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symbols Used Throughout this Report:	Abbreviations Used Throughout this Report:							
Improving or strong conditions	FDIC – Federal Deposit Insurance Corporation							
Deteriorating or weak conditions	OCC – Office of the Comptroller of the Currency							

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ECONOMIC REVIEW AND OUTLOOK

The Texas economy slowed slightly at year-end 2018 but stabilized in the first half of 2019, as Texas entered its ninth year of business-cycle expansion. Economic activity expanded moderately at the beginning of the first quarter after a downturn in November and December of 2018 and continued at a comparatively sluggish pace through June 30, 2019.

Reflecting that trend, the Federal Reserve Bank (FRB) of Dallas' headline Texas Business Outlook Survey indexes, in which positive numbers indicated a greater share of firms reporting a positive result than a negative one, returned to their historical averages.

The FRB-Dallas Texas Business-Cycle Index accelerated 4.8% on a seasonally adjusted annualized rate, registering above the post-recession average. By June, the state was posting robust job growth and unemployment had dropped to a new record low. Payroll expansions held steady, with only ongoing trade uncertainty—especially between the U.S. and China, the world's two largest economies—impeding higher growth.

Texas, as the nation's largest exporting state, is particularly sensitive to U.S. trade policy. More than a quarter of firms reported a negative net impact from ongoing tariff disputes, according to the results from a June FRB-Dallas survey, and more than one third noted increased input costs.

Meanwhile, the United States-Mexico-Canada Agreement, a renegotiated trade agreement set to replace the 25-year old North American Free Trade Agreement (NAFTA), remained signed but unratified by Congress by the end of the second quarter of 2019.

These trade concerns, coupled with fluctuating oil prices and signs of weakening economies in Europe and Asia, helped drag interest rates down toward the end of the second quarter. The 10-year U.S. Treasury bond yield fell to an annual low of 2.5%, while the Federal Home Loan Mortgage Corporation's 30-year fixed-rate dropped below 4.2%.

At the state level, Texas community banks and thrifts began the year more profitable and boasting better credit quality than those in other states, as reported by S&P Global Market Intelligence. Despite a strong performance through the first half of 2019, banks continued to face increasing challenges from rising funding costs and continued competition from online-only and nonbank institutions.

Forty-two percent of state-chartered banks responding to a second-quarter 2019 Department of Banking survey indicated an increase in the number of consumer loans made over the previous quarter, versus 55% in the second quarter of 2018. Another 42% stated their bank saw an increase in deposits over the first quarter of 2019, compared to 57% who said their bank increased deposits during the same point in time last year.

In Washington, D.C., the Federal Reserve Board in September 2019 cut interest rates for the second time since July as concerns increased regarding a potential global slowdown. Officials also left the door open for another rate cut later this year, reinforcing the message by Board Chairman Jerome Powell that policymakers would do whatever necessary to prevent a recession.

The federal funds rate, which influences the cost of mortgages, credit cards, and other borrowing, is between 1.7% and 2%.

STATE-CHARTERED BANKING PROFILE (DEPARTMENT OF BANKING)

There were 228 Texas-chartered banks as of June 30, 2019, five fewer than at December 31, 2018. The net reduction of five in the number of state banks during the first half of 2019 was the result of two banks merging into Texas state-chartered banks, two banks merging into out-of-state state-chartered banks, and one bank failure.

Despite the moderate decline in the number of Texas state-chartered banks, total assets for Texas state-chartered banks increased from \$262.4 billion as of year-end 2018, to \$276.3 billion as of June 30, 2019, an increase of almost \$14 billion. The asset growth occurred largely from a combination of \$7.8 billion in net merger activity and \$6.1 billion of internal asset growth.

During the same period, the Department processed 111 filings related to banks, with approximately 63% involving office facilities and loan production office activity, 18% involving changes in ownership/control or chartering authority, 13% involving bank identification and corporate governance issues, 4% involving subsidiary formations, and 2% involving foreign bank activity.

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

State-chartered thrift assets under the Department's jurisdiction totaled \$25.9 billion as of June 30, 2019, an increase of 5.9% or \$1.4 billion over the prior six months. Through June 30, 2019, state thrifts had \$125.5 million in year-to-date net income. Increased profitability occurred in 66.6% of the thrift institutions through June 2019 due to an increase in the volume of loans at most institutions, offset by increased provisions for loan and lease losses and decreases in noninterest income. Only 4.2% of thrift charters were unprofitable as of June 30, 2019. Thrifts' net interest margins (NIM) have recovered slightly since the low of 3.4% in June 2018 to 3.7% in June 2019 due to increases in yields on earning assets. However, noninterest income decreased from a peak of 1.3% of assets in June 2018 to 0.1% of assets in June 2019.

The level of nonperforming loans and other real estate foreclosed remains low in state-chartered thrifts at 0.7% of total assets, which is down from 1.9% in June 2018. Despite these low levels, state and federal regulators continue to closely monitor past due and nonaccrual loans, as well as foreclosed real estate.

The Department continued to receive and process applications, administering one branch office application and various other applications during the past six months.

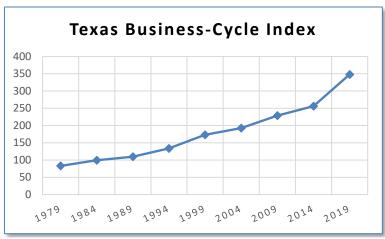
TEXAS ECONOMIC PROFILE

Texas' economic expansion continued into 2019 but with noticeably less momentum than the state experienced during most of 2018. Output growth cooled slightly after a relatively robust 2018, according to the FRB-Dallas' Texas Business Outlook Surveys, fourth quarter figures notwithstanding.

The year opened with a tight labor market, slowing energy activity, and weakening global demand, all of which combined to restrain growth early in the year. Nevertheless, the economy grew at a slow but steady pace as the year went on.

The FRB-Dallas Business-Cycle Index, an economic statistic that helps gauge the current state of the economy, rose from 332.9 in June 2018 to 347.9 in June 2019. The index is a composite of the unemployment rate, state payroll employment, and gross state product.

Factory activity began an expansion in the spring before cooling off at the end of the second quarter, according to business executives responding to the FRB-Dallas Texas Manufacturing Outlook Survey. The index, a key measure of state manufacturing conditions, held steady at 11.5 in March before settling in at 8.9 by June.



Source: Federal Reserve Bank of Dallas

Growth in the service sector activity also softened by March, according to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, fell at the end of the first quarter to 12.8 from 19.2 in February. However, activity in this sector partially bounced back by the end of the second quarter, with the index reaching 13.6 in June.

Retail sales were largely unchanged at the end of the first quarter, according to executives responding to the Texas Retail Outlook Survey. The sales index rose slightly in the second quarter of 2019 yet remained in negative territory, going from -9.2 in May to -6.8 in June. Inventories picked up slightly, as the inventories index rose from -6.6 to 1.4.

Industry sectors seeing growth through the first half of 2019 included construction (up 7%); leisure and hospitality (up 4.8%); trade, transportation, and utilities (up 2.8%); and professional and business services (up 2.8%).

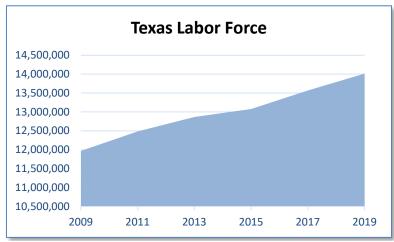
EMPLOYMENT

Texas continued its remarkable run as home to one of the hottest job markets in the nation. The state set back-to-back record low unemployment rates, figures that date back to 1976, falling to 3.5% in May and 3.4% in June. Unemployment across all major metros remained well below both historic and 2018 averages.

Employment among Texas' goods-producing firms surged, creating 23,800 jobs during the first half of the year. The energy sector, meanwhile, slowly ticked back up after sliding oil prices in late 2018 led to first quarter contractions. Construction payrolls added 16,400 positions, the largest quarterly increase since the state began tracking this data. Texas' service-providing sector created 85,900 positions during the second quarter, setting a four-year record. Professional, scientific, and technical services added 15,700 jobs, followed by the leisure/hospitality sector with 13,200.

In May, Texas was named the best state for business by *Chief Executive Magazine* for the 15th year in a row. The rankings are determined by CEO assessments of the best and worst states for business, which include factors such as a state's business climate, workforce, and quality of life.

However, there is a downside to the hot market and its effect on the economy. The lower the unemployment rate, the more challenging it can be for companies to identify and hire capable employees. Economic growth will be impeded if there are not people to fill jobs.



Source: U.S. Bureau of Labor Statistics

hampering their ability to capitalize on strong demand.

To illustrate this point, more than 70% of firms queried said they were hiring, according to a May 2019 FRB-Dallas survey of Texas businesses, but 83% reported that they were having extreme difficulties finding qualified workers. The situation was even more dire for retailers, with nearly 90% reporting similar problems.

The FRB-Dallas notes these labor shortages span a wide array of fields, in particular the retail, hospitality, construction, manufacturing, transportation, and healthcare sectors. Survey respondents explicitly stated that worker shortages are stifling growth,

POPULATION

There really *are* more of us in Texas each year. The state's 2019 population was projected to be 29.2 million, an increase of about 477,000 over 2018 estimates and nearly 4 million more than the population measured by the 2010 census.

Approximately 72% of Texans live in the state's largest metropolitan areas, a proportion which has been rising over time. Texas is home to three cities that rank among the top 10 most populous in the country: Dallas, Houston, and San Antonio. In addition to these three metro areas, Austin, El Paso, and Fort Worth are also among the 25 largest cities in the U.S.

Domestic and international migration accounted for nearly half of the state's population growth over this period and an even larger percentage of the growth of the working-age population, signaling that many of these new Texans moved here for employment reasons.

The state's working-age population (defined as ages 16 to 64) grew 1.5% per year since the last census count, with migrants to the state substantially augmenting this growth. Annual net domestic migration over the past decade has averaged close to 140,000, while annual net international migration has been around 82,000.

With respect to international migration, the Austin, Dallas-Fort Worth, and Houston metropolitan areas continued to experience the most rapid foreign-born population growth, reflecting an ongoing trend. The foreign-born population share in Austin currently is 15%, and accounts for 18% in the Dallas-Fort Worth region and almost 23% in Houston.

By 2020, the Texas population is projected to reach 30.5 million, led by the Houston-The Woodlands-Sugar Land metropolitan statistical area, at an estimated 7.4 million; Dallas-Plano-Irving, at 5.3 million; Fort Worth-Arlington, at 2.6 million; and Austin-Round Rock, at 2.3 million.

2020 is also the year the next U.S. Census count will take place. In addition to putting Texas in a position to potentially gain two additional congressional seats, the census has enormous financial implications: the distribution of more than \$675 billion in federal funds, grants, and other means of financial support to states, counties, and municipalities is based on this data.

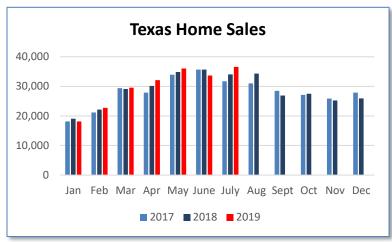
HOUSING

The Texas housing market remained robust in the first half of 2019, despite sales dropping 10% by June after hovering around record levels in April and May. The trend remains positive: Lower mortgage rates and a red-hot labor market managed to push Texas housing sales to record highs in second-quarter 2019, spurring demand across the price spectrum.

The Texas Residential Construction Cycle Index, which measures current construction activity, inched downward owing to stagnant residential construction values and wages in the industry. The Residential Construction Leading Index flattened as a decrease in building permits offset lower interest rates. Despite these figures, the extended economic expansion continues to look bright for the housing market.

Total Texas housing starts increased 5.2% quarter-over-quarter on the strength in multifamily residential investment. Approximately 22,600 single-family homes broke ground in the Houston-Dallas-San Antonio triangle, down slightly from a solid first quarter. Most of the decline during the second quarter occurred in the already constrained \$200,000-\$400,000 price range.

Regarding new and existing home transactions, housing sales through a multiple listing service provider dropped 10.1% in June but remained on an upward track amid lower mortgage rates, rising wages, and more moderate home price appreciation.



Source: Real Estate Center at Texas A&M University

Austin sold a record 4,628 new homes during the second quarter, surpassing 13% year-over-year growth. San Antonio was the overall growth leader at 15.6% year-over-year, selling more than 3,200 new homes. Dallas and Houston accounted for two-thirds of the new-home transactions with 8,623 and 7,611, respectively.

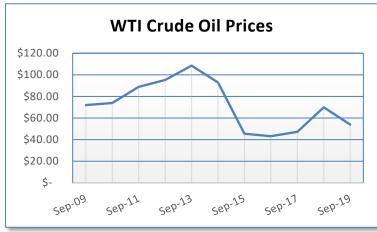
On a related note, the U.S. Department of Housing and Urban Development (HUD) in February announced \$652 million in additional funding for Texans impacted by Hurricane Harvey. The award marks the third allocation of HUD funding for Harvey recovery efforts, a significant portion of which will provide additional resources for damaged and destroyed homes, supplementing the \$5 billion in recovery funds HUD approved in June 2018.

OIL AND GAS

The first half of 2019 was a mixed bag for the oil and gas (O&G) industry. Activity in the sector was flat after three years of growth, according to industry executives responding to the FRB-Dallas Energy Survey. The business activity index fell to -0.6 in the second quarter, down from 10.8 in the first quarter. A near-zero reading suggests activity levels were essentially unchanged from the previous quarter.

Oil prices experienced a mild rollercoaster ride in the first two quarters of 2019, based on fears of excess supply, trade uncertainties, instability in other oil producing countries such as Venezuela, and depressed demand. Meanwhile, production increased for the 11th consecutive quarter, albeit at a slightly slower rate of growth, inching down from 21.1 in the first quarter of 2019 to 17.4 in the second quarter.

West Texas Intermediate (WTI) crude spot prices reached a high of \$61.59 on April 1, according to the U.S. Energy Information Administration, an increase from the start of the year when oil prices were pushed down to the mid-\$40s.



Source: MacroTrends.net

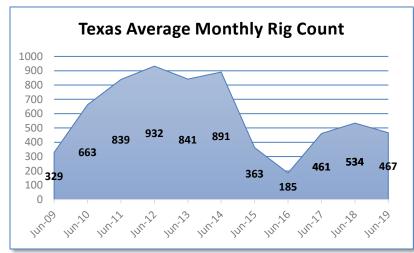
WTI futures fell to \$46.54 per barrel on the New York Mercantile Exchange in January 2019, the second lowest settlement level since June 2017, before rallying in June 2019 to close the second quarter at \$58.47 a barrel. This is within less than 50 cents of what respondents to the FRB-Dallas' June Energy Survey expect the WTI price per barrel to be at the close of the year.

Meanwhile, extraction exploration and production trended down over the second quarter, dropping 2.9%, according to the FRB-Dallas. Among oilfield services companies, the equipment utilization index fell 13 points to 3.4 in the second quarter. Input costs continued to increase, with the index edging up from 25 to 27.1.

These firms provide services that include locating energy sources, energy data management, drilling and formation evaluation, well construction, and production and completion services.

Nationally, the number of drilling rigs dipped in the first half of 2019 to 975, bringing active drilling activity down to its lowest level since early 2018. The average monthly active rig count in Texas by June meanwhile was 467, according to Baker Hughes. This was the lowest average rig count since January 2018 when the number reached 456. By comparison, the count in January 2019 was 526.

Despite this softening in pricing and production, the O&G industry continues to play a significant role in the state's economy. The current total annual economic benefits of the Texas energy sector—oil and natural gas exploration and production, as well as multiple related



Source: Baker Hughes

industries—is estimated to include total expenditures of \$557.4 billion and a gross product of \$198.8 billion. This is in addition to generating more than 1.9 million jobs and personal income totaling \$120.6 billion.

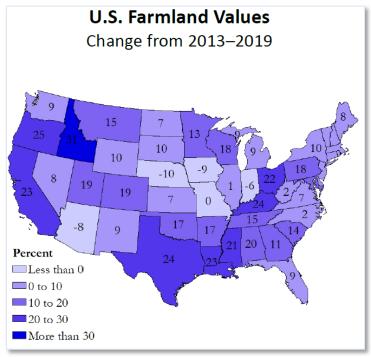
AGRIBUSINESS

The agriculture and forestry industry may be one of Texas' smallest in terms of employment but is a major contributor to the state's economy; agribusiness has an estimated annual economic impact of \$25.3 billion, so any factors having a negative effect on agribusiness will be felt across the state.

Unfortunately, that was the case for certain regions and commodity markets during the first half of the year.

Bankers responding to a first quarter survey by the FRB-Dallas reported overall weaker conditions, with many commenting that volatile weather conditions were causing problems with crop harvesting, particularly for cotton crops.

Although it caused some crop plantings to occur late in the season, significant spring rain was a positive effect in many areas of the state as it boosted growing conditions. The wheat crop in particular was reported to be in good shape, although prices remained soft.



Source: U.S. Department of Agriculture

Producers in other regions, meanwhile, were dealing with extreme drought conditions by the end of the second quarter, especially in south Texas. Conditions worsened to the point Governor Greg Abbott in August issued a drought disaster declaration for Briscoe, Brooks, Castro, Duval, Hall, Jim Hogg, Jim Wells, Nueces, Randall, San Patricio, Swisher, Webb, Wichita, Wilbarger, and Zapata counties.

Demand for agricultural loans overall declined in first-quarter 2019 for a 14th consecutive quarter. Loan renewals and extensions increased, and the rate of loan repayment declined at its slowest pace since the end of 2016. By the second quarter, demand for agricultural loans continued to decline, with the loan demand index falling to its lowest reading in six years.

Add to this scenario the fact that trade discussions have put a strain on agricultural markets in general. With crop prices and profits remaining low, farm bankruptcies

increased but still at a very modest pace; Texas ranked eighth nationally in the number of farm bankruptcies over the past four quarters. Farm real estate prices therefore remain key to providing support to Texas agribusiness. Farm values in the state increased 24% from 2013 to the end of the second guarter of 2019.

TAX REVENUE

Tax revenue, much like almost everything connected to the state's economy, cooled off at the end of the fourth quarter of 2018, only to experience a mild rebound through the first two quarters of 2019. At the end of June, tax revenue stood at \$35.1 billion.

Sales taxes dipped slightly from January (\$2.8 billion) to March 2019 (\$2.6 billion) and jumped to \$3 billion in May, before eventually returning to \$2.8 billion in June. The total for sales taxes for the first half of 2019 equaled \$16.9 billion.

Revenues from oil production climbed steadily throughout the first half of the year, moving from \$274.5 million in January to \$363.3 million by the end of the second quarter, up 32%, while taxes collected on the production of natural gas fell during the same time period. Revenues in this category totaled \$152.9 million in January and finished the second quarter of 2019 at \$124.4 million, a decrease of 18%.

Franchise taxes experienced extreme fluctuations from January 2019 to June 2019. Revenues for this category began January in negative territory, with the state collecting \$12.4 million less than the previous January but rose to \$180.3 million in March before settling at \$59.3 million in June 2019. Revenues from franchise taxes totaled \$4.1 billion through the end of the second quarter of 2019.

Taxes collected on motor vehicle sales and fuel taxes remained mixed through the first half of the year; funds collected in January for the former totaled \$425.7 million and ended June at \$426.6 million, up just 2%, while taxes collected on the latter totaled \$305 million in January, ending June at \$328 million, up a more robust 7%.

SUPERVISORY CONCERNS

Both Departments monitor a variety of risk areas to proactively provide guidance to regulated entities or to implement other supervisory action when warranted. National and state events can cause disruptions in the Lone Star State and the banking system.

TRADE WAR

In recent months, the Administration's trade policy with other countries has increased prices for goods. The results of the policy are important since Texas exports many goods to Mexico, Canada, and China.

Tariffs may cause disruptions to the economy as they lead to declining business confidence and deferred investments. Though the state banking system is sound, and banks have managed their risks, Texas banks could be impacted by a general slowdown in the economy if the tariff war continues for an extended period. In August, U.S. stocks suffered losses after new tariffs on Chinese imports were announced. China suspended purchases of American farm crops and allowed the value of its currency to fall, effectively making Chinese goods cheaper to buy and countering some of the damage from U.S. tariffs. The Chinese government has since indicated that it would not let the yuan fall further. The move led other central banks to implement rate cuts.

The U.S.-China trade war continues to escalate with the addition of alleged currency manipulation by the Chinese government. It is the latest in a long list of actions and reactions by both nations, and the stakes are escalating. The risk to China is that more expensive imports will compound the problem of a sluggish economy, but the hope is that it will force the U.S. to the bargaining table as U.S. exports are now less competitive in world markets.

INTEREST RATES

The Federal Reserve Board lowered its main borrowing rate of 2.25 percent by 25 basis points (BP) August 1, its first since December 2008, to prop up the U.S. economy against the ill effects of trade disputes and slowdowns abroad. Banks should be able to absorb one move on rates. The Federal Reserve Board has taken additional action to reduce rates on September 19. Each of these 25 BP reductions are a sign that the Board is seeing weakening of the economy.

Industry analysts are concerned that these rate cuts could be a signal of a possible recession, which could mean issues with credit quality as borrowers adjust to a change in the economic cycle. There is a concern that, in a declining rate environment, banks will struggle to lower funding costs fast enough to offset lower loan pricing. The impact could be more pronounced for smaller banks that rely less on fees to offset lower spread income. Those forecasts leave some investors concerned about margin pressure negatively impacting bank earnings.

Declining interest rates resulting from a recent rate cut will also likely put more pressure on NIM, leaving financial institutions searching for other ways to generate revenue as the low interest rate environment will continue to compress interest margins. 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. Additionally, financial institutions must evaluate interest rate risk as they continue extending fixed rate assets in this environment. Strategic risk is also evaluated by examination staff when assessing new product lines that are outside a financial institution's business plan.

AUDIT PROGRAM

The Departments recognize the importance of sound risk management processes and strong internal controls when evaluating the activities of the institutions they supervise. Technological advances and product innovation have changed the size and speed of financial transactions. Effectively managing the risks associated with these innovations is critical to conducting safe and sound banking. While an institution's financial performance is an important indicator of the adequacy of management, it is essential that examiners give significant weight to the quality of risk management practices and internal controls when evaluating bank management and the overall financial condition of the banking organization. A financial institution's audit program is vital to managing and identifying these risks.

While the Texas Department of Banking has not issued any official guidance that would mandate financial statement audits for all banks, the Department believes there is a need for all banks to have an adequate external audit program that includes an effective independent review of internal controls. A state bank's audit program is routinely reviewed at each examination.

Although banks under \$500 million are not required to obtain a full-scope financial statement audit (FSA), management should consider the benefits of such an audit. A full-scope FSA is broader in scope and more comprehensive which could be used to establish a baseline for future director's examinations. Many banks under the \$500 million threshold generally utilize a director's examination which only meets minimum regulatory standards. Furthermore, bank management should also consider periodically rotating audit firms to improve audit independence and quality.

The Department of Savings and Mortgage Lending requires an annual FSA for all state savings banks, regardless of asset size. Each state savings bank is required to submit a copy of its FSA and all correspondence reasonably related to the audit within ninety days of its fiscal year end in accordance with Texas Finance Code §96.051 and 7 TAC §76.4.

DEPARTMENTAL SUPERVISORY MEASURES BEING TAKEN

TEXAS DEPARTMENT OF BANKING

- Assess institutions' preparedness to identify, detect, respond to, protect against, and recover from cyber-attacks and perform follow-up evaluations for those below a base-line level of readiness;
- Evaluate underwriting criteria during on-site examinations to assess the sensitivity of asset quality metrics to changes in economic conditions;
- Monitor efforts to prudently assess and mitigate concentration risks in commercial real estate, oil and gas, and agriculture lending;
- Assess the risk that fluctuating interest rates pose to net interest margins, durations of investment securities, and economic value of equity;
- Monitor bank preparations for the industry's pending transition to CECL;
- Conduct off-site monitoring of institution's key financial performance metrics and analyze exceptions:
- Initiate enforcement actions early in the detection of deteriorating trends;
- Conduct frequent on-site examinations or visitations of problem institutions;
- Communicate and coordinate joint enforcement actions and other supervisory activities with federal regulators;
- Participate in monthly calls to state banks to obtain industry input regarding prevailing economic conditions;
- Monitor state, national, and world political and economic events impacting the industry;
- Evaluate business continuity and disaster recovery plans of regulated entities to determine their ability to withstand a natural disaster or other adverse events;
- Provide continuing education to examination staff on specialty areas such as cybersecurity; and
- Engage and increase internal communication and training to improve examiner awareness of pertinent issues.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

- Close coordination with other state and federal regulators;
- Engage in regular correspondence with state savings banks regarding institution-specific issues;
- Engage in regular correspondence with state savings banks as an industry by means such as Emerging Issues monthly calls, and Thrift Industry Day on industry wide issues;
- Perform targeted examinations of high-risk areas of state savings banks;
- Issue enforcement actions and place supervisory agents when deemed necessary;
- Conduct 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);
- Develop regular assessments of each institution's activities, strengths, weaknesses, revise the Department's plan of examination and monitoring for the institution, including the downgrading of institutions, if deemed necessary, by the Department and the primary federal regulator;
- Monitor any impact from volatility within the energy or agricultural industries;
- Assess interest rate risk;
- Monitor lending, investment, and funding concentrations;
- Monitor local, state, national, and world political and economic events impacting the industry;
- ❖ Participate in federal compliance examinations of each institution; and
- Respond promptly to state or national events that can impact the state savings bank industry.

PERFORMANCE SUMMARY AND PROFILE: TEXAS BANKING SYSTEM

STATE-CHARTERED BANKS

Texas state-chartered banks remain profitable, reporting \$2.1 billion in net income in the second quarter of 2019, an increase of \$222.1 million (11.8%) compared with the second quarter of 2018. Higher net interest income and noninterest income contributed to the improved average return on assets of 1.5%, up from 1.4% a year ago. State banks reported an average NIM of 3.8% during the second quarter of 2019, up 23 BP from the year before. More than half of the banks (72.8%) reported year-over-year growth in quarterly net income, with only 2.6% reporting losses, a slight increase from 2.1% in the second quarter of 2018.

Asset quality indicators improved during the first half of the year with the noncurrent loan rate at 0.5%, an improvement from 0.6% during the same period in 2018. The noncurrent loan rate remains below the national rate of 0.8%. The coverage ratio (loan loss reserves relative to noncurrent loans) increased from 177.3% in the second quarter of 2018 to 180.8% in the second quarter of 2019. Net charge-offs to loans and leases also declined favorably by 4 BP to 0.1%. Likewise, noncurrent assets plus other real estate owned as a percent of total assets improved by 4 BP to 0.4%. Compared to Texas, the nation had a weaker performance, with a coverage ratio of 134% and a charge-off rate of 0.4%.

Loan growth remains strong with total loans increasing by \$16.9 billion (10.5%) compared to the same point in time in 2018, supporting the growth in total assets of \$18.6 billion (7.2%). The largest increase occurred in commercial real estate (up \$6.8 billion or 13.6%), 1-4 family residential (up \$471 million or 11.3%), and construction and land development (up \$2.3 billion or 13.8%).

Banks set aside \$143 million in provisions for loan losses during the first half of 2019, a year-over-year increase of \$36.5 million. As a result, banks increased their allowance for loan and lease losses (ALLL) slightly by \$34.1 million (1.9%) compared to June 2018.

Texas banks remain well-capitalized with an average total risk-based capital ratio of 14.4% and a 10.8% leverage ratio, compared to the nation at 14.6% and 9.8%, respectively. An increase in retained earnings helped lift the total equity capital of state-chartered banks by \$4.4 billion (14.4%).

As of June 30, 2019, 97% of state-chartered banks were rated a Composite 1 or a Composite 2. The Department considers any institution with a Uniform Financial Institutions Composite Rating of a 3, 4, or 5 a problem institution.

STATE-CHARTERED THRIFTS

From December 31, 2018, to June 30, 2019, state thrifts had \$125.5 million in net income, compared to \$170.5 million for the first half of 2018. The pretax return on average assets remains strong at 1.2%. From December 31, 2018 to date, non-interest income to assets decreased 79 BP, while non-interest expense decreased 18 BP.

The Texas thrift ratio of nonperforming loans plus other real estate owned to total assets has decreased from 1.9% to 0.6% in the last 12 months, and from 1.1% at December 2018.

State-chartered thrifts experienced a slight increase in the leverage capital levels compared to the end of 2018, from 11.7% to 11.8%, despite the growth in total assets due to capital injections and lower dividends paid. Total risk-based capital ratio decreased slightly or only 6 BP from 16.2% at year-end 2018 to 16.21%.

As of June 30, 2019, 96% of the thrifts were rated a Composite 1 or a Composite 2. The Department considers any institution with a Uniform Financial Institutions Composite Rating of a 3, 4, or 5 a problem institution.

NUMBER OF INSTITUTIONS AND TOTAL ASSETS

FDIC financial data is reflective of FDIC insured institutions only.

Assets in Billions

	6-30-	2019	6-30-2	2018	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	228 <u>24</u> 252	\$276.3 <u>\$25.9</u> \$302.2	237 <u>24</u> 261	\$257.8 <u>\$22.7</u> \$280.5	-9 <u>-0</u> -9	+\$18.5 +\$3.2 +\$21.7
Other states' state-chartered: Banks operating in Texas* Thrifts operating in Texas*	41 <u>0</u> 41	\$69.7 <u>0</u> \$69.7	39 <u>0</u> 39	\$65.4 <u>0</u> \$65.4	+2 <u>0</u> +2	+\$4.3 <u>0</u> +\$4.3
Total State-Chartered Activity	293	\$371.9	300	\$345.9	-7	+\$26.0
National Banks Chartered in Texas Federal Thrifts Chartered in Texas	172 <u>5</u> 177	\$135.3 <u>\$88.9</u> \$224.2	182 <u>5</u> 187	\$138.4 \$84.8 \$223.2	-10 <u>-0</u> -10	-\$3.1 <u>+\$4.1</u> +1.0
Other states' federally-chartered:	20	¢410.0	2.4	¢40F.7	4	ФГ 1
Banks operating in Texas* Thrifts operating in Texas*	28 <u>6</u> 34	\$410.8 <u>\$1.0</u> \$411.8	24 <u>6</u> 30	\$405.7 <u>\$0.3</u> \$406.0	+4 <u>0</u> +4	+\$5.1 <u>+\$0.7</u> +\$5.8
Total Federally-Chartered Activity	211	\$636.0	217	\$629.2	-6	+6.8
Total Banking/Thrift Activity	504	\$1,007.9	517	\$975.1	-13	+\$32.8

^{*}Indicates estimates based on available FDIC information.

RATIO ANALYSIS

As of June 30, 2019 FDIC financial data is reflective of FDIC insured institutions only.

	State- Chartered <u>Banks</u> 228	Texas National <u>Banks</u> 172	All Texas <u>Banks</u> 400	State- Chartered <u>Thrifts</u> 24	Texas Federal <u>Thrifts</u> 5	All Texas <u>Thrifts</u> 29
% of Unprofitable Institutions	2.63%	3.49%	3.00%	4.17%	20.00%	6.90%
% of Institutions with Earnings Gains	72.81%	72.09%	72.50%	66.67%	40.00%	62.07%
Yield on Earning Assets	4.62%	4.59%	4.61%	4.98%	5.35%	5.27%
Net Interest Margin	3.86%	3.74%	3.82%	3.71%	5.00%	4.72%
Return on Assets	1.56%	1.53%	1.55%	1.01%	1.08%	1.06%
Return on Equity	12.26%	14.25%	12.85%	8.49%	11.03%	10.38%
Net Charge-offs to Loans	0.12%	0.15%	0.13%	0.10%	1.41%	1.07%
Earnings Coverage of Net Loan C/Os	26.84	18.56	23.43	18.93	2.79	3.17
Loss Allowance to Loans	1.03%	1.09%	1.05%	0.74%	1.59%	1.36%
Loss Allowance to Noncurrent Loans	180.83%	160.27%	172.93%	88.58%	118.04%	112.62%
Noncurrent Assets+OREO to Assets	0.44%	0.52%	0.46%	0.68%	0.74%	0.73%
Net Loans and Leases to Core Deps	87.31%	91.07%	88.57%	99.48%	68.25%	74.51%
Equity Capital to Assets	12.88%	11.03%	12.27%	11.82%	9.91%	10.34%
Core Capital (Leverage) Ratio	10.84%	10.50%	10.73%	11.45%	9.86%	10.22%
Common Equity Tier 1 Capital	13.33%	13.67%	13.44%	15.49%	15.23%	15.30%

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 June 30, 2019 FDIC financial data is reflective of FDIC insured institutions only. Assets in Billions

	< \$1 199	<u>\$1 - \$10</u> 24	<u>>\$10</u> 5
% of Unprofitable Institutions	3.02%	NA	NA
% of Institutions with Earnings Gains	70.85%	83.33%	100.00%
Yield on Earning Assets	4.78%	5.06%	4.37%
Net Interest Margin	3.98%	4.13%	3.70%
Return on Assets	1.40%	1.45%	1.66%
Return on Equity	12.12%	10.57%	13.12%
Net Charge-offs to Loans	0.07%	0.10%	0.14%
Earnings Coverage of Net Loan C/Os	35.41	29.42	24.37
Loss Allowance to Loans	1.17%	0.96%	1.02%
Loss Allowance to Noncurrent Loans	188.77%	154.46%	192.96%
Noncurrent Assets+OREO to Assets	0.47%	0.57%	0.36%
Net Loans and Leases to Core Deps	78.25%	102.61%	84.46%
Equity Capital to Assets	11.91%	13.84%	12.80%
Core Capital (Leverage) Ratio	11.39%	11.75%	10.22%
Common Equity Tier 1 Capital	16.81%	14.52%	11.80%

RATIO ANALYSIS BY ASSET GROUPS FOR STATE-CHARTERED THRIFTS

As of June 30, 2019 FDIC financial data is reflective of FDIC insured institutions only. Assets in Billions

	< <u>\$1</u> 17	<u>\$1 - \$10</u> 7	<u>>\$10</u> 0
% of Unprofitable Institutions	NA	14.29%	NA
% of Institutions with Earnings Gains	64.71%	71.43%	NA
Yield on Earning Assets	5.13%	4.94%	NA
Net Interest Margin	4.04%	3.63%	NA
Return on Assets	0.93%	1.02%	NA
Return on Equity	8.59%	8.47%	NA
Net Charge-offs to Loans	0.04%	0.11%	NA
Earnings Coverage of Net Loan C/Os	39.46	17.08	NA
Loss Allowance to Loans	0.84%	0.71%	NA
Loss Allowance to Noncurrent Loans	141.03%	79.61%	NA
Noncurrent Assets+OREO to Assets	0.55%	0.71%	NA
Net Loans and Leases to Core Deps	99.95%	99.36%	NA
Equity Capital to Assets	10.87%	12.04%	NA
Core Capital (Leverage) Ratio	11.03%	11.55%	NA
Common Equity Tier 1 Capital	15.27%	15.54%	NA

COMPARISON REPORT

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

June 30, 2019

	State B	anks*	State T	hrifts
	End of Period	% of Total Assets	End of Period	% of Total Assets
Number of Institutions	228		24	
Number of Employees (full-time equivalent) (In millions)	41,880		3,323	
Total Assets	\$276,327		\$25,862	
Net Loans and Leases	\$176,031	63.70%	\$17,554	67.88%
Loan Loss Allowance	\$1,836	0.66%	\$131	0.51%
Other Real Estate Owned	\$187	0.07%	\$27	0.10%
Goodwill and Other Intangibles	\$6,754	2.44%	\$321	1.24%
Total Deposits	\$221,40	80.12%	\$20,266	78.36%
Federal Funds Purchased and Repurchase Agreements	\$3,043	1.10%	\$13	0.05%
Other Borrowed Funds	\$13,029	4.72%	\$2,190	8.47%
Equity Capital	\$35,64	12.88%	\$3,056	11.82%
Memoranda:				
Noncurrent Loans and Leases	\$1,015	0.37%	\$148	0.57%
Earning Assets	\$251,568	91.04%	\$23,961	92.65%
Long-term Assets (5+ years)	\$71,422	25.85%	\$7,146	27.63%
	Year-to-Date	% of Avg. Assets†	Year-to-Date	% of Avg. Assets†
Total Interest Income	\$5,677	4.21%	\$576	4.61%
Total Interest Expense	\$931	0.69%	\$147	1.18%
Net Interest Income	\$4,746	3.52%	\$429	3.43%
Provision for Loan and Lease Losses	\$143	0.11%	\$12	0.10%
Total Noninterest Income	\$1,531	1.14%	\$13	0.10%
Total Noninterest Expense	\$3,594	2.66%	\$287	2.30%
Securities Gains	-\$2	-0.00%	\$7	0.06%
Net Income	\$2,098	1.56%	\$126	1.01%
Memoranda:				
Net Loan Charge-offs	\$100	0.07%	\$8	0.07%
Cash Dividends	\$1,398	1.04%	\$12	0.10%

^{*}Excludes branches of state-chartered banks of other states doing business in Texas. As of June 30, 2019, there are an estimated 41 out-of-state state-chartered institutions with \$69.7 billion in assets. Assets are based upon the June 30, 2018, 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 June 30, 2019.

PERFORMANCE SUMMARY: UNITED STATES BANKING SYSTEM

FDIC QUARTERLY BANKING PROFILE

Second Quarter 2019 - <u>www.fdic.gov</u>
All Institutions Performance

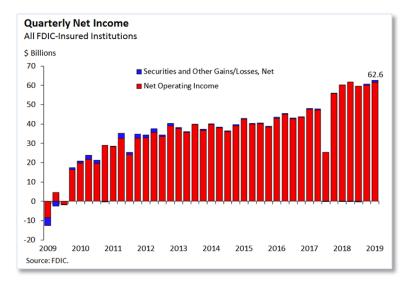
↑ Net Income Rises 4.1% to \$62.6 Billion on Higher Net Interest Income

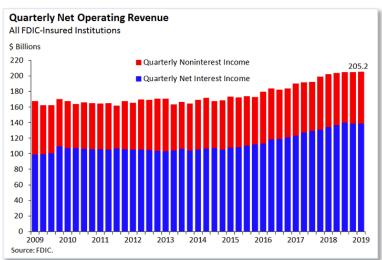
During the three months ended June 30, quarterly net income for the 5,303 FDIC-insured commercial banks and savings institutions totaled \$62.6 billion, an increase of \$2.5 billion (4.1%) from a year ago. Improvement in quarterly net income was attributable to higher net interest income and an increase in realized securities gains. Almost 60% of all banks reported annual increases in net income from the year-ago quarter, while less than 4 percent of banks were unprofitable during the second quarter. The average return on assets increased to 1.38% from 1.37% in second quarter 2018.

Net Interest Income Expands 3.7% from a Year Earlier

Net interest income of \$139 billion increased by \$4.9 billion (3.7%) from a year earlier, the slowest year-over-year growth rate since fourth quarter 2015. Slightly more than three-quarters of all banks (75.1%) reported an increase in net interest income from second-quarter 2018. Net interest margin for the banking industry was 3.39% during the quarter, up slightly from 3.38% a year ago but below a recent high of 3.4% in fourth quarter 2018. Since year-end 2018, the average yield on earning assets rose by 1 BP while the average cost of funding increased by 11 BP. During this period, the largest increase in the average cost of funding was among banks with assets from \$1 billion to \$10 billion.

Loan-Loss Provisions Increase More Than 9% from Second Quarter 2018





Banks set aside \$12.8 billion in loan-loss provisions during the second quarter, an increase of \$1.1 billion (9.3%) from a year earlier. More than one-third of all banks (36.1%) reported year-over-year increases in loan-loss provisions. Loan-loss provisions as a percentage of net operating revenue increased from 5.8% in second quarter 2018 to 6.2%.

↓ Noninterest Income Falls 2.7% from a Year Earlier

Noninterest income fell by \$1.8 billion (2.7%) from 12 months ago, although less than half of all banks (41%) reported declines. The overall decline in noninterest income was driven primarily by servicing fees, which fell by \$3.1 billion from a year ago to negative \$332.7 million, and investment banking fees, which declined by \$533.5 million (16.1%). Increases in all other noninterest income (up \$1.2 billion, or 3.8%) and trading revenue (up \$742.5 million, or 9.8%) helped offset the decline in noninterest income during the year.

Noninterest Expense Increases from Second Quarter 2018

Noninterest expense rose by \$1.6 billion (1.4%) from a year ago. The increase was widespread with 75.3% of all banks contributing to the growth. Salary and employee benefits rose by \$1.8 billion (3.2%) from a year ago, as average assets per employee increased from \$8.4 million to \$8.8 million.

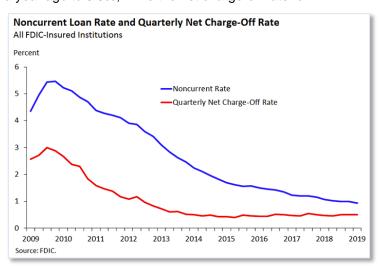
Net Charge-Offs Rise 9.3% from a Year Ago

Banks charged off \$12.8 billion in uncollectable loans during the second quarter, up \$1.1 billion (9.3%) from a year ago. The overall increase in net charge-offs was led by credit card balances (up \$669.4 million, or 8.3%) and commercial and industrial loans (up \$368.9 million, or 25.2%). The average net charge-off rate increased modestly from 0.4% in second quarter 2018 to 0.5%. The net charge-off rate for commercial and industrial loans rose 5 BP from a year ago to 0.3%, while the net charge-off rate for

credit cards rose by 12 BP from a year ago to 4.03%, surpassing the 4% level for the first time since second quarter 2012.

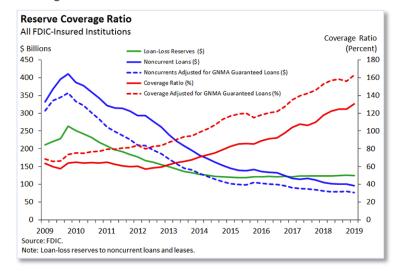
↑ Noncurrent Loan Rate Improves to 0.93%

Noncurrent loan balances (90 days or more past due or in nonaccrual status) declined by \$4.9 billion (4.8%) from first quarter 2019. Slightly more than half of all banks (50.6%) reported declines in noncurrent loan balances. The quarter-over-quarter improvement was reflected in residential mortgages, which fell by \$2.1 billion (5%), and credit card balances, which declined by \$1.1 billion (8.7%). The average noncurrent rate declined by 6 BP from the previous quarter to 0.9%.



1 Loan-Loss Reserves Decline Modestly from the Previous Quarter

Loan-loss reserves totaled \$124.9 billion at the end of second quarter, down \$292.5 million (0.2%) from the first quarter. Just over one-quarter of all banks (26.3%) reported quarterly declines in loan-loss reserves. At banks that itemize their loan-loss reserves, which are banks with total assets of \$1 billion or more and represent 91% of total industry loan-loss reserves, the quarterly decline was attributable to residential real estate (down \$762.7 million, or 6.5%) and credit cards (down \$59.3 million, or 0.1%). Loan-loss reserves for commercial loans increased by \$445.2 million (1.4%) from the previous quarter.



↑ Total Assets Increase from First Quarter 2019

Total assets rose by \$177.3 billion (1%) from the previous quarter. Cash and balances due from depository institutions declined by \$81.5 billion (4.8%). Banks increased their investment securities by \$54.8 billion (1.5%), as mortgage-backed securities rose by \$65 billion (2.9%) and state and municipal securities declined by \$14.5 billion (4.5%). After reaching an all-time high of 35.8% in second quarter 2018, the percentage of industry assets maturing or repricing in more than three years continued to decline, falling to 35.1% in the second quarter.

Total loan and lease balances rose by \$152.3 billion (1.5%) from first quarter 2019. Almost three-quarters of all banks (72.7%) reported quarterly increases in their loan and lease balances. All major loan categories reported quarter-over-quarter increases, led by consumer loans, which rose by \$42.2 billion (2.5%), and residential mortgage loans, which increased by \$38.3 billion (1.8%). Over the past year, total loan and lease balances rose by \$443 billion (4.5%), a modest increase from the 4.1% annual growth rate reported last quarter. Commercial and industrial loans had the largest dollar increase from a year ago, increasing by \$142.8 billion (6.9%).

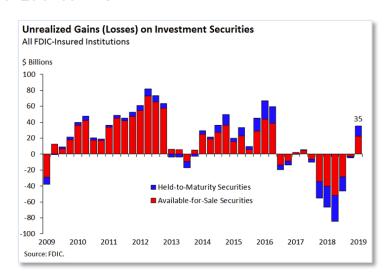
Deposits Increase from First Quarter 2019

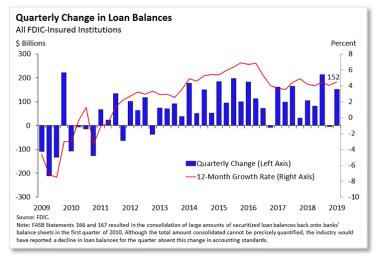
Total deposit balances increased by \$114 billion (0.8%) from the previous quarter, as deposits in foreign offices increased by \$51.3 billion (4.1%) and domestic office deposits rose by \$62.7 billion (0.5%). Domestic deposits in noninterest-bearing accounts rose by \$37.2 billion (1.2%), while interest-bearing deposits increased by \$25.5 billion (0.3%). Nondeposit liabilities increased by \$25.1 billion (1.2%) from the previous quarter, as other liabilities rose by \$25.2 billion (6.2%).

Equity capital rose to \$2.1 trillion in the second quarter, up \$38.6 billion (1.9%) from the previous quarter, led by accumulated other comprehensive income. Declared dividends totaled \$48.6 billion, an increase of \$10.8 billion (28.6%) from second quarter 2018. At end of second quarter, 16 insured institutions with \$2.2 billion in total assets were below the requirements for the well-capitalized category as defined for Prompt Corrective Action purposes.

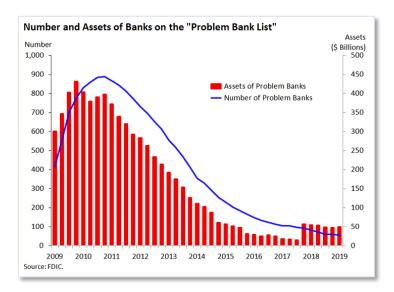
1 Five New Banks Are Added in Second Quarter 2019

The number of FDIC-insured commercial banks and savings institutions declined from 5,362 to 5,303 during the three months ended June 30. Five new banks were added during the second quarter, 60 institutions were absorbed by mergers, and one bank failed. The number of institutions on the FDIC's





"Problem Bank List" declined from 59 to 56 at the end of second quarter, the lowest number since first quarter 2007. Total assets of problem banks increased from \$46.7 billion to \$48.5 billion.



SNAPSHOT STOCK PERFORMANCE SOUTHWEST REGIONAL BANKS (MSECTOR415) SEPTEMBER 2019

Name	Last	Trade	52 Wk R		PE	EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	09/04	33.36	32.29	41.45	9.93	3.36	233.89M	1.00	2.97%
BancFirst Corporation	09/04	52.67	48.07	64.25	13.37	3.94	1.68B	1.28	2.38%
BOK Financial Corporation	09/04	75.24	69.96	105.22	11.17	6.74	5.357B	2.00	2.63%
Cass Information Sys, Inc.	09/04	51.34	44.35	60.68	24.93	2.06	743.886M	1.04	2.06%
Commerce Bancshares, Inc.	09/04	56.85	53.40	68.70	15.17	3.75	6.24B	1.04	1.82%
Cullen Frost Bankers, Inc.	09/04	81.50	79.86	112.68	11.44	7.13	5.108B	2.84	3.42%
Enterprise Fin Serv Corp	09/04	38.82	36.09	56.35	11.72	3.31	1.044B	0.64	1.62%
First Community Corp S C	09/04	17.95	17.08	26.10	12.73	1.41	132.766M	0.44	2.46%
First Financial Bankshares, Inc.	09/04	30.19	26.73	33.43	25.81	1.17	4.101B	0.48	1.57%
First Financial Northwest, Inc.	09/04	13.85	13.20	17.43	13.96	0.99	143.643M	0.36	2.62%
Great Southern Bancorp, Inc.	09/04	55.36	43.30	60.94	10.41	5.32	786.81M	1.28	2.27%
Guaranty Fed Bancshares, Inc.	09/04	24.10	20.11	27.39	9.98	2.42	107.026M	0.52	2.17%
Heartland Financial USA, Inc.	09/04	42.28	40.80	61.95	10.39	4.07	1.551B	0.72	1.65%
International Bancshares Corp	09/04	35.38	32.04	47.95	11.05	3.20	2.271B	1.00	2.81%
Landmark Bancorp, Inc.	09/23	23.34	21.00	28.04	10.04	2.34	102.82M	0.80	3.35%
Mackinac Financial Corp	09/04	14.90	12.60	17.29	12.06	1.24	158.453M	0.48	3.39%
MidWest One Finl Group, Inc.	09/04	28.06	23.80	35.20	11.17	2.51	454.272M	0.81	2.80%
Prosperity Bancshares, Inc.	09/04	64.03	57.01	76.10	13.53	4.73	4.397B	1.64	2.59%
QCR Holdings, Inc.	09/04	35.10	30.15	43.90	11.53	3.05	553.867M	0.24	0.68%
Solera National Bancorp, Inc.	09/04	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Texas Capital Bancshares, Inc.	09/04	51.48	47.86	91.50	8.40	6.13	2.59B	N/A	N/A
Two Rivers Fin Group	09/04	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
UMB Financial Corporation	09/04	61.41	57.00	76.38	15.29	4.01	3.012B	1.20	1.96%
West Bancorp Incorporated	09/04	20.54	18.06	24.35	12.01	1.71	336.441M	0.84	4.11%

Source: Yahoo Finance (September 2019) N/A – Indicates information was not available.

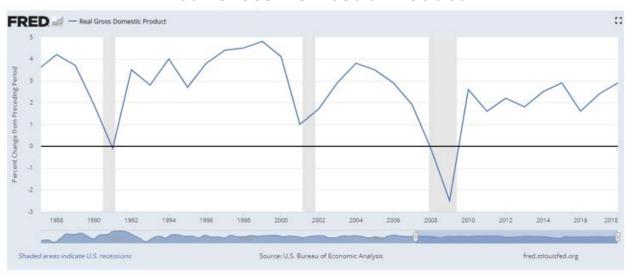
SNAPSHOT STOCK PERFORMANCE SOUTHWEST REGIONAL BANKS (MSECTOR415) SEPTEMBER 2018

Name	Last	Trade	52 Wk R	_	PE	EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	09/11	37.70	26.45	37.92	17.83	2.11	265.36M	0.92	2.58%
BancFirst Corporation	09/11	63.05	50.10	65.70	20.56	3.06	2.06B	1.20	1.89%
BOK Financial Corporation	09/11	104.36	80.11	107.00	18.08	5.77	5.77B	2.00	1.93%
Cass Information Sys, Inc.	09/11	69.50	54.37	74.49	31.17	2.23	854.46M	1.04	1.47%
CoBiz Incorporated	09/11	23.33	16.71	23.48	25.08	0.93	980.36M	0.40	1.72%
Commerce Bancshares, Inc.	09/11	71.47	54.13	72.55	20.64	3.46	7.62B	0.94	1.32%
Cullen Frost Bankers, Inc.	09/11	110.57	85.74	121.66	17.71	6.24	7.06B	2.68	2.41%
Enterprise Fin Serv Corp	09/11	55.70	38.40	58.15	19.49	2.86	1.28B	0.48	0.86%
First Community Corp S C	09/11	25.45	19.60	26.25	23.37	1.09	193.54M	0.40	1.58%
First Financial Bankshares, Inc.	09/11	61.50	39.10	61.65	30.13	2.04	4.16B	0.84	1.38%
First Financial Northwest, Inc.	09/11	17.29	13.13	21.81	12.62	1.37	188.71M	0.32	1.86%
Great Southern Bancorp, Inc.	09/11	59.20	48.10	61.65	16.44	3.60	837.21M	1.12	1.89%
Guaranty Fed Bancshares, Inc.	09/11	24.90	20.41	25.00	35.07	0.71	110.84M	0.48	1.92%
Heartland Financial USA, Inc.	09/11	60.75	43.40	61.95	21.70	2.80	2.09B	0.56	0.92%
International Bancshares Corp	09/11	47.75	35.60	47.95	16.71	2.86	3.16B	0.66	1.39%
Landmark Bancorp, Inc.	09/11	28.95	27.01	30.40	25.39	1.14	120.51M	0.80	2.76%
Liberty Bancorp, Inc.	09/11	26.70	21.01	27.00	16.48	1.62	96.12M	0.27	1.00%
Mackinac Financial Corp	09/11	16.32	14.22	17.58	27.34	0.60	174.83M	0.48	2.92%
MidWest One Finl Group, Inc.	09/11	33.88	30.56	37.94	20.03	1.69	413.99M	0.78	2.30%
North Dallas Bank & Trust Co. TX	09/11	87.00	N/A	N/A	35.22	2.47	223.50M	0.72	0.83%
Prosperity Bancshares, Inc.	09/11	75.76	67.27	79.20	18.13	4.18	5.29B	1.44	1.92%
QCR Holdings, Inc.	09/11	43.30	40.40	49.70	15.67	2.76	678.26M	0.24	0.56%
Solera National Bancorp, Inc.	09/11	10.00	N/A	N/A	33.90	0.29	40.58M	NA	NA
Texas Capital Bancshares, Inc.	09/11	89.35	74.05	103.05	18.93	4.72	4.48B	NA	NA
Two Rivers Fin Group	09/11	35.15	N/A	N/A	15.35	2.29	82.46M	0.62	1.76%
UMB Financial Corporation	09/11	75.72	65.24	82.14	13.88	5.45	3.79B	1.16	1.53%

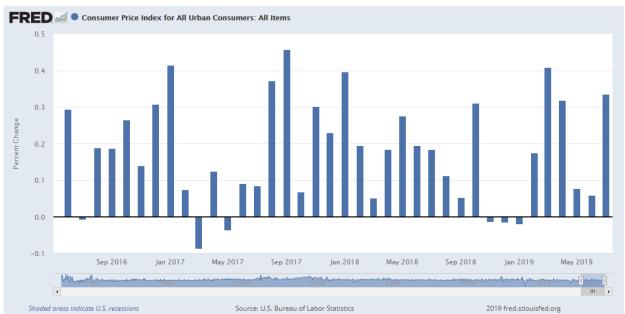
Source: Yahoo Finance (September 2018) N/A – Indicates information was not available.

NATIONAL ECONOMIC TRENDS

Real Gross Domestic Product

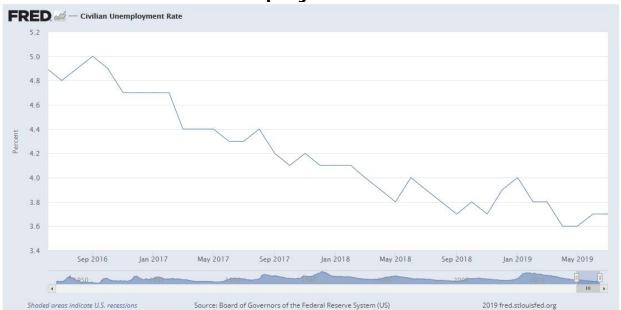


Consumer Price Index

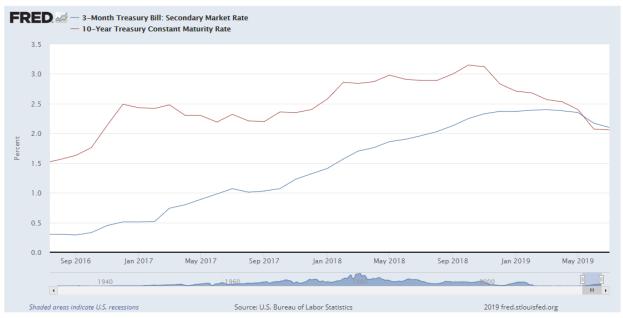


Source: Federal Reserve Bank of St. Louis, National Economic Trends, September 2019.

Unemployment Rate

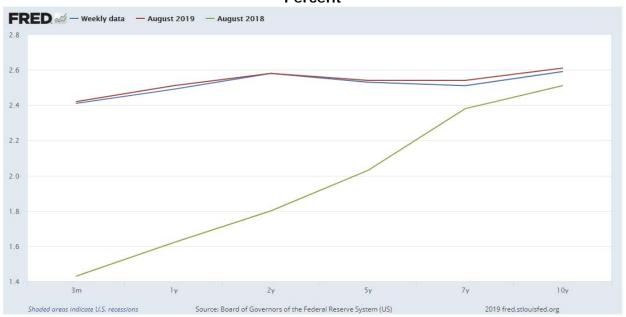


Interest Rates

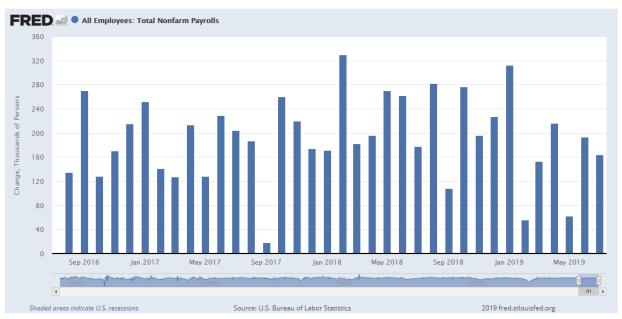


Source: Federal Reserve Bank of St. Louis, National Economic Trends, September 2019.

Treasury Yield Curve



Change in Nonfarm Payrolls



Source: Federal Reserve Bank of St. Louis, National Economic Trends, September 2019.

ECONOMIC REPORTS AND FORECASTS: UNITED STATES

FEDERAL RESERVE BANK, DALLAS NATIONAL UPDATE

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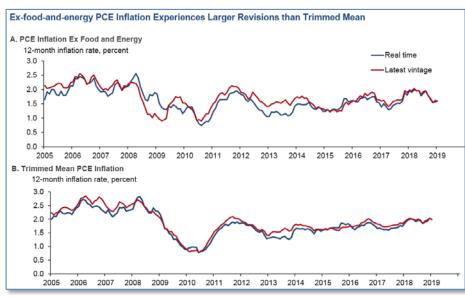
Another Benefit of Trimming: Smaller Inflation Revisions

With the Dallas Fed's Trimmed Mean Personal Consumption Expenditures (PCE) inflation rate, what you see in real time is closer to what you get after revision than is the case with the more conventional measure of core inflation, PCE excluding food and energy.

Many of the data series that economists and policymakers work with are subject to revision. Initial releases of real gross domestic product or nonfarm payroll employment are estimates based on incomplete source data; over time, as more complete source data become available, the estimates are revised to paint a more accurate picture. Revisions may also incorporate improvements in statistical agencies' data sources or methods over time.

The same is true of inflation measures such as the PCE excluding food and energy and the Trimmed Mean PCE inflation rate. Compared with ex-food-and-energy PCE inflation, the trimmed mean is subject to smaller revisions on average and, in particular, is less prone to very large revisions. The accuracy of real-time signals is likely to be important during monetary policy deliberations.

Accuracy of Inflation Measures



Source: Federal Reserve Bank of Dallas

The two panels of this chart show 12-month inflation rates for PCE excluding food and energy (top panel) and the trimmed mean (bottom panel) over the period for which we have real-time trimmed mean data. The red line in each panel represents current data as of today, with observations at earlier dates having gone through multiple revisions. The blue line in each panel represents 12-month inflation rates as they were available in real time, at first release (that is, unrevised). Note that the vertical scales are the same in the upper and lower panels.

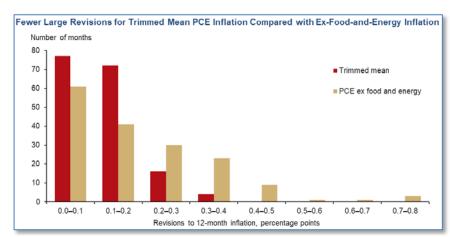
¹ Jim Dolmas, Mine Yücel, and Michael D. Plante

The data presented are through May 2019, and so do not reflect the most recent annual revision by the Bureau of Economic Analysis.

On average, over the entire period, the trimmed mean has the edge in terms of revision size—in absolute value, the average revision to 12-month ex-food-and-energy inflation was 0.19% points versus 0.12% points for the trimmed mean. More notable, though, is the difference in the frequency of very large revisions.

This chart plots a histogram of the revisions to 12-month inflation (in absolute value) reflected in the chart; the height of the bars shows the number of months (out of 169 total) in which the revisions fell in the ranges 0.0–0.1 percentage points, 0.1–0.2 percentage points, and so forth.

In almost 90% of the months shown, revisions to 12-month trimmed mean inflation are less than 0.2 percentage points in absolute value. For ex-food-and-energy, in contrast, revisions exceed 0.2 percentage points in about 40% of the months,



Source: Federal Reserve Bank of Dallas

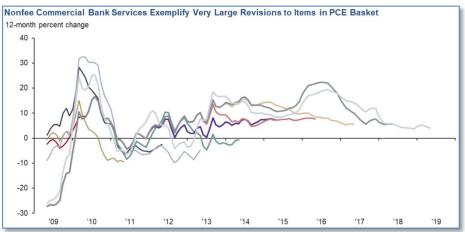
including a few months where the revisions were between 0.7 and 0.8 percentage points.

Source of the Difference

Unlike the ex-food-and-energy measure, which always excludes prices for food and energy (and only food and energy), the trimmed mean excludes the most extreme price changes in the PCE basket each month, whether they come from food, energy or other categories. As it turns out, trimming the most extreme price changes also leads to less susceptibility to revision.

This benefit from trimming hinges on the correlation between a component series getting substantially revised and its likelihood of being excluded in the trimmed mean. On average, bigger revisions occur in more volatile series, which are more likely to have been excluded from the trimmed mean in the first place.

To illustrate just how large the revisions to some series can be, this chart plots various vintages of data for the PCE price index for nonfee commercial bank services, which includes services such as no-fee

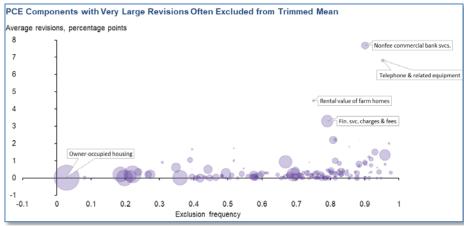


Source: Federal Reserve Bank of Dallas

checking and savings accounts. Each line in the chart displays 12-month inflation in this component series as observed at the time of the release of data for May, covering 2010 to 2019. The revisions over time are large and even switch signs—the observation for May 2013, for example, went from a first release value of negative 4.9% to a current estimate of positive 7.8%.

As it turns out, the price index for nonfee commercial bank services is one of the most volatile components in the PCE basket; consequently, it's been excluded from the trimmed mean about 90% of the time. A similar pattern holds, on average, for other components that tend to have very large revisions. This chart demonstrates this pattern.

Each bubble in the chart represents a component in the PCE basket. A bubble's height measures the



Source: Federal Reserve Bank of Dallas

typical revision for that component as the average absolute change, from first release to current, in the component's 12-month inflation rate for May, again covering 2010 to 2019. A bubble's position on the horizontal axis measures the component's frequency of exclusion from the trimmed mean over the trimmed mean's history. Finally, the bubble sizes are proportional to the components' weights in the PCE basket.

The large bubble at the lower left of the chart is the price index for owner-occupied housing, which has a weight of roughly 11% in the PCE basket. The large bubble in the upper right is the price index for nonfee commercial bank services whose revisions were plotted in the previous chart.

Avoiding Missteps

Inflation forecasts (and possibly monetary policy choices) would no doubt differ if inflation were known to be one-half or three-quarters of a percent higher or lower than the latest estimates indicate. If the error in measurement is realized only months or years after decisions are made, earlier decisions may come to be viewed as mistakes. Missteps of this sort are less likely when decisions are based on indicators that are less prone to hefty revisions.

The Trimmed Mean PCE inflation rate was designed to filter out transitory noise in headline PCE inflation, thus providing a better gauge of inflation's trend. Previous Dallas Fed Economics posts argued that, compared with ex-food-and-energy inflation, the trimmed mean provides less-biased real-time signals about headline inflation's trend and more reliable signals about whether cyclical pressures are building.

As we've seen, there is another benefit of the trimmed mean's design: Compared with the ex-food-and-energy measure, it's more robust to revisions to the underlying data that go into it.

GDP Gain Realized in Shale Boom's First 10 Years

The U.S. shale boom—a product of technological advances in horizontal drilling and hydraulic fracturing that unlocked new stores of energy—has benefited the nation's oil trade balance and oil-producing regions and led to unusually large employment and output gains.

While quantifying the boom's benefits is difficult, we show in a working paper analyzing the shale boom during 2010–15 that the benefits extended to the overall economy, adding perhaps 1% to U.S. gross domestic product (GDP) during that time.

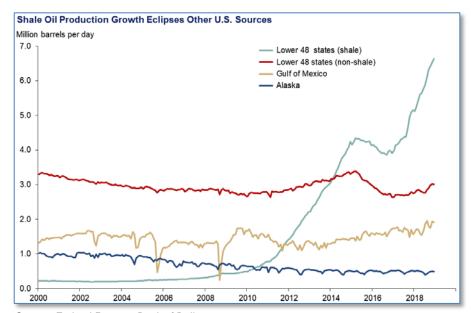
The widespread use of horizontal drilling and hydraulic fracking started in the mid-2000s with natural gas production in the Barnett Shale in North Central Texas. By the start of this decade, the technique had been applied to several shale oil formations—most notably, the Permian Basin in West Texas and New Mexico—with remarkable results.

U.S. shale oil production rose by more than 7 million barrels per day (mb/d) from 2010 to 2019. Total U.S. oil production, which had declined to 4.4 mb/d in mid-2005, has since nearly tripled to 12.2 mb/d.

Handful of States Experience Boom

Two states account for the bulk of U.S. shale oil production: Texas and North Dakota. Since the beginning of 2010, North Dakota's output has risen from 235,000 barrels per day to the current 1.4 mb/d. Texas' crude oil output has climbed from 1.1 to 5 mb/d, with the state producing more than half of U.S. shale oil.

In the early years of the shale boom from 2011 to 2014, when oil prices averaged \$95 per barrel, these two states experienced strong employment and GDP growth. North Dakota's GDP expansion was 4.5 times that of the U.S., while Texas' was



Source: Federal Reserve Bank of Dallas

1.5 times the U.S. rate. Similarly, North Dakota's employment growth averaged 5.3% and Texas' averaged 3%, while U.S. employment expanded only 1.7%.

Surprising Production Overwhelms Pipelines

The tremendous amount of oil coming from shale during 2010–15 depressed the benchmark West Texas Intermediate (WTI) crude oil price. The differential between domestic WTI and international benchmark Brent widened considerably, to a high of \$27, in August 2011.

There were two reasons for the weakness in WTI prices relative to Brent. One was inadequate pipeline capacity in the Permian Basin, where much of the shale oil is produced. The other was the U.S. crude oil export ban. The ban, a holdover from the early 1970s following the OPEC oil embargo of 1973–74, was finally lifted at the end of 2015.

As oil production increased, the ban had become an effective constraint on prices from late 2013 until the restriction ended.

U.S. Becomes Major Crude Oil Exporter

In 2006, before the shale boom, the U.S imported about twice the oil it produced. That share has declined to two-thirds of domestic production. As a result, the U.S. petroleum trade balance narrowed from negative \$492 billion in 2005 to negative \$136 billion in 2018.

U.S. exports of petroleum products have steadily risen, increasing fivefold to 5 mb/d since 2006. In recent years, the U.S. has also become a major exporter of crude oil, with exports rising from less than 0.5 mb/d in December 2015 to 3 mb/d in July 2019.

Model Points to Broader Impacts

Our study, described in the working paper, models the shale oil boom explicitly and can assess the quantitative impact of the boom on the overall economy. Our analysis employs a two-country, multiperiod equilibrium model describing the decisions and interactions of households, oil producers, refiners and the

nonoil production sector. It assesses the boom's implications from 2010 to 2015 by comparing the shale boom's effect on a model economy with what happens in the economy absent the boom.

We find that the shale boom caused both oil prices and oil product prices to fall. Although refiners amped up output by using a greater amount of their refining capacity, the sheer magnitude of crude production was so high that not all the oil could be absorbed, leading to a significant decline in imports. The decline in imports generated a major improvement in the trade balance for oil, amounting to about 1% of GDP.

Given that crude oil accounts for the bulk of the marginal cost of producing fuels—such as diesel and gasoline—the model shows that the shale boom led to 14% lower fuel prices in the U.S. and in the rest of the world. The magnitude of the decline in fuel prices was similar in the U.S. and the rest of the world because, unlike with crude oil, there had been free trade in refined products such as fuels.

Measuring the Overall Effect

How did the shale boom affect the rest of the economy? Our model indicates that cheaper fuel prices allowed households to consume about 3.6% more fuel. Households also increased their consumption of other goods because the decline in fuel prices increased their disposable income, leading to a 0.7% increase in overall consumption.

The decline in fuel prices increased firm fuel use in the energy sector and in non-oil sectors, according to the model. Our model shows that lower fuel prices led to higher output in non-oil sectors and higher U.S. aggregate investment. Altogether, these effects led to a GDP increase of 1% in 2015 relative to 2010.

Given that the actual increase in U.S. GDP was 10% over the period, the shale boom accounted for onetenth of the overall increase. Although the oil sector makes up less than 1.5% of the economy, our results suggest that the shale boom generated significant positive spillovers.

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

Data Series	Mar 2019	Apr 2019	May 2019	June 2019	July 2019	Aug 2019
Unemployment Rate (1)	3.8	3.6	3.6	3.7	3.7	3.7
Change in Payroll Employment (2)	153	216	62	^(P) 193	^(P) 164	^(P) 130
Average Hourly Earnings (3)	27.71	27.75	27.82	^(P) 27.90	^(P) 27.98	^(P) 28.11
Consumer Price Index (4)	0.4	0.3	0.1	0.1	0.3	0.1
Producer Price Index (5)	0.4	(P) 0.3	^(P) 0.1	^(P) 0.1	(P) 0.2	^(P) 0.1
U.S. Import Price Index (6)	0.6	0.2	^(R) 0.2	^(R) -1.1	^(R) 0.2	(R) -0.5

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.
- (P) Preliminary
- (R) Revised

Data Series	2nd Qtr 2018	3rd Qtr 2018	4th Qtr 2018	1st Qtr 2019	2nd Qtr 2019
Employment Cost Index (1)	0.7	0.8	0.7	0.7	0.6
Productivity (2)	1.8	1.2	0.1	3.5	2.3

Footnotes:

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

Data extracted: September 24, 2019

THE FEDERAL RESERVE BOARD THE BEIGE BOOK — SEPTEMBER 4, 2019, EXCERPT

Overall Economic Activity

On balance, reports from Federal Reserve Districts suggested that the economy expanded at a modest pace through the end of August. Although concerns regarding tariffs and trade policy uncertainty continued, the majority of businesses remained optimistic about the near-term outlook. Reports on consumer spending were mixed, although auto sales for most Districts grew at a modest pace. Tourism activity since the previous report remained solid in most reporting Districts. On balance, transportation activity softened, which some reporting Districts attributed to slowing global demand and heightened trade tensions. Home sales remained constrained in the majority of Districts due primarily to low inventory levels, and new home construction activity remained flat. Commercial real estate construction and sales activity were steady, while the pace of leasing increased slightly over the prior period. Overall manufacturing activity was down slightly from the previous report. Among reporting Districts, agricultural conditions remained weak as a result of unfavorable weather conditions, low commodity prices, and trade-related uncertainties. Lending volumes grew modestly across several Districts. Reports on activity in the nonfinancial services sector were positive, with reporting Districts noting similar or improved activity from the last report.

Highlight of Dallas Federal Reserve

Economic activity continued to expand moderately. Retail sales were flat and drilling activity dipped, but output growth strengthened in manufacturing. Selling price increases were modest, as most firms were limited in their ability to pass through higher costs. Hiring continued at a steady pace. Outlooks were mixed, with tariffs, trade tensions, stock market volatility, and slowing global growth driving up uncertainty.

ECONOMIC REPORTS AND FORECASTS: STATE OF TEXAS

FEDERAL RESERVE BANK, DALLAS

August/September 2019 - www.dallasfed.org 1

Services, Construction Lead Texas as Manufacturing, Energy Soften

The Texas economy continues its expansion, paced by robust job gains in construction and services. Sluggish growth in manufacturing is attributable to softening demand for durables, which appears tied to a slowing energy sector. Unemployment is at a record low, keeping wage pressures elevated.

Outlooks are mixed, with trade uncertainty, a slowing global economy and oil price volatility weighing on future expectations. Texas economic indicators were mixed in December. The state finished 2018 with strong job growth and continued labor market tightness, but forward-looking indicators suggest that the state's economic outlook has softened. The leading index dipped for the third month, and the Dallas Fed's 2019 employment forecast shows slower growth than the state's long-run average. The Texas Business Outlook Surveys suggest that current output growth slowed, and firm sentiment about broader economic conditions and company outlooks deteriorated.

1 Labor Market on Solid Footing

Texas employment growth exceeded expectations in June, climbing 3.9%. The pace of annualized job creation in the second quarter (3.2%) was stronger than in the first quarter (2.2%).

Texas payrolls expanded a solid 2.7% annualized rate (167,500 jobs) in the first half of the year, outperforming the long-run average and placing the state third in the country (behind Idaho and Washington), ahead of its eighth place ranking in 2018. Texas' unemployment rate dipped from 3.5% in May to 3.4% in June, a record low for the state.



Source: Federal Reserve Bank of Dallas

Job Growth Decelerates in the Goods Sector

Payroll expansion remains mostly broad based, although the pace of growth varied across sectors. Job growth in the goods sector slowed from 4.3% in 2017–18 to 3% (annualized) in the first half of 2019. Growth was supported by strength in construction payrolls, which climbed an annualized 9.7% in June and 6% year to date.

¹ Laila Assanie, Chloe N. Smith, Keith R. Phillips, and Alexander T. Abraham

Employment in the Texas energy sector dipped again in June and is down 1.8% in the first half of 2019 after growing 10.2% in 2018. Manufacturing job growth slowed to 0.9% in the first half of 2019 from 3.5% in 2018.

Service sector payrolls maintained a broad expansion, with growth particularly strong in professional and business services, financial services, leisure and hospitality, and education and health services. Other large sectors, such as government and trade, transportation and utilities, added jobs at a more modest pace. The softer growth in trade, transportation and utilities was partly due to weakness in retail employment.

All service-providing industries grew faster in Texas than in the nation during the first half of the year.

Job Gains Strong in Major Metros; Oil Patch Slows

Job growth accelerated in most major metros during the second quarter, with Austin rising an annualized 4.7%; Fort Worth, 2.4%; and Houston, 3.6%. Payroll expansion in Dallas—the fastest-growing metro year to date—remained robust at 4.3%.

By comparison, San Antonio employment was flat in the second quarter, partly due to payroll declines in the leisure and hospitality sector, which has likely been affected by diminished tourism across the Texas–Mexico border due to lengthier border crossing times.

Employment in the oil patch declined in the first quarter, and growth was weak in the second quarter, rising at just a 0.8% annual rate. Weakness in the Permian Basin has to be interpreted with caution, however, as it could partly be due to a lack of available labor. Although, the latest Dallas Fed Energy Survey suggests slowing demand may be playing a part.

Softening in Manufacturing Stems from Durables

Expansion in manufacturing has moderated from 2018 highs, with easing concentrated in durables, particularly energy-related manufacturing (primary metals, fabricated metals and machinery). The Dallas

Fed manufacturing survey demand measures (new orders and growth rate of orders) reveal persistent weakness for durable goods, while nondurables appear to have stabilized in recent months. Contacts cite trade uncertainty, labor constraints and reduced activity in the energy sector as factors restraining growth.

Payroll employment is further evidence of the dichotomy between growth in durables and nondurables. Sluggish job gains in the manufacturing sector this year are attributable to durables activity, which makes up 64% of Texas manufacturing payrolls. Expansion in durables' payrolls has slowed sharply from 4.4% last year to



Source: Federal Reserve Bank of Dallas

an annualized 0.7% through June. In contrast, job gains in nondurables remain healthy at 1.4% (compared with 2% in 2018).

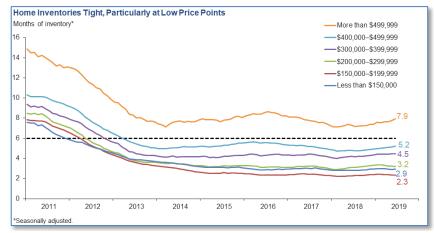
Wage Pressures Ease but Remain Elevated

Pay increases continue spanning a wide range of industries, though the rate of growth is easing. After peaking in mid-2018, the wages and benefits indexes for all three Texas Business Outlook Surveys (manufacturing, services and retail) have slipped but remain close to or above their postrecession averages.

Additionally, the Employer Costs for Employee Compensation data also point to slowing wage growth. Wages per hour rose 2.2% in Houston and 2.7% in Dallas–Fort Worth in first quarter 2019 relative to last year—down from the 12.7% and 8.9 percent year-over-year increases, respectively, in first quarter 2018. It appears that employers raised wages aggressively in 2018 in response to a tightening labor market and now feel less compelled to continue doing so.

Home Sales Dip, Apartment Demand Strong

Existing-home sales dipped over the past three months after growing earlier in the year. Nevertheless, demand remains healthy and inventories low. Total existing-home sales rose 1% in the first half of the year compared with the same period last year. The recent softening is partly a result of slowing sales in the low-to-mid-price points (below \$300,000) where inventories are very low.



Source: Federal Reserve Bank of Dallas

Total existing-home sales in DFW and Houston slipped in the first half of the year compared with 2018, though sales volume remains high. Meanwhile, Austin and San Antonio remained strong, with year-to-date sales exceeding last year's levels by 3%. Low mortgage rates are supporting sales activity. Texas apartment demand was robust in the second quarter, pushing up rents and occupancy in most major metros. Demand was particularly strong in DFW, which ranks first in the country in apartment construction.

Employment Growth Strengthens; Uncertainty Weighs on Outlooks

Texas employment is forecast to grow 2.5% for the year (December over December), up from 2.3% previously anticipated. With job growth of 2.7% in the first half of the year—and gains being especially strong in June—the forecast indicates a slowing to about 2.3% in the second half of the year.

Downside risks prevail. Activity in the manufacturing and mining sectors has slowed, likely due to tariffs, a strong dollar (which makes Texas goods more expensive abroad), a weakening global economy, trade policy uncertainty and volatile oil prices. The Texas Business Outlook Surveys in June and July reported lackluster outlooks among retailers and manufacturers, with many survey respondents expressing concern about the effects of tariffs and trade tensions.

Domestic Migration to Texas Slows as National Labor Markets Tighten

Despite a strong economy and historically low unemployment rates in Texas, net domestic migration to Texas from other states has slowed since 2015.

Has Texas lost its edge, or is there something else going on that has reduced the incentive for people to pack up their belongings and head to the Lone Star State?

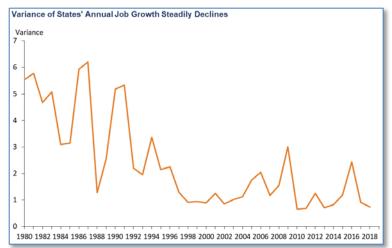
"With nearly half its workers born outside of the state, Texas depends on—and is shaped by—migration," an article in *Southwest Economy* noted in first quarter 2018. State population growth is about double that of the nation, due primarily to strong international and domestic migration, the authors wrote. Also, since

2010, Texas has ranked second after Florida in the net number of domestic migrants, and surveys show that just over half of cross-state movers to Texas relocated for a job.

Texas' strong economic growth in recent years has driven unemployment rates across the state to multidecade lows, likely restraining economic activity, according to a 2019 *Southwest Economy* article. It noted that the recent slowing of domestic migration has contributed to labor market tightness and that, since 2016, the share of the population increase in Texas attributable to net domestic migration has been almost halved.

Domestic Migration Rates Fall

Domestic migration is a zero-sum game—net domestic migration across U.S. states is always zero, meaning that as some states gain migrants, others must lose. What matters and is measurable is the total number of people who move across state lines.



Source: Federal Reserve Bank of Dallas

A study published by the *Journal of Economic Perspectives* in 2011 looks at different data sources and finds that domestic migration rates have slid since the early 1980s. One factor possibly influencing the falloff is the steady decline in the variance of economic performance across states.

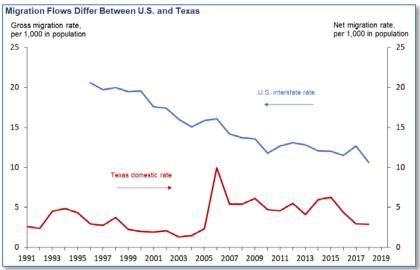
This highlights a factor that may be important for domestic migration: a state economy's relative performance, not just its absolute strength or weakness. Job seekers move to areas with more employment opportunities relative to where they currently reside. As these differences shrink, there may be less reason to move.

↑ Texas Continues Seeing Net Inflows

Net domestic migration to Texas has not followed the same pattern as gross U.S. interstate migration flows.

After declining somewhat between the mid-1990s and the mid-2000s, net domestic migration to Texas jumped in the mid-2000s. While it has declined somewhat since then, overall migration to Texas has remained elevated since 2007 relative to the 1991 to 2005 period.

Much of the spike in Texas migration in 2006 was due to the exodus from Louisiana following Hurricane Katrina. Even after subtracting the net inflows



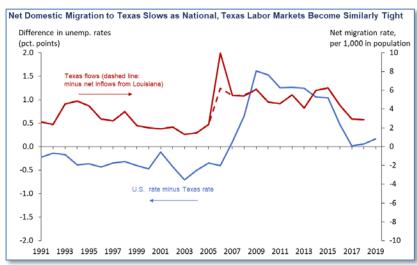
Source: Federal Reserve Bank of Dallas

attributable to Louisiana from 2006 to 2008, net domestic migration to Texas generally increased from 2003 through 2009.

This chart depicts the difference between the U.S. and Texas unemployment rates. A stronger economic performance in Texas following the 2007–09 Great Recession drove the Texas unemployment rate below that of the nation and likely increased the incentive to move to Texas, where jobs were more plentiful.

↑ Conditions Improve Elsewhere

During the 2015–16 oil bust, the state economy downshifted, the Texas unemployment rate grew closer to the national average and net domestic migration slowed. While economic growth improved in Texas in 2017 and



Source: Federal Reserve Bank of Dallas

2018, conditions were also strong throughout the U.S., and the unemployment rates for the two areas were almost the same.

During the period of net domestic migration from July 2018 to July 2019, the unemployment rate in Texas averaged 3.6%, while the U.S averaged 3.8%. A simple regression with one lag of net domestic migration and the unemployment rate differential suggests that net domestic migration in Texas this year will be about 90,500—above the 2018 figure of about 82,500, but more than 25% below the post-Great Recession average of 123,000.

As the 2018 *Southwest Economy* article noted, low taxes, less regulation and an accommodating business climate in Texas have likely stimulated strong economic growth and persistently positive net domestic migration.

While Texas continues to attract migrants, it also appears that employers' ongoing struggles to attract more out-of-state workers will likely continue as long as the Texas and national economies stay strong and maintain similarly low unemployment rates.

TEXAS ECONOMIC STATISTICS U.S. BUREAU OF LABOR STATISTICS

Data Series	Feb 2019	Mar 2019	Apr 2019	May 2019	June 2019	July 2019		
Labor Force Data								
Civilian Labor Force (1)	13,988.8	14,010.3	14,015.3	14,012.7	14,014.7	^(P) 14,019.2		
Employment (1)	13,458.8	13,484.2	13,502.2	13,516.4	13,532.1	^(P) 13,543.4		
Unemployment (1)	530.0	526.1	513.1	496.3	482.6	^(P) 475.8		
Unemployment Rate (2)	3.8	3.8	3.7	3.5	3.4	^(P) 3.4		
Nonfarm Wage and Salary Employme	ent							
Total Nonfarm (3)	12,671.1	12,698.7	12,731.8	12,763.4	12,810.7	^(P) 12,845.9		
12-month% change	2.2	2.2	2.4	2.4	2.5	^(P) 2.6		
Mining and Logging (3)	255.9	254.8	259.1	259.6	259.5	^(P) 256.4		
12-month% change	8.2	6.2	7.5	6.6	5.8	^(P) 3.6		
Construction (3)	754.4	760.7	767.2	771.0	780.2	^(P) 786.5		
12-month% change	3.5	4.0	4.5	4.9	5.8	^(P) 6.6		
Manufacturing (3)	901.2	904.2	903.2	903.6	906.5	^(P) 910.0		
12-month% change	3.8	3.8	3.5	3.1	3.0	^(P) 3.1		
Trade, Transportation, and Utilities (3)	2,510.8	2,510.0	2,512.4	2,519.1	2,528.5	^(P) 2,532.8		
12-month% change	1.7	1.5	1.5	1.5	1.8	^(P) 1.9		
Information (3)	201.8	202.1	202.0	201.3	202.5	^(P) 204.0		
12-month% change	-1.2	-0.9	-0.7	-1.4	-1.0	(P) 0.0		
Financial Activities (3)	787.9	790.0	794.8	797.5	800.2	(P) 804.8		
12-month% change	2.0	2.2	2.9	3.0	3.0	^(P) 3.4		
Professional & Business Services (3)	1,760.1	1,758.5	1,769.5	1,775.2	1,773.5	^(P) 1,778.0		
12-month% change	2.7	2.3	2.8	2.7	2.2	^(P) 2.1		
Education & Health Services (3)	1,718.7	1,725.6	1,728.5	1,735.1	1,740.1	^(P) 1,746.2		
12-month% change	2.1	2.4	2.4	2.6	2.7	^(P) 2.8		
Leisure & Hospitality (3)	1,380.7	1,388.5	1,390.9	1,391.7	1,403.7	^(P) 1,412.0		
12-month% change	2.9	3.2	3.3	3.3	3.9	^(P) 4.0		
Other Services (3)	442.7	445.8	445.7	449.7	455.4	^(P) 452.8		
12-month% change	3.1	3.5	3.3	3.8	5.4	^(P) 5.0		
Government (3)	1,956.9	1,958.5	1,958.5	1,959.6	1,960.6	^(P) 1,962.4		
12-month% change	0.5	0.4	0.6	0.5	0.4	(P) 0.3		
Footnotes (1) Number of persons, in thousands, seasonally adjusted. (2) In percent, seasonally adjusted. (3) Number of jobs, in thousands, seasonally adjusted. (P) Preliminary.								

Data extracted: September 4, 2019

FEDERAL RESERVE BANK SENIOR LOAN OFFICER OPINION SURVEY

The July 2019 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, which generally corresponds to the second quarter of 2019.

Regarding loans to businesses, banks indicated that, on balance, they left their standards basically unchanged on commercial and industrial (C&I) loans to large and middle-market firms, while standards eased for such loans to small firms. Most terms were reportedly eased on C&I loans across firm size categories. In addition, banks reportedly tightened standards over the past three months across all three major commercial real estate (CRE) loan categories—construction and land development loans, nonfarm nonresidential loans, and multifamily loans.

Meanwhile, banks reported basically unchanged demand for C&I loans from large and middle-market firms and weaker demand from small firms. Loan demand for construction and land development loans reportedly weakened, while demand for other CRE loan types remained basically unchanged during the same period.

For loans to households, banks reported that standards on credit card loans tightened, on net, while standards reportedly remained basically unchanged on auto loans and most categories of residential real estate (RRE) loans. Banks reported stronger demand for credit card loans, auto loans, and almost all categories of RRE loans.

Banks also responded to a set of special questions inquiring about the current level of lending standards relative to the midpoint of the range over which banks' standards have varied since 2005. Banks, on balance, reported that their lending standards on C&I loans are currently at the easier end of the range of standards between 2005 and the present. For CRE loans, most RRE loans, subprime credit card loans, and subprime auto loans, banks reported currently having relatively tighter levels of lending standards on net.

BUSINESS LENDING

C&I Loans

Banks reported that standards for C&I loans to large and middle-market firms remained basically unchanged in the second quarter, on balance, though a moderate net share of large banks reportedly eased standards on such loans. At the same time, a significant net share of banks reported narrowing interest rate spreads on loans to large and middlemarket firms, and moderate net shares of banks reported easing loan covenants and increasing the maximum size of credit lines to these firms. In addition, a modest net share of banks reported that they eased standards for C&I loans to small firms, and a moderate net share of banks reported narrowing interest rate spreads on loans to such firms.

Almost all of the banks that reported reasons for easing standards or terms on C&I loans over the past three months cited increased competition from other lenders as an important reason for doing so. Significant net shares of banks also reported improvements in banks' current or expected capital position, a more favorable or less uncertain economic outlook, and increased tolerance for risk as important reasons for easing standards. Meanwhile, major net fractions of banks that reported tightening C&I lending standards or terms mentioned a less favorable or more uncertain economic outlook, worsening industry-specific problems, and reduced

tolerance for risk as important reasons for doing so.

Demand for C&I loans from large and middlemarket firms reportedly remained basically unchanged in the second quarter, while a modest net percentage of domestic banks reported weaker demand for such loans to small firms. The number of inquiries from potential borrowers regarding the availability and terms of new credit lines or increases in existing lines reportedly remained unchanged during this period.

Major net shares of banks that reported experiencing weaker C&I loan demand mentioned a number of important reasons for the reduced demand—specifically, declines in customers' financing needs related to inventory, accounts receivable, investment in plant and equipment, and mergers and acquisitions, as well as higher internally generated funds and lower precautionary demand for cash and liquidity.

In contrast to domestic respondents, foreign banks reportedly left C&I lending standards basically unchanged and tightened some loan terms in the second quarter. In particular, modest net shares of foreign banks reported lowering the maximum size of credit lines, tightening collateral requirements, and tightening the use of interest rate floors. During the same period, a moderate net share of foreign banks reported weaker C&I loan demand.

CRE Lending

A modest net share of banks reportedly tightened standards on all types of CRE loans in the second quarter. Furthermore, a moderate net share of banks reported weaker demand for construction and land development loans over the same period, while demand for loans secured by nonfarm nonresidential properties and multifamily residential properties reportedly remained about unchanged.

LENDING TO HOUSEHOLDS

Residential Real Estate Lending

Banks reportedly left lending standards basically unchanged for most RRE loan categories in the second quarter, except for non-qualified mortgage (non-QM) jumbo and non-QM non-jumbo residential mortgage loans, for which modest net fractions of banks reportedly eased lending standards.

Demand for all categories of closed-end RRE loans reportedly strengthened, on net, during the same period. For most categories of closed-end RRE loans, significant net shares of banks reported stronger loan demand, with the exception of government-sponsored enterprise (GSE)-eligible mortgage loans, for which a major net share of banks reported stronger demand. Meanwhile, demand was basically unchanged for home equity lines of credit (HELOCs).

Consumer Lending

Banks reported basically unchanged willingness to make consumer installment loans over the

past three months. A modest net percentage of banks reported tightening lending standards on credit card loans during the same period, while most terms associated with credit cards were basically unchanged on net. Meanwhile, lending standards and terms for auto loans were basically unchanged during this period. A modest net fraction of banks reported tightening lending standards on other consumer loans, while most terms on such loans were reportedly basically unchanged on net.

A modest fraction of banks reportedly experienced stronger demand for credit card loans, and a moderate fraction of banks did so for auto loans during the second quarter. Meanwhile, banks reported basically unchanged demand for other consumer loans over the same period.

SPECIAL QUESTION ON BANKS' OUTLOOK FOR 2019

The July 2019 survey included a set of special questions that asked respondents to describe the current levels of lending standards at their bank. Specifically, respondents were asked to consider the range over which their lending standards have varied between 2005 and the present and to report where the level of standards currently is relative to the midpoint of that range.

Banks reported that, on net, their current levels of lending standards for all categories of C&I loans are at the easier ends of their respective ranges since 2005. In particular, significant net shares of banks reported that their lending standards for syndicated C&I loans to investment-grade firms and non-syndicated C&I loans to large and middle-market firms are currently easier than the respective midpoints of the historical ranges. Meanwhile, moderate net fractions of banks reported that their current standards for other types of C&I loans are at the easier ends of their historical ranges. Banks' responses regarding the current level of lending standards for most C&I loan categories were broadly in line with their responses in the July 2018 survey.

Among foreign banks, significant and moderate net fractions reported that their current levels of lending standards for investment-grade and below-investment-grade syndicated loans, respectively, are at the easier ends of their historical ranges. However, a significant net share of foreign banks reported that their level of standards for loans to small firms is at the tighter end of the range between 2005 and the present.

For CRE loans, banks reported that the current levels of their standards for all major categories of these loans are at the relatively tighter ends of the ranges that have prevailed since 2005 on balance. Significant net percentages of domestic banks reported that current levels of standards are tighter than the respective midpoints of the historical ranges on loans for construction and land development purposes and on nonfarm nonresidential loans. A moderate net percentage of banks reported that the lending standards are tighter than the midpoint of the historical range on loans secured by multifamily residential properties. Banks' reported levels of CRE lending standards were similar to those reported in the July 2018 survey across CRE loan categories, except for nonfarm nonresidential loans, for which lending standards are reportedly tighter.

Regarding RRE loans, banks reported that lending standards for all RRE loan categories remained at the relatively tighter ends of the ranges of those standards since 2005 on balance. Subprime residential mortgages make up the category whose level was most consistently reported as being tight, with a significant net share of banks reporting that standards are currently at the tighter end of the range since 2005. Additionally, a moderate net share of banks reported relatively tight standards on jumbo residential loans and HELOCs. The net shares of banks that reported their lending standards were at the relatively tighter ends of the ranges since 2005 have declined across most RRE loan types, compared with the July 2018 survey.

On balance, significant net shares of banks reported that the levels of their standards on both auto and credit card loans to subprime borrowers are currently at the relatively tighter ends of their respective ranges since 2005. However, standards are reportedly around the midpoint of the historical range both for credit card loans and auto loans to prime borrowers and for consumer loans other than credit card and auto loans. On net, this year's responses on banks' current levels of lending standards for credit card and auto loans are generally in line with those reported in the July 2018 survey. However, the net shares of banks reporting that their standards for subprime credit card and auto loans are currently at the tighter end of the range since 2005 have declined relative to last year.

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