Condition of the Texas State Banking System

September 2013

Financial Data as of June 30, 2013

Texas Department of Banking
Texas Department of Savings and Mortgage Lending

Table of Contents

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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This publication is also located on the Texas Finance Commission website: www.fc.texas.gov

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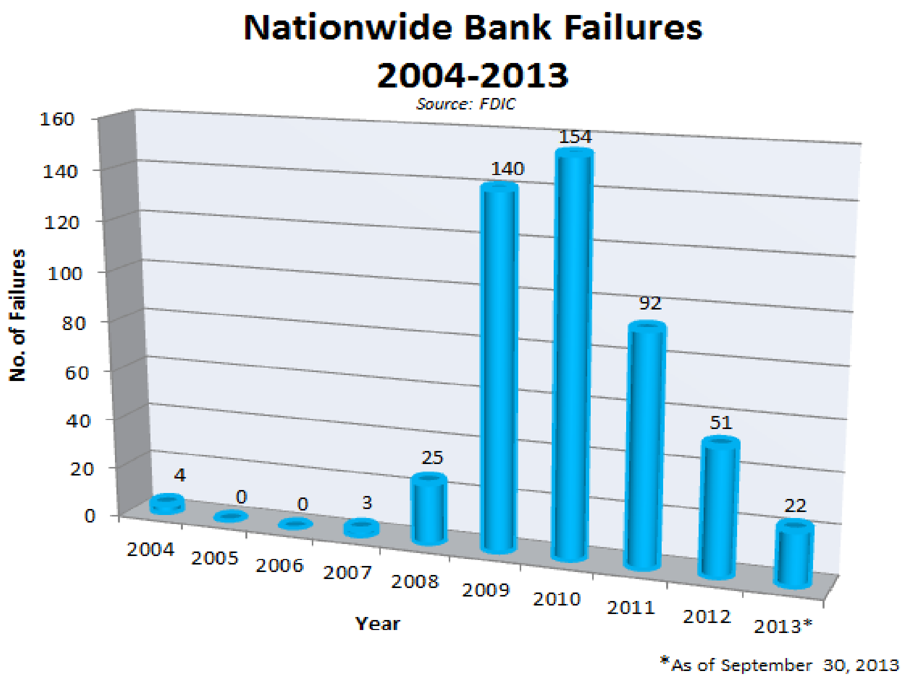
Banking System Overview

Banks are showing signs of strengthening despite facing numerous new regulatory mandates and standards. The progress seen in the first half of 2013 alludes to a brighter future for institutions that are managing their risk well. Texas institutions have focused on reducing overhead expenses, controlling and maintaining sound balance sheets and reducing credit loss provisions. With the help of the state's healthy economic environment, progress is anticipated to continue for the remainder of the year.



Another positive sign for the banking industry is the decreased number of bank failures. The 20th bank failure of the year took place on August 23, 2013. Compared to 2010, when regulators closed the 20th bank in mid-February, the rate of failures has slowed considerably in the post-recession period. Although there remain a number of troubled banks for regulators to monitor; the declining trend is likely to continue. As of September 30, 2013, there were 22 bank failures.

Needless to say, the healthy economic environment can still be challenged by changes in the monetary policy, additional regulatory burdens, and Mother Nature. There are indications the Federal Reserve has begun to work on long-term strategies for winding down its support for the nation's economy. For institutions holding longer term assets, changes in interest rates can expose them to adverse shifts in the level of rate-sensitive income and impair the underlying value of assets and/or liabilities. This coupled with new regulations yet to be released can be overwhelming. For Texas, there is the added factor of Mother Nature. The prolonged and historic drought has caused devastating and possibly irreparable damage to a wide range of industries in Texas as discussed later in this report.

The post-crisis banking environment has changed how financial institutions operate on a daily basis, leaving many to consider alternatives to continue profitability while adjusting to the evolving regulatory environment. As both the Texas Department of Banking and the Texas Department of Savings and Mortgage Lending have seen, merger and acquisition activity continues to be a topic of discussion for some and a final plan for others.

State-Chartered Banking Profile (Department of Banking)

The number of Texas state-chartered banks continued to trend downward in the first half of the year, with 288 banks as of June 30, 2013. The decline was due primarily to mergers, but was partially offset by charter conversions. There were 41 new bank branches and 13 new Loan Production Offices opened in the first six months of 2013. During this same period, total assets of Texas state-chartered banks declined moderately by $2.5 billion, while net loans and leases grew by $1.8 billion.

Interest in conversions to a Texas state-charter remains high. Merger activity reflects the current banking landscape, as some banks look for growth while others seek economies of scale in a rapidly changing regulatory environment.

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

Due to an increase in the volume of loans and a lesser provision for loan losses, increased profitability occurred in 66.7% of the thrift institutions during the first half of 2013. Ten percent of the thrift charters were unprofitable for the first half of 2013, compared to 7% at year-end 2012. Nonperforming loans and other real estate foreclosed decreased in state-chartered thrifts during the first half of 2013 by 45 basis points to 5.56% 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 $9.87 billion as of June 30, 2013. This is a slight decrease of 1.7% or $172.3 million from the end of 2012. The total number of state-chartered savings banks at mid-2013 remained the same as year-end 2012 at 30, with the merger out of one charter and the conversion of one federal thrift.

During 2013, there has been one charter conversion application from a federal thrift, four branch office applications, three merger/reorganization applications, and various other types of applications. Further conversion activity to a state thrift charter is anticipated.

Texas Economic Profile

Texas continued moderate economic expansion during the first six months of 2013. The expansion can be partly attributed to the strong energy sector that continues to fuel the state's economic growth. Employment growth continues to outpace the nation. The general economic outlook for the Lone Star State for the remainder of 2013 is positive.

Workforce

Job growth continues in the state as 11 out of the 12 major industries added jobs over the past year. The construction industry, which ranked first in job creation during the last year, added 36,400 jobs, equating to a 6.2% growth rate. Job gains also took place in the construction of buildings, civil engineering construction, and in specialty trade contractors.

For over six years, the unemployment rate in Texas has remained below the national level. At 6.5%, the state's unemployment rate has been unchanged throughout the summer months. While Texas employment fell to its low point in December 2009, it returned to its pre-recession peak in November 2011 and as of June 2013, the state had added an additional 502,700 jobs. The nation, however, has only recovered 75% of recession-hit jobs as of June 2013.

Tax Revenue

According to the Texas Comptroller of Public Accounts, there has been a 3.3% increase in total net revenue between July 2012 and July 2013. Sales tax collections alone have increased for 40 consecutive months (year-over-year). The sustained profits continue to come from strong business spending in the oil, natural gas and manufacturing sectors.

Housing

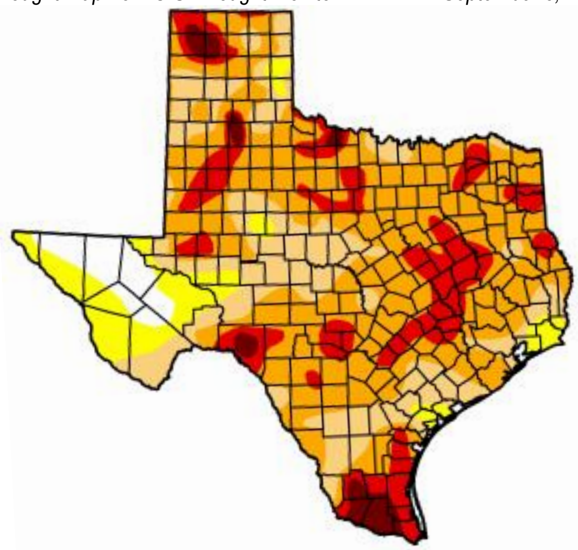
Home sales, prices, and new construction statewide for 2013 continue to improve as the economy improves and individuals are motivated to be home owners. Demand for housing rose and low inventories have made it a seller's market. In July 2013, there were 29,374 sales of existing single-family homes, a 26.1% increase from July 2012. The median sale price for an existing single-family home in Texas was $179,900 in July 2013.

Homes are selling quicker; however, buyers are seeing mortgage rates begin to rise. At the beginning of 2013, the average 30-year fixed rate mortgage in Texas was around 3.35%. As of mid-September rates were at 4.48%. This rise has caused mortgage refinancing to diminish. Additionally, tough mortgage qualification requirements and changes to federal mortgage regulations may result in some borrowers delaying their purchase of a home.

Foreclosures continue to remain low. As of July 2013, RealtyTrac listed Texas' foreclosure rate as 1 in every 2,008 homes. Nationally, Florida had the highest foreclosure rate of 1 in every 328 homes.

PERSISTENT DROUGHT

Drought Map from U.S. Drought Monitor *September 3, 2013*



Texas continues to combat a historic drought with approximately 97% of the Lone Star State in some drought status, ranging from abnormally dry to exceptional drought. The severity of this prolonged period without meaningful precipitation has caused damages to several industries, including agricultural and recreational tourism. Predictions indicate that the drought will persist through at least the end of the year.

The Southern Regional Operations Center of the National Weather Service issued a Drought Outlook for the Southern Plains in mid-August 2013. This report forecasts that the drought will persist or intensify across the majority of the state, with only the eastern portion of the state seeing some relief.

The water supply continues to drop throughout the state and many reservoirs are at their lowest levels in over twenty years. Reports in August indicated that in the Lower Rio Grande Valley, Lake Amistad and Falcon Lake were on a decline. Amistad was 40.5% full and Falcon was only 19.2% full. In Central Texas, the Highland Lakes System shows that as of September 9, 2013, Lake Travis was 31.4% full and Lake Buchanan was 34.8% full.

Texas Governor Rick Perry continues renewing his Emergency Disaster Proclamation certifying that exceptional drought conditions posed a threat of imminent disaster in specified counties in Texas. Since July 2011, the proclamation has been renewed every month.

In an effort to document and educate Texans on the effects of the drought and the importance of water conservation, the Texas Department of Agriculture, Texas Water Development Board and Texas Parks and Wildlife Department began a statewide photo campaign. Individuals can share the effects of a lack of rainfall by uploading photographs via the agencies social media sites - Flickr or Instagram.

SUPERVISORY CONCERNS

National and state events and regulatory mandates are a concern for both state regulators and state-chartered institutions. The ability of both to adapt quickly and communicate about current issues is vital to maintaining a safe and sound financial services industry. The following are issues being monitored by both Departments and their regulated entities.

On the federal home front, significant work remains to implement numerous rules cited in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank or the Act). Reports this summer indicated that regulators had only completed 40% of the rules required by the Act. Communication and coordination among the federal regulators slowed the process, causing increased uncertainty of the impact of the new rules on the banking industry. The Texas Department of Banking and the Texas Department of Savings and Mortgage Lending) have dedicated personnel that are involved in monitoring new rules as they are proposed and released. The latest rules drawing attention are those related to Regulation Z, in particular, the Ability-to-Repay and Qualified Mortgage Standards. The strict guidelines have caused some entities to leave or consider withdrawing from the mortgage lending business.

Another regulatory change that has been of special interest to many is the new capital requirements. In the summer of 2013, the Federal Reserve, Office of Comptroller of the Currency and the FDIC approved final rules to implement a new regulatory capital framework. The requirements incorporate the most recent regulatory capital reforms developed by the Basel Committee on Banking Supervision (Basel III) and certain changes required by the Dodd-Frank.

Other Items Reviewed at Examinations

- Bank Secrecy Act/Anti-Money Laundering
- Risk Management Practices
- Capital Levels
- Composition of Classified Assets
- Fraud
- Internal Watch Lists
- Overdraft Programs
- Private-label Collateralized Mortgage Obligations
- Tax Liens
- Reputational Risk
    - Fair Lending
    - Deceptive Trade Practices
    - Foreclosure

The new framework imposes on all banking organizations a new minimum common equity tier 1 capital requirement, a capital conservation buffer requirement, an increase in the minimum tier 1 capital requirement, changes to the capital elements that constitute tier 1 and tier 2 capital, and changes to the methodologies for determining risk-weighted assets. The federal agencies also approved amendments to the Prompt Corrective Action ("PCA") rules to incorporate the changes to the regulatory capital framework.

Cybercrimes are also requiring significant attention from bankers and regulators as they continue to plague the industry. Staying ahead of these particular IT issues is a challenging task. The Texas Department of Banking, in partnership with the U.S. Secret Service and the Texas Bankers Electronic Crimes Task Force, continues to provide educational opportunities and guidance to bankers nationwide. On September 16, 2013, the Texas Banking Commissioner and United States Secret Service Dallas Special Agent-in-Charge met in Dallas with industry members to launch the initiative for the Executive Leadership of Cybersecurity (ELOC, pronounced E-Lock). The goal of the initiative is to amplify the need of the Texas banking industry to address the financial and reputation risks that come with our society's expanding use of technology.

Finally, it is recognized that state-chartered banks and thrifts are improving their balance sheets as the economy improves. However, problem institutions still exist in the system. The Texas Department of Banking and the Texas Department of Savings and Mortgage Lending continue to closely monitor the condition and progression of these problem entities, particularly in asset quality, past due loans and foreclosed real estate. As mentioned previously, banks are continuing to evaluate their balance sheets to find other ways to generate revenue in this environment. The monitoring of bank activity in new markets or products is an interest to both Departments to ensure that institutions are managing the risks associated with these new endeavors.

Departmental Supervisory Measures Being Taken

A significant part of each agency's strategic focus is directed at ensuring that developing risks are monitored and that mitigation efforts are put into place as early as possible in order to minimize the impact of an adverse event. Due to the current interest rate environment, net interest margins are adversely impacted as higher yielding investment securities and loans are paid off and replaced with lower yielding instruments. This factor, combined with competitive pressures to maintain loan volume, place additional stress on bank management teams to maintain earnings and shareholder return.

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

- ❖ Assessing interest rate risk, as banks adjust to improve net interest margins by extending the duration of the investment portfolio;
- ❖ Monitoring reductions in internal and external audit, loan review and training programs made by banks in an effort to modify operations 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 on-site examinations of problem institutions;
- ❖ Communicating and coordinating joint enforcement actions and other supervisory activities with other federal regulators;
- ❖ Placing monthly calls to state banks to obtain industry input on prevailing economic conditions;
- ❖ 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; 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:

- ❖ Conducting regular conference calls and close coordination with other state and federal regulators;
- ❖ Corresponding regularly with state savings banks regarding institution-specific issues and industry issues;
- ❖ Utilizing 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);
- ❖ Performing joint reviews by the FDIC and the Department of a savings bank's contingency / disaster recovery plans;
- ❖ Conducting regular assessments of each institution's activities, strengths and weaknesses, and revising the Department's plan of examination and monitoring for the institution. Reviewing concentrations in commercial real estate and monitoring compliance with Commercial Real Estate Lending Joint Guidance, issued December 12, 2006;
- ❖ Continuing internal monitoring of local, state, national and world political and economic events impacting the industry; and,
- ❖ Monitoring of any state savings bank's participation in the Small Business Lending Fund as part of the Small Business Jobs Act of 2010.

FDIC Insured State-Chartered Banks

The financial condition of state-chartered banks continues to show improved performance. A closer look at loan demand shows the increase in net loans and leases has been occurring since June 2011 when net loans were $96.4 billion. As of June 30, 2013, this figure sits at $115.3 billion or a 19.6% increase. The most notable increase has been in commercial and industrial loans, commercial real estate loans and 1-4 family residential loans. FDIC financial data shows that the volume of these loans has increased by 20% during the last two years.

There were 288 Texas state-chartered banks operating in Texas as of June 30, 2013. Total assets increased slightly over the last year and remain stable to $203.3 billion. Texas state-chartered banks reported net income of approximately $1.1 billion through the first six months of 2013, which is an improvement of $18 million over performance from the prior year. Even though $1.5 billion in cash dividends were paid out during the last 12 months, core capital ratios only decreased slightly from 9.8% to 9.7%.

While asset yields have fallen slightly, a declining cost of funds assisted in producing a 1.06% return on assets compared to 1.09% for the same period last year. More than half of our state-chartered banks (57.3%) reported year-over-year improvements in their quarterly net income while 5.9% reported net losses for the year, compared to 7.3% a year earlier. A net interest margin of 3.25% dropped 19 basis points (BP) during the last 12 months, with profitability primarily enhanced by reduced levels of loan loss provisions compared to 2012. The banking industry will likely have to grapple with the low interest rate environment and increasing compliance cost for the next several years.

Asset quality continues to show improvement as the ratio of noncurrent assets plus other real estate to total assets declined by 45 BP to 1.07% from the period 12 months earlier.

State-chartered banks appear to have increased reserves to absorb potential losses as their allowance for loan and leases loss allowance to loan account remains at 1.35% and earnings coverage to net loan charge-offs increased to 12.2 from 7.4 a year earlier. In addition, net charge-offs decreased slightly during the last 12 months to 0.21% from 0.35% a year ago. This compares favorably to the nationwide average of 0.79%.

FDIC Insured State-Chartered Thrifts

For the first half of 2013, state thrifts had $98.4 million in net income. Return on assets for thrifts increased from mid-2012 at 1.6% to 1.9% in 2013. The level of unprofitable savings banks has decreased from 13.3% to 10.0%. Most recently chartered, reorganized or converted institutions have reached profitability. Provisions for loan and lease losses to average assets have decreased 6 BP. Non-interest income to earning assets has increased by 25 BP, while non-interest expense to earning assets has decreased by 17 BP.

State thrifts experienced a 29 BP increase in their core capital levels during the twelve months from mid-2012 from 16.5% to 16.8%. The increase in thrift capital ratio is due to more net income as noted above. Texas state thrifts also continue to exceed the national capital ratios for all savings institutions, which was 11.06% for mid-year 2013, and 10.74% for mid-year 2012.

Net interest margins for state thrifts posted an 11 BP decrease from 5.0% to 4.9% mid-year to mid-year. Year-to-date provisions to the allowance for loan losses decreased for thrifts $5.3 million compared to mid-year 2012. The Texas thrift allowances for loan and lease losses to non-current loans and leases, presently at 27.0%, is below the ratio of 52.5% 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 thrifts stronger than the national average.

Thrifts' noncurrent assets plus other real estate owned to total assets decreased to a total of 5.66% at June 30, 2013 from 6.95% in June of 2012. Thrifts also experienced a decrease in noncurrent loans as a percentage of total loans from 8.21% to 5.95%. Loss reserves have decreased and now represent 1.6% of loans. This is a 46 BP decrease for savings institutions since this time last year.

Number of Institutions and Total Assets

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

	6-30-2013 No. of Institutions	6-30-2013 Assets	6-30-2012 No. of Institutions	6-30-2012 Assets	Difference No. of Institutions	Difference Assets
Texas State-Chartered Banks	288	$203.3	300	$196.3	-12	+$7.0
Texas State-Chartered Thrifts**	30	$9.9	30	$9.5	0	+0.4
	318	$213.2	330	$205.8	-12	+$7.4
Other states' state-chartered:						
Banks operating in Texas*	29	$40.2	26	$36.1	+3	+$4.1
Thrifts operating in Texas*	0	0	0	0	0	0
	29	$40.2	26	$36.1	+3	+$4.1
Total State-Chartered Activity	347	$253.4	356	$241.9	-9	+$11.5
National Banks Chartered in Texas	224	$153.0	244	$142.1	-20	+$10.9
Federal Thrifts Chartered in Texas	10	$67.8	13	$61.7	-3	+$6.1
	234	$220.8	257	$203.8	-23	+$17.0
Other states' federally-chartered:						
Banks operating in Texas*	22	$263.7	22	$245.9	0	+$17.8
Thrifts operating in Texas*	9	$0.9	10	$0.9	-1	0
	31	$264.6	32	$246.8	-1	+$17.8
Total Federally-Chartered Activity	265	$485.4	289	$450.6	-24	+$34.8
Total Banking/Thrift Activity	612	$738.8	645	$692.5	-33	+$46.3

**Indicates estimates based on available FDIC information.*
***Information derived from the FDIC website. Texas state-chartered thrift data was computed internally by the Texas Department of Savings and Mortgage Lending from data drawn from the FDIC website plus one additional state savings bank.*

Ratio Analysis

As of June 30, 2013
FDIC financial data is reflective of FDIC insured institutions only.

	State-Chartered Banks 288	Texas National Banks 224	All Texas Banks 512	State-Chartered Thrifts** 30	Texas Federal Thrifts 10	All Texas Thrifts 40
% of Unprofitable Institutions	5.90%	5.36%	5.66%	10.00%	10.00%	10.00%
% of Institutions with Earnings Gains	57.29%	48.21%	53.32%	66.67%	70.00%	67.50%
Yield on Earning Assets	3.57%	3.52%	3.55%	5.56%	4.30%	4.46%
Net Interest Margin	3.25%	3.23%	3.24%	4.90%	3.80%	3.94%
Return on Assets	1.06%	1.24%	1.14%	1.98%	1.48%	1.55%
Return on Equity	9.58%	12.03%	10.59%	11.68%	16.86%	15.70%
Net Charge-offs to Loans	0.21%	0.24%	0.23%	0.27%	1.31%	1.16%
Earnings Coverage of Net Loan C/Os	12.22	11.25	11.75	12.64	3.50	3.80
Loss Allowance to Loans	1.35%	1.68%	1.49%	1.61%	1.89%	1.85%
Loss Allowance to Noncurrent Loans	98.26%	91.49%	94.74%	27.01%	141.13%	92.76%
Noncurrent Assets+OREO to Assets	1.07%	1.45%	1.23%	5.56%	0.88%	1.47%
Net Loans and Leases to Core Deps	75.02%	76.94%	75.86%	107.33%	80.59%	83.55%
Equity Capital to Assets	11.10%	10.38%	10.80%	17.13%	8.97%	10.01%
Core Capital (Leverage) Ratio	9.72%	9.29%	9.53%	16.80%	8.93%	9.93%

Data for other state-chartered institutions doing business in Texas is not available and therefore excluded.
*** Information derived from the FDIC website. Texas state-chartered thrift data was computed internally by the Texas Department of Savings and Mortgage Lending from data drawn from the FDIC website plus one additional state savings bank.*

Comparison Report

Select Balance Sheet and Income/Expense Information
FDIC financial data is reflective of FDIC insured institutions only.
June 30, 2013

	State Banks*		State Thrifts**	
	End of Period	% of Total Assets	End of Period	% of Total Assets
Number of Institutions	288		30	
Number of Employees (full-time equivalent)	40,612		1,993	
(In millions)				
Total Assets	$203,295		$9,873	
Net Loans and Leases	$115,346	56.74%	$6,990	70.80%
Loan Loss Allowance	$1,575	0.77%	$114	1.15%
Other Real Estate Owned	$563	0.28%	$126	1.28%
Goodwill and Other Intangibles	$3,767	1.85%	$35	0.35%
Total Deposits	$167,411	82.35%	$7,353	74.48%
Federal Funds Purchased and Repurchase Agreements	$3,338	1.64%	$0	0.00
Other Borrowed Funds	$5,796	2.85%	$691	7.00%
Equity Capital	$22,575	11.10%	$1,693	17.15%
Memoranda:				
Noncurrent Loans and Leases	$1,603	0.79%	$423	4.28%
Earning Assets	$184,835	90.92%	$9,103	92.20%
Long-term Assets (5+ years)	$59,057	29.05%	$3,382	34.26%
	Year-to Date	% of Avg. Assets	Year-to Date	% of Avg. Assets
Total Interest Income	$3,315	3.25%	$254	2.56%
Total Interest Expense	$302	0.30%	$30	0.30%
Net Interest Income	$3,013	2.95%	$224	2.26%
Provision for Loan and Lease Losses	$120	0.12%	$8	0.08%
Total Noninterest Income	$1,458	1.43%	$57	0.57%
Total Noninterest Expense	$2,972	2.91%	$164	1.65%
Securities Gains	$42	0.04%	-$346	-3.49%
Net Income	$1,083	1.06%	$99	2.00%
Memoranda:				
Net Loan Charge-offs	$123	0.12%	$9	0.09%
Cash Dividends	$605	0.59%	$83	0.87%

**Excludes branches of state-chartered banks of other states doing business in Texas. As of June 30, 2013, there are an estimated twenty nine out-of-state state-chartered institutions with $40.2 billion in assets.*

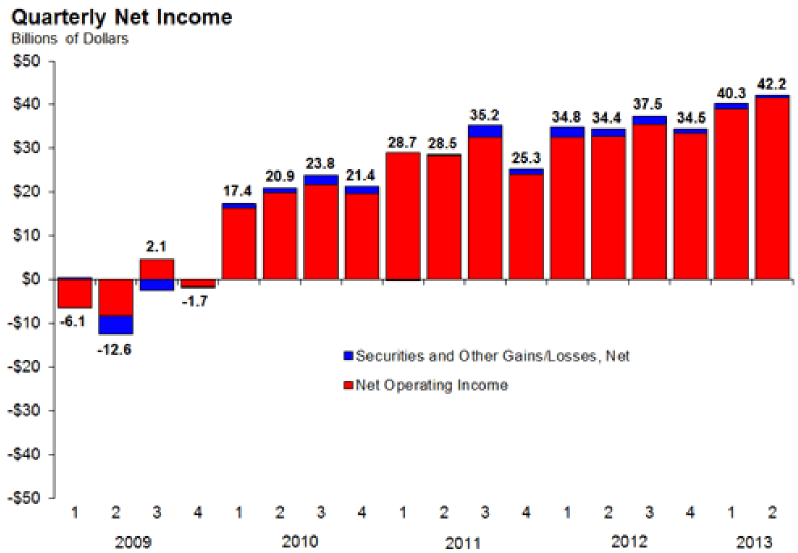
No branches of state-chartered thrifts of other states conducted business in Texas as of June 30, 2013.

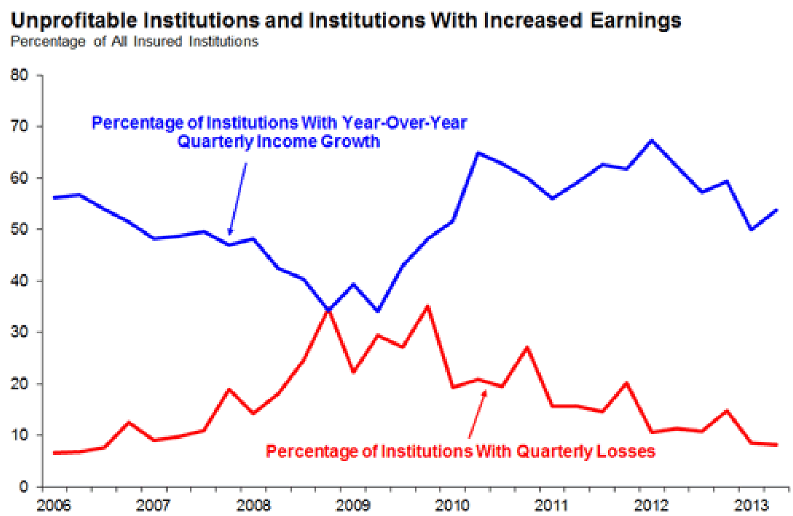
***Texas State-chartered thrift data was computed internally by the Texas Department of Savings and Mortgage Lending from data drawn from the FDIC website plus one additional state savings bank.*

PERFORMANCE SUMMARY
UNITED STATES BANKING SYSTEM

Federal Deposit Insurance Corporation Quarterly Banking Profile
Second Quarter 2013 - www.fdic.gov

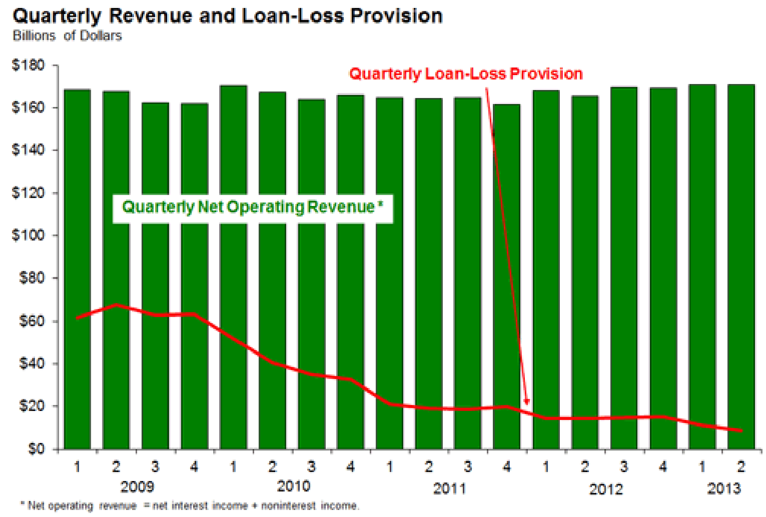
⇧ **Earning Rise for Sixteenth Consecutive Quarter** – Rising noninterest income and falling loan loss expenses continued to lift bank earnings in the second quarter. FDIC-insured institutions reported net income of $42.2 billion, an increase of $7.8 billion (22.6%) compared with second quarter 2012 when industry earnings were reduced by losses on credit derivatives. This is the 16th consecutive quarter that earnings have registered a year-over-year increase. For a second consecutive quarter, industry earnings reached a new nominal high. However, the quarterly return on assets (ROA) of 1.17%, while up from 0.99% a year ago, remained below the 1.27% average for the industry from 2000 through 2006. More than half of all banks—53.8%—reported higher quarterly net income than a year ago, and only 8.2% reported negative net income. This is the lowest proportion of unprofitable institutions since third quarter 2006.



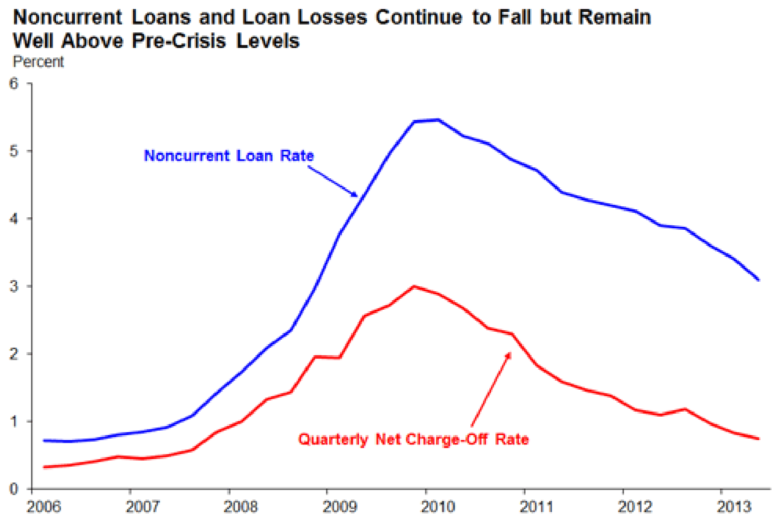


⇧ **Noninterest Income Growth Outweighs Drop in Net Interest Income** – Net operating revenue—the sum of net interest income and total noninterest income—totaled $170.6 billion, an increase of $4.9 billion (3%) from a year ago. Noninterest income was $6.7 billion (11.1%) higher than in second quarter 2012. Income from trading rose by $5.1 billion (238.3%) compared with a year ago, when the industry reported a net loss on credit derivatives. Net gains on sales of loans and other assets were $1.9 billion (63.7%) above the level of a year earlier. For the third quarter in a row and fourth time in the last five quarters, net interest income posted a year-over-year decline, falling by $1.8 billion (1.7%) as interest income from loans and other investments declined faster than interest expense on deposits and other liabilities. Banks set aside $8.6 billion in provisions for loan losses during the quarter, a $5.6 billion (39.6%) reduction from a year earlier. This is the lowest quarterly loss provision for the industry since third quarter 2006, when quarterly provisions totaled $7.6 billion. Total noninterest expense was $1.4 billion (1.4%) lower than in second quarter 2012, when industry expenses were elevated by restructuring charges.

⇧ **Loan Losses Fall to Lowest Level** – Net loan and lease charge-offs totaled $14.2 billion, a $6.3 billion (30.7%) year-over-year decline. This is the smallest quarterly total since third quarter 2007. While charge-offs were down across all major loan categories, the overall decline was led by residential real estate loans. Charge-offs of home equity lines of credit were $1.1 billion (41.7%) below the level of a year ago, while charge-offs of other loans secured by 1-to-4 family residential properties were $1.4 billion (32.1%) lower. Smaller reductions occurred in charge-offs of real estate construction and land loans (down $772 million, or 67%), real estate loans secured by nonfarm nonresidential properties (down $775 million, or 52.5%), commercial and industrial loans (down $760 million, or 37.3%), and credit cards (down $748 million, or 11%).



⇧ **Noncurrent Loans Post Thirteenth Consecutive Quarterly Decline** - Noncurrent loan levels also showed improvement across all major loan categories. The amount of loans and leases that were 90 days or more past due or in nonaccrual status fell by $21.7 billion (8.3%) during the second quarter, marking the 13th consecutive quarter that noncurrent balances have declined. Noncurrent first lien mortgage loans declined by $13.3 billion (8.2%), while noncurrent real estate construction and land loans dropped by $2.8 billion (19.1%) and noncurrent real estate loans secured by nonfarm nonresidential properties fell by $2.5 billion (8.8%). During the quarter, the percentage of total loans and leases that were noncurrent declined from 3.41% to 3.09%, the lowest level since fourth quarter 2008.



⇧ **Reserve Coverage of Troubled Loans Improves** – For the 13th quarter in a row, the banking industry's reserves for loan losses posted a quarterly decline. Between the end of March and the end of June, total reserves fell by $6.4 billion (4.1%), as net charge-offs removed $14.2 billion from reserves and loan-loss provisions added only $8.6 billion to reserves. As has been typically the case, most of the reduction in reserves occurred at large institutions, but quarterly charge-offs exceeded loss provisions at almost 40% of all banks in the quarter. Even with the reserve reductions, the industry's coverage ratio of reserves to noncurrent loans rose from 59.6% to 62.3% during the quarter because of the sizable decline in noncurrent loan balances.

⇩ **Lower Securities Values Lead to a Decline in Equity Capital** – Equity capital of insured institutions declined by $14 billion (0.9%), largely due to declines in the market values of securities caused by rising medium- and long-term interest rates. Higher interest rates were primarily responsible for a $51.1 billion drop in unrealized gains on banks' available-for-sale investment securities. Under

Generally Accepted Accounting Principles (GAAP), changes in unrealized gains are reflected in equity capital. However, they are not reflected in regulatory capital. The industry's Tier 1 leverage capital increased by $17.1 billion (1.3%) during the quarter, while total risk-based capital rose by $15 billion (1%). Retained earnings totaled $21.3 billion in the second quarter, up from $14.9 billion in second quarter 2012. At the end of the quarter, almost 98% of all insured institutions, representing 99.7% of total industry assets, met or exceeded the requirements for the highest regulatory capital category, as defined for Prompt Corrective Action purposes.

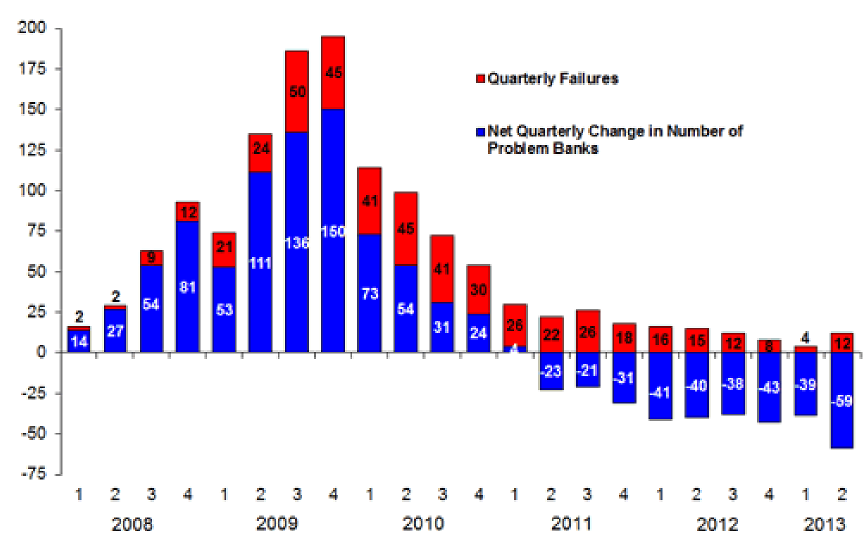
⇩ **Total Assets Fall by $14.8 Billion** – For a second consecutive quarter, total industry assets posted a modest decline, falling by $14.8 billion (0.1%). Assets in trading accounts declined by $65.7 billion (9.1%), as balances of securities held for trading declined by $44.4 billion (14.6%). Trading securities are reported at market value, so it is likely that some of this decline was caused by the rise in medium- and long-term interest rates during the quarter. Balances of securities held in investment accounts declined by $53.2 billion (1.8%), due primarily to the $51.1 billion drop in unrealized gains noted above.

⇧ **Loan Balances Rise by $73.8 Billion** – Total loans and leases increased by $73.8 billion (1%), as commercial and industrial loan balances grew by $30.4 billion (2%), real estate loans secured by nonfarm nonresidential real estate properties rose by $11.1 billion (1%), auto loans increased by $10 billion (3.1%), and credit card balances grew by $10.1 billion (1.5%). Balances of 1-to-4 family residential real estate loans declined by $31.9 billion (1.3%), with home equity lines falling by $9.8 billion (1.8%), and other 1-to-4 family residential real estate loans declining by $22.1 billion (1.2%).

⇧ **FHLB Borrowings Increase** – Total liabilities of insured institutions registered a small $457 million decline in the second quarter. Deposit balances fell by $38.7 billion (0.4%), while Federal Home Loan Bank (FHLB) advances increased by $38.2 billion (11.6%). Most of the increase in FHLB borrowings—$34.6 billion—consisted of borrowings maturing in one year or less. Interest-bearing deposits in domestic offices declined by $44.4 billion (0.6%), while balances in noninterest-bearing accounts rose by $13.4 billion (0.5%). Foreign office deposits declined by $7.7 billion (0.6%).

⇧ **The Number of "Problem" Banks Falls Below 600** – The number of FDIC-insured institutions nationwide filing quarterly Call Reports declined to 6,940 at mid-year, from 7,019 at the end of the first quarter. During the second quarter, 62 insured institutions were merged into other institutions and 12 failed. For the eighth consecutive quarter, no new reporting institutions were added. The last de novo charter occurred in fourth quarter 2010. The number of institutions on the FDIC's "Problem List" declined for a ninth consecutive quarter, from 612 to 553. Total assets of "problem" banks fell from $213.3 billion to $192.5 billion. Insured institutions reported 2,097,292 full-time equivalent employees in the second quarter, down 5,544 from the previous quarter, and 10,900 fewer than in second quarter 2012.

Quarterly Changes in the Number of Troubled Institutions



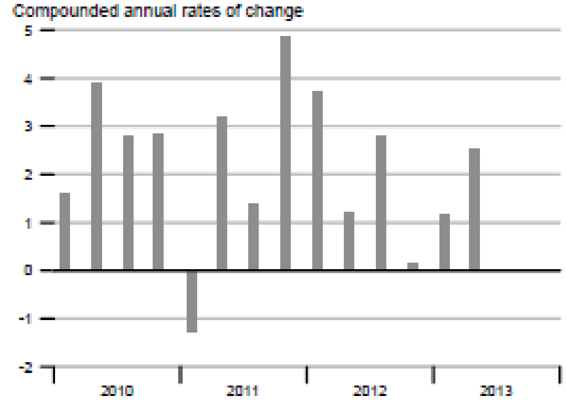
Snapshot Stock Performance
Southwest Regional Banks

Name	Last Trade		52 Wk Range		PE	EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	09/11	**16.70**	14.8	17.74	10.75	1.55	99.88M	0.76	4.50%
BancFirst Corporation	09/11	**52.35**	39.13	53.73	15.53	3.37	800.22M	1.24	2.40%
Banco Bilbao Vizcaya Argentaria	09/11	**10.55**	7.55	10.57	14.51	0.73	60.50B	0.41	4.10%
BOK Financial Corporation	09/11	**64.55**	50.89	69.36	13.11	4.92	4.44B	1.52	2.30%
Cass Information Sys, Inc.	09/11	**52.70**	35.05	62.57	25.96	2.03	606.16M	0.72	1.40%
CoBiz Incorporated	09/11	**9.30**	6.35	11.00	14.93	0.62	367.10M	0.12	1.30%
Commerce Bancshares, Inc.	09/11	**43.43**	34.69	47.53	15.35	2.83	3.94B	0.90	2.10%
Comerica, Inc.	09/11	**40.79**	27.72	43.49	14.90	2.74	7.54B	0.68	1.60%
Community Shores Bank Corp	09/11	**3.00**	0.15	4.00	0.82	3.66	4.40M	N/A	N/A
Cullen Frost Bankers, Inc.	09/11	**69.93**	53.37	76.36	18.50	3.78	4.22B	2.00	2.90%
Enterprise Fin Serv Corp	09/11	**16.64**	12.17	18.99	9.56	1.74	303.46M	0.21	1.30%
First Community Corp S C	09/11	**10.70**	8.00	11.16	13.37	0.80	56.63M	0.20	2.30%
First Financial Bankshares, Inc.	09/11	**57.34**	34.66	63.99	23.79	2.41	1.82B	1.04	1.80%
Great Southern Bancorp, Inc.	09/11	**26.99**	22.60	31.81	10.37	2.60	368.36M	0.72	2.70%
Guaranty Fed Bancshares, Inc.	09/11	**11.89**	6.41	14.50	13.44	0.88	32.48M	0.00	0.00%
Heartland Financial USA, Inc.	09/11	**27.92**	22.40	30.99	10.99	2.54	472.80M	0.40	1.40%
International Bancshares Corp	09/11	**21.75**	16.92	25.85	14.70	1.48	1.46B	0.40	1.90%
Landmark Bancorp, Inc.	09/11	**19.21**	18.00	22.50	10.05	1.91	56.38M	0.76	3.80%
Liberty Bancorp, Inc.	08/23	**12.12**	10.01	12.12	11.54	1.05	36.84M	0.10	0.80%
Mackinac Financial Corp	09/10	**9.51**	6.46	10.09	13.78	0.69	52.82M	0.08	0.80%
Metrocorp Bancshares, Inc.	09/11	**10.70**	8.70	11.45	17.48	0.61	196.51M	0.08	0.80%
MidWest One Finl Group, Inc.	09/11	**25.12**	19.31	28.48	11.85	2.12	212.69M	0.50	2.10%
OmniAmerican Bancorp, Inc.	09/11	**23.00**	21.16	26.61	39.72	0.58	244.56M	N/A	N/A
Osage Bancshares, Inc.	11/30	**11.32**	7.5	11.50	N/A	0.24	N/A	0.34	4.50%
Prosperity Bancshares, Inc.	09/11	**60.12**	38.56	61.78	17.52	3.43	3.63B	0.86	1.40%
QCR Holdings, Inc.	09/11	**15.95**	11.4	16.96	7.88	2.02	92.62M	0.08	0.50%
Southwest Bancorp, Inc.	09/11	**14.64**	9.57	16.18	23.73	0.62	288.29M	0.00	0.00%
Texas Capital Bancshares, Inc.	09/11	**45.26**	36.75	52.17	15.80	2.86	1.85B	N/A	N/A
UMB Financial Corporation	09/11	**53.22**	40.27	62.20	19.14	2.78	2.16B	0.86	1.50%
West Bancorp Incorporated	09/11	**12.77**	9.75	14.50	13.90	0.92	203.92M	0.44	3.50%
Zions Bancorp	09/11	**29.08**	19.03	31.40	23.37	1.30	5.37B	0.16	0.60%

Source: Yahoo Finance (September 2013)
NA – Indicates information was not available.

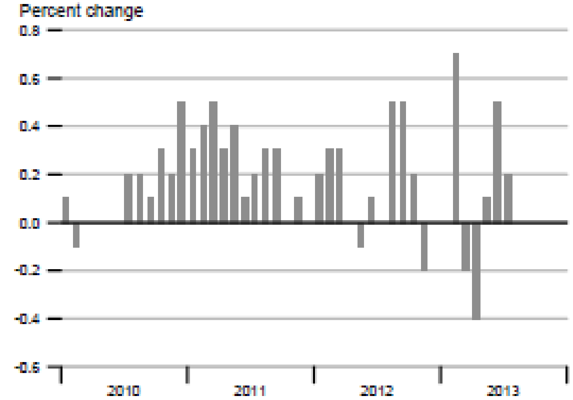
Real GDP Growth

Compounded annual rates of change



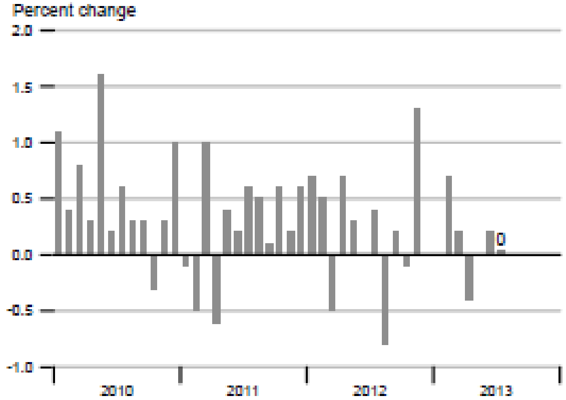
Consumer Price Index

Percent change



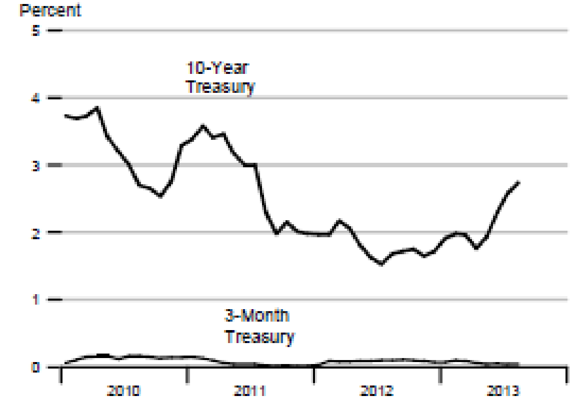
Industrial Production

Percent change



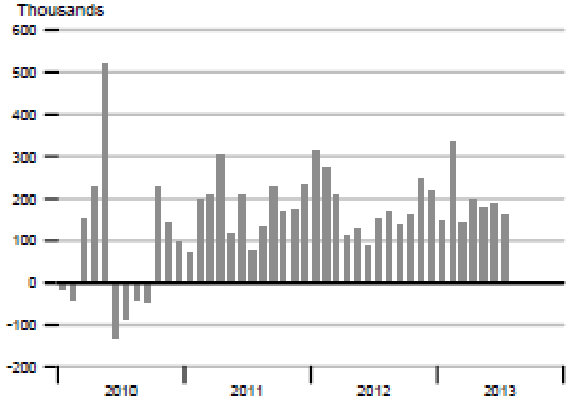
Interest Rates

Percent



Change in Nonfarm Payrolls

Thousands

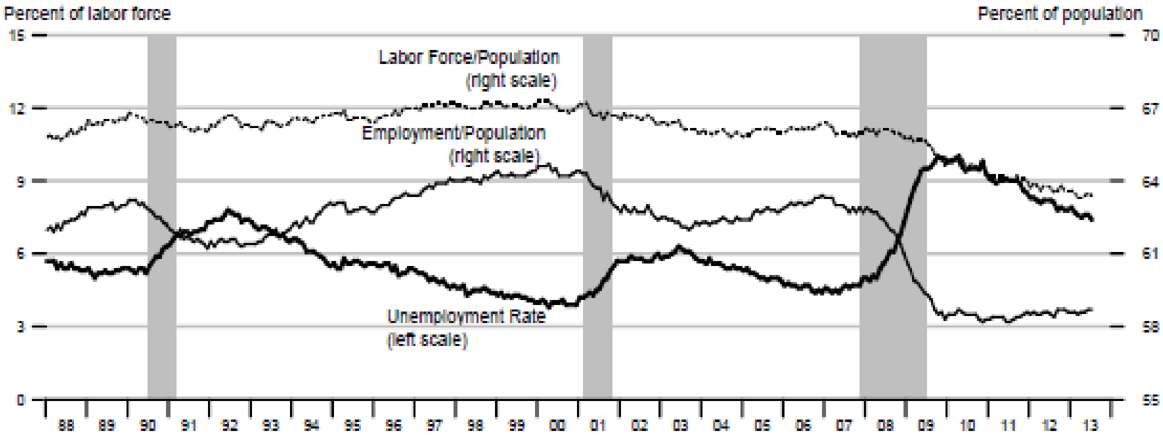


Unemployment Rate

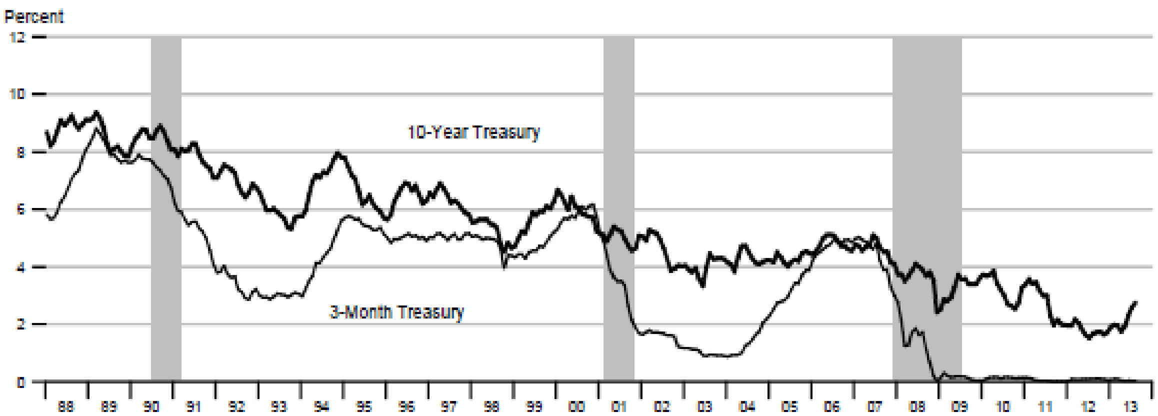
Percent of labor force

Source: Federal Reserve Bank of St. Louis, National Economic Trends. September 3, 2013.

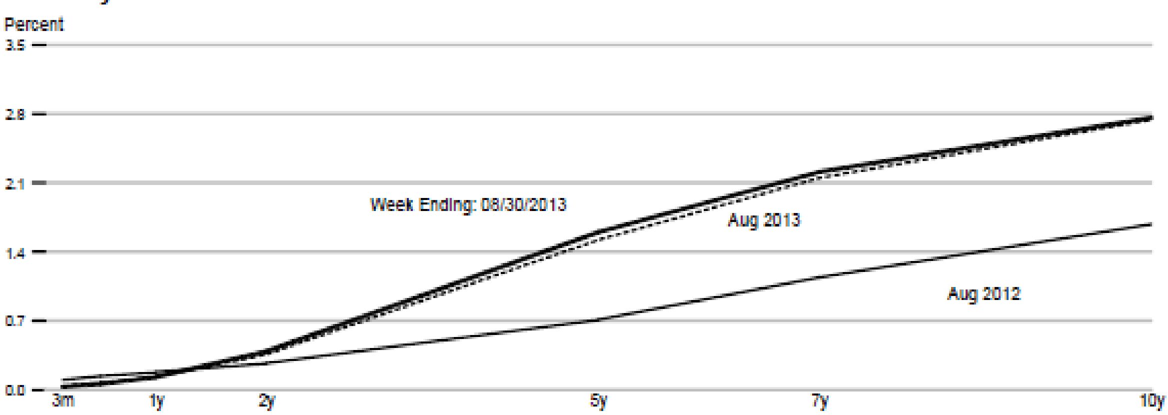
Unemployment, Labor Force Participation, and Employment Rates



Interest Rates



Treasury Yield Curve



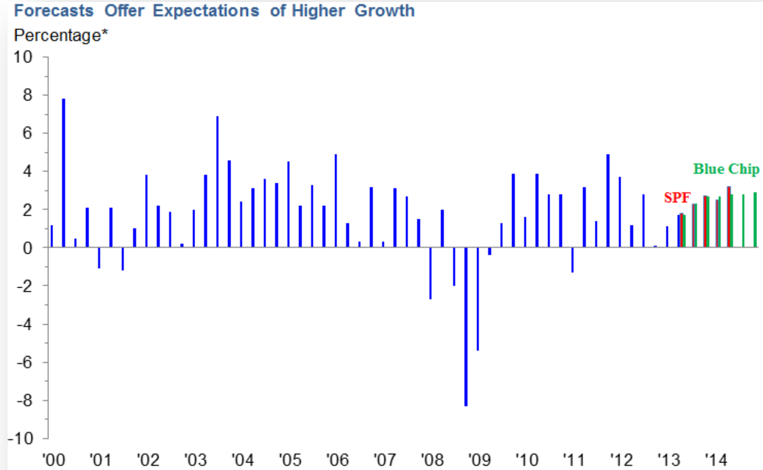
Source: Federal Reserve Bank of St. Louis, National Economic Trends. September 3, 2013.

Federal Reserve Bank, Dallas National Update
August 2013 - www.dallasfed.org

⇧ **Economy** – Leading economic indicators, surveys of purchasing managers and modest consumer optimism suggest that the economy is poised for above-trend growth in the second half of the year. This anticipation comes from signs of improvement from a number of economic factors. Unemployment should continue falling steadily, and inflation remains low but shows signs of returning to normal. Housing markets appear to be picking up and sustaining a relatively healthy recovery. Home prices rose strongly in the past year, and permits and starts trended upward. Strong equity markets contributed largely to output growth, and the appetite for risk is normalizing following the recession. To date, the recovery has been slow relative to previous economic cycles, and various challenges remain, but downside risks to growth appear low.

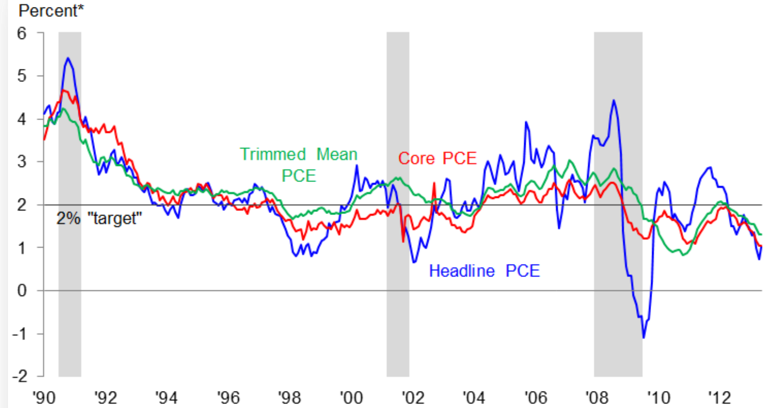
⇧ **Output Forecasts Improve Amid Tepid Recovery** – The latest Blue Chip and Survey of Professional Forecasters (SPF) forecasts show real gross domestic product (GDP) growth rising gradually for the rest of the year. Both surveys suggest 2.3% growth in third quarter 2013 and 2.7% in the fourth quarter, notably higher than in previous quarters. This optimism persists for forecasts of around 3% for the first half of 2014 compared with the 2% average growth rate of the previous two years. The rate of recovery in output is slower than in previous recessions. As illustrated, the level of real GDP relative to the 2008–09 recession "trough"—the lowest real GDP level within the recession—as well as the

Forecasts Offer Expectations of Higher Growth



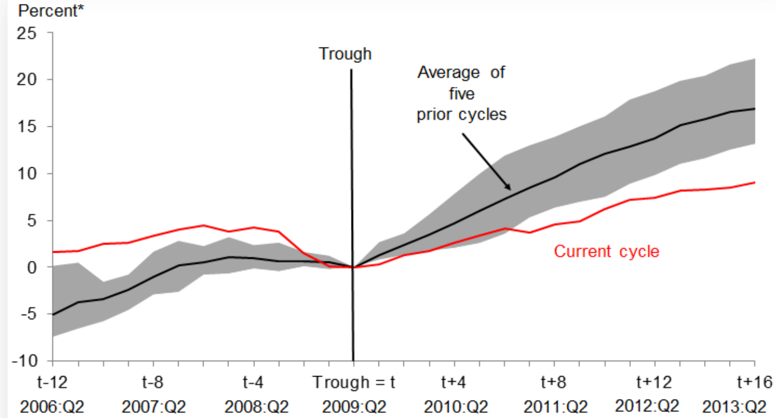
*Quarter/quarter, seasonally adjusted annualized rate.
SOURCE: Bureau of Economic Analysis.

Inflation Remains Low



*Year/year, seasonally adjusted.
NOTE: Shaded areas indicate recession.
SOURCES: Bureau of Economic Analysis; Federal Reserve Bank of Dallas.

Current Recovery Slower Than Previous Cycles



*Deviation from trough; seasonally adjusted, annualized rate.
NOTE: Shaded area indicates range of previous five recoveries.
SOURCE: Bureau of Economic Analysis.

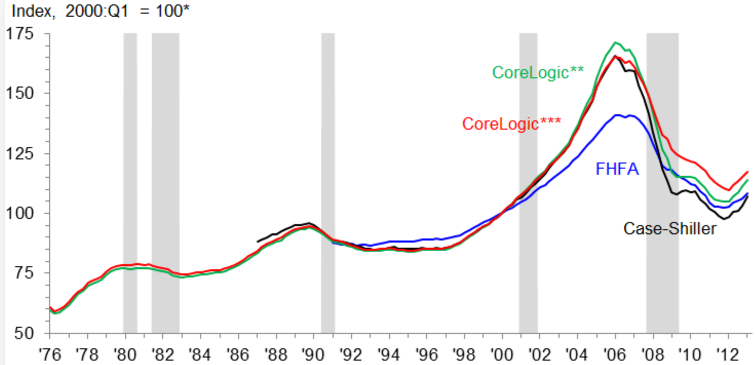
average and range of previous recoveries. Even after four years, the current recovery is still well below the previously slowest recorded recovery, which was the 2001 recession. A number of factors contributed to this sluggishness, not the least of which are ongoing debt, deleveraging by households and businesses, continuing U.S. fiscal headwinds, uncertainty in Europe and a recent slowdown in emerging markets. The headline personal consumption expenditures (PCE) price index rose slightly from a 0.7% year-over-year rate in April to a 1% rate in May, still well below the Federal Open Market Committee's (FOMC) 2% target rate of PCE inflation. The Federal Reserve Bank of Dallas' Trimmed Mean PCE inflation rate was unchanged at 1.3%. Inflation expectations remain anchored, and PCE inflation is forecasted to return to the target in the next couple of years.

⇧ **Labor Markets Improve** – The unemployment rate dropped slightly in July to 7.4%. This is over 2% higher than the Congressional Budget Office's estimate of the natural rate of unemployment, suggesting that considerable slack remains in the labor market. Broader measures of unemployment and underemployment rose in June but are significantly lower than a year ago. The unemployment rate is forecast to continue falling with improvements in the economy and a notable increase in average nonfarm payroll employment gains. Despite the anticipation of better employment prospects, labor participation rates continue to decrease, especially among younger workers aged 18 to 24. However, evidence may suggest that this abstention comes from school reentry or continuation. Enrollment rates for ages 18 to 24 have increased roughly 7% since 2001, with a decrease in labor participation of approximately 8%.

⇧ **Housing Normalizing** – Housing markets show signs of a healthy recovery. New and existing single-family home sales have continued to increase from the beginning of 2013. Some relaxation in lending standards for prime borrowers and very affordable housing contributed to steady increases in housing prices. Meanwhile, foreclosure rates and inventory continue to decline from housing-bubble highs. Delinquent mortgages (those with payments past due for 90-plus days) are still high at 2.9% of mortgages but are trending down from the peak of 5% in the first quarter of 2010.

Housing Prices Begin to Rise

Index, 2000:Q1 = 100*



*Adjusted for inflation.
**Distress included.
***Distress excluded.
NOTE: Shaded areas indicate recession.
SOURCES: Federal Housing Finance Agency; Standard & Poor's/Case-Shiller; CoreLogic.

⇧ **Financial Markets Continue to Climb** – Equity prices dipped slightly following the June FOMC briefing announcing an inevitable end to the Federal Reserve's agency mortgage-backed security purchases. In response, the Standard & Poor's 500 Index dropped 1.2% and the Dow Jones Industrial Average dropped 0.9% in June. However, indexes are well beyond the prerecession zeniths and have seen gains of over 100% from the trough. Correspondingly, equity price volatility and financial stress indexes continue to remain stable, and risk premiums are low along with record low interest rates. These gains in equity markets have provided substantial support to the overall recovery, as have improving housing markets. With these improvements, labor markets will likely reduce slack, and inflation should remain steady. These signs for future growth, despite the relative sluggishness, are reason to expect better times ahead.

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

Data Series	Mar 2013	Apr 2013	May 2013	June 2013	July 2013	Aug 2013
Unemployment Rate (1)	7.6	7.5	7.6	7.6	7.4	7.3
Change in Payroll Employment (2)	142	199	176	172	(P) 104	(P) 169
Average Hourly Earnings (3)	23.83	23.89	23.90	24.00	(P) 24.00	(P) 24.05
Consumer Price Index (4)	-0.2	-0.4	0.1	0.5	0.2	0.1
Producer Price Index (5)	-0.6	-0.7	(P) 0.5	(P) 0.8	(P) 0.0	(P) 0.3
U.S. Import Price Index (6)	-0.1	-0.7	-0.6	-0.4	(R) 0.1	(R) 0.0

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	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	1st Qtr 2013	2nd Qtr 2013
Employment Cost Index (1)	0.5	0.4	0.4	0.5	0.5
Productivity (2)	1.2	2.5	-1.7	-1.7	(R) 2.3

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: September 17, 2013

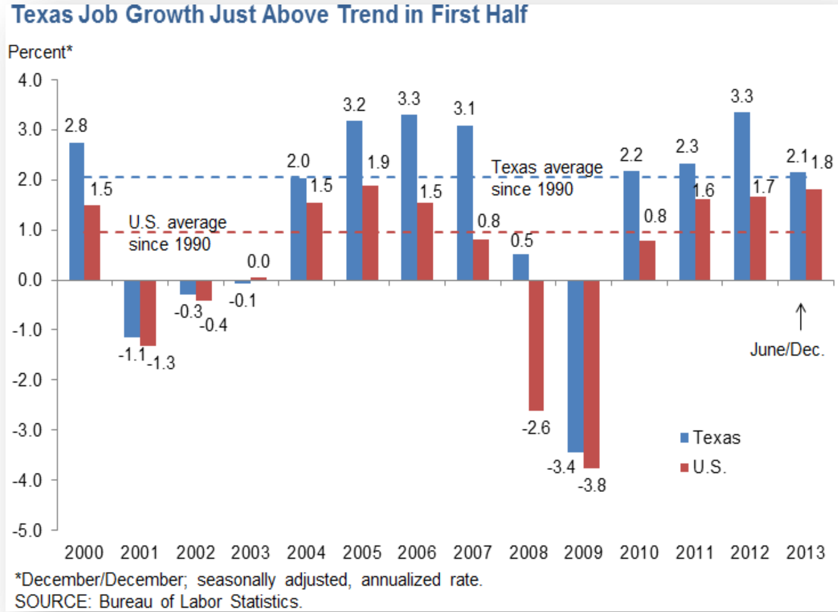
The Federal Reserve Board
The Beige Book – September 4, 2013
Excerpt

⇧ Reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand at a modest to moderate pace during the reporting period of early July through late August. Eight Districts characterized growth as moderate; of the remaining four, Boston, Atlanta, and San Francisco reported modest growth, and Chicago indicated activity had improved. Consumer spending rose in most Districts, reflecting, in part, strong demand for automobiles and housing-related goods. Activity in the travel and tourism sector expanded in most areas. Demand for nonfinancial services, including professional and transportation services, increased slightly on net. Manufacturing activity expanded modestly. Residential real estate activity increased moderately in most Districts, and demand for nonresidential real estate gained overall. Lending activity was mixed. Lending standards were largely unchanged, while credit quality improved. Demand for agricultural products was strong during the reporting period, but growing conditions and production in some areas were somewhat weak as a consequence of extreme weather. Demand for natural resource products was stable or up slightly, and extraction increased in anticipation of further demand growth.

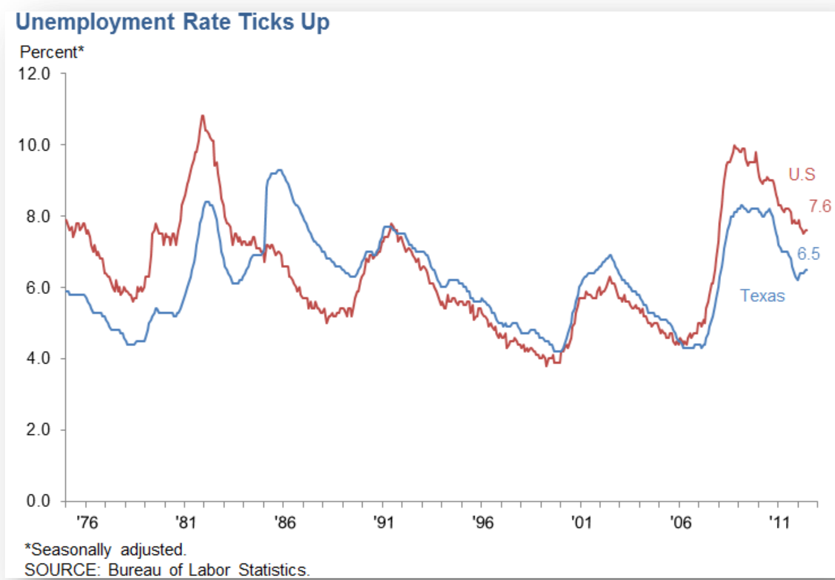
For most occupations and industries, hiring held steady or increased modestly relative to the prior reporting period. Upward price pressures remained subdued, and prices increased slightly during the reporting period. Wage pressures continued to be modest overall.

Federal Reserve Bank, Dallas Regional Economic Update
August 2013 - www.dallasfed.org

⇧ **Texas Economy** – The regional economy is expanding at a moderate pace, with employment growth slightly stronger in the second quarter than in the first. The Texas Manufacturing Outlook Survey (TMOS) headline index rose to its highest level in two years in June and remained at an elevated level in July, and Texas exports picked up in April and May after weakness earlier in the year. The housing and energy sectors remain major contributors to growth. The outlook for the rest of 2013 continues to project Texas job growth of 2 to 3 percent, weighed down by losses in federal government employment.

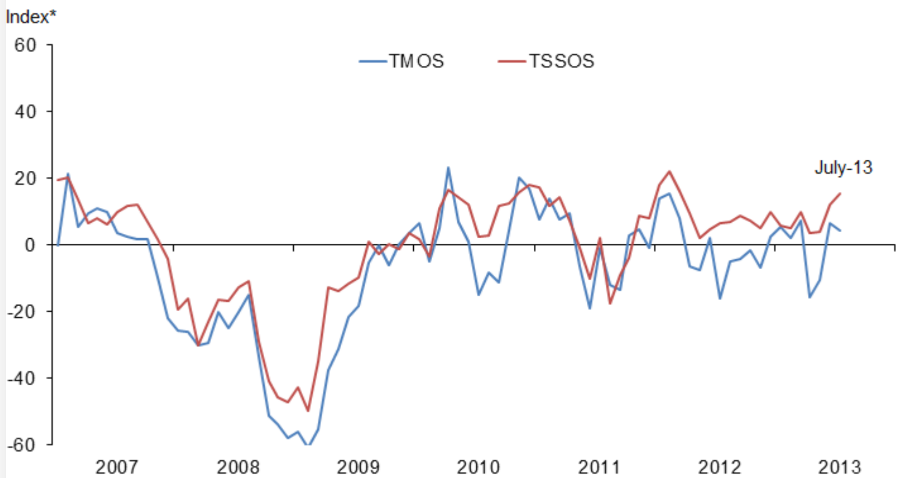


⇧ **Employment Growth Above Trend** – Employment growth in the first half of 2013 is just above the state's long-term average and is outpacing many other areas of the country. Job growth was also slightly less volatile in the second quarter, suggesting that uncertainty may be affecting business decisions less than it was earlier in the year. That said, current numbers suggest job growth has slowed from last year's stronger pace of over 3%. Employment gains have been broad-based, with the biggest headwinds coming from the government and manufacturing sectors. Job growth in the private sector is 2.6% year to date, annualized. The Texas unemployment rate held steady in June at 6.5%, but remains elevated from a low of 6.2% in December 2012.



⇧ **Texas Business Outlook Surveys Suggest Optimism** – The TMOS headline index reached its highest level in two years in June, suggesting strong growth in manufacturing output. The July index suggested some slowing from June, but recent strength in the index may portend better growth in the manufacturing sector, which has been a drag on employment growth this year. The most recent Dallas Beige Book report also supports recent strength in manufacturing. The Texas Service Sector Outlook Survey (TSSOS) index for general business activity rose to its highest level in over a year, while the corresponding TMOS manufacturing index remained positive for the second month in a row, suggesting optimism about the general business conditions in the broader economy.

General Business Activity Indexes Show Optimistic View of Overall Economic Conditions

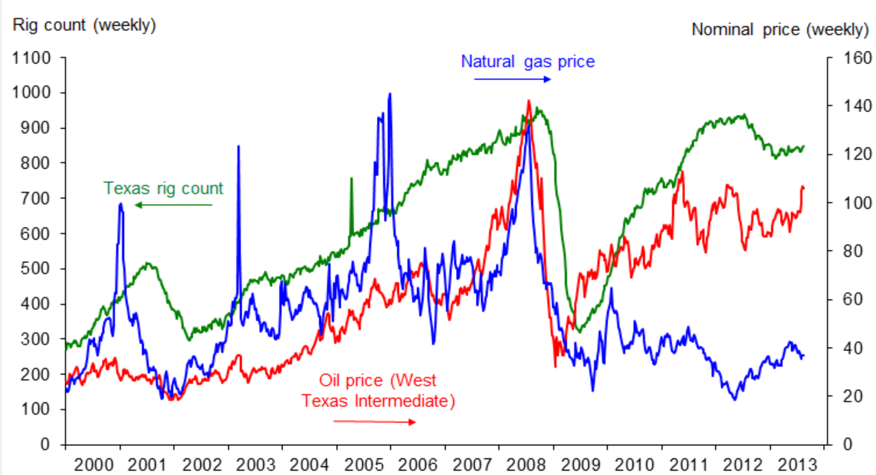


*Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS) and Texas Service Sector Outlook Survey (TSSOS).

⇧ **Housing Inventory Continues to Decline as Sales Increase** – House prices continue to rise due to strong demand and historically low inventories, making the existing market a seller's market. Home sales growth has been in the double digits every month, year over year in 2013, and sales are up 16% year to date annualized. Construction contract values picked up in June but are still historically low. Single-family construction remains robust, and apartment construction is expected to pick up after recent weakness. Single-family permits are up 14% from a year ago, but overall starts are down due to recent slower construction activity in the apartment sector.

⇧ **Energy Continues to Drive the Texas Economy** – The price of West Texas Intermediate crude oil spiked to $106 per barrel by mid-July . The Texas rig count has remained mostly steady but may rise in the latter part of the year due to increases in Gulf Coast drilling. Petroleum and coal products are leading export demand, and exports have showed some signs

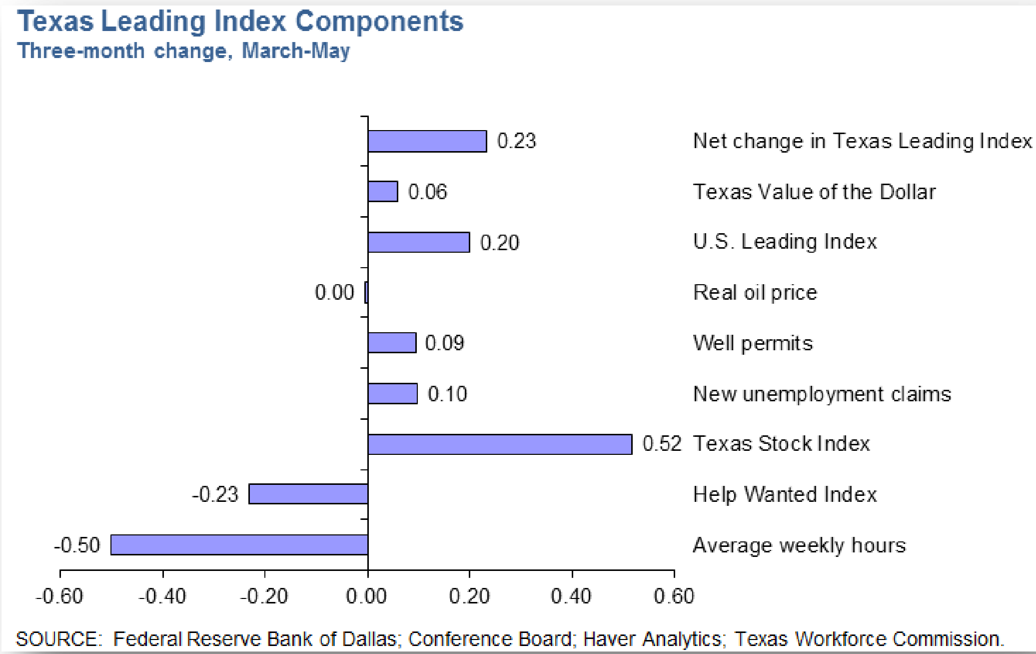
Oil Prices Rise; Texas Rig Count Steady



Note: Natural gas price is multiplied by 10.
SOURCES: *Wall Street Journal*; Baker Hughes; Haver Analytics.

of life recently after months of stagnation. Weak global demand is limiting growth in exports. The 2013 forecast for gross domestic product growth in Mexico, Texas' largest trading partner, has been revised down to 2.8% from 3%.

⇳ **Price Pressures Subdued Overall** – In the most recent Dallas Beige Book, most responding firms said prices were stable, although there were some reports of increases due to factors such as rising jet fuel and home prices and higher mortgage rates. The Texas Business Outlook Surveys price indexes suggested mixed movements in prices. The manufacturing index for prices received for finished goods ticked up but remained in negative territory, while growth in prices paid for raw materials picked up. The Texas Retail Outlook Survey and Texas Service Sector Outlook Survey both suggested strong growth in selling prices for July. The retail survey's selling price index posted its highest value in 11 months. All three surveys noted that wages and benefits indexes remained in positive territory, but the manufacturing and services indexes edged down, suggesting subdued wage pressures.



⇧ **Outlook Depends on Several Factors** - While the regional economy has improved, the outlook remains conditioned on the housing improvement and growth in the energy industry. Employment growth is forecasted to remain between 2% and 3% through the rest of the year. The Texas Leading Index ticked down slightly in May, though the three-month growth in the index remained positive, with contributions from the Texas Value of the Dollar, Texas Stock Index, well permits, new unemployment claims and the U.S. Leading Index.

Texas Economic Statistics
U. S. Bureau of Labor Statistics

Data Series	Feb 2013	Mar 2013	Apr 2013	May 2013	June 2013	July 2013
Labor Force Data						
Civilian Labor Force (1)	12,707.0	12,721.8	12,753.3	12,798.6	12,794.4	(P) 12,785.6
Employment (1)	11,898.7	11,907.5	11,937.8	11,965.1	11,958.8	(P) 11,953.8
Unemployment (1)	808.2	814.3	815.5	833.5	835.6	(P) 831.9
Unemployment Rate (2)	6.4	6.4	6.4	6.5	6.5	(P) 6.5
Nonfarm Wage and Salary Employment						
Total Nonfarm (3)	11,118.1	11,112.9	11,141.8	11,162.1	11,158.3	(P) 11,178.2
12-month % change	3.3	3.0	3.0	3.0	2.7	(P) 2.7
Mining and Logging (3)	281.3	281.3	281.4	282.4	280.4	(P) 288.4
12-month % change	7.4	6.2	5.4	4.8	3.4	(P)5.7
Construction (3)	614.3	616.0	622.6	623.9	615.9	(P)615.9
12-month % change	7.0	6.9	7.3	6.9	5.5	(P)5.7
Manufacturing (3)	872.0	868.1	865.1	864.9	867.6	(P) 866.7
12-month % change	1.8	1.0	0.3	0.5	0.5	(P) 0.0
Trade, Transportation, and Utilities (3)	2,220.3	2,208.5	2,221.8	2,226.8	2,226.1	(P) 2,229.3
12-month % change	3.0	2.4	2.6	2.7	2.3	(P) 2.4
Information (3)	198.3	197.4	198.5	197.8	198.2	(P) 203.0
12-month % change	0.9	0.3	0.8	0.6	0.8	(P) 3.2
Financial Activities (3)	664.9	668.0	669.6	669.7	671.2	(P) 680.2
12-month % change	1.9	2.1	2.1	1.8	1.8	(P) 2.9
Professional & Business Services (3)	1,448.6	1,450.7	1,457.7	1,463.5	1,467.2	(P) 1,466.7
12-month % change	4.8	4.4	4.4	4.3	4.3	(P) 4.2
Education & Health Services (3)	1,491.4	1,493.4	1,494.8	1,499.9	1,496.6	(P) 1,494.3
12-month % change	3.1	3.0	2.8	3.0	2.5	(P) 2.7
Leisure & Hospitality (3)	1,131.6	1,134.7	1,132.3	1,134.2	1,131.7	(P)1,131.6
12-month % change	6.2	6.0	5.5	5.4	4.5	(P) 4.4
Other Services (3)	392.0	390.9	389.6	391.1	389.9	(P) 386.9
12-month % change	4.4	3.9	3.2	3.2	2.5	(P) 1.5
Government (3)	1,803.4	1,803.9	1,808.4	1,807.9	1,813.5	(P) 1,815.2
12-month % change	0.5	0.7	1.1	1.2	1.7	(P) 0.8
Mass layoffs						
Layoff events, all industries (4)	40	51	57	76		
Initial claimants, all industries (4)	3,298	8,535	5,113	7,419		

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.
(P) Preliminary

The July 2013 Senior Loan Officer Opinion Survey on Bank Lending Practices addressed changes in the standards and terms on, and demand for, bank loans to businesses and households over the past three months. The survey also contained special questions about changes in banks' lending standards on, and demand for, the three main types of commercial real estate (CRE) loans over the past year, and on the current levels of banks' lending standards for many types of business and household loans relative to longer-term norms. In the July survey, domestic banks, on balance, reported having eased their lending standards and having experienced stronger demand in most loan categories over the past three months. This summary is based on the responses from 73 domestic banks and 22 U.S. branches and agencies of foreign banks. Regarding loans to businesses, the July survey generally indicated that banks eased their lending policies for commercial and industrial (C&I) and CRE loans and experienced stronger demand for such loans over the past three months. In particular, a moderate fraction of domestic respondents reported having eased their standards on C&I loans, and moderate to large net fractions of such respondents reportedly eased many terms on C&I loans to firms of all sizes. Most banks that eased their C&I lending policies cited increased competition for such loans as an important reason for having done so. On net, respondents reported stronger demand for C&I loans over the second quarter, although a few large banks indicated that demand had weakened. A modest net fraction of foreign respondents indicated that they had eased standards on, and a moderate net fraction had experienced stronger demand for, C&I loans in the second quarter.

The survey results also indicated that banks eased standards and terms on, and saw increases in demand for, some categories of lending to households. Modest net fractions of respondents reported having eased standards on prime residential or nontraditional mortgage loans, and a large net fraction indicated that they had seen increased demand for prime mortgage loans. A moderate net fraction of respondents reported that they had eased standards on auto loans over the past three months, and small net fractions indicated that they had eased standards on credit card loans and other consumer loans. Demand for all three types of consumer loans asked about in the survey had reportedly strengthened, on balance, over the second quarter.

To complement the usual survey questions about total CRE lending, one set of special questions asked banks separately about changes in standards and demand over the past twelve months for each of the three main categories of CRE loans--construction and land development loans, loans secured by nonfarm nonresidential properties, and loans secured by multifamily residential properties. Banks reported having eased standards on, and having seen increased demand for, all three CRE loan categories over the past twelve months. The second set of special questions, repeated from the July 2011 and July 2012 surveys, asked about the current levels of banks' lending standards relative to the midpoints of their ranges observed since 2005. Banks generally indicated that standards on C&I loans were currently somewhat easier than the midpoint of that range, while banks' current standards on other categories of business and household loans inquired about were reported to be at least somewhat tighter than the midpoint.

Business Lending

C&I Loans - A moderate fraction of domestic survey respondents, on net, indicated that they had eased their standards for C&I loans to firms of all sizes over the second quarter of 2013. On balance, almost all terms on C&I loans were reportedly eased, regardless of firm size. In particular, sizable net fractions of respondents indicated that they had decreased spreads on C&I loan rates over their bank's cost of funds regardless of firm size. In addition, moderate to large net fractions of banks reported having reduced the cost of credit lines and decreased the use of interest rate floors for all firm sizes. Of the domestic respondents that reported having eased either standards or terms on C&I loans over the past three months, all but two cited more-aggressive competition from other banks or nonbank lenders as an important reason for having done so. The next most popular reasons indicated by respondents that had eased their C&I loan policies were a more favorable or less uncertain economic outlook, cited by about half of such respondents as being a somewhat important reason, and an increased tolerance for risk, reported by about one-third of such respondents as being a somewhat important or

very important reason.
Regarding changes in demand for C&I loans in the second quarter, a moderate net fraction of domestic banks indicated that they had experienced stronger demand from small firms, and a modest net fraction of domestic banks said demand from large and middle-market firms had increased. However, six large banks reported that they had experienced weaker demand from large and middle-market firms. Banks reporting stronger loan demand most often cited increases in customers' funding needs related to investment in plant or equipment, inventories, and accounts receivable as the top reasons. About half of banks experiencing stronger demand also cited shifts in customer borrowing to their bank from other bank or nonbank sources because those sources became less attractive. Banks reporting weaker demand for C&I loans most often cited decreases in customers' funding needs related to merger and acquisition financing, investment in plant or equipment, accounts receivable, or inventories as the top reasons. Slightly more than half of the banks that experienced weaker demand cited increases in their customers' internally generated funds, and about half reported shifts in customers' borrowing away from their bank because other sources of bank or nonbank borrowing became more attractive. On balance, foreign respondents reported that they had eased their C&I lending standards over the past three months. Banks generally reported that terms on such loans were unchanged, in contrast to the previous three surveys in which they generally reported that they had eased. A moderate net fraction of foreign respondents indicated that demand for C&I loans had strengthened over the second quarter. Most foreign respondents reporting stronger loan demand cited customers' funding needs related to investment in plant or equipment or to merger or acquisition financing as somewhat important reasons.

CRE lending - A moderate fraction of banks reported that they had eased their standards for approving applications for CRE loans over the second quarter. About half of the banks, on net, reported that they had experienced stronger demand for such loans. The survey included special questions on changes in standards and demand over the past twelve months for the three major categories of CRE loans--construction and land development loans, loans secured by nonfarm nonresidential properties, and loans secured by multifamily residential properties. Banks reported that they had eased their standards, on balance, on all three types of CRE loans over the past twelve months, though fewer banks so reported for construction and land development loans than for the other two categories of CRE loans. Moderate net fractions indicated that they had experienced stronger demand for all three categories over the same period**.**

Lending to Households

Residential real estate lending - Modest net fractions of domestic respondents to the July survey reported that they had eased standards on prime residential or nontraditional mortgage loans over the past three months. A large net fraction of banks reported having experienced stronger demand for prime residential mortgages, but demand for nontraditional mortgages reportedly weakened. Banks reported that their standards on home equity lines of credit were little changed, and a modest net fraction of banks indicated that they had seen increased demand for those products**.**

Consumer Lending - Responses from domestic banks indicated that they were somewhat more willing to make consumer installment loans than three months previously. However, while a moderate net fraction of banks reported having eased standards on auto loans, only small net fractions indicated that they had eased standards on credit card loans and other consumer loans. On balance, banks reported reducing spreads on auto loans, increasing the maximum maturity on auto loans, and easing credit limits on credit cards. Other terms across the three categories of consumer loans remained little changed, on net, over the past three months. A moderate net fraction of banks reported having experienced increased demand for auto loans; smaller net fractions indicated they had seen stronger demand for credit card loans and other consumer loans..

Lending Standards Relative to Longer-Term Norms

The July survey repeated a set of special questions from July 2011 and July 2012 that asked respondents to describe the current level of lending standards at their bank, rather than changes in standards over the survey period. Specifically, for each loan category surveyed, banks were asked to consider the range over which their bank's standards have varied between 2005 and the present and to report where the current level of standards for such loans resides relative to the midpoint of that range.

Regarding loans to businesses, moderate net fractions of domestic banks reported that lending standards on four different kinds of C&I loans (investment-grade syndicated loans, below-investment-grade syndicated loans, other loans to large and middle-market firms, and loans to small firms) were currently at levels that were easier than the midpoints of the ranges that those standards have occupied since 2005. Foreign banks generally reported that the levels of standards on loans to large firms were easier than the midpoints, while standards on loans to small firms were reported to be about at the midpoint. Modest to moderate net fractions of domestic banks reported that the current standards on all types of CRE loans (construction and land development loans; loans secured by nonfarm, nonresidential structures; and loans secured by multifamily structures) were tighter than the midpoints of the ranges that those standards have occupied since 2005. Compared with the results in the July 2012 survey, these results for all types of C&I and CRE loans indicate some easing of credit conditions from the levels reported a year ago.

With respect to loans to households, moderate to large net fractions of banks reported that lending standards for all six categories of residential mortgages included in the survey (prime conforming mortgages, mortgages guaranteed by the Federal Housing Administration or the U.S. Department of Veterans Affairs, prime jumbo mortgages, subprime mortgages, nontraditional mortgages, and HELOCs) remained at least somewhat tighter than the midpoints of the ranges that those standards have occupied since 2005. Modest net fractions of domestic banks reported that standards were tighter than the midpoint for prime credit card, subprime credit card, auto, and other consumer loans. Compared with the results in the July 2012 survey, lending standards for many types of household loans appear to be little changed.

Federal Deposit Insurance Corporation, Washington, D.C.
Federal Reserve Bank of Dallas, Dallas, TX
Federal Reserve Bank of St. Louis, St. Louis, MO
Federal Reserve Board, Washington D.C.
Lower Colorado River Authority, Austin, TX
Office of the Governor, Rick Perry, Austin, TX
RealtyTrac, Irvine, CA
Texas Comptroller of Public Accounts, Austin, TX
Texas Department of Agriculture, Austin, TX
Texas Department of Banking, Austin, TX
Texas Parks and Wildlife Department, Austin, TX
Texas Water Development Board, Austin, TX
Texas Department of Savings and Mortgage Lending, Austin, TX
U.S. Drought Monitor, Lincoln, NE
U.S. Bureau of Labor Statistics, Washington, D.C.
Wall Street Journal, New York, NY
Yahoo Finance