March 2023

Condition of the Texas State Banking System



Texas Department of Banking
Texas Department of Savings and Mortgage Lending

Financial Data as of December 31, 2022



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Symbo	Is Used Throughout this Report:	Abbreviations Used Throughout this Report:
) } }	Improving or strong conditions Deteriorating or weak conditions Mixed conditions	FDIC – Federal Deposit Insurance Corporation OCC – Office of the Comptroller of the Currency FRB – Federal Reserve Board

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ECONOMIC REVIEW AND OUTLOOK

The Texas economy was showing signs of softening at the end of 2022 and moving into 2023, concerns over an impending recession loomed as the Federal Reserve continues trying to tame inflation.

Surging prices, rising interest rates, weak consumer demand, and a devastating drought led the state's economy to decelerate since year-end 2021. Output and employment indicators indicated slower growth relative to the first half of the year. Concerns were mainly concentrated in the service-providing sector, which had its slowest month since August. Activity in that sector remained mostly flat in December, according to business executives responding to the Federal Reserve Bank of Dallas (FRB Dallas) Texas Service Sector Outlook Survey, a key measure of state service sector conditions. The index fell six points to near zero, suggesting little change in revenue from November.

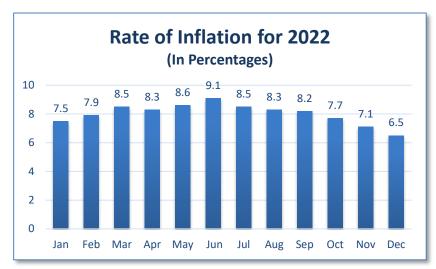
Retail sales also weakened at year-end 2022, according to the FRB Dallas Texas Retail Outlook Survey. The sales index was little changed at -12.3, its 10th consecutive month in negative territory. Retailers' inventories continued to increase but at a slower pace than in November, with the index falling from 15.7 to 13.5.

Perceptions of broader business conditions worsened further. The FRB Dallas general business activity index fell from -11.0 in November to -19.8 in December. The company outlook index also fell, from -4.1 to -9.9, while the outlook uncertainty index remained elevated at 22.0, well above its series average of 13.2.

The state's employment picture continued to shine, however. Texas jobs grew 5.0% in 2022, a growth rate that led all states and easily surpassed the 3.0% job growth for the nation, according to figures from the U.S. Bureau of Labor Statistics (BLS). Economic forecast in Texas for job growth remained optimistic due to the state's flexible labor force. This coupled with the fact that Texas' workforce growth can also be attributed to new residents making the Lone Star State home.

At the national level, the financial services industry reported continued positive results amid ongoing economic uncertainty, according to the Federal Deposit Insurance Corporation (FDIC). Net interest income grew, loan growth continued, and asset quality measures remained favorable.

Despite these positive performance measures, the banking industry continued to face significant risks for much of the year from the effects of inflation, rising market interest rates, and continued geopolitical uncertainty. By the end of 2022, loan demand declined for the fourth quarter in a row, with more than half of bankers surveyed by the Federal Reserve



Source: U.S. Bureau of Labor Statistics

reported a decrease over the previous six weeks, while loan volumes stabilized overall.

The annual inflation rate in the United States has increased from 0.7 percent in 2015 to 6.5 percent at year-end 2022. Inflation hit a four-decade high of 9.1% in June before easing to 6.5% at the end of the year. In response to rising inflation, the Federal Reserve raised interest rates seven times in 2022,

including four consecutive increases of 0.75%. The central bank closed December with an increase of 50 basis points (BP), sending its federal funds rate target range to between 4.25% and 4.50%.

As a result, banks began to face challenges with unrealized losses in their securities portfolio due to the increase in interest rates. While unrealized losses declined slightly during the last quarter of 2022, they remain elevated in some institutions supervised by the Department of Banking or Department of Savings and Mortgage Lending. The concern over these unrealized losses in the available-for-sale securities portfolios and the possibility those losses will have to be realized is being monitored by both departments.

It is noted that banks accumulated investments when interest rates were low; however, the value of those assets began to erode amid the rapid rise of interest rates. Bankers compete to keep their deposits, meaning they must pay more to keep their customers from moving their funds to another financial institution. For some banks, losing deposits can be serious and weigh heavily on profitability. In addition, according to a Barclay's report, only a quarter of the 425 BP increase in the Federal Reserve's benchmark has been passed along to depositors. Notably, competition will only intensify.

STATE-CHARTERED BANKING PROFILE (DEPARTMENT OF BANKING)

The number of Texas state-chartered banks as of December 31, 2022, was 214, unchanged from December 2021. The number of state banks increased by one from July 1, 2022, to December 31, 2022, due to the net effect of the following banking transactions:

- One state bank merged with and into another Texas state-chartered bank;
- Two state banks merged into non-Texas state-chartered banks;
- Three national banks converted into Texas state-chartered banks; and
- One de novo Texas state-chartered bank opened.

Overall assets of Texas state-chartered banks increased from \$419.2 billion as of June 30, 2022, to \$426.6 billion at year-end 2022. The asset growth of \$7.4 billion was the result of \$6.0 billion in increased assets from a combination of merger, conversion, and charter activity and \$1.4 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 \$399.7 billion as of December 31, 2022, a decrease of \$84.7 billion or 17.5% over the prior year. Decreases in total assets were the result of three state banks merging into non-Texas state-chartered banks, involving assets totaling \$4.9 billion; one state bank converting into a non-Texas state-chartered bank, involving assets totaling \$3.5 billion; and planned shrinkage due to increases in interest rates. These losses were offset by one institution that was added to the thrift portfolio with assets totaling \$2 billion as of December 31, 2022. The number of thrift institutions decreased from 24 to 21 during 2022.

Through December 31, 2022, state thrifts had \$3.6 billion in year-to-date net income compared to December 31, 2021, year-to-date income of \$3.0 billion. Increased profitability occurred in 66.6% of the thrift institutions through December 2022 due to the \$573.3 million increase net income. Thrifts' net interest margin (NIM) as an industry total has increased to 1.6% primarily due to the \$2 billion increase in interest income.

Total loans and leases increased \$1.8 billion or 3.4% compared to the prior year, totaling \$54.8 billion as of December 31, 2022. The increase in total loans was primarily due to the \$4.6 billion increase in first lien residential real estate loans, offset with a \$1.3 billion decrease in commercial and industrial loans, and a \$1.6 billion decrease in other loans.

The level of non-current assets plus other real estate owned to total assets remains low in state-chartered thrifts at 0.04% of total assets, a slight increase from 0.03% as of the prior year. 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 \$3.2 million or 56.1% since December 2021, totaling \$2.5 million as of December 31, 2022.

The Department continued to receive and process applications, including nine branch office applications, four subsidiary applications, and various other applications during the past year.

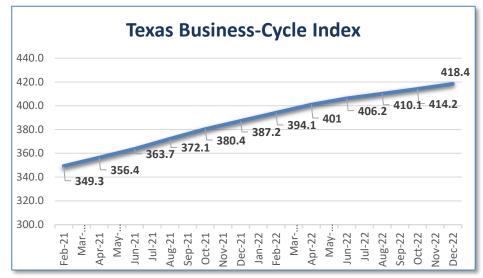
TEXAS ECONOMIC PROFILE

Continuing to slow during the fourth quarter, labor demand and manufacturing output, along with wage and price pressures decelerated the Texas economy. The state has historically fared better than the nation during U.S. economic downturns when real oil prices were high. However, the state economy followed the nation into a slowdown at the end of the year.

Employment growth fell to 3.5 percent in the fourth quarter through November from 4.0 percent in the third quarter. By comparison, employment nationally expanded 2.2 percent at the end of the year. Job and output growth slowed, price and wage pressures weakened, and businesses gradually grew more

pessimistic as evidenced by various economic surveys.

Although employment growth continued, the supply of workers remained constricted. Sixty-two percent of respondents to an FRB Dallas survey stated they were trying to hire but with mixed success, citing a lack of applicants as an impediment. As a result, the state's unemployment rate increased 0.1% from August's figure of 3.7%.



Source: Federal Reserve Bank of Dallas

As the Texas economy closed 2022, recession

fears grew. The state's goods-producing sector continued to shine, led by the mining, logging, and construction sector; manufacturing continued to expand, as well.

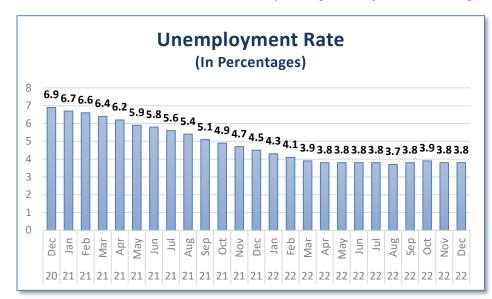
Meanwhile, activity in the service and retail sectors stagnated and revenue dipped, according to the Dallas Fed's Service Sector Outlook Survey. The labor market showed signs of continuing growth, though at a slower pace.

EMPLOYMENT

Concerns of inflation and a recession had not stifled Texas' nonfarm employment during 2022. Data from the Texas Workforce Commission and the BLS released in December indicate Texas led the nation with the fastest annual jobs growth rate.

In fact, Texas ranked first in the nation in jobs added YOY, with 650,100 positions gained. According to BLS data, the state not only had the largest absolute increase in jobs added in 2022, but also attained the highest percent of seasonally adjusted total nonfarm jobs added over the year at 5.0%. By comparison, U.S. job growth expanded by just 3.0%.

The state entered the second half of 2022 by adding 40,000 jobs which brought Texas' nonfarm



Source: U.S. Bureau of Labor Statistics

employment to 13.5 million. This figure was up 5.7% from September 2021, while the unemployment rate ticked down to 3.8%. The job growth was heavily led by the mining and logging sector, which grew 22.4% YOY, followed by the leisure and hospitality sector which increased 11.8% YOY.

By December, the state's goodsproducing sector gained 8,300 net jobs, led by the mining,

logging, and construction sector, which expanded 21.2% YOY. Manufacturing also continued to expand, adding 5,500 employees, growing 5.5% YOY. Nevertheless, the state's unemployment rate closed 2022 at 3.8%, a figure unchanged from November.

POPULATION

According to the U.S. Census Bureau, Texas' population increased by 470,708 from July 2021 to July 2022, the most recent figures available. The state's total population is now an estimated 30,029,572.

The figures come from the Bureau's *Population Estimates Program*, which analyzes data on births, deaths, and migration to calculate population change. The Census Bureau will release estimates of 2022 populations in 2023 for Texas counties, cities, towns, and metropolitan and micropolitan areas.

Texas joins California as the only states with a population above 30 million. According to the *Dallas Business Journal*, the state's population growth was fueled primarily by net domestic migration (230,961 residents), net international migration (118,614 residents) and natural increase (118,159 residents), according to the agency's data.

Unfortunately, results from the 2020 decennial Census show a significant undercount of Texas residents. Prior to the Census, The Perryman Group, a Waco-based economic forecasting firm, examined the potential for an undercount based on data regarding hard-to-count populations.

The company estimated the number of uncounted residents in Texas would be at least 1.4%; but actual results showed it to be worse than expected at 1.9%.

When multiplier effects are taken into consideration, the estimated costs of the downstream effects of this undercount from 2021 through 2030 include an estimated \$59 billion in gross product and more than 640,000 job-years.

Housing

If Texas residents were to look for one industry to represent the state's softening economy in the second half of 2022, it would arguably be the housing market. Record home prices and rapidly rising input costs and mortgage rates caused buvers to hesitate. cooling the market at the beginning of the third quarter. Thirty-year mortgage rates hit 5.5% in July, much higher than January's 3.2% rate, and continued to climb before reaching the high-water mark of 7.0% on November 10.



Source: Real Estate Center at Texas A&M University

As a result, the housing sector continued to decline as

inventories recovered and supplies began to accumulate, reversing the state's long trend. Active listings in July rose more than 17,000 units over the previous two months while sales declined amid lowering demand. As a result, Texas' median home price fell \$5,000 to \$344,000, as prices dropped in all metropolitan areas of the state.

Clouds continued to gather over the housing industry at the end of the third quarter, as total housing sales and single-family housing starts fell YOY 29.3% and 33.5%, respectively. Meanwhile, single-family construction permits dropped to a two-year low and the state's supply of existing homes continued to accumulate. Active listings grew approximately 30.0% over August numbers, while prices sank 11.3% YOY.

By December, homes were remaining on the market longer due to slowing sales; the average home stayed on the market 52 days, a significant increase from 29 days as recently as March 2022.

Rising mortgage rates, which hit 6.4% in December, most negatively affected the higher-end home market. Sales shrank more than 20.0% quarter-over-quarter for homes worth \$750,000 or more.

By the end of 2022, single-family housing starts had plunged 33.5% YOY, resulting in the total value of such housing starts dropping from \$44.5 billion in 2021 to \$38.4 billion, while total housing sales shrunk 29.3% YOY.

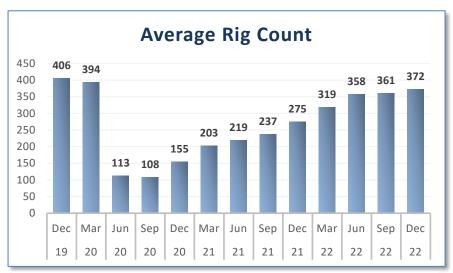
OIL AND GAS

Activity in the oil and gas sector (O&G) continued at a healthy pace in the third quarter, according to executives responding to the FRB Dallas Energy Survey. The business activity index—the survey's broadest measure of conditions facing energy firms—remained positive but fell to 30.3 in the fourth quarter from 46.0 in the third. This suggests the pace of expansion decelerated but remained solid as the business activity index stayed above the series average. O&G production increased at a similar pace compared with the second quarter, according to executives at exploration and production (E&P) firms. The oil production index declined to 25.8 from 31.7 in the third quarter. Likewise, the natural gas production index moved down, to 29.4 from 35.6.

The December price per barrel for WTI dipped to \$78.65 from the quarter's high of \$86.20 per barrel reached on October 2, slowing the annual price acceleration by 10.8% YOY. Texas' crude oil production decreased slightly to 4.8 million barrels per day during the fourth quarter of 2022. Input costs continued to increase throughout the year, with indexes near historical highs.

By September, recovery among the state's energy jobs slowed as deteriorating global conditions continued to lower industry expectations. Oil field services and E&P industries saw cost increases for eight straight quarters.

The energy industry stabilized somewhat toward the end of 2022. The business activity index remained in positive territory despite falling to 30.3 in the fourth quarter from 46.0 in the third. Oil and natural gas production increased at a slightly slower pace compared with the prior quarter, according to E&P firms. The oil production index declined to 25.8 in the fourth quarter from 31.7 in the third.



Source: Baker Hughes

While the average rig count began quarter three with 364 rigs, it dipped to 361 in September, and jumped back up to 372 in November, the same number with which the state ended December.

AGRIBUSINESS

2022 was extremely rough for the state's \$24.9 billion agriculture industry: The year was the driest in the past 128 years and the ongoing drought is the worst since 2011, which the Comptroller's Office estimated to have cost the Texas economy nearly \$7.62 billion in direct agricultural losses and nearly \$17.0 billion in total losses.

Although all 254 Texas counties ended 2022 under either U.S. Department of Agriculture or state disaster designations or both, affecting 6.4 million Texans, the Panhandle was the most severely impacted. The region accounts for 66.0% of the state's total cotton yield and more than a third of the nation's total crop. As a result, the state was projected to lose as much as \$2.1 billion in 2022 economic activity.

The drought also affected beef and veal supply chains. Cattle producers had to cull herds with grain feed, water, and grass for grazing all in low supply. While it is too early to project losses from the current drought, the Texas A&M AgriLife Extension Service reports that the drought of 2011 is estimated to have cost Texas livestock producers \$3.2 billion, to put potential 2022 losses into some context.

On the financing side, demand for agricultural loans in quarter three declined for the third consecutive quarter. Loan renewals or extensions fell for the seventh quarter in a row, while the rate of loan repayment managed to increase slightly. Loan volume, however, decreased for all categories compared with a year ago.

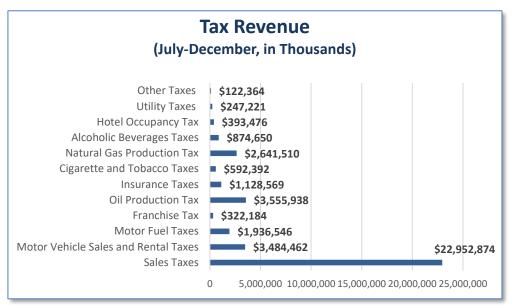
By the end of quarter four, bankers responding to the FRB Dallas agriculture survey reported overall improved conditions across most regions due to recent rains and improved moisture. However, demand for agricultural loans decreased for the fourth straight quarter, with the loan demand index dropping to its lowest level recorded.

TAX REVENUE

Overall tax revenue for December totaled \$5.9 billion, led by sales tax revenue of \$3.9 billion. Total sales tax revenue for quarter four was up 11.2% compared with the same period a year ago and remained the largest source of state funding for the state budget, accounting for 56.0% of all tax collections. Revenue from the state's major tax categories ended 2022 totaling \$38.2 billion, up over the \$33.4 billion collected in 2021.

The majority of July sales tax revenue was based on sales made in June and remitted to the state in July.

The sharpest increase over 2021 registered from oil (\$694 million, up 84.0% YOY) and gas (\$532 million, up 185.0% YOY) mining taxes, with receipts from the construction, manufacturing, and wholesale trade sectors also up double digits for the eighth straight month.



Source: Texas Comptroller of Public Accounts

SUPERVISORY CONCERNS

Several factors can affect and challenge the banking and thrift industries at any point in time. The Texas Department of Banking and Department of Savings and Mortgage Lending monitor a variety of areas giving each department the ability to proactively provide guidance to regulated entities or to implement other supervisory action as warranted.

Below are a few of the issues both departments, as well as state-chartered banks and thrifts, are following:

Transition to CECL

Current Expected Credit Loss (CECL) is the new accounting standard under GAAP changing how financial institutions account for credit losses in their allowance for loan and lease losses (ALLL). Security and Exchange Commission (SEC) filers were required to implement the CECL guidelines effective January 2020, while all other entities, both public and private, were required to implement effective January 2023.

CECL not only affects how financial institutions calculate loss reserves, but also how ALLL is managed, as well as the processes for both finance and risk management. The changes required by the new accounting standard can require a much deeper level of analysis, modeling, and reporting. One significant change is the move from an incurred loss framework to an expected credit loss framework.

Additionally, current rules require an allowance for credit losses only expected to incur in the next 12 months. CECL, however, removes the probable loss threshold, requiring a life credit loss allowance to be established, and requiring credit loss forecasting. New modeling for purchased credits and assets held for sale is also required. Increased transparency in application assumptions and disclosures with allowance estimates are now required; disclosure levels increased greatly due to CECL.

Impact of Interest Rates, Inflation on Financial Industry

Before the Federal Reserve begins to lower interest rates, prominent economists anticipate a recession in early 2023. Consumption Expenditure inflation is anticipated to drop to 3.4% in 2023 and 2.3% in 2024. The Federal Reserve's plan to hold inflation at 2.0% was complicated by the pandemic, as well as the 25.0% money supply growth in public stimulus dollars. The strong labor market demand is the primary

reason a recession has been prevented thus far, and why the anticipated recession predicted in 2023 will be mild and brief.

Issues Surrounding the Consumer Financial Protection Bureau

While regulators continue to monitor overdraft practices, and numerous bills have been introduced over the years limiting the number of fees and the types of transactions that can be charged, it is not anticipated Congress will pass overdraft legislation in 2023, as bankers and customers alike find value in overdraft/NSF services. Many banks however have taken the opportunity to revise their programs, such as limiting yearly overdraft charges to six, providing grace periods before fees are assessed, and increasing the amount by which an account can be overdrawn before a fee is charged.

Increasing Oversight from Regulators Regarding Bank M&As

In 2021, President Joe Biden issued an executive order calling on the heads of the federal banking regulatory agencies to update the oversight of and merger & acquisition (M&A) guidelines under the Bank Merger Act and Bank Holding Company Act. M&A deals have become more challenging in recent months as regulators are scrutinizing such actions to a greater degree. Of the M&A deals involving the 20 largest banks over the last decade, more than a fourth went unconsummated in 2022.

SEC Seeking Increased Climate Disclosure

The SEC is proposing a new rule that extends the disclosure requirements of publicly traded companies on climate risk. The SEC's approximately 500-page proposal would ask publicly traded companies to disclose climate related information, such as carbon emissions. The proposal has received criticism from large banks, which are asking the agency to narrow the proposal's scope and allow bank regulator oversight rather than the SEC.

Regarding climate change regulations, regulators' primary focus has been guiding large banks. However, community banks are being advised to remain cognizant of changes in the upcoming year. Once more formal guidance is established with the larger banks, regulators may shift their focus on climate risks of mid-size and small banks.

DEPARTMENTAL SUPERVISORY MEASURES BEING TAKEN

TEXAS DEPARTMENT OF BANKING

- Assess risks posed by inflation and the rapid rise in interest rates and their impact to banks' balance sheet and profitability;
- 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 potential disruptive cyberattacks and other implications stemming from geopolitical tension around the globe;
- 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 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;
- Monitor risks to bank liquidity as stimulus wanes following government intervention during the COVID-19 pandemic;
- ❖ Monitor the industry's transition to the CECL methodology;
- 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 state and 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

Texas state-chartered bank metrics remain favorable. For the year ending 2022, state-chartered banks reported continued loan growth, growing net interest income, and favorable asset quality. These banks remain well-capitalized and highly liquid. The ALLL remains stable at 1.2%, while noncurrent assets plus other real estate owned stands at 0.2%. As of year-end, state-chartered banks remain well-capitalized with average leverage capital of 9.8%, and 63 BP increase from 2021. Dividends remained virtually the same from the prior year.

There were 214 Texas state-chartered banks as of December 31, 2022, remaining the same as year-end 2021. Over the same period, total assets of state-chartered banks increased 0.7% to \$426.6 billion.

As the economy regained momentum post-COVID, state-chartered banks reported increased net income YOY by 8.3%. State-chartered banks reported a return on assets (ROA) of 1.4% in 2022 compared to 1.3% in 2021. Similarly, NIM increased 44 BP due to an increasing yield on earning assets. Overall, 72.0% of state-chartered banks reflect earnings gains over the prior year. Conversely, 2.3% of the banks ended the year unprofitable, which is a slight improvement from 3.8% last year.

The ALLL remained virtually the same from the previous year due to concerns over potential asset quality issues. These issues continue to create some uneasiness due to downside risks associated from inflation and rising market interest rates. In turn, this could hurt bank profitability, weaken credit quality, and limit loan and deposit growth. State-chartered banks appear to have adequate reserves to absorb potential losses.

Net charge-offs increased only one BP to 0.05% during the last 12 months. This compares favorably to the nationwide average of 0.2%.

State banks faced challenges with unrealized losses on securities in their portfolio as the value of accumulated investments eroded because of the interest rate increases that accelerated in the second half of 2022. While unrealized losses reported for year-end December 2022, improved slightly from the previous quarters, they remain elevated in some institutions supervised by the Department of Banking or Savings and Mortgage Lending. Both departments are monitoring these risks as the Federal Reserve continues to raise rates in an effort to fight inflation that has reached a 40-year high. Furthermore, competition for deposits will increase as noted previously in this report.

The financial results to date are in line with economic comments throughout this report that indicate the Texas banking system in general is sound, and despite some inflationary hardships, our state-chartered banks and the Texas economy continues to perform with remarkable strength.

As of December 31, 2022, 96.7% of state banks were rated a Composite Rating of 1 or 2. The Department considers any institution with a Uniform Financial Institution Composite Rating of a 3, 4, or 5 as a problem institution.

STATE-CHARTERED THRIFTS

As of December 31, 2022, state thrifts had \$3.6 billion in net income year-to-date, a \$573.3 million increase from the December 31, 2021, total of \$3.0 billion, with the largest institution's net income being \$3.1 billion. The pretax ROA remains strong at 1.05%, a 32 BP increase from the prior year's total of 0.7%. As of December 31, 2022, non-interest income to assets remained the same as the prior year,

totaling 0.04%; however, non-interest expense to assets, totaled 0.5% as of December 31, 2022, a 6 BP increase from the December 31, 2021, total of 0.53%.

The Texas thrift ratio of nonperforming loans plus other real estate owned to total assets increased one BP to 0.04% as of December 31, 2022, and remains minimal. Provisions for credit losses totaled \$83.8 million year-to-date as of December 31, 2022, an \$82.6 million increase compared to December 31, 2021.

The total risk-based capital ratio for the industry totaled 26.4% as of December 31, 2022, a 75 BP increase compared to 25.7% as of December 31, 2021. Total capital levels remained consistent compared to December 31, 2021, totaling \$32.1 billion as of December 31, 2022. Funds contributed to banks decreased by \$6.5 billion, totaling \$2.3 billion as of December 31, 2022. Three state savings banks elected to adopt the Community Bank Leverage Ratio in the fourth quarter of 2022, and therefore do not report any capital ratios besides the leverage ratio.

As of December 31, 2022, 95.2% of the thrifts continued to be a Composite Rating of 1 or 2. The Department considers any institution with a Uniform Financial Institution Composite Rating of a 3, 4, or 5 as a problem institution.

NUMBER OF **I**NSTITUTIONS AND **T**OTAL **A**SSETS

FDIC financial data is reflective of FDIC insured institutions only.

Assets in Billions

	12-31-2022		12-31	-2021	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	214	\$426.6	214	\$423.5	0	+\$3.1
Texas State-Chartered Thrifts	<u>22</u> 236	<u>\$412.7</u> \$839.3	<u>24</u> 238	<u>\$484.5</u> \$908.0	<u>-2</u> -2	<u>-\$71.8</u> -\$68.7
Other states' state-chartered:						
Banks operating in Texas*	52	\$63.4	48	\$85.3	+4	-\$21.9
Thrifts operating in Texas*	<u>0</u> 52	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u> +4	<u>0</u>
	52	\$63.4	48	\$85.3	+4	-\$21.9
Total State-Chartered Activity	288	\$902.7	286	\$993.3	+2	-\$90.6
National Banks Chartered in Texas	147	\$139.8	157	\$145.5	-10	-\$5.7
Federal Thrifts Chartered in Texas	<u>4</u> 151	<u>\$113.2</u> \$253.0	<u>4</u> 161	<u>\$119.7</u> \$265.2	<u>0</u> -10	<u>-\$6.5</u> -12.2
Other states' federally-chartered:	131	Ψ233.0	101	Ψ203.2	-10	-12.2
Banks operating in Texas*	28	\$702.3	31	\$632.2	-3	+\$70.1
Thrifts operating in Texas*	<u>5</u> 33	<u>\$1.0</u>	<u>5</u> 36	\$1.0	<u>0</u> -3	<u>0</u>
· -	33	\$703.3	36	\$633.2	-3	<u>0</u> +\$70.1
Total Federally-Chartered Activity	184	\$956.3	197	\$898.4	-13	+57.9
Total Banking/Thrift Activity	472	¢4 050 0	402	¢4 004 7	11	±\$22.7
Total Banking/Thrift Activity	472	\$1,859.0	483	\$1,891.7	-11	+\$32.7

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

RATIO ANALYSIS

As of December 31, 2022 FDIC financial data is reflective of FDIC insured institutions only.

	State- Chartered <u>Banks</u> 214	Texas National <u>Banks</u> 147	All Texas <u>Banks</u> 361	State- Chartered <u>Thrifts</u> 22	Texas Federal <u>Thrifts</u> 4	All Texas <u>Thrifts</u> 26
% of Unprofitable Institutions	2.34%	3.40%	2.77%	9.09%	0.00%	7.69%
% of Institutions with Earnings Gains	72.43%	72.79%	72.58%	68.18%	100.00%	73.08%
Yield on Earning Assets	3.70%	3.74%	3.71%	1.85%	4.03%	2.28%
Net Interest Margin	3.24%	3.28%	3.25%	1.64%	3.87%	2.08%
Return on Assets	1.37%	1.39%	1.37%	0.82%	0.19%	0.70%
Return on Equity	13.89%	15.80%	14.32%	18.20%	4.20%	15.38%
Net Charge-offs to Loans	0.05%	0.08%	0.06%	0.02%	0.72%	0.32%
Earnings Coverage of Net Loan C/Os	60	36	52	554	2	18
Loss Allowance to Loans	1.19%	1.31%	1.22%	0.39%	1.83%	1.02%
Loss Allowance to Noncurrent Loans	286.57%	261.04%	279.20%	133.01%	157.68%	151.61%
Noncurrent Assets+OREO to Assets	0.26%	0.33%	0.28%	0.04%	0.43%	0.12%
Net Loans and Leases to Core Deps	74.10%	70.92%	73.27%	14.81%	40.16%	20.35%
Equity Capital to Assets	9.50%	8.47%	9.25%	2.61%	2.97%	2.68%
Core Capital (Leverage) Ratio	9.81%	10.14%	9.89%	7.52%	8.54%	7.73%
Total Risk-Based Capital Ratio	14.33%	15.76%	14.63%	26.83%	18.48%	24.22%

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, 2022 FDIC financial data is reflective of FDIC insured institutions only. Assets in Billions

	< <u>\$1</u> 164	<u>\$1 - \$10</u> 41	<u>>\$10</u> 9
% of Unprofitable Institutions	2.44%	2.44%	NA
% of Institutions with Earnings Gains	73.17%	73.17%	55.56%
Yield on Earning Assets	4.01%	4.03%	3.52%
Net Interest Margin	3.62%	3.51%	3.06%
Return on Assets	1.31%	1.82%	1.22%
Return on Equity	14.38%	18.05%	12.32%
Net Charge-offs to Loans	0.06%	0.04%	0.06%
Earnings Coverage of Net Loan C/Os	45	115	51
Loss Allowance to Loans	1.20%	1.22%	1.18%
Loss Allowance to Noncurrent Loans	415.04%	298.06%	265.98%
Noncurrent Assets+OREO to Assets	0.19%	0.29%	0.27%
Net Loans and Leases to Core Deps	72.03%	79.51%	72.71%
Equity Capital to Assets	8.67%	9.72%	9.58%
Core Capital (Leverage) Ratio	10.87%	10.64%	9.30%
Total Risk-Based Capital Ratio	17.34%	16.38%	13.38%

RATIO ANALYSIS BY ASSET GROUPS FOR STATE-CHARTERED THRIFTS

As of December 31, 2022 FDIC financial data is reflective of FDIC insured institutions only. Assets in Billions

	< <u>\$1</u> 14	<u>\$1 - \$10</u> 5	<u>>\$10</u> 3
% of Unprofitable Institutions	7.14%	20.00%	NA
% of Institutions with Earnings Gains	64.29%	60.00%	100.00%
Yield on Earning Assets	4.37%	6.13%	1.71%
Net Interest Margin	3.88%	5.59%	1.51%
Return on Assets	0.85%	1.47%	0.80%
Return on Equity	9.43%	11.05%	19.06%
Net Charge-offs to Loans	0.04%	0.05%	0.01%
Earnings Coverage of Net Loan C/Os	41	54	1,567
Loss Allowance to Loans	0.90%	1.07%	0.18%
Loss Allowance to Noncurrent Loans	259.58%	88.02%	304.17%
Noncurrent Assets+OREO to Assets	0.27%	0.85%	0.01%
Net Loans and Leases to Core Deps	87.44%	99.17%	11.59%
Equity Capital to Assets	8.97%	14.22%	2.10%
Core Capital (Leverage) Ratio	10.69%	12.73%	7.31%
Total Risk-Based Capital Ratio	17.09%	16.06%	28.21%

COMPARISON REPORT

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

December 31, 2022

	State B	lanks*	State T	hrifts
	End of Period	% of Total Assets	End of Period	% of Total Assets
Number of Institutions	214		22	
Number of Employees (full-time equivalent) (In millions)	43,736		6,130	
Total Assets	\$426,559		\$412,726	
Net Loans and Leases	\$243,627	57.11%	\$54,567	13.22%
Loan Loss Allowance	\$2,931	0.69%	\$213	0.05%
Other Real Estate Owned	\$95	0.00%	\$2	0.00%
Goodwill and Other Intangibles	\$8,797	2.06%	\$485	0.12%
Total Deposits	\$356,330	83.54%	\$382,665	92.72%
Federal Funds Purchased and Repurchase Agreements	\$6,420	1.51%	\$4,402	1.06%
Other Borrowed Funds	\$16,220	3.80%	\$13,431	3.25%
Equity Capital	\$40,529	9.50%	\$10,782	2.61%
Memoranda:				
Noncurrent Loans and Leases	\$1,101	0.26%	\$273	0.07%
Earning Assets	\$391,004	91.66%	\$400,059	96.93%
Long-term Assets (5+ years)	\$133,339	31.26%	\$260,115	63.02%
	Year-to-Date	% of Avg. Assets†	Year-to-Date	% of Avg. Assets†
Total Interest Income	\$14,318	3.40%	\$8,432	1.82%
Total Interest Expense	\$1,784	0.42%	\$950	0.20%
Net Interest Income	\$12,534	2.98%	\$7,482	1.61%
Provision for Loan and Lease Losses	\$378	0.09%	\$84	0.02%
Total Noninterest Income	\$4,074	0.97%	\$303	0.07%
Total Noninterest Expense	\$9,150	2.18%	\$2,775	0.60%
Securities Gains	-\$82	-0.02%	\$6	0.00%
Net Income	\$5,759	1.37%	\$3,815	0.82%
Memoranda:				
Net Loan Charge-offs	\$125	0.00%	\$97	0.00%
Cash Dividends	\$2,595	0.62%	\$6,817	1.47%

^{*}Excludes branches of state-chartered banks of other states doing business in Texas. As of December 31, 2022, there are an estimated 52 out-of-state state-chartered institutions with \$63.4 billion in assets. Assets are based upon the June 30, 2022, 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, 2022.

PERFORMANCE SUMMARY: UNITED STATES BANKING SYSTEM

FDIC QUARTERLY BANKING PROFILE

Fourth Quarter 2022 - <u>www.fdic.gov</u>
All Institutions Performance

Reports from 4,706 commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reflect aggregate net income of \$68.4 billion in fourth quarter 2022, a decrease of \$3.3 billion (4.6 percent) from the third quarter. Lower noninterest income and higher provision expenses offset an increase in net interest income.

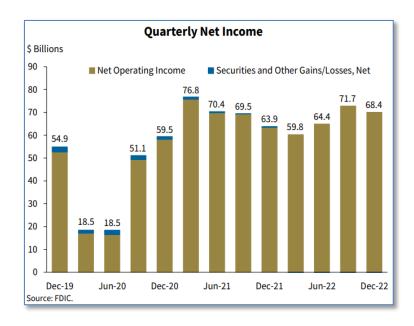
Net Income Lower Than in 2021, but Still Higher than the Pre-Pandemic Average

2022 net income well above the pre–pandemic average but lower than full–year 2021 net income.1 Net income in 2022 was \$263.0 billion, down \$16.1 billion (5.8 percent) from 2021. The decrease was primarily attributable to higher provision expenses that offset an increase in net interest income. The aggregate return–on–assets ratio (ROA) decreased from 1.23 percent in 2021 to 1.12 percent in 2022.

Quarterly Net Income Decreased Quarter Over Quarter but Increased Year Over Year

Quarterly net income totaled \$68.4 billion in fourth quarter 2022, a decrease of \$3.3 billion (4.6 percent) from the third quarter. Lower noninterest income and higher provision expenses more than offset an increase in net interest income. Year—over—year net income grew \$4.5 billion (7.1 percent) from fourth quarter 2021, as growth in net interest income exceeded growth in provision expense.

The banking industry reported an ROA of 1.16 percent in the fourth quarter, down from 1.21 percent in the third quarter but up from 1.09 percent in the year–ago quarter.



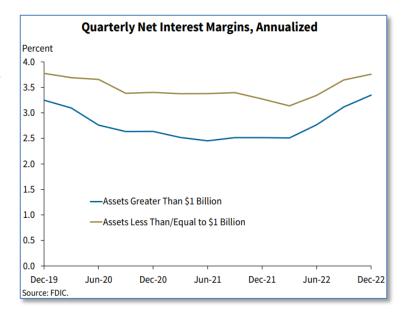
↑ The Net Interest Margin Widened for the Third Consecutive Quarter

The net interest margin (NIM) increased 23 basis points from a quarter ago and 82 basis points from the year–ago quarter to 3.37 percent, above the pre–pandemic average of 3.25 percent. The year–over–year growth in the NIM was the largest reported increase in the history of the QBP.

The average yield on earning assets increased 76 basis points from third quarter 2022 to 4.54 percent due to strong loan growth and higher market interest rates. Average funding costs increased 53 basis points from the prior quarter to 1.17 percent.

Unrealized Losses on Securities Remain Elevated

Unrealized losses on securities totaled \$620.4 billion in the fourth quarter, down 10.1 percent from the prior quarter. Unrealized losses on held—to—maturity securities totaled \$340.9 billion in the fourth quarter. Unrealized losses on available—for—sale securities totaled \$279.5 billion in the fourth quarter.

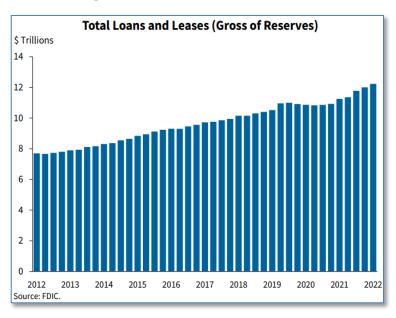


↑ Community Bank Net Income Was Nearly Unchanged From the Prior Company

Unchanged From the Prior Quarter, But Rose From a Year Ago

Community bank quarterly net income for the 4,258 community banks grew by \$33.0 million (0.4 percent) from one quarter ago to \$8.3 billion in fourth quarter 2022. Higher net interest income and lower losses on securities were offset by increases in noninterest expense and provisions for credit losses. Forty—seven percent of community banks reported higher net income from last quarter. Fourth quarter net income increased \$1.1 billion (14.8 percent) from the year—ago quarter as higher net interest income more than offset lower noninterest income and higher noninterest expense. Seventy—one percent of community banks reported higher net income than one year ago. The community bank pretax ROA declined two basis points from one quarter ago to 1.49 percent as asset growth exceeded net income growth.

The average community bank quarterly NIM rose 7 basis points from the prior quarter and 48 basis points from the year—ago quarter to 3.71 percent.



Total loan and lease balances increased \$225.5 billion (1.9 percent) from the previous quarter. The banking industry reported growth in several loan portfolios during the quarter, including consumer loans (up \$69.5 billion, or 3.5 percent) and one—to—four family residential loans (up \$43.8 billion, or 1.8 percent).

Year over year, total loan and lease balances increased \$979.9 billion (8.7 percent), driven by growth in commercial and industrial (C&I) loans (up \$223.3 billion, or 9.7 percent), one—to—four family residential mortgages (up \$220.5 billion, or 9.8 percent), and consumer loans (up \$188.6 billion, or 10 percent). The annual increase in loan balances was the second largest in the history of the QBP, second to the increase last quarter.

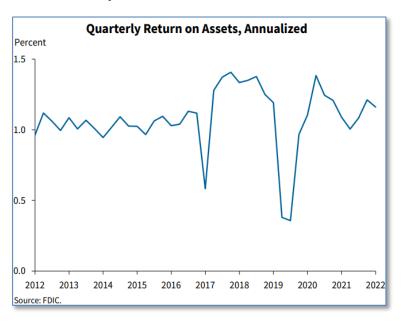
Community banks reported a 3.7 percent

increase in loan balances from the previous quarter and a 14.4 percent increase from the prior year.

Growth in nonfarm, nonresidential commercial real estate and one—to—four family residential mortgage loans drove both the quarterly and annual increase in loan balances.

Asset Quality Metrics Remained Favorable Despite Modest Deterioration

Loans that were 90 days or more past due or on nonaccrual status (i.e., noncurrent loans) increased to 0.73 percent, up one basis point from the prior quarter. Noncurrent credit card and C&I loans drove the increase in the noncurrent rate. Total net charge-offs as a ratio of total loans increased 10 basis points from the prior quarter and 15 basis points from a year prior to 0.36 percent, driven by credit card. C&I. and auto loan losses. Despite the increase, the total net charge off rate remains below the pre-pandemic average of 0.48 percent. Early delinquencies (i.e., loans past due 30-89 days) increased 4 basis points from the prior quarter to 0.56 percent; one-to-four family real estate and auto loans contributed most to this growth. Total early-stage delinquencies also remain below the pre-pandemic average of 0.66 percent.



↑ The Reserve Ratio for the Deposit Insurance Fund Rose One Basis Point to 1.27

The Deposit Insurance Fund (DIF) balance was \$128.2 billion on December 31, 2022, up \$2.8 billion from the end of the third quarter. The reserve ratio increased by one basis point to 1.27 percent as insured deposits increased 1.4 percent.

Merger Activity Continued in the Fourth Quarter

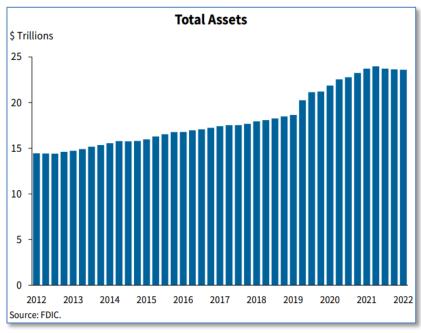
Thirty-six institutions merged, three new banks opened, and no banks failed in fourth quarter 2022.

Noncurrent Loan Rate Increases to 1.08 Percent

The average noncurrent rate increased by 15 basis points from the previous quarter to 1.08%. Noncurrent loan balances (90 days or more past due or in nonaccrual status) totaled \$118.3 billion in the second quarter, an increase of \$15.9 billion (15.5%) from the previous quarter. Less than half (41.6%) of all banks reported quarterly increases in noncurrent loan balances. The increase in noncurrent loan balances was led by 1–4 family residential mortgage loans (up \$7.6 billion, or 19.5%) and C&I loan portfolio (up \$6.1 billion, or 29%). The rise in noncurrent loan balances for 1–4 family residential mortgage loans reflects Ginnie Mae (GNMA) loans, which are guaranteed by the U.S. government, that have been brought back on banks' books. The noncurrent rate for 1–4 family residential mortgage loans increased by 33 basis points to 2.09%, and for C&I the noncurrent rate rose by 18 basis points to 1.01%.

↑ Total Assets Expand 4.4 Percent from the Previous Quarter

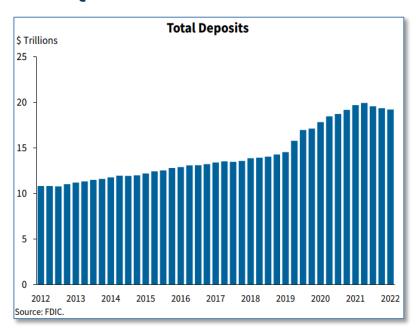
The banking industry reported total assets of \$21.1 trillion in the second quarter, an increase of \$884.6 billion (4.4%) from first quarter 2020. Cash and balances due from depository institutions increased by \$478 billion (19.9%) to \$2.9 trillion or 13.7% of total assets. Banks increased their securities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



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

Total loan and lease balances increased by \$33.9 billion (0.3%) from the previous quarter, led by C&I loan portfolio, which rose by \$146.5 billion (5.8%). The rise in C&I loan portfolio was attributable to the implementation of the Small Business Administration-guaranteed Paycheck Protection Program (PPP), with \$482.2 billion in PPP loans on banks' balance sheets at the end of the quarter. The increase in total loan and lease balances was partially offset by consumer loans, which includes credit cards (down \$67.1 billion, or 3.8%).

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



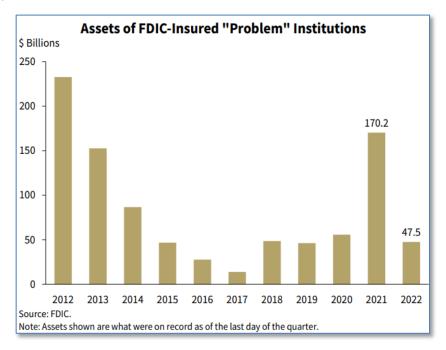
Total deposit balances increased by \$1.2 trillion (7.5%) from the previous quarter. Noninterest-bearing account balances rose by \$637 billion (17.7%) and interest-bearing account balances rose by \$575.3 billion (5.4%). Nondeposit liabilities declined by \$330.9 billion (14%) from the previous quarter.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

1 Equity Capital Rises from the Previous Quarter

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

The number of FDIC-insured commercial banks and savings institutions reporting declined from 5,116 to 5,066 during second quarter 2020. One new bank was added, 47 institutions were absorbed by mergers, and one bank failed. Additionally, three institutions, who did not report this quarter, sold a majority of their assets and are in process of ceasing operations. The number of institutions on the FDIC's "Problem Bank

List" declined from 54 in first quarter 2020 to 52, falling to near historic lows. Total assets of problem banks increased from \$44.5 billion to \$48.1 billion.



SNAPSHOT STOCK PERFORMANCE SOUTHWEST REGIONAL BANKS (MSECTOR415) MARCH 2023

Name	Last	Trade	5. Wk R		PE	EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	03/20	32.89	28.40	41.28	7.93	4.15	285.166M	1.12	3.41%
BancFirst Corporation	03/20	84.63	79.91	118.07	14.67	5.77	2.892B	1.60	1.91%
Bank7 Corp.	03/20	25.00	21.08	30.86	7.86	3.18	230.96M	0.64	2.66%
Business First Bancshares, Inc.	03/20	17.17	16.52	25.49	7.84	2.19	456.889M	0.48	2.81%
BOK Financial Corporation	03/20	88.11	70.21	110.85	11.47	7.68	5.901B	2.16	2.49%
Cadence Bancorporation	03/20	21.44	19.48	31.02	8.79	2.44	4.044B	0.94	4.43%
Cass Information Sys, Inc.	03/20	45.49	31.85	51.48	18.57	2.45	644.857M	1.16	2.48%
Commerce Bancshares, Inc.	03/20	59.33	55.83	75.21	15.69	3.78	7.404B	1.08	1.82%
Cullen Frost Bankers, Inc.	03/20	105.50	101.87	160.60	12.43	8.50	7.045B	3.48	3.21%
Enterprise Fin Serv Corp	03/20	47.87	39.64	56.35	9.26	5.17	1.852B	1.00	2.08%
First Community Corp S C	03/20	19.23	16.97	22.25	10.02	1.92	145.723M	0.56	3.00%
First Financial Bankshares, Inc.	03/20	32.01	27.55	47.26	20.92	1.53	4.867B	0.68	2.10%
First Financial Northwest, Inc.	03/20	13.20	12.44	17.95	9.10	1.45	120.755M	0.52	3.88%
First Guaranty Bancshares, Inc.	03/20	17.21	14.96	29.65	7.02	2.45	186.546M	0.64	3.81%
Great Southern Bancorp, Inc.	03/20	53.24	50.07	64.16	8.84	6.02	695.128M	1.60	3.07%
Guaranty Bancshares, Inc.	03/20	28.26	26.62	37.91	8.46	3.34	349.455M	0.92	3.22%
Heartland Financial USA, Inc.	03/20	38.44	36.25	51.61	8.03	4.79	1.706B	1.20	3.14%
Home Bancorp, Inc.	03/20	32.60	31.86	43.45	7.84	4.16	295.211M	1.00	3.14%
Investar Holding Corp.	03/20	15.50	15.27	23.72	4.43	3.50	153.639M	0.38	2.47%
International Bancshares Corp	03/20	43.04	38.00	53.71	9.00	4.78	2.675B	1.26	2.94%
Landmark Bancorp, Inc.	03/20	21.00	20.49	27.49	11.17	1.88	114.507M	0.84	4.02%
MidWest One Finl Group, Inc.	03/20	24.41	23.80	35.58	6.63	3.68	402.899M	0.97	3.81%
Origin Bancorp, Inc.	03/20	32.93	30.41	47.28	10.04	3.28	1.058B	0.60	1.78%
Prosperity Bancshares, Inc.	03/20	62.14	58.25	78.76	11.28	5.51	5.928B	2.20	3.42%
QCR Holdings, Inc.	03/20	44.29	42.15	62.85	7.55	5.87	745.308M	0.24	0.55%
Simmons First National Corp.	03/20	18.27	16.95	28.60	9.47	1.93	2.323B	0.80	4.15%
Solera National Bancorp, Inc.	03/20	10.80	9.35	12.12	N/A	-1.17	30.869M	N/A	N/A
Southside Bancshares, Inc.	03/20	34.27	31.18	42.12	10.81	3.17	1.076B	1.40	4.11%
Stellar Bancorp, Inc.	03/20	26.25	23.41	36.09	18.75	1.40	1.391B	0.52	1.98%
Texas Capital Bancshares, Inc.	03/20	53.59	45.81	69.27	8.93	6.01	2.781B	N/A	N/A
Third Coast Bancshares, Inc.	03/20	16.50	14.00	26.75	22.60	0.73	224.672M	N/A	N/A
Two Rivers Fin Group	03/20	40.00	35.75	43.50	13.16	3.04	89.345M	3.04	1.64%
Triumph Financial, Inc*	03/20	56.64	45.08		14.23	3.98	1.396B	N/A	N/A
UMB Financial Corporation	03/20	61.10	51.28	102.95	7.62	8.01	3.318B	1.52	2.36%
Veritex Holdings, Inc.	03/20	18.70	16.86	41.37	6.90	2.71	1.045B	0.80	4.23%
West Bancorp Incorporated	03/20	19.00	17.58	28.55	6.69	2.84	316.168M	1.00	5.53%

^{*}Formerly known as Triumph Bancorp, Inc.

Note: Four banks were removed and four added due to merger or acquisition.

Source: Yahoo Finance (March 2023)

N/A: Indicates information was not available.

SNAPSHOT STOCK PERFORMANCE SOUTHWEST REGIONAL BANKS (MSECTOR415) MARCH 2022

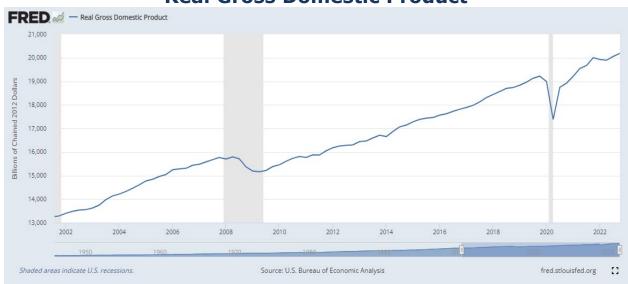
Name	Last	Trade	52 Wk R		PE	EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	03/11	32.80	27.00	35.00	10.28	3.19	284.678M	1.04	3.17%
Allegiance Bancshares, Inc.	03/11	44.54	34.30	45.94	11.11	4.01	907.182M	0.56	1.28%
BancFirst Corporation	03/11	78.04	53.77	79.49	79.49	5.03	2.546B	1.44	1.88%
Bank7 Corp.	03/11	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)

N/A – Indicates information was not available.

NATIONAL ECONOMIC TRENDS

Real Gross Domestic Product

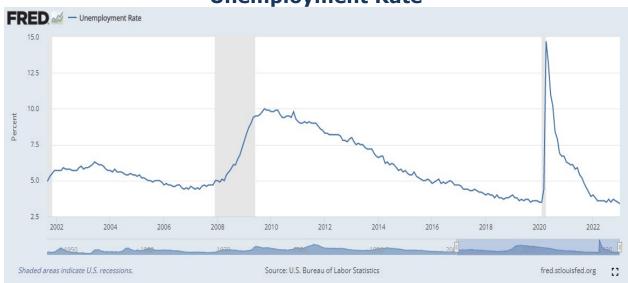


Consumer Price Index

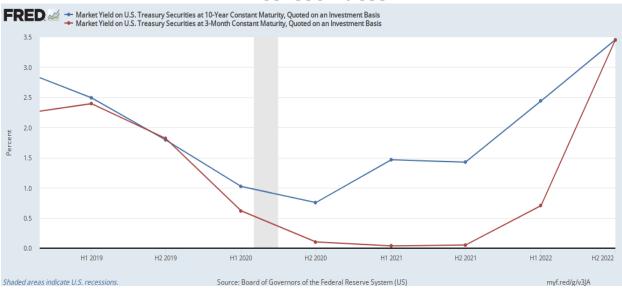


Source: Federal Reserve Bank of St. Louis, National Economic Trends, March 2023.





Interest Rates



Source: Federal Reserve Bank of St. Louis, National Economic Trends, March 2023

ECONOMIC REPORTS AND FORECASTS: UNITED STATES

FEDERAL RESERVE BANK, DALLAS NATIONAL UPDATE

February 2023 - www.dallasfed.org 1

Job vacancy, unemployment relationship clouds 'soft landing' prospects

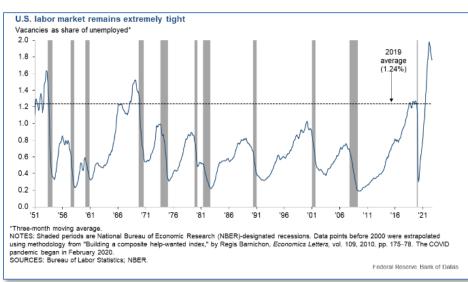
The Federal Reserve has significantly tightened monetary policy over the past year, raising concerns that a higher unemployment rate will follow. Some economists have argued that because the job vacancy rate has been well above its prepandemic level, there is plenty of room for vacancies to fall before the unemployment rate must rise. This would allow the Fed to achieve a soft landing and avoid a recession.

We argue that a soft landing is possible but less likely than previous studies have suggested. The theoretical arguments supporting a soft landing have relied on a set of common model parameters that is inconsistent with recent empirical estimates in the academic literature.

State of the labor market

The labor market has been extremely tight. One common measure of labor market tightness is the ratio of vacancies to the number of unemployed workers. This measure peaked at around two vacancies for every unemployed worker in spring 2022. The ratio has since receded but remains well above 1.24 vacancies per unemployed worker observed in 2019, the year before the pandemic—at the time regarded as relatively elevated.

Elevated labor market tightness is of central concern to policymakers because it is indicative of an overheated economy and causes rapid nominal wage increases. Average hourly earnings rose about 5% in 2022, compared with around 3% in 2019. Unless accompanied by faster productivity growth, recent wage gains are likely to lead to higher prices, slowing a return to the Fed's 2% annual inflation target. Throughout 2022, the 12month PCE inflation rate exceeded 5.5%.



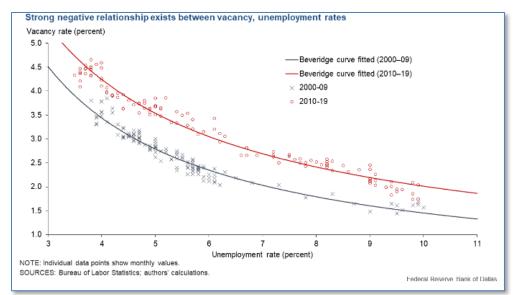
Source: Federal Reserve Bank of Dallas

For nominal wage growth to slow to a more sustainable pace, labor market tightness must decline. This can happen through two channels: an increase in the unemployment rate (unemployed as share of the

¹ Alexander W. Richter and Nathaniel Throckmorton

labor force), a decrease in the vacancy rate (vacancies as a share of the labor force) or a combination of the two.

The Beveridge curve captures the relationship between vacancy and unemployment rates. As the vacancy rate falls, the unemployment rate rises—but less so if the vacancy rate is high. The outward shift



Source: Federal Reserve Bank of Dallas

of the Beveridge curve from the 2000s to the 2010s is due to a decline in hiring efficiency; each vacancy rate was associated with a higher unemployment rate.

During the 2000–09 and 2010–19 periods, the vacancy rate never exceeded 5%, well below the 2022 peak of 7.2%. This raises the possibility that the historical trade-off between vacancy and unemployment rates may not be a good predictor of the future.

A closer look at the Beveridge curve matching function

While there is no historical precedent to guide expectations for how the labor market might evolve, economic theory provides insight. Consider a model of the Beveridge curve commonly used in the academic literature and the subject of a recent Feds Note article by Andrew Figura and Fed Governor Chris Waller ("What does the Beveridge curve tell us about the likelihood of a soft landing?")

The model features three equations. The first says that workers are more likely to find jobs if there is higher rate of hiring or fewer workers competing for jobs (a lower unemployment rate). The second equation says the unemployment rate rises if layoffs increase and decreases if workers find work more easily.

The third equation is the matching function, which determines the number of hires. It states that hires increase with vacancies and unemployment but at a decreasing rate. The matching function contains three key parameters:

- Matching efficiency, which determines the number of hires for a given number of vacancies and unemployed workers. Changes in search or recruiting intensity are ways matching efficiency could change. Through the lens of this standard model, the rightward shift in the Beveridge curve in Chart 1 would correspond to declining matching efficiency.
- Matching elasticity (ε), which determines how the hiring rate changes when the number of vacancies changes. A high matching elasticity means that a small change in vacancies leads to a large change in hires, and hence a larger change in unemployment.
- Elasticity of substitution between vacancies and unemployed workers (σ), which can take on three possible values:
 - Unitary elasticity—a one-for-one relationship between the log of vacancies and unemployed workers—known as a Cobb-Douglas matching function.
 - An elasticity below 1—vacancies and unemployment are gross complements.
 - An elasticity above 1—vacancies and unemployment are gross substitutes.

The matching and substitution elasticities have important implications for the curvature of the Beveridge curve.

The Cobb-Douglas assumption—unitary elasticity—is the most common in the academic literature and the one used in the Feds Note article.

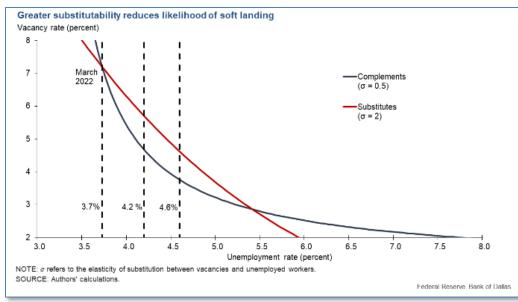
The gross complements assumption is an alternative sometimes appearing in the academic literature and the one used in a recent FRB San Francisco Economic Letter ("Finding a soft landing along the Beveridge curve").

The last specification—gross substitutes—is supported by a recent empirical article by Fabian Lange and Theodore Papageorgiou ("Beyond Cobb-Douglas: flexibly estimating matching functions with unobserved matching efficiency"). This study provides the most careful and comprehensive estimates of the matching function.

Most studies use data on hires, vacancies and unemployment to estimate a log-linear version of the matching function, allowing regression analysis under the Cobb-Douglas specification. This approach prevents estimates of the degree of substitutability between vacancies and unemployment and has led to a wide range of estimates for the matching elasticity. Lange and Papageorgiou advance the literature regarding estimates of matching function parameters in two important ways. First, the authors relax the common assumption that the matching function is Cobb-Douglas. Second, they allow for multiple types of job seekers and incorporate rich measures of search effort and recruiting intensity to account for possible endogeneity—the possibility that a correlation between variables includes the effects of other factors.

Insights from theory

Chart 3 shows the theoretical Beveridge curve for the cases of gross substitutes (red line) and gross complements (black line), which affect how much the unemployment rate is predicted to rise for a given decrease in the vacancy rate. The matching elasticity (hiring rate changes relative to vacancies rate changes), ε , is set to 0.3, consistent with Lange's and Papageorgiou's estimates.



Source: Federal Reserve Bank of Dallas

Suppose the vacancy and unemployment rates are initially equal to their March 2022 values, 7.2 and 3.7%, respectively, and the vacancy rate subsequently decreases to its 2019 average of 4.5%. If vacancies and unemployment are gross complements, then the unemployment rate increases by only 0.5 percentage points to 4.2%.

However, if vacancies and

unemployment are gross substitutes, then unemployment increases by almost a full percentage point from the March 2022 level to 4.6%, above what many people would consider a soft landing. This emphasizes that a soft landing is possible under complementarity but less so under substitutability.

Parameterization	Complements (g=0.5)	Substitutes (g=2)
ε=0.30, Δs=0	0.5	0.9
ε=0.50, Δs=0	1.0	2.0
ε=0.30, Δs=0.25	2.0	2.5
ε=0.50, Δs=0.25	3.2	4.1
ε=0.30, Δs=0.5	3.8	4.0
ε=0.50, Δs=0.5	6.4	6.3

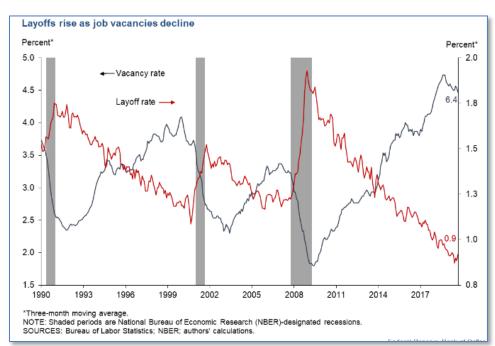
NOTE: Shown is the unemployment rate change (in percentage points) following a reduction of the vacancy rate from 7.2 percent to 4.5 percent. ϵ is the hiring elasticity. Δs is the change in the layoff rate. σ refers to the elasticity of substitution between vacancies and unemployed workers. SOURCE: Authors' calculations.

Source: Federal Reserve Bank of Dallas

Of course, the change in the unemployment rate depends on the matching elasticity, which is also highly uncertain. Table 1 shows the change in the unemployment rate implied by a decline in the vacancy rate (similar to what is illustrated in Chart 3) for several parameterizations. We consider two values for the matching elasticity, ϵ = 0.3 and ϵ = 0.5. The former value is supported by Lange and Papageorgiou, while the latter specification is the most common value in the academic literature.

A soft landing, with the unemployment rate increasing 0.5 percentage points or less, only occurs if the matching elasticity (ε) is small, and vacancies and unemployment are gross complements. It also requires that the layoff rate does not increase. Historically, there is a negative relationship between vacancy and layoff rates.

If the layoff rate increases by at least 0.25 percentage points—consistent with past data—then the unemployment rate rises by at least 2 percentage points. If vacancies and unemployment are also gross substitutes, consistent



Source: Federal Reserve Bank of Dallas

with Lange and Papageorgiou, the unemployment rate rises by at least 2.5 percentage points.

Changing prospects for a soft landing

Our results suggest that a soft landing is less likely than previous articles have indicated because gross substitutability between vacancies and unemployment makes the Beveridge curve flatter—a larger change in the unemployment rate for a given change in the vacancy rate.

However, changes in matching efficiency could complicate what is observed over the next year. During the pandemic, matching efficiency likely fell due the reallocation of workers across industries.

If matching efficiency returns to its prepandemic level, it would shift the Beveridge curve left and lead to a smaller increase in the unemployment rate than Table 1 shows. In this case, reductions in demand that shift the economy along the Beveridge curve are offset by improvements in matching efficiency.

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

Data Series	July 2022	Aug 2022	Sept 2022	Oct 2022	Nov 2022	Dec 2022
Unemployment Rate (1)	3.5	3.7	3.5	3.7	3.6	3.5
Change in Payroll Employment (2)	⁽³⁾ 251	352	350	324	290	(P) 260
Average Hourly Earnings (4)	28.52	32.43	32.53	32.66	32.80	(P) 32.93
Consumer Price Index (5)	0.1	0.2	0.4	0.5	0.2	0.1
Producer Price Index (6)	-0.5	0.0	0.3	(P) 0.3	(P) 0.3	(P) -0.2
U.S. Import Price Index (7)	-0.7	-1.2	-1.0	(R) -0.3	(R) -0.8	(R) -0.1

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 2021	1st Qtr 2022	2nd Qtr 2022	3rd Qtr 2022	4th Qtr 2022
Employment Cost Index (1)	1.0	1.4	1.3	1.2	1.0
Productivity (2)	4.4	-5.9	-4.1	^(R) 1.4	3.0

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 1, 2023

THE FEDERAL RESERVE BOARD THE BEIGE BOOK — MARCH 8, 2023, EXCERPT

Overall Economic Activity

Overall economic activity increased slightly in early 2023. Six Districts reported little or no change in economic activity since the last report, while six indicated economic activity expanded at a modest pace. On balance, supply chain disruptions continued to ease. Consumer spending generally held steady, though a few Districts reported moderate to strong growth in retail sales during what is typically a slow period. Auto sales were little changed, on balance, though inventory levels continued to improve. Several Districts indicated that high inflation and higher interest rates continued to reduce consumers' discretionary income and purchasing power, and some concern was expressed about rising credit card debt. Travel and tourism activity remained fairly strong in most Districts. Manufacturing activity stabilized following a period of contraction. While housing markets remained subdued, restrained by exceptionally low inventory, an unexpected uptick in activity beyond the seasonal norm was seen in some Districts along the eastern seaboard. Commercial real estate activity was steady, with some growth in the industrial market but ongoing weakness in the office market. Demand for nonfinancial services was steady overall but picked up in a few Districts. On balance, loan demand declined, credit standards tightened, and delinquency rates edged up. Energy activity was flat to down slightly, and agricultural conditions were mixed. Amid heightened uncertainty, contacts did not expect economic conditions to improve much in the months ahead.

Highlight of Dallas Federal Reserve

The Eleventh District economy continued to expand modestly. Manufacturing output and demand declined, but growth picked up slightly in the service sector. Retail sales fell again, and energy activity eased slightly. Rising interest rates further weakened loan demand. Agricultural conditions and housing market activity improved. Local nonprofits cited higher demand for assistance. Overall payrolls rose moderately, though job growth stalled out in manufacturing. Wage and cost pressures were little changed and generally remained above average. Outlooks were mostly negative, and uncertainty remained high, with contacts voicing concern about weakening demand, inflation, and high interest rates.

ECONOMIC REPORTS AND FORECASTS: STATE OF TEXAS

FEDERAL RESERVE BANK, DALLAS

February 2023 - www.dallasfed.org 1

TEXAS MODESTLY GROWS WITH SOFT LANDING LIKELY

Texas firms reported below-average output growth to start 2023, while employment and wage gains remained elevated despite indications of a softening labor market.

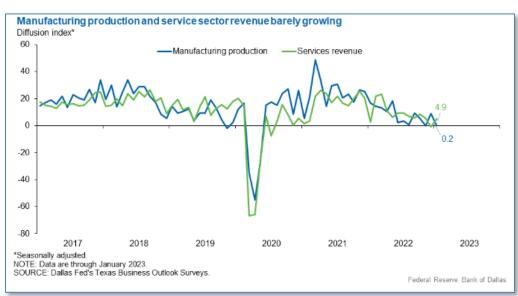
Price and wage inflation are expected to slow this year but remain above historical averages. Given the current economic headwinds, employment growth is expected to slow across the state in 2023, although Texas will likely avoid going into recession this year.

Business output barely expanding

Coming into the new year, services and manufacturing were both barely in expansionary territory. The Dallas Fed's Texas Business Outlook Surveys (TBOS) manufacturing production index—calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase—has been near 0 since mid-2022. This suggests overall weak growth but not outright contraction.

The manufacturing new orders index posted an eighth consecutive negative reading in January, but advanced from -11.0 to -4.0, indicating the pace at which new orders declined has eased.

The services revenue index trended down throughout 2022, falling to zero at year-end before picking up slightly in January. Most services industries noted weakening revenues, with contacts citing high inflation and rising interest rates.

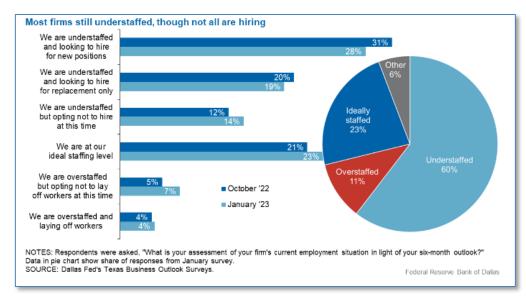


Source: Federal Reserve Bank of Dallas

¹ Ana Pranger and Emily Kerr

Tentative signs of labor market cooling emerge

The TBOS employment indexes remain elevated—advancing in January—despite slower-than-normal growth in services and manufacturing, a product of worker shortages and a stilltight labor market. Firms are still hiring to backfill open positions and remain hesitant to let go of workers because of difficulties recruiting candidates. Nevertheless, the share of firms looking to hire



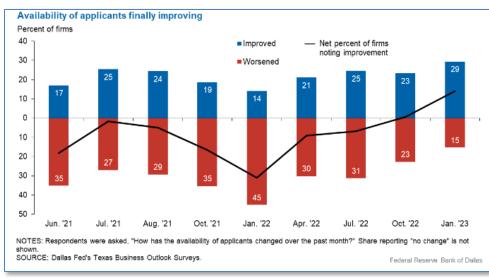
Source: Federal Reserve Bank of Dallas

Still, a majority of firms

fell to 50% in January from 68% a year prior.

remain understaffed, though an increasing share are opting not to hire at this time.

There was also an uptick in the share of firms reporting they are overstaffed but not laying off, indicative of labor hoarding. "We are likely overstaffed by about 15 percent right now but are not willing to lay off or



Source: Federal Reserve Bank of Dallas

cut hours, as we're unsure if things will pick up," a manufacturing contact reported.

A lack of applicants remains a primary impediment to hiring. But when asked how the availability of job seekers has changed over the past month, more firms noted an improvement rather than a worsening for the first time since this question was added to the survey in June 2021.

A retailer noted, "Hiring was more difficult a few months ago, but it seems

to have eased a bit." A contact in health care said, "The employment pool has improved in both quantity and quality of applicants; the phenomenon of 'ghosting' [abruptly terminating contact with] the employer ... has been reduced."

Slower wage growth expected in 2023

Firms normally do not raise wages frequently—three-quarters of TBOS respondents typically report no wage change in any given month. Amid surging wage pressure in 2022, the share of firms increasing wages month to month reached 40%.

While still elevated, wage growth has trended lower since mid-2022. "We provided significant (10% or more) raises in December after a mid-year raise in July 2022," a manufacturing contact said. "We felt that this was essential in order to keep our employees, and we have successfully retained everyone we wanted to keep. We hope not to need to do another round of raises mid-year."

TBOS firms reported lower expected wage growth in 2023 than in 2022, the December special questions indicated. Overall, TBOS firms on average expect 5.6% wage growth in 2023, down from 7.6% recorded in 2022. Even with the anticipated deceleration, wage growth is projected to remain elevated. One technology services contact said, "Wage demands are higher than ever," while an apartment management firm noted that "workers are holding us hostage for higher wages."

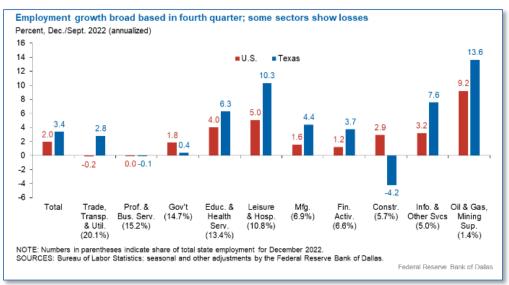
Texas employment growth to slow in 2023

Texas employment grew 3.4% in the fourth quarter 2022, though job gains may be revised downward following benchmarking, which adjusts payroll survey data to better quantify actual job growth. Data for the first half of 2022 were sharply lowered following such a revision.

Employment growth was led by increases in information services, energy, health care, leisure and hospitality, and trade, transportation and utilities. Job losses occurred in professional and business

services, and construction.

Texas outpaced the nation in job growth in 2022, even after the benchmark revisions, which also reduced employment numbers nationwide. Those revisions, which will be folded into the Bureau of Labor Statistics' state payroll employment data in March, were historically large and indicate a cooler labor market than initially suggested (national benchmark revisions, in contrast, are not



Source: Federal Reserve Bank of Dallas

incorporated into official data until January 2024).

With slower momentum heading into 2023, lower oil prices and declines in both the U.S. and Texas leading indexes, the Dallas Fed's Texas employment forecast for 2023 December-over-December job growth is 1.4 percent, with an 80 percent confidence interval of 0.7% to 2.2%.

This would mean growth below the state's 2% long-term trend, but not a recession. Risks are weighted to the downside, with Texas businesses voicing concern over weakening demand, labor market tightness, inflation and rising interest rates.

TEXAS ECONOMIC STATISTICS U.S. BUREAU OF LABOR STATISTICS

Data Series	July 2022	Aug 2022	Sept 2022	Oct 2022	Nov 2022	Dec 2022
Labor Force Data						
Civilian Labor Force (1)	^(R) 14,686.7	^(R) 14,679.0	^(R) 14,696.2	^(R) 14,708.5	(R) 14,708.0	(R) 14,706.5
Employment (1)	^(R) 14,134.7	^(R) 14,133.6	^(R) 14,135.4	^(R) 14,140.7	(R) 14,143.4	^(R) 14,145.6
Unemployment (1)	^(R) 552.0	^(R) 545.5	^(R) 560.8	^(R) 567.8	^(R) 564.6	^(R) 560.9
Unemployment Rate (2)	^(R) 3.8	(<u>R</u>) 3.7	® 3.8	® 3.9	® 3.8	^(R) 3.8
Nonfarm Wage and Salary Employme	ent					
Total Nonfarm ⁽³⁾	13,513.7	13,531.8	13,580.5	13,639.3	13,676.0	^(P) 13,705.5
12-month % change	5.8	5.7	5.7	5.4	5.1	© 5.0
Mining and Logging ⁽³⁾	217.4	219.3	221.4	224.7	228.0	^(P) 230.1
12-month % change	19.6	21.2	22.4	22.9	22.4	^(P) 21.2
Construction (3)	786.2	785.9	782.9	780.3	773.9	(<u>P)</u> 774.6
12-month % change	6.8	6.8	5.8	5.1	3.6	^(P) 2.4
Manufacturing ⁽³⁾	925.8	925.9	927.9	930.4	934.2	(<u>P)</u> 939.7
12-month % change	5.9	5.6	5.8	5.7	5.4	(<u>P</u>) 5.5
Trade, Transportation, and Utilities (3)	2,704.8	2,701.3	2,711.2	2,718.0	2,719.4	^(P) 2,721.9
12-month % change	5.0	4.6	4.4	3.9	3.5	© 3.6
Information (3)	235.6	234.8	236.0	236.7	238.6	^(P) 240.8
12-month % change	12.6	11.3	11.0	11.1	11.3	<u>©</u> 11.8
Financial Activities (3)	898.9	902.2	906.7	907.0	909.4	^(P) 915.7
12-month % change	7.6	7.6	7.9	7.4	6.8	^(P) 6.7
Professional & Business Services (3)	2,029.9	2,024.7	2,030.0	2,041.7	2,041.8	^(P) 2,037.6
12-month % change	6.9	5.9	5.3	4.5	3.5	^(P) 3.0
Education & Health Services (3)	1,824.9	1,832.6	1,830.6	1,837.1	1,845.0	^(P) 1,857.7
12-month % change	4.5	5.3	5.4	5.2	5.2	(<u>P)</u> 6.0
Leisure & Hospitality (3)	1,456.8	1,457.3	1,483.4	1,507.3	1,528.7	^(P) 1,526.5
12-month % change	10.3	10.4	11.8	12.0	12.0	(<u>P</u>) 11.3
Other Services (3)	446.0	446.3	451.2	456.7	458.3	(<u>P</u>) 462.3
12-month % change	7.2	6.1	6.9	5.1	5.3	(<u>P</u>) 5.8
Government (3)	1,987.4	2,001.5	1,999.2	1,999.4	1,998.7	^(<u>P</u>) 1,998.6
12-month % change	0.3	0.8	0.5	1.2	1.2	[©] 1.1
Footnotes (1) Number of persons, in thousands, seaso (2) In percent, seasonally adjusted.	onally adjusted.		eliminary.	thousands, se	asonally adjust	ed.

Data extracted: March 1, 2022

FEDERAL RESERVE BANK SENIOR LOAN OFFICER OPINION SURVEY

The January 2023 Senior Loan Officer Opinion Survey (SLOOS) 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 2022.

Regarding loans to businesses, survey respondents on balance reported tighter standards and weaker demand for commercial and industrial (C&I) loans to large, middle-market, and small firms over the fourth quarter. Meanwhile, banks reported tighter standards and weaker demand for all commercial real estate (CRE) loan categories.

For loans to households, banks reported that lending standards tightened or remained basically unchanged across all categories of residential real estate (RRE) loans and demand for these loans weakened. In addition, banks reported tighter standards and weaker demand for home equity lines of credit (HELOCs). Standards tightened and demand weakened, on balance, for credit card, auto, and other consumer loans.

The January SLOOS survey also included a set of special questions inquiring about banks' expectations for changes in lending standards, borrower demand, and loan performance over 2023. Banks, on balance, reported expecting lending standards to tighten, demand to weaken, and loan quality to deteriorate across all loan types.

BUSINESS LENDING

C&I Loans

Over the fourth quarter, significant net shares of banks reported having tightened standards on C&I loans to firms of all sizes. Banks also reported having tightened all queried terms on C&I loans to firms of all sizes over the fourth quarter. Tightening was most widely reported for premiums charged on riskier loans, spreads of loan rates over the cost of funds, and costs of credit lines. In addition. significant net shares of banks reported having tightened loan covenants and collateralization requirements to firms of all sizes. Moderate net shares of banks reported having tightened the maximum size of credit lines to firms of all sizes. Tightening of the maximum maturity of loans or credit lines was reported by a significant net share of banks for large and middle-market firms, while a moderate net share reported this term for small firms. Similarly, a significant net share of foreign banks reported having tightened standards for C&I loans over the fourth quarter.

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

Regarding demand for C&I loans over the fourth quarter, significant net shares of banks reported weaker demand for loans from firms of all sizes. Further, a significant net share of banks reported a decrease in the number of inquiries from potential borrowers regarding the availability and terms of new credit lines or increases in existing lines. Similarly, a

significant net share of foreign banks reported weaker demand for C&I loans over the fourth quarter.

Of the banks reporting weaker demand for C&I loans, major net shares cited decreased customer investment in plant or equipment, as well as decreased financing needs for mergers or acquisitions, inventories, and accounts receivable as important reasons for the weaker loan demand.

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.

LENDING TO HOUSEHOLDS

Residential Real Estate Lending

Over the fourth quarter, lending standards tightened or remained basically unchanged across all RRE loan types and for HELOCs. Moderate net shares of banks reported tightening standards for jumbo and subprime residential mortgages, while modest net shares reported tighter standards on HELOCs, qualified mortgage (QM) non-jumbo non-government-sponsored enterprise (GSE)-eligible mortgages, and non-QM non-jumbo mortgages. In contrast, standards remained basically unchanged for GSE-eligible and government residential mortgages.

Meanwhile, major net shares of banks reported weaker demand for all RRE loans over the fourth quarter, except for HELOCs, for which a significant net share of banks reported weaker demand.

Consumer Lending

Over the fourth quarter, a significant net share of banks reported tightening lending standards for credit card loans, while moderate net shares of banks reported tighter standards for auto and other consumer loans. Banks also

reported tightening most gueried terms on credit card loans. Specifically, moderate net shares of banks reported higher minimum credit score requirements as well as tightening both credit limits and the extent to which loans are granted to some customers that do not meet credit scoring thresholds. Similarly, banks reported tightening most queried terms on auto loans, on net. In particular, a moderate net share of banks reported wider interest rate spreads on such loans, while modest net shares reported higher minimum repayments and higher minimum credit score requirements. For other consumer loans, modest net shares of banks reported widening spreads over the cost of funds, increasing the minimum required credit score, and tightening the extent to which loans are granted to borrowers not meeting credit score criteria. The remaining terms and conditions for each type of consumer loan remained basically unchanged.8

Regarding demand for consumer loans, significant net shares of banks reported weaker demand for auto and other consumer loans, while a moderate net share of banks reported weaker demand for credit card loans.

SPECIAL QUESTION ON BANKS' OUTLOOK FOR 2023

The January SLOOS survey also included a set of special questions inquiring about banks' expectations for changes in lending standards, borrower demand, and asset quality over 2023, assuming that economic activity evolves in line with consensus forecasts. On balance, banks reported expecting lending standards to tighten and loan demand to weaken. Meanwhile, banks reported expectations of a broad deterioration in loan quality during 2023.

Regarding lending standards, major net shares of banks expected to tighten standards for C&I loans to firms of all sizes and for all types of CRE loans over 2023. Meanwhile, significant net shares of banks also reported expecting to tighten standards for nonconforming jumbo mortgage loans, credit card loans, and auto loans. A moderate net share of banks also reported expecting to tighten standards on GSE-eligible residential mortgage loans. The most frequently cited reasons for expecting to tighten standards over 2023, reported by major net shares of banks, included an expected deterioration in collateral values, a reduction in risk tolerance, and a deterioration in credit quality of the bank's loan portfolio.

Meanwhile, major net shares of banks reported expecting loan demand to weaken across CRE and RRE loan categories over 2023, while significant net shares of banks reported expecting loan demand to weaken for C&I loans to firms of all sizes and auto loans. A moderate net share of banks expected demand for credit cards to weaken. The most frequently cited reasons for weaker loan demand over 2023, reported by major net shares of banks, included an expected increase in interest rates, expected lower spending or investment needs, an expected deterioration in terms other than interest rates, an expected easing in supply chain disruptions, and an expected decrease in precautionary demand for cash and liquidity.

Regarding expectations for credit quality—as measured by delinquencies and charge-offs—major or significant net shares of banks reported expecting a deterioration in credit quality across all loan types over 2023. Specifically, major net shares of banks reported expecting credit quality to deteriorate for C&I loans to small firms, syndicated leveraged and non-syndicated C&I loans to large and middle-market firms, nonfarm nonresidential and construction and land development CRE loans, consumer loans to nonprime borrowers, and RRE loans. Additionally, significant net shares of banks reported expecting loan quality to deteriorate for consumer loans to prime borrowers, syndicated nonleveraged C&I loans to large and middle-market firms, and CRE loans secured by multifamily properties.

Regarding foreign banks, significant net shares of such banks reported expecting tighter standards for all C&I and CRE loans over 2023. In addition, foreign banks also reported expecting weaker or basically unchanged demand and a broad deterioration in the quality of C&I and CRE loans during 2023.

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Federal Reserve Bank of Dallas, Dallas, Texas'

Houston Chronicle, Houston, Texas

KAMR-TV, Amarillo, Texas

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

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

U.S. Drought Monitor, Lincoln, Nebraska

U.S. Census Bureau, Suitland, Maryland

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.