a 5.2 percent annual rate in November before slowing to a 2.2 percent rate in December. While the overall rig count has been fairly constant, drilling activity is shifting increasingly toward oil and oil-related products due to low natural gas prices. Barring an unexpected change in oil or natural gas prices, such activity is expected to continue throughout 2011.



NOTE: Gas price is multiplied by 10.
SOURCES: *Wall Street Journal*; Baker Hughes; Haver Analytics.

- ⇧ **Exports -** Texas exports rose in November, growing at a 3.5 percent annual rate as exports from the rest of the U.S. fell. Although data are not yet available, recent positive developments in the Mexican economy point to a possible increase in Texas exports to Mexico following a decrease in the third quarter.

- ⇕ **Retail Sales -** The most recent retail sales data suggest a fairly flat trend through October. However, increasing anecdotal evidence suggests that this trend may turn up. Retailers report moderate improvement in holiday sales, and several large national retailers note that the performance of Texas stores exceeded national averages.

- ⇧ **Expansion Picks Up** - The Texas economy continues to expand at a moderate pace, with some observable acceleration near the end of 2010 and in early 2011. Positive indicators in manufacturing and services and rapidly growing staffing services employment point to an improved labor market to come. While existing employment data are somewhat tepid, increasing anecdotal evidence further supports this view. Continued weakness in real estate as well as an impending state budget shortfall may offset these positive signals to some extent. In November, the Texas Leading Index achieved its highest level in more than two years. This reading is consistent with other leading indicators. On the whole, evidence supports the notion of an improved outlook for 2011.

SOURCE: Federal Reserve Bank of Dallas.

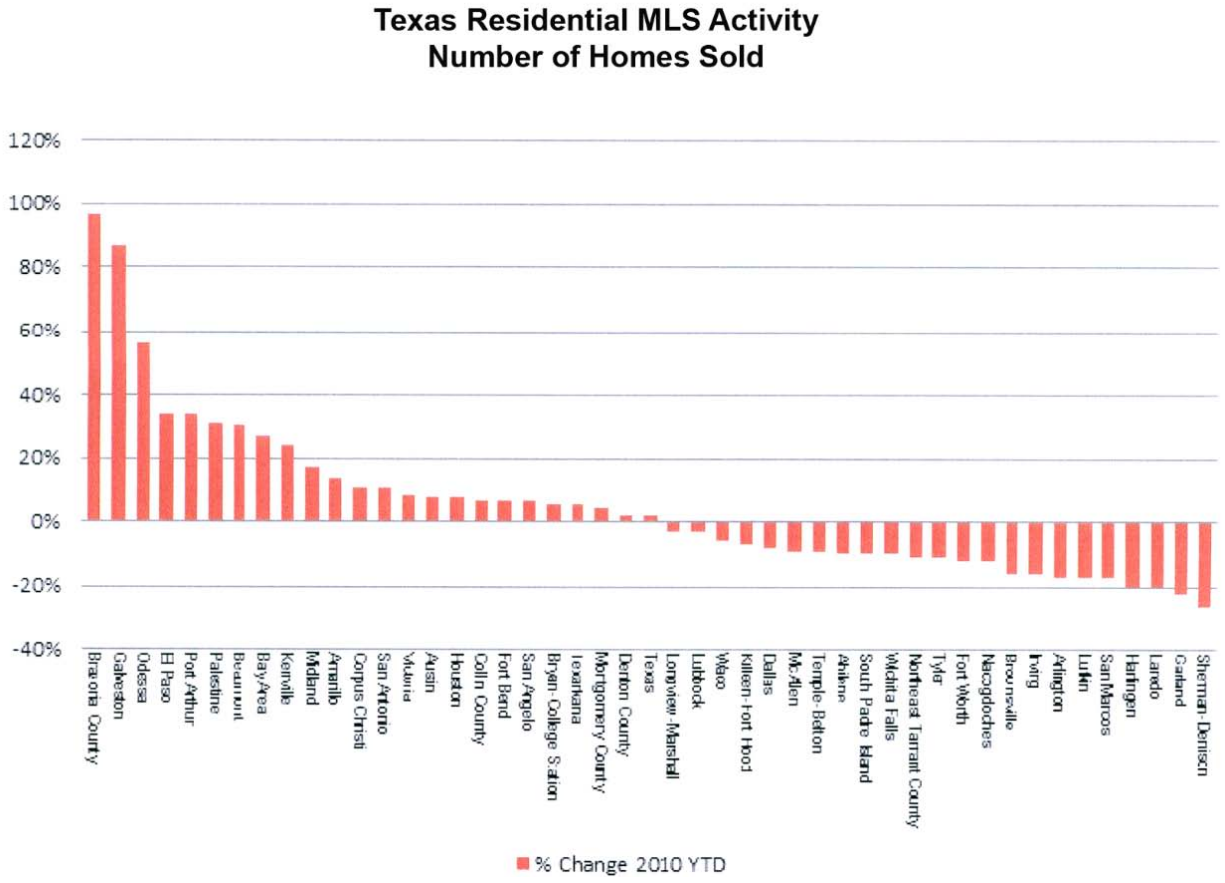
Texas Economic Statistics
U.S. Bureau of Labor Statistics

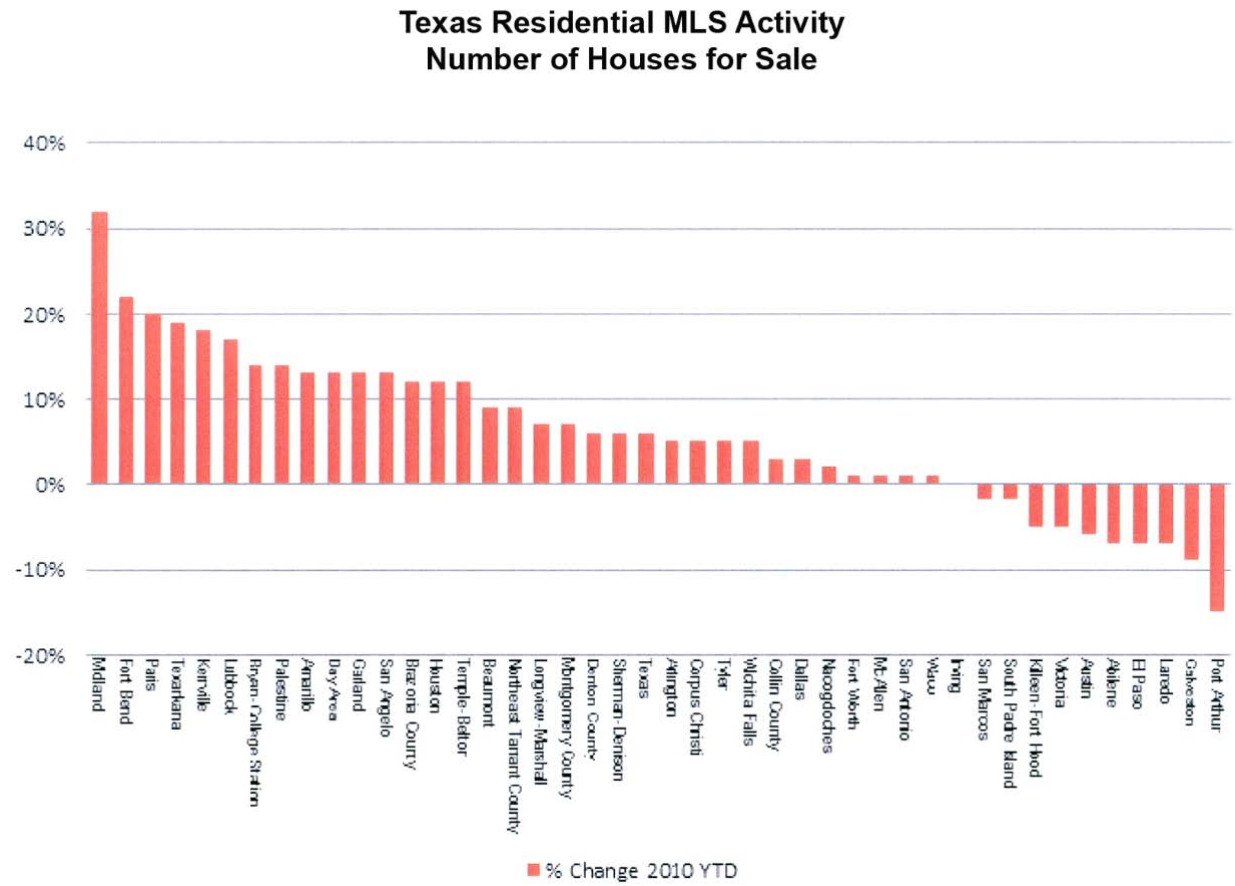
Data Series	Aug 2010	Sept 2010	Oct 2010	Nov 2010	Dec 2010	Jan 2011
Labor Force Data						
Civilian Labor Force (1)	(5) 12,137.6	(5) 12,152.2	(5) 12,173.0	(5) 12,193.1	(5) 12,209.4	
Employment (1)	(5) 11,147.5	(5) 11,158.3	(5) 11,173.9	(5) 11,186.6	(5) 11,198.6	
Unemployment (1)	(5) 990.1	(5) 993.9	(5) 999.1	(5) 1,006.5	(5) 1,010.7	
Unemployment Rate (2)	(5) 8.2	(5) 8.2	(5) 8.2	(5) 8.3	(5) 8.3	
Nonfarm Wage and Salary Employment						
Total Nonfarm (3)	10,360.9	10,353.3	10,413.1	10,429.7	(P) 10,449.7	
12-month % change	1.3	1.4	1.8	1.9	(P) 2.3	
Mining and Logging (3)	221.4	225.4	226.0	227.2	(P) 228.6	
12-month % change	11.7	14.3	15.4	14.9	(P) 14.8	
Construction (3)	570.2	564.5	574.1	577.6	(P) 586.3	
12-month % change	-2.6	-2.5	2.4	2.8	(P) 5.8	
Manufacturing (3)	840.1	842.7	844.4	837.4	(P) 840.5	
12-month % change	2.4	3.1	3.3	2.7	(P) 3.4	
Trade, Transportation, and Utilities (3)	2,040.9	2,042.8	2,043.7	2,040.9	(P) 2,040.6	
12-month % change	-0.2	-0.1	-0.2	-0.3	(P) -0.2	
Information (3)	189.6	186.9	185.9	188.6	(P) 187.8	
12-month % change	-6.3	-7.3	-7.6	-5.9	(P) -6.4	
Financial Activities (3)	627.7	628.0	630.3	630.3	(P) 631.1	
12-month % change	0.6	0.7	1.0	0.6	(P) 0.8	
Professional & Business Services (3)	1,275.4	1,277.2	1,284.7	1,290.6	(P) 1,287.3	
12-month % change	3.6	4.3	4.4	5.0	(P) 5.2	
Education & Health Services (3)	1,393.0	1,393.1	1,403.5	1,411.7	(P) 1,407.2	
12-month % change	3.9	3.8	3.2	3.8	(P) 3.4	
Leisure & Hospitality (3)	1,017.7	1,020.6	1,019.8	1,020.0	(P) 1,026.6	
12-month % change	1.5	2.0	2.1	1.5	(P) 2.5	
Other Services (3)	362.6	360.8	364.6	365.4	(P) 368.8	
12-month % change	0.3	-0.1	1.9	2.2	(P) 3.4	
Government (3)	1,822.3	1,811.3	1,836.1	1,840.0	(P) 1,844.9	
12-month % change	0.4	-0.4	0.1	0.1	(P) 0.3	
Mass layoffs						
Layoff events, all industries	38	49	52	66	63	54
Initial claimants, all industries	3,058	4,814	4,739	7,445	7,312	5,039

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

Data extracted on: March 04, 2011

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





❖ **Senior Loan Officer Opinion Survey -** The July 2010 Senior Loan Officer Opinion Survey on Bank Lending Practices addressed changes in the supply of, and demand for, bank loans to businesses and households over the past three months. The survey included a set of special questions that asked respondents about lending to European firms and their affiliates and subsidiaries. This summary is based on responses from 57 domestic banks and 23 U.S. branches and agencies of foreign banks. Overall, the January survey indicated that a modest net fraction of banks continued to ease standards and terms for commercial and industrial (C&I) loans over the fourth quarter while banks reported small mixed changes in their lending policies for other types of loans to businesses and households. Similarly, the respondents reported a moderate increase in demand for C&I loans but little change, on balance, in demand for other types of loans. Regarding loans to businesses, survey respondents, particularly large banks, reported having eased standards and most terms on C&I loans, especially to large and middle-market firms. Banks mainly pointed to a more favorable or less uncertain economic outlook and increased competition from other banks or nonbank lenders as reasons for easing. By contrast, standards on CRE loans were reportedly about unchanged. Changes in standards and terms on loans to households were small and mixed. Banks again reported an increased willingness to make consumer installment loans, and a small net fraction of respondents reported easing standards for approving consumer credit card applications. However, a few banks, on net, reported having tightened terms on, or having reduced the sizes of credit lines on existing consumer credit card accounts. A modest net fraction of respondents reported having tightened standards on nontraditional residential mortgage loans, while banks on net reported little change in standards on prime residential mortgage loans or home equity lines of credit (HELOCs). Demand increased, on net, for business loans, including C&I loans, particularly for large or middle-market firms. A smaller net fraction of banks reported increased demand for CRE loans. Moderate net fractions of banks reported decreased demand for all types of residential mortgage loans. In addition, banks, on net, did not indicate much change in demand for consumer loans.

Business Lending

C&I Loans. The January survey found that a modest net fraction of domestic respondents continued to ease standards on C&I loans to large and middle-market firms. Few banks reported changing standards on such loans to small firms. The banks that eased standards were almost all large banks. In addition, a few branches and agencies of foreign banks reported having eased standards on C&I loans, while none of those institutions tightened standards.

Positive net fractions of banks eased most terms on C&I loans, with larger net fractions easing terms for loans to large and middle-market firms than for loans to small firms. Compared with the October survey, somewhat more banks reported having reduced spreads of loan rates over their bank's cost of funds, with about 45 percent of banks, on net, trimming spreads on loans to large and middle-market firms and 30 percent, on net, narrowing spreads on loans to small firms. Somewhat smaller net fractions of banks lowered the cost of credit lines and lengthened the maximum maturity for loans to firms of all sizes. The sizes of existing C&I credit lines and business credit card accounts were reportedly little changed.

Of banks that reported having eased standards or terms on C&I loans, large majorities pointed to increased competition from other banks and nonbank lenders, as well as to a more favorable or less uncertain economic outlook, as reasons for the changes. Between 20 percent and 30 percent of respondents also cited reductions in defaults by borrowers in the public debt market, increased tolerance for risk, and industry-specific improvements.

Reports of strengthened demand for C&I loans were more widespread than in the previous survey. About 30 percent of banks, on net, reported greater demand from large and middle-market firms, and about 5 percent reported strengthened demand from small firms. In addition, compared with the October survey, a larger fraction of banks reported an increase in inquiries from business borrowers for new or increased credit lines. Of the banks reporting stronger demand, about 75 percent indicated that the increased demand was partly due to funding needs for merger and acquisition activity, and more than half noted reduced borrowing from other banks or nonbank sources. Somewhat less than half of the banks also noted increased financing needs for inventories, accounts receivable, and investment in plant and equipment. Foreign institutions also reported a moderate net increase in demand and in inquiries regarding lines of credit, in line with the previous survey.

Commercial real estate lending. Domestic respondents reported no net change in standards

on CRE loans in the fourth quarter, though a few foreign institutions reported having tightened standards. Roughly 20 percent of banks, on net, indicated that they had reduced the sizes of lines of credit for commercial construction, about the same as in the previous survey. About 10 percent of domestic banks, on net, reported increased demand for CRE loans, the strongest reading since early 2006. Foreign banks also reported that demand had strengthened, on net.

In response to a special question that has been repeated on an annual basis since 2001, domestic banks indicated that they had tightened some terms on CRE loans over 2010. However, the tightening was less widespread than that reported in 2009, and almost no banks reported having tightened terms considerably. About 40 percent of domestic banks, on net, reported having tightened loan-to-value ratios, and moderately smaller fractions tightened debt service coverage ratios and maximum loan sizes. Spreads, maximum maturities, and requirements for takeout financing were reportedly little changed on net. Moderate net fractions of foreign banks indicated that they had eased some terms, including maximum loan sizes, spreads, and requirements on debt-service coverage ratios

Lending to Households

Residential real estate lending. Standards on prime closed-end residential real estate loans were little changed, on balance, over the fourth quarter. In contrast, standards on nontraditional mortgage loans were reportedly tightened by about 15 percent of banks. The net fraction of banks tightening standards on nontraditional mortgage loans has now increased a bit for two consecutive quarters, after having fallen to nearly zero during the first half of 2010. Banks reported little net change in standards for, or the sizes of, HELOCs.

Demand reportedly weakened somewhat, on net, for both prime and nontraditional closed-end residential real estate loans as well as for HELOCs. Reported demand for closed-end loans has now declined for two consecutive surveys after having increased during parts of 2009 and 2010.

Factors affecting recent closed-end residential real estate loan growth. According to the Federal Reserve's weekly H.8 statistical release, "Assets and Liabilities of Commercial Banks in the United States," banks' aggregate holdings of closed-end residential real estate loans increased steadily over the second half of 2010. A special survey question asked respondents to assess the contribution of various possible factors to the recent increase in their closed-end residential real estate loan holdings.

About 45 percent of the respondents indicated that they had experienced recent growth in their residential mortgage portfolios. The majority of banks that recorded such an increase noted the relative attractiveness of the risk-adjusted returns on these loans compared with other assets and reported having become more willing to expand their overall balance sheets via this category of loan. About one-third of the banks also reported having originated a larger volume of loans that are not eligible for guarantee by the Federal Housing Administration or do not conform to standards required for sale to the government sponsored enterprises (GSEs), Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. Banks were somewhat less likely to credit their accumulations of closed-end residential mortgages to reductions in charge-offs or paydowns, or to originations of GSE-eligible loans that had exceeded their banks' capacity to process such loans for sale to the GSEs. Only two banks attributed their loan accumulations in part to repurchases from the GSEs or other securitization pools.

An additional special question asked respondents whether they expected their holdings of closed-end residential real estate loans to increase over the first half of 2011. About 35 percent of banks, on net, reported expectations that such loan holdings would increase.

Consumer lending. A small net fraction of banks reported having eased standards on consumer credit card and non-credit-card loans in the fourth quarter, about the same as in the past two surveys. The net fraction of banks that reported an increased willingness to make consumer installment loans remained elevated.

Banks reported little change, on net, in most terms on consumer loans, with the exception of spreads on non-credit-card loans and minimum credit scores on credit card loans, which were eased by small net fractions of banks. A similar fraction of banks reported cutting back the sizes of consumer credit card lines. Banks were somewhat split regarding changes in demand for consumer loans, and on net they reported little change.

Banks' Outlook for Asset Quality in 2011

The January survey included a set of special questions that asked banks about their outlook for delinquencies and charge-offs across major loan categories in the current year, assuming that economic activity progresses in line with consensus forecasts. This special question has been asked once each year during the past five years. In the January survey, expectations were significantly more upbeat than in past years. Moderate to large net fractions of banks reported that they expected improvements in delinquency and charge-off rates during 2011 in every major loan category.

The responses indicated that banks were least likely to expect improvement in the quality of residential real estate loans this year. About 20 percent of banks, on net, reportedly expect improvement in nontraditional closed-end loans, and about 35 percent of banks indicated they expect improvement in HELOCs. Almost 40 percent of respondents expected improvement for prime closed-end loans. Large banks were somewhat more likely than small banks to report expectations of improvement in the quality of residential real estate loans.

The survey also found that about 50 percent of banks, on net, expected improvement this year in the quality of consumer loans, including both credit card loans and other consumer loans. Similarly, about 55 percent of banks, particularly large banks, expected improvement in the quality of CRE loans.

A large share of respondents reported that they expect an improvement this year in the quality of C&I loans. About 80 percent of respondents expected improvements in C&I loans to large and middle-market firms, and about 70 percent expected improvements in C&I loans to small firms. Moreover, about 10 percent expected the quality of C&I loans to large and middle-market firms to improve "substantially" (as opposed to improve "somewhat") this year. In addition, under the assumption that economic activity progressed in line with consensus forecasts, no bank reported that they expect deterioration in the quality of C&I loans to firms of any size this year.

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