Condition of the Texas Banking System

March 2017

Texas Department of Banking Department of Savings and Mortgage Lending Financial Data as of December 31, 2016



TABLE OF CONTENTS

| Economic Review and Outlook | 1 |
|---|----|
| Performance Summary and Profile: Texas Banking System | 8 |
| Performance Summary: United States Banking System | 12 |
| National Economic Trends | 19 |
| Economic Reports and Forecasts: United States | 22 |
| Economic Reports and Forecasts: State of Texas | 27 |
| Federal Reserve Bank Senior Loan Officer Opinion Survey | 31 |
| Acknowledgements and Resources | 34 |

| Symb | ools Used Throughout this Report: | Abbreviations Used Throughout this Report: |
|--------------------|-----------------------------------|---|
| 仓 | Improving or strong conditions | FDIC – Federal Deposit Insurance Corporation |
| Û | Deteriorating or weak conditions | OCC – Office of the Comptroller of the Currency |
| $\hat{\mathbf{v}}$ | Mixed conditions | FRB – Federal Reserve Board |
| * | Interest item | |

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ECONOMIC REVIEW AND OUTLOOK

BANKING SYSTEM OVERVIEW

The national economy is showing signs of strength: Consumer and business confidence is high and stocks are at record levels. Texas institutions are taking the lessons of the past and instituting policies and procedures that are reflecting financial soundness. In light of bank and thrift management precautions and additional reserves, Texas financial institutions are generally strong, with better asset quality when compared to the rest of the country. One key reason for this is diversity. Dr. Ray Perryman, the President and CEO of The Perryman Group, an economic research and analysis firm based in Waco, Texas, has been monitoring the Texas economy for many years. In an economic update from January 2017, Mr. Perryman stated, "During the height of the oil surge, people talked about the 'Texas miracle,' with economic growth at a rapid pace. However, it's even more impressive to me [Dr. Perryman] that we've been able to create about 400,000 jobs over the past two years with our largest export industry firmly in the doldrums. Looking ahead, the Texas economy is likely to continue to diversify away from dependence on oil, though energy will clearly remain an important driver of business activity."

The economy and regulatory burden have been key factors used by financial institutions as of late to determine if an acquisition or merger is ideal. The number of institutions nationally continues to drop. The total number of institutions in Texas has decreased by 151 since 2010; however, total assets have continued to rise. Total assets for Texas state-chartered banks were \$254.6 billion as of December 2016, up \$7.7 billion over the previous year. This growth occurred despite a reduction of eight state banks in 2016. The total state asset volume was elevated through branches of out-of-state, state-chartered banks, which also grew by \$5.2 billion to total \$62.5 billion in assets during the same period. Based upon available FDIC information, total assets of commercial banks operating in Texas, both state and federal charters, was \$763.8 billion at year-end. For Texas state-chartered savings bank, total assets were \$18.7 billion at year-end, up \$5.1 billion over last year. Total assets for savings banks operating in Texas, including federally chartered savings institutions, were \$98.1 billion.

The shrinking bank population has raised concerns within the industry. Between 2009 and 2016, only a few de novo banks were chartered in the nation. As a result of this stagnant activity, the FDIC began a campaign to lure new prospects several years ago. In April 2016, the FDIC announced they were reducing the period of enhanced supervision applied to de novo banks from seven years to three years to further entice prospects. Today, there are some signs of de novo bank activity emerging across the U.S. In December 2016, the Texas Department of Banking received its first de novo application since 2009.

As of March 15, 2017, problem state banks totaled 13. The Department of Banking considers the number to be within an acceptable range considering the total number of institutions. Furthermore, this level is consistent with last fiscal year-end and is well below the peak number of 58 problem banks experienced during the last recession. It is anticipated that the number of problem institutions will be relatively stable over the next six months. For this same period, there are no problem state savings banks. The Texas Department of Banking and the Department of Savings and Mortgage Lending consider any bank with a Uniform Financial Institutions Composite Rating of 3, 4, or 5 to be a problem institution, requiring that remedial action be taken by the bank's board and management. However, it is imperative that the Departments continue to closely monitor state banks that may be impacted by a protracted period of low oil prices or experience other increased risk factors.

The 85th Texas Legislature is in session and will be until May 29, 2017, unless a special session is called by Governor Gregg Abbott. Both Departments are diligently monitoring the session for any items that could potentially affect agency responsibilities or affect its regulated entities. As of the 60-day deadline on Friday, March 10, 2017, legislators had filed 6,789 bills and joint resolutions. The Texas Department of Banking is tracking 306 bills this session and the Department of Savings and Mortgage Lending is tracking 186 bills. Of the bills being tracked, approximately 80 bills relate to the banking industry.

STATE-CHARTERED BANKING PROFILE (DEPARTMENT OF BANKING)

The number of Texas state-chartered banks declined during the second half of 2016, to 244 as of December 31, 2016, compared to 249 at June 30, 2016. The reduction was due to four mergers and a conversion. Two banks merged into other Texas state-chartered banks, one bank merged into an outof-state state-chartered bank, and one merged into a national bank. The conversion involved a Texas state-chartered bank converting into a Texas state savings bank. During the same period, the Department processed 105 applications related to banks, with approximately 62.9% of the filings involving branch and production office activity, and 15.2% with issues involving ownership and control.

Despite the slight decline in the number of banks, the overall asset size of Texas state-chartered banks grew from \$248.5 billion at June 30, 2016, to \$254.6 billion by December 31, 2016. The asset growth occurred from a combination of \$5.0 billion organic asset growth and \$1.1 billion in additional assets entering the system through four mergers.

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

Increased profitability occurred in 53.57% of the thrift institutions since the end of 2015, primarily due to an increase in the volume of loans at most institutions. One thrift charter was unprofitable at the end of 2016. The median level of nonperforming loans and other real estate foreclosed remains low in state-chartered thrifts at 0.3% of total assets. Past due and nonaccrual loans, and foreclosed real estate continue to be monitored closely by state and federal regulators.

State-chartered thrift assets under the Department's jurisdiction totaled \$18.7 billion as of December 31, 2016, which represents an increase of 35.69% or \$4.922 billion from this time last year. The total number of state-chartered savings banks remains unchanged from December 2015, and none of these banks are classified as problem institutions.

The Department continues to receive and process applications. During the past twelve months, there have been three branch office applications, four merger/reorganization applications, and various other types of applications.

TEXAS ECONOMIC PROFILE

The highly diverse Texas economy has acted as a cushion to protect the overall economic growth of the state. In the third and fourth quarter, the Texas economy had a moderate pace of expansion and growth. In the latter half of 2016, the energy and manufacturing sectors stabilized. The stabilization in the energy sector came as a result of increasing optimism to the Organization of Petroleum Engineering Countries (OPEC) proposed production cuts, however in March 2017, optimism of production cuts diminished.

The manufacturing sector also steadied. The Texas Manufacturing Outlook survey conducted by the Federal Reserve Bank of Dallas reported a positive change in the growth index for the last six months of 2016. The New York Stock Exchange's historical data shows the U.S dollar at a five-year high, which has caused the cost of producing domestic goods to increase.



Employment

The total Texas non-farm employment rate as of December 2016 was 1.8%, adding 213,500 jobs to the Texas economy. Between December 2015 and December 2016, the largest job growth was observed in the education and healthcare services, and the trade sectors. The largest losses were in mining and logging and construction sectors. The Texas unemployment rate for the fourth quarter was 4.8%, up slightly from 4.5% for in December 2015. As of January 2017, the rate remained unchanged at 4.8%. Nationally, the unemployment rate was 4.7% at year-end 2016, and remained steady in February 2017.

The current administration's plan to limit travel and deport unauthorized workers may have an effect on the U.S. economy in the upcoming months. These policies may reduce the amount of people entering the workforce, leaving the potential for a labor shortage. This could particularly affect the Texas economy, which relies heavily on trade with Mexico.

Housing

According to the Real Estate Center at Texas A&M University, home sales increased during the fourth quarter. There were 26,291 homes sold in December

2016 compared to 25,771 in December 2015, for a 2% overall increase.

Home prices in the state have been on the rise since 2009. The average price reported for a home in Texas in 2016 was a little more than \$260,000, with about 3.3 months of inventory on the market. Fort Worth is currently leading the state in home price appreciation at 9.7%, followed by Dallas at 8.8% and Austin at 7.7%. Strong growth in the non-energy related sectors have been attributed as the driving force for the increase in home prices in the Dallas-Fort Worth area. Houston trails with 4.7% home price appreciation due to the losses in the energy sector. The foreclosure rate in Texas is well below the national average. RealtyTrac.com data shows that in January 2017, one in every 2,014 homes is foreclosed in Texas, while the national trend is one in every 1,594 homes.



Building permits for single family housing construction increased in the fourth quarter across Texas and within the large metro areas. According to the Real Estate Center at Texas A&M University, Houston is leading the nation with single family construction permits issued (2,982), followed by Dallas-Fort Worth (2,540) and Austin (1,244). Overall, Texas exhibited a 28.1% growth in housing starts in a 12 month period ending January 2017. Texas also experienced varied growth in the multifamily housing sector, with Austin and Dallas leading the state, followed by Houston.

Tax Revenue

Total state tax revenue for fiscal year 2016 was \$49.9 billion, according to Glenn Hegar, the Texas Comptroller of Public Accounts. This was 1.3% below the projected \$50.6 billion. Sales tax revenue was \$28.2 billion, while oil and gas taxes were 7.6% below the projection at \$1.7 billion. Taxes on natural gas revenue were also low, coming in at \$579 million, over 33% below what was predicted. Franchise tax for fiscal year 2016 was \$3.9 billion, which was 16.6% below the previous fiscal year due to permanent tax rate cuts enacted by the 84th Texas Legislature in 2015. However, franchise taxes for fiscal year 2016 were over 10% above the predicted amount for the year. The Comptroller cited a decrease in the oil and gas and natural gas sectors as the reason for the decline in state sales tax. Motor vehicle sales taxes were up 5.9% from August 2015, while motor vehicle taxes remained unchanged at \$306.7 million.

Oil Industry & Economic Impact

Texas remains the number one oil producer in the nation. Isolated geographic locations in Texas which are primarily dependent upon the oil and gas (O&G) industry, such as Midland/Odessa and parts of South Texas, were hit harder than other diversified economies such as Dallas/Fort Worth, San Antonio, Austin, and to a certain extent. Houston.

Overall, the industry was impacted by depressed oil prices. With over two years of an oversaturated oil market, oil and gas companies were led to bankruptcy, as they were unable to make a profit due to depressed barrel prices. Since 2015, there have been 119 O&G producer bankruptcies nationally. In 2016 alone, 70 O&G producers filed for bankruptcy. As of February 20, 2017, five additional producers filed for



bankruptcy. Overall, 55 of these O&G companies filed bankruptcy in Texas.

OPEC and non-OPEC members met in November 2016 to discuss falling oil prices and reach an agreement to reduce oil output. The agreement was to cut crude oil production by 1.8 million barrels per day in an effort to reduce supply and reverse depressed prices. Saudi Arabia agreed to make the most significant contribution, by reducing production by 486,000 barrels per day. Russia and several other non-OPEC members agreed to reduce production as well. Overall, non-OPEC producers agreed to join the production cuts. On January 1, 2017, crude oil prices reached an 18-month high, before dropping by the next day. Given that OPEC cuts were to take place on the first; the anticipation of these cuts may have accounted for the sudden spike in barrel prices. As of January 2017, Angola, Oman, Qatar and Saudi Arabia, and Kuwait had met their pledged output targets.

The reduced production helped drive crude oil prices higher which enticed U.S. drillers to begin drilling once again. Energy service firm, Baker Hughes, Inc., reports that U.S. drillers added oil rigs for an eighth week in a row. The North American Rotary rig count as of March 17, 2017 was 789. Texas rigs account for 50% (396) of the active rigs. In February 2017, the Texas Railroad Commission of Texas issued 991 drilling permits, 847 of which were for new oil or gas wells. This was a 73% increase over February 2016.



Dollars per Barrel, Weekly, Ending Friday, Average

During the week of March 6, 2017, oil producers met in Houston to evaluate the November 2016 agreement regarding prices and oil supplies. Furthermore, the attendees also considered whether or not to extend the production agreement for six-months in light of the continued U.S. production.

The U.S. shale industry is also monitoring the situation as it evaluates unconventional drilling techniques to obtain quicker returns with lower costs on shorter term projects. President Donald Trump's pro-hydrocarbon agenda has also given the industry optimism, encouraging more drilling and construction of energy infrastructure, including the Keystone and Dakota Access pipelines.

For the last two years, barrel prices have fluctuated significantly, with the lowest barrel price bottoming at only \$26.19 a barrel in February 2016 due to high inventories and production. This price was the lowest since December 2008, where barrel prices were \$30.28. To compare, in July 2008, crude oil prices spiked a high of \$145.31. As of March 17, 2017, the price per barrel was \$48.03.

SUPERVISORY MATTERS

The Departments value effective communication with their regulated entities and communicate examination findings to the board of directors and management through reports of examination. The intent of these reports is to highlight major findings from an examination and direct the board's attention to those areas where deficient practices or policies require their attention. Reports may also contain recommendations for improvement in areas with minor weaknesses.

To effectively communicate these items, the Texas Department of Banking and the Department of Savings and Mortgage Lending includes a Matters Requiring Attention page appearing in the front of the report, when applicable, to draw attention to matters that examiners consider being the most significant and deserving of immediate attention by the board.

Balance Sheet Concerns

Over the last few years, regulators have noted that balance sheet concentrations have risen since the nation exited the financial crisis. Each Department is monitoring associated credit trends including underwriting standards, portfolio composition, staffing concerns, credit culture, and data management and reporting. Lending concentrations have been noted in commercial real estate (CRE), construction and development, oil and gas (O&G), and agriculture. The Department of Banking has analyzed statistical data over the last several months in an effort to identify problems and offer guidance to financial institutions. The following are two areas in particular that are being monitored closely.

Commercial Real Estate (CRE)

Banks, especially those that are below regulators' communicated policy of 300% ratio of CRE to total riskbased capital, have taken the position that they have room to take on more exposure. Given the environment, financial institutions are growing their CRE portfolios. A bank with a well-diversified portfolio that has the capacity and good, strong borrowers may allow them the ability to expand their portfolio. However, the rapid growth and increased competitive pressures with this particular type of lending raises concerns for regulators. Weakened credit risk management practices related to loose standards, excessive underwriting policy exceptions and inadequate monitoring of market conditions can cause major problems for financial institutions. In some instances, banks operating with high CRE concentrations have begun to tighten their underwriting standards to better manage their risk and meet regulatory expectations.

Energy Lending

Agency resources have been diverted to complete follow-up examinations of banks which had been adversely affected by the decline in O&G commodity prices. While there has been a modest increase in the dollar volume of adversely classified assets for banks with significant O&G lending activity, most state chartered banks have withstood the challenges. These institutions promptly identified borrowers that were experiencing financial difficulties. Recent examinations have revealed that proactive management teams

who followed sound policies and procedures have fared far better than institutions that have not proactively addressed O&G lending issues. Banking Department staff continues to closely monitor the impact of energy prices on institutions identified as higher risk. These select institutions submit quarterly worksheets that quantify the dollar volume of direct/indirect energy loans, problem energy credits, charge-offs, price decks, and total adversely classified assets. Quarterly reports have shown that most are reducing their energy portfolios. Banking Department staff will continue to analyze trends and report the findings to executive management and Regional Directors.

Another worrisome aspect of bank balance sheets relates to margin compressions and interest rates. Margin pressures have led some institutions to invest in higher yielding, higher-risk assets with extended maturities. In late 2016, the Federal Reserve Board signaled their intent to begin raising interest rates on a regular basis as the economy continues to grow. Between June 2006 and March 2017, the Board has only increased rates four times. Banks and thrifts must manage their interest-rate risk, liquidity risk and credit risk carefully for industry growth to remain sustainable. These challenges will continue to be a focus of supervisory attention.

Federal Open Market Committee Target Federal Funds Rate Increases

| Date | Increase (In Basis Points) |
|-------------------|-------------------------------|
| March 16, 2017 | 25 |
| December 15, 2016 | 25 |
| December 17, 2015 | 25 |
| June 29, 2006 | 25 |
| | |

Source: Board of the Federal Reserve System

Regulatory Burden

The Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 led to the rise of compliance costs particularly for community banks and thrifts. As a result of these costs, the Departments have observed increased merger activity associated with attempts by smaller institutions to lower overhead. With the new administration in office, the banking industry awaits potential regulatory relief. However, President Trump's recent executive order to strike down two rules for every new one passed may not have a direct impact on banking regulators since the order as written does not apply to independent agencies. The industry and regulators will have to wait for further guidance on this subject.

Cybersecurity and Awareness

At the examination level, Information Technology (IT) Specialists work with the banking industry to enhance policies, procedures, and practices that institutions can use to counter cyber threats. In January 2016, Specialists began reviewing completed cybersecurity assessments at all IT examinations. After a year of reviewing these assessments, the Specialists have determined that all state banks are at the baseline level of risk, with only a few exceptions. Financial institutions that are below baseline have issues relating to documenting practices and are working to remediate.

The Department of Banking supports and participates in various programs, work groups, and initiatives to provide cybersecurity guidance and helpful strategies to financial institutions. In November 2016, Texas Banking Commissioner Charles G. Cooper, as Chair of the Conference of State Bank Supervisors (CSBS), reconvened the Bankers Electronic Crimes Task Force with the U.S. Secret Service. CSBS Chair Cooper assembled a banker task force of approximately 25 community bank executives from across the United States for the purpose of continuing to strengthen cybersecurity on the newest initiative: Cyber – USA (United, Strong, Aware). The overall objective is to identify key emerging cyber threats for community banks, to develop "Best Practices" to defend against those threats, and identify the best way to engage Chief Executive Officers across the country to adopt measures to defend against these threats. The best practices are expected to be released sometime in 2017.

DEPARTMENTAL SUPERVISORY MEASURES BEING TAKEN

Supervisory measures are designed to identify potential risks that could impact an institution's financial condition. Regulators must remain diligent in identifying and working with individual institutions that may be vulnerable to weaknesses in certain segments of the economy. Supervisors are aware that financial problems in institutions can often lag behind economic instability. Below is a listing of supervisory measures being utilized by each Department.

Texas Department of Banking

- ✤ Assessing the potential effects O&G prices may have on Texas banks;
- Using enhanced procedures to monitor and review institutions with commercial real estate concentrations;
- Assessing banks' inherent risks to cybersecurity attacks and determining their preparedness for such attacks;
- Assessing interest rate risk to determine if banks are extending the duration of their investment portfolio to improve net interest margins;
- Monitoring reductions in internal and external audit functions, and loan review and training programs to reduce overhead costs;
- Conducting targeted reviews of new product lines as banks seek additional sources of revenue;
- Initiating enforcement actions early in the detection of deteriorating trends;
- Continuing frequent onsite examinations of problem institutions;
- Communicating and coordinating joint enforcement actions and other supervisory activities with federal regulators;
- Placing monthly calls to state banks to obtain industry input about prevailing economic conditions;
- 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; and
- Increasing internal communication and training to improve examiner awareness of pertinent issues.

Department of Savings and Mortgage Lending

- Coordinating with federal regulators on a variety of matters of common regulatory interest (e.g. joint examinations, O&G Work Program, CRE Work Program);
- Engaging in regular correspondence and communication with state savings banks regarding institutionspecific and general industry issues;
- Performing targeted examinations of high risk areas of state savings banks;
- Issuing enforcement actions when deemed necessary;
- Conducting offsite monitoring of each institution's activities, strengths, and weaknesses. Revising the Department's plan of examination for each institution, based on an assessment of the particular institution's risk, as deemed necessary, by the Department and the primary federal regulator;
- Assessing any impact from volatility within the energy industries;
- Ongoing monitoring of interest rate risk, lending, investment, and funding concentrations;
- Monitoring local, state, national and world political and economic events impacting the industry; and
- Participating in federal compliance examinations of each institution.

PERFORMANCE SUMMARY AND PROFILE TEXAS BANKING SYSTEM

STATE-CHARTERED BANKS

State-chartered banks continue to perform well in spite of sustained economic issues in key sectors of the Texas and global economy. Capital levels are favorable and remain stable. Earnings for 2016, while only up slightly show the strength and stability of the Texas economy. While some key indicators associated with asset quality reflect deterioration along with increased provisions, they do not reflect serious concerns at this time.

State-chartered banks report stable core capital protection from a year ago, which continues to exceed the highest regulatory capital standards. State-chartered banks reflect a core capital leverage ratio of 9.9% compared to 9.8% a year ago. At year-end, the national average stood at 9.5%. Considering the economic environment over the last several years, this position is holding up relatively well.

For the 2016 calendar year, Texas state banks reported a return on assets (ROA) of 1.05%, compared to the national rate of 1.03%. However, bank management observed their net interest margins (NIM) gained only two basis points (BP) over the last 12 months primarily due to an increasing yield on their earning assets. Overall, 68% of our statechartered banks reflect earnings gains over the prior year. Conversely, only 2.5% of the banks ended the year unprofitable, which is down from 4.8% last year.

Net charge-offs increased over the last 12 months. Bank charge-offs increased to 0.25% of total loans from 0.15% a year ago. This compares favorably to the nationwide average of 0.46%. State-chartered banks appear to have adequate reserves to absorb potential losses as their loss allowance to loan account is now at 1.23%. However, it is essential that management continue to accurately identify and honestly assess risk to minimize the impact of economic uncertainties.

To date, banks have maintained a sound asset structure with only slight deterioration noted in some key ratios over the last year. For instance, noncurrent loans for banks increased to 0.93% from 0.74%. In conjunction, noncurrent assets plus other real estate owned to total assets increased eight BP to 0.66%. The average net charge-off rate also rose to 0.25%, from 0.15% during the same time frame. These rates are below the national averages with the noncurrent rate at 1.39% and charge-off rate at 0.46%.

Total assets for Texas state-chartered banks are \$254.6 billion, up \$7.7 billion over last year. This growth occurred despite a reduction of eight state banks in 2016.

Strong financial balance sheets have also enabled our state-chartered banks to expand their role in and out of our state's borders, presenting yet another opportunity for Texas institutions to expand their customer base. Texas state-chartered banks remain critical to the financial prosperity of Texas as they control approximately 25% of the state's banking assets.

STATE-CHARTERED THRIFTS

Through December 31, 2016, state thrifts had \$294.2 million in year-to-date net income, compared to \$231.5 million for 2015. The pretax, quarterly ROA for the median thrift remains strong at 1.2%. The quarterly NIM narrowed 30 BP during the last twelve months, but remains healthy, at 4.0%. Non-interest income to assets remained constant, while overhead expense increased 5 BP.

Provision expenses for loan and lease losses remain low at 0.1% of average assets. Year-to-date provisions to the allowance for loan and lease losses (ALLL) increased \$8.2 million from the prior year. The prior year was exceptionally low, primarily due to large reverse provisions at one institution with federal loss share agreements.

Asset quality remains sound. The median Texas thrift ratio of nonperforming assets to total assets remains low at 0.3%, which is less than half the level of the thrift industry across the nation at 0.7%. ALLL coverage of nonperforming loans and leases with a median level of 115% is stronger than the median ratio of 100% for all savings institutions nationwide.

Capital protection remains sufficient among state thrifts, which experienced a slight decrease in the median Tier 1 Leverage Capital levels since one year earlier, by 5 BP to 10.0%. This decrease is a result of growth in lending.

NUMBER OF INSTITUTIONS AND TOTAL ASSETS

FDIC financial data is reflective of FDIC insured institutions only. Assets in Billions

| | Assets in Billions | | | | | | | | | | |
|---|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------|-----------------------------------|--|--|--|--|--|
| | 12-3 | 1-2016 | 12-31 | -2015 | Differ | ence | | | | | |
| | No. of <u>Institutions</u> | <u>Assets</u> | No. of <u>Institutions</u> | <u>Assets</u> | No. of <u>Institutions</u> | <u>Assets</u> | | | | | |
| Texas State-Chartered Banks Texas State-Chartered Thrifts | 244 <u>28</u> 272 | \$254.6 <u>\$18.7</u> \$273.3 | 252 <u>27</u> 279 | \$247.0 <u>\$13.6</u> \$260.6 | -8 <u>+1</u> -7 | +\$7.6 <u>+5.1</u> +\$12.7 | | | | | |
| Other states' state-chartered: Banks operating in Texas* Thrifts operating in Texas* | 31 <u>0</u> 31 | \$62.5 <u>0</u> \$62.5 | 28 <u>0</u> 28 | \$57.3 <u>0</u> \$57.3 | +3 0 +3 | +\$5.2 <u>0</u> +\$5.2 | | | | | |
| Total State-Chartered Activity | y 303 | \$335.8 | 307 | \$317.9 | -4 | +\$17.9 | | | | | |
| National Banks Chartered in Texas Federal Thrifts Chartered in Texas Other states' federally-chartered: | 186 <u>6</u> 192 | \$122.4 <u>\$80.7</u> \$203.1 | 195 <u>6</u> 201 | \$117.4 <u>\$73.7</u> \$191.1 | -9 <u>0</u> -9 | +\$5.0 <u>+7.0</u> +12.0 | | | | | |
| Banks operating in Texas* Thrifts operating in Texas* | 24 <u>6</u> 30 | \$375.8 <u>\$0.3</u> \$376.1 | 24 <u>7</u> 31 | \$347.5 <u>\$0.9</u> \$348.4 | 0 <u>-1</u> -1 | +\$28.3 <u>-0.6</u> +\$27.7 | | | | | |
| Total Federally-Chartered Activity | y 222 | \$579.2 | 232 | \$539.5 | -10 | +39.7 | | | | | |
| Total Banking/Thrift Activit *Indicates estimates based on available | | \$915.0 | 539 | \$857.4 | -14 | +\$57.6 | | | | | |

*Indicates estimates based on available FDIC information.

RATIO ANALYSIS

As of December 31, 2016

FDIC financial data is reflective of FDIC insured institutions only.

| | State- Chartered <u>Banks</u> 244 | Texas National <u>Banks</u> 186 | All Texas <u>Banks</u> 430 | State- Chartered <u>Thrifts</u> 28 | Texas Federal <u>Thrifts</u> 6 | All Texas <u>Thrifts</u> 34 |
|---------------------------------------|--|--|----------------------------------|---|---|-----------------------------------|
| % of Unprofitable Institutions | 2.46% | 3.76% | 3.02% | 3.57% | NA | 2.94% |
| % of Institutions with Earnings Gains | 68.44% | 58.06% | 63.95% | 53.57% | 50.00% | 52.94% |
| Yield on Earning Assets | 3.57% | 3.84% | 3.66% | 4.79% | 4.65% | 4.67% |
| Net Interest Margin | 3.31% | 3.56% | 3.39% | 4.25% | 4.40% | 4.38% |
| Return on Assets | 1.05% | 1.03% | 1.04% | 1.79% | 0.96% | 1.10% |
| Return on Equity | 9.07% | 9.48% | 9.20% | 12.12% | 10.67% | 11.04% |
| Net Charge-offs to Loans | 0.25% | 0.33% | 0.28% | 0.07% | 1.30% | 1.05% |
| Earnings Coverage of Net Loan C/Os | 10.58 | 7.05 | 9.13 | 38.61 | 2.98 | 3.46 |
| Loss Allowance to Loans | 1.23% | 1.30% | 1.25% | 0.92% | 1.74% | 1.57% |
| Loss Allowance to Noncurrent Loans | 132.57% | 104.57% | 120.94% | 48.90% | 151.05% | 119.58% |
| Noncurrent Assets+OREO to Assets | 0.66% | 0.91% | 0.74% | 1.59% | 0.71% | 0.88% |
| Net Loans and Leases to Core Deps | 78.10% | 83.92% | 80.03% | 108.31% | 76.04% | 81.27% |
| Equity Capital to Assets | 11.44% | 10.48% | 11.13% | 14.31% | 8.88% | 9.90% |
| Core Capital (Leverage) Ratio | 9.90% | 10.09% | 9.96% | 14.32% | 8.99% | 9.99% |
| Common Equity Tier 1 Capital | 13.04% | 13.90% | 13.31% | 18.81% | 13.08% | 14.29% |

Data for other state-chartered institutions doing business in Texas is not available and therefore excluded. Information derived from the FDIC website.

RATIO ANALYSIS BY

ASSET GROUPS FOR STATE-CHARTERED BANKS

As of December 31, 2016

FDIC financial data is reflective of FDIC insured institutions only. Assets in Billions

| | <u>< \$1</u> 217 | <u>\$1 - \$10</u> 24 | <u>>\$10</u> 3 |
|---------------------------------------|------------------------|-------------------------|----------------------|
| % of Unprofitable Institutions | 2.76% | NA | NA |
| % of Institutions with Earnings Gains | 66.82% | 87.50% | 33.33% |
| Yield on Earning Assets | 4.14% | 4.05% | 3.03% |
| Net Interest Margin | 3.79% | 3.66% | 2.89% |
| Return on Assets | 1.20% | 1.19% | 0.91% |
| Return on Equity | 10.76% | 9.71% | 7.94% |
| Net Charge-offs to Loans | 0.23% | 0.21% | 0.28% |
| Earnings Coverage of Net Loan C/Os | 11.37 | 13.09 | 9.06 |
| Loss Allowance to Loans | 1.27% | 0.99% | 1.37% |
| Loss Allowance to Noncurrent Loans | 144.79% | 132.71% | 127.71% |
| Noncurrent Assets+OREO to Assets | 0.69% | 0.70% | 0.63% |
| Net Loans and Leases to Core Deps | 75.57% | 98.73% | 69.30% |
| Equity Capital to Assets | 10.98% | 12.22% | 11.20% |
| Core Capital (Leverage) Ratio | 10.74% | 10.71% | 9.05% |
| Common Equity Tier 1 Capital | 16.11% | 13.82% | 11.41% |

RATIO ANALYSIS BY ASSET GROUPS FOR STATE-CHARTERED THRIFTS

As of December 31, 2016 FDIC financial data is reflective of FDIC insured institutions only. Assets in Billions

| | <u>< \$1</u> 24 | <u>\$1 - \$10</u> 4 | <u>>\$10</u> 0 |
|---------------------------------------|-----------------------|------------------------|----------------------|
| % of Unprofitable Institutions | 4.17% | NA | NA |
| % of Institutions with Earnings Gains | 45.83% | 100.00% | NA |
| Yield on Earning Assets | 4.68% | 4.89% | NA |
| Net Interest Margin | 4.09% | 4.38% | NA |
| Return on Assets | 0.96% | 2.50% | NA |
| Return on Equity | 9.26% | 13.46% | NA |
| Net Charge-offs to Loans | 0.07% | 0.07% | NA |
| Earnings Coverage of Net Loan C/Os | 25.53 | 50.29 | NA |
| Loss Allowance to Loans | 0.93% | 0.91% | NA |
| Loss Allowance to Noncurrent Loans | 228.09% | 30.22% | NA |
| Noncurrent Assets+OREO to Assets | 0.39% | 2.47% | NA |
| Net Loans and Leases to Core Deps | 98.24% | 117.56% | NA |
| Equity Capital to Assets | 10.27% | 17.24% | NA |
| Core Capital (Leverage) Ratio | 10.28% | 17.38% | NA |
| Common Equity Tier 1 Capital | 13.69% | 22.57% | NA |

COMPARISON REPORT

Select Balance Sheet and Income/Expense Information FDIC financial data is reflective of FDIC insured institutions only. December 31, 2016

| December | 51, | 2010 |
|----------|-----|------|
| | | |

| | State | Banks* | State | Thrifts |
|---|--------------------------------|--|-------------------------|--|
| | <u>End of</u> <u>Period</u> | <u>% of Total</u> <u>Assets</u> | <u>End of</u> Period | <u>% of Total</u> <u>Assets</u> |
| Number of Institutions | 244 | | 28 | |
| Number of Employees (full-time equivalent) | 40,938 | | 2,901 | |
| (In millions) | | | | |
| Total Assets | \$254,569 | | \$18,714 | |
| Net Loans and Leases | \$151,092 | 59.35% | \$13,393 | 71.57% |
| Loan Loss Allowance | \$1,878 | 0.74% | \$124 | 0.66% |
| Other Real Estate Owned | \$276 | 0.11% | \$43 | 0.23% |
| Goodwill and Other Intangibles | \$5,150 | 2.02% | \$125 | 0.67% |
| Total Deposits | \$208,324 | 81.83% | \$14,033 | 74.99% |
| Federal Funds Purchased and Repurchase Agreements | \$2,909 | 1.14% | \$10 | 0.06% |
| Other Borrowed Funds | \$11,242 | 4.42% | \$1,813 | 9.69% |
| Equity Capital | \$29,128 | 11.44% | \$2,677 | 14.31% |
| Memoranda: | | | | |
| Noncurrent Loans and Leases | \$1,416 | 0.56% | \$254 | 1.36% |
| Earning Assets | \$232,400 | 91.29% | \$17,477 | 93.39% |
| Long-term Assets (5+ years) | \$70,800 | 27.81% | \$6,522 | 35.01% |
| | <u>Year-to</u> <u>Date</u> | <u>% of Avg.</u> <u>Assets</u> [†] | <u>Year-to</u> Date | <u>% of Avg.</u> <u>Assets</u> [†] |
| Total Interest Income | \$8,090 | 3.26% | \$732 | 4.46% |
| Total Interest Expense | \$583 | 0.23% | \$82 | 0.50% |
| Net Interest Income | \$7,507 | 3.02% | \$650 | 3.96% |
| Provision for Loan and Lease Losses | \$557 | 0.22% | \$23 | 0.14% |
| Total Noninterest Income | \$3,311 | 1.33% | \$155 | 0.95% |
| Total Noninterest Expense | \$6,874 | 2.77% | \$475 | 2.90% |
| Securities Gains | \$46 | 0.02% | \$12 | 0.07% |
| Net Income | \$2,611 | 1.05% | \$294 | 1.79% |
| Memoranda: | | | | |
| Net Loan Charge-offs | \$373 | 0.15% | \$9 | 0.05% |
| Cash Dividends | \$1,509 | 0.61% | \$132 | 0.81% |

*Excludes branches of state-chartered banks of other states doing business in Texas. As of December 31, 2016, there are an estimated thirty-one out-of-state state-chartered institutions with \$62.5 billion in assets. Assets are based upon the June 30, 2016 FDIC Summary of Deposits.

†Income and Expense items as a percentage of average assets are annualized.

No branches of state-chartered thrifts of other states conducted business in Texas as of December 31, 2016.

PERFORMANCE SUMMARY UNITED STATES BANKING SYSTEM

FDIC QUARTERLY BANKING PROFILE

Fourth Quarter 2016 - <u>www.fdic.gov</u>

Net Income Is \$43.7 Billion in Fourth Quarter

Insured institutions reported net income of \$43.7 billion for the quarter, an increase of \$3.1 billion (7.7 percent) compared with the year before. Almost 60 percent of all banks reported year-over-year increases in quarterly earnings. Only 8.1 percent of banks were unprofitable for the quarter, down from 9.6 percent the previous year. The average return on assets (ROA) rose slightly to 1.04 percent, from 1.02 percent in fourth quarter 2015.

Full-Year 2016 Earnings Rise to \$171.3 Billion

The industry reported \$171.3 billion in net income for full-year 2016, \$7.9 billion (4.9 percent) more than the industry earned in 2015. Almost two out of every three banks-65.2 percentreported higher earnings in 2016 than in 2015. Only 4.2 percent of all banks had negative full-year net income. This is the lowest percentage of unprofitable banks for any year since 1995. Net operating revenue was \$29 billion (4.2 percent) higher than in 2015, as net interest income increased by \$29.8 billion (6.9 percent) and total noninterest income declined by \$779 million (0.3 percent). The average net interest margin (NIM)



Unprofitable Institutions and Institutions With Increased Earnings Percentage of All FDIC-Insured Institutions



rose to 3.13 percent from 3.07 percent in 2015. Total noninterest expenses were only \$5.1 billion (1.2 percent) higher than a year earlier, as itemized litigation charges at a few large banks were \$2.95 billion lower than in 2015. Loan-loss provisions totaled \$47.8 billion, an increase of \$10.7 billion (28.8 percent) from 2015. The average return on assets for 2016 was 1.04 percent, unchanged from the full-year average for 2015.

Net Interest Income Growth Lifts Operating Revenues

Net operating revenue totaled \$181.8 billion in the fourth quarter, up \$7.9 billion (4.6 percent) from the year before. Net interest income was \$8.4 billion (7.6 percent) higher, while noninterest income declined by \$480 million (0.8 percent). The increase in net interest income was attributable to growth in interest-bearing assets (up 5. 2 percent over the past 12 months) and improvement in the industry's aggregate NIM, which rose to 3.16 percent, from 3.12 percent in fourth quarter 2015. The NIM improvement was not broad-based. A majority of banks-54.3 percent-reported lower NIMs than the year earlier. The decline in noninterest income was driven by a \$950 million drop in income from changes in fair values of financial instruments and a \$432 million decline in interchange fees. Both trading income and servicing income rose \$1.7 billion (39.8 percent and 51.4 percent, respectively) from fourth quarter 2015.





Noninterest Expenses Up 2.6 Percent from a Year Before

Total noninterest expenses were \$2.7 billion (2.6 percent) higher than the year before. Salary and employee benefit expenses rose \$1.7 billion (3.4 percent), while goodwill impairment charges were \$675 million higher. Expenses for premises and fixed assets were only \$9 million (0.1 percent) higher than the year earlier.

Quarterly Loss Provisions Decline from a Year Ago

Loan-loss provisions totaled \$12.2 billion in the fourth quarter, \$3 million less than banks set aside a year earlier. This marks the first time since second quarter 2014 that quarterly provision expenses have not posted a yearover-year increase. For the industry, fourthquarter provisions represented 6.7 percent of the quarter's net operating revenue, down from 7 percent in fourth quarter 2015.

Quarterly Charge-Offs Rise for a Fifth Consecutive Quarter

Net loan losses totaled \$12.2 billion, up \$1.5 billion (13.5 percent) from a year earlier. This is the fifth quarter in a row that net charge-offs have posted a year-over-year increase. Credit card charge-offs were \$1.4 billion (24.8 percent) higher, while net charge-offs of

loans to commercial and industrial borrowers rose \$666 million (37.9 percent). Charge-offs of residential mortgage loans were \$576 million (75.1 percent) lower than in fourth quarter 2015. The average net charge-off rate rose to 0.53 percent, from 0.49 percent the year before. This is well below the high of 3.00 percent recorded in fourth quarter 2009.

Noncurrent Loan Rate at Lowest Level Since 2007

Noncurrent loans and leases—those 90 days or more past-due or in nonaccrual status—declined for the 26th time in the last 27 quarters, falling by \$2.4 billion (1.8 percent) during the three months ended December 31. During the quarter, noncurrent C&I loans declined for the first time in eight quarters, falling by \$1.4 billion (5.3 percent). Noncurrent residential mortgage loan balances fell by \$2 billion (3 percent), while noncurrent home equity loans declined by \$170 million (1.6 percent), and noncurrent nonfarm nonresidential real estate loans

Noncurrent Loan Rate and Quarterly Net Charge-Off Rate All FDIC-Insured Institutions



fell by \$192 million (2 percent). These improvements exceeded the \$1.1 billion (12.7 percent) increase in noncurrent credit card balances. The average noncurrent loan rate fell from 1.45 percent to 1.41 percent, the lowest level since year-end 2007.

Loan-Loss Reserves Decline for the First Time in Five Quarters

Banks reduced their reserves for loan and lease losses during the fourth quarter. Loss reserves fell by \$649 million (0.5 percent). At banks that itemize their reserves, which represent more than 90 percent of total industry reserves, the decline was driven by reductions in reserves for residential real estate loan losses, which fell by \$1.2 billion (6.5 percent), and in reserves for commercial loan losses, which declined by \$639 million (1.8 percent). Itemized reserves for losses on credit cards increased by \$677 million (2.3 percent). Despite the small reduction in industry reserves, the larger decline in noncurrent loan balances caused the coverage ratio of reserves to noncurrent loans to rise from 91.1 percent to 92.3 percent in the quarter, the highest level since third quarter 2007.



Equity Capital Posts a Quarterly Decline as the Market Value of Available-For-Sale Securities Falls

Total equity capital declined by \$16.8 billion (0.9 percent) in fourth quarter 2016, as higher interest rates caused the market values of available-for-sale securities at banks to fall. Accumulated other comprehensive income declined by \$39.5 billion in the quarter, mostly as a result of the drop in securities values. Retained earnings contributed \$15.1 billion to equity growth, \$1.8 billion (13.5 percent) more than a year earlier. Banks declared



\$28.6 billion in dividends, a \$1.3 billion (4.8 percent) increase over fourth quarter 2015. The average equity-to-assets ratio for the industry declined from 11.22 percent to 11.11 percent. At the end of the quarter, 99.7 percent of all banks, representing 99.9 percent of industry assets, met or exceeded the requirements for the highest regulatory capital category as defined for Prompt Corrective Action purposes.

Loan Balances Increase \$72.3 Billion in the Fourth Quarter

Total assets rose by \$13.7 billion (0.1 percent) during the fourth quarter. Total loan and lease balances increased by \$72.3 billion (0.8 percent). Growth in loan balances was led by credit cards (up \$38.2 billion, 5 percent), loans secured by nonfarm nonresidential real estate properties (up \$22.8 billion, 1.7 percent), and real estate construction and development loans (up \$10.1 billion, 3.3 percent). C&I loan balances fell for the first time in 26 quarters, declining \$7.7 billion (0.4 percent). Investment securities portfolios rose by \$52 billion (1.5 percent) during the quarter despite a \$52.4 billion decline in the market values of securities available for sale. Assets in trading accounts declined by \$27.3 billion (4.6 percent). Banks reduced their balances at Federal Reserve banks by \$116.4 billion (9.6 percent).



Total Loan Balances Rise 5.3 Percent During 2016

For full-year 2016, total assets increased \$812.6 billion (5.1 percent). Total loans and leases increased

by \$466 billion (5.3 percent), as C&I loans rose by \$94.2 billion (5.1 percent), loans secured by nonfarm nonresidential real estate were up by \$92.6 billion (7.5 percent), and residential mortgages increased by \$91.1 billion (4.8 percent). All major loan categories grew in 2016. Banks increased their investment securities by \$205.9 billion (6.1 percent) in 2016, with mortgage-backed securities up \$133.3 billion (7.1 percent) and U.S. Treasury securities up \$97 billion (23 percent).



Domestic deposit growth was relatively strong in the fourth quarter. Total deposits rose by \$95.9 billion (0.7 percent), as deposits in domestic offices increased by \$186.5 billion (1.6 percent), while foreign office deposits declined by \$90.6 billion (6.8 percent). Balances in domestic interest-bearing accounts rose by \$178.7 billion (2.1 percent), and balances in noninterest-bearing accounts grew by \$7.7 billion (0.2 percent). Balances in consumer-oriented accounts increased by \$120.5 billion (3 percent), while all other domestic office deposits rose by \$62 billion (1 percent). Banks reduced their nondeposit liabilities by \$65.4 billion (3.1 percent), as securities sold under repurchase agreements declined by \$25.1 billion (10.9 percent), and trading account liabilities fell by \$13 billion (5.1 percent).

Problem Bank List" Continues to Improve

The number of FDIC-insured commercial banks and savings institutions reporting quarterly financial results fell to 5,913 in the fourth quarter, from 5,980 in the third quarter of 2016. There were 65 mergers of insured institutions during the quarter, while no insured banks failed. No new charters were added during the quarter. Banks reported 2,052,504 fulltime equivalent employees, an increase of 18,777 from fourth quarter 2015. The number of insured institutions on the FDIC's "Problem Bank List" declined from 132 to 123, as total assets of problem banks rose from \$24.9 billion to \$27.6 billion. For all of 2016, the number of insured institutions reporting declined by 269. Mergers absorbed 251 institutions, and 5 insured institutions failed. This is the smallest number of bank failures in a year since three FDIC-insured institutions failed in 2007. In 2015, there were eight failures.



SNAPSHOT STOCK PERFORMANCE SOUTHWEST REGIONAL BANKS MARCH 6, 2017

| Name | Last | Trade | 52 Wk Range | | PE | EPS | Mkt Cap | Div/Shr | Div Yld |
|----------------------------------|-------|---------|----------------|-------|--------|-------|------------|---------|------------|
| ACNB Corporation | 03/06 | 29.85 | 21.36 | 32.85 | 16.19 | 1.84 | 180.92M | 0.80 | 2.71 |
| BancFirst Corporation | 03/06 | 93.75 | 53.39 | 98.35 | 21.11 | 4.44 | 1.48B | 1.52 | 1.61 |
| Banco Bilbao VizcayaArgentaria | 03/06 | 7.00 | 5.14 | 7.67 | 13.33 | 0.52 | 46.37B | 0.34 | 5.07 |
| BOK Financial Corporation | 03/06 | 82.85 | 51.38 | 85.25 | 23.49 | 3.53 | 5.41B | 1.76 | 2.13 |
| Cass Information Sys, Inc. | 03/06 | 64.51 | 45.05 | 74.83 | 30.00 | 2.15 | 720.98M | 0.92 | 1.40 |
| CoBiz Incorporated | 03/06 | 17.16 | 10.63 | 17.99 | 20.43 | 0.84 | 705.07M | 0.20 | 1.16 |
| Commerce Bancshares, Inc. | 03/06 | 58.92 | 40.93 | 60.61 | 22.54 | 2.61 | 5.99B | 0.90 | 1.53 |
| Comerica, Inc. | 03/06 | 73.25 | 35.58 | 75 | 27.33 | 2.68 | 12.88B | 0.92 | 1.27 |
| Community Shores Bank Corp | 03/06 | 2.43 | N/A | N/A | 127.89 | 0.02 | 9.97M | N/A | N/A |
| Cullen Frost Bankers, Inc. | 03/06 | 93.95 | 51.43 | 96.62 | 19.97 | 4.70 | 5.99B | 2.16 | 2.31 |
| Enterprise Fin Serv Corp | 03/06 | 44.15 | 25.04 | 46.25 | 18.32 | 2.41 | 1.03B | 0.44 | 1.00 |
| East West Bancorp, Inc. | | | | | | | | | |
| First Community Corp S C | 03/06 | 20.35 | 13.01 | 23.55 | 20.77 | 0.98 | 136.52M | 0.36 | 1.75 |
| First Financial Bankshares, Inc. | 03/06 | 43.85 | 27.67 | 46.7 | 27.63 | 1.59 | 2.9B | 0.72 | 1.64 |
| Great Southern Bancorp, Inc. | 03/06 | 51.00 | 34.48 | 56.7 | 15.89 | 3.21 | 712.39M | 0.88 | 1.75 |
| Guaranty Fed Bancshares, Inc. | 03/06 | 14.9 | 14.9 | 21.95 | 15.76 | 1.27 | 87.02M | 0.40 | 1.95 |
| Heartland Financial USA, Inc. | 03/06 | 50.30 | 29.58 | 51.7 | 15.62 | 3.22 | 1.31B | 0.41 | 0.81 |
| International Bancshares Corp | 03/06 | 37.90 | 22.96 | 42.25 | 18.76 | 2.02 | 2.5B | 0.62 | 1.63 |
| Landmark Bancorp, Inc. | 03/06 | 30.70 | 24.05 | 32.4 | 13.29 | 2.31 | 118.75M | 0.80 | 2.64 |
| Liberty Bancorp, Inc. | 03/06 | 23.94 | N/A | N/A | 15.65 | 1.53 | 86.18M | 0.22 | 0.92 |
| Mackinac Financial Corp | 03/06 | 13.4624 | 0 | 14.07 | 18.96 | 0.71 | 84.32M | 0.40 | 2.99 |
| MidWest One Finl Group, Inc. | 03/06 | 36.98 | 25.46 | 39.2 | 20.78 | 1.78 | 423.13M | 0.66 | 1.82 |
| Prosperity Bancshares, Inc. | 03/06 | 74.85 | 42.78 | 77.87 | 19.00 | 3.94 | 5.2B | 1.36 | 1.81 |
| QCR Holdings, Inc. | 03/06 | 42.80 | 22.55 | 45 | 19.72 | 2.17 | 560.97M | 0.20 | 0.46 |
| Southside Bancshares, Inc. | | | | | | | | | |
| Southwest Bancorp, Inc. | 03/06 | 27.40 | 14.46 | 29.7 | 29.7 | 0.92 | 511.69M | 0.32 | 1.18 |
| Texas Capital Bancshares, Inc. | 03/06 | 90.30 | 34.54 | 93.35 | 29.04 | 3.11 | 4.47B | | |
| UMB Financial Corporation | 03/06 | 77.53 | 48.49 | 81.55 | 24.08 | 24.08 | 3.86B | 1.02 | 1.29 |
| West Bancorp Incorporated | 03/06 | 22.35 | 17.33 | 25.05 | 15.74 | 1.42 | 360.68M | 0.68 | 3.04 |
| Zions Bancorp | 03/06 | 45.33 | 23.02 | 48.33 | 22.78 | 1.99 | 9.21B | 0.32 | 0.71 |

Source: Yahoo Finance (March 2017)

NA – Indicates information was not available.

SNAPSHOT STOCK PERFORMANCE SOUTHWEST REGIONAL BANKS MARCH 2016

| Name | Last | Trade | 52 Wk Range | | PE | EPS | Mkt Cap | Div/Shr | Div Yld |
|----------------------------------|-------|-------|----------------|-------|-------|------|------------|---------|------------|
| ACNB Corporation | 03/14 | 21.87 | N/A | N/A | 12.39 | 1.76 | 131.98M | 0.80 | 3.62 |
| BancFirst Corporation | 03/14 | 58.74 | 51.14 | 69.24 | 14.09 | 4.17 | 916.19M | 1.44 | 2.50 |
| Banco Bilbao VizcayaArgentaria | 03/14 | 7.28 | 5.86 | 10.75 | 16.95 | 0.43 | 46B | 0.35 | 4.74 |
| BOK Financial Corporation | 03/14 | 56.93 | 44.13 | 75.18 | 13.48 | 4.21 | 3.74B | 1.72 | 3.00 |
| Cass Information Sys, Inc. | 03/14 | 49.87 | 43.78 | 59.09 | 24.92 | 2.00 | 565.26M | 0.88 | 1.76 |
| CoBiz Incorporated | 03/14 | 11.28 | 10.31 | 13.94 | 18.04 | 0.62 | 452.94M | 0.18 | 1.61 |
| Commerce Bancshares, Inc. | 03/14 | 44.52 | 37.44 | 47.11 | 17.42 | 2.56 | 4.33B | 0.90 | 2.00 |
| Comerica, Inc. | 03/14 | 37.83 | 30.48 | 53.45 | 13.33 | 2.84 | 6.662B | 0.84 | 2.23 |
| Community Shores Bank Corp | 03/14 | 2.20 | 1.85 | 3.00 | 0.88 | 2.50 | 3.23M | N/A | N/A |
| Cullen Frost Bankers, Inc. | 03/14 | 56.50 | 42.41 | 80.23 | 13.27 | 4.27 | 3.52B | 2.12 | 3.66 |
| Enterprise Fin Serv Corp | 03/14 | 28.05 | 19.68 | 30.73 | 14.84 | 1.89 | 561.48M | 0.36 | 1.27 |
| East West Bancorp, Inc. | 03/14 | 32.33 | 27.25 | 46.50 | 12.17 | 2.66 | 4.66B | 0.80 | 2.45 |
| First Community Corp S C | 03/14 | 13.26 | N/A | N/A | 14.57 | 0.91 | 88.72M | 0.32 | 2.37 |
| First Financial Bankshares, Inc. | 03/14 | 28.61 | 24.12 | 36.51 | 18.58 | 1.54 | 1.89B | 0.64 | 2.19 |
| Great Southern Bancorp, Inc. | 03/14 | 38.42 | 35.90 | 52.94 | 11.85 | 3.28 | 539.96M | 0.88 | 2.25 |
| Guaranty Fed Bancshares, Inc. | 03/14 | 15.00 | N/A | N/A | 11.54 | 1.30 | 65.24M | 0.32 | 2.13 |
| Heartland Financial USA, Inc. | 03/14 | 32.06 | 25.95 | 39.45 | 11.32 | 2.83 | 718.84M | 0.40 | 1.24 |
| International Bancshares Corp | 03/14 | 24.62 | 21.05 | 31.00 | 11.96 | 2.05 | 1.63B | 0.58 | 2.33 |
| Landmark Bancorp, Inc. | 03/14 | 24.63 | 23.19 | 28.68 | 8.46 | 2.91 | 86.97M | 0.80 | 3.25 |
| Liberty Bancorp, Inc. | 03/14 | 16.25 | N/A | N/A | 12.60 | 1.29 | 58.5M | 0.18 | 1.11 |
| Mackinac Financial Corp | 03/14 | 10.45 | N/A | N/A | 11.74 | 0.89 | 64.9897M | 0.40 | 3.83 |
| MidWest One Finl Group, Inc. | 03/14 | 26.75 | 24.71 | 34.04 | 11.07 | 2.42 | 305.53M | 0.64 | 2.38 |
| Prosperity Bancshares, Inc. | 03/14 | 44.63 | 33.57 | 59.97 | 10.93 | 4.09 | 3.16B | 1.20 | 2.65 |
| QCR Holdings, Inc. | 03/14 | 23.48 | 17.51 | 24.90 | 14.58 | 1.61 | 276.15M | 0.16 | 0.68 |
| Southside Bancshares, Inc. | 03/14 | 26.28 | 19.54 | 29.87 | 15.19 | 1.73 | 667.41M | 0.92 | 3.45 |
| Southwest Bancorp, Inc. | 03/14 | 15.80 | 14.00 | 19.00 | 17.50 | 0.90 | 317.09M | 0.32 | 1.98 |
| Texas Capital Bancshares, Inc. | 03/14 | 38.18 | 29.78 | 63.70 | 13.07 | 2.91 | 1.75B | 1.62 | 4.17 |
| UMB Financial Corporation | 03/14 | 52.05 | 39.55 | 58.84 | 21.26 | 2.44 | 2.56B | 0.98 | 1.87 |
| West Bancorp Incorporated | 03/14 | 18.45 | 16.04 | 21.09 | 13.67 | 1.35 | 296.39M | 0.64 | 3.46 |

Source: Yahoo Finance (March 2016)

NA – Indicates information was not available.

NATIONAL ECONOMIC TRENDS





Source: Federal Reserve Bank of St. Louis, <u>National Economic Trends</u>, February 2017.



Unemployment Rate

Source: Federal Reserve Bank of St. Louis, <u>National Economic Trends</u>, February 2017.



Treasury Yield Curve

Change in Nonfarm Payrolls



Source: Federal Reserve Bank of St. Louis, <u>National Economic Trends</u>, February 2017.

ECONOMIC REPORTS AND FORECASTS UNITED STATES

FEDERAL RESERVE BANK, DALLAS NATIONAL UPDATE

February 2017 - www.dallasfed.org

Economy

U.S. economic growth slowed in fourth quarter 2016 following a strong third quarter. While coming in below expectations, real gross domestic product (GDP) growth in the fourth quarter was on par with the average for 2016. Consumer spending moderated but still contributed significantly to output growth and is set to be one of the major drivers going forward.

Employment gains remain robust as the economy continues to make progress toward full employment. However, tepid wage growth signals limited inflation pressure in the near term from the labor market. Various inflation measures point to a steady increase toward the Federal Reserve's 2 percent target. Tightening labor markets and firming input costs and producer-paid prices are expected to put upward pressure on inflation measures from the supply side over the next few quarters.

Fourth Quarter Growth Slows; Prospects Improve

The first estimate of fourth-quarter GDP growth showed the U.S. economy growing at a below-forecast 1.9 percent—slower than the 3.5 percent increase in the third quarter. Growth averaged 2.7 percent in the second half of the year versus a meager 1.1 percent in the first. Output grew 1.9 percent year-over-year in the fourth quarter.

The main driver of growth in the fourth quarter was consumer spending, which contributed 1.7 percentage points, followed by inventories at 1 percentage point and fixed investment (residential and business) at 0.7. On the downside, following a strong third quarter, net exports contracted and stripped 1.7 percentage points off GDP growth. This plunge in net exports has been paralleled by the recent appreciation of the U.S. dollar. An appreciating dollar coupled with, as of now, ambiguous trade policy suggests that net exports could continue to constitute a downside risk to growth.





SOURCES: Institute for Supply Management (ISM); Bureau of Economic Analysis; National Bureau of Economic Research

Nevertheless, the latest releases of the Institute for Supply Management (ISM) indexes suggest stronger output growth in coming quarters. The ISM Manufacturing Index has been on the rise in recent months and in January came in at 56.0, its highest value since November 2015. The index saw its fifth consecutive increase in orders and production, signaling a rebound in U.S. manufacturing activity.

Additionally, the ISM Non-Manufacturing Index was stable in January, coming in at 56.5 after a 56.6 reading the previous month and remaining above the expansionary threshold of 50. Service industries in January continued the upward trend set in December. Non-manufacturing activity—based on the business activity and new orders components—eased in January after December saw the highest increase since October 2015. In addition, the prices-paid indexes from both the ISM manufacturing and non-manufacturing surveys have shown increases in recent months, pointing to inflationary pressures from the supply chain.

Job Growth Robust, but Wage Growth Weakens

The U.S. has been adding jobs at a brisk pace. Unemployment has steadily fallen as labor market slack diminishes and the nation approaches full employment. Payrolls increased by 227,000 in January 2017, well above the average monthly increase for 2016. Although the unemployment rate ticked up from 4.7 percent in December to 4.8 percent in January, the increase was partly due to people joining the labor force and looking for jobs as the participation rate increased from 62.7 percent to 62.9 percent.

Wage growth decelerated in January. Year-over-year average hourly earnings grew 2.5 percent, 0.3 percentage points slower than the December rate. Hourly earnings were up a modest 0.1 percent in January from the previous month, and December numbers were revised down from 0.4 percent to 0.2 percent. The 0.1 percent rise was surprising because the implementation of higher minimum wages in 19 states was expected to lift wage growth.



SOURCE: Bureau of Labor Statistics.



Price Inflation Measures Steadily Rise

On the inflation front, December data showed that personal consumption expenditures (PCE) inflation measures were firming up and closing the gap with the Federal Open Market Committee's 2 percent target. The 12-month headline, or all-items, PCE inflation rate rose to 1.6 percent in December from 1.4 percent in November, driven in part by an increase in the price index for gasoline and other motor fuel. The equivalent rate for PCE excluding food and energy (core PCE) was 1.7 percent, with the 12-month change in prices at 2.4 percent for core services and -0.4 percent for core goods. Food prices fell again in December, marking an eighth straight monthly decline.

The Dallas Fed's 12-month Trimmed Mean PCE inflation rate continued to rise and, at 1.85 percent, achieved its highest increase since July 2012.

Historically, gaps between the headline and trimmedmean rates tend to be closed by the headline rate converging toward the trimmed-mean rate. The gap, which had been a full percentage point at the end of 2015, has now narrowed to 0.2 percentage points. Measures of inflation should continue approaching the 2 percent target.



U.S. ECONOMY AT A GLANCE U.S. BUREAU OF LABOR STATISTICS

| Data Series | Sept 2016 | Oct 2016 | Nov 2016 | Dec 2016 | Jan 2017 | Feb 2017 |
|---|--------------|-----------------|-------------|----------------|-------------|-------------|
| Unemployment Rate (1) | 4.9 | 4.8 | 4.6 | 4.7 | 4.8 | 4.7 |
| Change in Payroll Employment ⁽²⁾ | 249 | 124 | 164 | 155 | (P) 238 | (P) 235 |
| Average Hourly Earnings (3) | 25.81 | 25.90 | 25.91 | 25.98 | (P) 26.03 | (P) 26.09 |
| Consumer Price Index (4) | 0.3 | 0.3 | 0.2 | 0.3 | 0.6 | N/A |
| Producer Price Index ⁽⁵⁾ | 0.3 | (P) -0.1 | (P) 0.5 | (P) 0.2 | (P) 0.2 | N/A |
| U.S. Import Price Index ⁽⁶⁾ | 0.1 | 0.5 | -0.1 | (R) 0.4 | (R) 0.6 | (R)0.2 |

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) Final Demand, 1-month percent change, seasonally adjusted.

(6) All imports, 1-month percent change, not seasonally adjusted.

(R) Revised.

(P) Preliminary.

| Data Series | 4 th Qtr 2015 | 1 st Qtr 2016 | 2 nd Qtr 2016 | 3 rd Qtr 2016 | 4 th Qtr 2016 |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Employment Cost Index (1) | 0.5 | 0.6 | 0.6 | 0.6 | 0.5 |
| Productivity ⁽²⁾ | (R)-2.0 | -0.6 | (R)-0.1 | (R)3.3 | 1.3 |

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 10, 2017

THE FEDERAL RESERVE BOARD THE BEIGE BOOK – JANUARY 13, 2017 EXCERPT

Reports from the twelve Federal Reserve Districts indicated that economic activity has expanded in nine of the Districts since the previous Beige Book report and contacts in Boston were described as upbeat. Meanwhile, New York and Kansas City described economic activity in their Districts as essentially flat. Atlanta and San Francisco characterized the growth in their Districts as moderate; Philadelphia, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, and Dallas described their Districts' growth as modest. Contacts' outlooks for future growth remained mostly positive in Boston, Philadelphia, Atlanta, Chicago, Kansas City, and Dallas.

Growth of consumer spending ranged from slight to moderate in most Districts, while auto sales were somewhat mixed, as activity has begun to drop off from previously high levels in some Districts. Reports of tourism activity were also mixed.

Among the Districts that reported, nonfinancial services generally grew at a modest or moderate pace, although reports from staffing services and transportation services were somewhat mixed.

With the exception of motor vehicles and aerospace, most manufacturing sectors displayed a weakening in activity. Also, fewer Districts reported increases in manufacturing activity than decreases during the latest reporting period. Several Districts reported the strong dollar's negative impact on demand, while some noted that low energy prices have had a smaller, mixed effect.

Residential and commercial real estate activity generally improved, according to District reports. Stronger activity tended to be cited for multifamily construction and commercial real estate. House prices and commercial rental rates also rose somewhat in most Districts.

Overall, most Districts reported that loan demand grew, credit quality improved, or loan delinquencies fell, with credit standards changing little.

Districts reported that agricultural sectors weakened overall, and farm incomes were stressed. Flooding and drought in various regions aggravated the effects of already low and falling prices for farm commodities, caused in part by weak global demand and the strong dollar. Unseasonably warm winter weather in much of the nation further depressed energy prices and slowed significant segments of that sector.

Labor markets continued to improve, with employment increases evident in reports from seven Districts. Four Districts mentioned signs of labor market tightening. However, Districts reported little overall change in wage and price pressures, with wage increases running from flat to moderate, while price increases tended to be minimal.

ECONOMIC REPORTS AND FORECASTS STATE OF TEXAS

FEDERAL RESERVE BANK, DALLAS REGIONAL ECONOMIC UPDATE

February 2017 - www.dallasfed.org

① Texas Economy

Texas economic growth has accelerated somewhat. Employment strengthened in the state and in most major metros in the second half of 2016. Improvement was broad based, with stronger manufacturing output and higher service sector revenue as well as solid real estate activity. The energy sector continued to show signs of improvement.

There is also evidence that this pickup in growth is set to continue. The Dallas Fed's Texas Business Outlook Surveys (TBOS) company outlook indexes, job-growth forecast and Texas Leading Index suggest expansion. However, risks to the positive outlook remain, including a strong dollar and the potential for another drop in oil prices.

Employment Approaching Long-Run Growth Rate

Texas payroll employment grew at a 1.7 percent annual rate in fourth quarter 2016, close to its historical average of 2.1 percent. While this is well below the 3.7 percent rate that prevailed in 2014, it



Second-Half Employment Growth Stronger in Texas' Major Metros Percent change' 6 5.0 2nd half of 2016 5 1st half of 2016 4.0 4 3.0 3 2.7 2.4 2.3 2.0 2 1.1 0.9 1 0.5 0 -1 -1.1 -2 San Antonio Dallas Fort Worth Houston El Paso Austin *Seasonally adjusted, annualized SOURCES: Bureau of Labor Stat Reserve Bank of Dallas. lized rate Workforce Commission; seasonal and other adjustments by the Federa

> represents the second consecutive quarter in which Texas' employment growth surpassed the nation's. In the more volatile monthly data, December employment declined slightly, although November and October figures were revised substantially upward.

> Strengthening employment growth in the second half of 2016 was led by San Antonio, whose annualized growth rate rose from 2.4 percent in the first half to 5.0 percent in the second, and Dallas, whose

growth rate rose from 2.3 percent to 4.0 percent. Houston also turned in a better-than-expected employment performance, rallying from -1.1percent to 0.9 percent growth amid improvements in the energy sector.

Manufacturing and Services Activity Continues to Grow

TBOS headline indexes indicate expansion in the past six weeks. The headline Texas Manufacturing Outlook Survey (TMOS) production index's three-month moving average edged down in December but ticked up in January, reaching its highest level since October 2014. The three-month moving average of the headline revenue measure from the Texas Service Sector Outlook Survey (TSSOS) rose in December and again in January. The Texas Retail Outlook Survey (TROS) headline sales measure's three-month moving average steadily increased in November, December and January. The latter two indexes are at their highest levels in two years.

Housing Market Solid Overall

Residential housing demand strengthened somewhat after a relatively soft summer. Existing-home sales show improvement across the state, with DFW especially strong. Months of inventory remain well below the six-month mark that traditionally connotes a balanced market, though Houston's rate stands at a fouryear high.

Energy Sector Strengthens, Albeit from Low Levels

Oil prices have risen slightly over the past six weeks to \$52.50 per barrel in January, their highest level in a year and half. While still at less than half their 2011–13 heights, energy prices have gradually recovered from their 2015-16 depths and sent the Texas rig count to a 14-month high. Well permits-a precursor to possible future drilling-jumped from 581 in November to 909 in December, reaching their highest level in two years. This is consistent with the Dallas Fed Energy Survey, whose indexes improved markedly in the fourth quarter. Notably, both the business activity and capital expenditures indexes were positive, suggesting that energy firms expect somewhat higher activity to continue over the medium term.

Looking across the region, the production cost advantage held by the Permian Basin continues to be felt, aided by new technologies that enable drillers to access Permian resources more efficiently. Eagle Ford production fell an estimated 2.7 percent in December and another 1.9 percent in January, continuing a trend that began as oil prices started their 2014–15 plunge. A thus-far-sustained oil price in the low \$50s has led to Permian production increases throughout the fourth quarter and into first



*Seasonally adjusted; three-month moving average. NOTES: Last data point is January 2017. Dotted lines represent averages for January 2007–January 2017. SOURCES: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys (TBOS): Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Sector Outlook Survey (TROS).





28 Economic Reports and Forecasts: State of Texas

quarter 2017, including an estimated 1.1 percent in December and 1.6 percent in January.

☆ Improved Outlook

The overall weight of the evidence suggests regional economic growth has shifted into a slightly higher gear and will likely be faster in 2017 than it was in 2016. The Texas Leading Index's first estimate ticked up in December, and the Dallas Fed's employment forecast stands at 1.9 percent, which would be the state's strongest growth since 2014.

Outlook measures from TBOS also point to greater economic strength in the months ahead, with all three series rebounding from their 2014–16 doldrums to near postrecession highs. The three-month moving average of the TMOS company outlook index is at its highest point since 2010, while the TSSOS and TROS company outlook indexes' three-month moving averages are at their highest levels in over two years. Notably, the six-month-ahead TMOS company outlook index rose in January to the highest level in 12 years.

The Texas economy grew at a somewhat faster pace at year-end amid increasing evidence of a stronger 2017. This acceleration has been broad based across both sectors and regions, with DFW soaring and Houston faring somewhat better than expected. Declining oil prices and a stronger dollar remain the most significant risks to the outlook.



TEXAS ECONOMIC STATISTICS U.S. BUREAU OF LABOR STATISTICS

| Data Series | July 2016 | Aug 2016 | Sept 2016 | Oct 2016 | Nov 2016 | Dec 2016 | | | |
|---|-------------------------|----------------------|----------------------|-------------------------|----------------------|-------------------------|--|--|--|
| Labor Force Data | | | | | | | | | |
| Civilian Labor Force ⁽¹⁾ | ⁽²⁾ 13,269.0 | (<u>2)</u> 13,290.3 | (<u>2)</u> 13,311.4 | ⁽²⁾ 13,330.7 | (<u>2)</u> 13,347.8 | (<u>2)</u> 13,360.8 | | | |
| Employment (1) | ⁽²⁾ 12,644.4 | (<u>2)</u> 12,662.8 | (<u>2)</u> 12,680.8 | (<u>2)</u> 12,697.3 | (2) 12,711.7 | (<u>2)</u> 12,723.3 | | | |
| Unemployment (1) | (2)624.6 | (<u>2)</u> 627.6 | (<u>2)</u> 630.6 | (<u>2)</u> 633.3 | (<u>2)</u> 636.0 | (<u>2)</u> 637.6 | | | |
| Unemployment Rate ⁽³⁾ | <u>(2)</u> 4.7 | <u>(2)</u> 4.7 | <u>(2)</u> 4.7 | <u>(2)</u> 4.8 | (<u>2)</u> 4.8 | <u>(2)</u> 4.8 | | | |
| Nonfarm Wage and Salary Employment | | | | | | | | | |
| Total Nonfarm ⁽⁴⁾ | 12,032.0 | 12,46.5 | 12,087.6 | 12,105.4 | 12,140.5 | ^(P) 12,141.3 | | | |
| 12-month% change | 1.5 | 1.5 | 1.8 | 1.8 | 1.9 | (<u>P)</u> 1.8 | | | |
| Mining and Logging ⁽⁴⁾ | 224.6 | 223.6 | 223.1 | 223.6 | 228.1 | (<u>P)</u> 228.8 | | | |
| 12-month% change | -15.0 | -14.1 | -13.3 | -12.6 | -10.9 | (P) -10.4 | | | |
| Construction (4) | 692.3 | 692.4 | 695.8 | 694.5 | 697.8 | (P) 693.7 | | | |
| 12-month% change | 1.4 | 1.1 | 1.4 | 0.6 | 0.2 | (<u>P)</u> -0.6 | | | |
| Manufacturing (4) | 844.5 | 843.5 | 843.7 | 846.3 | 842.6 | (<u>P)</u> 844.0 | | | |
| 12-month% change | -3.7 | -3.4 | -3.0 | -2.2 | -2.7 | (<u>P)</u> -1.7 | | | |
| Trade, Transportation, and Utilities (4) | 2,436.9 | 2,441.9 | 2,445.9 | 2,457.8 | 2,463.4 | (P) 2,455.2 | | | |
| 12-month% change | 1.6 | 1.6 | 1.6 | 2.1 | 2.3 | (<u>P)</u> 1.7 | | | |
| Information (4) | 201.8 | 202.7 | 201.7 | 201.4 | 201.7 | (P) 201.5 | | | |
| 12-month% change | 0.1 | 0.5 | 0.1 | 0.8 | 0.9 | (<u>P)</u> 0.9 | | | |
| Financial Activities (4) | 740.3 | 742.6 | 744.1 | 747.2 | 747.6 | (<u>P)</u> 746.7 | | | |
| 12-month% change | 2.7 | 2.8 | 2.9 | 2.9 | 2.7 | (<u>P)</u> 2.5 | | | |
| Professional & Business Services (4) | 1,621.9 | 1,622.8 | 1,628.5 | 1,631.9 | 1,636.8 | (P) 1,634.8 | | | |
| 12-month% change | 1.6 | 1.5 | 1.9 | 2.0 | 2.1 | (<u>P)</u> 1.7 | | | |
| Education & Health Services (4) | 1,654.9 | 1,655.8 | 1,658.1 | 1,662.5 | 1,672.4 | ^(P) 1,679.7 | | | |
| 12-month% change | 4.3 | 4.1 | 3.9 | 4.0 | 4.5 | (<u>P)</u> 4.7 | | | |
| Leisure & Hospitality (4) | 1,296.9 | 1,294.7 | 1,311.6 | 1,314.0 | 1,316.6 | (P) 1,320.5 | | | |
| 12-month% change | 4.2 | 3.7 | 4.4 | 3.5 | 3.6 | (<u>P)</u> 3.5 | | | |
| Other Services (4) | 422.3 | 426.9 | 428.8 | 429.1 | 431.6 | (<u>P)</u> 431.8 | | | |
| 12-month% change | 0.6 | 1.5 | 2.0 | 1.9 | 2.2 | (<u>P)</u> 2.2 | | | |
| Government (4) | 1,895.6 | 1,899.6 | 1,906.3 | 1,897.1 | 1,901.9 | (P) 1,904.6 | | | |
| 12-month% change | 2.1 | 2.2 | 2.4 | 1.9 | 2.1 | (<u>P)</u> 2.0 | | | |
| Footnotes (3) Number of jobs, in thousands, seasonally adjusted. (1) Number of persons, in thousands, seasonally adjusted. (P) Preliminary. (2) In percent, seasonally adjusted. (1) Preliminary. | | | | | | | | | |

Data extracted on: March 10, 2017

FEDERAL RESERVE BANK SENIOR LOAN OFFICER OPINION SURVEY

The January 2017 Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) addressed changes in the standards and terms on, and demand for, bank loans to businesses and households over the past three months. This summary discusses the responses from 70 domestic banks and 23 U.S. branches and agencies of foreign banks.

Regarding loans to businesses, the January survey results indicated that over the fourth quarter of 2016, on balance, banks left their standards on commercial and industrial (C&I) loans basically unchanged while tightening standards on commercial real estate (CRE) loans. Furthermore, banks reported that demand for C&I loans from large and middle-market firms, alongside small firms, was little changed, on balance, while a moderate net fraction of banks reported that inquiries for C&I lines of credit had increased. Regarding the demand for CRE loans, a modest net fraction of banks reported weaker demand for construction and land development loans and loans secured by multifamily residential properties, while demand for loans secured by nonfarm nonresidential properties reportedly remained basically unchanged on net.

Regarding loans to households, banks reported that standards on all categories of residential real estate (RRE) mortgage loans were little changed on balance. Banks also reported that demand for most types of home-purchase loans weakened over the fourth quarter on net. In addition, banks indicated mixed changes in standards and demand for consumer loans over the fourth quarter on balance.

The survey included two sets of special questions addressing banks' outlook for lending policies and loan performance over 2017, the latter as measured by their outlook for loan charge-offs and delinquencies. On balance, banks reported that they expect to ease standards on C&I loans and for the asset quality of such loans to improve somewhat this year. In contrast, banks expect to tighten standards on CRE loans, while they expect the asset quality of most major CRE loan categories to remain unchanged on net. Regarding loans to households, on balance, banks reported that they expect to ease standards and to see asset quality improve somewhat for most RRE home-purchase loan categories. Furthermore, banks responded that they expect to tighten standards on auto loans and to see asset quality of both auto and credit card loans deteriorate somewhat over 2017.

BUSINESS LENDING

C&I Loans

Domestic banks reportedly left C&I lending standards for large and middle-market firms and for small firms unchanged, on balance, in the fourth quarter of 2016. Changes to terms on C&I loans for large and middle-market firms were mixed. Specifically, a moderate net percentage of banks reportedly increased the maximum size of credit lines, while a modest net percentage of banks reportedly eased loan covenants, reduced the cost of credit lines, and narrowed spreads of loan rates over their cost of funds. The remaining terms surveyed remained basically unchanged on net. Banks also reported that changes in the terms of loans to small firms were mixed. Specifically, a modest net percentage of banks reported increasing the maximum size of credit lines and narrowing spreads of loan rates over their cost of funds, while the remaining terms surveyed remained basically unchanged on net.

Most domestic banks that reportedly tightened either standards or terms on C&I loans over the past three months cited as an important reason a less favorable or more uncertain economic outlook. Significant fractions of such respondents also cited deterioration in their current or expected capital positions; worsening of industry-specific problems; reduced tolerance for risk; decreased liquidity in the secondary market for these loans; deterioration in their current or expected liquidity positions; and increased concerns about the effects of legislative changes, supervisory actions, or changes in accounting standards.

Most domestic banks that reported having eased either their standards or terms on C&I loans over the past three months cited as an important reason more aggressive competition from other banks or nonbank lenders. Significant fractions of such banks also cited as important reasons increased tolerance for risk and a more favorable or less uncertain economic outlook.

Regarding the demand for C&I loans, domestic banks reported that demand from large and middle-market firms and from small firms was little changed, on balance, during the fourth quarter. Meanwhile, a moderate net fraction of banks reported that inquiries for lines of credit increased.

Most domestic banks that reported stronger C&I loan demand cited as important reasons increases in customers' investment in plant or equipment and increases in customers' merger or acquisition financing needs. Meanwhile, most banks that reported weaker C&I loan demand noted the following as important reasons: decreases in customers' investment in plant or equipment, decreases in customers' accounts receivable financing needs, increases in customers' internally generated funds, and decreases in customers' merger and acquisition financing needs.

Meanwhile, foreign banks reported that C&I lending standards and terms surveyed remained about unchanged, on balance, in the fourth quarter of 2016. A moderate net fraction of foreign banks reported experiencing weaker demand for C&I loans, while

RRE Lending

During the fourth quarter, banks, on net, reported leaving lending standards basically unchanged on all categories of RRE home-purchase loans. Meanwhile, banks reported experiencing weaker demand for most categories of RRE mortgage loans. In particular, a significant net fraction of banks reported weaker demand for subprime residential mortgages. Moderate net fractions of banks reported weaker demand for non-QM non-jumbo residential mortgages, whereas modest net fractions of banks reported weaker demand for government; QM nonjumbo, non-GSE-eligible; QM jumbo; and non-QM jumbo residential mortgages. Furthermore, banks, on balance, reported little change to credit standards and demand for revolving home equity lines of credit (HELOCs) over the fourth quarter.

Consumer Lending

A moderate net fraction of banks reported tightening lending standards on auto loans, whereas a modest net fraction of banks reported tightening lending standards on credit cards during the fourth quarter. Meanwhile, banks, on net, reported that their lending the number of inquiries from potential business borrowers regarding lines of credit reportedly remained basically unchanged.

CRE Lending

On net, domestic survey respondents generally indicated that their lending standards for CRE loans of all types tightened during the fourth quarter. In particular, a moderate net fraction of banks reported tightening standards for loans secured by nonfarm nonresidential properties, whereas significant net fractions of banks reported tightening standards for construction and land development loans and loans secured by multifamily residential properties.

Regarding the demand for CRE loans, modest net fractions of banks reported weaker demand for construction and land development loans and loans secured by multifamily residential properties, while demand for loans secured by nonfarm nonresidential properties remained basically unchanged on net.

Meanwhile, in the fourth quarter, a moderate net fraction of foreign banks tightened their credit standards for approving applications for CRE loans. Furthermore, foreign banks, on balance, reported that demand for CRE loans remained basically unchanged.

LENDING TO HOUSEHOLDS

standards on other consumer loans and their willingness to make consumer installment loans remained basically unchanged.

Banks reported that most terms on consumer loans remained basically unchanged, on net, over the fourth quarter. However, modest net fractions of banks reported widening the spread of loan rates over their cost of funds for credit card and other consumer loans, while a moderate net fraction reported widening that spread for auto loans. Furthermore, modest net fractions of banks reported requiring higher down payments for auto loans and decreasing the extent to which credit card and auto loans are granted to some customers that do not meet credit scoring thresholds for such loans.

Banks, on balance, reported weaker demand for most consumer loan categories during the fourth quarter. Specifically, a moderate net fraction of banks reported weaker demand for auto loans, whereas a modest net fraction of banks reported weaker demand for credit card loans. Banks reported that demand for other consumer loans remained basically unchanged on net.

LENDING PRACTICES AND CONDITIONS OVER 2017

A set of special questions asked banks about their expectations for lending practices and conditions over 2017, assuming that economic activity progresses in line with consensus forecasts. On balance, banks reported they expect to ease lending standards on C&I and most RRE home-purchase loan categories, while they reportedly expect to tighten lending standards on CRE and auto loans.

A modest net fraction of banks reported they expect to ease lending standards on C&I loans to large and middle-market firms, whereas a moderate net fraction of banks reported expecting to ease lending standards on C&I loans to small firms. Furthermore, a moderate net fraction of banks reported that they expect the average spread of loan rates over their cost of funds to increase for C&I loans to small firms, while banks, on net, reportedly expect that spread to remain basically unchanged for C&I loans to large and middle-market firms.

Significant net fractions of banks reported they expect to tighten lending standards on construction and land development loans and loans secured by multifamily residential properties over 2017. Meanwhile, a moderate net fraction of banks reported they expect to tighten lending standards on loans secured by nonfarm nonresidential properties over the coming year. Modest net fractions of banks reported they expect to ease standards on GSEeligible and nonconforming jumbo residential

BANKS' OUTLOOK FOR LOAN PERFORMANCE OVER 2017

A second set of special questions asked about banks' expectations for asset quality in 2017 as measured by their outlook for loan charge-offs and delinquencies, assuming that economic activity progresses in line with consensus forecasts. These questions have been repeated annually, with some changes in loan categories, since 2006.

Regarding asset quality of loans to businesses, moderate net fractions of banks reported that they expect asset quality of all C&I loan categories to large and middle-market firms to improve somewhat in 2017, while a modest net fraction of banks reported expecting asset quality of C&I loans to small firms to similarly improve over this period. Meanwhile, banks, on balance, reported little change to their outlook for delinquencies and charge-off rates for construction and land development loans and for loans secured by nonfarm nonresidential properties, whereas a modest net fraction of banks reported expecting the asset quality of loans secured by mortgage loans, while banks, on net, reported that they expect their lending standards on subprime residential loans to change little over 2017. Furthermore, a modest net fraction of banks reported they expect lending standards on auto loans to tighten over 2017, whereas banks, on net, reported expecting lending standards on credit card loans to remain basically unchanged over the coming year.

Foreign banks, on net, reported that they expect lending standards on C&I loans to large and middlemarket firms to remain basically unchanged over 2017, while a modest net fraction of foreign banks reported expecting to tighten their lending standards on C&I loans to small firms over this period. Furthermore, a moderate net fraction of foreign banks reported that they expect the average spread of loan rates over their cost of funds to increase for C&I loans to small firms, whereas a modest net fraction of foreign banks reported expecting that spread to increase for C&I loans to large and middle-market firms. Foreign banks, on balance, reported expecting to tighten their lending standards on CRE loans over 2017. Specifically, a significant net fraction of foreign banks reported they expect to tighten lending standards on construction and land development loans, while a moderate net faction of foreign banks reported they expect to tighten lending standards on loans secured by nonfarm nonresidential properties and multifamily residential properties.

multifamily residential properties to deteriorate somewhat over 2017. At the same time, on balance, foreign banks reported they expect little change delinquencies and charge-offs across all categories of C&I and CRE loans, with the exception of a modest net fraction of foreign banks that reportedly expect asset quality of construction and land development loans to deteriorate somewhat over 2017.

Regarding asset quality of loans to households, moderate net fractions of banks reported that they expect asset quality of nonconforming jumbo and subprime residential mortgage loans to improve somewhat over 2017. Meanwhile, banks, on net, reported little change in their outlook for delinquencies and charge-offs for GSE-eligible residential mortgage loans and HELOCs. In contrast, a significant net fraction of banks reported they expect asset quality of credit card and auto loans to deteriorate somewhat over 2017.

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