Condition of the Texas State Banking System

Texas Department of Banking Department of Savings and Mortgage Lending





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ECONOMIC REVIEW AND OUTLOOK

The Texas economy entered unchartered territory in the first half of 2020 but in ways that were neither positive nor productive. The COVID–19 pandemic and deterioration in the oil and gas (O&G) industry combined to bring unprecedented change to the state.

Prior to the coronavirus outbreak, the Texas economy was expanding in January and February at a healthy pace. All major metro areas documented positive job growth in an environment of historically low unemployment, increased real wages, and personal income growth. Upbeat labor market conditions and low mortgage interest rates led to steadily rising home sales. The January price of a barrel of West Texas Intermediate (WTI) oil was in the \$61 range, mostly unchanged from six months prior.

However, the economy began to quickly unravel in March as COVID–19 spread across the state. Unemployment rates skyrocketed to new levels in Texas. The energy sector was devastated, as the price of crude oil futures fell to historic lows and drilling and completion activity weakened due to the falling demand for oil. The average Texas rig count sank by 293 from January to June 2020, a 68% drop. Manufacturing output declined steeply in quarter two 2020. Retail sales declined as the result of business closures and overall weak demand.

The national economy contracted at a record rate in the second quarter of 2020. The U.S. Department of Commerce reported the U.S. gross domestic product fell at a seasonally adjusted 32.9% annual rate in the second quarter. This was a 9.5% drop from the prior quarter and the steepest decline in more than 70 years. Unemployment peaked in April at 14.7%, before easing to 11.1% at the end of June.

The Perryman Group, a Waco-based economic forecasting firm, estimates that the COVID–19 pandemic could cost the U.S. economy approximately \$972.6 billion in real gross product and 11.4 million jobs on an annual basis.

With business closures accelerating, and unemployment rates hitting record numbers, Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act in April 2020. The CARES Act authorized \$454 billion in emergency loans to help support businesses and municipalities, which includes the Paycheck Protection Program (PPP). Subsequently, the Federal Reserve Board (FRB) established the Main Street Lending Program to further ease economic stress.

As of the issuance of this report, the Main Street Lending Program assisted businesses with not less than 10 employees, and either 15,000 employees or fewer or 2019 annual revenues of \$5 billion or less, through loans to help keep them afloat; the PPP was set up to offer emergency loans to businesses with less than 500 employees, ensuring they could stay open and meet payroll.

Further discussion on the impact of the coronavirus and these programs on Texas businesses and banks is offered under the <u>Supervisory Concerns</u> section.

One unforeseen aspect of the coronavirus attracting the attention of bankers has been the startling rise in cybersecurity events. With large numbers of banking employees working from home, there was an enormous increase in the demand for cloud computing, which opened the door to more frequent attacks.

According to VMware Carbon Black, a cloud-native platform provider, cyberattacks against the financial services industry nationally increased 238% from February 2020 to April 2020, just as COVID–19 began to surge.

Another issue impacted by this pandemic was the implementation status of the Current Expected Credit Losses (CECL) standard, developed by the Financial Accounting Standards Board (FASB). The CARES Act allows banks to fully defer its implementation two years due to the disruption caused by the coronavirus. FASB has not yet issued a revised date by which time banks must begin using this new standard.

STATE-CHARTERED BANKING PROFILE (DEPARTMENT OF BANKING)

There were 217 Texas-chartered banks as of June 30, 2020, seven fewer than on December 31, 2019. This net reduction during the first half of 2020 was the result of seven banks leaving the Texas state bank system:

- Three state banks merged with and into other Texas state banks;
- Two state banks merged with and into national banks;
- One state bank merged with and into an out-of-state state bank; and
- One state bank merged with and into a Texas state savings bank.

During the same period, the Department processed 104 filings related to banks, with approximately 59% involving opening and closing of office and loan production facilities, 19% involving changes in ownership/control or chartering authority, 15% involving bank identification and corporate governance issues, 6% involving subsidiary formations, and 1% involving foreign bank activity.

Despite the moderate decline in the number of Texas state-chartered banks, the overall asset size increased from \$284.5 billion at year-end 2019 to \$319.8 billion as of June 30, 2020. The asset growth occurred from a combination of \$36.8 billion of internal asset growth offsetting a \$1.5 billion decline from merger activity.

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

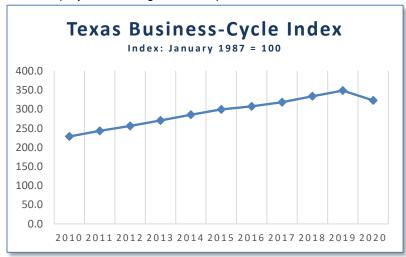
State-chartered thrift assets under the Department's jurisdiction totaled \$349 billion as of June 30, 2020, an increase of \$321.6 billion over the prior six months due to the conversion of two large federal savings banks in March. Through June 30, 2020, state thrifts had \$1.5 billion in year-to-date net income. Increased profitability occurred in 44% of the thrift institutions through June 2020, due to the increased size of the industry. Thrifts' net interest margin (NIM) as an industry total have decreased since the end of 2019, primarily due to the drop in the federal funds rate during the first six months.

Increases in total loans included first lien residential and commercial and industrial (C&I) loans. Most of the increases in C&I loans is from the participation of thrifts in PPP discussed below. The level of nonperforming loans and other real estate foreclosed remains low in state-chartered thrifts at 0.1% of total assets, which is down from 0.8% in December 2019. 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 two large financial institutions that converted from federal savings banks to the Texas state savings bank charter, three branch office applications, one reorganization application and various other applications during the past six months.

TEXAS ECONOMIC PROFILE

The Texas economy came to a sudden halt in the first half of 2020, as the result of COVID–19. The state began the year behind a strong economy, according to the Federal Reserve Bank of Dallas (FRB Dallas) Texas Business-Cycle Index. The index, a composite of the unemployment rate, state payroll employment, and gross state product, increased 5.1% in January on a seasonally adjusted annualized



Source: Federal Reserve Bank of Dallas

rate (SAAR), compared with average growth of 4.4% in 2019, and further accelerated 5.3% SAAR in February.

By March, however, the data painted a very different picture: The Business-Cycle Index dropped 2.2% SAAR, the slowest pace in ten years, before plunging 41% on an SAAR basis in April.

The decline eased in May, by which point it improved 13% over April figures. By the end of quarter two 2020, the index increased for the first time since January; nevertheless, it remained 7.4% below year over year (YOY) levels.

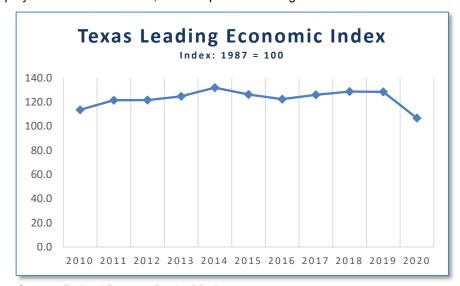
The Texas Leading Economic Index, a measure of future directional changes in the business cycle, began strong in 2020 but slid in March to a 10-year low, with nearly every category contributing to the slump. The index improved by June for the second straight month, as initial unemployment claims declined, and the price of oil began to recover.

However, the index remained 21.7 basis points (bp) lower than in June 2019.

Non-farm employment in Texas had been up 2.2% YOY in January, but tumbled to 1.7% at the end of March, and closed the first half of the year at -5.4% YOY.

Texas' unemployment rate hit its worst monthly tally on record at 13.5% YOY in April but rallied somewhat by the end of the second quarter, ending at 8.4% YOY.

Texas factory activity was accelerating at a modest rate in January and February but like most economic metrics declined sharply in



Source: Federal Reserve Bank of Dallas

March, according to the FRB Dallas Texas Manufacturing Outlook Survey. The March production index, a key measure of state manufacturing conditions, dropped from 16.4 points the previous month to -35.3 points.

The production index remained negative but improved slightly in May, edging to -28 points from -55.6 points, indicating the contraction in output was easing. Texas factory activity experienced a modest rebound in June, climbing to 13.6 points, signaling a moderate expansion in output after three months of record or near-record declines.

The Texas service sector began 2020 growing at a similar pace as at the end of 2019, according to the FRB Dallas Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, was up slightly in January at 18.8 points, compared with 17.9 points in December.

The survey index plummeted from 14 points in February to -67 points in March, an all-time low reading for the survey, but managed to move up marginally to -65.4 points in April.

The sector began showing signs of improvement by the end of the second quarter of 2020, according to the survey. The revenue index rebounded to positive territory as businesses began to reopen, advancing from -28.1 points in May to 5.7 points in June.

However, both the Department of Banking and Department of Savings and Mortgage Lending expect the economy to remain weak through the third and fourth quarters, compared to prior performance, especially in the service and retail sectors. The departments will continue to monitor these sectors and the institutions it supervises most affected.

EMPLOYMENT

As previously noted, the state's unemployment rate entered 2020 on solid ground, holding at 3.5% for the sixth consecutive month. At the metropolitan level, Austin led the way with the lowest unemployment rate at 2.6%, while San Antonio and Dallas held steady at 3% and 3.1%, respectively.

By March, the unemployment rate had increased rapidly to 5.1%, a three-year high, as initial unemployment insurance claims rocketed to an all-time high of 567,500. The Texas Workforce Commission, which typically takes 13,000 calls a day, received 1.7 million calls on March 26, 2020, alone.



Source: U.S. Bureau of Labor Statistics

Employment in each of Texas' major metro regions registered nearly double-digit percent decreases with almost every subsector contracting. The state's nonfarm employment shrank by a record 1.3 million jobs, with the unemployment rate hitting a historic record of 13.5% in April, led by the Houston metro area and its ties to the energy sector, with a jobless rate of 14.6%.

Among the sectors hardest hit were leisure and hospitality, mining and logging (which includes the O&G industry), and the information services sectors.

Employment figures in the leisure and hospitality industry began January at 2.9% YOY but declined to -15.9% YOY by the end of the second quarter. Jobs in the mining and logging sector were down -8.5% YOY in January, improved slightly by March at -8.3% and then sank to -24.2% in June. Information service jobs were at 1.9% YOY in January, settled at 1% in March, and ended the second quarter at -6.7%.

However, most sectors had by the end of the second quarter gained back some of the losses experienced the previous quarter. Texas employment grew a nonannualized 1.5% in June, adding 237,800 jobs, a figure which led all states and was by far the year's largest monthly gain. The state's unemployment closed the second quarter down modestly at 8.6%.

While the economy is expected to remain weak through the remainder of 2020, a notable improvement is projected for 2021, according to The Perryman Group. The firm forecasts the number of jobs to rise by almost 685,000 next year, an increase of 5.51%, based on forecasters' belief the state's economic structure is basically sound.

Further evidence that the Texas economy remains on a solid foundation came in March and July, when *Site Selection Magazine* recognized the state with the most major corporate locations and expansions in the past year; and *Business Facilities Magazine* named Texas the state with the "Best Business Climate in America," respectively.

POPULATION

Texas has long been a diverse state. According to a recent survey by the personal finance website Wallethub.com, Texas ranked second in the nation overall in diversity, with the state receiving high marks across several factors that included industry, linguistic and racial, and ethnic diversity.

Specifically, the state ranked fourth in racial and ethnic diversity, third in linguistic diversity, and first in industry diversity.

Texas, like the rest of the U.S., is also aging. Nearly 13% of the state's population is age 65 or older; however, 25.5% of Texas residents are 18 years of age or younger, making the state one of the youngest in the nation.

Texas' Hispanic population grew by 2 million in the past decade to an estimated 11.15 million (39.7%) and is now on pace to be largest share of the state's population by 2021. African Americans comprise the second-largest racial minority in the state, with Blacks of Hispanic and non-Hispanic origin making up approximately 12.9% of the population, according to the most recent figures from the U.S. Census.

Asian Americans represent another significantly large minority group in Texas, comprising 5.2% of the state's population, with the latest data showing more than 200,000 Indians alone living in the state. There are also substantial populations of residents of Vietnamese, Chinese, Korean, Filipino, and Japanese descent in Texas, along with large numbers of residents with Thai and Cambodian ancestry.

Taking a long view, the Texas Demographic Center projects that between 2020 and 2050, Texas' population could approach 47.3 million. Much of this growth is expected to take place in the large urban core counties of Texas, as well as in the surrounding suburban counties. This is especially true of the metro areas inside the "Texas Triangle" formed by Houston, Dallas-Fort Worth, Austin, and San Antonio.

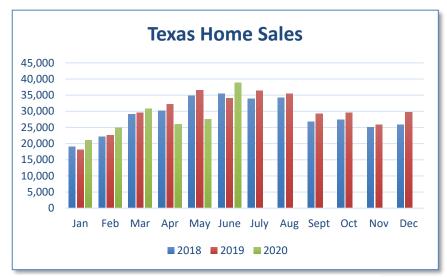
All this underscores what is on the line for Texas with respect to the 2020 U.S. Census. The Perryman

Group projects the potential impact of even a modest undercount in the range of 1.5% could result in direct funding losses to the state totaling \$2.1 billion per year.

Housing

Existing home sales stabilized in January after reaching a record high the previous month, as steady employment growth and falling mortgage interest rates continued to support demand.

Single-family construction permits began the year strong, increasing 3.2% to a post-recessionary high after a sluggish end to 2019. Texas



Source: Real Estate Center at Texas A&M University

led the nation with 11,100 non-seasonally adjusted permits, accounting for more than 17% of the U.S. total.

Apartment management firms were reporting demand remained healthy at the beginning of the year, with occupancy either steady or slightly higher YOY, and rent growth holding above long-term averages, across most major Texas metro areas.

Despite a monthly increase of 2.2% in sales, construction activity in the state took a step back in March after reaching post-recessionary highs in February, signaling a coronavirus-induced slump. Total Texas housing starts slowed 4.6% quarter over quarter growth, and single-family private construction values dropped nearly 6%.

As economic uncertainty continued to grow in April, housing sales dropped 17.6% in April to their lowest level since 2015. Single-family construction permits sank 22.2% and construction values (the cost of materials, labor, and other inputs, plus general expenses) dropped 26.9% to a seven-year low after adjusting for inflation. Total housing starts fell more than 20% to an 18-month low, as building activity decelerated under social distancing rules.

The market improved noticeably by the end of the second quarter as housing sales rebounded 29.4%. Low interest rates and pent-up demand supported sales in the existing-home market and for new homes, especially those priced less than \$300,000.

Only Texas' multifamily sector continued to lag. New construction building permits fell 22.1%, declining for the third consecutive month.

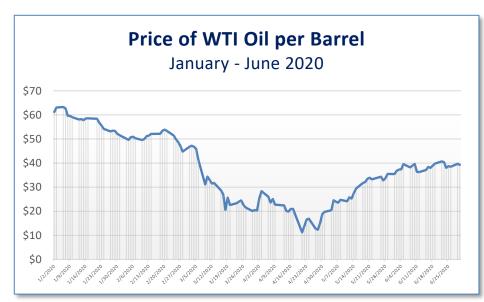
OIL AND GAS

Executives in the Texas O&G industry surveyed in January by the FRB Dallas were expressing guarded optimism. Drilling activity ticked up slightly after several months of declines. Bankruptcies were expected to rise, but crude oil production was still projected to grow in 2020.

Unfortunately, the nation's shutdown in March coupled with an ill-timed price war between Saudi Arabia and Russia, combined to impair the state's O&G sector.

Activity in the energy industry declined significantly in first quarter of 2020, according to executives responding to an FRB Dallas Energy Survey. The business activity index, a broad measure of conditions confronting energy firms in Texas, plunged from -4.2 points in fourth quarter 2019 to -50.9 points in the first quarter of 2020, the lowest reading in the survey's four-year history.

The oil production index sank 51 points to -26.4 points in first quarter 2020, according to exploration and production (E&P) executives, its first negative reading since 2016. The natural gas production



Source: MacroTrends

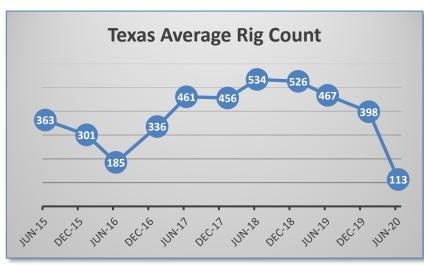
index also entered negative territory, dropping from 15.6 points to -21.2.

The equipment utilization index fell from -25.8 points in the fourth quarter of 2019 to -47.2 in the first quarter of 2020 and continued its freefall to -69.2 in the second quarter.

The FRB Dallas Energy Survey business activity index – the survey's broadest measure of conditions facing energy firms – fell further, sliding from -50.9 in the first quarter to -66.1 in the second quarter. Indices for oilfield service, E&P, and oil production firms all declined sharply in quarter two 2020. Similarly, the natural gas production index dropped from -21.2 to -47.8.

Additionally, the index for aggregate energy employee hours worked dropped by the end of quarter two, moving from -32.1 to -47. At the same time, the index for aggregate wages and benefits fell further into negative territory, from -8.2 to -41.7.

As previously noted, WTI prices experienced significant fluctuations over the first half of 2020. The price



Source: Baker Hughes

per barrel hit its high point January 6, peaking at \$63.27, before slowly sliding down into the \$40-\$50 range through February. Prices quickly dropped by \$10 per barrel on March 9, 2020, moving from \$41.28 to \$31.13, and finally hit bottom at \$11.25 on April 21, 2020. WTI prices did manage to recover slightly, rising to close the second quarter at \$39.27.

The Texas average oil rig count reflected this downturn. The count stood at 398 in January, slipped slightly to 394 by March, and then plummeted to 113 in June. This represents the lowest count in four years.

AGRIBUSINESS

While rural portions of the state on the whole experienced lower infection rates than their urban counterparts, COVID-19 still served to seriously disrupt economies, irrespective of region.

The cattle industry was particularly hit hard by the pandemic. A relatively large supply of beef cattle (estimated in January at 4.6 million head in Texas alone), combined with disruptions to supply chains and rising numbers of people losing their paycheck, led to a serious decline in both demand and producer prices.

To make this situation even more difficult, there were significant coronavirus hot spots at meat packing facilities, predominately located in Texas Panhandle communities, slowing production, and creating delivery bottlenecks. Infection rates per capita at packing plants in Potter County, home to Amarillo, were roughly four times higher than the infection rates in Harris and Dallas counties.

On the financing front, the first quarter of 2020 saw the demand for agricultural loans continue to decline, according to an FRB Dallas survey. The loan demand index registered its 18th quarter in negative territory. Loan renewals or extensions rose, and the rate of loan repayments continued to decrease.

Dry conditions in the second quarter further strained agricultural production despite some rainfall in late May. Additionally, survey participants noted commodity prices remained low, as producers struggled with increased input costs. Demand for agricultural loans continued into its 19th quarter in negative territory.

One item worth noting is the fact the United States-Mexico-Canada Agreement (USMCA) officially went into effect January 1, 2020. The trade pact, which replaced the North American Free Trade Agreement

(NAFTA), offers several improvements over its predecessor, including expanded U.S. exports of dairy, poultry, and egg markets to Canada.

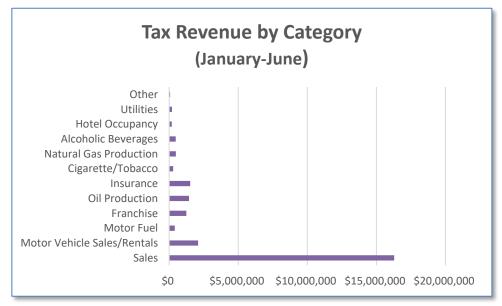
The Perryman Group estimates the state's annual gross product could be as much as \$17.6 billion higher and employment 164,700 higher under USMCA.

TAX REVENUE

Not only has the pandemic and resulting shutdown of the economy diminished revenues, it has at the same time substantially increased the need for state spending. The result is looming spending gaps and potentially serious disruptions in services.

Most figures began 2020 in positive territory and up over the same point in time during the previous year. All revenue for January and February of 2020 were up 9.5% and 8.52% YOY, respectively.

Everything changed in March. Total tax revenue fell -4.59% YOY and sank -22.24% YOY the following month. Revenue was down in every category, led by hotel occupancy taxes, down -62.83% YOY; alcoholic beverage taxes, down -55.42%; and natural gas production taxes, down -47.79%.



Source: Texas Comptroller of Public Accounts

A closer examination of first quarter revenue versus the second quarter revenue shows just how COVID—19 impacted the state.

Hotel occupancy taxes totaled \$137.5 million in the first three months of 2020 but finished the first half of the year at just \$191.8 million. Revenue from oil production taxes totaled just over \$1 billion for the first quarter of the year but finished second quarter 2020 at just \$1.4 billion.

The situation began to stabilize by June. While revenue from both oil (-77.24% YOY) and natural gas (-83.77% YOY) production taxes, insurance taxes (-18.64% YOY), and franchise taxes (-123.26% YOY) continued to tumble, most others improved either modestly or dramatically.

Sales tax revenue went from -14.31% YOY in May to -7.67% YOY in June (from \$2.5 billion in May to \$2.6 billion in June). Revenue from motor vehicle sales taxes moved from -38.14% YOY in May to -7.47% YOY in June (\$263.9 million in May to \$391.4 million in June).

Among the revenue categories showing the biggest improvement were motor fuel sales taxes. Revenue jumped from -82.98% YOY in May to -8.12% YOY in June, moving from \$13.5 million to \$88.5 million to close out second quarter 2020.

In all, total tax revenue for the first half of 2020 equaled \$24.6 billion, down from the \$28.5 billion collected during the second half of 2019.

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. However, COVID–19 has represented an unprecedented disruption to the state's banking system, and the following section examines Texas' response to this pandemic.

COVID-19 Update

Essential Workers

Governor Greg Abbott issued several Executive Orders including identifying critical services and health and safety protocols. Identifying financial services as essential was imperative for financial institutions to continue to serve their customers. Further, the U.S. Treasury Department issued a memo naming the financial services sector as one of 16 industries identified as a Critical Infrastructure Sector by the Department of Homeland Security (DHS). This designation allowed banks and other financial service providers to continue serving their customers during the State of Disaster.

Bank and Thrift Facilities

Most Texas banks and thrifts reduced their operations to some degree. A significant number of institutions went to drive-through operations only. A large percentage of lobbies remain by appointment only with some institutions having implemented the ability to set up appointments online. In addition, banks and thrifts have been cautious about staffing concerns over the spread of the virus, closing locations where an infected employee or customer has been identified and thoroughly sanitizing it before reopening.

At the beginning of June, the physical safety of some of the bank employees working on-site at institutions were threatened during protests and related civil unrest that spread over the country, including Texas. To increase the safety of staff, many banks temporarily closed some branches or limited the hours of operation in areas affected by protests and unrest.

Regulatory Examinations

COVID–19 has changed the method of examinations as they will be conducted off-site for the near future for both departments. It was determined by both agencies that off-site examinations were the safest and best course of action for both the institutions and agencies.

Communication is imperative during the examination process, and both agencies are committed to ensuring that good communication is maintained between examiners and bankers throughout the off-site examination process. The off-site examination process is less regimented, and adjustments are made as necessary to ensure that the examination process is thorough but not overly burdensome.

Regulatory Responses

Numerous regulatory responses have been issued since the beginning of the pandemic. A sample of the issuances are noted below:

- The April 1, 2020, and later revised on April 22, 2020, Home Equity Lending Guidance:
 Coronavirus Emergency Measures was issued jointly by the Finance Commission Agencies and Credit Union Department;
- The Consumer Financial Protection Bureau raised the loan volume minimum from 25 to 100 loans for requiring data reporting of Home Mortgage Disclosure Act information;
- Assessing Safety and Soundness, considering the Effect of the COVID–19 Pandemic on Institutions, state and federal guidance was issued for examiners use;

- Deferring certain appraisals for 120 days for residential and commercial real estate loans due to access issues amidst the pandemic;
- Providing temporary relief by lowering the community bank leverage capital ratio from 9% to 8% for the remainder of calendar year 2020;
- Delaying the impact on regulatory capital for the adoption of CECL for up to two years; and
- Providing an additional 30 days to file first quarter 2020 Consolidated Reports of Condition and Income (Call Reports).

Payroll Protection Program

To assist small businesses during the pandemic, the U.S. Treasury Department, through the Small Business Administration (SBA), set up PPP which provides loan forgiveness for retaining employees by temporarily expanding the traditional SBA loan program. The FDIC issued a rule mitigating the effect of SBA PPP deposits for its assessments on federally insured deposits. The FRB set up a liquidity facility, term financing backed by PPP loans at face value, to assist banks with the liquidity needed to fund PPP loans.

Several state commercial banks and state savings banks participated in the program. There were challenges regarding access to the SBA's PPP portal, receiving fees, and interpreting instructions. Even though the fee income was welcome, most banks added some or all the fee income to the qualitative factors of their allowance for loan and lease losses to account for the unknown economic impact of the pandemic. Additionally, many banks took advantage of the liquidity facility to remove the PPP loans from their balance sheet to preserve liquidity and capital.

The June 30, 2020, Call Reports for Texas commercial banks and state savings banks that participated in the SBA PPP shows the following data:

- State Savings Banks 11,125 loans were made, and a total of approximately \$1.2 billion, with almost \$581 million of those loans pledged to the Federal Reserve liquidity facility; and
- State Commercial Banks 127,421 loans were made, and a total of approximately \$18 billion, with \$930 million of those loans pledged to the Federal Reserve liquidity facility.

Overall

This situation has been fluid and will remain so for the foreseeable future. Both departments will continue to operate with open lines of communication with our financial institutions and keep our institutions abreast of important developments as events warrant and circumstances evolve.

DEPARTMENTAL SUPERVISORY MEASURES BEING TAKEN

TEXAS DEPARTMENT OF BANKING

- ❖ Assess and monitor the impact that COVID–19 will have on the Texas banking system and the financial service providers under the Department's supervision:
- Make regular contact with bank management regarding the bank's condition and the economic fallout from the COVID-19 pandemic;
- Assess bank management's efforts to properly identify and manage risks associated with the pandemic;
- Encourage banks to prudently work with their borrowers throughout the pandemic;
- 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;
- Investigate, assess, and oversee remediation and compliance efforts in response to institutions' material cybersecurity incidents;
- ❖ Monitor banks' transition from LIBOR to a substitute reference rate;
- Monitor for asset quality deterioration both during onsite examinations and offsite monitoring given changing economic conditions;
- Monitor efforts to prudently assess and mitigate concentration risks in commercial real estate, oil and gas, and agriculture lending;
- Assess bank liquidity levels, including dependence upon potentially volatile funding sources, funding concentrations, and deposit costs relative to local competition;
- Assess risks posed by compressed interest margins in this historical low-rate environment;
- Monitor bank preparations for the industry's transition to CECL;
- Conduct off-site monitoring of institution's key financial performance metrics and analyze exceptions;
- Initiate measured and tailored regulatory responses and enforcement action as warranted;
- Conduct frequent examinations or visitations of problem institutions;
- Communicate and coordinate joint enforcement actions and other supervisory activities with federal regulators;
- Monitor state, national, and world political and economic events impacting the industry; 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, including response to COVID-19;
- Encourage thrifts to prudently work with their borrowers throughout the pandemic;
- 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), including impact of COVID-19;
- 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

The landscape of state-chartered banks has not materially changed YOY. The number of state-chartered banks has declined by 11 while assets have increased by \$43.5 billion since June 2019. Significant changes YOY are centered around the allowance for loan and lease losses (ALLL) and earnings.

The level of the ALLL has increased by 41 bp YOY to 1.4%. Provision expenses through June 30, 2020, total \$1.1 billion, up from \$143 million in June 2019 and \$265 million at year-end 2019. Further, the ALLL represents 222.4% of noncurrent loans versus 180.3% at June 30, 2019. These increases demonstrate bankers trying to prepare for deterioration in credit quality due to the shutdowns brought on by COVID–19. Many bankers have noted that they placed a large portion of the fees earned from PPP into qualitative factors to bolster the ALLL. Net charge-offs for the first half of 2020 total \$292 million which is 192% higher YOY.

The return on average assets (ROA) has declined YOY by 60 bp to 1% for the first half of the year. This decrease is primarily driven by the increase in provision expenses for the ALLL as discussed above. The ROA is further driven down by a declining NIM. NIMs have declined with the fall of interest rates and currently reside at 3.4% which is down by 49 bp from June 2019.

State-chartered banks were well-capitalized with average leverage capital of 10.8% in June 2019. While capital ratios have seen a decline to 9.9% as of June 30, 2020, they remain well-capitalized and prepared for the future. Less than 40% of state-chartered banks have elected to participate in Community Bank Leverage Ratio. Dividends have declined from approximately \$1.4 billion in June 2019 to \$851 million for the first half of 2020.

The Department considers any institution with a Uniform Financial Institutions Composite Rating of a 3, 4, or 5 a problem institution. As of June 30, 2020, problem state-chartered financial institutions represent approximately 3% of the total number of banks. This illustrates that industry conditions were relatively strong headed into the financial crisis brought about by COVID–19.

STATE-CHARTERED THRIFTS

From December 31, 2019 to June 30, 2020, state thrifts had \$1.5 billion in net income, compared to \$262.2 million for all of 2019. The largest institution had year-to-date net income of \$1.3 billion. The pretax return on average assets remains strong at 1.32%. From December 31, 2019, to date, non-interest income to assets decreased 20 bp, but non-interest expense decreased 160 bp.

The Texas thrift ratio of nonperforming loans plus other real estate owned to total assets has decreased from 0.8% to 0.1% since year end 2019. Provisions have increased \$60 million since year end, with the pandemic being the primary driver adding qualitative economic factors.

State-chartered thrifts experienced a slight increase in equity capital levels compared to year end 2019, while total risk-based capital ratio for the total industry decreased but remains adequate at 18.4%. This is primarily due to the increase in C&I loans discussed above. Five state savings banks have elected the Community Bank Leverage Ratio, and therefore, do not report any capital ratios besides leverage.

As of June 30, 2020, 100% 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 **I**NSTITUTIONS AND **T**OTAL **A**SSETS

FDIC financial data is reflective of FDIC insured institutions only.

Assets in Billions

	6-30-	2020	6-30-	2019	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	217 <u>25</u> 242	\$319.8 <u>\$349.1</u> \$668.9	228 <u>24</u> 252	\$276.3 \$25.9 \$302.2	-11 <u>1</u> -10	+\$43.5 +\$323.2 +\$366.7
Other states' state-chartered: Banks operating in Texas* Thrifts operating in Texas*	42 <u>0</u> 42	\$70.8 <u>0</u> \$70.8	41 <u>0</u> 41	\$69.7 <u>0</u> \$69.7	+1 <u>0</u> +1	+\$1.1 <u>0</u> +\$1.1
Total State-Chartered Activity	284	\$739.7	293	\$371.9	-9	+\$367.8
National Banks Chartered in Texas Federal Thrifts Chartered in Texas Other states' federally-chartered:	169 <u>4</u> 173	\$165.7 <u>\$103.1</u> \$268.8	172 <u>5</u> 177	\$135.3 <u>\$88.9</u> \$224.2	-3 <u>-1</u> -4	\$30.4 +\$14.2 +44.6
Banks operating in Texas* Thrifts operating in Texas*	31 <u>6</u> 37	\$432.0 <u>\$1.0</u> \$433.0	28 <u>6</u> 34	\$410.8 <u>\$1.0</u> \$411.8	+3 <u>0</u> +3	+\$21.2 +\$0.0 +\$21.2
Total Federally-Chartered Activity	210	\$701.8	211	\$636.0	-1	+65.8
Total Banking/Thrift Activity	494	\$1,441.5	504	\$1,007.9	-10	+\$433.6

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

RATIO ANALYSIS

As of June 30, 2020 FDIC financial data is reflective of FDIC insured institutions only.

	State- Chartered <u>Banks</u> 217	Texas National <u>Banks</u> 169	All Texas <u>Banks</u> 386	State- Chartered <u>Thrifts</u> 25	Texas Federal <u>Thrifts</u> 4	All Texas <u>Thrifts</u> 29
% of Unprofitable Institutions	4.61%	2.96%	3.89%	4.00%	25.00%	6.90%
% of Institutions with Earnings Gains	46.08%	49.11%	47.41%	44.00%	NA	37.93%
Yield on Earning Assets	3.85%	3.86%	3.86%	2.11%	4.49%	2.65%
Net Interest Margin	3.37%	3.30%	3.35%	1.98%	4.22%	2.50%
Return on Assets	0.96%	0.87%	0.93%	1.01%	0.03%	0.78%
Return on Equity	7.58%	8.27%	7.79%	13.83%	0.33%	9.84%
Net Charge-offs to Loans	0.31%	0.43%	0.35%	0.03%	1.54%	0.85%
Earnings Coverage of Net Loan C/Os	8.90	5.26	7.36	303.14	1.98	7.61
Loss Allowance to Loans	1.44%	1.24%	1.37%	0.56%	2.97%	1.81%
Loss Allowance to Noncurrent Loans	222.38%	153.73%	195.81%	65.39%	98.81%	91.88%
Noncurrent Assets+OREO to Assets	0.46%	0.53%	0.49%	0.11%	1.35%	0.39%
Net Loans and Leases to Core Deps	80.68%	77.84%	79.70%	14.10%	56.54%	22.96%
Equity Capital to Assets	12.05%	10.06%	11.37%	7.42%	9.65%	7.93%
Core Capital (Leverage) Ratio	9.86%	9.32%	9.67%	6.17%	8.52%	6.70%
Total Risk-Based Capital Ratio	14.39%	14.60%	14.45%	18.43%	17.06%	17.99%

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, 2020 FDIC financial data is reflective of FDIC insured institutions only. Assets in Billions

	< <u>\$1</u> 180	<u>\$1 - \$10</u> 32	<u>>\$10</u> 5
% of Unprofitable Institutions	5.00%	3.12%	NA
% of Institutions with Earnings Gains	46.11%	46.87%	40.00%
Yield on Earning Assets	4.39%	4.29%	3.51%
Net Interest Margin	3.73%	3.70%	3.13%
Return on Assets	1.30%	1.12%	0.80%
Return on Equity	11.10%	8.49%	6.29%
Net Charge-offs to Loans	0.08%	0.13%	0.45%
Earnings Coverage of Net Loan C/Os	30.61	20.42	6.38
Loss Allowance to Loans	1.12%	1.32%	1.58%
Loss Allowance to Noncurrent Loans	180.06%	179.22%	257.48%
Noncurrent Assets+OREO to Assets	0.47%	0.60%	0.40%
Net Loans and Leases to Core Deps	78.15%	89.72%	77.81%
Equity Capital to Assets	11.29%	12.63%	12.02%
Core Capital (Leverage) Ratio	10.99%	10.68%	9.18%
Total Risk-Based Capital Ratio	17.79%	16.41%	13.24%

RATIO ANALYSIS BY ASSET GROUPS FOR STATE-CHARTERED THRIFTS

As of June 30, 2020 FDIC financial data is reflective of FDIC insured institutions only. Assets in Billions

	< \$1 14	<u>\$1 - \$10</u> 9	<u>>\$10</u> 2
% of Unprofitable Institutions	NA	11.11%	NA
% of Institutions with Earnings Gains	42.86%	55.56%	NA
Yield on Earning Assets	4.94%	4.59%	1.86%
Net Interest Margin	4.07%	3.64%	1.82%
Return on Assets	0.87%	0.85%	1.03%
Return on Equity	7.97%	8.16%	14.71%
Net Charge-offs to Loans	0.13%	0.07%	-0.01%
Earnings Coverage of Net Loan C/Os	12.69	32.60	NA
Loss Allowance to Loans	0.84%	0.98%	0.14%
Loss Allowance to Noncurrent Loans	125.20%	57.94%	125.00%
Noncurrent Assets+OREO to Assets	0.49%	1.28%	0.01%
Net Loans and Leases to Core Deps	91.82%	109.01%	7.48%
Equity Capital to Assets	10.27%	10.08%	7.16%
Core Capital (Leverage) Ratio	10.49%	10.12%	5.77%
Total Risk-Based Capital Ratio	17.21%	14.43%	19.32%

COMPARISON REPORT

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

June 30, 2020

	State E	Banks*	State T	hrifts
	End of Period	% of Total Assets	End of Period	% of Total Assets
Number of Institutions	217		25	
Number of Employees (full-time equivalent) (In millions)	41,269		4,169	
Total Assets	\$319,759		\$349,083	
Net Loans and Leases	\$195,419	61.11%	\$42,447	12.16%
Loan Loss Allowance	\$2,854	0.89%	\$238	0.07%
Other Real Estate Owned	\$199	0.06%	\$26	0.01%
Goodwill and Other Intangibles	\$7,999	2.50%	\$365	0.10%
Total Deposits	\$261,290	81.71%	\$315,891	90.49%
Federal Funds Purchased and Repurchase Agreements	\$3,061	0.96%	\$35	0.01%
Other Borrowed Funds	\$12,057	3.77%	\$2,726	0.78%
Equity Capital	\$38,552	12.06%	\$25,894	7.42%
Memoranda:				
Noncurrent Loans and Leases	\$1,283	0.40%	\$364	0.10%
Earning Assets	\$292,320	91.42%	\$345,247	98.90%
Long-term Assets (5+ years)	\$75,318	23.55%	\$224,512	64.31%
	Year-to-Date	<u>% of Avg.</u> <u>Assets</u> †	Year-to-Date	<u>% of Avg.</u> <u>Assets</u> †
Total Interest Income	\$5,207	3.51%	\$3,222	2.08%
Total Interest Expense	\$653	0.44%	\$189	0.12%
Net Interest Income	\$4,555	3.07%	\$3,034	1.96%
Provision for Loan and Lease Losses	\$1,127	0.76%	\$93	0.06%
Total Noninterest Income	\$1,797	1.21%	\$89	0.06%
Total Noninterest Expense	\$3,752	2.53%	\$985	0.64%
Securities Gains	\$185	0.12%	\$5	0.00%
Net Income	\$1,426	0.96%	\$1,570	1.01%
Memoranda:				
Net Loan Charge-offs	\$292	0.20%	\$7	0.00%
Cash Dividends	\$851	0.57%	\$46	0.03%

^{*}Excludes branches of state-chartered banks of other states doing business in Texas. As of June 30, 2020, there are an estimated 42 out-of-state state-chartered institutions with \$70.8 billion in assets. Assets are based upon the June 30, 2019, 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, 2020.

PERFORMANCE SUMMARY: UNITED STATES BANKING SYSTEM

FDIC QUARTERLY BANKING PROFILE

Second Quarter 2020 - <u>www.fdic.gov</u>
All Institutions Performance

The FDIC reported that commercial banks and savings institutions saw a decrease in net income of 70% from a year ago, while liquidity and capital levels remained very strong to meet loan demand and absorb any losses in the future.

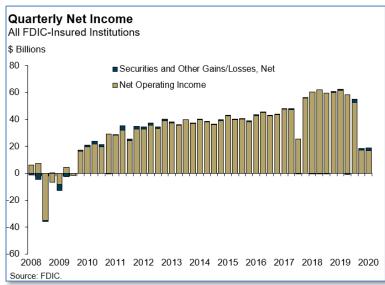
For the 5,066 commercial banks and savings institutions insured by the FDIC, aggregate net income totaled \$18.8 billion in second quarter 2020, down \$43.7 billion (70%) from a year ago. The decline in net income is a continuation of uncertain economic conditions, which drove an increase in provision expenses.

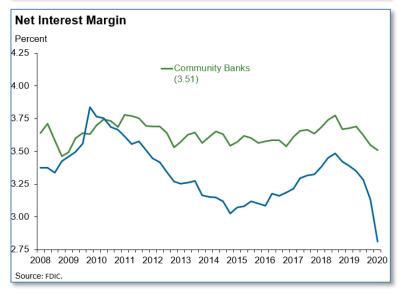
Quarterly Net Income Declines \$43.7 Billion (70 Percent) From 12 Months Ago

Quarterly net income for the 5,066 FDIC-insured commercial banks and savings institutions totaled \$18.8 billion during second quarter 2020, a decline of \$43.7 billion (70%) from a year ago. The decline in net income reflects a continuation of uncertain economic activity, which drove an increase in provision expenses. Slightly less than half (47.5%) of all banks reported lower net income compared to a year ago. The average return on assets ratio was 0.36% for the current quarter, down 102 basis points from a year ago.

Net Interest Margin Declines to 2.81 Percent

Net interest income was \$131.5 billion in second quarter 2020, down \$7.6 billion (5.4%) from a year ago. This marks the third consecutive quarter that net interest income declined on a year-over-year basis. Most of the decline was driven by the three largest institutions, as less than half (42.2%) of all banks reported lower net interest income from a year ago. The average net interest margin (NIM) for the banking industry declined below the 3% level, or down 58 basis point from a year ago to 2.81%. This is the lowest NIM ever





reported in the Quarterly Banking Profile (QBP). The NIM compression was broad-based, as it declined for all five asset size groups featured in the QBP. The decline in NIM was caused by asset yields declining at a faster rate than funding costs, as low yielding assets grew substantially.

1 Noninterest Income Increases Nearly 7 Percent from a Year Ago

With almost half (47.8%) of all banks increasing their noninterest income from a year ago, the aggregate noninterest income for the banking industry rose by \$4.6 billion (6.9%) to \$70.8 billion. The annual increase in noninterest income was attributable to higher trading revenue, which rose by \$6.7 billion (80.2%), and net gains on loan sales, which increased by \$4.1 billion (110.8%).

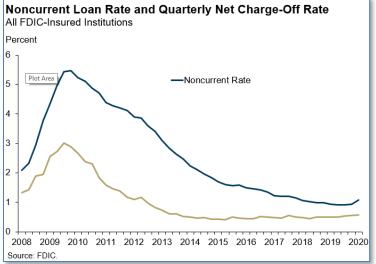
Noninterest Expense Increases 6.2 Percent from Second Quarter 2019

Noninterest expense rose to \$122.3 billion in the second quarter, up \$7.2 billion (6.2%) from a year ago. More than half (58.6%) of all banks reported year-over-year increases in noninterest expense. The annual increase in noninterest expense was attributable to higher salary and employee benefits (up \$2.7 billion, or 4.8%) and goodwill impairment charges (up \$2.5 billion). The average assets per employee increased from \$8.8 million in second quarter 2019 to \$10.2 million in second quarter 2020. Noninterest expense as a percent of average assets declined by 16 basis points from a year ago to 2.37%, the lowest level ever reported in the QBP.

Provisions for Credit Losses Rise From 12 Months Ago

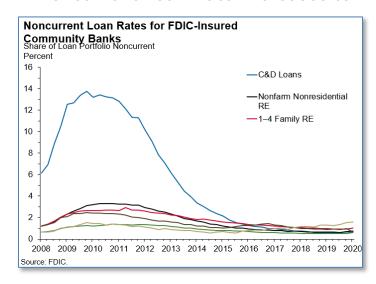
The continuation of weak economic activity and the recent implementation of the current expected credit losses (CECL) accounting methodology resulted in provisions for credit losses to increase by \$49.1 billion (382.2%) or from \$12.8 billion in second quarter 2019 to \$61.9 billion this quarter. Quarter-over-quarter, provisions for credit losses rose by \$9.2 billion (17.4%). During the second quarter, 253 banks used the CECL accounting standard. CECL adopters reported \$56.3 billion in provisions for credit losses in second quarter, up 419.2% from a year ago, and non-CECL adopters reported \$5.6 billion, up 207.3%. Almost two out of every three banks (61.2%) reported yearly increases in provision for credit losses.

Average Net Charge-Off Rate Increases by 7 Basis Points from a Year Ago



The average net charge-off rate increased by 7 basis points from a year ago to 0.57%. Net charge-offs increased by \$2.8 billion (22.2%) from a year ago, the largest percentage increase since first quarter 2010. The annual increase in total net chargeoffs was attributable to the commercial and industrial (C&I) loan portfolio, in which charge-offs increased by \$2.4 billion (128.5%). The C&I net charge-off rate rose by 31 basis points from a year ago to 0.64% but remains well below the post-crisis high of 2.72% reported in fourth quarter 2009.

Noncurrent Loan Rate Increases to 1.08 Percent



The average noncurrent rate increased by 15 basis points from the previous quarter to 1.08%. Noncurrent loan balances (90 days or more past due or in nonaccrual status) totaled \$118.3 billion in the second quarter, an increase of \$15.9 billion (15.5%) from the previous quarter. Less than half (41.6%) of all banks reported quarterly increases in noncurrent loan balances. The increase in noncurrent loan balances was led by 1–4 family residential mortgage loans (up \$7.6 billion, or 19.5%) and C&I loan portfolio (up \$6.1 billion, or 29%). The rise in noncurrent loan balances for 1-4 family residential mortgage loans reflects Ginnie Mae (GNMA) loans, which are guaranteed by the U.S. government, that

have been brought back on banks' books. The noncurrent rate for 1-4 family residential mortgage loans

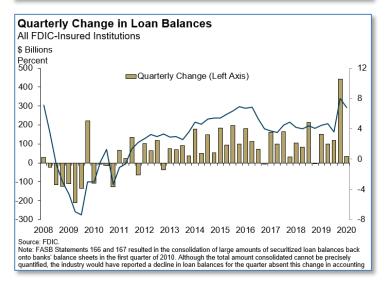
increased by 33 basis points to 2.09%, and for C&I the noncurrent rate rose by 18 basis points to 1.01%.

↑ Total Assets Expand 4.4 Percent from the Previous Quarter

The banking industry reported total assets of \$21.1 trillion in the second quarter, an increase of \$884.6 billion (4.4%) from first quarter 2020. Cash and balances due from depository institutions increased by \$478 billion (19.9%) to \$2.9 trillion or 13.7% of total assets. Banks increased their securities holdings by \$307.2 billion (7.3%), the largest quarterly dollar increase ever reported in the QBP. Most of this growth was attributable to U.S. Treasury securities, which rose by \$173 billion (26.3%), and mortgage-backed securities, which increased by \$105.4 billion (4.1%).

Loan Balances Increase Modestly from the Previous Quarter, Driven by Paycheck Protection Program Lending

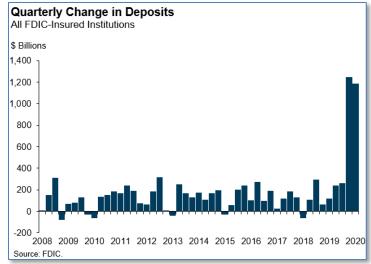
Total loan and lease balances increased by \$33.9 billion (0.3%) from the previous quarter, led by C&I loan portfolio, which rose by \$146.5 billion (5.8%). The rise in C&I loan portfolio was attributable to the implementation of the Small Business Administration-guaranteed Paycheck Protection Program (PPP), with \$482.2 billion in PPP loans on banks' balance sheets at the end



of the quarter. The increase in total loan and lease balances was partially offset by consumer loans, which includes credit cards (down \$67.1 billion, or 3.8%).

Deposits Expand by More Than \$1 Trillion for Second Consecutive Quarter

Total deposit balances increased by \$1.2 trillion (7.5%) from the previous quarter. Noninterest-bearing account balances rose by \$637 billion (17.7%) and interest-bearing account balances rose by \$575.3 billion (5.4%). Nondeposit liabilities declined by \$330.9 billion (14%) from the previous quarter. The decline in nondeposit liabilities was attributable to lower Federal Home Loan Bank advances, which fell by \$234.1 billion (38.2%). Over the past 12 months, total deposits rose by \$2.9 trillion (20.8%), led by the increase of \$2.4 trillion in the last two quarters.



★ Equity Capital Rises from the Previous Quarter

Equity capital totaled \$2.1 trillion in the second quarter, an increase of \$31.9 billion (1.5%) from the previous quarter. Retained earnings contributed \$4.8 billion to equity formation in the second quarter, as net income of \$18.8 billion exceeded declared dividends of \$14 billion. Nine insured institutions with \$1.4 billion in total assets were below the requirements for the well-capitalized category as defined for Prompt Corrective Action purposes.

One New Bank Opens in Second Quarter 2020

The number of FDIC-insured commercial banks and savings institutions reporting declined from 5,116 to 5,066 during second quarter 2020. One new bank was added, 47 institutions were absorbed by mergers, and one bank failed. Additionally, three institutions, who did not report this quarter, sold a majority of their assets and are in process of ceasing operations. The number of institutions on the FDIC's "Problem Bank List" declined from 54 in first quarter 2020 to 52, falling to near historic lows. Total assets of problem banks increased from \$44.5 billion to \$48.1 billion.

SNAPSHOT STOCK PERFORMANCE SOUTHWEST REGIONAL BANKS (MSECTOR415) SEPTEMBER 2020

Name	Last	Trade	52 Wk Ra		PE	EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	09/03	21.75	21.41	21.75	10.66	2.04	189.135M	1.00	4.69%
BancFirst Corporation	09/03	45.08	26.00	63.96	13.33	3.38	1.472B	1.36	3.09%
BOK Financial Corporation	09/03	57.94	34.57	88.28	10.78	5.37	4.069B	2.04	3.63%
Cass Information Sys, Inc.	09/03	39.27	28.85	60.97	20.89	1.88	566.317M	1.08	2.74%
Commerce Bancshares, Inc.	09/03	59.22	45.51	71.92	22.33	2.65	6.594B	1.08	1.83%
Cullen Frost Bankers, Inc.	09/03	70.42	47.69	99.42	12.67	5.56	4.415B	2.84	4.08%
Enterprise Fin Serv Corp	09/03	30.65	21.70	48.81	9.52	3.22	803.214M	0.72	2.34%
First Community Corp S C	09/03	13.00	12.23	22.00	10.07	1.29	97.32M	0.48	3.79%
First Financial Bankshares, Inc.	09/03	30.97	20.70	36.45	24.58	1.26	4.37B	0.52	1.70%
First Financial Northwest, Inc.	09/03	9.70	7.90	15.47	10.77	0.90	97.403M	0.40	4.18%
Great Southern Bancorp, Inc.	09/03	39.82	32.23	64.48	8.65	4.60	560.944M	1.36	3.53%
Guaranty Fed Bancshares, Inc.	09/03	13.80	12.70	26.93	6.82	2.02	60.272M	0.60	4.32%
Heartland Financial USA, Inc.	09/03	34.39	25.26	51.85	10.29	3.33	1.263B	0.80	2.37%
International Bancshares Corp	09/03	31.42	15.60	44.00	11.37	2.76	1.988B	1.10	3.55%
Landmark Bancorp, Inc.	09/03	22.20	14.95	27.78	7.10	3.13	102.517M	0.80	3.69%
Mackinac Financial Corp	09/03	10.05	6.52	17.75	7.98	1.26	105.863M	0.56	5.53%
MidWest One Finl Group, Inc.	09/03	19.70	15.25	39.03	9.03	2.18	317.156M	0.88	4.60%
Prosperity Bancshares, Inc.	09/03	54.80	42.02	75.22	10.89	5.03	5.078B	1.84	3.41%
QCR Holdings, Inc.	09/03	30.13	22.39	44.76	8.61	3.50	475.798M	0.24	0.80%
Solera National Bancorp, Inc.	09/03	9.47	8.00	11.60	10.44	0.91	16.402M	N/A	N/A
Texas Capital Bancshares, Inc.	09/03	32.58	19.10	64.88	16.05	2.03	1.643B	N/A	N/A
Two Rivers Fin Group	09/03	27.00	22.16	33.50	9.71	2.78	60.308M	0.64	2.44%
UMB Financial Corporation	09/03	55.10	39.47	70.26	14.47	3.81	2.646B	1.24	2.28%
West Bancorp Incorporated	09/03	17.70	13.74	25.93	9.41	1.88	291.507M	0.84	4.77%

Source: Yahoo Finance (September 2020) N/A – Indicates information was not available.

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.

NATIONAL ECONOMIC TRENDS

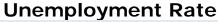
Real Gross Domestic Product



Consumer Price Index



Source: Federal Reserve Bank of St. Louis, National Economic Trends, September 2020.





Interest Rates



Source: Federal Reserve Bank of St. Louis, National Economic Trends, September 2020.

ECONOMIC REPORTS AND FORECASTS: UNITED STATES

FEDERAL RESERVE BANK, DALLAS NATIONAL UPDATE

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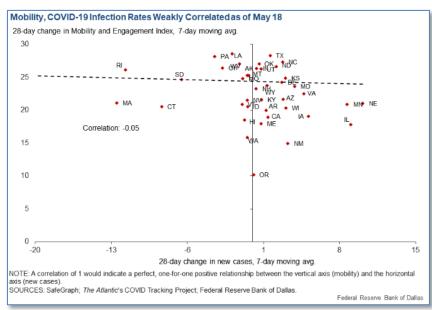
U.S. Economic Rebound Uneven amid Resurgent Local COVID-19 Outbreaks

Americans sharply reduced their mobility in late March and early April, staying at home to avoid COVID-19 infection. As mobility and economic activity resumed in the latter half of April and into May, the renewed movement didn't appear to reflect local infection rates.

That pattern changed the following month. Across states, a strong relationship seems to have developed between local COVID-19 cases and mobility. Mobility has declined in states experiencing a rising rate of new cases, while mobility has increased in states that saw a relatively high incidence earlier in the pandemic but an easing in recent weeks.

Economic activity has exhibited a similar response to COVID-19 outbreaks. Thus, the economic recovery going forward is likely to be geographically uneven, dictated by local infection conditions. A full recovery to pre-pandemic levels of economic activity appears unlikely until the virus is under control.

Tracking Relationship Between Infection Cases and Mobility



Source: Federal Reserve Bank of Dallas

The Federal Reserve Bank of Dallas developed the Mobility and Engagement Index (MEI), using geolocation data provided by SafeGraph, a geospatial data analysis firm. It is a measure of the deviation from normal mobility behaviors resulting from COVID-19.

Chart 1 illustrates that increases in mobility were universal across states—MEI values are all positive—and that states with declining infection rates were not necessarily the same ones experiencing the most rapid mobility increases as of May 18. The correlation coefficient of -0.05 indicates no relationship—1.0 would indicate a perfect correlation. This is surprising and

may reflect that behavior was more responsive to national infection conditions than to local ones.

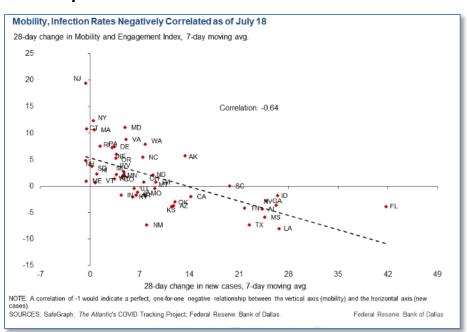
¹ Tyler Atkinson, Jackson Crawford, Sam Dannels and Andrew Gross

Strengthening State-Level Response to COVID-19

By July 18, states that had experienced increasing rates of infection in the second half of June also experienced the largest drops in mobility.

As Chart 1 shows, the correlation between mobility and infection rates was weak in mid-May, implying that at an aggregate level, state mobility was minimally changing in response to local infection rates. This relationship has since evolved, as Chart 2 indicates. Infection rates are more dispersed across states and the correlation is now more strongly negative, with a correlation coefficient of -0.64.

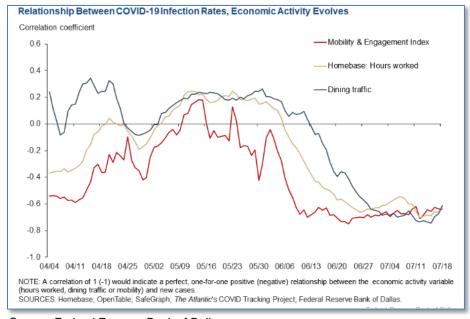
This points to mobility becoming more closely tied to local infection rates than a few months prior.



Source: Federal Reserve Bank of Dallas

High-Frequency Indicators Exhibit Similar Behavior

Chart 3 shows the day-by-day evolution of the correlation between the four-week change in COVID-19 infection rates and the four-week change in high-frequency indicators of economic activity.



Source: Federal Reserve Bank of Dallas

The MEI, dining traffic and hours worked exhibit similar patterns. Dining traffic is measured as seated diners at a sample of restaurants on the OpenTable restaurant reservations network. Hours worked is the percent change from January in hours worked by hourly employees at businesses that use Homebase software.

The message in Chart 3 is consistent with that of the previous figures. Early in the response to the pandemic, there was little consistency in the relationship between infection rate changes and increased activity. Near the

end of May and through June, these correlations have trended consistently negative, indicating that states with increasing rates of infection saw mobility and economic activity slowing at a greater rate.

In other words, the response to infection rates has become more localized. For the four weeks ended July 18, the relationship remained consistent and strongly negative.

Notably, the MEI and hours worked lines in Chart 3 were negative in mid-April as mobility hit a low point, driven largely by the hardest-hit states in the northeastern U.S. This proved to be transitory in May. The relationship between the two-week change in infections and two-week change in economic activity indicates a weaker relationship in July. However, the four-week change smooths out possible noise to reveal a relationship that is more stable over time.

Positioning for an Uneven U.S. Recovery

In May, there was a sense that the nation as a whole had endured the worst of the COVID-19 crisis, with new infections declining enough to prompt a broad-based bounce in mobility and economic activity. Now, as infections rise in some regions, Americans are responding to what they see in their own communities.

This change in behavior has implications for the economic outlook. The positive is that regions with improving health situations—such as the Northeast—may continue to experience accelerating mobility and economic activity despite a worsening national infection rate. The negative implication is that the recoveries in regions experiencing rapidly rising levels of COVID-19 cases will likely stagnate or head back down.

For the national economy, this implies a slower, more uneven path, with a full nationwide recovery not possible until new infections are brought under control.

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

Data Series	Feb 2020	Mar 2020	Apr 2020	May 2020	June 2020	July 2020
Unemployment Rate (1)	3.5	4.4	14.7	13.3	11.1	10.2
Change in Payroll Employment (2)	⁽³⁾ 251	⁽³⁾ -1,373	-20,787	2,725	^(P) 4,791	^(P) 1,763
Average Hourly Earnings (4)	28.52	28.69	30.03	29.70	^(P) 29.32	^(P) 29.39
Consumer Price Index (5)	0.1	-0.4	-0.8	-0.1	0.6	0.6
Producer Price Index (6)	-0.5	-0.4	(P) -0.9	^(P) 0.4	^(P) -0.2	^(P) 0.6
U.S. Import Price Index (7)	-0.7	-2.4	^(R) -2.6	^(R) 0.7	^(R) 1.4	^(R) 0.7

Footnotes:

- (1) In percent, seasonally adjusted. Annual averages are available for Not Seasonally Adjusted data.
- (2) Number of jobs, in thousands, seasonally adjusted.
- (3) corrected
- (4) Average Hourly Earnings for all employees on private nonfarm payrolls.
- (5) All items, U.S. city average, all urban consumers, 1982-84=100, 1-month percent change, seasonally adjusted.
- (6) Final Demand, 1-month percent change, seasonally adjusted.
- (7) All imports, 1-month percent change, not seasonally adjusted.
- (P) Preliminary
- (R) Revised

Data Series	2nd Qtr 2019	3rd Qtr 2019	4th Qtr 2019	1st Qtr 2020	2nd Qtr 2020
Employment Cost Index (1)	0.6	0.7	0.7	0.8	0.5
Productivity (2)	^(R) 2.0	^(R) 0.3	^(R) 1.6	^(R) -0.3	7.3

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.
- (R) Revised.

Data extracted: August 24, 2020

THE FEDERAL RESERVE BOARD THE BEIGE BOOK — SEPTEMBER 2, 2020, EXCERPT

Overall Economic Activity

Economic activity increased among most Districts, but gains were generally modest and activity remained well below levels prior to the COVID-19 pandemic. Manufacturing rose in most Districts, which coincided with increased activity at ports and among transportation and distribution firms. Consumer spending continued to pick up, sparked by strong vehicle sales and some improvements in tourism and retail sectors. But many Districts noted a slowing pace of growth in these areas, and total spending was still far below pre-pandemic levels. Commercial construction was down widely, and commercial real estate remained in contraction. Conversely, residential construction was a bright spot, showing growth and resilience in many Districts. Residential real estate sales were also notably higher, with prices continuing to rise along with demand and a shortage of inventory. In the banking sector, overall loan demand increased slightly, led by solid residential mortgage activity. Agricultural conditions continued to suffer from low prices, and energy activity was subdued at low levels, with little expectation of near-term improvement for either sector. While the overall outlook among contacts was modestly optimistic, a few Districts noted some pessimism. Continued uncertainty and volatility related to the pandemic, and its negative effect on consumer and business activity, was a theme echoed across the country.

Highlight of Dallas Federal Reserve

Increasing COVID-19 infections in the Eleventh District have disrupted the budding economic recovery in some sectors. While manufacturing activity continued to expand, service sector activity declined overall in July but resumed its nascent recovery in August. Energy activity remained depressed. Sharply rising home sales were a bright spot. Outlooks were increasingly uncertain, as surging COVID-19 cases disrupted business sentiment.

ECONOMIC REPORTS AND FORECASTS: STATE OF TEXAS

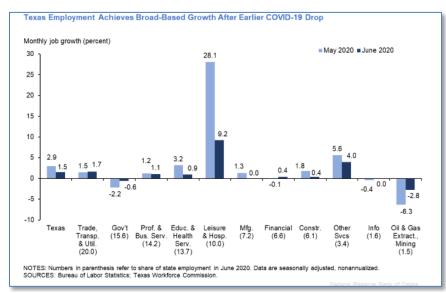
FEDERAL RESERVE BANK, DALLAS

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Texas Economy's Rebound Stalls in July after Gains in May, June

The resurgence of COVID-19 in July appears to have reversed economic gains in Texas that emerged when the virus' frequency abated in May and June. Employment and other activity had increased strongly from April lows during initial pandemic disruptions in the state.

As a result, the Texas Employment Forecast suggests that on net the number of jobs will decline 4.8%



Source: Federal Reserve Bank of Dallas

this year on a December-over-December basis.

Texas employment improved in June—though more slowly than May's pace—after historic contractions in April. The state recovered about 522,000 jobs in May and June, about 40% of the 1.3 million jobs lost during March and April.

June total employment grew 1.5% on a nonannualized basis (181,700 jobs) on top of a 2.9% gain in May. While the Texas advance was significant, it trailed the 3.6% rebound in U.S. employment in June.

Texas job growth was broad based across private service

sector industries, with only government, mining and information services sectors declining. Employment growth in the highly impacted leisure and hospitality sector was considerably slower in June than in May. Employment in this sector remained down about 16% (227,300 jobs) from February levels. Trade, transportation and utilities, the state's largest sector, was the most resilient, adding 39,700 jobs in June (1.7%) versus May's addition of 35,200 jobs (1.5%). However, this sector's employment remained down 3.7%, or 94,000 jobs, from pre-COVID levels in February.

The state unemployment rate of 8.6% in June was lower than the U.S. jobless rate of 11.1%. The state's recent jobless rate was more than double its figure of 3.5% in February but considerably lower than its peak of 13.5% in April.

However, weekly unemployment insurance claims suggest continued distress in the state labor market. Continuing and initial unemployment claims filed in Texas remained elevated. Claims totaled 1.3 million

¹ Christopher Slijk and Keighton Hines

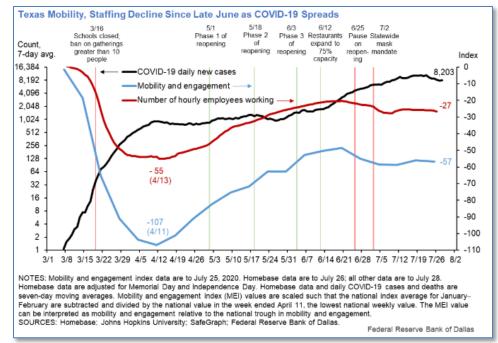
for the week ended July 18, 5.2% higher than the prior week, though down 14.1% from a peak of 1.5 million claims in the week ended May 23.

Mobility Decelerates, COVID-19 Cases Escalating Since Late June

High-frequency data through July—the Dallas Fed Mobility and Engagement Index (MEI) and a separate measure of the number of hourly employees working in small business—suggest that as COVID-19 infections spread in Texas, economic growth slowed.

The MEI summarizes information drawn from seven different variables based on geolocation data collected from a large sample of mobile devices to gain insight into the economic impact of the pandemic.

The number of hourly employees working at small firms is drawn from the Homebase software firm that included data for more than 60,000 businesses and 1 million hourly employees in the U.S. in January 2020. The data compare the number of employees working on a particular day relative to the median for that day of the week from January 4 to January 31, 2020.



Source: Federal Reserve Bank of Dallas

After stay-at-home orders designed to contain the spread of COVID-19 were lifted at the end of April, the Texas economy began reopening in May and June. As the MEI increased and the number of hourly employees working grew, new COVID-19 cases surged several weeks later before easing in late July.

From late June through late July, the MEI declined 3.1%, and the number of hourly employees working fell 22.3%.

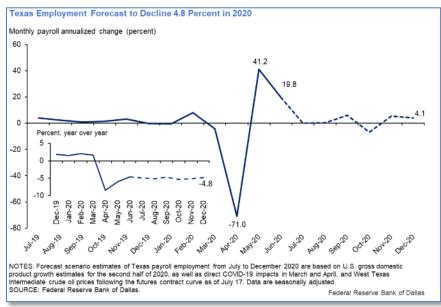
Manufacturing Outlook Still Improving; Services and Retail Outlooks Retreat

Texas Business Outlook Survey (TBOS) results in July suggested mixed economic activity, with steady growth in manufacturing and declines in the service sector. Survey responses are used to construct an index that is calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase. Thus, positive numbers suggest growth, and negative numbers suggest contraction.

Outlooks were mixed across industries. Manufacturers' optimism increased, despite worsening perceptions of current business conditions, while service sector and retail firms became more pessimistic relative to June. The manufacturing company outlook index rose 3.2 points to 5.9. Conversely, the service sector company outlook index contracted after rising in June, dropping 18 points to -15.8. Retailers also expected activity to decline, with the retail company outlook index falling 23.3 points to -6.8.

Nevertheless, few respondents reported that it was likely they would permanently shut down—the share was lowest in manufacturing (less than 6%) and higher for services (nearly 10%).

Texas Employment Forecast Suggests Lackluster Outlook



Source: Federal Reserve Bank of Dallas

With the economic headwinds in the second half of the year, job growth is expected to slow significantly from May and June levels, leading to the loss of 622,600 jobs this year (-4.8 percent), with 12.3 million individuals employed at year-end.

Texas jobs will recover in the second half of the year but not enough to overcome the sharp declines in March and April. Forecast uncertainty remains elevated as COVID-19 continues to spread throughout the state, presenting significant downside risks to the outlook.

TEXAS ECONOMIC STATISTICS U.S. BUREAU OF LABOR STATISTICS

Data Series	Feb 2020	Mar 2020	Apr 2020	May 2020	June 2020	July 2020					
Labor Force Data											
Civilian Labor Force (1)	14,199.6	14,004.5	12,960.7	13,498.3	13,794.3	^(P) 13,821.4					
Employment (1)	13,707.1	13,288.7	11,216.7	11,745.0	12,639.4	^(P) 12,720.3					
Unemployment (1)	492.5	715.8	1,744.0	1,753.2	1,154.9	^(P) 1,101.1					
Unemployment Rate (2)	3.5	5.1	13.5	13.0	8.4	(P) 8.0					
Nonfarm Wage and Salary Employme	Nonfarm Wage and Salary Employment										
Total Nonfarm (3)	13,016.8	12,926.9	11,604.7	11,854.8	12,087.3	^(P) 12,118.7					
12-month% change	2.4	1.7	-8.9	-7.1	-5.4	^(P) -5.4					
Mining and Logging (3)	236.9	234.1	213.2	198.2	191.3	^(P) 190.1					
12-month% change	-7.5	-8.3	-16.6	-22.1	-24.2	^(P) -24.0					
Construction (3)	797.0	791.5	729.3	741.7	743.6	^(P) 737.3					
12-month% change	4.4	3.5	-5.0	-3.6	-3.7	^(P) -5.0					
Manufacturing (3)	911.5	906.2	863.7	873.5	873.4	^(P) 868.8					
12-month% change	1.0	0.3	-4.5	-3.6	-3.7	^(P) -4.4					
Trade, Transportation, and Utilities (3)	2,548.6	2,541.6	2,354.6	2,378.7	2,418.3	^(P) 2,410.6					
12-month% change	1.8	1.5	-5.9	-5.0	-3.5	^(P) -4.1					
Information (3)	209.8	210.2	194.9	193.5	194.8	^(P) 194.6					
12-month% change	1.2	1.0	-6.6	-7.3	-6.7	^(P) -6.4					
Financial Activities (3)	812.8	816.2	798.3	796.1	802.1	^(P) 804.1					
12-month% change	2.6	2.8	0.2	-0.3	0.1	(P) 0.0					
Professional & Business Services (3)	1,843.1	1,835.8	1,692.2	1,710.9	1,730.2	^(P) 1,746.6					
12-month% change	3.9	3.6	-5.0	-4.2	-3.3	^(P) -2.9					
Education & Health Services (3)	1,776.4	1,768.2	1,596.6	1,643.7	1,667.2	^(P) 1,677.5					
12-month% change	3.0	2.4	-7.8	-5.2	-3.9	^(P) -3.6					
Leisure & Hospitality (3)	1,428.9	1,370.7	837.4	1,027.1	1,168.8	^(P) 1,147.8					
12-month% change	3.3	-0.9	-39.5	-26.0	-15.9	^(P) -17.7					
Other Services (3)	459.6	458.8	370.2	388.5	410.2	^(P) 410.2					
12-month% change	3.8	3.6	-16.5	-12.5	-7.4	^(P) -7.8					
Government (3)	1,992.2	1,993.6	1,954.3	1,902.9	1,887.4	^(P) 1,931.1					
12-month% change	1.7	1.7	-0.4	-3.2	-4.2	(P) -2.2					
Footnotes (1) Number of persons, in thousands, seaso (2) In percent, seasonally adjusted.	mber of jobs, in eliminary.	thousands, se	asonally adjust	ted.							

Data extracted: August 24, 2020

FEDERAL RESERVE BANK SENIOR LOAN OFFICER OPINION SURVEY

The July 2020 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 2020.

Regarding loans to businesses, respondents to the July survey indicated that, on balance, they tightened their standards and terms on commercial and industrial (C&I) loans to firms of all sizes. Banks reported weaker demand for C&I loans from firms of all sizes. Meanwhile, banks tightened standards and reported weaker demand across all three major commercial real estate (CRE) loan categories—construction and land development loans, nonfarm nonresidential loans, and multifamily loans—over the second quarter of 2020.

For loans to households, banks tightened standards across all categories of residential real estate (RRE) loans and across all three consumer loan categories—credit card loans, auto loans, and other consumer loans—over the second quarter of 2020 on net. Banks reported stronger demand for all categories of RRE loans and weaker demand for all categories of consumer 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 across all loan categories are currently at the tighter end of the range of standards between 2005 and the present.

BUSINESS LENDING

C&I Loans

Over the second quarter, major net shares of banks reported having tightened standards for C&I loans to both large and middle-market firms and to small firms. At the same time, major net shares of banks increased the use of interest rate floors, collateralization requirements, loan covenants, premiums charged on riskier loans, and loan spreads over the bank's cost of funds, and significant net shares of banks tightened all other lending terms across firms of all sizes. Meanwhile, a major net fraction of foreign banks tightened standards for C&I loans.

Major net shares of foreign banks reported having tightened the premiums charged over riskier loans and the costs of credit lines, while significant net shares of foreign banks reported having tightened the maximum size of credit lines, the maximum maturity of loans or credit lines, the spreads of loan rates over the bank's cost of funds, the loan covenants,

the collateralization requirements, and the use of interest rate floors.

Major net shares of banks that reported reasons for tightening lending standards or terms cited a less favorable or more uncertain economic outlook, worsening of industry-specific problems, and reduced tolerance for risk as important reasons for doing so. Significant net shares of banks also mentioned deterioration in the bank's current or expected capital position; less aggressive competition from other banks or nonbank lenders; decreased liquidity in the secondary market for C&I loans; and increased concerns about the effects of legislative changes, supervisory actions, or changes in accounting standards.

Regarding demand for C&I loans over the second quarter, a significant net share of banks reported weaker demand for C&I loans to firms of all sizes. In addition, a significant

net share of banks reported that the number of inquiries from potential borrowers decreased over the second quarter. Meanwhile, a moderate net fraction of foreign banks reported that demand for C&I loans strengthened, and a modest net fraction of foreign banks reported that the number of inquiries from potential borrowers increased.

Major net shares of banks that reported weaker demand cited a decrease in customers' inventory financing need, a decrease in customers' accounts receivable financing needs, a decrease in customers' investment in plant or equipment, and a decrease in customers' merger or acquisition financing needs. Meanwhile, significant net

shares of banks reported an increase in customers' internally generated funds and a decrease in customers' precautionary demand for cash and liquidity as important reasons for weaker demand.

CRE Lending

Major net shares of domestic banks tightened standards on all three CRE loan categories over the second quarter. Meanwhile, major net shares of domestic banks reported weaker demand for all three CRE loan categories during this period. Similarly, major net shares of foreign banks tightened standards on CRE loans and reported weaker demand for such loans.

LENDING TO HOUSEHOLDS

Residential Real Estate Lending

Over the second quarter, major net shares of banks tightened standards for all RRE loan categories except for subprime residential mortgage loans, for which a significant net fraction of banks reportedly tightened lending standards.

Regarding demand for RRE loans over the second quarter, a major net share of banks reported having experienced stronger demand for GSE-eligible residential mortgages, and significant net shares of banks reported having experienced stronger demand for most of the remaining categories of RRE loans. Demand was reportedly weaker only for home equity lines of credit (HELOCs).

Consumer Lending

Over the second quarter, major net shares of banks tightened lending standards on all categories of consumer loans. Major net fractions of banks also tightened important terms on credit card loans, including credit limits and minimum credit scores required. In contrast, a modest net share of banks reportedly reduced the minimum percent of outstanding balances required to be repaid each month. Meanwhile, significant net shares of banks tightened most surveyed terms on auto loans.

Regarding demand for consumer loans over the second quarter, a major net fraction of banks experienced weaker demand for credit card loans, and significant net fractions of banks experienced weaker demand for auto and other consumer loans.

SPECIAL QUESTION ON BANKS' OUTLOOK FOR 2020

The July 2020 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.

Major shares of banks reported that, on net, their current levels of lending standards for all categories of C&I loans are at the tighter ends of their respective ranges since 2005. In contrast, in the July 2019 survey, net shares of banks reported being at the easier ends of the ranges since 2005 for all categories of C&I loans. The change in the tightening stance for all C&I loan categories relative to the range since 2005 is consistent with the responses in the current and April 2020 surveys, where major and significant net shares of banks, respectively, reported tightening lending standards for all C&I loan categories.

Among foreign banks, major net fractions reported that their current levels of lending standards for investment-grade and below-investment-grade non-syndicated loans are at the tighter ends of their historical ranges. Meanwhile, significant net fractions of banks reported that their current levels of lending standards for investment-grade and below-investment-grade syndicated loans are at the tighter ends of their historical ranges.

For CRE loans, major net fractions of domestic and foreign 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. Larger net shares of domestic and foreign banks reported being at the tighter ends now compared with the July 2019 survey across CRE loan categories.

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. HELOCs make up the category whose level was most consistently reported as being tight, with a major net share of banks reporting that standards are currently at the tighter end of the range since 2005. Additionally, major net shares of banks reported relatively tight standards on jumbo residential loans. The net shares of banks that reported their lending standards were at the relatively tighter ends of the ranges since 2005 are larger across most RRE loan types compared with the July 2019 survey.

On balance, major net shares of banks reported that the levels of their standards on credit card loans to prime and subprime borrowers are currently at the relatively tighter ends of their respective ranges since 2005. For auto loans, major and significant net shares of banks reported that the level of their standards to subprime and prime borrowers, respectively, are currently at the relatively tighter ends of their ranges since 2005. Meanwhile, a major net share of banks reported that the level of their standards for consumer loans other than credit card and auto loans is at the tighter end of the range since 2005.

The net shares of banks reporting that their standards are currently at the tighter end of the range since 2005 have increased across all consumer loan categories relative to last year.

ACKNOWLEDGEMENTS AND RESOURCES

American Banker, New York, New York

Austin American-Statesman, Austin, Texas

Baker Hughes, Houston, Texas

Business Facilities Magazine, Tinton Falls, New Jersey

Board of Governors of the Federal Reserve System, Washington, D.C.

CNN, Atlanta, Georgia

Consumer Financial Protection Bureau. Washington, D.C

Federal Deposit Insurance Corporation, Washington,

Federal Financial Institutions Examination Council, Arlington, Virginia

Federal Housing Finance Agency, Washington, D.C.

Federal Reserve Bank of Dallas, Dallas, Texas

Federal Reserve Bank of Saint Louis, Saint Louis, Missouri

Finance Commission of Texas, Austin, Texas

Houston Chronicle, Houston, Texas

MacroTrends, Seattle, Washington

Office of the Comptroller of the Currency, Washington, D.C.

Office of the Texas Governor, Austin, Texas

Office of the Governor, Austin, Texas

Real Estate Center at Texas A&M University, College Station. Texas

Reuters, London, England

Route Fifty, Washington, D.C.

Site Selection Magazine, Atlanta, Georgia

Small Business Administration, Washington, D.C.

Texas A&M AgriLife Extension, College Station, Texas

Texas Comptroller of Public Accounts, Austin, Texas

Texas Demographic Center, San Antonio, Texas

Texas Department of Banking, Austin, Texas

Texas Department of Savings and Mortgage Lending, Austin, Texas

Texas Department of State Health Services, Austin, Texas

Texas Farm Bureau, Waco, Texas

Texas Tribune, Austin, Texas

Texas Workforce Commission, Austin, Texas

The Perryman Group, Waco, Texas

The Wall Street Journal, New York, New York

Union Pacific Corporation, Omaha, Nebraska

U.S. Bureau of Labor Statistics, Washington, D.C.

U.S. Census Bureau, Suitland, Maryland

US Department of Homeland Security, Cybersecurity and Infrastructure Security Agency, Arlington, Virginia

U.S. Department of the Treasury, Washington, D.C.

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Wallethub, Washington, D.C.

WFAA-TV, Dallas, Texas

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World Population Review, Walnut, California

Yahoo Finance, online

Visit the Finance Commission of Texas <u>website</u> for previous

Condition of the Texas State Banking System Reports.