Condition of the Texas State Banking System

March 2022

Financial Data as of December 31, 2021

Texas Department of Banking
Department of Savings and Mortgage Lending



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ECONOMIC REVIEW AND OUTLOOK

The Texas economy continued to expand at the beginning of the third quarter of 2021, even as cases of the delta variant of the virus which causes COVID-19 accelerated, and staffing shortages and supply chain bottlenecks continued unabated.

The Federal Reserve Bank of Dallas (FRB Dallas) Texas Business-Cycle Index increased 9.0% over July 2020 on a seasonally adjusted annualized rate (SAAR) amid steady payroll growth. The state's unemployment rate reached 5.6%, down from 5.9% in June, but was still higher than the U.S. rate of 5.4%.

Wage growth accelerated, meanwhile, and there were widespread reports from executives surveyed by the FRB Dallas of upward wage pressures across several sectors, especially the airlines and energy industries, while price pressures accelerated due to growing supply chain issues.

The West Texas Intermediate (WTI) average crude oil spot price fell in July from its highest level since November 2014, averaging \$69.30 per barrel, down from \$73.47 the previous month.

By the end of the fourth quarter, the state's economy was enjoying continued expansion. Both the Texas Business-Cycle Index and the WTI price per barrel continued to edge higher. Hiring picked up, especially in the construction and manufacturing sectors, despite persistent labor shortages and the outbreak of the omicron variant of the coronavirus. Wage growth remained highly elevated.

The state's unemployment rate closed year-end 2021 at 4.8% but remained high relative to the U.S. rate. Nationally, the unemployment rate managed to fall 1.5 percentage points to 3.9% at the end of the fourth quarter.

The Texas and U.S. economies shared one common trait: Inflationary conditions were an increasing concern, one that accelerated significantly in the fourth quarter. According to the Bureau of Labor Statistics, the Consumer Price Index (CPI) registered a 0.5% seasonally adjusted increase in July over June numbers, and jumped 0.9% in October, before leveling off throughout the second half of the year. The CPI reached year's end at an unadjusted 7.0% for the 12 months ending December 31, 2021.

Among the categories most impacted were meats, poultry, fish, and eggs, which climbed 12.5% year-over-year (YOY); energy, up 29.3% YOY; and automobiles, with the price of new vehicles rising 11.8% YOY. The price of used cars and trucks, meanwhile, soared 37.3% YOY, the largest December to December change in the history of this index.

This overall increase in the CPI was driven by unusually high demand, according to economists, but supply-chain disruptions made it increasingly difficult for producers in nearly every industry to meet this demand. Rising energy prices and rents also added price pressures.

With inflation at a 40-year high, the Federal Reserve Board (FRB) was preparing to raise interest rates and reduce its monthly purchases of Treasury and mortgage debt as the year ended. The FRB finally raised interest rates by 0.25 percentage points on March 16, 2022, a move not made since December 2018.

Efforts to address climate change began to gather momentum in Congress and among bank regulatory agencies. Financial support for fossil fuels could come under growing scrutiny in 2022 as pressure rises to convert long-term climate visions among environmental groups and their allies in Congress into concrete action. What impact any pullback from investors may have on the state's oil and gas industry is yet unknown but certainly worth monitoring.

Other events affecting the financial services sector in the second half of 2021 included declining loan volumes, growing pressure from consumer groups to end overdraft fees, and potential rule changes to bank mergers and acquisitions.

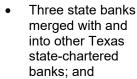
The Texas Department of Banking conducts a quarterly <u>Banker and Business Economic Survey</u> that reflects the opinions of executives of state-chartered banks throughout Texas. Although the results are not statistically validated, the information obtained from the survey is used to gauge industry sentiment and observations statewide given that economic data can be a lagging indicator.

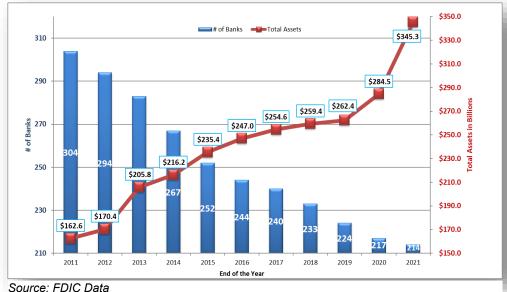
As the year 2022 opened, uncertainty over the direction of the nation's economy was heightened as Russia's invasion of Ukraine in February sent oil and other commodity prices soaring, adding to inflationary concerns, while stoking fears of increased cyberattacks.

Many of these topics will be addressed further in the Supervisory Concerns section of this report.

STATE-CHARTERED BANKING PROFILE (DEPARTMENT OF BANKING)

There were 214 Texas state-chartered banks as of December 31, 2021, as compared to the 216 reported as of June 30, 2021. On a YOY comparison, there were three less state-chartered banks than reported at the end of 2020. The number of state banks was reduced by two between June and December due to the net effect of the following banking transactions:





Source: FDIC Data

One national bank converted into a Texas state-chartered bank.

During the same period, the Department processed 122 filings related to banks, with approximately 55% involving the opening and closing of offices and loan production facilities, 21% involving changes in ownership/control or chartering authority, 17% involving bank identification and corporate governance issues, 4% involving subsidiary formations, and 3% involving foreign bank activity.

While the number of Texas state-chartered banks decreased, the overall asset size increased from \$365.1 billion as of June 30, 2021, to \$423.5 billion at year-end 2021. The \$58.4 billion in asset growth was due to a combination of \$34.7 billion in conversion activity combined with \$23.7 billion in internal asset growth.

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

State-chartered thrift assets under the Department's jurisdiction totaled \$484.4 billion as of December 31, 2021, an increase of \$69.8 billion or 16.8% over the prior six months due to continued growth. Through December 31, 2021, state thrifts had \$3.09 billion in year-to-date net income compared to June's \$1.4 billion in year-to-date income. Increased profitability occurred in 70.8% of the thrift institutions through December 2021, due to the increased size of the industry, decreased cost of funds, and slight decrease in overhead expenses. Thrifts' net interest margin (NIM) as an industry total has increased to 1.4%.

Total loans and leases increased \$8.3 billion or 18.6% compared to the prior six months, totaling \$53 billion as of December 31, 2021. The increase in total loans primarily consisted of first lien residential real estate loans, construction loans, and farm loans. The level of non-current assets plus other real estate owned to total assets remains low in state-chartered thrifts at 0.03% of total assets, a slight decrease from 0.04% as of the prior six months. Despite these low levels, state and federal regulators continue to monitor past due and nonaccrual loans, as well as foreclosed real estate. Thrift other real estate owned decreased \$2.16 million or 27.2% since June 2021, totaling \$5.7 million as of December 31, 2021.

The Department continued to receive and process applications, including one purchase and assumption application, two branch office applications, one change of control application, and various other applications during the past six months.

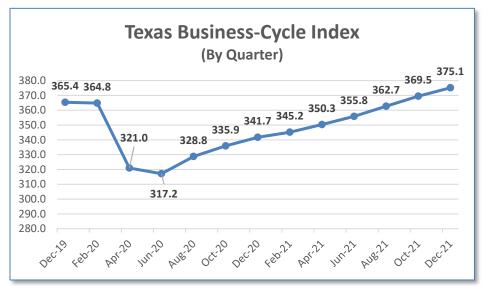
TEXAS ECONOMIC PROFILE

In all, the Texas economy emerged from myriad challenges in the second half of 2021 in solid shape, having weathered the rise of both the delta and omicron variants of the coronavirus, surging inflation, supply-chain bottlenecks, and hiring challenges.

The state's economic expansion was led by growth in Texas' manufacturing and nonfinancial services

sectors. Retail sales dipped as supply chain issues hampered activity, while home sales were mixed.

As previously noted, the FRB Dallas Texas Business-Cycle Index accelerated 9.0% in July amid steady payroll expansion. Metrics for the Austin and Dallas metro areas rose faster than the statewide trend, increasing 13.6% and 14.2%, respectively, due to labor-market improvements. The state's unemployment rate stood at 5.6% versus 4.8% at year's end.



Source: Federal Reserve Bank of Dallas

Factory activity remained relatively healthy in July,

according to business executives responding to the FRB Dallas Texas Manufacturing Outlook Survey.

The pace of growth in the Texas service sector accelerated marginally as well, according to the FRB Dallas Texas Service Sector Outlook Survey (TSSOS). Retail sales were up moderately, despite lingering supply chain issues and tight inventories.

The Texas Business-Cycle Index rose 10.5% and 11.5% in August and September, respectively, as the state's service-providing sector recovered nearly all jobs lost due to the pandemic. The TSSOS reflected decelerated hiring and revenue growth in September, but strong quarterly numbers preserved the 14-month positive trend for both indicators.

By October, the economy continued moving forward at a strong pace, as the numbers of COVID-19 cases and hospitalizations continued to fall after peaking in August. The unemployment rate fell considerably, dropping from 5.4% in August to 5.1% in September to 5.0% in October.

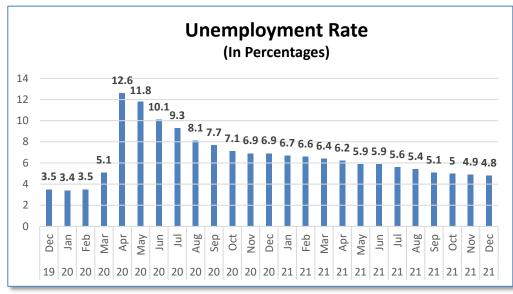
The economy extended its 18-month recovery in November according to the Dallas Fed's Texas Business-Cycle Index, with activity up 11.1% over October. The state was buoyed by steady oil prices, robust U.S. economic activity, and increased average weekly hours worked in manufacturing.

The economy ended December with generally broad-based gains across most sectors. Activity in the manufacturing, nonfinancial services, and retail sectors remained strong, and growth in financial services accelerated. The Texas Business-Cycle Index registered 6.7% higher YOY to close 2021. Employment continued to expand robustly, as the unemployment rate dropped to 4.8%, the state's lowest since March 2020, when it reached 5.1%. Gains were widespread across services, manufacturing, energy, and construction, despite reports of a dearth of applicants and acute difficulties in hiring.

For these reasons, the Lone Star State was rewarded in March 2022 with *Site Selection* magazine's Governor's Cup for a record-breaking tenth year in a row. The award recognizes top-performing states for job creation and capital investment.

EMPLOYMENT

Texas entered the second half of 2021 having gained jobs in 14 of the last 15 months. As noted, the state's unemployment rate fell to 5.6% in July, down 0.3 percentage points from the previous month.



Source: U.S. Bureau of Labor Statistics

The state's labor force participation rate ticked slightly higher in July to 62.3%, up just 0.1% from the previous month, as a tight labor market reached historic levels.

By comparison, initial filings through 2019 – pre-pandemic – were typically in the 210,000 to 220,000 range.

The state's goodsproducing sector added 8,200 jobs in July 2021, a 6.4% increase YOY. Most of the gains came from

the manufacturing sector, which added 8,300 jobs (up 3.8%) and mining and logging, which gained 1,200 jobs (up 10.7%). Texas' service-providing sector meanwhile added 72,700 jobs in July, led by the leisure and hospitality sector, up 20.0% YOY. The Lone Star State added another 95,800 jobs at the end of the third quarter, as the unemployment rate continued a downward trend to 5.1% in September, still higher than the nation's rate of 4.8%.

By the beginning of the fourth quarter, Texas' unemployment rate had fallen to 5.0%, led by the mining and logging sector, which experienced a remarkable 16.1% increase YOY. Other industries registering

increases in October included leisure and hospitality (up 11.8% YOY) and professional and business services (up 10.4%). In total, the state added 56,600 jobs that month.

The state closed 2021 with an unemployment rate of 4.8%, adding 75,100 and 45,334 jobs in November and December respectively. The labor force participation rate improved at year's end, increasing to 62.7%. Leading this growth was the state's mining and logging sector, which grew 18.5% YOY, followed by manufacturing (up 4.5% YOY), and construction (up 3.4% YOY).

POPULATION

The U.S. Census Bureau in September 2021 began releasing large data sets from the 2020 census, but the results contained few surprises.

Texas' population rose to 29.1 million from 25.1 million in 2010, a 15.9% increase over this 10-year period, doubling the U.S. rate. The state's population grew far more than any other, up an estimated 310,000 in 2021.

While some of this may be attributed to the natural increase in births minus deaths, in-migration to the state from other regions of the country likely had a far more significant impact. According to U-Haul International, the moving equipment and storage rental company, Texas experienced the largest net gain nationally in terms of one-way rentals.

The company reports Texas edged Florida in the net gain of one-way moving trucks entering and leaving the state, reclaiming the top spot it held from 2016-18. The data includes more than two-million one-way U-Haul moving truck trips during 2021.

Two patterns emerged from the 2020 Census results: The first is the number of Texas residents under age 18 rose by nearly 6% from 2010-2020, an increase of 413,000 persons. This stands in contrast to national figures, which showed a substantial decline in this age group.

The second illustrates the extent to how diverse the U.S. and Texas is becoming. The white/non-Hispanic population at the national level was 57.8%, down from 63.7% in 2010. The second largest segment of the population is the Hispanic population, measured at 18.7%. African Americans make up 12.1%.

The 2020 Census revealed these trends to be accelerating in Texas, where white residents accounted for 39.7% of the state's population, down from 45.3% in 2010. The Hispanic population, meanwhile, accounted for 39.3%, meaning this segment of the population is likely now the largest demographic category in the state. While the African American population grew only slightly over the 10-year period, increasing from 11.5% to 11.8%, the Asian American population rose significantly, rising from 3.8% in 2010 to 5.4% in 2020.

Housing

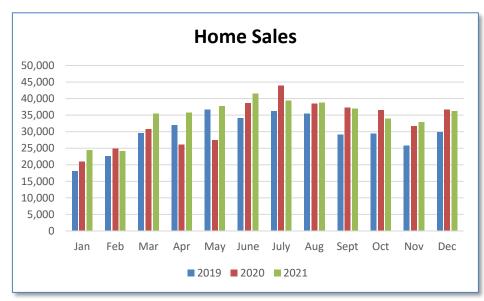
Total housing sales in July were down 0.3% from the previous month, trending negative amid limited home supplies across all price segments. Despite decreasing mortgage interest rates, double-digit home price appreciations chipped away at housing affordability.

Nevertheless, permitting in July exceeded its 2006 average and was up 31.9% on a year-to-date (YTD) basis. Houston continued to lead the nation with 4,259 nonseasonally adjusted permits, followed by Dallas at 4,174.

Sales continued to slide in August, down 0.9% from July figures, a trend attributed to record low activity for homes at the low end of the price spectrum. The Texas median home price rose for the eighth consecutive month, accelerating 1.2% monthly and 16.8% YOY to a record-breaking \$305,400 in August.

Total housing sales continued to decrease 0.9% in September quarter-over-quarter despite lowered mortgage interest rates. On the supply side, single-family housing permits declined for the third consecutive month, and total housing starts decelerated, even as pandemic effects on the lumber supply improved.

October sales slowed. 0.3% amid rising mortgage rates and persistently tight inventories. The supply remained the most constrained in Austin, at 0.9 months. Sales decreased in all Texas metro regions except the Dallas-Fort Worth market, before rebounding 2.6% month-overmonth in November.



Source: Real Estate Center at Texas A&M University

While sales rose in December, construction capacity continued to be highly constrained, delaying home closings. Prices crept higher and discounting was limited, though a few builders noted offering incentives in select communities. Inventories remained constrained and lot supply tight.

OIL AND GAS

The oil and gas sector (O&G) continued to expand entering third quarter 2021, according to executives responding to the FRB Dallas Energy Survey, but not without challenges.

Costs rose in July for the second consecutive month, as the input costs index increased to 60.8, a record high, indicative of significant cost pressures. Among exploration and production (E&P) firms, the costs associated with finding and developing sources went from 28.3 in the second quarter to 33.0 in the third.

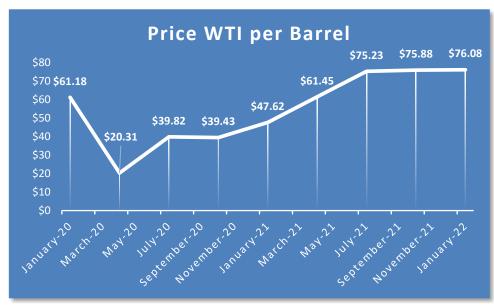
Supply chain bottlenecks also continued to negatively impact oilfield service firms, as the index for supplier delivery time increased from 14.0 in the second quarter to 26.7 in the third, the highest reading since the survey's inception in 2016.

Production increased in the third quarter but at a slower pace than during the previous quarter; the FRB Dallas oil production index remained in positive territory but fell from 35.0 in the second quarter to 10.7 in the third. At the same time, the natural gas production index fell 16 points to 19.3. The average active rig count increased to 238 in July, up from 219 the previous month.

The pace of production increased further, as the FRB Dallas oil production index moved up from 10.7 in the third quarter to 19.1 in the fourth. Similarly, the natural gas production index advanced seven points to 26.1. However, costs increased sharply for a third straight quarter.

Among oilfield services firms, the index for input costs increased from 60.8 to 69.8, a record high for this metric. According to E&P firms surveyed by the FRB Dallas, the index for exploration and development costs jumped from 33.0 in the third guarter to 44.9 in the fourth.

WTI crude oil spot prices fell in July to \$69.30 from its highest level since hitting \$78.78 in November 2014, as the global economy gained momentum. Prices remained steady in September at an average of \$69.23 per barrel after dipping briefly amid depleted oil inventories resulting from the impact of Hurricane Ida and a surging economy.



Source: MacroTrends

The average price of WTI per barrel ended December at \$71.86, before accelerating into upper \$70s and \$80s in early 2022 based on higher inflation, increased demand, and geopolitical tensions. The average rig count eased upward between July and December ending at an average of 275, up from 225.

As noted, the O&G industry entered a period of great volitivity when Russia invaded Ukraine, sending energy prices even higher. Russia is one of the world's largest

suppliers of oil, and disruptions – at least in the near term – appear to be a distinct possibility. Supplies were already tight, and the conflict adds a new layer of concern.

AGRIBUSINESS

For the first time since 2016, most agricultural banks in the U.S. expected farming clients to record higher profits in 2021, even as new risks started to emerge.

According to an August survey of more than 450 banks by the American Bankers Association and Farmer Mac, nearly 70% of ag lenders queried projected farm profitability would increase in 2021 from the previous year. By contrast, less than 4% of lenders surveyed in 2020 expected farm profits to rise from 2019.

However, the same survey pointed out that government payments accounted for 38% of farm income in 2021. These funds came from the USDA, the Paycheck Protection Program, and other federal initiatives. The USDA disbursed \$1.8 billion in crop insurance payments alone to farmers who enrolled in 2021

These subsidies are expected to decline in 2022, one of several factors that could derail the turnaround, although farmers are also benefitting from a rise in crop prices as economies have reopened following shutdowns in the early months of the pandemic. Demand is currently outstripping supply.

Worsening drought conditions at the state level – sufficient to cause Governor Greg Abbott to issue a disaster declaration in February 2022 – combined with increased fertilizer and herbicide costs to produce a series of challenges that could linger into 2022. Despite this, 2021 crop production remained relatively healthy particularly for cotton.

Commodity prices, meanwhile, remained favorable for cattle and crop producers and farmland values remained high as people continue to migrate to rural areas of the state, a trend which first appeared at the beginning of the COVID-19 pandemic.

On the financing front, demand for agricultural loans continued to decline in the third quarter, with the loan demand index registering its 24th quarter in negative territory. Meanwhile, demand growth increased considerably from quarter two as the loan demand index improved to -1.0 from -11.2. Loan renewals or extensions fell for the third quarter in a row, while the rate of loan repayment continued to increase.

By the fourth quarter of 2021, however, demand for agricultural loans experienced the first increase since third quarter 2015 as the loan demand index improved to 3.1 from -1.0 in the previous quarter. Loan renewals or extensions fell for the fourth quarter in a row, while the rate of loan repayment continued to increase.

TAX REVENUE

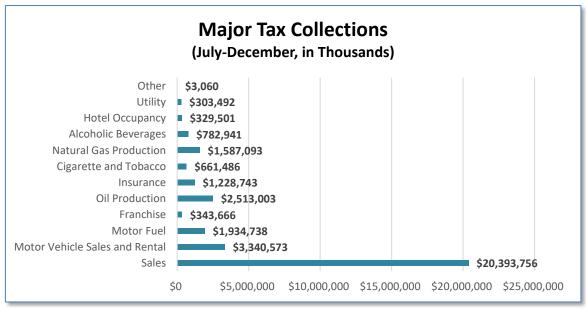
Tax revenue remained relatively static throughout the second half of 2021, yet several categories experienced signficant YOY increases.

Sales tax revenue – the largest tax category – totaled \$3.39 billion in July, 13.5% more than in July 2020. It is important to remember that the majority of July sales tax revenue was based on sales made in June and remitted to the state in July.

By the end of the third quarter, sales tax revenue dipped to \$3.15 billion in September, yet remained 22.3% higher than that of September 2020. Much of this increase was due to higher receipts from big-box retailers, which grew strongly during last year's pandemic shut down. Revenue was higher in nearly all other categories as well, especially natural gas production tax, which rose by \$252 million, the highest monthly amount since October 2008 (up 255% YOY).

Entering the fourth quarter, sales tax revenue rebounded to \$3.41 billion in October, surpassing prepandemic levels. Collections from the oil (up 105%) and gas (up 356%) production sectors more than doubled from the same period in 2020.

By the end of 2021, sales tax revenue rallied to \$3.56 billion, up \$413.4 million from September's low. Sales tax revenue for the three months ending in December 2021 was up 22.9% compared to the same period a year ago. Total tax revenue for the second half of 2021 was \$33.4 billion.



Source: Texas Comptroller of Public Accounts

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.

CYBERSECURITY

Often cyber-resilience is thought of as solely an IT issue. However, in today's environment, financial institutions' resilience to cyber-attacks has significant implications. Attack software is inexpensive and easy to purchase, and therefore incidents are expected to increase. Banks and thrifts should review their third-party vendor management program, understand their cybersecurity insurance, provide on-going staff training, and monitor user access levels.

With the on-going Russia/Ukraine conflict, vigilance over cybersecurity has been heightened. On March 15, 2022, the President signed into law the Cyber Incident Reporting for Critical Infrastructure Act. The Act creates two new reporting obligations on owners and operators of critical infrastructure:

- An obligation to report certain cyber incidents to the Cybersecurity and Infrastructure Security Agency (CISA) of the U.S. Department of Homeland Security (DHS) within 72 hours; and
- An obligation to report ransomware payments within 24 hours.

These requirements do not immediately go into effect. CISA has 24 months to issue proposed rules to implement the law but may do so in advance of that deadline. Financial institutions should carefully monitor the rulemaking efforts as the scope and new obligations could vary significantly depending upon CISA's definition of key terms and articulation of core requirements.

Additionally, beginning May 1, 2022, banks, thrifts, and their service providers must meet new computer-security incident notification requirements. Under this new rule, a financial institution must notify its primary federal regulator of any computer-security incident that causes, or is reasonably likely to cause, a material service disruption or degradation for four or more hours. Notification must be provided as soon as possible and no later than 36 hours after the entity determines such an incident has occurred.

This rule is similar to that of the Texas Department of Banking, with exception of the timeframe for reporting. As a result, there will likely be a revision to the Department's rule in the future to align these requirements.

GEOPOLITICAL ISSUES

President Biden in March 2022 signed a new Russia-related Executive Order Prohibiting Certain Imports, Exports, and New Investment with Respect to Continued Russian Federation Aggression. The Department of the Treasury's Office of Foreign Assets Control has issued lists including names of individuals and entities related to Russia. Banks and thrifts must review these as part of their Bank Secrecy Act compliance program.

CLIMATE RISK

Guidance from federal regulators apply to financial institutions with more than \$100 billion of assets and touch on governance, strategic planning, risk management and scenario analysis. The concerns are not limited to direct lending but also indirect involvement with the supporting industry of upstream and downstream servicers.

In October 2021, the Financial Stability Oversight Council (FSOC) released a report in response to President Biden's Executive Order 14030, Climate-related Financial Risk. The FSOC identified climate change as an emerging and increasing threat to U.S. financial stability. In March 2022, the Securities and Exchange Commission released proposed rules to enhance and standardize climate-related disclosures for investors.

The Departments will continue to monitor and evaluate federal actions relating to climate change.

INFLATION AND SUPPLY CHAIN ISSUES

The Federal Reserve Federal Open Market Committee (FOMC) noted at its March 2022 meeting that inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures. Effective March 17, 2022, the FOMC directed open market operations to maintain the federal funds rate in a target range of 0.25% to 0.5% to address inflation.

Committee Chairman Jerome Powell committed to continue to address this topic, as needed, at each of the seven remaining FOMC meetings in 2022. The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are highly uncertain, but in the near term the invasion and related events are likely to create additional upward pressure on inflation and weigh on economic activity.

The cost of labor for banks and for their borrowers continues to increase. Banks are monitoring increasing energy costs and the effects on borrowers, especially since they are also being affected by supply chain disruptions caused by the pandemic.

MERGER AND ACQUISITION RULE CHANGES, GREATER SCRUTINY

On January 18, 2022, the Federal Trade Commission and the Justice Department's Antitrust Division launched a joint public inquiry aimed at strengthening enforcement against illegal mergers. Recent evidence indicates that many industries across the economy are becoming more concentrated and less competitive – imperiling choice and economic gains for consumers, workers, entrepreneurs, and small businesses.

These problems are likely to persist or worsen due to an ongoing surge that has seen merger filings more than double from 2020 to 2021. To address mounting concerns, the federal agencies are soliciting public input on ways to modernize federal merger guidelines to better detect and prevent illegal, anticompetitive deals in today's modern markets. The public comment period ended March 21, 2022. Any revised guidelines will be published for public comment after comments received are reviewed by the agencies.

OVERDRAFT FEES

While overdraft fees have traditionally been a line of income for banks, many banks are beginning to provide customers some fee relief by reducing or even eliminating them. Consumer groups and congressional lawmakers have criticized the fees for years. Since several large banks have reduced their fees, others feel peer pressure to follow. Additionally, many banks are partnering with technology or fintech companies to make their processes more efficient so that these fees may be reduced. The Departments are monitoring this area for any possible impacts to the regulated industries.

DEPARTMENTAL SUPERVISORY MEASURES BEING TAKEN

TEXAS DEPARTMENT OF BANKING

- Monitor the developments in Ukraine as well as other state, national, and world political and economic events impacting the industry as well as potential retaliatory cyberattacks;
- Assess institutions' preparedness to identify, detect, respond to, protect against, and recover from cyberattacks and perform follow-up evaluations for those below a base-line level of readiness;
- Monitor and notify financial institutions of the potential implications stemming from the geopolitical tensions:
- Investigate and assess remediation and compliance efforts in response to institutions' material cybersecurity incidents;
- Encourage banks to take steps to reduce the risk of ransomware;
- Monitor and respond to changing circumstances brought about by the impact of COVID-19 on all financial institutions under the Department's supervision;
- Encourage banks to evaluate the impact on small business customers;
- Monitor and evaluate potential federal regulatory actions regarding climate threats;
- ❖ Monitor banks' transition from LIBOR to a substitute reference rate:
- Monitor efforts to prudently assess and mitigate concentration risks in commercial real estate, oil and gas, and agriculture lending:
- 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 scheduled examinations of all institutions, and more frequent examinations or visitations of problem institutions:
- Communicate and coordinate joint enforcement actions and other supervisory activities with federal regulators; 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 communication with state savings banks regarding institution-specific and emerging risks in the industry;
- 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;
- 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;
- Respond promptly to state or national events that can impact the state savings bank industry;
- ❖ Perform targeted examinations of high-risk areas of state savings banks; and
- Issue enforcement actions and place supervisory agents when deemed necessary.

PERFORMANCE SUMMARY AND PROFILE: TEXAS BANKING SYSTEM

STATE-CHARTERED BANKS

Since December 2020, the number of Texas state-chartered banks has declined by three to 214; however, total assets have risen by 22.6% during the same timeframe. Of the 214 state banks, 12 operate branches in ten other states. As of December 31, 2021, state-chartered banks held \$423.5 billion in total assets with approximately 41,233 full-time employees.

State-chartered banks were well-capitalized with an average leverage capital of 9.2% in December 2021. While capital ratios have seen a decline from 9.8% as of December 2020, they remain well-capitalized and continue to support the state's credit needs while continuing to navigate challenges due to the pandemic. State banks with less than \$1 billion in total assets reflect a leverage ratio of 10.6%, while banks between \$1 billion-\$10 billion exhibited a 10.4% leverage ratio. Although the seven largest state banks with assets over \$10 billion have a lower leverage ratio of 8.4%, they are all well above regulatory capital requirements. Dividends have increased from approximately \$2.3 billion in December 2020 to \$2.7 billion in December 2021.

The return on assets (ROA) for state-chartered banks is 1.3%, a 20-basis point (BP) increase from the 1.1% posted in 2020, primarily due to negative provision expense for the year. Both interest income and interest expense, as a percent of average assets, were reduced from 2020 levels; however, bank NIM also decreased from 2020 to 2021 by 38 BP, signifying that although banks are reporting broad-based increases in total loan balances and improved credit quality, they are still having some difficulties with interest rate compression.

Asset quality indicators improved by year-end with the noncurrent loan rate at 0.52%, an improvement from 0.79% during the same period in 2020. The level of the Allowances for Loan and Lease Losses (ALLL) has decreased by 22 BP YOY to 1.2%. Provision expenses through December 2021, total negative \$448 million, down dramatically from \$1.4 billion a

year ago. Further, the ALLL represents 233.0% of noncurrent loans versus 183.0% at year-end 2020. Net charge-offs for 2021 total \$91 million which is 81% lower than December 2020.

The Department considers any institution with a Uniform Financial Institutions Composite Rating of a 3, 4, or 5 a problem institution. As of December 31, 2021, problem state-chartered financial institutions represent less than 4% of the total number of banks.

STATE-CHARTERED THRIFTS

As of December 31, 2021, state thrifts had \$3.09 billion in net income year-to-date, with the largest institution's net income being \$2.5 billion. The pretax ROA remains strong at 0.9%. As of December 31, 2021, non-interest income to assets decreased one basis point to 0.04%, as well as non-interest expense to assets, totaling 0.5%.

The Texas thrift ratio of nonperforming loans plus other real estate owned to total assets decreased one basis point to 0.03% as of December 31, 2021, and remains minimal. Provisions for credit losses totaled \$1.2 million year-to-date as of December 31, 2021, a \$19.8 million increase compared to June 30, 2021, total of \$18.6 million in provision reversals.

The total risk-based capital ratio for the industry totaled 25.7% as of December 31, 2021, a 96 BP increase compared to 24.7% totaling as of June 30, 2021. Total capital levels remained consistent compared to June 30, 2021, totaling \$32.4 billion as of December 31, 2021. Funds contributed to banks increased by \$1.75 billion, totaling \$8.96 billion as of December 31, 2021. Three state savings banks elected the Community Bank Leverage Ratio in the fourth quarter 2021, and therefore, do not report any capital ratios besides the leverage ratio.

As of December 31, 2021, 100% of the thrifts continued to be a Composite Rated 1 or 2. The Department considers any institution with a Uniform Financial Institutions Composite Rating of a 3, 4, or 5 as a problem institution.

NUMBER OF INSTITUTIONS AND TOTAL ASSETS

FDIC financial data is reflective of FDIC insured institutions only.

Assets in Billions

	12-31-	-2021	12-31	-2020	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	214 <u>24</u> 238	\$423.5 <u>\$484.5</u> \$908.0	217 <u>23</u> 240	\$345.3 <u>\$395.3</u> \$740.6	-3 <u>+1</u> -2	+\$78.2 <u>+\$89.2</u> +\$167.4
Other states' state-chartered: Banks operating in Texas* Thrifts operating in Texas*	48 <u>0</u> 48	\$85.3 <u>0</u> \$85.3	45 <u>0</u> 45	\$83.9 <u>0</u> \$83.9	+3 <u>0</u> +3	+\$1.4 <u>0</u> +\$1.4
Total State-Chartered Activity	286	\$993.3	285	\$824.5	+1	+\$168.8
National Banks Chartered in Texas Federal Thrifts Chartered in Texas Other states' federally-chartered:	157 <u>4</u> 161	\$145.5 <u>\$119.7</u> \$265.2	166 <u>4</u> 170	\$167.0 <u>\$111.1</u> \$278.1	-9 <u>0</u> -9	-\$21.5 +\$8.6 -12.9
Banks operating in Texas* Thrifts operating in Texas*	31 <u>5</u> 36	\$632.2 <u>\$1.0</u> \$633.2	30 <u>5</u> 35	\$547.2 <u>\$0.9</u> \$548.1	+1 <u>0</u> +1	+\$85.0 <u>+\$0.1</u> +\$85.1
Total Federally-Chartered Activity	197	\$898.4	205	\$826.2	-8	+72.2
Total Banking/Thrift Activity	483	\$1,891.7	490	\$1,650.7	-7	+\$241.0

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

RATIO ANALYSIS

As of December 31, 2021 FDIC financial data is reflective of FDIC insured institutions only.

	State- Chartered <u>Banks</u> 214	Texas National <u>Banks</u> 167	All Texas <u>Banks</u> 371	State- Chartered <u>Thrifts</u> 24	Texas Federal <u>Thrifts</u> 4	All Texas <u>Thrifts</u> 28
% of Unprofitable Institutions	3.74%	1.27%	2.70%	NA	25.00%	3.57%
% of Institutions with Earnings Gains	78.04%	69.43%	74.39%	70.83%	50.00%	67.86%
Yield on Earning Assets	3.02%	3.33%	3.10%	1.46%	3.17%	1.82%
Net Interest Margin	2.83%	3.12%	2.90%	1.43%	3.09%	1.78%
Return on Assets	1.34%	1.39%	1.35%	0.73%	-0.30%	0.50%
Return on Equity	11.93%	13.19%	12.24%	10.26%	-3.71%	6.88%
Net Charge-offs to Loans	0.04%	0.08%	0.05%	0.12%	0.67%	0.38%
Earnings Coverage of Net Loan C/Os	66.20	35.14	53.58	73.86	-2.11	10.46
Loss Allowance to Loans	1.22%	1.36%	1.26%	0.33%	1.92%	1.02%
Loss Allowance to Noncurrent Loans	233.04%	221.76%	229.75%	132.79%	50.62%	57.29%
Noncurrent Assets+OREO to Assets	0.30%	0.36%	0.31%	0.03%	1.27%	0.27%
Net Loans and Leases to Core Deps	65.29%	64.61%	65.11%	12.03%	40.00%	17.12%
Equity Capital to Assets	10.83%	10.27%	10.69%	6.70%	7.79%	6.91%
Core Capital (Leverage) Ratio	9.15%	9.75%	9.30%	7.27%	8.10%	7.44%
Total Risk-Based Capital Ratio	14.45%	16.48%	14.87%	25.74%	18.68%	23.66%

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

RATIO ANALYSIS BY ASSET GROUPS FOR STATE-CHARTERED BANKS

As of December 31, 2021 FDIC financial data is reflective of FDIC insured institutions only. Assets in Billions

	< <u>\$1</u> 170	<u>\$1 - \$10</u> 37	<u>>\$10</u> 7
% of Unprofitable Institutions	4.71%	NA	NA
% of Institutions with Earnings Gains	75.29%	89.19%	85.71%
Yield on Earning Assets	3.74%	3.62%	2.64%
Net Interest Margin	3.46%	3.39%	2.48%
Return on Assets	1.27%	1.57%	1.26%
Return on Equity	11.59%	12.58%	11.71%
Net Charge-offs to Loans	0.02%	0.06%	0.04%
Earnings Coverage of Net Loan C/Os	108.22	50.21	71.90
Loss Allowance to Loans	1.24%	1.25%	1.20%
Loss Allowance to Noncurrent Loans	284.11%	219.69%	229.71%
Noncurrent Assets+OREO to Assets	0.28%	0.39%	0.27%
Net Loans and Leases to Core Deps	66.94%	73.63%	61.86%
Equity Capital to Assets	10.59%	12.00%	10.41%
Core Capital (Leverage) Ratio	10.58%	10.40%	8.36%
Total Risk-Based Capital Ratio	17.72%	15.85%	13.51%

RATIO ANALYSIS BY ASSET GROUPS FOR STATE-CHARTERED THRIFTS

As of December 31, 2021 FDIC financial data is reflective of FDIC insured institutions only. Assets in Billions

	< <u>\$1</u> 15	<u>\$1 - \$10</u> 7	<u>>\$10</u> 2
% of Unprofitable Institutions	NA	NA	NA
% of Institutions with Earnings Gains	73.33%	85.71%	NA
Yield on Earning Assets	4.17%	4.89%	1.26%
Net Interest Margin	3.75%	4.55%	1.27%
Return on Assets	0.87%	1.59%	0.68%
Return on Equity	8.77%	13.99%	10.00%
Net Charge-offs to Loans	0.07%	0.41%	0.00%
Earnings Coverage of Net Loan C/Os	23.02	6.98	NA
Loss Allowance to Loans	0.89%	1.00%	0.05%
Loss Allowance to Noncurrent Loans	147.98%	164.96%	51.43%
Noncurrent Assets+OREO to Assets	0.41%	0.42%	0.01%
Net Loans and Leases to Core Deps	84.62%	99.35%	8.69%
Equity Capital to Assets	10.07%	11.90%	6.44%
Core Capital (Leverage) Ratio	10.10%	11.03%	7.08%
Total Risk-Based Capital Ratio	17.26%	14.11%	27.47%

COMPARISON REPORT

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

December 31, 2021

	State B	anks*	State T	hrifts
	End of	% of Total	End of	% of Total
	<u>Period</u>	<u>Assets</u>	<u>Period</u>	<u>Assets</u>
Number of Institutions	214		24	
Number of Employees (full-time	43,285		4,388	
equivalent) (In millions)	•		ĺ	
Total Assets	\$423,527		\$484,452	
Net Loans and Leases	\$221,580	52.32%	\$52,830	10.91%
Loan Loss Allowance	\$2,739	0.65%	\$177	0.04%
Other Real Estate Owned	\$99	0.02%	\$6	0.00%
Goodwill and Other Intangibles	\$8,323	1.97%	\$420	0.09%
Total Deposits	\$360,942	85.22%	\$449,215	92.73%
Federal Funds Purchased and	\$4,073	0.96%	\$190	0.04%
Repurchase Agreements	#7.000	4.000/	# 4.000	0.040/
Other Borrowed Funds	\$7,606	1.80%	\$1,630	0.34%
Equity Capital	\$45,863	10.83%	\$32,451	6.70%
Memoranda:				
Noncurrent Loans and Leases	\$1,175	0.28%	\$134	0.03%
Earning Assets	\$393,115	92.82%	\$479,671	99.01%
Long-term Assets (5+ years)	\$121,594	28.71%	\$331,580	68.44%
	Year-to-Date	<u>% of Avg.</u> <u>Assets</u> †	Year-to-Date	<u>% of Avg.</u> <u>Assets</u> †
Total Interest Income	\$11,243	2.79%	\$6,188	1.45%
Total Interest Expense	\$715	0.18%	\$129	0.03%
Net Interest Income	\$10,528	2.62%	\$6,059	1.42%
Provision for Loan and Lease Losses	-\$448	-0.11%	\$1	0.00%
Total Noninterest Income	\$4,121	1.02%	\$190	0.04%
Total Noninterest Expense	\$8,592	2.14%	\$2,255	0.53%
Securities Gains	\$43	0.01%	\$12	0.00%
Net Income	\$5,374	1.34%	\$3,104	0.73%
Memoranda:				
Net Loan Charge-offs	\$91	0.02%	\$54	0.01%
Cash Dividends	\$2,719	0.68%	\$31	0.01%

^{*}Excludes branches of state-chartered banks of other states doing business in Texas. As of December 31, 2021, there are an estimated 48 out-of-state state-chartered institutions with \$85.3 billion in assets. Assets are based upon the June 30, 2021, FDIC Summary of Deposits.

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

No branches of state-chartered thrifts of other states conducted business in Texas as of December 31, 2021.

PERFORMANCE SUMMARY: UNITED STATES BANKING SYSTEM

FDIC QUARTERLY BANKING PROFILE

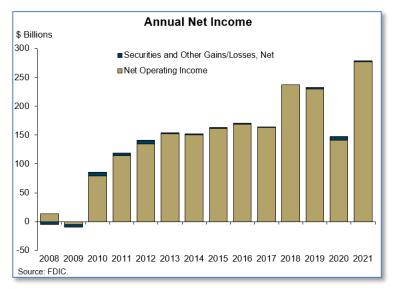
Fourth Quarter 2021 - <u>www.fdic.gov</u>
All Institutions Performance

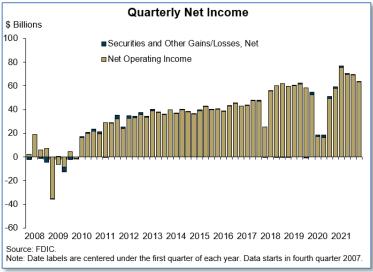
Reports from 4,839 commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reflect aggregate net income of \$63.9 billion in fourth quarter 2021, an increase of \$4.4 billion (7.4%) from a year ago. This increase was driven by further economic growth and improved credit conditions, which led to expanded net interest income and a fourth consecutive quarter of aggregate negative provision expense.

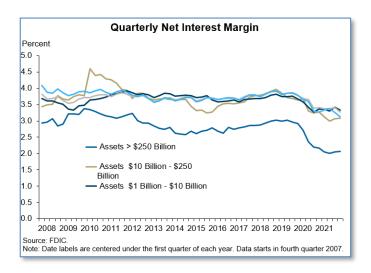
The banking industry reported full-year 2021 net income of \$279.1 billion, up \$132.0 billion (89.7%) from 2020. The increase was primarily attributable to negative provision expense, supported by continued economic growth and further improvement in credit quality. Relative to 2020, provision expense declined by \$163.3 billion (123.4%), noninterest income increased by \$20.3 billion (7.2%), and net interest income remained relatively stable, growing \$686.8 million (0.1%). The NIM declined by 28 BP from 2020 to 2.54% as the growth rate in average earning assets outpaced the growth rate in net interest income. The average return on-assets (ROA) ratio increased from 0.72% in 2020 to 1.23% in 2021.

↑ Quarterly Net Income Continued to Increase Year Over Year

Quarterly net income totaled \$63.9 billion, an increase of \$4.4 billion (7.4%) from fourth quarter 2020, primarily due to a \$5.8 billion increase in net interest income and a \$4.0 billion decline in provision expense. A majority of banks (52.1%) reported annual improvement in quarterly net income. However, net income declined \$5.6 billion (8.1%) from third quarter 2021, driven by a quarter-to-quarter increase in provision expense (up \$4.5 billion to negative \$742.4 million). The banking industry reported an aggregate ROA ratio of 1.09%, on par with the 1.10% ROA ratio reported in fourth quarter 2020 but down from 1.21% reported in third quarter 2021.







☆ Growth in Net Interest Income Lifted Net Operating Revenue

Growth in net interest income of \$5.8 billion (4.4%) and in noninterest income of \$2.4 billion (3.4%) lifted net operating revenue to \$201.7 billion (4.0%) from fourth quarter 2020. Lower interest expense (down \$3.8 billion, 31.7%) generated most of the growth in net interest income, while higher trading revenue (up \$1.2 billion, 17.8%) and investment banking fees (up \$1.2 billion, 40%) drove the improvement in noninterest income. Improvements in net interest income were widespread, as nearly two-thirds of banks (65.6%) reported higher net interest income from one year ago. NIM was unchanged from the prior quarter at 2.56%, 6 basis points higher than the recent record low in the second quarter 2021 but down 12 basis points from the previous year. The

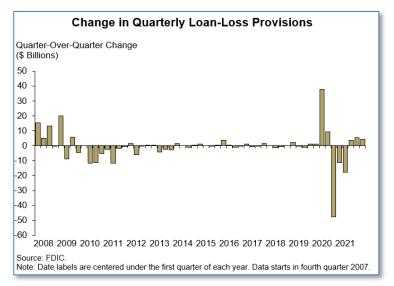
growth rate in average earning assets outpaced the growth rate in net interest income. The yield on earning assets declined slightly to 2.71% (down 2 basis points quarter over quarter and 21 basis points year over year). Average funding costs declined 2 basis points from the previous quarter to a new record low of 0.15%.

Noninterest Expense Increased From the Year-Ago Quarter

Noninterest expense rose \$7.8 billion (6.2%) year over year, led by an increase in "all other noninterest expense" and salary and benefit expense. Higher marketing and data processing expenses drove the increase in the "all other noninterest expense" category. Average assets per employee increased from a year ago to \$11.5 million. While 69.5% of banks reported higher noninterest expense compared with the year-ago quarter, noninterest expense as a percentage of average assets declined 6 basis points from fourth quarter 2020 to 2.28%.

1 Negative Provision Expense Continued to Boost Earnings

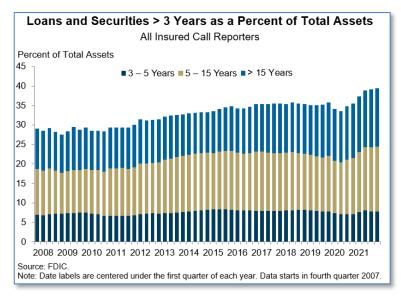
Provisions have been negative for four consecutive quarters. However, provisions rose from negative \$5.2 billion in third quarter 2021 to negative \$742.4 million in fourth guarter 2021. Provision expense declined \$4 billion (123%) from the year-ago quarter. Fifty-two percent of all institutions reported lower provisions compared with the year-ago quarter. The net number of banks that have adopted current expected credit loss (CECL) accounting remained unchanged from third quarter 2021 at 308. CECL adopters reported aggregate negative provisions of \$1.3 billion in fourth quarter, \$4.0 billion more than third quarter 2021 and \$2.5 billion less than one year ago. Provision expense for banks that have not adopted CECL accounting totaled \$595.5 million (up from \$156.5 million a quarter ago and down from \$2.0 billion one year ago).



Allowance for Loan and Lease Losses to Total Loans Remained Higher Than the Pre-Pandemic Level

The allowance for loan and lease losses (ALLL) as a percentage of total loans and leases declined 60 basis points to 1.58% from the year-ago quarter due to negative provisions. However, the ratio of ALLL to total loans remains higher than the pre-pandemic level of 1.18% reported in fourth quarter 2019. Similarly,

the ALLL as a percentage of loans 90 days or more past due or in nonaccrual status (coverage ratio) declined 5 percentage points from the year-ago quarter to 178.8% but remained well above the financial crisis average of 79.1%. All insured institutions except the largest Quarterly Banking Profile (QBP) asset size group (greater than \$250 billion) reported higher aggregate coverage ratios compared with third quarter 2021.



介 **Total Assets Increased From the Previous Quarter**

Total assets increased \$467.7 billion (2.0%) from third quarter 2021 to \$23.7 trillion. Total loan and lease balances increased \$326.0 billion (3.0%), while securities rose \$292.7 billion (4.9%). Growth in U.S. Treasury securities (up \$175.7 billion, or 13.9%) continued to drive the quarterly increases in total securities. Loans and securities with maturities greater than three years now make up 39.4 % of total assets, up from 36% in fourth quarter 2019.

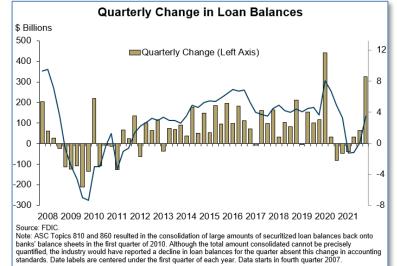
Loan Growth Occurred 介 **Across Most Major Loan Types**

Total loan and lease balances increased \$326.0 billion (3.0%) from third quarter 2021. Several portfolios contributed meaningfully to the industry's loan growth, including consumer loans (up \$84.9 billion, or 4.7%), commercial and industrial (C&I) loans (up \$70.8 billion, or 3.2%), and loans to nondepository institutions (up \$59.0 billion, or 9.1%).

Annually, total loan and lease balances increased \$383.2 billion (3.5%), as growth in consumer loans (up \$137.8 billion, or 7.9%), loans to nondepository institutions (up \$124.5 billion, or 21.5%), and nonfarm nonresidential commercial real estate (CRE) loan balances (up \$77.0 billion, or 4.9%) helped offset declines in C&I loans (down \$126.7 billion, or 5.2%). Paycheck Protection Program loan forgiveness and repayment drove the annual decline in C&I loan balances.

1 Deposit Growth Accelerated **From the Previous Quarter**

Deposits grew 2.8% (\$535.0 billion) in fourth quarter, faster than the 2.3% growth (\$436.0 billion) reported in third quarter 2021 but slower



than the first quarter 2021 gain that was boosted by federal support programs. Deposits above \$250,000 continued to drive the quarterly increase (up \$414.4 billion, or 4.0%). Interest-bearing deposit growth (up \$446.8 billion, or 3.6%) outpaced that of noninterest-bearing deposits (up \$108.5 billion, or 2.0%). More than three-fourths (76.2%) of banks reported higher deposit balances compared with the previous quarter.

↑ Noncurrent Loan Balances Continued to Decline Quarter Over Quarter

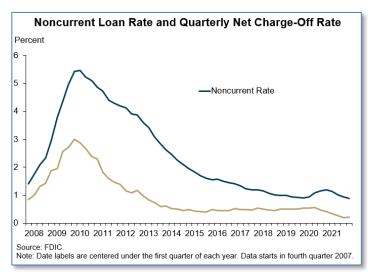
Loans and leases 90 days or more past due or in nonaccrual status (noncurrent loan balances) declined (down \$3.1 billion, or 3.0%) from third quarter 2021, supporting a 5 basis point reduction in the noncurrent rate to 0.89%. Noncurrent nonfarm nonresidential CRE loans declined the most among loan categories from the previous quarter (down \$2.3 billion, or 12.6%), followed by noncurrent C&I loans (down \$1 billion, or 6.0%). Fifty-nine percent of all banks reported a reduction in noncurrent loans from third quarter 2021.

↑ The Net Charge-Off Rate Remained Low

Net charge-offs continued to decline (down \$5.6 billion, or 49.5%) from the year-ago quarter, reducing the net charge-off rate 21 basis points to 0.21%. A decline in net charge-offs of C&I loans (down \$2.2 billion, or 75%) and credit card loans (down \$1.8 billion, or 35.1%) drove three-fourths (72.3%) of the reduction in net charge-offs from the year-ago quarter.

Some Capital Ratios Declined as Growth in Assets Outpaced Capital Formation

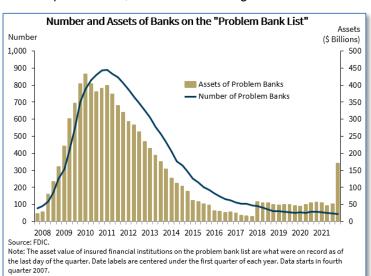
Equity capital rose \$17.9 billion (0.8%) from third quarter 2021; however, the leverage capital ratio decreased 10 basis points to 8.74 % as average asset growth outpaced tier 1 capital formation.



Retained earnings supported equity formation with an increase of \$7.7 billion (51.6%) from third quarter. Banks distributed 64.8 % of fourth quarter earnings as dividends, which were down \$13.3 billion (24.3%) from third quarter 2021. Thirty-five percent of banks reported higher dividends compared with the year-ago quarter. The number of institutions with capital ratios that did not meet Prompt Corrective Action requirements for the well-capitalized category decreased by one to seven from third quarter 2021.

↑ No Banks Failed in Fourth Quarter 2021

The number of FDIC-insured institutions declined from 4,914 in third quarter 2021 to 4,839. During fourth quarter 2021, 72 institutions merged with other FDIC-insured institutions, two banks merged with credit



unions, one bank ceased operations, no new banks opened, and no banks failed. The number of banks on the FDIC's "Problem Bank List" declined by two from third quarter to 44, the lowest level since QBP data collection began in 1984. Total assets of problem banks increased to \$170.1 billion

SNAPSHOT STOCK PERFORMANCE SOUTHWEST REGIONAL BANKS (MSECTOR415) MARCH 2022

Name	Last	Trade	52 Wk R		PE	EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	03/11	32.80	27.00	35.00	10.28	3.19	284.678M	1.04	3.17%
Allegiance Bancshares, Inc.	03/11	44.54	34.30	45.94	11.11	4.01	907.182M	0.56	1.28%
BancFirst Corporation	03/11	78.04	53.77	79.49	79.49	5.03	2.546B	1.44	1.88%
Bank7 Corp.	03/11	24.40	16.80	27.28	9.57	2.55	221.343M	0.48	2.02%
Business First Bancshares, Inc.	03/11	25.15	21.36	29.50	9.94	2.53	565.885M	0.48	1.90%
BOK Financial Corporation	03/11	101.64	77.65	120.20	11.36	8.95	6.944B	2.12	2.13%
Cadence Bancorporation	03/11	29.74	24.87	35.59	19.31	1.54	5.505B	0.88	3.15%
Cass Information Sys, Inc.	03/11	39.22	38.10	48.55	19.61	2.00	537.098M	1.12	2.80%
CBTX, Inc.	03/11	31.20	24.72	33.29	21.52	1.45	767.785M	0.52	1.70%
Commerce Bancshares, Inc.	03/11	71.12	61.81	79.10	16.49	4.31	8.612B	1.06	1.53%
Cullen Frost Bankers, Inc.	03/11	138.68	100.35	147.39	20.42	6.79	8.879B	3.00	2.25%
Enterprise Fin Serv Corp	03/11	48.90	42.23	52.00	12.67	3.86	1.849B	0.84	1.80%
First Community Corp S C	03/11	20.97	18.00	23.42	10.23	2.05	158.295M	0.52	2.52%
First Financial Bankshares, Inc.	03/11	46.25	43.03	55.00	29.09	1.59	6.596B	0.60	1.34%
First Financial Northwest, Inc.	03/11	17.18	13.40	17.58	59.24	0.29	156.781M	0.48	2.83%
First Guaranty Bancshares, Inc.	03/11	21.28	15.01	23.06	8.80	2.42	228.027M	0.64	2.97%
Great Southern Bancorp, Inc.	03/11	59.75	49.53	62.70	10.94	5.46	770.267M	1.44	2.40%
Guaranty Fed Bancshares, Inc.	03/11	31.43	18.92	34.86	12.88	2.44	136.636M	0.60	1.96%
Heartland Financial USA, Inc.	03/11	50.49	42.84	54.04	10.10	5.00	2.135B	1.08	2.24%
Home Bancorp, Inc.	03/11	39.10	35.05	45.73	6.75	5.80	333.402M	0.92	2.39%
Investar Holding Corp.	03/11	19.58	17.08	23.69	25.76	0.76	202.474M	0.32	1.62%
International Bancshares Corp	03/11	42.83	37.72	53.06	10.70	4.00	2.713B	1.20	2.94%
Landmark Bancorp, Inc.	03/11	26.75	22.27	30.00	7.43	3.60	133.682M	0.84	3.16%
Mackinac Financial Corp	03/11	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MidWest One Finl Group, Inc.	03/11	31.83	27.08	34.65	7.28	4.37	498.811M	0.95	3.11%
Origin Bancorp, Inc.	03/11	43.85	38.17	47.58	9.53	4.60	1.041B	0.52	1.21%
Prosperity Bancshares, Inc.	03/11	70.56	64.40	83.02	12.60	5.60	6.503B	2.08	2.96%
QCR Holdings, Inc.	03/11	54.62	41.62	62.34	8.81	6.20	852.809M	0.24	0.45%
Solera National Bancorp, Inc.	03/11	11.00	10.93	13.95	4.26	2.58	31.441M	N/A	N/A
Southside Bancshares, Inc.	03/11	42.14	34.52	45.36	12.14	3.47	1.364B	1.36	3.32%
Spirit of Texas Bancshares, Inc.	03/11	28.58	21.37	31.75	12.01	2.38	498.89M	0.48	1.76%
Texas Capital Bancshares, Inc.	03/11	61.78	54.27	93.26	13.43	4.60	3.128B	N/A	N/A
Two Rivers Fin Group	03/11	42.80	35.00	44.89	4.62	9.27	95.599M	0.68	1.59%
Triumph Bancorp, Inc.	03/11	95.22	69.01	136.01	21.89	4.35	2.397B	N/A	N/A
UMB Financial Corporation	03/11	99.24	84.21	112.24	13.71	7.24	4.851B	1.48	1.53%
Veritex Holdings, Inc.	03/11	40.30	27.28	45.36	14.55	2.77	1.998B	0.80	2.18%
West Bancorp Incorporated	03/11	28.38	23.30	34.50	9.62	2.95	469.825M	1.00	3.58%

Source: Yahoo Finance (March 2022)

Thirteen banks have been added to this list since the March 2021 report.

N/A – Indicates information was not available.

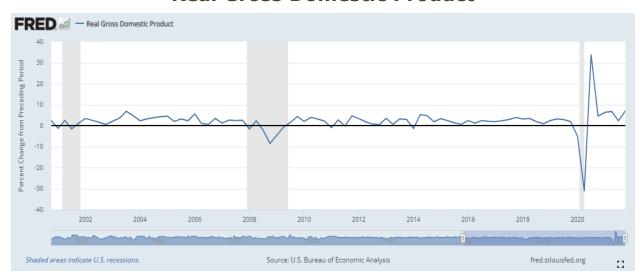
SNAPSHOT STOCK PERFORMANCE SOUTHWEST REGIONAL BANKS (MSECTOR415) MARCH 2021

Name	Last	Trade	52 Wk R		PE	EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	03/05	30.32	19.00	32.66	14.23	2.13	263.841M	1.00	3.53%
BancFirst Corporation	03/05	68.03	26.00	69.66	22.68	3.00	2.228B	1.36	1.99%
BOK Financial Corporation	03/05	92.47	34.57	94.00	14.94	6.19	6.434B	2.08	2.26%
Cass Information Sys, Inc.	03/05	44.90	28.85	45.45	25.95	0.84	646.304M	1.08	2.41%
Commerce Bancshares, Inc.	03/05	75.05	43.34	79.08	25.82	2.91	8.787B	1.05	1.39%
Cullen Frost Bankers, Inc.	03/05	107.57	47.69	110.17	21.06	5.11	6.795B	2.88	2.68%
Enterprise Fin Serv Corp	03/05	45.25	21.70	46.68	16.31	2.76	1.406B	0.72	1.58%
First Community Corp S C	03/05	19.61	12.23	19.74	14.53	1.35	146.936M	0.48	2.70%
First Financial Bankshares, Inc.	03/05	44.94	20.70	47.45	31.64	1.42	6.392B	0.52	1.12%
First Financial Northwest, Inc.	03/05	13.94	7.90	14.00	15.86	0.88	135.752M	0.44	3.20%
Great Southern Bancorp, Inc.	03/05	56.46	32.23	57.08	13.41	4.21	776.472M	1.36	2.46%
Guaranty Fed Bancshares, Inc.	03/05	18.62	12.70	23.50	11.86	1.57	81.26M	0.60	3.19%
Heartland Financial USA, Inc.	03/05	49.93	25.26	50.88	13.99	3.57	2.102B	0.88	1.78%
International Bancshares Corp	03/05	47.71	15.60	48.47	18.21	2.62	3.02B	1.10	2.45%
Landmark Bancorp, Inc.	03/05	27.00	14.95	27.78	6.59	4.10	128.273M	0.80	3.08%
Mackinac Financial Corp	03/05	14.63	6.52	14.92	11.52	1.27	154.142M	0.56	4.20%
MidWest One Finl Group, Inc.	03/05	29.78	15.25	30.50	72.63	0.41	476.98M	0.90	3.07%
North Dallas Bank & Trust Co.TX	03/05	80.00	72.00	80.00	22.41	3.57	98.396M	1.00	1.25%
Prosperity Bancshares, Inc.	03/05	74.84	42.02	77.30	13.18	5.68	6.955B	1.96	2.60%
QCR Holdings, Inc.	03/05	43.38	22.39	44.50	11.42	3.80	685.73M	0.24	0.56%
Solera National Bancorp, Inc.	03/05	11.95	8.00	12.00	8.43	1.42	16.349M	N/A	N/A
Texas Capital Bancshares, Inc.	03/05	81.59	19.10	83.92	72.85	1.12	4.126B	N/A	N/A
Two Rivers Fin Group	03/05	34.75	22.16	36.00	12.50	2.78	77.618M	0.66	1.90%

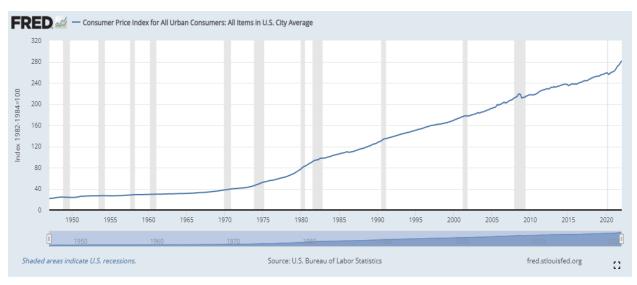
Source: Yahoo Finance (March 2021) N/A – Indicates information was not available.

NATIONAL ECONOMIC TRENDS

Real Gross Domestic Product



Consumer Price Index

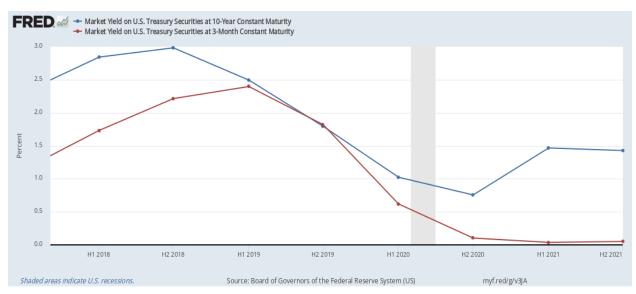


Source: Federal Reserve Bank of St. Louis, National Economic Trends, March 2022.

Unemployment Rate



Interest Rates



Source: Federal Reserve Bank of St. Louis, National Economic Trends, March 2022.

ECONOMIC REPORTS AND FORECASTS: UNITED STATES

FEDERAL RESERVE BANK, DALLAS NATIONAL UPDATE

January 2022 - www.dallasfed.org 1

Nominal GDP Outlook Suggests It's Time to End Monetary Accommodation

Although U.S. output and employment remain below their pre-COVID-19 trends, inflation is sharply higher. Even inflation gauges that exclude extreme individual price movements often attributed to special factors are exceeding the Federal Open Market Committee's (FOMC's) long-run target of 2 percent.

This combination suggests that a supply shortfall is constraining the recoveries of output and employment. Supply shortfalls depress real activity while boosting inflation. Demand shortfalls, in contrast, lower both real activity and inflation. We see evidence of a supply shortfall in tight labor markets and stressed supply chains, which make it harder for businesses to keep pace with shifts in the composition of demand.

We discuss how monetary policy should respond to shortfalls in demand and supply and how a broad measure of liquidity—nominal gross domestic product (NGDP)—can help guide monetary policy. We argue that the policy response to COVID-19 has been broadly on track to date but that continued monetary accommodation (low interest rates and an expanding Fed balance sheet) risks fueling excessive inflation.

Responding to Demand Shortfalls

There is wide agreement that the Federal Reserve should respond to demand shortfalls by providing accommodation. Easy monetary policy works to counteract declining demand, helping to maintain full employment and price stability.

The only real disagreements are on implementation: How aggressive should the policy response be, and how rapidly should accommodation be withdrawn? The Federal Reserve's new monetary policy strategy, announced in August 2020, is designed to guard against a premature withdrawal of accommodation.

Responding to Supply Shortfalls

The appropriate policy response to a supply shortfall is not so clear-cut. Efforts to stabilize real activity will add to already-elevated inflation pressures, while efforts to stabilize inflation will further depress activity. The FOMC has promised to weigh "inflation pressures" against "employment shortfalls" in such a scenario, but it has offered no explicit guidance on how it will weigh them.

Targeting Nominal Income

The Federal Reserve Act calls on the FOMC to maintain long-run growth in dollar liquidity "commensurate with the economy's long-run potential to increase production, so as to promote the goals of maximum employment, stable prices and moderate long-term interest rates."

¹ Tyler Atkinson, Evan F. Koenig and Ezra Max

One very broad measure of liquidity is the dollar value of the goods and services produced in the U.S. economy—nominal gross domestic product. NGDP also measures the dollar incomes generated by U.S. economic activity. Consistent with the Federal Reserve Act, the FOMC could prespecify a target NGDP path it believes sufficient to support full employment and price stability over time and then adjust its policy tools to keep NGDP near that target.

Sensibly, NGDP targeting requires that the FOMC try to cancel out negative demand shocks, which put downward pressure on both real activity and inflation and threaten to push NGDP below its target path.

Negative supply shocks lower output relative to trend, raise prices relative to trend or both. An NGDP-targeting central bank will aim for an inflation overshoot proportional to the output shortfall, allowing variation in inflation that helps stabilize nominal incomes.

Stable nominal incomes enhance financial stability in an economy where households, businesses and state and local governments have fixed nominal obligations, such as mortgage, auto loan, lease and employee pension payments.

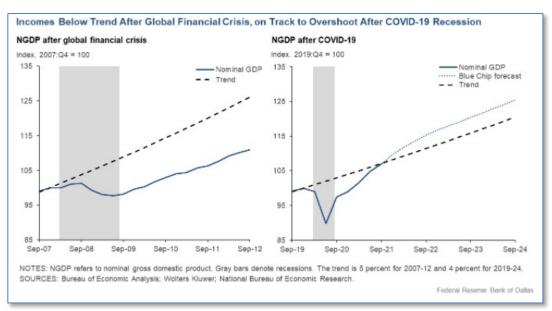
A credible NGDP target would also anchor inflation expectations at the horizon over which output is expected to converge to potential.

Because it focuses on a single indicator, NGDP targeting would enhance the Fed's accountability and transparency. It would also reduce policy uncertainty, especially in the face of supply shocks.

To demonstrate how NGDP targeting might be used to guide and evaluate monetary policy, we consider two historical episodes: the global financial crisis (GFC) and the ongoing COVID-19 pandemic.

Nominal GDP After the Global Financial Crisis

Just

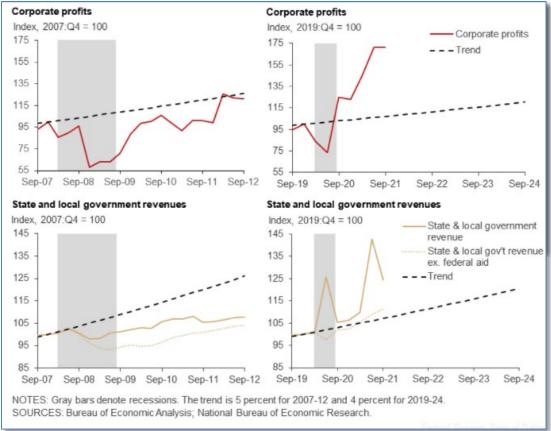


Source: Federal Reserve Bank of Dallas

before the 2008–09 GFC, Blue Chip forecasters estimated the U.S. economy's long-run real (inflation-adjusted) GDP growth at 2.9 percent and believed that the Federal Reserve would be content for inflation to average 2.1 percent.

The economy was thought to be at full employment. So, a 2.9 percent + 2.1 percent = 5.0 percent NGDP growth target would have supported the Federal Reserve's dual mandate. Indeed, analysts forecasted 5.0

percent NGDP growth over the coming years, and economic decision-makers presumably made financial commitments accordingly.



Source: Federal Reserve Bank of Dallas

Over the five years from fourth quarter 2007 through fourth quarter 2012, annual NGDP growth averaged just 2.2 percent, causing NGDP to fall well below the 5.0 percent growth path analysts expected.

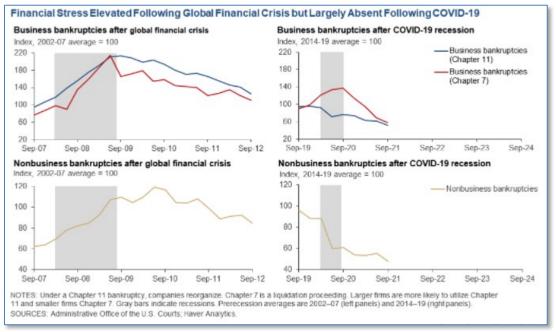
The NGDP shortfall was reflected in below-trend growth in household and corporate incomes and in state and local government revenues. The resultant financial stress—illustrated in the left-side panels—likely contributed to a slow recovery in output and employment.

Nominal GDP After COVID-19

In 2019, forecasters estimated the U.S. economy's real growth potential at 2.0 percent, and the Federal Reserve reaffirmed a 2.0 percent inflation objective. The economy was likely near full employment. Thus, an appropriate target rate of NGDP growth would have been 4.0 percent (2.0 percent real potential growth + 2.0 percent target inflation). Private analysts were, in fact, expecting NGDP growth to average just under 4.0 percent over 2020–24.

COVID-19 initially caused a steep decline in both real activity and inflation. Over the first two quarters of 2020, real GDP fell 10.1 percent, and prices were unchanged. Policymakers responded with unprecedented fiscal and monetary support, and over the next five quarters—ending in third quarter 2021—real GDP increased by a stunning 12.9 percent, and prices rose 5.6 percent. This surge put NGDP just below the 4.0 percent growth path expected prior to the pandemic, as the right-hand panel of Chart 1 shows.

Household incomes, state and local-government revenues and corporate profits have exceeded prepandemic expectations, driven in part by large federal transfers and aggressive fiscal stimulus as noted in the right-hand panels of Chart 2. As a result, households and businesses experienced fewer financial strains during the pandemic period than in prior years.



Source: Federal Reserve Bank of Dallas

Real GDP remains about 2 percent below what was expected prepandemic, reflecting lingering supply problems. That real shortfall has been almost exactly offset by a price level that is 1.9 percent above prepandemic expectations.

A central bank focused solely on containing inflation would likely have been less accommodative, while a central bank focused solely on real activity would have applied more stimulus. The middle course that the Federal Reserve has followed so far, with below-trend output offset by above-trend inflation, is consistent with a 4 percent NGDP growth target.

Where Do We Go from Here?

The policy response to COVID-19 has successfully protected the income and revenue streams of households, businesses, and state and local governments, limiting financial strains and promoting a strong labor market recovery. Aggregate income, as measured by NGDP, is back on its pre-pandemic path.

But will NGDP stay on that path? Professional forecasters think not. Blue Chip forecasters see NGDP growth exceeding 4.0 percent from now through 2025. Thereafter, growth stabilizes, leaving the level of NGDP 4.2 percent above trend, as depicted in the right panel of Chart 1.

If the pandemic has no lasting effect on real output, that upward shift in NGDP would imply a price path 4.2 percent higher than before the pandemic. If the pandemic leaves a lasting negative mark on output, the upward shift in the price path will be even larger. The expectations of Fed policymakers, as documented in the latest Summary of Economic Projections, are broadly consistent with this outlook.

An NGDP-targeting strategy would prescribe removing policy accommodation more rapidly than currently expected in order to keep incomes nearer their pre-pandemic trends and reduce the long-run price-level impact of the pandemic.

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

Data Series	July 2021	Aug 2021	Sept 2021	Oct 2021	Nov 2021	Dec 2021
Unemployment Rate (1)	5.4	5.2	4.7	4.6	4.2	3.9
Change in Payroll Employment (2)	1,091	517	424	677	647	^(P) 510
Average Hourly Earnings (4)	30.55	30.76	30.92	31.11	31.23	^(P) 31.40
Consumer Price Index (5)	0.5	0.3	0.4	0.9	0.7	0.6
Producer Price Index (6)	0.9	0.9	0.5	^(P) 0.7	(P) 0.9	^(P) 0.4
U.S. Import Price Index (7)	0.3	-0.2	0.4	1.5	^(R) 0.7	^(R) -0.4

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	4th Qtr 2020	1st Qtr 2021	2nd Qtr 2021	3rd Qtr 2021	4th Qtr 2021
Employment Cost Index (1)	0.7	0.9	0.7	1.3	1
Productivity (2)	^(R) -2.8	^(R) 2.1	^(R) 3.2	^(R) -3.9	6.6

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: March 3, 2022

THE FEDERAL RESERVE BOARD

THE BEIGE BOOK – MARCH 2, 2022, EXCERPT

Overall Economic Activity

Economic growth downshifted slightly to a moderate pace in early July through August. The stronger sectors of the economy of late included manufacturing, transportation, nonfinancial services, and residential real estate. The deceleration in economic activity was largely attributable to a pullback in dining out, travel, and tourism in most Districts, reflecting safety concerns due to the rise of the Delta variant, and, in a few cases, international travel restrictions. The other sectors of the economy where growth slowed or activity declined were those constrained by supply disruptions and labor shortages, as opposed to softening demand. In particular, weakness in auto sales was widely ascribed to low inventories amidst the ongoing microchip shortage, and restrained home sales activity was attributed to low supply. Growth in non-auto retail sales slowed a bit in some Districts, rising at a modest pace, on balance, across the nation. Residential construction was up slightly, on balance, and nonresidential construction picked up modestly. Trends in loan volumes varied widely across Districts, ranging from down modestly to up strongly. Reports on the agriculture and energy sectors were mixed across Districts but, on balance, positive. Looking ahead, businesses in most Districts remained optimistic about near-term prospects, though there continued to be widespread concern about ongoing supply disruptions and resource shortages.

Highlight of Dallas Federal Reserve

Solid expansion continued in the Eleventh District economy, though surging COVID-19 cases has added uncertainty to outlooks. Growth in the manufacturing and nonfinancial services sectors remained strong, and retail sales rose in August after holding steady in recent months. Home sales remained solid but eased. Overall loan volumes rose broadly, led by commercial real estate lending. Energy activity rose steadily, and agricultural conditions were very strong. Employment growth was robust, and wage growth remained elevated amid widespread labor shortages. Ongoing supply chain disruptions continued to drive up prices, though pressures eased slightly over the reporting period. Outlooks improved, though uncertainty increased.

ECONOMIC REPORTS AND FORECASTS: STATE OF TEXAS

FEDERAL RESERVE BANK, DALLAS

February 2022 - www.dallasfed.org 1

PACE OF TEXAS ECONOMIC GROWTH SLOWS AS SUPPLY-CHAIN, STAFFING WOES PERSIST

The Texas economy continued expanding in December and January, though the pace of growth decelerated relative to overall fourth-quarter activity. Supply-chain disruptions and labor shortages constrained activity, putting added upward pressure on prices and wages.

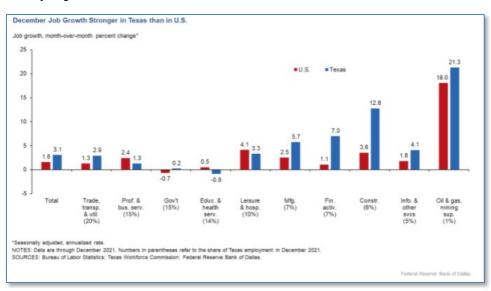
Results from the Dallas Fed's Texas Business Outlook Surveys (TBOS) indicate that the recent omicron COVID-19 surge is exacerbating these supply-side issues.

Texas Job Growth Slows but Stays Strong

The Texas economy added 33,000 jobs in December, representing a 3.1% annualized growth rate. This was down from 7.9% in November but well above the state's long-run trend of 2% growth. Texas continued to exceed the pace of U.S. job growth in December.

For all of 2021, Texas job growth of 5.1% outpaced U.S. growth of 4.5%. Texas is one of four states to surpass its February 2020 prepandemic employment level, along with Utah, Idaho and Arizona.

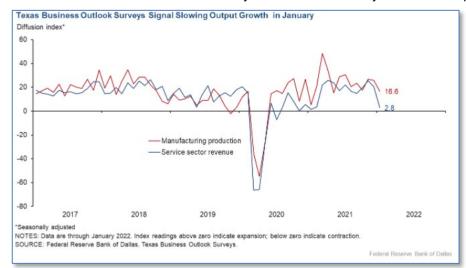
The growth in Texas was broad based geographically and by activity. Payrolls in the goods-producing sector grew an especially strong 10.2%, accelerating from 7.0% in November. Energy led the jobs expansion in December, up 21.3% at an annualized rate, though energy employment as a



whole remained 20% below pre-pandemic levels. The larger service-providing sector grew at a more moderate 2.0% annualized rate, down from its 8.0% rate in November.

¹ Emily Kerr and Juliette Coia

Output growth decelerated in December and January but remained positive, according to results from the Texas Business Outlook Surveys. Some of the survey results are depicted in diffusion indexes in which



Source: Federal Reserve Bank of Dallas

readings greater than zero signal expansion over the previous survey period and readings below zero indicate contraction.

The headline manufacturing production index remained above average but slipped steadily from roughly 27 in November to 26 in December and 17 in January. The headline services revenue index also remained positive but dropped considerably more—from 26 in November to 20 in December and 3 in January.

The sentiment-based general business activity index fell to near-zero readings in both sectors—firms were evenly split in

January in their evaluation of whether activity deteriorated or improved over the past month. Uncertainty rose in the manufacturing and service sectors. However, robust employment growth continued, and expectations for production and revenue expansion in mid-year 2022 remain solid.

4 Omicron Variant Poses Downside Risks

The recent omicron COVID-19 surge constrained business activity in the region. In mid-January, COVID-19 cases peaked at 72,200 new cases per day (based on a seven-day moving average), more than triple the state's previous peak in January 2021.

Seventy percent of firms responding to TBOS special questions in January reported that the COVID-19 surge negatively affected their business. Among those reporting negative impacts, 83% cited increased absenteeism, and more than 40% reported problems that included new or worsened hiring difficulties and/or supply-chain disruptions and reduced productivity due to alternative work arrangements.

Roughly 14% of those noting a negative impact said they partially shut down operations temporarily, and 2% said they fully shut down temporarily. Businesses generally believe omicron-related disruptions to be transitory, as expectations for business activity six months from now did not falter.

In December, staffing shortages overtook supply-chain disruptions as the top factor restraining revenues, according to TBOS, with 46% of firms reporting limited operating capacity due to difficulty hiring or COVID-related absenteeism.

In January, 73% of TBOS firms said a lack of applicants was a key impediment to hiring, while 53% said workers looking for more pay than offered was a problem, up from 34% in April 2021. Among firms noting a dearth of applicants in January, 45% said the availability of applicants worsened over the prior month, up from 35% in October 2021 and 27% in July 2021.

Supply-chain disruptions continue to considerably constrain the Texas economy. In December, 44% of TBOS firms said supply-chain disruptions restrained revenues, up from 17% in mid-2020, when these

issues were mostly contained to segments of manufacturing and retail. The latest COVID-19 surge has added additional stress to supply chains, likely pushing out the horizon for a return to normal.

Wages and prices pushed solidly higher, partly reflecting labor market and supply-chain shortages. Extraordinary wage and price growth continued through January, as TBOS indexes remained at or near record highs. Texas business executives reported increases of 10% for input prices and 7% for both

wages and selling prices on average in 2021, far exceeding the increases seen in previous years.



Source: Federal Reserve Bank of Dallas

TEXAS ECONOMIC STATISTICS U.S. BUREAU OF LABOR STATISTICS

Data Series	July					
Labor Force Data						
Civilian Labor Force (1)	^(R) 14,249.6	^(R) 14,269.1	^(R) 14,272.9	^(R) 14,295.5	^(R) 14,287.9	(R) 14,282.9
Employment (1)	^(R) 13,455.1	^(R) 13,500.4	^(R) 13,544.2	^(R) 13,581.4	^(R) 13,593.1	^(R) 13,595.3
Unemployment (1)	^(R) 794.5	^(R) 768.7	^(R) 728.7	^(R) 714.2	^(R) 694.9	^(R) 687.6
Unemployment Rate (2)	^(R) 5.6	^(R) 5.4	^(R) 5.1	^(R) 5.0	^(R) 4.9	^(R) 4.8
Nonfarm Wage and Salary Employme	ent					
Total Nonfarm (3)	12,721.0	12,761.5	12,853.3	12,923.1	13,009.6	(<u>P</u>) 13,059.6
12-month% change	6.1	5.6	5.8	5.5	5.8	(<u>P</u>) 5.6
Mining and Logging (3)	191.2	194.0	197.1	199.7	203.5	^(P) 207.5
12-month% change	11.0	14.0	16.3	16.1	17.5	^(P) 18.5
Construction (3)	723.7	723.8	731.7	734.5	740.1	(<u>P</u>) 750.5
12-month% change	0.8	0.9	2.1	2.0	2.3	(<u>P</u>) 3.4
Manufacturing (3)	882.8	881.7	884.1	885.2	890.4	^(P) 896.5
12-month% change	3.8	3.6	3.8	3.5	4.1	(<u>P</u>) 4.5
Trade, Transportation, and Utilities (3)	2,575.3	2,584.8	2,604.3	2,618.5	2,629.3	(<u>P</u>) 2,636.6
12-month% change	5.4	5.1	5.1	5.0	5.0	(<u>P</u>) 4.8
Information (3)	205.5	206.7	207.1	207.2	207.9	^(P) 209.3
12-month% change	7.4	7.7	5.2	5.6	6.4	^(<u>P</u>) 5.6
Financial Activities (3)	829.9	831.2	834.2	839.0	849.1	^(P) 856.3
12-month% change	4.3	4.1	4.2	4.4	4.7	^(<u>P</u>) 6.1
Professional & Business Services (3)	1,876.6	1,904.9	1,926.8	1,957.0	1,974.6	^(<u>P</u>) 1,981.0
12-month% change	9.1	9.9	10.8	10.4	11.0	^(P) 9.6
Education & Health Services (3)	1,729.5	1,743.0	1,745.5	1,752.2	1,762.6	^(<u>P</u>) 1,760.9
12-month% change	3.1	4.0	4.1	3.4	3.9	(<u>P</u>) 3.4
Leisure & Hospitality (3)	1,313.8	1,289.6	1,312.6	1,323.9	1,340.4	^(<u>P</u>) 1,346.9
12-month% change	20.0	15.9	14.1	11.8	11.4	^(<u>P</u>) 10.9
Other Services (3)	412.8	417.8	418.0	426.1	428.6	^(<u>P</u>) 429.7
12-month% change	8.0	8.3	7.6	8.4	8.0	(<u>P</u>) 7.5
Government (3)	1,979.9	1,984.0	1,991.9	1,979.8	1,983.1	(<u>P</u>) 1,984.4
12-month% change	1.6	0.1	0.7	0.9	1.2	(<u>P</u>) 1.2
Footnotes (1) Number of persons, in thousands, seaso (2) In percent, seasonally adjusted.	onally adjusted.		eliminary.	thousands, se	asonally adjust	ed.

Data extracted: March 3, 2022

FEDERAL RESERVE BANK SENIOR LOAN OFFICER OPINION SURVEY

The January 2022 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 correspond to the fourth quarter of 2021.

Regarding loans to businesses, respondents to the survey reported, on balance, easier standards and stronger demand for commercial and industrial (C&I) loans to firms of all sizes over the fourth quarter. Banks also reported easier standards and stronger demand for all commercial real estate (CRE) loan categories.

For loans to households, banks eased standards across most categories of residential real estate (RRE) loans and home equity lines of credit (HELOCs) over the fourth quarter while also reporting weaker demand for most types of RRE loans on net. In addition, banks eased standards for all consumer loan categories—that is, credit card loans, auto loans, and other consumer loans. Meanwhile, changes in demand were mixed across consumer loan types.

The survey also included a set of special questions inquiring about banks' expectations for changes in lending standards, borrower demand, and loan performance over 2022. Banks, on balance, reported expecting lending standards to ease and demand to strengthen across most loan types. At the same time, banks reported mixed expectations about loan quality.

BUSINESS LENDING

C&I Loans

Over the fourth quarter, banks reported having eased standards and terms on C&I loans to firms of all sizes. Specifically, a moderate net share of banks reported having eased lending standards for approving C&I loans to large and middle-market firms. A moderate net share of small banks also reported having eased standards for loans to small firms, while those of large banks remained basically unchanged on net.

Banks also reported having eased most queried terms on C&I loans to firms of all sizes over the fourth quarter. Easing was most widely reported for spreads of loan rates over the cost of funds, with a significant net share of banks reporting having eased this term for loans to firms of all sizes. Significant and moderate net shares of banks also reported having reduced the costs of credit lines and increased the maximum size of credit lines to large and middle-market firms and small firms, respectively. Moderate net shares of banks reduced the premiums charged on riskier

loans and loan covenants for loans to large and middle-market firms as well as the use of interest rate floors for loans to firms of all sizes. Other queried C&I loan terms were either eased by a modest share of banks or remained basically unchanged on net. Meanwhile, foreign banks reported having left standards and most of their lending terms on C&I loans basically unchanged on net.

A major net share of banks that reported having eased standards or terms cited an improved economic outlook and more aggressive competition from other banks or nonbank lenders as important reasons for doing so. Significant net shares of banks also cited improvements in industry-specific problems, increased tolerance for risk, and improvements in their current or expected liquidity or capital positions as important reasons for easing lending standards and terms.

Regarding demand for C&I loans over the fourth quarter, a significant net share of banks

reported stronger demand for loans from large and middle-market firms and a modest net share of banks reported stronger demand from small firms. Furthermore, a significant net share of banks reported a higher number of inquiries from potential borrowers regarding the availability and terms of new credit lines or increases in existing lines. Foreign banks reported that C&I loan demand remained basically unchanged on net.

Major net shares of banks cited higher customer investment in plant or equipment and increased mergers or acquisitions, inventory, and accounts receivable financing needs of customers as reasons for stronger demand over the fourth quarter.

LENDING TO HOUSEHOLDS

Residential Real Estate Lending

Over the fourth quarter, banks reported easier lending standards for most RRE loan types and HELOCs. Specifically, moderate net shares of banks eased standards for jumbo mortgages, non-qualified mortgage (QM) non-jumbo loans, and HELOCs, while a modest net share of banks eased standards for QM non-jumbo residential loans. The exceptions were government-sponsored enterprise (GSE)-eligible and government mortgages—for which standards were basically unchanged, on net—and subprime mortgages, which few banks reported as originating.

Meanwhile, banks generally reported weaker demand for RRE loans over the fourth quarter. Specifically, significant net shares of banks reported weaker demand for GSE-eligible and government mortgages; moderate net shares of banks reported weaker demand for QM non-jumbo, non-QM jumbo, and non-QM non-jumbo residential loans; and a modest net share of banks reported weaker demand for QM jumbo mortgages. Demand for HELOCs remained basically unchanged on net.

CRE Lending

Over the fourth quarter, a significant net share of banks eased standards for multifamily loans secured by multifamily properties, while moderate net shares of banks eased standards for construction, land development, and nonfarm nonresidential loans. Meanwhile, a significant net share of banks reported stronger demand for loans secured by multifamily properties, and moderate net shares of banks reported stronger demand for construction, land development, and nonfarm nonresidential loans. Foreign banks reported that standards on CRE loans remained basically unchanged, on net, while a significant net share of foreign banks reported stronger demand for this type of loans.

Consumer Lending

Over the fourth quarter, moderate net shares of banks eased standards for credit card. auto, and other consumer loans. Consistent with an easing of standards for credit card loans, a significant and moderate net share of banks also reported having eased minimum credit score requirements and credit limits for this type of loans, respectively. Meanwhile, a significant net share of banks reported having reduced spreads of interest rates charged for auto loans, and a moderate net share of banks pointed to a reduction in the minimum required credit score for both auto loans and other consumer loans. Other surveyed terms were either eased by a modest net share of banks or remained basically unchanged on

Regarding demand for consumer loans, a moderate net share of banks reported stronger demand for credit card loans over the fourth quarter, while a modest net share of banks reported weaker demand for auto loans. Demand for consumer loans other than credit card and auto loans remained basically unchanged on net.

SPECIAL QUESTION ON BANKS' OUTLOOK FOR 2022

The January survey also included a set of special questions inquiring about banks' expectations for changes in lending standards, borrower demand, and asset quality over 2022, assuming that economic activity would evolve in line with consensus forecasts. On balance, banks reported

expecting lending standards to ease further and loan demand to strengthen. Meanwhile, banks reported mixed expectations about loan quality.

Regarding lending standards, a modest net share of banks expected to ease standards for C&I loans to large and middle-market firms and CRE loans secured by multifamily properties over 2022, while standards for loans to small firms and nonfarm nonresidential, construction, and land development CRE loans are expected to remain basically unchanged on net. A moderate net share of banks also reported expecting to ease standards for all RRE and consumer loan categories. Widely cited reasons for expecting to ease standards over 2022 include an expected increase in risk tolerance and more aggressive competition expected from other bank or nonbank lenders.

Meanwhile, major or significant net shares of banks reported expecting loan demand to strengthen across C&I, CRE, and consumer loan categories over 2022. In contrast, a significant net share of banks expected demand for RRE loans—both GSE-eligible and nonconforming jumbo mortgages—to weaken. The most widely cited reason for stronger loan demand over 2022 was that the spending and investment needs of borrowers are expected to increase, in part because of more favorable income prospects. Among banks that reported expecting weaker demand, the most widely reported reason was an expected increase in interest rates.

Regarding expectations for loan quality—as measured by delinquencies and charge-offs—banks generally reported expecting an improvement in the quality of business loans in their portfolio over 2022, while expecting a deterioration in the quality of household loans. Specifically, moderate net shares of banks reported expecting the quality of non-syndicated C&I loans to large and middle-market firms and CRE loans secured by multifamily properties to improve, while modest net shares of banks reported expecting improvements in the quality of syndicated non-leveraged loans and construction, land development, and nonfarm nonresidential CRE loans. In contrast, significant net shares of banks expected a deterioration in the quality of credit card loans to prime and nonprime borrowers and of auto loans to nonprime borrowers; moderate net shares of banks expected the quality of auto loans to prime borrowers to worsen; and a modest net share of banks expected the quality of nonconforming jumbo mortgages to deteriorate.

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Wall Street Journal, New York, New York

Yahoo Finance, online

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

Condition of the Texas State Banking System Reports.