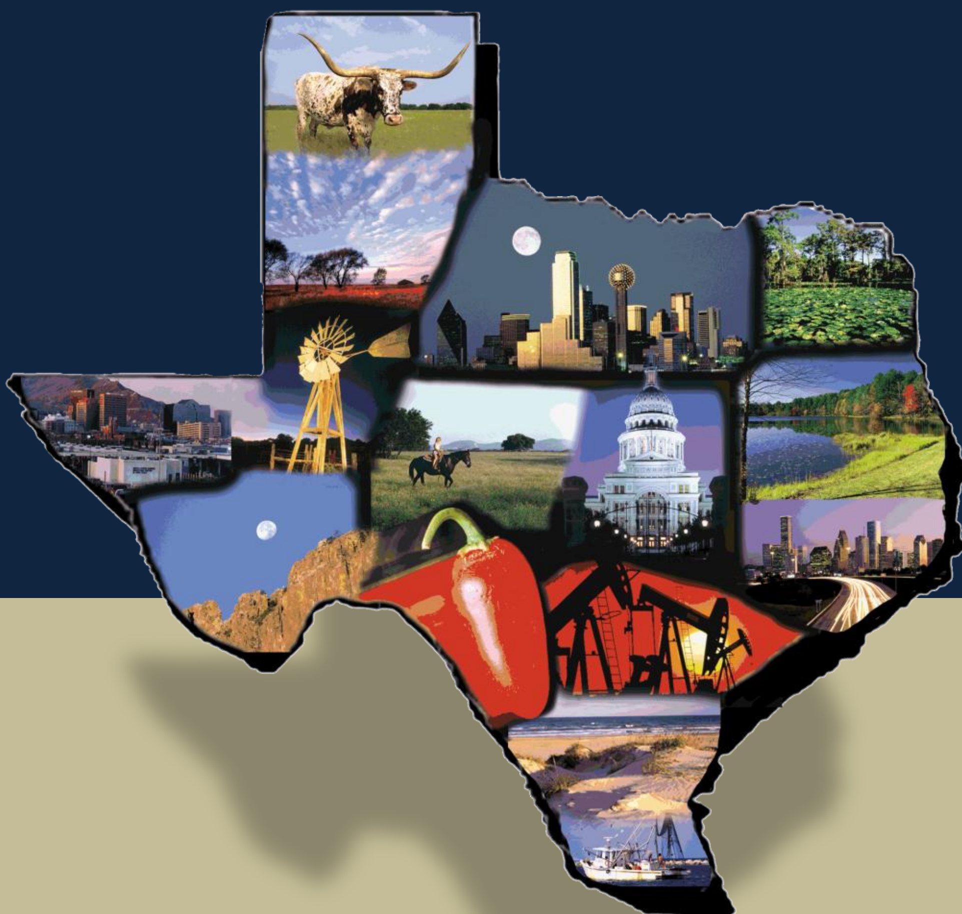
Condition of the Texas State Banking System

March 2012

Financial Data as of December 31, 2011



Prepared by
Texas Department of Banking
Texas Department of Savings and Mortgage Lending

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

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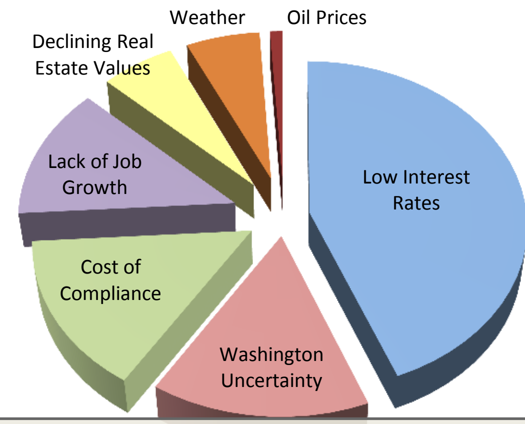
BANKING SYSTEM OVERVIEW

Texas' banks and thrifts are healthier than institutions in the rest of the nation, as Texas continues to experience modest, positive economic growth. The results of a recent Banker and Economic Business survey reinforce the positive economic status of the state. This survey, conducted by the Department of Banking, seeks to obtain the general opinions and observations of state-chartered bank executives throughout Texas. Responses from the fourth quarter of 2011 indicate overall institutional improvements in asset quality, with decreasing past due and problem credits.

However, community bankers are cognizant of the fluid financial market and have specific concerns about economic factors that could be detrimental to their bank's business model. At the top of the list is low interest rates.



Survey Results of Banker Concerns in Today's Environment

Net interest margins continue to be squeezed as rates remain low. Respondents further highlight a challenging problem that bankers are facing in today's financial environment – an influx of potentially rate sensitive deposits. With rates at historic lows, uncertainty in the debt and equity markets and problematic property values, investors are seeking the safety of insured deposits. Community bankers are also expressing concerns with the political uncertainty in Washington, rising compliance costs, slow job growth, declining real estate values, the weather (drought conditions) and oil prices.

These concerns have not diverted investors' interest in acquiring smaller institutions to gain access to the Texas banking market, which has done well compared to other states. Nationwide, merger and acquisition (M&A) activity in 2011 outpaced failed-bank transactions, and it is anticipated that 2012 will be similarly active. Sheshunoff & Co. Inc. of Austin reports that in 2011 there were eight M&A transactions over $100 million. Thus far in 2012, four financial institution mergers, valued at or greater than $100 million, have already been announced. In Texas, the M&A activity continued into January 2012, however, the pace is not as vigorous as it was in 2011. Experts in this field believe that the Texas market will remain fairly active for the remainder of 2012.

Nationally, the FDIC problem bank[1] list dropped from 844 at the end of the 2011 third quarter to 813; down 31 banks by the end of the fourth quarter. This is welcomed news after problem institutions reached the highest level in nearly 20 years in the first quarter of 2011. At year-end, the Texas Department of Banking listed 49 problem banks[2], an improvement from the peak of 57 at the end of 2010. The Texas Department of Savings and Mortgage Lending listed nine state-savings banks as problem thrifts[3] as of December 31, 2011, improving from the 10 reported in September 30, 2011.

Regulators, state and federal alike, have remained diligent in monitoring problem institutions, anticipating and responding to regulatory issues and providing guidance to help weak institutions strengthen their management and financial condition. Improvement in the banking industry is further evidenced by the decline in bank failures from 154 in 2010 to 92 in 2011. Texas had one bank failure in 2011, bringing the total since 2008 to nine.

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[1] *The FDIC defines problem banks as any financial institution with a composite rating of "4" or "5".*
[2] *The Texas Department of Banking defines problem banks as any financial institution with a composite rating of "3", "4" or "5".*
[3] *The Texas Department of Savings and Mortgage Lending defines problem savings banks as any financial institution with a composite rating of "3", "4" or "5".*

Texas Department of Banking on State-Chartered Banks

Merger activity resulted in a decline in the number of Texas state-chartered banks from 314 at year-end 2010 to 302[4] at year-end 2011. Assets under the Department's supervisory purview increased $7.6 billion from December 2010 to December 2011 reaching $170.4 billion.

Community banks have made improvements to their balance sheets since the financial crisis began. Profitability has improved for state-chartered banks as 91% reported a profit at year-end. Overall, in the last year, net income increased $340 million. Some of the improvement in earnings over the last couple of years has been the result of lower loan-loss provisions reflecting improved credit quality. Capital has increased steadily over the last four years, asset quality continues to improve, and liquidity positions have improved. Future earnings could be affected if loan demand weakens further and competition for consumers increases.

Texas Department of Savings and Mortgage Lending on State-Chartered Thrifts

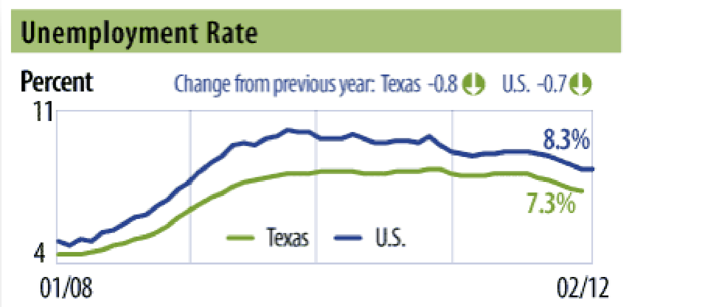
Increased profitability occurred in 71% of the thrift institutions during 2011, due to an increase in the level of and yield on loans, and to a lesser extent securities. Excluding one institution with significant non-comparative issues after acquiring and merging with another bank, the overall industry net income decreased by $3.7 million compared to 2010. State thrifts increased total assets by $661 million or 7.5%. The number of thrift charters increased from twenty-nine to thirty-one, with the merger out of one charter and the conversion of three federal thrifts. Excluding one institution with a business model aligned to profit from the acquisition of troubled assets at discounted prices, nonperforming loans and other real estate foreclosed decreased in state-chartered thrifts during 2011 by $54.9 million to $78.8 million or 1.37% of total assets.

Texas Economic Profile

Texas economic indicators are positive signifying that the state is in a recovery after the recession that began in December 2007. With a vast diverse geography and population, the State of Texas offers economic opportunities.

Workforce

By year-end 2011, Texas employment numbers were at pre-recessionary levels, while other states continued to reflect anemic employment growth. Looking forward, economists expect continued job growth in Texas. However, the unemployment rate has not dropped as quickly. At year-end, the Lone Star state's unemployment rate was at 7.4%, which is much higher than the 4.4% it was in January 2008. As of February 2012, the unemployment rate had improved to 7.3%. One of the factors preventing the rate from dropping is the state's population growth; Texas is unable to create jobs at the same rate as the growth in the population. The U.S. Census Bureau reports that Texas added 421,000 more people than any other state in a two year period beginning in 2010.



Sources: Texas Workforce Commission, U.S. Bureau of Labor Statistics

4 *FDIC financial data utilized. Number of banks does not include one state-chartered bank that has fiduciary activities only and does not have the power to accept or pay deposits. Therefore, the institution is not required to report financial information to the FDIC. Also, does not include one noninsured shell bank.*

Texas has a significant number of its workforce earning minimum wage. Studies have shown that Texas is a low-wage state for three main reasons: a younger, less experienced workforce; the educational attainment of the workforce; and a low cost of living.

Market Sectors

The energy industry remains robust in Texas with sustained gains in specific geographical areas of the state. Oil exploration, refinery output and pipeline construction remain strong. Texas has seen significant gains in the petrochemical business, partially as a result of the significantly lower natural gas prices and much more favorable long-term outlook for prices in North America.

Energy & Oil Prices

OIL ($/bbl)

	PRICE*	CHANGE	% CHANGE	TIME
Nymex Crude Future	107.25	-0.15	-0.14%	18:04
Dated Brent Spot	125.83	0.24	0.19%	03/09

Source: Bloomberg

Crude oil prices have taken a roller coaster ride in the last several years, from a record high $145.29 in July 2008 then falling to a low of $33.98 in February 2009. However, crude oil has rebounded and as of March 9, 2012 was trading at $107.40.

The oil and gas extraction and mining support sector recorded the fastest job growth in 2011. The combination of hydraulic fracturing and horizontal drilling of shale rock are advances in drilling technology which brought opportunities to discover new gas and oil fields. Drilling activity continues throughout the state. Most notable is the Eagle Ford Shale formation in South Texas, which contributed to the thousands of oil and gas industry jobs in the South Texas area.

This influx of businesses and residents settling in these areas assist with the overall economy of the region. The new wave of incoming tax dollars are directly benefitting other industries surrounding these gas and oil fields such as hotels, restaurants, real estate, health care, education and retail services.

The state’s positive job growth came not only in the energy industry but also in construction, manufacturing, retail, transportation, professional business services, health care, and hospitality. The technology and healthcare sectors have posted substantial gains, most notably in Austin, San Antonio, and Houston. Wholesale trade and distribution are also making a significant comeback, both at port cities, such as Houston, and inland centers, such as Dallas.

In the coming months, disruptions in certain sectors could occur with expected reductions in federal defense spending, and the risk of job losses from American Airlines. Despite these risks, economists are optimistic that the Texas economy will remain strong in 2012.

Tax Revenue

The Texas Comptroller of Public Accounts analysis of the state’s economy indicates stronger-than-anticipated tax receipts boosting state revenues. Overall, the state is benefiting from oil and natural gas production tax collections. In the first five months of fiscal 2012, the collections were 63% higher than the same period in 2011. Sales tax revenue, which had been down for two years, grew by about 9% in 2011 and is up approximately 11% through the first months of the 2012 fiscal year. Budget experts also anticipate the state’s Rainy Day Fund, which had a $5 billion balance at the end of 2011, will reach $7.3 billion by August 2013. The budgetary constraints placed on state government have proven less severe than originally thought.

Housing

The collapse of real estate lies at the heart of America's economic problems. Texas’ housing market was not hit as hard, but it is still down, as is the sale of new homes. Contributing to the slowdown in homebuilding activity last year was the expiration of federal tax credits for homebuyers and the continued tightening of mortgage lending. In January 2012, sales of existing single-family homes decreased by 27% from the previous month. But on a positive note, the price of new homes remains steady.

Foreclosure Rates

State	Rate
Nevada	1 in 198
California	1 in 265
Arizona	1 in 325
Florida	1 in 363
Texas	1 in 1,098

February 2012

Source: Texas Comptroller of Public Accounts

Experts indicate that home sales, prices, and new construction statewide for 2012 and into 2013 will gradually improve. This gradual improvement will be determined by local markets, with some doing better than others based on local factors.

The forecast appears to hold true as there was a 10% higher home sales figure in January 2012 over January 2011. Another positive sign is the foreclosure rate continues to be better than other states. In January 2012, the Texas foreclosure rate was one in every 1,098 mortgages.

Economic Impact of the 2011 Drought

The 2011 drought was the second worst in Texas history, and continues to have a lingering impact on the Texas economy. While much needed winter rains have fallen in dry and parched fields throughout the Lone Star state, much more is needed for a full recovery.

The Texas AgriLife Extension Service reports agricultural losses due to the wildfires of more than $217 billion. In addition, the year long drought caused approximately $5.2 billion in damages due to lost crops and forced livestock sales due to poor pasture conditions.

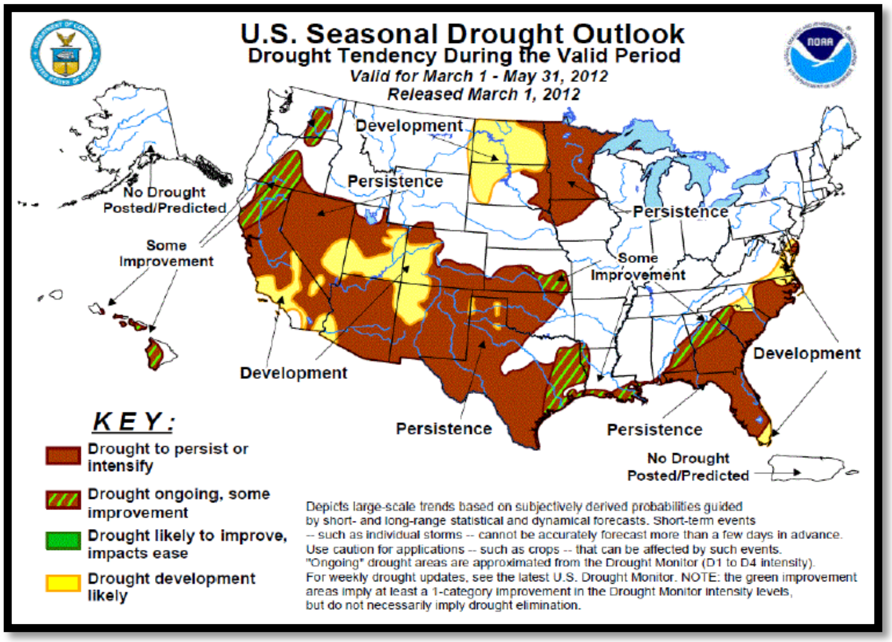
In the coming year, consumers are likely to see rising prices at their local grocery stores as the costs for products are passed along. For instance, beef prices have surged. Rising cost for feed reduced profit incentive to produce beef for many ranchers. This in turn caused producers to change their business model to raising smaller livestock; limiting the supply. This coupled with the initial forced culling of cattle in 2011 due to poor range conditions and the weak American dollar causing increased foreign demand for beef, have served to raise beef prices.

The lack of availability of water is affecting many industries, including hay production, cotton, corn, wheat, and sorghum. This season, Texas rice producers will be added to the list as irrigated estimates in 2012 are much less than 2011. In 2011, rice surface water acreage was 121,539 spread across primarily 11 counties west of Houston. For 2012 rice surface water acres are estimated at 32,573, as the Lower Colorado River Authority (LCRA) decided to decrease water discharge.

The National Weather Service soil moisture maps show the state's seasonal change. As of March 14, 2011, East Texas had shown the most improvement from any other portion of the state. With eastern counties receiving more rain, moisture has risen to surplus levels. However, moisture reports collected in February 2012 by Texas Agrilife Extension, from the Texas Panhandle and the Far West Areas are not as encouraging. Rangeland and pastures in both areas continue to be listed as fair to very poor condition. Some areas such as the North and Southwest regions report excessive rains which are delaying their preparations for planting crops such as corn.

Water supply will be a hot topic in the coming year for cities and towns throughout the state. A variety of experts informed the Texas Senate Business and Commerce committee in a January 2012 hearing that due to recent drought and rapidly growing population there are reduced water supplies for electricity generation, which will negatively impact the Lone Star State's economic future. Recommendations were made for the state to shift its reliance from water cooled power plants such as coal and nuclear, to solar and wind resources.

Conditions were ideal for the historical wildfires that caused havoc throughout the state last year. The Texas Forest Service reports 30,000 wildfires occurred in 2011, burning a record breaking 4 million acres of land; a total land mass larger than the State of Connecticut. Firefighting crews battled what turned out to be seven of the ten largest wildfires in the state's history. A study by the Texas Forest Service reports 5.6 million urban trees perished due to the extreme drought conditions. The loss of trees will impact consumers as the loss of shade in the hot summer months will increase energy bills. The losses have had a dramatic impact on the makeup of Texas urban parks, as well as antipollution efforts.



The U.S. Seasonal Drought outlook shows some improvement in the eastern regions of Texas, however, the remainder of the state is likely to continue in drought status through at least the end of May. Financial institutions around the state should make preparations for all possible contingencies.

State-Chartered Banking Profile (Department of Banking)

Although consolidation is also anticipated to continue based on past trends, the size of state-chartered banks grew in the second half of 2011. As of December 31, 2011, the reduction in the number of state-chartered banks was primarily the result of mergers. However, despite the decline in the number of state-chartered banks, there was a continued increase in total assets between June 2011 and December 2011 by over $5.8 billion to $170.4 billion; a 7.0% annualized growth rate. Meanwhile, deposits grew by $6.0 billion to $138.5 billion, or 9.1% on an annualized basis. This deposit growth comes despite a 3.7% reduction in the total number of bank branches in the latter half of 2011. A majority of the branch closures were limited to two state-chartered banks; one closed over 50 in-store facilities, and another closed 57 branches due to a merger.

In addition, continuing interest in conversions to state banking charters has been observed. The latest example is the recent February 2012 charter conversion application from The Frost National Bank, having $20.4 billion in total assets. Until overall economic conditions improve, however, we do not expect any de novo bank chartering activity. Nevertheless, interest in acquiring small or troubled institutions by investor groups to gain access to a Texas bank charter continues. As indicated in the September 2011 Banking System Report, the Department expects to see a modest number of mergers as bank boards and management adjust to the post Dodd-Frank federal regulatory environment.

State-Chartered Thrift Profile (Department of Saving and Mortgage Lending)

State-chartered thrift assets under the Department's jurisdiction totaled $9.5 billion as of December 31, 2011, and increased by 7.5% or $661 million from last year. The total number of state-chartered savings banks at year-end 2011 increased from twenty-nine to thirty-one, with one charter merging out of the industry and three federal thrifts converting to state savings banks.

The Department continues to receive and process a fair volume of applications as the industry continues to expand. During the year, there have been three charter conversion applications from federal savings banks, 18 branch office applications, two merger/reorganization applications, one change of control, and various other types of applications. Due to the merger of the Office of Thrift Supervision into the Office of Comptroller of the Currency as of July 21, 2011, further conversion activity to a state thrift charter is anticipated.

Supervisory Concerns

While the Texas banking system is stronger than other parts of the country, institutions with weak asset quality, earnings, and capital continue to be closely monitored by the Texas Department of Banking and the Texas Department of Savings and Mortgage Lending. The Departments remain diligent in monitoring problem institutions, anticipating and responding to regulatory issues impacting the entities regulated by the Departments, and ensuring a safe and secure banking system in Texas.

Supervisory Concerns	
Concerns	**Regulatory Responses**
★ Concentrations in: • Interim construction • Land development • CRE (non-owner occupied) ★ Risk management practices ★ Level of resources devoted to troubled asset resolution ★ Narrowing net interest margins ★ Extending investment maturities in our present low rate environment ★ Drought conditions	★ Increased frequency of on-site examinations for problem entities ★ Enhanced off-site monitoring ★ Increased use of enforcement actions ★ Expanded use of supervisor programs ★ Targeted reviews of specific areas

Asset quality related issues are deemed the most significant supervisory concerns by the Departments. For most banks, loans comprise the majority of their assets and carry the greatest risk to earnings and capital. Excessive concentrations of credit can expose the bank to higher risk of loss. Banks tend to have higher concentrations in non-owner occupied Commercial Real Estate (CRE) and must be diligent in monitoring these credits and managing these risks. Concentrations in commercial, agricultural, and residential loans are also a concern. Since loans within a concentration are exposed to common risk characteristics, weakened economic or financial conditions can impact the entire group of loans causing significant asset quality and earnings problems. Also, past due and nonaccrual loans, as well as foreclosed real estate continue to be monitored closely by state and federal regulators.

Increases in the volume of nonperforming assets create additional supervisory concerns. An essential element when dealing with troubled assets and foreclosed properties is maintaining current appraisals, however, this is sometimes overlooked. The Departments have devoted considerable time to monitoring bank management's ability to oversee concentrations of credit and reduce troubled, nonperforming assets while maintaining earnings and capital levels. Regulatory tools being utilized by the Departments to ensure that banks operate in a safe and sound manner include on-site and off-site monitoring activities, as well as targeted reviews and examinations.

Another regulatory response tool employed is the issuance of enforcement actions which detail the corrective actions necessary for the bank to perform in order to improve its condition. These types of regulatory responses provide specific corrective measures, typically include goals and time frames for achievement, and often require management to provide progress reports to the regulator. In addition, the Departments have the ability to appoint an on-site supervisor for the bank. The supervisor's role is to ensure that the bank is operated in a safe and sound manner, weaknesses identified from examinations are monitored and corrected, and management complies with laws and regulations and enforcement actions.

Other Areas Receiving Increased Attention

Other Areas of Concern	
Municipal Bonds	Liquidity
Electronic Theft	Compliance
Reputational Risk	

In addition to the primary supervisory concerns, other areas have been identified that require heightened attention. Specifically, examiners are monitoring investment portfolios containing municipal bonds, levels of rate sensitive deposits, risk management practices related to corporate account takeovers, compliance and issues affecting reputational risk.

The influx of rate sensitive deposits into financial institutions is also being closely monitored. This scenario presents a challenge in interest rate and capital adequacy management, as deposits could exit when interest rates rise and products begin to reprice. Management should be prepared to deal with the inevitable possibility of deposits exiting the institutions.

Electronic crimes are on the rise as cyber criminals attack corporate customers performing online banking transactions, with limited or no computer safeguards. Commonly known as a corporate account takeover, cyber thieves gain access to a business's computer system to steal confidential banking information in an effort to impersonate the business and conduct unauthorized electronic transactions. Losses can be staggering if banks and their customers are not diligent in managing the risks. Customer awareness of online threats and education about common account takeover methods are helpful measures to protect against these threats. However, due to the dependence of banks on sound computer and disbursement controls of its customers, there is no single measure to stop these thefts entirely. Multiple controls or a "layered security" approach is required. In January 2012, Texas Banking Commissioner Charles G. Cooper and Edna J. Perry, Special Agent in Charge of the U.S. Secret Service Dallas Field Office, jointly announced efforts to assist financial institutions in adopting practices designed to reduce the risks of corporate account takeover, including the formation of the Texas Bankers Electronic Crimes Task Force. The Texas Department of Banking adopted the task force's recommendations for minimum standards for the risk management of corporate account takeovers. Through the issuance of a Supervisory Memorandum, Texas state-chartered banks are required to implement risk management practices that address these minimum standards. Texas Department of Savings and Mortgage Lending has similarly advised its state savings banks to be diligent.

A bank's reputation in the community is a critical factor to its success. Many aspects of the supervisory process can impact a bank's reputation. Significant asset quality problems can lead to an enforcement action made available to the public. Issues with a bank's activities as they relate to the Community Reinvestment Act are also made public and can negatively impact the bank's reputation. Bank practices on issues such as fair lending, deceptive trade practices, and foreclosure can further diminish the public's trust in a financial institution.

The Departments are closely monitoring the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act. In particular, the Departments are monitoring the implementation of the Consumer Financial Protection Bureau (CFPB). The CFPB has rulemaking authority over numerous consumer protection laws, which will apply to all financial institutions regardless of size. Changes in regulations and laws will impact management and expenses.

Other areas that receive additional attention during an examination are Bank Secrecy Act/Anti-Money Laundering, capital levels, composition of classified assets, fraud, internal watch lists, overdraft programs, private-label collateralized mortgage obligations, and tax liens. Regulators assess both management and the board of directors' abilities at every examination.

SUPERVISORY MEASURES BEING TAKEN

Early detection of problems can help minimize the impact on the bank's overall condition; each Department takes measures to ensure safe and sound banking practices are being followed. Timely identification of problems, implementation of oversight measures, and open communication with management can hasten the problem bank's progress towards becoming a strong and stable financial institution.

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 concerns;
- Utilizing a risk-focused examination process to free up resources for problem institutions;
- Monitoring state, national, and world political and economic events impacting the industry such as federal programs designed to stabilize the financial markets and new regulations;
- Performing targeted reviews of specific troubled areas, such as banks that may be affected by drought conditions or banks which are overly-reliant on overdraft service charges; 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;
- Conducting targeted examinations of high risk areas of state savings banks;
- Enforcement actions and placement of supervisory agents when deemed necessary;
- 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 CRE and monitoring compliance with Commercial Real Estate Lending Joint Guidance, issued December 12, 2006;
- Monitoring of local, state, national and world political and economic events impacting the industry;
- Monitoring of any state savings bank's participation in the FDIC's Temporary Account Guarantee Program scheduled to conclude December 31, 2012; and,
- Monitoring of any state savings bank's participation in the Small Business Lending Fund (SBLF) as part of the Small Business Jobs Act of 2010.

FDIC INSURED STATE-CHARTERED BANKS

Texas state-chartered banks reported improvement on their balance sheets at year-end. Unprofitable institutions declined to 8.94% from 14.33% between December 2010 and December 2011. Total assets continued to steadily increase, although the number of state-chartered banks declined for a fourth year. Over the last ten years, the number of assets per employee has increased 80%, and the number of employees has increased 60%.

Capital protection has strengthened over the last several years, as asset quality continues to improve. In December 2008, after a full recessionary year, the leverage ratio for state-chartered banks was at 8.90%. Since then, this level has rebounded to a strong 10.0% at year-end 2011.

Both return on average assets (ROA) and return on average equity ratios increased over the year-end 2010 from 0.76% to 0.97%, and 7.04% to 8.68%, respectively. The most significant contributing factor to the improved ROA was the decrease in provisions for loan and lease losses, which decreased $599 million in aggregate between 2010 and 2011.

Declining interest income continues to squeeze net interest margins (NIM), and has done so for several years. As of December 31st, NIM was at 3.58%. Since 2007, interest income as a percent of average assets has been decreasing. It was no different this reporting period, as it decreased 27 basis points (BP) while interest expense as a percent of average assets only decreased 18 BP. Bank net interest margins are normally squeezed by a flattening yield curve as it is more difficult to earn a profit investing in longer term instruments.

Noncurrent assets plus other real estate to total assets started to decline in 2011 and as of year-end was 1.88% as compared to 2.26% a year ago. Net charge-offs as a percentage of loans declined in 2011 to 0.65% as compared to 0.98% one year ago. Of the $632 million in charge-offs, the largest losses were in commercial real estate and construction and land development loans.

FDIC INSURED STATE-CHARTERED THRIFTS

For 2011, state thrifts had $52 million in net income. ROA for thrifts decreased to 0.58% at year-end 2011, down from 1.19% the previous year. The level of unprofitable savings banks increased from 12.9% to 22.58%. Most recently chartered, reorganized or converted institutions have reached profitability; however, several institutions continue to struggle with high overhead expenses and increased provisions for loan losses. Provisions for loan and lease losses to average assets have increased 47 BP. Noninterest expense to earning assets has increased by 13 BP.

State thrifts experienced a 50 BP increase in their regulatory capital levels during 2011 from 15.31% to 15.81%. The capital ratio increase is due to the industry raising over $60 million in capital, including $18.2 million by three state savings banks receiving funding from the SBLF. Texas state thrifts also continue to exceed the national capital ratios for all savings institutions, which was 10.68% at year-end 2011, and 10.41% for year-end 2010.

NIMs for state thrifts posted a 30 BP increase from 4.94% to 5.24% at year-end. Year-to-date provisions to the allowance for loan losses increased $47.2 million during the year. The Texas thrift allowances for loan and lease losses to non-current loans and leases, presently at 26.44%, is below the ratio of 41.68% for all FDIC-regulated savings institutions nationwide; however, the Texas thrifts ratio includes a large volume of covered assets (assets acquired from a failed bank, with downside loss protection from the FDIC), which if removed from this calculation would reflect a ratio for Texas thrift stronger than the national average.

Thrifts' noncurrent assets plus other real estate owned to total assets decreased to a total of 7.57% as of December 31, 2011. Thrifts also experienced a decrease in noncurrent loans to 8.92%. Net charge-offs decreased for thrifts to $58 million during 2011. Almost all of these are related to residential property loans. Loss reserves have increased and now represent 2.36% for savings institutions. This is a 109 BP increase for savings institutions since December 31, 2010.

Number of Institutions and Total Assets

FDIC financial data is reflective of FDIC insured institutions only.

	12-31-2011 No. of Institutions	12-31-2011 Assets	12-31-2010 No. of Institutions	12-31-2010 Assets	Difference No. of Institutions	Difference Assets
Texas State-Chartered Banks	302	$170.4	314	$162.8	-12	+$7.6
Texas State-Chartered Thrifts	31	$9.5	29	$8.6	+2	+$0.9
	333	$179.9	343	$171.4	-10	+$8.5
Other states' state-chartered:						
Banks operating in Texas*	25	$36.0	20	$34.8	+5	+$1.2
Thrifts operating in Texas*	0	0	0	0	0	0
	25	$36.0	20	$34.8	+5	+$1.2
Total State-Chartered Activity	**358**	**$215.9**	**363**	**$206.2**	**-5**	**+$9.7**
National Banks Chartered in Texas	250	$159.6	253	$149.5	-3	+$10.1
Federal Thrifts Chartered in Texas	13	$57.9	19	$54.0	-6	+$3.9
	263	$217.5	272	$203.5	-9	+$14.0
Other states' federally-chartered:						
Banks operating in Texas*	22	$245.9	20	$214.7	+2	+$31.2
Thrifts operating in Texas*	10	$0.9	12	$1.3	-2	-$0.4
	32	$246.8	32	$216.0	0	+$30.8
Total Federally-Chartered Activity	**295**	**$464.3**	**304**	**$419.5**	**-9**	**+$44.8**
Total Banking/Thrift Activity	**653**	**$680.2**	**667**	**$625.7**	**-14**	**+$54.5**

Assets in Billions

**Indicates estimates based on available FDIC information.*

Ratio Analysis

As of December 31, 2011

FDIC financial data is reflective of FDIC insured institutions only.

Number of Banks	***State-Chartered Banks 302***	***Texas National Banks 250***	***All Texas Banks 552***	***State-Chartered Thrifts 31***	***Texas Federal Thrifts 13***	***All Texas Thrifts 44***
% of Unprofitable Institutions	8.94%	5.60%	7.43%	22.58%	23.08%	22.73%
% of Institutions with Earnings Gains	65.89%	66.80%	66.30%	70.97%	61.54%	68.18%
Yield on Earning Assets	4.19%	4.50%	4.33%	6.24%	4.90%	5.08%
Net Interest Margin	3.58%	4.01%	3.79%	5.24%	4.05%	4.21%
Return on Assets	0.97%	1.28%	1.12%	0.58%	1.28%	1.18%
Return on Equity	8.68%	11.20%	9.91%	3.71%	14.46%	12.04%
Net Charge-offs to Loans	0.65%	0.80%	0.73%	1.02%	1.72%	1.63%
Earnings Coverage of Net Loan C/Os	3.84	3.96	3.90	3.2	2.30	2.37
Loss Allowance to Loans	1.65%	1.93%	1.79%	2.36%	2.13%	2.16%
Loss Allowance to Noncurrent Loans	70.71%	76.71%	73.88%	26.44%	236.41%	110.65%
Noncurrent Assets+OREO to Assets	1.88%	2.13%	2.00%	7.57%	0.72%	1.68%
Net Loans and Leases to Core Deps	78.32%	84.96%	81.57%	119.36%	94.35%	97.01%
Equity Capital to Assets	11.27%	11.12%	11.19%	16.3%	8.78%	9.84%
Core Capital (Leverage) Ratio	10.00%	9.63%	9.82%	15.81%	8.73%	9.73%

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

Comparison Report

FDIC financial data is reflective of FDIC insured institutions only.
Select Balance Sheet and Income/Expense Information
As of December 31, 2011

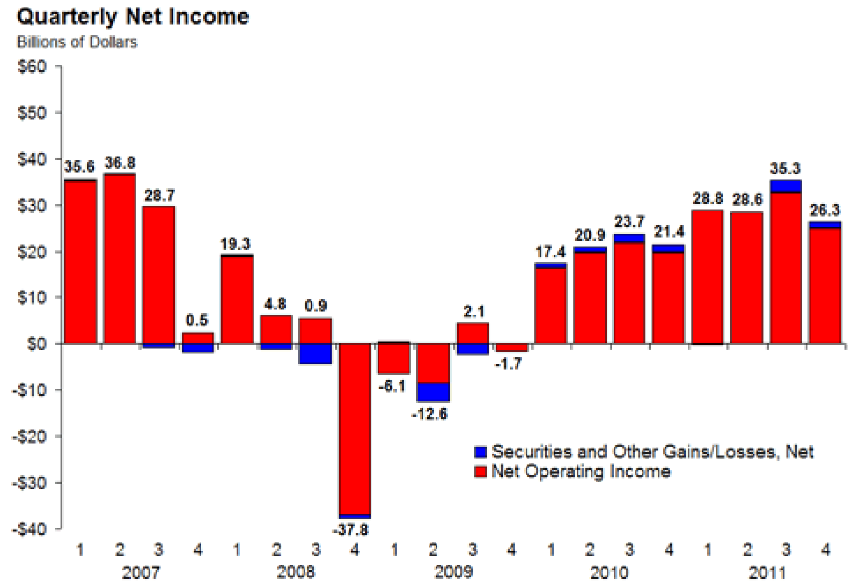
	State Banks*		State Thrifts	
	End of Period	***% of Total Assets***	**End of Period**	***% of Total Assets***
Number of Institutions	302		31	
Number of Employees (full-time equivalent)	35,736		1,709	
(In millions)				
Total Assets	$170,401		$9,488	
Net Loans and Leases	$98,131	57.59%	$6,134	64.64%
Loan Loss Allowance	$1,649	0.97%	$148	1.56%
Other Real Estate Owned	$863	0.51%	$157	1.66%
Goodwill and Other Intangibles	$2,477	1.45%	$26	0.27%
Total Deposits	$138,510	81.28%	$7,187	75.75%
Federal Funds Purchased and Repurchase Agreements	$2,881	1.69%	$15	0.16%
Other Borrowed Funds	$5,355	3.14%	$585	6.16%
Equity Capital	$19,205	11.27%	$1,546	16.30%
Memoranda:				
Noncurrent Loans and Leases	$2,332	1.37%	$561	5.91%
Earning Assets	$153,990	90.37%	$8,626	90.91%
Long-term Assets (5+ years)	$45,740	26.84%	$4,048	42.66%
	Year-to Date	***% of Avg. Assets***	**Year-to Date**	***% of Avg. Assets***
Total Interest Income	$6,148	3.78%	$509	5.67%
Total Interest Expense	$892	0.55%	$82	0.91%
Net Interest Income	$5,257	3.23%	$428	4.76%
Provision for Loan and Lease Losses	$457	0.28%	$128	1.42%
Total Noninterest Income	$2,208	1.36%	$73	0.81%
Total Noninterest Expense	$5,039	3.10%	$314	3.50%
Securities Gains	$77	0.05%	-$54	-0.01%
Net Income	$1,570	0.97%	$52	0.58%
Memoranda:				
Net Loan Charge-offs	$632	0.39%	$58	0.65%
Cash Dividends	$767	0.47%	$142	1.58%

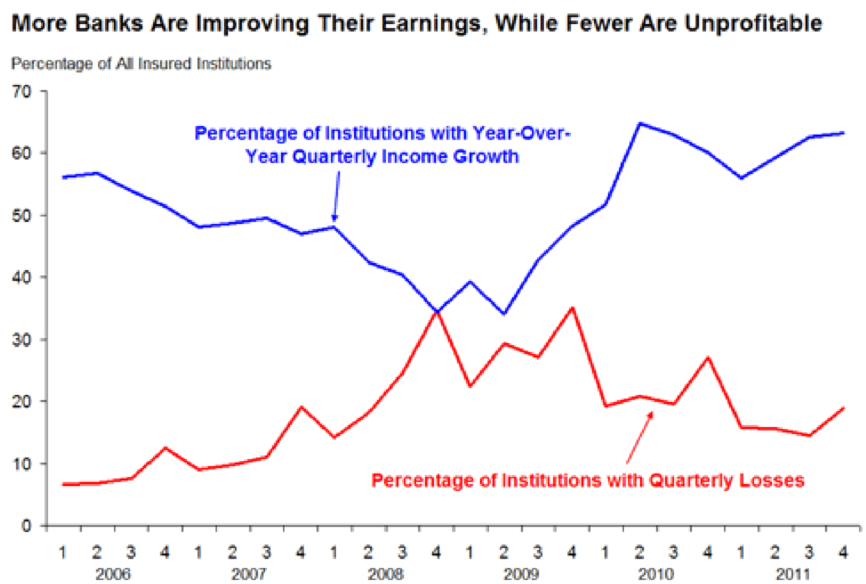
**Excludes branches of state-chartered banks of other states doing business in Texas. As of December 31, 2011, there are an estimated twenty five out-of-state state-chartered institutions with $36.0 billion in assets.*

No branches of state-chartered thrifts of other states conducted business in Texas as of December 31, 2011.

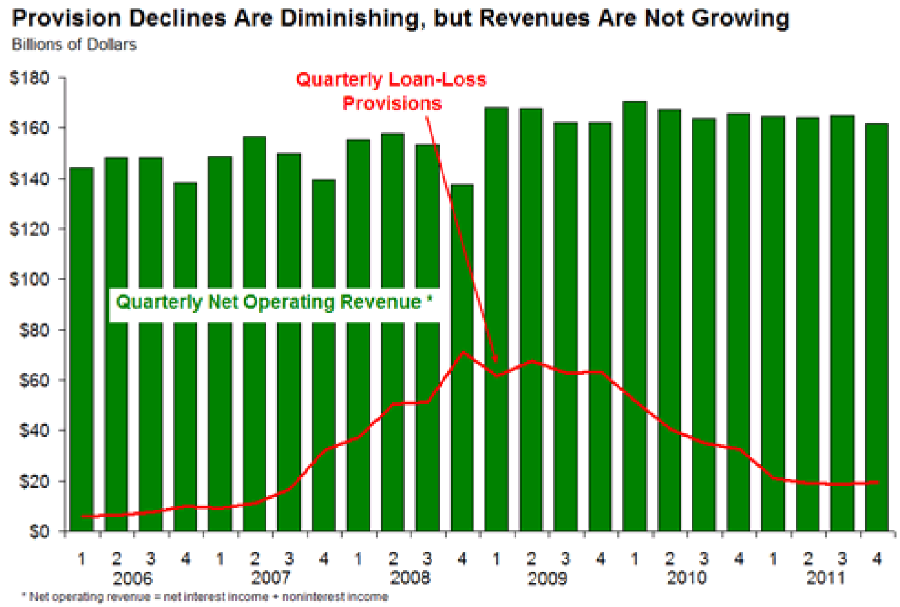
Quarterly Banking Profile – National Level
Fourth Quarter 2011
Federal Deposit Insurance Corporation

- ⇧ **<u>Quarterly Net Income Posts Tenth Consecutive Year-Over-Year Gain</u>** - Lower provisions for loan losses, reflecting an improving trend in asset quality, lifted fourth-quarter net income of FDIC-insured commercial banks and savings institutions. Fourth-quarter earnings totaled $26.3 billion, an increase of $4.9 billion (23.1 percent) compared with the same period of 2010. The year-over-year improvement in profits comprised a majority of insured institutions. Almost two out of every three banks (63.2 percent) reported higher quarterly net income than a year ago, and only 18.9 percent were unprofitable, compared with 27.1 percent in fourth quarter 2010. The average return on assets (ROA) rose to 0.76 percent, from 0.64 percent a year earlier.

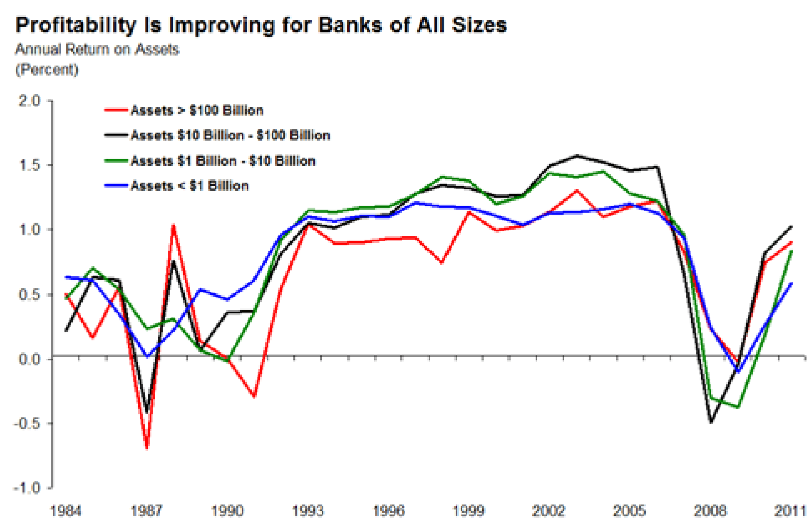




⇧ **Earnings Benefit Further from Lower Provisions for Loan Losses** - Insured institutions set aside $19.5 billion in provisions for loan losses in the fourth quarter, a decline of $13.1 billion (40.1 percent) from fourth quarter 2010. Provisions represented 12.1 percent of the industry's net operating revenue (the sum of net interest income and total noninterest income), down from 19.7 percent a year ago, and well below the 51.7 percent peak level in this cycle registered in fourth quarter 2008. Loss provisions have fallen, year over year, for nine consecutive quarters. The trend of reduced provisioning was relatively broad: more than half of all institutions (54.6 percent) reported lower quarterly provisions than a year ago.



⇩ **Overall Revenues Continue to Exhibit Weakness** - For the third time in the last four quarters, net operating revenue posted a year-over-year decline. The $3.8 billion (2.3 percent) drop was caused by a $4.4 billion (7.4 percent) reduction in noninterest income. Gains on loan sales were $1.9 billion (53 percent) below the level of a year ago, servicing income was $1.4 billion (29.9 percent) lower, and trading income fell by $812 million (23.5 percent). Increases in the market values of some large bank liabilities produced accounting losses in the fourth quarter that reversed some of the related gains in noninterest income that occurred in third quarter 2011. Net interest income increased year over year for the first time in four quarters, rising by $609 million (0.6 percent).



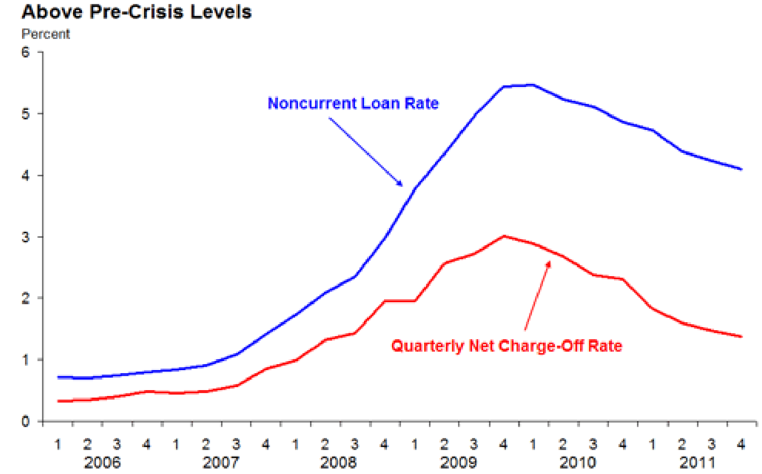
⇧ **Full-Year Net Income Rises to Five-Year High** - For all of 2011, net income totaled $119.5 billion, an increase of $34 billion (39.8 percent) from full-year 2010 earnings. This is the highest annual net income total since the industry earned $145.2 billion in 2006. More than two out of every three banks (66.9 percent) reported improved earnings in 2011, and only 15.5 percent reported a net loss for the year. In 2010, 22.1 percent of all banks reported full-year net losses. The average ROA was 0.88 percent, up from 0.65 percent in 2010. The improvement in full-year net income was made possible by an $81.1 billion reduction in loan loss provisions.

⇩ **Full- Year Operating Revenues are Lower than in 2010** - Both net interest income and noninterest income were lower than in 2010, as full-year net operating revenue declined for only the second time since 1938 (the only other decline occurred in 2008). Net interest income posted its first full-year decline since 1971, falling by $7.5 billion (1.7 percent). The average net interest margin in 2011 was 3.6 percent, down from 3.76 percent in 2010. Interest-bearing assets increased by 4.4 percent in 2011, but more than a third of this growth (35.7 percent) consisted of low-yielding balances with Federal Reserve Banks. Total noninterest income fell for a second consecutive year and the fourth time in the last five years, declining by $5.3 billion (2.3 percent). Income from trust operations and trading income were higher than in 2010 (by $1.6 billion and $2.2 billion, respectively), but these improvements were outweighed by lower servicing income (down $8 billion), reduced gains on loan sales (down $4.8 billion), and lower income from service charges on deposit accounts, which fell by $2.1 billion (5.9 percent). Realized gains on securities and other assets were $3.6 billion (39.5 percent) lower than in 2010. Insured institutions paid $77.9 billion in dividends during 2011, an increase of $24 billion (44.5 percent) from 2010, but below the record level of $110.3 billion paid out in 2007.

⇧ **Loan Losses Fall to Lowest Level in 15 Quarters** - Net charge-offs totaled $25.4 billion in the fourth quarter, a decline of $17.1 billion (40.2 percent) from a year ago. The fourth-quarter total represents the lowest level for quarterly charge-offs since first quarter 2008. This is the sixth consecutive quarter in which charge-offs have posted a year-over-year decline. Improvements occurred across all major loan types. The largest declines were in credit cards (down $5.4 billion, or 42.2 percent), real estate construction and land development loans (down $3.3 billion, or 62.4 percent), residential mortgage loans (down $2.4 billion, or 31.8 percent) and loans to commercial and industrial (C&I) borrowers (down $2 billion, or 43.5 percent).

⇧ **Noncurrent Loan Balances Decline in Most Major Loan Categories** - The amount of loan balances that were noncurrent (90 days or more past due or in nonaccrual status) declined for the seventh quarter in a row, falling by $4.3 billion (1.4 percent). The decline was led by real estate construction and land development loans, where noncurrent balances fell by $4.9 billion (13.2 percent), C&I loans, where noncurrents declined by $1.8 billion (9.5 percent), and nonfarm nonresidential real estate loans, where noncurrent balances fell by $1.6 billion (4 percent). The only significant increase in noncurrent loans occurred in residential mortgage portfolios, where noncurrent balances rose by $5.2 billion (3.1 percent). This increase reflected the addition of $6.3 billion in rebooked “GNMA loans” that were 90 days or more past due.

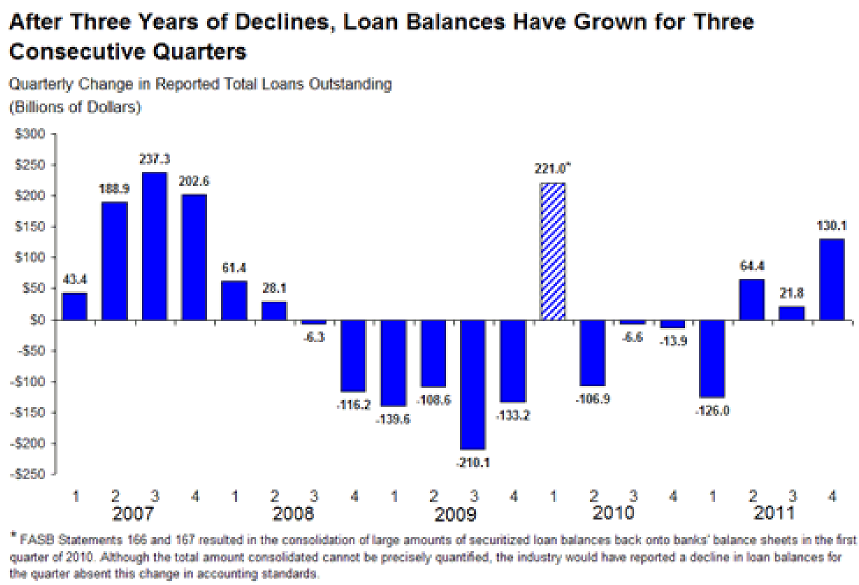
Noncurrent Loans and Loan Losses Continue to Fall, but Remain Well Above Pre-Crisis Levels



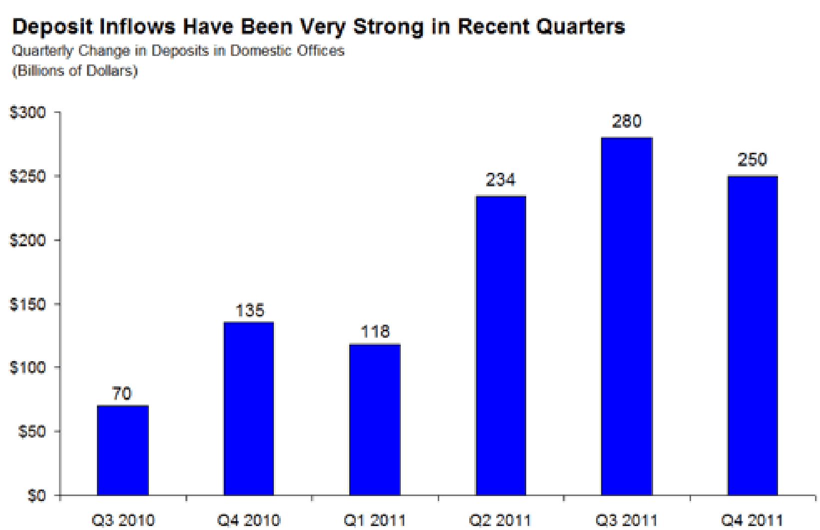
⇧ **Reductions in Reserves Continue to Track Declines in Noncurrent Loans** - Loan-loss reserves fell for a seventh consecutive quarter, declining by $6.3 billion (3.2 percent), as net charge-offs of $25.4 billion exceeded loss provisions of $19.5 billion. As has been the case throughout the recent period of reserve reductions, most of the declines have been concentrated among large institutions. Half of all banks increased their reserves during the fourth quarter, whereas 70 percent of the 50 largest banks reduced their reserves. The industry’s “coverage ratio” of reserves to noncurrent loans and leases declined slightly, from 63.7 percent to 62.5 percent during the quarter.

⇩ **Equity Capital Registers a Small Decline** - Lower unrealized gains on available-for-sale securities and other financial instruments contributed to a $7.7 billion (0.5 percent) decline in the industry's total equity capital during the fourth quarter. Unrealized gains are not included in regulatory capital, and tier 1 leverage capital increased by $2.4 billion (0.2 percent). This is the smallest quarterly increase in leverage capital in the past 13 quarters. Retained earnings contributed $3.7 billion to capital growth in the quarter, as banks paid $22.6 billion of their $26.3 billion in quarterly earnings in dividends.

⇧ **Loan Balances Post Largest Real Growth in Four Years** - Total assets of insured institutions increased by $76.1 billion (0.6 percent) in the fourth quarter, as loan balances rose by $130.1 billion (1.8 percent). This is the third consecutive quarter in which total loan balances have increased and, apart from first quarter 2010 when accounting rule changes caused a $221 billion increase in reported balances, it represents the largest quarterly increase since fourth quarter 2007. As in the prior two quarters, overall loan growth was led by C&I loans, which rose by $62.8 billion (4.9 percent), accounting for almost half of the total increase in loans and leases during the quarter. C&I loans have increased in each of the last six quarters. Additionally, C&I loans to small businesses (C&I loans in original amounts of $1 million or less) increased by $2.8 billion (1 percent). This is the first time in the seven quarters for which data on quarterly changes in these loans are available that small C&I loan balances have increased. Residential mortgage loans increased by $26 billion (1.4 percent), following a $23.6 billion increase in the third quarter. Credit card balances posted a seasonal increase of $21.3 billion (3.2 percent). Real estate construction and development loans declined for a 15th consecutive quarter, falling by $14.7 billion (5.8 percent). Investment securities portfolios increased by $61.6 billion (2.2 percent), with mortgage-backed securities rising by $45.0 billion (2.8 percent), and state, county, and municipal securities increasing by $13.3 billion (6.5 percent). Assets in trading accounts declined by $36 billion (4.8 percent), while interest-bearing balances due from depository institutions fell by $34.9 billion (3.3 percent).



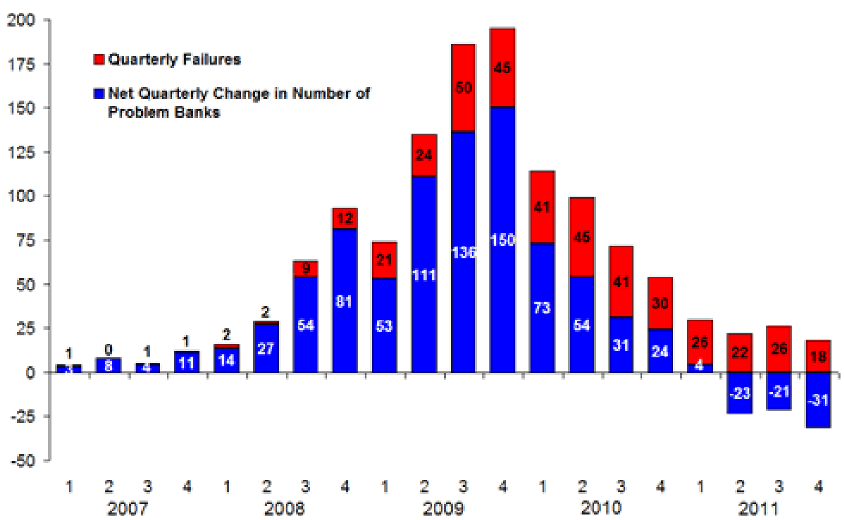
⇧ **Money Continues to Flow into Fully Insured Deposit Accounts** - Deposit balances registered strong growth for a sixth consecutive quarter, as



large-denomination transaction accounts that offer unlimited insurance coverage through the end of 2012 continue to attract new depositors. Total deposits at insured institutions increased by $183.2 billion (1.8 percent). Over the last six quarters, deposits at FDIC-insured institutions have risen by more than $1 trillion. Most of the growth has consisted of large-denomination noninterest-bearing transaction deposits that are fully insured until the end of 2012. Balances in these accounts increased by $191.2 billion (13.7 percent) during the fourth quarter, and totaled $1.58 trillion at the end of the year. In contrast, nondeposit liabilities declined by $99.5 billion (4.5 percent), while deposits in foreign offices fell by $66.6 billion (4.5 percent).

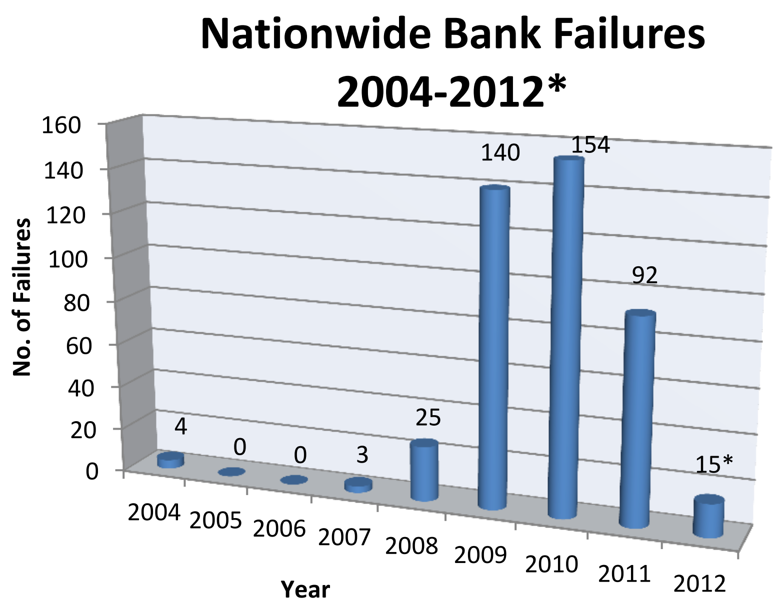
⇧ **<u>"Problem List" Shrinks for Third Consecutive Quarter</u>** - The number of institutions reporting financial results fell from 7,437 to 7,357 in the fourth quarter. During the quarter, 54 institutions were merged into other institutions, and 18 insured institutions failed. There were two institutions whose December financial reports had not been received at the time this publication was prepared. The number of institutions on the FDIC's "Problem List" declined from 844 to 813 during the quarter, and total assets of "problem" institutions fell from $339 billion to $319.4 billion. For the full year, the number of reporting institutions declined by 301, as 3 new reporters were added, 92 institutions failed, and 198 were absorbed by mergers. During 2011, the number of full-time-equivalent employees at insured institutions increased from 2,088,579 to 2,107,976.

Quarterly Changes in the Number of Troubled Institutions



Texas Failures 2011

Bank Name	Charter	Date Closed	Total Assets
First International Bank, Plano, TX	State	09-30-11	$240 Million



Source: FDIC

**As of March 29, 2012*

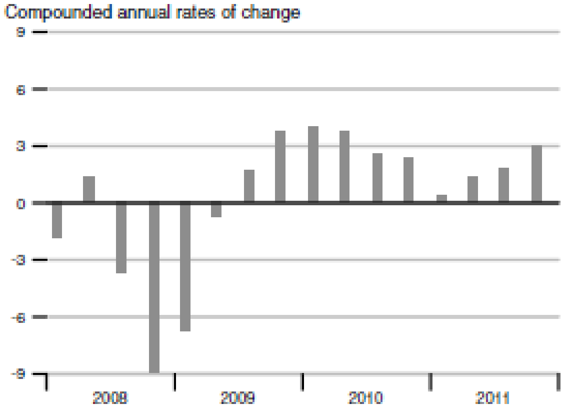
Bank and Thrift Closures Nationwide
Federal Deposit Insurance Corporation

Name	Last Trade		52 Wk Range		PE	EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	03/07	**14.73**	13.28	16.50	10.45	1.41	87.51M	0.19	5.16%
BancFirst Corporation	03/05	**40.14**	30.50	43.70	13.70	2.93	606.80M	1.08	2.70%
Banco Bilbao Vizcaya Argentaria	03/05	**8.85**	7.02	13.01	10.47	0.85	43.03B	0.40	4.50%
BOK Financial Corporation	03/05	**53.56**	43.77	59.59	12.84	4.17	3.65B	1.32	2.50%
Cass Information Sys, Inc.	03/05	**38.57**	29.76	41.88	17.45	2.21	399.47M	0.68	1.80%
CoBiz Incorporated	03/05	**5.57**	4.22	7.02	7.33	0.76	207.52M	0.04	0.70%
Commerce Bancshares, Inc.	03/07	**37.68**	33.06	44.00	13.51	2.82	3.39B	0.92	2.40%
Comerica, Inc.	03/05	**29.10**	21.48	39.27	13.92	2.09	5.75B	0.40	1.40%
Community Shores Bank Corp	02/29	**0.07**	0.05	1.01	N/A	-3.59	0.00	N/A	N/A
Cullen Frost Bankers, Inc.	03/07	**55.81**	55.62	56.73	16.01	3.54	3.47B	1.84	3.20%
Encore Bancshares, Inc.	03/07	**20.41**	20.21	40.41	185.55	0.11	237.90M	N/A	N/A
Enterprise Fin Serv Corp	03/05	**11.42**	11.15	16.45	6.15	1.86	202.69M	0.21	1.90%
First Community Corp S C	03/05	**7.74**	4.69	8.50	9.56	0.81	25.58M	0.16	2.10%
First Financial Bankshares, Inc.	03/05	**33.99**	24.56	37.25	15.66	2.17	1.06B	0.96	2.90%
Firstcity Financial Corp	03/05	**9.80**	5.79	9.05	9.46	1.04	101.82M	N/A	N/A
Great Southern Bancorp, Inc.	03/05	**21.48**	15.01	25.18	11.13	1.93	289.53M	0.72	3.50%
Guaranty Fed Bancshares, Inc.	03/05	**7.84**	3.84	8.37	7.76	1.01	21.17M	N/A	N/A
Heartland Financial USA, Inc.	03/05	**15.36**	12.21	17.80	12.49	1.23	253.19M	0.40	2.70%
International Bancshares Corp	03/05	**18.87**	12.41	20.10	11.23	1.68	1.27B	0.38	2.00%
Landmark Bancorp, Inc.	03/05	**18.60**	13.34	21.48	11.55	1.61	51.75M	0.76	4.00%
Liberty Bancorp, Inc.	03/01	**10.40**	9.00	10.49	7.88	1.32	37.02M	0.10	1.00%
Mackinac Financial Corp	03/05	**6.40**	4.63	7.43	15.61	0.41	21.88M	N/A	N/A
Metrocorp Bancshares, Inc.	03/05	**8.14**	4.15	8.35	15.36	0.53	108.59M	N/A	N/A
MidWest One Finl Group, Inc.	03/05	**17.48**	12.20	17.80	11.89	1.47	149.09M	0.34	1.90%
OmniAmerican Bancorp, Inc.	03/07	**17.96**	17.75	17.75	17.99	0.37	186.26M	N/A	N/A
Osage Bancshares, Inc.	03/02	**8.00**	7.35	10.50	32.79	0.24	21.14M	0.34	4.40%
Prosperity Bancshares, Inc.	03/05	**43.61**	30.91	46.87	14.49	3.01	2.05B	0.78	1.80%
QCR Holdings, Inc.	03/05	**9.66**	7.29	10.33	10.50	0.92	45.96M	0.08	0.80%
Southwest Bancorp, Inc.	03/07	**8.36**	8.33	8.72	N/A	-3.73	162.55M	N/A	N/A
Texas Capital Bancshares, Inc.	03/05	**34.25**	21.39	34.91	17.24	1.99	1.29B	N/A	N/A
UMB Financial Corporation	03/05	**42.01**	30.49	45.81	15.91	2.64	1.70B	0.82	2.00%
West Bancorp Incorporated	03/05	**9.53**	6.84	10.46	12.88	0.74	169.36M	0.32	3.50%
Zions Bancorp	03/05	**18.55**	13.18	24.92	22.27	0.83	3.42B	0.04	0.20%

Source: Yahoo Finance (March 2012)
NA – Indicates information was not available.

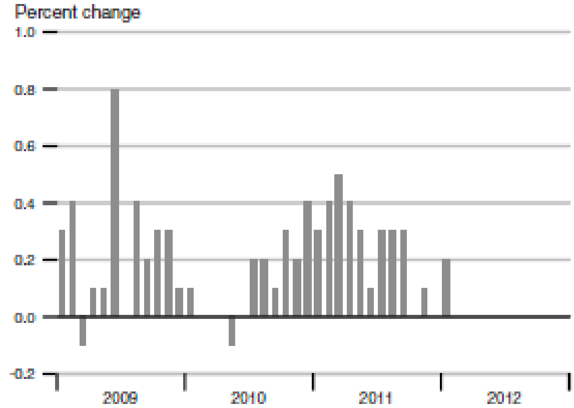
Real GDP Growth

Compounded annual rates of change



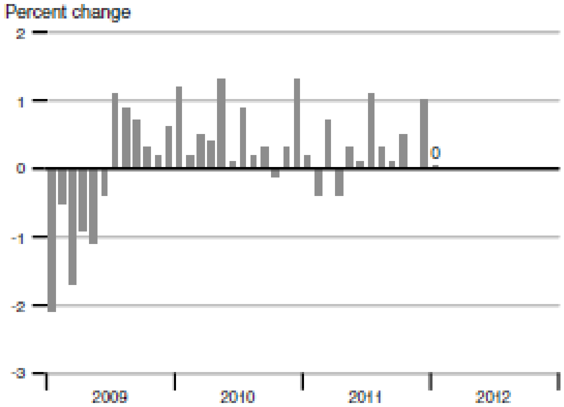
Consumer Price Index

Percent change



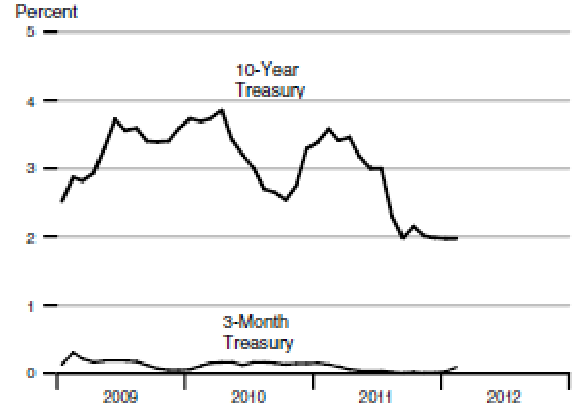
Industrial Production

Percent change



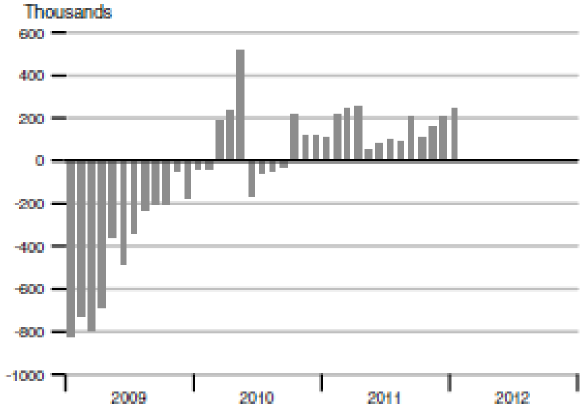
Interest Rates

Percent



Change in Nonfarm Payrolls

Thousands

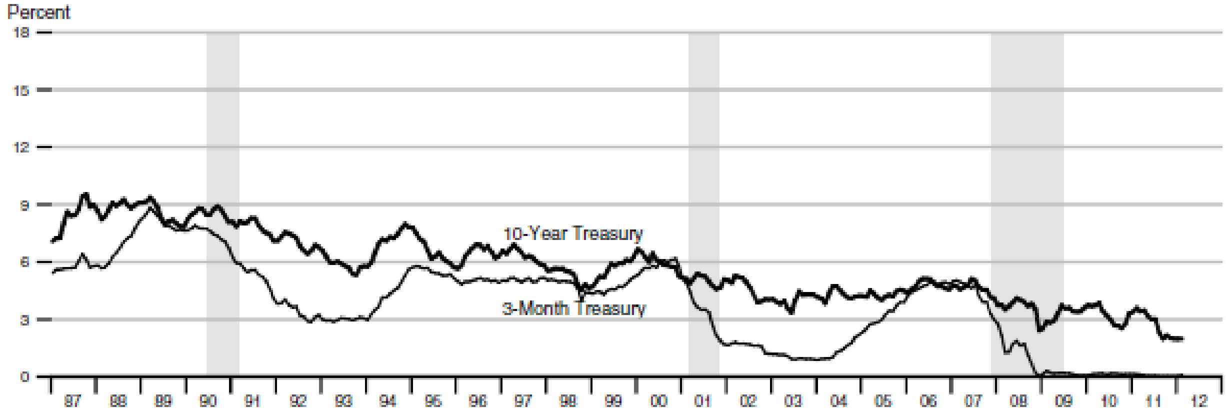


Unemployment Rate

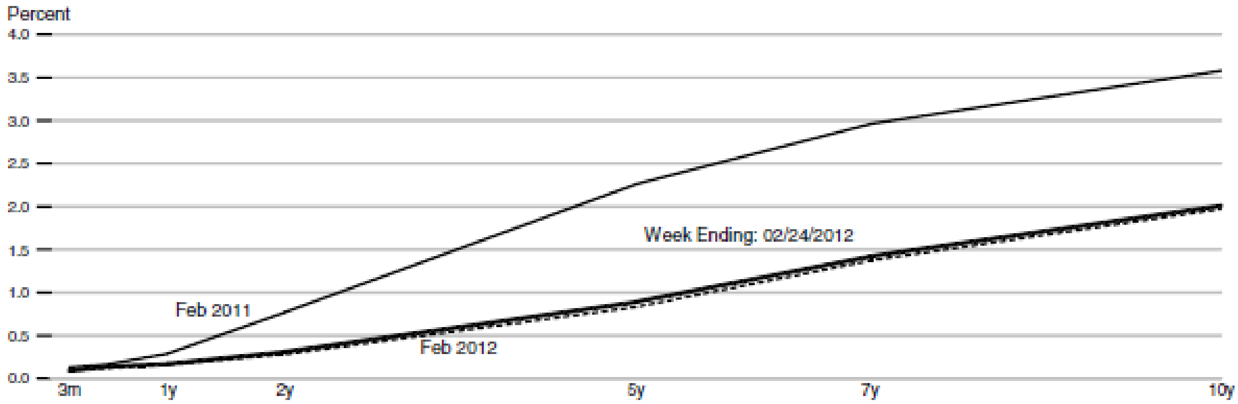
Percent of labor force

Provided by the Federal Reserve Bank of St. Louis, National Economic Trends.
Updated March 1, 2012.

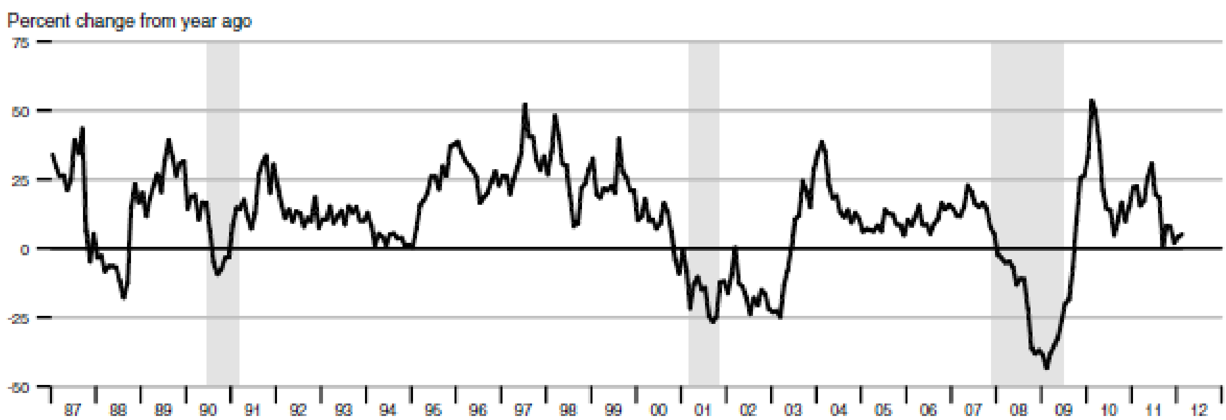
Interest Rates



Treasury Yield Curve



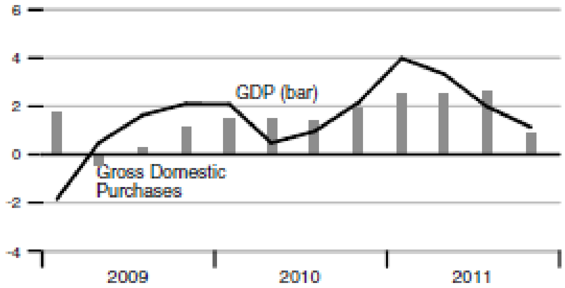
Standard and Poor's 500 Index with Reinvested Dividends



Provided by the Federal Reserve Bank of St. Louis, National Economic Trends. Updated March 1, 2012.

NIPA Chain Price Indexes

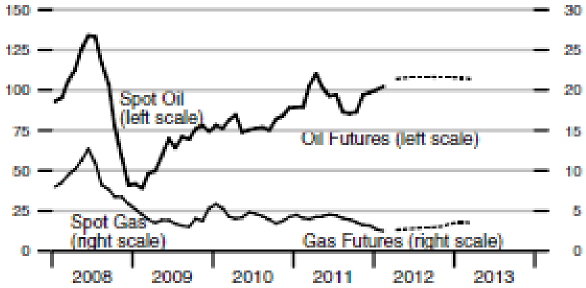
Compounded annual rates of change



Oil & Natural Gas Prices: Spot & Futures

Dollars per barrel

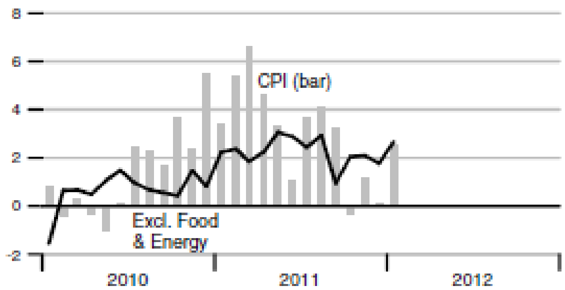
Dollars per million btu



Note: Futures prices as of 2/29/2012.

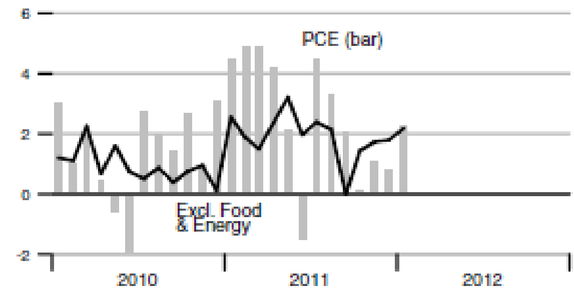
Consumer Price Index

Compounded annual rates of change



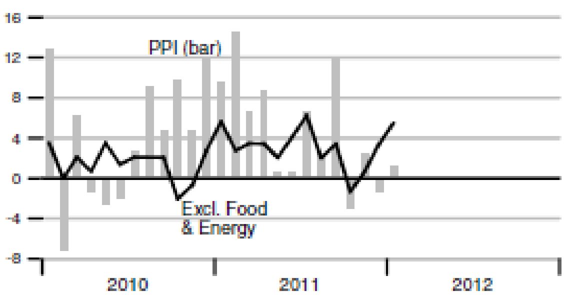
Consumption Chain Price Index

Compounded annual rates of change



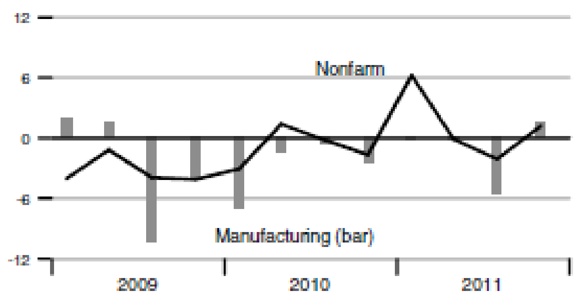
Producer Price Index, Finished Goods

Compounded annual rates of change



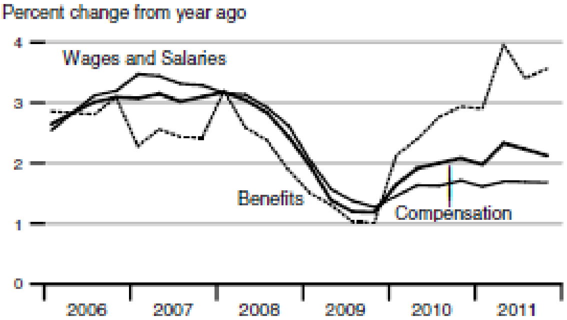
Unit Labor Cost

Compounded annual rates of change



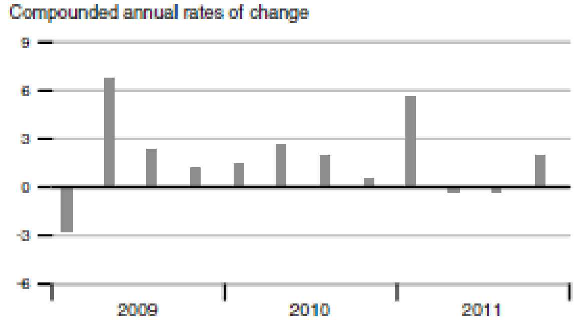
Employment Cost Index

Percent change from year ago



Compensation per Hour

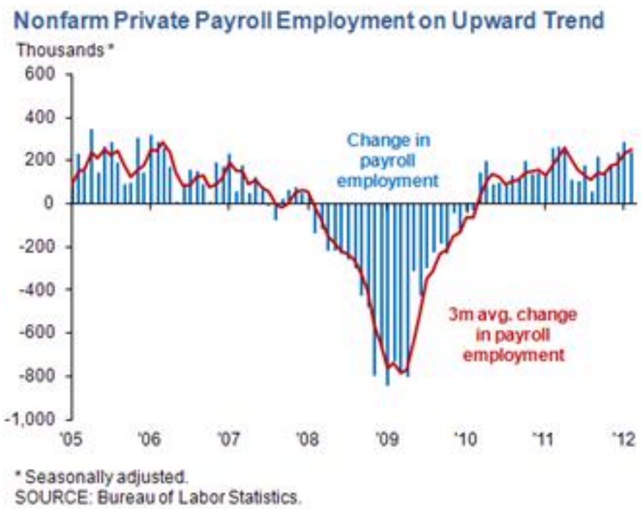
Compounded annual rates of change



Provided by the Federal Reserve Bank of St. Louis, National Economic Trends. Updated March 1, 2012.

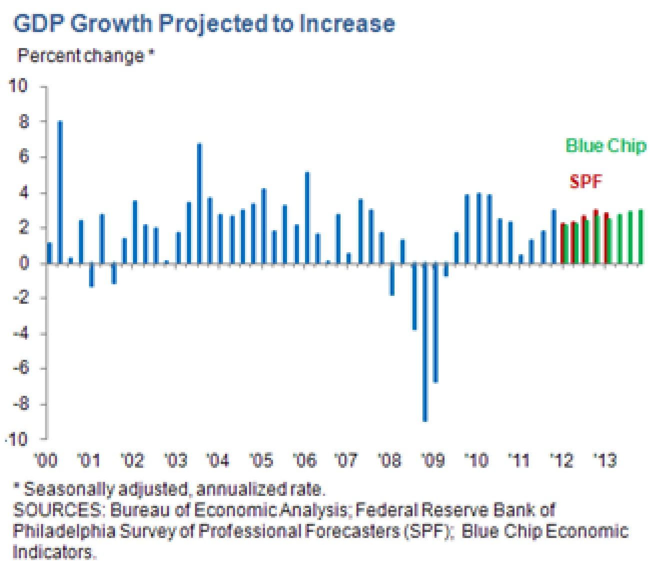
National Update – March 2012
Federal Reserve Bank of Dallas

⇳ **Economy** - The majority of recent data releases have been positive. Notably, the three-month moving average of the change in U.S. payroll employment is its strongest since 2006. The positive news has improved the outlook for gross domestic product (GDP), which the Survey of Professional Forecasters (SPF) now projects will grow at a moderate rate of 2.3 percent in 2012 and a more robust rate of about 2.7 percent in 2013. Levels of risk appetite have increased as policy uncertainty has fallen. The housing market is bottoming out as nondistressed house prices are stabilizing. Despite the good news, a noteworthy obstacle to growth comes from higher oil prices. Meanwhile, uncertainty associated with the European sovereign debt crisis remains a hindrance to more robust global growth.



⇧ **Steady Improvement in the Labor Market** - The most promising data comes from the labor market, where conditions continue to improve even though the unemployment rate remains high. Nonfarm private payroll employment has risen at a moderately brisk pace since November. Both the November and December employment numbers were upwardly revised, leading to stronger-than-anticipated employment growth. January employment was strong, coming in at 285,000 jobs, followed by 233,000 jobs in February.

⇧ **GDP Growth Forecasts Improved** - The 1.7 percent GDP growth in 2011, following 3 percent growth in 2010, was "uneven and modest" (Semiannual Monetary Policy Report to the Congress by Fed Chairman Ben Bernanke). However, perhaps due to recent strength in the labor market, the SPF and Blue Chip forecasts of growth in 2012 and 2013 are more robust. The modest and uneven growth rate in 2011 reflects the Japanese tsunami, the floods in Thailand, the uncertainty surrounding the Arab Spring uprisings and the European sovereign debt crisis. On the domestic front, the debt-ceiling negotiations of late summer also generated considerable uncertainty. In the absence of such adverse shocks, GDP is poised to grow at a more respectable rate the next couple years.

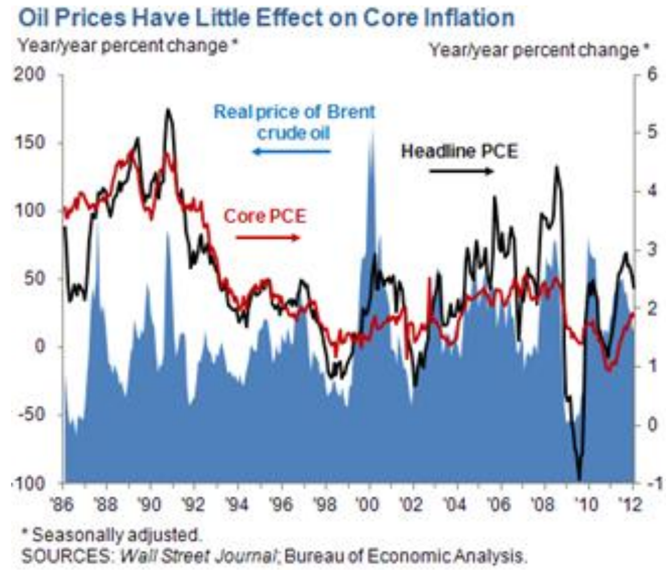


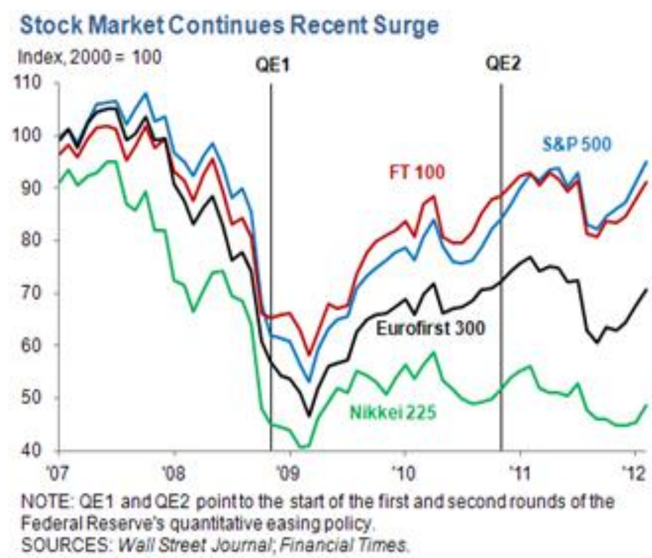
⇩ **Oil Prices** - While oil prices have had only temporary effects on headline personal consumption expenditures (PCE) and muted pass-through to core PCE inflation since the Great Moderation, oil prices are a concern going into 2012 because sustained high prices would create headwinds for economic growth. Precautionary oil demand shocks, driven by rising geopolitical risks in the Middle East, appear to be the main reason for the recent steep rise in prices. Temporary supply shocks may be playing a role as well. High energy prices act as a tax hike, lowering consumers' discretionary income. Gasoline prices have gone up by more than 50 cents year to date, and oil prices threaten to jump even higher due to supply constraints. The price hike may directly reduce spending on discretionary items and negatively influence the confidence of households and businesses.

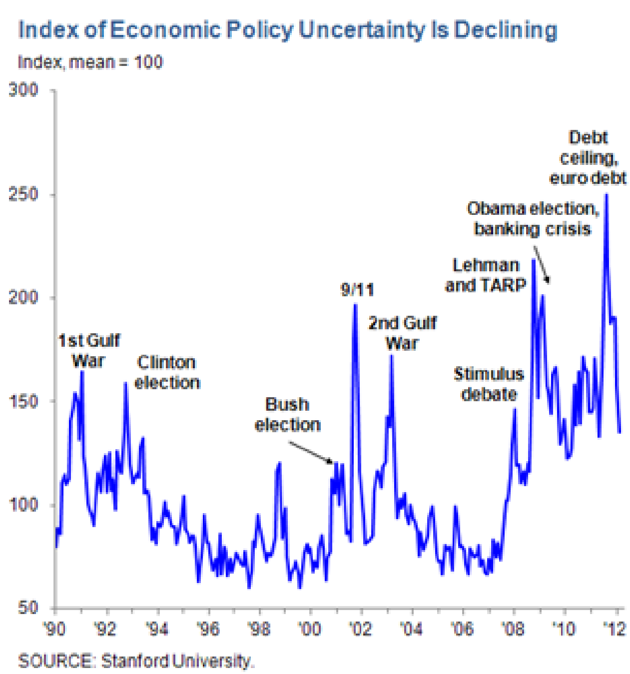
⇧ **Strong Financial Markets** - Despite the sharp rise in oil prices, an overall improvement in sentiment toward the U.S. and euro zone economies has boosted equity prices. The S&P 500 Index has already increased roughly 11 percent year to date, while the Eurofirst 300 Index is up almost 10 percent. This improvement in sentiment can be attributed to greater risk appetite. The decline in economic policy uncertainty has also contributed to the equity price surge.

⇩ **Policy Uncertainty Coming Down from High Levels** - Uncertainty with regard to economic policy is still high, but it is declining. Economists have long recognized the damaging impact of uncertainty on economic activity and growth. The index of economic policy uncertainty averages several components: the frequency of references to policy uncertainty in the media, the number of federal tax code provisions set to expire in future years, and the extent of forecaster uncertainty over future inflation and federal government purchases. The index suggests that an increase in policy uncertainty as big as the actual change between 2006 and 2011 would portend a large and persistent decline in aggregate economic activity. Index values have been very high in recent years, with clear jumps around the Lehman bankruptcy, the euro zone crisis and the U.S. debt-ceiling dispute. However, the index has declined since peaking in August 2011. The next test may be around the corner as the presidential election approaches in November.

⇳ **Looking Ahead** - As the uncertainty in economic policy ebbs, the housing market

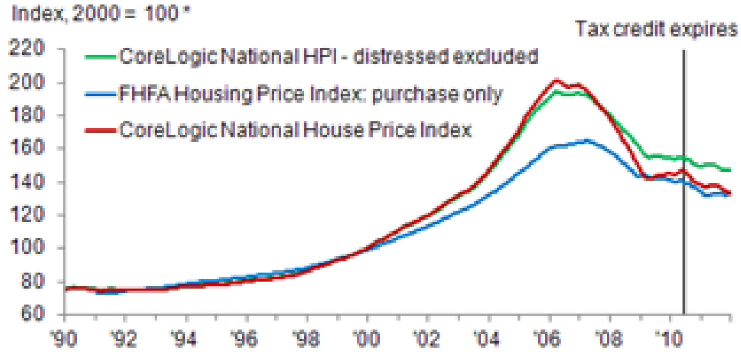






appears to have finally bottomed out. National house price indexes reflect different home compositions. For example, the Federal Housing Finance Agency (FHFA) index excludes the prices of homes at the upper and lower ends of the market, while the CoreLogic indexes include these prices. The indexes display somewhat different trends recently. Unlike the CoreLogic indexes, the FHFA index has leveled off and appears ready to turn up. While prices stabilize, housing starts and sales are beginning to rise slowly.

House Prices Preparing to Turn the Corner



* Seasonally adjusted.
SOURCES: Federal Housing Finance Agency; CoreLogic.

A steady stream of good news is likely to be tempered by the escalation in oil prices. Because the increase is mainly the result of a precautionary oil demand shock, driven by rising geopolitical risks in the Middle East, the macroeconomic effects of the shock should be short-lived. Despite high oil prices, inflation expectations are well-anchored, implying inflation should run at or below the 2 percent rate targeted by the Federal Open Market Committee. As the labor market, the stock market, policy uncertainty and the housing market continue to improve, a slight pickup in the modest recovery seems to be on the horizon.

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

Data Series	Sept 2011	Oct 2011	Nov 2011	Dec 2011	Jan 2012	Feb 2012
Unemployment Rate (1)	9.0	8.9	8.7	8.5	8.3	8.3
Change in Payroll Employment (2)	202	112	127	223	284 (P)	227 (P)
Average Hourly Earnings (3)	23.16	23.21	23.23	23.25	23.28 (P)	23.31 (P)
Consumer Price Index (4)	0.3	0.0	0.1	0.0	0.2	
Producer Price Index (5)	0.9	-0.3(P)	0.2 (P)	-0.1 (P)	0.1 (P)	
U.S. Import Price Index (6)	-0.1	-0.4	0.7 (R)	-0.1 (R)	0.3 (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 2011	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012
Employment Cost Index (1)	0.4	0.6	0.7	0.3	0.4
Productivity (2)	1.8(R)	-1.0(R)	-0.3(R)	1.8(R)	0.9(R)

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.
(R) Revised.

Data extracted on: March 9, 2012

The Beige Book – February 2012
The Federal Reserve Board
Excerpt

⇧ Reports from the twelve Federal Reserve Districts suggest that overall economic activity continued to increase at a modest to moderate pace in January and early February. Activity expanded at a moderate pace in the Cleveland, Chicago, Kansas City, Dallas, and San Francisco Districts. St. Louis noted a modest pace of growth and Minneapolis characterized the pace of growth as firm. Economic activity rose at a somewhat faster pace in the Philadelphia and Atlanta Districts, while the New York District noted a somewhat slower pace of expansion. The Boston and Richmond Districts, in turn, noted that economic activity expanded or improved in most sectors.

Manufacturing continued to expand at a steady pace across the nation, with many Districts reporting increases in new orders, shipments, or production and several Districts indicating gains in capital spending, especially in auto-related industries. Activity in nonfinancial services industries remained stable or increased. Reports of consumer spending were generally positive except for sales of seasonal items, and the sales outlook for the near future was mostly optimistic. Tourism remained strong in some reporting Districts, but declined in the Minneapolis and Kansas City Districts because of reduced snowfall. Residential real estate market conditions improved somewhat in most Districts, with several reports of increased home sales and some reports of increased construction. Commercial real estate markets also showed positive results in some Districts. Banking conditions generally improved across the Districts. Agricultural conditions were mixed, while extraction activity generally increased.

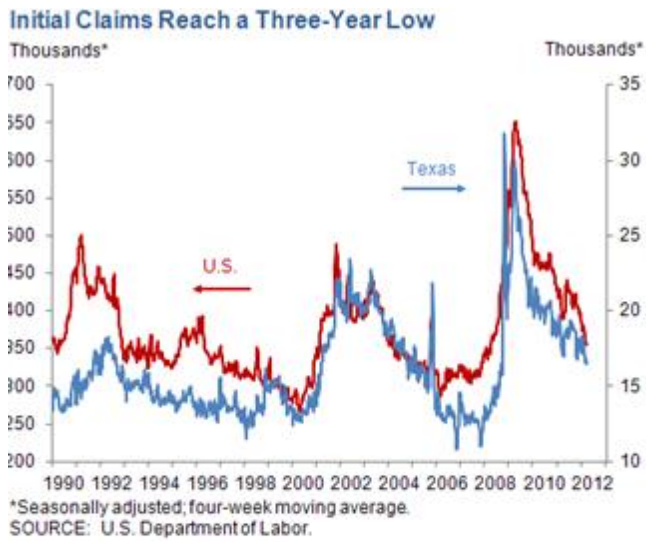
Hiring increased slightly across several Districts, and contacts in a variety of industries faced difficulties finding skilled workers. Wage pressures were generally contained, and prices of final goods remained stable, although contacts in some Districts anticipate passing rising input prices through to consumer prices.

The Dallas Beige Book – February 2012
Federal Reserve Bank of Dallas
Excerpt

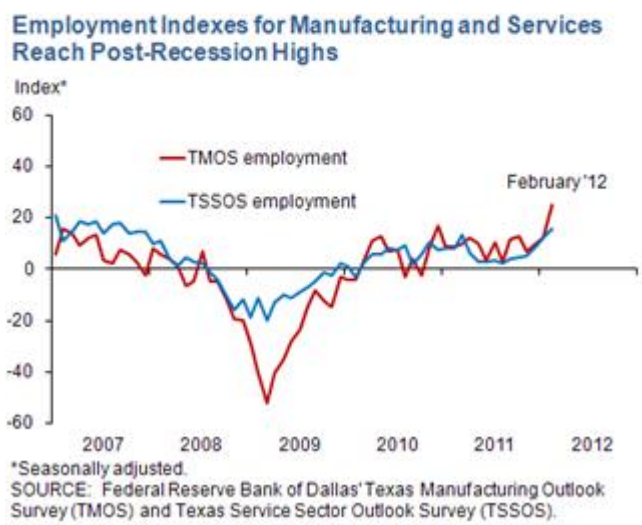
⇧ The Eleventh District economy continued to grow at a moderate pace, and outlooks were more positive than in the last report. Manufacturers reported increased activity. Demand for business services was solid, and activity in transportation services rose modestly. Housing and commercial real estate markets continued to improve. Overall building activity remained subdued, with the major exception being robust multifamily construction activity. Contacts said retail sales growth was tepid and automobile sales held steady. Financial services respondents said overall loan demand edged up. Energy activity was strong, and agricultural conditions improved. Employment levels were flat to up slightly. Price and wage pressures were modest.

Regional Economic Update – March 2012
Federal Reserve Bank, Dallas

⇧ **Overall Economy** - The regional economy has grown at a moderate pace over the past six weeks, with gradual but broad-based improvement evident. Although employment growth was modest at the end of 2011, Texas Business Outlook Survey labor-market indicators rose in February to their highest levels in at least four years, and other survey indicators were also positive. Exports, manufacturing and service-sector activity all improved somewhat, and the Texas Leading Index is pointing toward moderate growth in the spring.



⇧ **Labor Market Strengthening** - Payroll employment increased at a modest 1.5 percent annual rate in December but grew at a much stronger 6.7 percent rate in January. While new payroll data are always subject to revision, a substantial increase in employment was foreshadowed by anecdotal and survey evidence that suggested improvement in early 2012. The February employment index from the Texas Manufacturing Outlook Survey (TMOS) is at an all-time high, while the index for the Texas Service Sector Outlook Survey (TSSOS) is at a four-year high. Initial claims for unemployment insurance have also improved, falling to their lowest level in more than three years. The unemployment rate fell to 7.8 percent in December from a high of 8.5 percent in September.

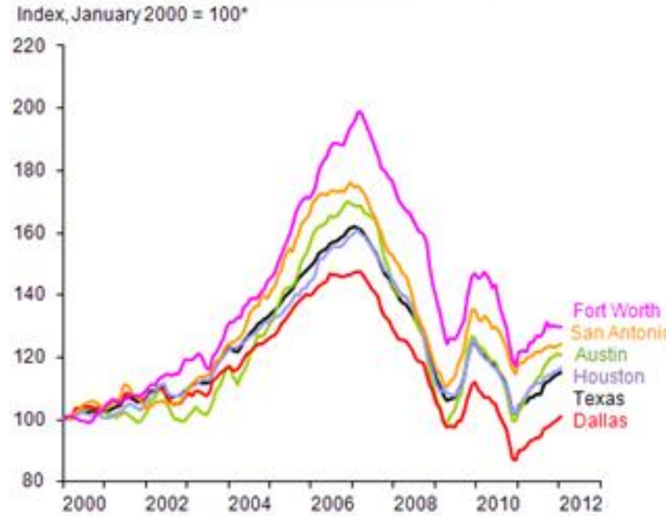


⇳ **Manufacturing Activity Continues to Rise** - Manufacturing activity appears to be improving after a sluggish fourth quarter. The TMOS production index rose to its highest level in almost a year in February, and the Beige Book noted a broad-based pickup in manufacturing activity. However, there were some negative signals for manufacturing. Defense-related manufacturing in North Texas could slow if proposed defense cuts are enacted. Texas-based Frito-Lay will lay off 3 percent of its workforce, with some job losses occurring in Texas.

⇧ **Price Pressures Remain But Are Modest** - Price pressures have remained moderate over the past six weeks. Both TMOS and TSSOS reported somewhat stronger price pressures for raw materials and finished goods in February. The Beige Book also noted a modest increase for fabricated metals, food and transportation equipment and higher fares for cargo transport.

⇳ **Construction Mixed, Real Estate Slightly Stronger** - Construction contract values continue to be mixed, with residential remaining on the rise but nonresidential and nonbuilding still falling. The improvements in residential construction are partly driven by increases in single-family housing activity last year, following the 2010 expiration of the first-time buyer's tax credit. Existing-home sales have improved across the state, especially in Houston and in Dallas, where January sales were 14 percent higher than the last year. Two other data releases reinforce the idea of improvements in the Dallas–Fort Worth area. First, March home foreclosure filings are down 20 percent year over year in the metroplex. Second, Dallas home prices fell only 1.3 percent year over year, compared with a 4 percent decline nationwide.

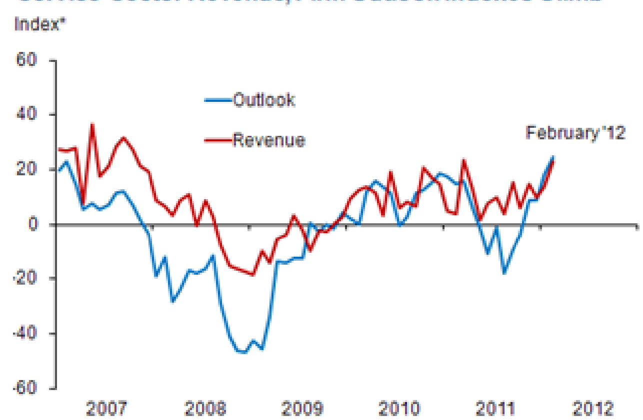
Existing-Home Sales Improve Statewide



*Seasonally adjusted; six-month moving average.
SOURCES: National Association of Realtors; Texas A&M Real Estate Center; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

⇧ **Service Sector Activity Grows** - The TSSOS suggests service-sector activity has continued to expand over the past six weeks. The revenue index rose in February to its highest level since the recession began. Moreover, companies' individual outlooks rose to the highest level in the five-year history of the survey. The Beige Book also reported a broad-based increase in demand for services. Shipments of cargo rose, business services expanded and staffing firms reported high levels of demand. Responding firms in the financial services sector reported fewer problem loans and higher loan quality.

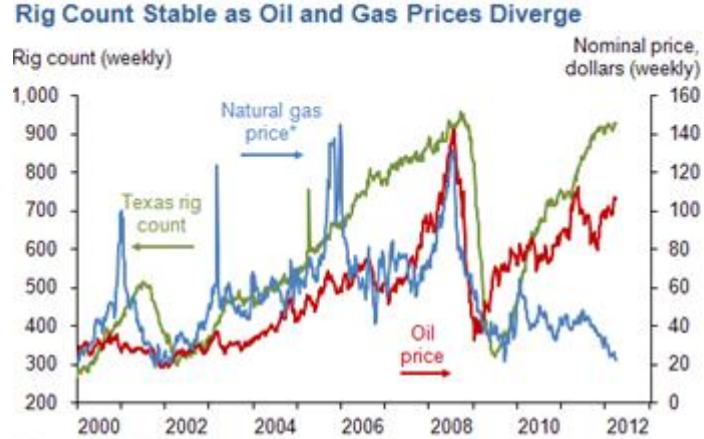
Service-Sector Revenue, Firm Outlook Indexes Climb



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

⇧ **Energy Strong, Likely to Strengthen Further** - The Texas rig count remained at high levels last seen in 2008 as oil prices moved above $100 per barrel. The current Cushing oil bottleneck may get some relief soon as TransCanada Corp. announced plans to immediately begin construction of the Oklahoma-to-Texas leg of the Keystone XL pipeline. This is expected to deliver up to 700,000 barrels of oil per day to the Gulf Coast by summer 2013.

Rig Count Stable as Oil and Gas Prices Diverge



*Per million British thermal units, multiplied by 10.
SOURCES: *Wall Street Journal*; Baker Hughes; Haver Analytics.

⇧ **Outlook** - The Texas economy has grown at a moderate pace in recent weeks due to broad-based improvement. Concerns from the fourth quarter about a growth slowdown have ebbed somewhat on better manufacturing and services data. Additionally, the Texas Leading Index has risen for four consecutive months, and all but one of the leading-index components are positive. Other leading indicators, such as temporary employment, are also positive. While these indicators do not signal exceptionally strong growth, they do suggest the regional economy may grow at a moderate pace over the near term.

Texas Leading Index Rises After Third-Quarter Swoon

SOURCES: The Conference Board's U.S. Leading Economic Index; Federal Reserve Bank of Dallas' Texas Leading Index.

Texas Economic Statistics
U. S. Bureau of Labor Statistics

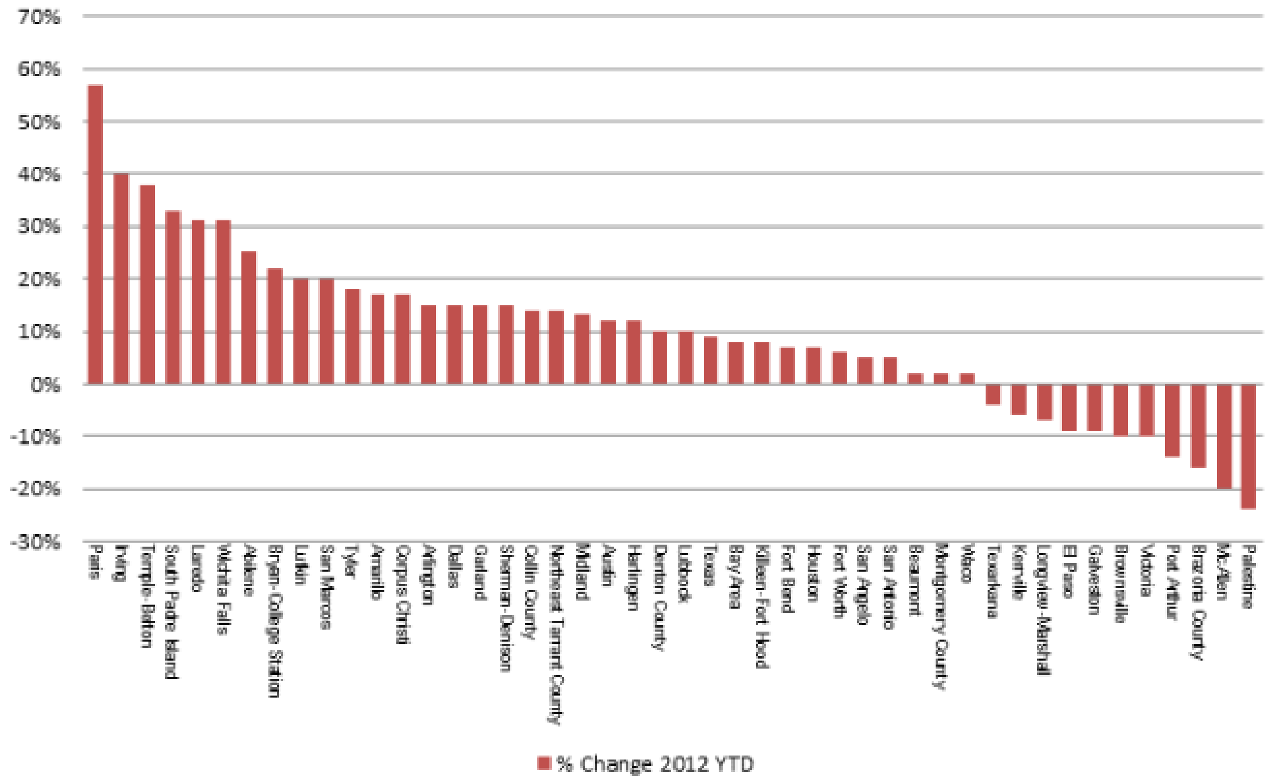
Texas

Data Series	Aug 2011	Sept 2011	Oct 2011	Nov 2011	Dec 2011	Jan 2012
Labor Force Data						
Civilian Labor Force (1)	(5) 12,459.5	(5) 12,475.6	(5) 12,493.3	(5) 12,502.3	(5) 12,518.6	
Employment (1)	(5) 11,453.7	(5) 11,485.6	(5) 11,522.9	(5) 11,556.2	(5) 11,587.8	
Unemployment (1)	(5) 1,005.7	(5) 990.0	(5) 970.4	(5) 946.1	(5) 930.8	
Unemployment Rate (2)	(5) 8.1	(5) 7.9	(5) 7.8	(5) 7.6	(5) 7.4	
Nonfarm Wage and Salary Employment						
Total Nonfarm (3)	10,594.7	10,614.0	10,608.5	10,629.0	(P) 10,649.2	
12-month % change	2.2	2.4	2.2	2.2	(P) 2.0	
Mining and Logging (3)	246.5	249.9	254.0	255.9	(P) 257.9	
12-month % change	17.3	18.4	20.3	19.6	(P) 18.7	
Construction (3)	594.1	601.7	588.9	590.5	(P) 590.8	
12-month % change	4.7	6.3	3.1	2.5	(P) -1.1	
Manufacturing (3)	834.1	832.8	831.6	835.2	(P) 837.4	
12-month % change	2.6	2.5	2.2	3.1	(P) 3.1	
Trade, Transportation, and Utilities (3)	2,100.8	2,104.3	2,111.1	2,107.8	(P) 2,108.0	
12-month % change	2.2	2.3	2.6	2.7	(P) 2.2	
Information (3)	187.1	188.5	185.8	186.4	(P) 184.9	
12-month % change	-3.9	-2.7	-3.8	-3.8	(P) -4.1	
Financial Activities (3)	631.2	632.8	632.4	636.7	(P) 638.8	
12-month % change	1.6	1.9	2.0	2.7	(P) 2.9	
Professional & Business Services (3)	1,333.9	1,349.2	1,342.3	1,342.1	(P) 1,343.7	
12-month % change	4.2	5.1	4.5	4.0	(P) 4.1	
Education & Health Services (3)	1,428.8	1,435.5	1,443.0	1,444.3	(P) 1,443.5	
12-month % change	2.8	3.0	3.0	2.5	(P) 2.6	
Leisure & Hospitality (3)	1,039.8	1,034.5	1,047.5	1,056.1	(P) 1,060.2	
12-month % change	3.3	2.2	3.3	4.1	(P) 4.0	
Other Services (3)	370.6	371.9	375.9	378.8	(P) 378.7	
12-month % change	2.8	3.0	3.7	3.9	(P) 3.6	
Government (3)	1,827.8	1,812.9	1,796.0	1,795.2	(P) 1,805.3	
12-month % change	-1.9	-2.0	-3.3	-3.4	(P) -3.0	
Mass layoffs						
Layoff events, all industries (4)	37	48	39	73	52	51
Initial claimants, all industries (4)	3,836	4,470	3,454	8,862	5,033	3,981

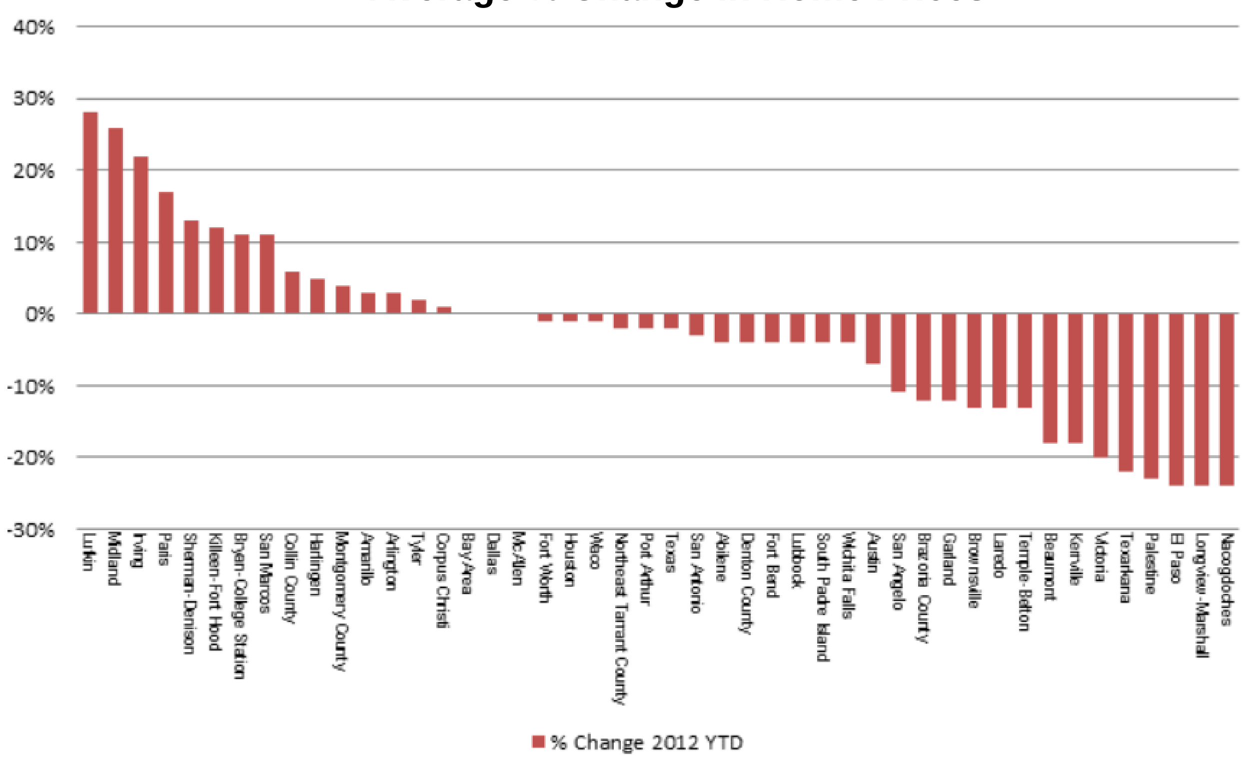
Footnotes
(1) Number of persons, in thousands, seasonally adjusted.
(2) In percent, seasonally adjusted.
(3) Number of jobs, in thousands, seasonally adjusted.
(4) See about the data.
(5) Reflects revised population controls, model reestimation, and new seasonal adjustment.
(P) Preliminary

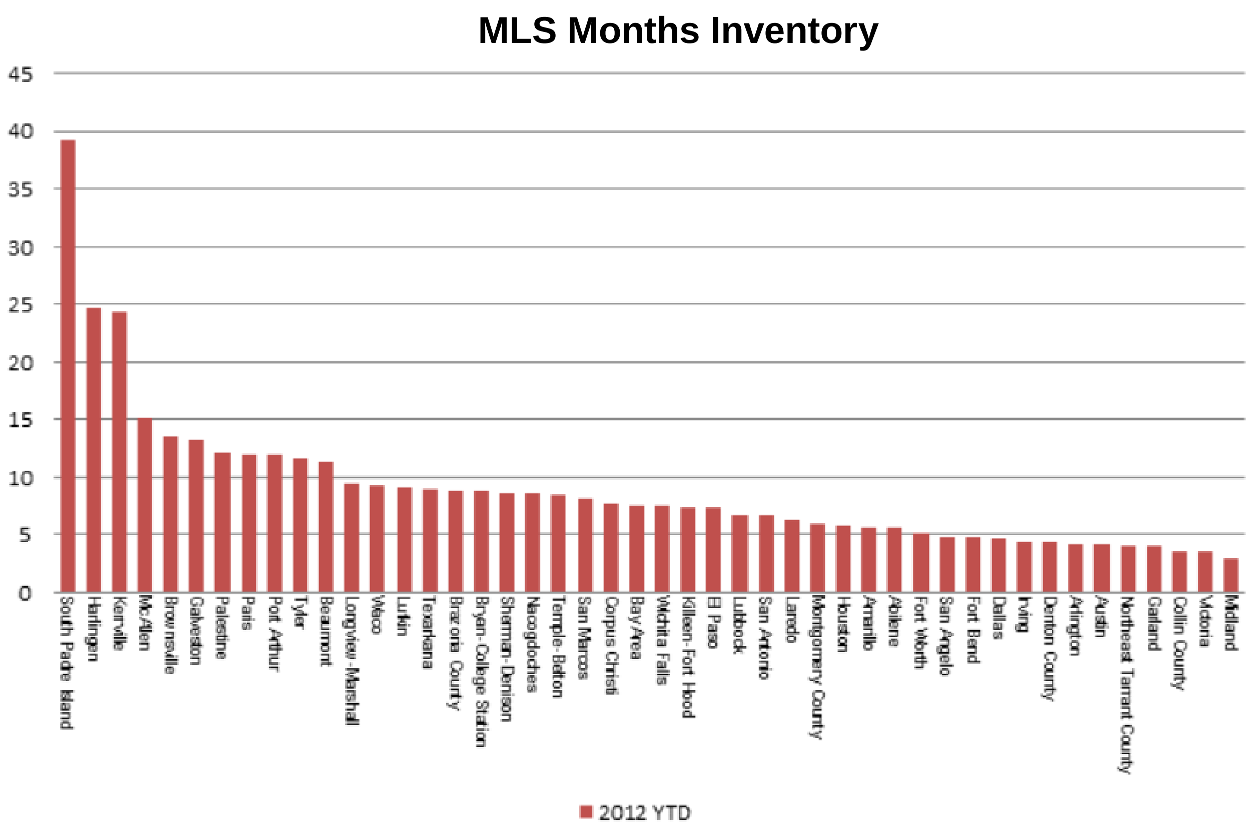
Data extracted on March 9, 2012
Source: U.S. Bureau of Labor Statistics

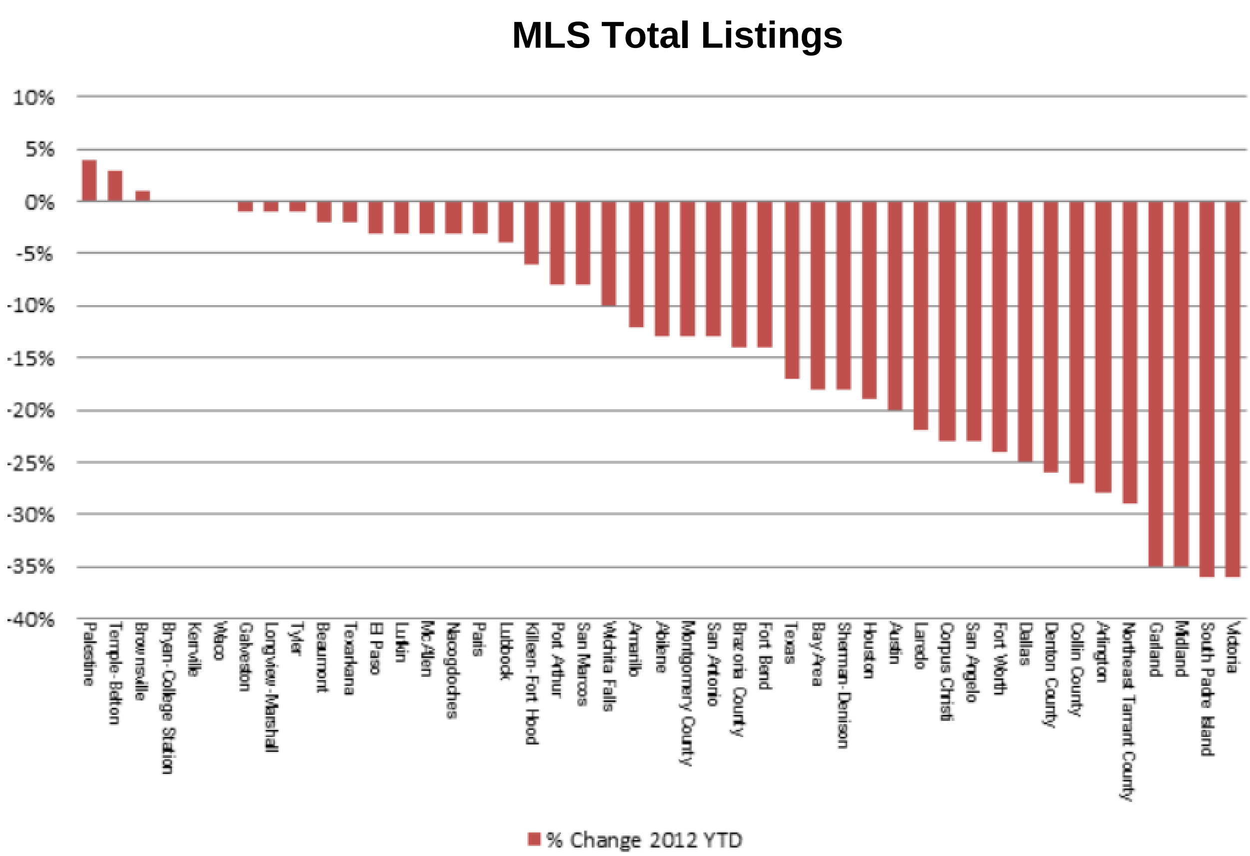
Home Sales



Average % Change in Home Prices




MLS Months Inventory
45
40
35
30
25
20
15
10
5
0
South Padre Island
Harlingen
Kerrville
McAllen
Brownsville
Galveston
Palestine
Paris
Port Arthur
Tyler
Beaumont
Longview-Marshall
Waco
Lufkin
Texarkana
Brazoria County
Bryan-College Station
Sherman-Denison
Nacogdoches
Temple-Belton
San Marcos
Corpus Christi
Bay Area
Wichita Falls
Killeen-Fort Hood
El Paso
Lubbock
San Antonio
Laredo
Montgomery County
Houston
Amarillo
Abilene
Fort Worth
San Angelo
Fort Bend
Dallas
Irving
Denton County
Arlington
Austin
Northeast Tarrant County
Garland
Collin County
Victoria
Midland
2012 YTD


MLS Total Listings
10%
5%
0%
-5%
-10%
-15%
-20%
-25%
-30%
-35%
-40%
Palestine
Temple-Belton
Brownsville
Bryan-College Station
Kerrville
Waco
Galveston
Longview-Marshall
Tyler
Beaumont
Texarkana
El Paso
Lufkin
McAllen
Nacogdoches
Paris
Lubbock
Killeen-Fort Hood
Port Arthur
San Marcos
Wichita Falls
Amarillo
Abilene
Montgomery County
San Antonio
Brazoria County
Fort Bend
Texas
Bay Area
Sherman-Denison
Houston
Austin
Laredo
Corpus Christi
San Angelo
Fort Worth
Dallas
Denton County
Collin County
Arlington
Northeast Tarrant County
Garland
Midland
South Padre Island
Victoria
% Change 2012 YTD

❖ **Senior Loan Officer Opinion Survey** - The January 2012 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 three sets of special questions: the first set asked banks about lending to firms with European exposures; the second set asked banks about changes in their lending policies on commercial real estate (CRE) loans over the past year; and the third set asked banks about their outlook for credit quality in 2012. This summary is based on responses from 56 domestic banks and 23 U.S. branches and agencies of foreign banks. Overall, in the January survey, domestic banks reported that their lending standards had changed little and that they had experienced somewhat stronger loan demand, on net, over the past three months. Foreign respondents, which mainly lend to businesses, reported a net tightening of their lending standards while loan demand was about unchanged.

Regarding business loans, domestic banks reported, on balance, little change in standards on commercial and industrial (C&I) loans but a continued easing of pricing terms on such loans during the fourth quarter. Domestic banks reportedly experienced stronger demand for C&I loans from firms of all sizes on net. The net fraction of banks reporting increased demand from small firms rose to its highest level since 2005. Foreign respondents reported having tightened both standards and terms on C&I loans, on net, and they indicated that loan demand had been about unchanged over the past three months. Domestic banks continued to report little change in their standards for CRE loans, but modest net fractions had eased some loan terms over the past year. Moderate net fractions of domestic banks reported that demand for CRE loans had strengthened in the fourth quarter. Modest net fractions of foreign respondents reported having tightened standards for CRE loans. Foreign respondents also reported, on balance, little change in demand for such loans. On the household side, lending standards and demand for loans to purchase residential real estate were reportedly little changed over the fourth quarter on net. Standards on home equity lines of credit (HELOCs) were about unchanged, while demand for such loans weakened on balance. Moderate net fractions of banks reported that they had eased standards on all types of consumer loans over the past three months, and some banks also eased terms on auto loans. Demand for credit card and auto loans reportedly had increased somewhat, while demand for other types of consumer loans was about unchanged.

Business Lending

C&I Loans. Domestic banks reported that their credit standards on C&I loans to firms of all sizes were little changed over the fourth quarter on net. In contrast, U.S. branches and agencies of foreign banks reportedly tightened their standards on C&I loans for the second consecutive quarter on balance. A large net fraction of domestic banks reportedly eased pricing terms on C&I loans to firms of all sizes over the past three months. A moderate net fraction of banks also indicated a reduction in their use of interest rate floors. Domestic banks that reported having eased terms on C&I loans unanimously cited increased competition from other banks and nonbank lenders as a reason for having done so. The handful of banks that reported having tightened standards or at least one C&I loan term primarily cited a less favorable or more uncertain economic outlook and increased concerns about legislative, supervisory, or accounting policies.

Meanwhile, foreign survey respondents reported that they continued to tighten terms on C&I loans on net. Moderate net fractions of foreign respondents reduced the maximum size of credit lines, increased the cost of such credit lines, and reduced the maximum maturity of C&I loans. Foreign respondents that reported having tightened their standards or terms on C&I loans unanimously cited a less favorable or more uncertain economic outlook, and 80 percent cited deterioration in their current or expected liquidity position.

Reports from domestic banks of stronger demand for C&I loans outnumbered reports of weaker demand, in contrast to the net weakening of loan demand reported in the previous survey. About 15 percent of domestic banks, on net, reported increased demand for C&I loans from small firms, the largest net percentage that has been reported since 2005. Similarly, domestic banks reported a net increase in the number of inquiries from potential business borrowers regarding new or increased credit lines. Domestic banks that saw weaker demand for C&I loans and those that saw stronger demand both cited changes in customers' funding needs related to inventories, accounts receivable, and mergers and acquisitions as important factors underlying the change in demand. Of domestic banks reporting weaker loan demand, about 85 percent cited customers' reduced funding needs for capital investment. Foreign respondents experienced little change, on net, in demand for C&I loans.

European Exposure. A set of special questions in the January survey asked respondents about lending to banks headquartered in Europe and their affiliates and subsidiaries (regardless of the location of the affiliates and subsidiaries) as well as to nonfinancial firms that have operations in the United States and significant exposures to European economies (regardless of the location of the firms). These questions were also asked in the previous survey, conducted in October 2011. An additional special question asked domestic banks if they had experienced increased business because of reduced competition from European banks.

Large fractions of domestic and foreign respondents again reported having tightened standards on loans to European banks or their affiliates and subsidiaries. There was more widespread tightening of standards than in the previous survey on loans to nonfinancial firms that have operations in the United States and significant exposures to European economies. Demand for credit was reportedly little changed, on net, from European banks (or their affiliates and subsidiaries) and from nonfinancial firms with significant European exposures. A new special question asked if domestic respondents had experienced an increase in business over the past six months as a result of decreased competition from European banks (or their affiliates and subsidiaries). About half of the respondents who reported competing with European banks noted such an increase in business.

CRE lending. Domestic banks continued to report little change in their standards on CRE loans. A moderate net fraction of foreign survey respondents reportedly tightened their standards on such loans. Moderate fractions of domestic banks reported that demand for CRE loans had strengthened, on net, over the past three months. In contrast, the foreign respondents reported that demand for CRE loans was little changed over that period.

The January survey also included a question regarding changes in terms on CRE loans over the past year (repeated annually since 2001). During the past 12 months, on net, some domestic banks reportedly eased maximum CRE loan sizes and many domestic banks trimmed loan rate spreads. A few large domestic banks, on balance, reported that they had lengthened maximum loan maturities. Other terms for CRE loans were reportedly little changed. The January results were the first in five years to find a net easing in some of the CRE loan terms covered in the survey. Foreign respondents reported having tightened some terms and eased others on CRE loans over the past year. On balance, about 15 percent of foreign respondents reported that they had tightened debt service coverage ratios, but about 15 percent reported that they had increased maximum loan sizes. Other terms for CRE loans were reportedly little changed on balance.

Lending to Households

Residential real estate lending. Most banks reported that lending standards for, and demand from, prime borrowers for residential real estate loans to purchase homes were little changed over the past three months. In addition, most banks continued to report little change in their lending standards for HELOCs, a pattern seen since the beginning of 2011. Meanwhile, the demand for such loans continued to weaken on net.

Consumer lending. As in the previous three surveys, small fractions of domestic banks reported having eased standards on credit card, auto, and other consumer loans. Modest net fractions of banks continued to report having narrowed loan rate spreads and lengthened maximum maturities on auto loans. However, other terms across the categories of consumer loans were little changed on net. A few banks, on balance, reported stronger demand for auto loans, with such reports coming primarily from large banks. A few small banks reported stronger demand for credit card loans. Demand for other consumer loans was reportedly about unchanged.

Banks' outlook for asset quality in 2012

The January survey contained 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. These questions have been asked once each year for the past six years. Overall, between 15 and 60 percent of domestic banks, on net, expected improvements in delinquency and charge-off rates during 2012 in the major loan categories included in the survey. Expectations for improvement in 2012 were less widespread than they were a year ago, but last year's expectations were the highest in the history of the question.

In this year's survey, banks were least likely to forecast improvement in the quality of consumer loans, likely in part because measures of consumer loan quality are already quite positive. About 20 percent of banks, on net, expected improvement in credit card loans, and a similar fraction projected improvement in other consumer loans.

Expectations for improvements this year in the asset quality of prime residential real estate loans and for HELOCs stayed roughly the same as last year, with a bit more than one-third of the respondents anticipating an improvement in the quality of such loans. More survey respondents expect the asset quality of nontraditional residential real estate loans to improve in 2012 than it did last year. About 55 percent of banks, on net, anticipate that delinquency and charge-off rates on such nontraditional loans will decline this year compared with about 20 percent of the respondents to last year's survey.

Regarding the outlook for the quality of business loans, about 50 percent of domestic banks, on net, expect a decline in the delinquency and charge-off rates on their C&I loans both to large and middle-market firms and to small firms. Smaller domestic respondents were more likely to expect improvements in C&I loan quality this year than their larger counterparts. About 60 percent of domestic banks indicated that they expect improvement in the quality of CRE loans this year. In contrast, foreign respondents, on net, anticipated no improvement in the quality of their C&I loans this year, and about 25 percent of these respondents forecast improvement in the quality of their CRE loans.

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