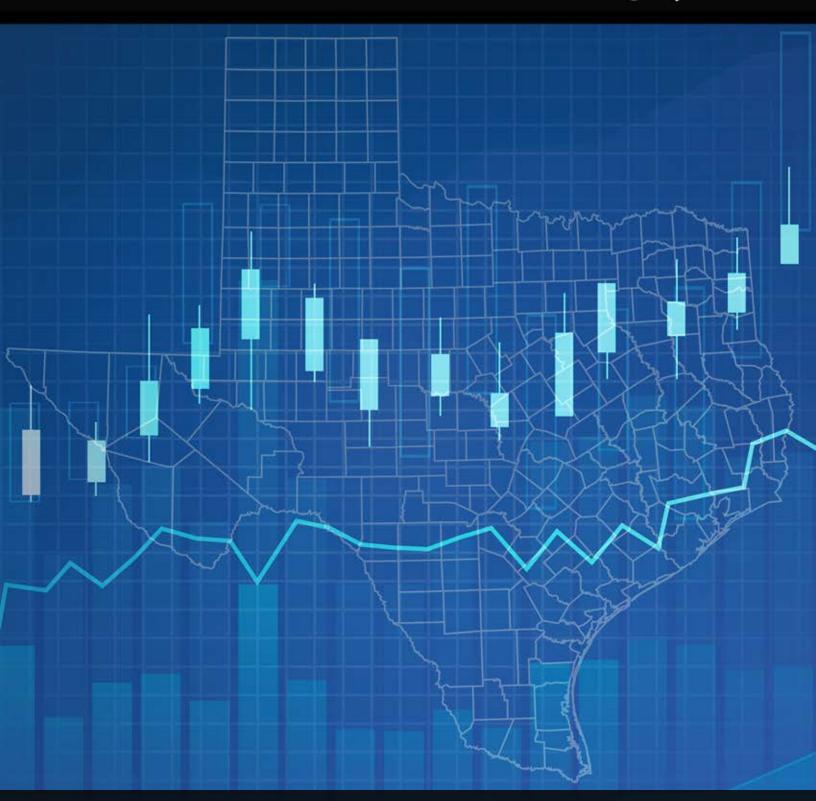
March 2024

Condition of the Texas State Banking System



Texas Department of Banking
Texas Department of Savings and Mortgage Lending



TABLE OF CONTENTS

Economic Review and Outlook	1								
Performance Summary and Profi	le: Texas Banking System11								
Performance Summary: United S	Performance Summary: United States Banking System15								
National Economic Trends25									
Economic Reports and Forecasts: United States27									
Economic Reports and Forecasts: State of Texas32									
Federal Reserve Bank Senior Loa	an Officer Opinion Survey36								
Acknowledgements and Resource	ces40								
Symbols 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								

2601 North Lamar Blvd. Austin, Texas 78705

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

For more information about this publication, you may contact the Texas Department of Banking. (512) 475-1300 | media@dob.texas.gov

ECONOMIC REVIEW AND OUTLOOK

In 2023, the Texas economy was stable with continued job growth and an increasing population. Factors, such as the difficult housing market, extreme drought conditions, uncertainty about inflation rates, and whether consumer confidence would improve, translated to a less favorable economic outlook in 2024.

Bankers showed some signs of optimism in the final quarter of 2023. The Banking Department's Banker and Business Economic Survey indicated that approximately 76% of respondents reported conditions remained stable or were improving when asked about the return on assets (ROA) for their institution and 72% had similar outlooks for net interest margin (NIM).

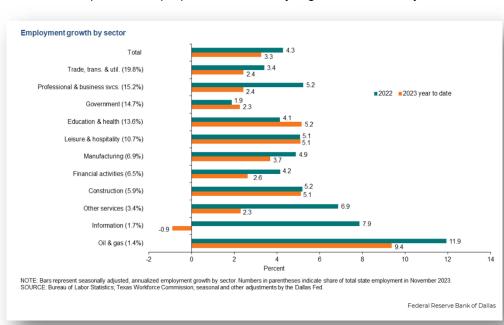
Most participants felt economic conditions, such as general business activity and area wide employment, remained stable with some reporting conditions improved. The survey further revealed that most believed the volume of loans on the internal watch list and loan loss provisions remained stable.

However, most respondents said economic factors such as residential real estate property sales activity and commercial real estate sales activity were decreasing in the final quarter of 2023. Bankers expressed standards are tightening and will continue to tighten in 2024 but are watching economic trends closely to determine the effects on the industry.

The Federal Reserve Bank of Dallas (FRB Dallas) reported the state's job growth held steady in the

fourth quarter but slowed down a bit from the previous quarter. Job growth fell to 2.4% in the final quarter of 2023, which fell slightly from 3.0% in the third. Overall, employment across the state grew by 3.1% in 2023, down from 4.3% in 2022.

Texas' population continued to grow. An article¹, published by The Hill, offered two defining reasons for the elevated figures. First, the



Source: Federal Reserve Bank of Dallas

option of working remotely allowed many families to change jobs and relocate to Texas. Another factor cited for the state's growing population was large international and domestic migration numbers. As of

^{1 &}quot;America's young population is shrinking overall — but growing in Texas and Florida. Here's why," The Hill

July 1, 2023, the U.S. Census Bureau reported more than 30 million people living in Texas and is expected to grow through 2024.

Conversely, the housing market in Texas faced some challenges in 2023. For starters, the median price of homes and the number of houses on the market increased throughout the year. As a result, home sales fell for the third year in a row, as Texans hesitated to purchase. This sentiment is expected to continue in 2024.

Despite seeing some extreme highs and lows throughout 2023, oil prices finished mostly the same in 2023. Texas' rig count ultimately fell which could lead to higher gas prices in 2024. Natural gas prices fell sharply in 2023, but U.S. working natural gas stocks rose higher than the five-year average.

Drought conditions seemed to improve by the end of 2023 due mostly to above normal rainfall and cooler temperatures in certain parts of Texas. While specific areas recovered, 58 counties experienced extremely dry conditions. As a result, Governor Abbott renewed a Drought Disaster Declaration in December 2023. Two months later, Governor Abbott issued another Disaster Declaration due to the large volume of wildfires in the Panhandle.

The inflation rate started at 6.4% in January but has dropped significantly in 2023. By October, inflation was 3.2%, then fell to 3.1% in November. In December 2023, inflation rose to 3.4%. The Federal Reserve Board set the interest rate between 5.25% - 5.5% in July 2023, where it has remained for the rest of the year. Despite promises of up to three rate cuts in 2024, inflation rates remain above the ideal 2% goal, which has created some skepticism among economists. However, the University of Michigan's Survey of Consumer Sentiment has been on mostly an upward trend since hitting its lowest point at 50% in June 2022. The index finished the year at 69.7% in December 2023, which might translate to consumer confidence rebounding to more ideal levels in 2024.

STATE-CHARTERED BANKING PROFILE (DEPARTMENT OF BANKING)

As of December 31, 2023, there were 213 state-chartered banks, compared to 212 reported as of June 30, 2023. The number of state banks increased by one due to one national bank converting into a Texas state-chartered bank. On a year-over-year (YOY) comparison, the number of state-chartered banks has decreased from 214 as reported as of December 31, 2022.

Overall assets of Texas state-chartered banks were essentially unchanged from \$432.2 billion as of June 30, 2023, to \$432.1 billion at year-end 2023. The resulting increase of assets totaling \$0.9 billion from one conversion and one merger was countered by a decline in banking assets for existing Texas state-chartered banks of \$1.0 billion.

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

State-chartered thrift assets under the Department's jurisdiction totaled \$353.3 billion as of December 31, 2023, a decrease of \$46.4 billion, or 11.6%, over the prior year. The number of thrift institutions totaled 21 during 2023, remaining the same as the prior year. Through December 31, 2023, state thrifts had \$1.2 billion in year-to-date (YTD) net income compared to December 31, 2022, \$3.67 billion in YTD income. The primary reason for the decrease in net income was due to a \$1.4 billion decrease in total interest income. Thrifts' NIM as an industry total decreased to 1.03% primarily due to the \$1.4 billion decrease in interest income.

Total loans and leases increased \$1.2 billion, or 2.1%, compared to the prior year, totaling \$55.9 billion as of December 31, 2023. The increase in total loans was primarily due to the \$1.6 billion increase in first lien residential real estate loans, a \$382 million increase in commercial real estate loans, offset with a \$944 million decrease in loans to individuals. The level of non-current assets plus other real estate owned

to total assets remains low in state-charted thrifts at 0.05% of total assets, a slight increase from 0.04% 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 \$587,000 since December 2022, totaling \$1.9 million as of December 31, 2023.

TEXAS ECONOMIC PROFILE

The Texas economy continues to grow, but at a modest pace. In the Eleventh District Biege Book released January 2024, the FRB Dallas reported most sectors held steady or saw a slight increase as job growth rose in the service industry. Wage growth moderated, yet many businesses remain wary of high labor costs.

The state's economic growth remains healthy but slowed in the fourth quarter of 2023 according to the FRB Dallas. Tightness in the labor market receded with firms reporting positive signs such as fewer labor shortages, more availability among applicants, and more employees deciding to stay on as a part of the workforce. While remaining elevated, many Texas employers expect wage and cost pressures to ease in 2024.

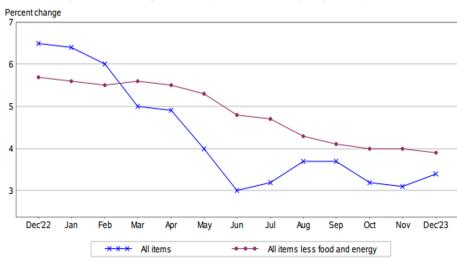
Of the 365 business executives surveyed for the Eleventh District Biege Book, around half said they felt understaffed. Despite labor availability improving, several firms cited a discrepancy between the experience and abilities needed and those of candidates. Others cited too many workers on staff, especially in the financial services and manufacturing industries, but very few reported layoffs.

The FRB Dallas Outlook Surveys also detailed expectations about the economy. Respondents anticipate business costs to slow in 2024, but not as much as in 2023. Most areas saw moderate wage growth with

the energy sector experiencing a minor increase. Wage growth is also expected to slow in 2024 to 4.3% from 5.6% in 2023. Non labor input cost is expected to drop to 4.2% from 6.2% in 2023.

The U.S. Bureau of Labor Statistics reported the consumer price index (CPI) increased 0.3% in December 2023 on a seasonally adjusted basis, after rising 0.1% in November. Over the

12-month percent change for CPI (not seasonally adjusted) Dec. 2022-23



Source: U.S. Bureau of Labor Statistics

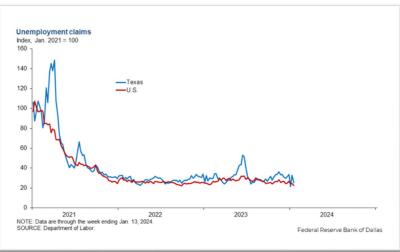
last 12 months, all items index increased 3.4% before seasonal adjustment. Gross domestic product growth remains strong despite economic activity slowing in the final quarter of 2023.

EMPLOYMENT

The Texas workforce continued expanding in 2023. In December 2023, Texas experienced record-breaking numbers for employment growth and civilian labor according to data collected from the Texas Workforce Commission and U.S. Department of Labor's Bureau of Labor Statistics. Texas' employment

growth continued to fare better at 2.7% than the national growth rate of 1.7% from December 2022 to December 2023.

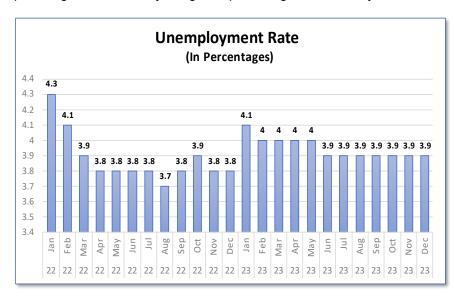
The preliminary seasonally adjusted civilian labor force in Texas rose from 15.192 million in November 2023 to 15.203 million in December 2023, according to the State Employment and Unemployment Monthly News Release compiled by the U.S. Bureau of Labor Statistics. The state has seen monthly increases since December 2022, which tallied 14.706 million, or 497,454 additional workers.



Across the Lone Star State,

Source: Federal Reserve Bank of Dallas

seven of 11 major industries reported series highs. From November 2023 to December 2023, service providing added 11,700 jobs, goods producing added 7,400 jobs, trade, transportation, and utilities added



Source: Federal Reserve Bank of Dallas

7,100 jobs each, and both private education and health services and leisure and hospitality sectors added 6,800 jobs.

Texas' unemployment rate remained low experiencing little variance over the past year. Initially starting at 4.1% at the beginning of the year, Texas' unemployment rate fell slightly in June 2023 to 3.9% and settled there for the remainder of the year. The number of unemployed Texans in January 2023 totaled 604,913 and fell to 587,784 by December, according to the U.S. Bureau of Labor Statistics.

POPULATION

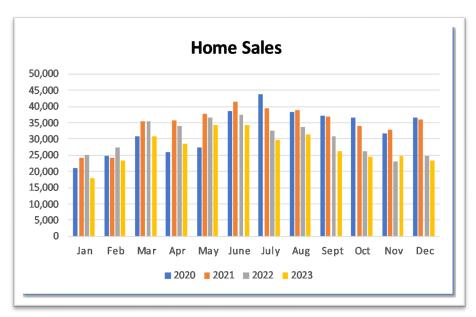
The U.S. Census Bureau estimates population numbers in Texas to continue to rise. More than 30 million people call Texas home, a major milestone for the state. The latest data indicated, as of July 1, 2023, the number of Texas residents rose to 30.5 million, a surge of 473,453 from July 1, 2022. These are the most up-to-date statistics from the U.S. Census Bureau. End-of-year data was not available at the time of publication.

International and domestic migration contributed to the state's growing population. The South remains the only region to see population growth throughout the pandemic. In 2023, the U.S. Census Bureau reported 706,266 domestic migrants relocated to the South, after nearly 500,000 international migrants relocated to the region. In 2023, most states reported population growth fueling optimism that trends could return to pre-pandemic levels.

Housing

Home sales in the state began 2023 at their lowest point for the year. Home sales totaled \$135.54 billion

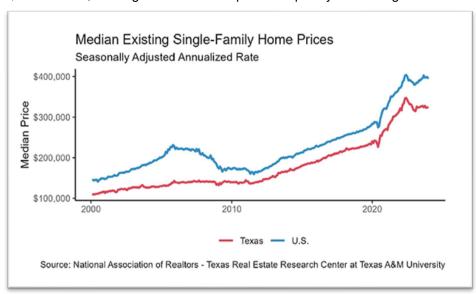
in 2023 down from \$151.95 billion in 2022. This decline revealed Texans' reluctance to buy homes. The Real Estate Research Center at Texas A&M University reported 18,008 homes were sold in January 2023. Over the next few months, that number fluctuated before reaching 34,389 in May, the state's highest amount in 2023. A slight rise in the home sales followed until a long, gradual decline to 23,446 in the final month of the year.



Source: Real Estate Research Center at Texas A&M University

Overall, home sales in Texas decreased over the past three years from 424,372 in 2021 to 328,071 in 2023.

In January 2023, Texas experienced it's lowest level of home sales at \$6.93 billion. A few months of increases followed until sales slowed in May of 2023 at \$14.67 billion. A month later sale prices reached \$14.77 billion, the largest of 2023. Despite a temporary rise in August home sale prices dropped gradually



Source: Real Estate Research Center at Texas A&M University

until December, finishing the year at \$9.62 billion.

The next few months' median home prices increased until reaching its peak of \$348,000 in June. Through November median home prices fell to \$325,000 and increased to \$335,000 in December 2023

The number of houses on the market in January 2023 started at 79,066. A nominal decline to 76,338 preceded a gradual

increase of total home listings to 102,226 in October. The next two months resulted in drops to end the year at 93,028 in December.

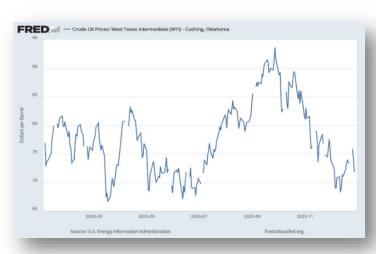
The 30-year fixed rate mortgage average in the U.S. opened 2023 at 6.48%, according to the Federal Reserve Bank of St. Louis. After initially falling in February, the average turned upward, reaching 6.73% in March. Another fall-off in April preceded a 6-month rate rise to 7.8% in October. For the rest of 2023,

the 30-Year Fixed Rate Mortgage Average fell sharply to 6.61%. In its summary for December 2023, "Texas Housing Insight," the Real Estate Research Center suggested if mortgage rates continue to fall at the beginning of 2024, house affordability could improve.

Single-family housing permits had a divergent 2023. While the initial amount of dwelling units began at 8,142 in January 2023, that number rose to 15,165 by June 2023. The next month, in July, the number of dwelling units fell to 12,559, only to see another high point of the year with 15,190 in August. A few more fluctuations followed over the next three months with values between 11,000 and 13,000. In December the number of dwelling units fell to10,221.

OIL AND GAS

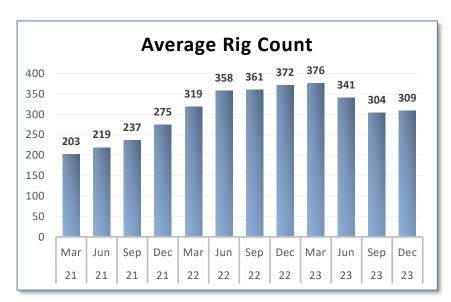
Oil prices remained relatively steady with the Federal Reserve Board of St. Louis indicating price per barrel West Texas Intermediate (WTI) began 2023 at \$76.87. Prices fluctuated until March 2023 where oil hit an annual low of \$66.61 then rose to \$82.16 per barrel in April. By the summer of 2023 oil prices climbed to a high of \$93.67 for the year. Another decline put the price of oil at \$71.89 by the end of 2023. Industry analysts expect oil prices to settle at \$78 per barrel by the end 2024.



Source: Federal Reserve Bank of St. Louis

Texas' average rig count declined in

2023. Baker Hughes reported a rig count of 378 to start the year. For the first few weeks, the Texas rig count rose to a maximum of 380 before dropping below 350 in June and ending 2023 at 309. A quarterly illustration of the average rig count is noted below in the graphic.



Source: Baker Hughes

Natural gas prices plummeted drastically in 2023. The U.S. **Energy Information** Administration reported the Henry Hub gas spot price of natural gas for January 2023 at \$3.27 per million btu. Natural gas prices continued to fall further to \$2.38 per million btu in February, then, eventually slid to its lowest point of the year of \$2.15 per million btu in May. As the year ended, prices fell further to \$2.71 million per btu in November and \$2.52 million per btu in December.

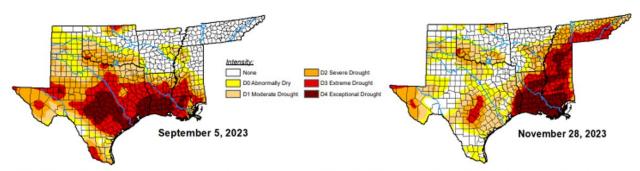
The FRB Dallas' Energy Indicators report released on January 4, 2024, relayed

more information about natural gas figures. U.S. working natural gas stocks stood at 3,490 billion cubic feet at the end of 2023. That meant natural gas stocks were 11%, or 334 billion cubic feet (Bcf) higher than the five-year average (excluding the pandemic) and 12%, or 378 Bcf higher than the same period in 2022.

In December 2023, the U.S. residential heating oil price was \$3.99 per gallon. The U.S. average heating oil price fell by 9.1% during the fourth quarter of 2023. However, the U.S. residential propane price rose 3.6% during the fourth quarter of 2023 to \$2.47 per gallon. This price is 8% below fourth quarter 2022 and is on par with the pre-pandemic price, before adjusting for inflation.

AGRIBUSINESS

Dry and hot conditions brought on by the drought in the South severely affected agriculture, water resources, infrastructure, and livestock in the fourth quarter of 2023. Above normal temperatures and timely rains, mainly in October and November helped improve conditions.



US Drought Monitor depiction of the Southern Region. The US Drought Monitor is produced by the National Drought Mitigation Center, the USDA, and NOAA.

Source: Quarterly Climate Impacts and Outlook – Southern Region (December 2023) (drought.com)

The FRB Dallas Agricultural Survey published in the fourth quarter of 2023 indicated bankers believed conditions were weakening across most regions of the Eleventh District. Agricultural production suffered due to persistent extremely dry conditions. Low yields resulted in farmers relying on crop insurance to pay back loans.

For the eighth straight quarter respondents indicated demand for agricultural loans dropped. Loan renewals picked back up in the third quarter of 2023, but the rate of loan repayment plummeted at the fastest rate since 2019. Loan volume was down across the region except for operating loans compared to 2022.

Agricultural crops continued to be deterred by ongoing hot and dry conditions during the 2023 growing season. Farmers in Texas reported 10% of crops to be in Good to Excellent condition. Cotton crops in the East fared better as corn generally did well across the South in 2023, according to the USDA Crop Progress Report for October 29, 2023.

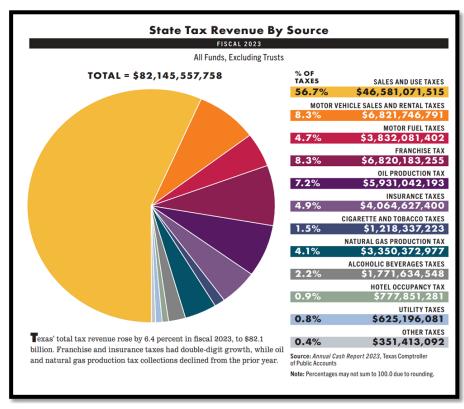
Temperatures during fall of 2023 were well above normal for Western portions of the region. Most stations in Texas reported averaging 2-5°F above normal. Extremely dry conditions continued to impact Southeast Texas and many stations reported receiving 25% of normal precipitation or less. Despite that, isolated areas of North Texas received above normal precipitation with many stations exceeding 150% of normal rainfall. Because of higher-than-normal rain and more favorable drought conditions, portions of Texas experienced significant improvement according to the U.S. Drought Monitor.

National Oceanic and Atmospheric Administration 's Climate Prediction Center predicted equal chances of above or below average temperature across much of Texas in the first few months of 2024.

TAX REVENUE

Texas' total tax revenue grew by 6.4% in fiscal year 2023 to \$82.1 billion. The Texas Comptroller of Public Accounts issues a report that identifies the state's tax revenue by source.

Sales taxes are the state's largest source of tax revenue bringing in \$46.6 billion, 8.4% more in fiscal year 2023 than 2022. Sales and use taxes accounted for 56.7% of revenue and 24.8% of net revenue for all



funds excluding trust. Motor vehicle sales and rental taxes, the second largest source of tax revenue (8.3%), rose 5.8% from the previous year to \$6.8 billion.

The state's primary tax on franchises accounted for 8.3% of total tax revenue and ranked as the third highest amount of tax revenue. The franchise tax increased by 20.2% from 2022 earning \$6.8 billion.

Oil production tax represents 7.2% of total tax revenue, an increase from 6.8% in 2022 earning \$5.9 billion.

Insurance tax represents 4.9% of total tax revenue, an increase of 30.2% from 2022 earning

Source: Taxes of Texas: A Field Guide

\$4.1 billion. Motor fuel taxes also experienced an increase from 2022 of 1.3%, making up 4.7% of all tax revenue earning \$3.8 billion. Natural gas production tax collections reported a 25% loss of \$3.4 billion but contributed 4.1% to total tax revenues. Other major tax categories exhibiting gains included alcoholic beverages, cigarette and tobacco, hotel occupancy and utility taxes. Interest and investment income collectively increased to 72.3% or \$4.2 billion, accounting for 2.2% of total net revenue.

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 actions as warranted. Generally, the Texas banking system is sound, and despite some inflationary hardships, banks and thrifts continue to perform well. Although most financial institutions are managing well in the current economic challenges, the number of problem financial institutions can increase if the economy stalls or consumer spending drops.

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

Interest Rate and Liquidity Risks

Organizations' liquidity and risk management were impacted by several factors in 2023. Prolonged low interest rates led institutions to hold assets for a longer term to obtain higher yields. These assets

experienced NIM compression resulting in loss of liquidity as interest rates rose. Most banks had a surplus of cash due to \$3 trillion in deposits provided by COVID-19 pandemic stimulus money in 2022. An increase in interest rates and bank failures in March of 2023 led consumers to become more cognizant of where their deposits were located while also driving loan demand down. Obtaining credit became more expensive and technological advances improved to the point that customers could transfer funds almost instantly. Maintaining and/or obtaining deposits became more competitive, requiring banks to focus on understanding their pricing, funding mix, and uninsured depositors. Elevated competition and the ease of money transmission urged banks to establish more robust contingency funding plans. As inflation accelerated in 2023, the Federal Open Market Committee (FOMC) began to raise interest rates to slow economic growth and control prices.

As a result of these developments, banking regulators placed more scrutiny on liquidity and liquidity risk management for institutions. The Department encourages banks and thrifts to evaluate these risks through monthly reports. Enhanced liquidity risk management practices should be implemented to ensure proper oversight of an institution's liquidity function. Liquidity risk can be monitored by understanding the funding mix, preparing contingency plans, running stress-tests, and securing proper on-going monitoring to minimize negative effects.

Credit Risk

Credit risk is the probability of potential losses stemming from a borrower's failure to repay debts as contracted. As inflation, high interest rates, increased costs and uncertainty in the economy persist in 2024, financial institutions assessment of credit risk will remain a challenge. Risks in certain industries, including technology, telecommunications and media, health care and pharmaceuticals, and transportation are elevated adding to the overall consideration in credit quality and risk selection. Regulatory agencies will continue to assess a bank's asset quality metrics for emerging deterioration, credit concentrations, leveraged lending, and high-risk loan portfolios. Protracted exposure to these pressures may strain profit margins and limit the ability to augment capital levels to offset current and future losses.

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' and trust companies' 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 our regulated industries to take steps to reduce the risk of ransomware;
- Monitor and evaluate potential federal regulatory actions regarding climate threats;
- ❖ Monitor banks' transition from LIBOR (that ended in June 2023) to a substitute reference rate;
- Monitor efforts to prudently assess and mitigate concentration risks in commercial real estate, oil and gas, and agriculture lending;
- ❖ Assess risks to bank liquidity following regional bank failures in March 2023;
- 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

- Coordinate with other state and federal regulators on examinations and other supervisory concerns:
- Communicate with state savings banks on emerging trends and supervisory hot topics via monthly Emerging Issues webinar and Thrift Industry Day, annually;
- Conduct off-site monitoring quarterly of each institution's activity (i.e. regulatory filings, independent audit reports, reports of examination, and institution responses to examination comments, criticisms, and recommendations);
- Process applications and other request for regulatory approval timely;
- Conduct examinations and visitations jointly with federal regulators on a priority schedule;
- Monitor level of interest rate risk exposure within the state savings bank portfolio;
- Monitor lending, investment, and funding concentrations;
- Monitor local, state, national, and world political and economic events impacting the industry;
- Engage in direct communication with state savings banks regarding institution-specific and emerging risks in the industry;
- Participate in federal compliance examinations of state savings banks;
- Respond promptly to state or national events that can impact the state savings bank industry;
- Perform targeted visitations of high-risk concerns identified at a state savings banks; and
- Take supervisory action and/or place supervisory agents when deemed necessary.

PERFORMANCE SUMMARY AND PROFILE: TEXAS BANKING SYSTEM

STATE-CHARTERED BANKS

Since December 2022, the number of Texas state-chartered banks declined by one to 213; with total assets rising by 22.6% during the same timeframe. Of the 213 state banks, 13 operate branches in 12 other states. As of December 31, 2023, state-chartered banks held \$432.1 billion in total assets with approximately 44,368 full-time employees.

State-chartered banks were well-capitalized with an average leverage capital of 10.3% in December 2023, an increase from 9.8% at year-end 2022. State banks with less than \$1 billion in total assets reflect a leverage ratio of 11.3%, while banks between \$1 billion-\$10 billion exhibited a 11.5% leverage ratio. Although the nine largest state banks with assets over \$10 billion have a lower leverage ratio of 9.7%, they are all well above regulatory capital requirements. Dividends have increased slightly from approximately \$2.6 billion in December 2022 to \$2.7 billion in December 2023.

The return on assets (ROA) for state-chartered banks was 1.2% in December 2023, a 19-basis point (BP) decrease from 1.4% in 2022, and primarily due to higher noninterest and provision expenses and lower noninterest income. Both interest income and interest expense, as a percent of average assets, increased from 2022. Additionally, the NIM increased from 2022 to 2023 by 16 BP, signifying that banks are reporting broad-based increases in total loan yields. Unrealized losses on securities declined to the lowest level since the second quarter of 2022.

Asset quality indicators improved by year-end with the noncurrent loan rate at 0.32%, an improvement from 0.26% during the same period in 2022. The level of the Allowances for Loan and Lease Losses (ALLL) have increased by 6 BP YOY to 1.25%. Provision expenses through December 2023, total \$462 million, up from \$384 million a year ago. Further, the ALLL represents 246.3% of noncurrent loans versus 286.6% at year-end 2022. Net charge-offs for 2023 total \$261 million, which is 109% higher than December 2022.

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.

The Department considers any institution with a Uniform Financial Institutions Composite Rating of a 3, 4, or 5, a problem institution. As of December 31, 2023, problem state-chartered financial institutions represent less than 2% of the total number of banks.

STATE-CHARTERED THRIFTS

As of December 31, 2023, state thrifts had \$1.2 billion in net income YTD, a \$2.47 billion decrease from December 31, 2022, totaling \$3.67 billion, with the largest institution's net income being \$906 million. The pretax ROA totaled 0.41% as of December 31, 2023, a decrease of 64 BP from the prior year's total of 1.05%. As of December 31, 2023, noninterest income to assets increased 7 BP from the prior year, ending at 0.11%, and noninterest expense to assets, totaled 0.66% as of December 31, 2023, an increase of 7 BP from December 31, 2022, a total of 0.59%.

The Texas thrift ratio of nonperforming loans plus other real estate owned to total assets increased one basis point to 0.05% as of December 31, 2023, and remains minimal. Provisions for credit losses totaled \$8.7 million YTD as of December 31, 2023, a \$92.5 million decrease compared to December 31, 2022.

The total risk-based capital ratio for the industry totaled 35.8% as of December 31, 2023, an increase of 930 BP compared to 26.5%, totaling as of December 31, 2022. Total capital levels increased \$5.5 billion compared to December 31, 2022, totaling \$37.6 billion as of December 31, 2023. Funds contributed to banks increased by \$2 billion, totaling \$4.3 billion as of December 31, 2023. Two state savings banks elected the Community Bank Leverage Ratio in the fourth quarter of 2023, and therefore, do not report any capital ratios besides the leverage ratio.

As of December 31, 2023, 76% 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	-2023	12-31	-2022	Differ	ence
	No. of <u>Institutions</u>	<u>Assets</u>	No. of <u>Institutions</u>	<u>Assets</u>	No. of <u>Institutions</u>	<u>Assets</u>
Texas State-Chartered Banks Texas State-Chartered Thrifts	213 <u>22</u> 235	\$432.1 <u>\$363.5</u> \$795.6	214 <u>22</u> 236	\$426.6 <u>\$412.7</u> \$839.3	-1 <u>0</u> -1	+\$5.5 <u>-\$49.2</u> -\$43.7
Other states' state-chartered: Banks operating in Texas* Thrifts operating in Texas*	55 <u>0</u> 55	\$66.2 <u>0</u> \$66.2	52 <u>0</u> 52	\$63.4 <u>0</u> \$63.4	+3 <u>0</u> +3	+\$2.8 <u>0</u> +2.8
Total State-Chartered Activity	290	\$861.8	288	\$902.7	+2	-\$40.9
National Banks Chartered in Texas Federal Thrifts Chartered in Texas	143 4 147	\$140.0 <u>\$112.6</u> \$252.6	147 <u>4</u> 151	\$139.8 <u>\$113.2</u> \$253.0	-4 <u>0</u> -4	+\$0.2 - <u>\$0.6</u> -\$0.4
Other states' federally-chartered: Banks operating in Texas* Thrifts operating in Texas*	31 <u>5</u> 36	\$630.1 <u>\$1.4</u> \$631.5	28 <u>5</u> 33	\$702.3 <u>\$1.0</u> \$703.3	+3 <u>0</u> +3	-\$72.2 <u>+\$0.4</u> -\$71.8
Total Federally-Chartered Activity	183	\$884.1	184	\$956.3	-1	-72.2
Total Banking/Thrift Activity	473	\$1,745.9	472	\$1,859.0	+1	-\$113.1

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

RATIO ANALYSIS

As of December 31, 2023 FDIC financial data is reflective of FDIC insured institutions only.

	State- Chartered <u>Banks</u> 213	Texas National <u>Banks</u> 143	All Texas <u>Banks</u> 356	State- Chartered <u>Thrifts</u> 22	Texas Federal <u>Thrifts</u> 4	All Texas <u>Thrifts</u> 26
% of Unprofitable Institutions	2.82%	3.50%	3.09%	22.73%	50.00%	26.92%
% of Institutions with Earnings Gains	61.03%	51.05%	57.02%	40.91%	50.00%	42.31%
Yield on Earning Assets	5.34%	5.12%	5.29%	2.64%	4.79%	3.11%
Net Interest Margin	3.40%	3.44%	3.41%	1.06%	3.98%	1.71%
Return on Assets	1.18%	1.23%	1.20%	0.35%	-0.27%	0.21%
Return on Equity	12.12%	13.96%	12.53%	8.42%	-8.75%	5.39%
Net Charge-offs to Loans	0.10%	0.29%	0.15%	0.04%	1.43%	0.66%
Earnings Coverage of Net Loan C/Os	26	9	18	83	1	4
Loss Allowance to Loans	1.25%	1.26%	1.25%	0.33%	3.40%	1.72%
Loss Allowance to Noncurrent Loans	246.26%	178.83%	224.58%	118.43%	302.32%	259.27%
Noncurrent Assets+OREO to Assets	0.32%	0.49%	0.36%	0.04%	0.46%	0.14%
Net Loans and Leases to Core Deps	85.41%	79.49%	83.82%	22.27%	46.28%	28.93%
Equity Capital to Assets	10.36%	9.37%	10.12%	5.76%	3.58%	5.25%
Core Capital (Leverage) Ratio	10.32%	10.72%	10.42%	10.30%	8.63%	9.92%
Total Risk-Based Capital Ratio	14.81%	15.87%	15.04%	36.45%	17.87%	29.88%

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, 2023 FDIC financial data is reflective of FDIC insured institutions only. Assets in Billions

	< <u>\$1</u> 163	<u>\$1 - \$10</u> 41	<u>>\$10</u> 9
% of Unprofitable Institutions	3.68%	NA	NA
% of Institutions with Earnings Gains	66.26%	48.78%	22.22%
Yield on Earning Assets	5.29%	5.61%	5.25%
Net Interest Margin	3.76%	3.73%	3.21%
Return on Assets	1.30%	1.72%	0.97%
Return on Equity	14.38%	17.13%	9.86%
Net Charge-offs to Loans	0.13%	0.06%	0.11%
Earnings Coverage of Net Loan C/Os	20	60	20
Loss Allowance to Loans	1.21%	1.29%	1.24%
Loss Allowance to Noncurrent Loans	305.67%	281.10%	226.43%
Noncurrent Assets+OREO to Assets	0.27%	0.32%	0.33%
Net Loans and Leases to Core Deps	79.08%	88.68%	85.63%
Equity Capital to Assets	9.63%	10.76%	10.36%
Core Capital (Leverage) Ratio	11.31%	11.52%	9.67%
Total Risk-Based Capital Ratio	17.33%	17.24%	13.79%

RATIO ANALYSIS BY ASSET GROUPS FOR STATE-CHARTERED THRIFTS

As of December 31, 2023 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	28.57%	20.00%	22.73%
% of Institutions with Earnings Gains	42.86%	40.00%	40.91%
Yield on Earning Assets	5.56%	7.08%	2.64%
Net Interest Margin	3.78%	4.96%	1.06%
Return on Assets	0.71%	0.80%	0.35%
Return on Equity	7.98%	5.86%	8.42%
Net Charge-offs to Loans	0.05%	0.20%	0.04%
Earnings Coverage of Net Loan C/Os	26	10	83
Loss Allowance to Loans	0.99%	0.97%	0.33%
Loss Allowance to Noncurrent Loans	234.94%	88.46%	118.43%
Noncurrent Assets+OREO to Assets	0.32%	0.81%	0.04%
Net Loans and Leases to Core Deps	101.68%	110.16%	22.27%
Equity Capital to Assets	8.94%	13.76%	5.76%
Core Capital (Leverage) Ratio	10.36%	12.45%	10.30%
Total Risk-Based Capital Ratio	17.44%	16.19%	36.45%

COMPARISON REPORT

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

December 31, 2023

	State B	sanks*	State T	hrifts
	End of Period	% of Total Assets	End of Period	% of Total Assets
Number of Institutions	213		22	
Number of Employees (full-time equivalent) (In millions)	44,368		5,958	
Total Assets	\$432,115		\$363,541	
Net Loans and Leases	\$255,823	59.20%	\$55,747	15.33%
Loan Loss Allowance	\$3,234	0.75%	\$187	0.05%
Other Real Estate Owned	\$79	0.02%	\$2	0.00%
Goodwill and Other Intangibles	\$8,748	2.02%	\$404	0.11%
Total Deposits	\$349,403	80.86%	\$306,895	84.42%
Federal Funds Purchased and Repurchase Agreements	\$6,305	1.46%	\$4,903	1.35%
Other Borrowed Funds	\$23,784	5.50%	\$27,942	7.69%
Equity Capital	\$44,764	10.36%	\$20,983	5.77%
Memoranda:				
Earning Assets	\$396,385	91.73%	\$351,772	96.76%
Long-term Assets (5+ years)	\$126,073	29.18%	\$230,008	63.27%
	Year-to-Date	<u>% of Avg.</u> <u>Assets</u> [†]	Year-to-Date	% of Avg. Assets [†]
Total Interest Income	\$21,089	4.90%	\$9,900	2.55%
Total Interest Expense	\$7,651	1.78%	\$5,926	1.53%
Net Interest Income	\$13,439	3.12%	\$3,975	1.02%
Provision for Loan and Lease Losses	\$462	0.11%	-\$9	-0.00%
Total Noninterest Income	\$3,414	0.79%	\$515	0.13%
Total Noninterest Expense	\$10,185	2.37%	\$2,601	0.67%
Securities Gains	-\$55	-0.01%	-\$66	-0.02%
Net Income	\$5,094	1.18%	\$1,368	0.35%
Memoranda:				
Net Loan Charge-offs	\$261	0.06%	\$23	0.01%
Cash Dividends	\$2,679	0.62%	\$83	0.02%

^{*}Excludes branches of state-chartered banks of other states doing business in Texas. As of December 31, 2023, there are an estimated 55 out-of-state state-chartered institutions with \$66.2 billion in assets. Assets are based upon the June 30, 2023, 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, 2023.

PERFORMANCE SUMMARY: UNITED STATES BANKING SYSTEM

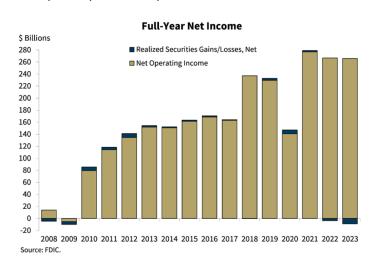
FDIC QUARTERLY BANKING PROFILE

Fourth Quarter 2023 - <u>www.fdic.gov</u>
All Institutions Performance

Reports from 4,587 commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reflect aggregate full-year 2023 net income of \$256.9 billion, down \$6 billion (2.3 percent) from the prior year, and fourth quarter 2023 net income of \$38.4 billion, down \$30 billion (43.9 percent) from the prior quarter. Non-recurring, noninterest expenses at large banks drove the decrease in quarterly earnings. Higher provision expense and lower noninterest income also contributed to the decline.

Net Income Falls Modestly, but Remains Higher than the Pre-Pandemic Average

The full-year 2023 banking industry net income fell modestly from 2022, but remained above income levels reported prior to the pandemic. Net income totaled \$256.9 billion in 2023, down 2.3 percent from



2022. The annual decline occurred as higher noninterest expense, provision expense, and realized losses on the sale of securities outpaced growth in net operating revenue. The industry's return on assets ratio fell one basis point to 1.10 percent, and 5.2 percent of banks were unprofitable during the year. Community banks reported annual net income of \$26.6 billion, down 7.1 percent from the prior year. The decrease in community bank net income was primarily attributable to higher noninterest expense. Community banks reported a pre-tax return on assets ratio of 1.22 percent, down 18 basis points from 2022.

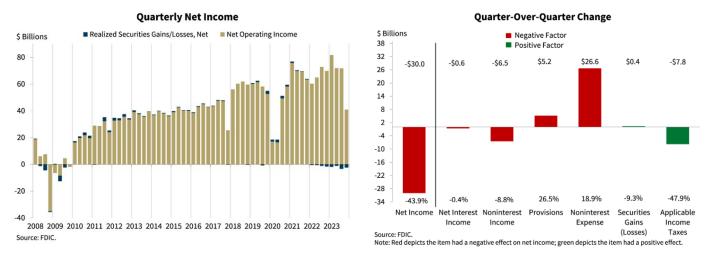
Quarterly Net Income Decreased Quarter Over Quarter

The banking industry reported quarterly net income of \$38.4 billion, a decline of \$30 billion, or 43.9 percent, from the prior quarter. The decline in quarterly net income was primarily the result of higher non-interest expense, while lower non-interest income and higher provision expense also contributed.

Community bank quarterly net income fell 9.9 percent from the prior quarter to \$5.9 billion, primarily driven by higher noninterest and provision expense.

The main driver of the industry's \$30 billion decline in net income was noninterest expense, which increased by \$26.6 billion, or 18.9 percent, quarter over quarter. However, it is estimated that 70 percent of the decrease in net income was caused by specific, nonrecurring, noninterest expenses at large banks. These expenses include the special assessment, goodwill impairment, and legal, reorganization, and other one-time costs.

Noninterest income also declined by decline in servicing fees, trading revenue, and "all other noninterest income" contributed to the quarterly reduction in noninterest income. Some of these items tend to exhibit volatility from quarter to quarter and may not be indicative of a trend.

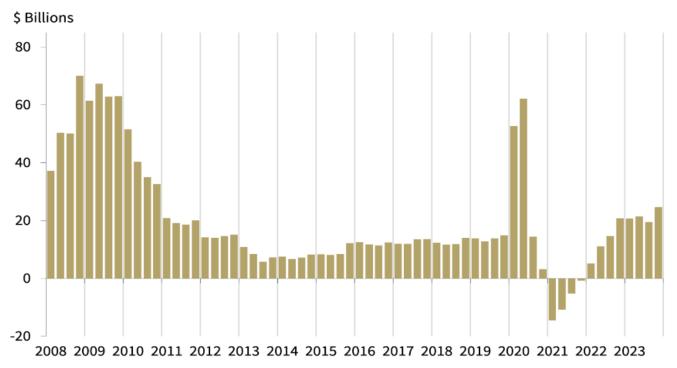


Provision Expense Increased in Fourth Quarter

The industry's provision expense increased by \$5.2 billion in the fourth quarter. The increase can be attributed to higher credit card balances and charge-offs, greater risk in office properties, and increasing delinquency levels across loan portfolios.

With the exception of the two pandemic quarters in 2020, provision expense of \$24.7 billion was the highest since fourth quarter 2010.

Quarterly Credit Loss Provisions

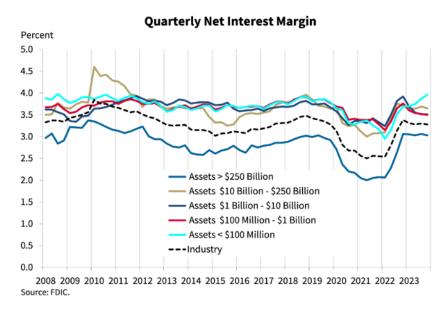


Source: FDIC.

The Net Interest Margin Falls as Deposit Costs Increased Faster than Loan Yields

The industry's net interest margin fell two basis points from the last quarter to 3.28 percent as the cost of deposits and other interest-bearing liabilities increased faster than yields on earning assets. The largest two asset-size groups reported slightly lower net interest margins, while the other size groups reported unchanged or higher margins. Community banks reported no change in their average net interest margin of 3.35 percent.

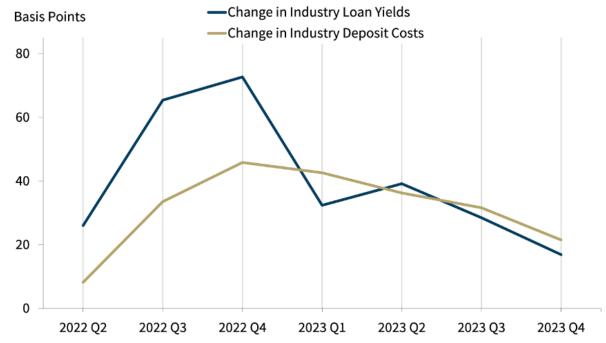
During the quarter, deposit costs and loan yields continued to increase across the industry, but for the second consecutive



quarter deposit costs increased faster than loan yields. For community banks, deposit costs have increased faster than loan yields for four straight quarters.

The industry continues to report a sizeable shift from lower-yielding deposit accounts, such as transaction and savings accounts, into higher-yielding time deposits. A pivot to lower market interest rates could reduce the pressure on bank funding costs, but the timing of any changes in rates is highly uncertain.

Quarterly Change in Loan Yields and Deposit Costs



Source: FDIC.

Note: Ratios are annualized.

Long Term Loans and Securities Fall; Total Unrealized Losses Drop

The banking industry's share of longer-term loans and securities fell for the fourth consecutive quarter to 37 percent after peaking a year ago.

Community banks' share of longer-term loans and securities was 50.9 percent in fourth quarter 2023, down from 51.8 percent last quarter and an all-time high of 54.7 percent a year ago. Community banks' elevated share of longer-term loans and securities helps to explain why their net interest margin declined much more than the industry's margin in 2023.

Total unrealized losses declined 30.2 percent quarter over quarter

2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

Loans and Securities > 3 Years as a Percent of Total Assets

Source: FDIC. Note: Insured Call Report filers only.

to \$477.6 billion as mortgage and Treasury rates declined in the fourth quarter. Lower unrealized losses on residential mortgage-backed securities drove the improvement, accounting for about two-thirds of the quarterly decline in unrealized losses on securities. Though it remains elevated, this level of unrealized losses is the lowest reported since second quarter 2022.

Unrealized Gains (Losses) on Investment Securities



2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

Source: FDIC.

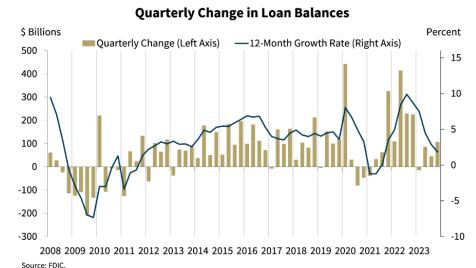
Note: Insured Call Report filers only. Unrealized losses on securities solely reflect the difference between the market value and book value of non-equity securities as of quarter end.

Total Loans Increase, Loan Growth Continues Decline

The industry increased its total loans by \$107.5 billion, or 0.9 percent, in the fourth quarter, up from 0.4 percent last quarter. Seasonal growth in credit card loans was responsible for most of the increase in the quarterly growth rate. Commercial and industrial loans declined for the fourth consecutive quarter, while

balances of all other major loan categories increased modestly.

The industry's annual rate of loan growth continued to decline in the fourth quarter. Loan balances increased 1.8 percent from the prior year, the slowest rate of annual loan growth since third quarter 2021. The slowdown in annual loan growth reported throughout 2023 has been broadbased, occurring across residential real estate, consumer, commercial and industrial, and all major commercial real estate loan categories.



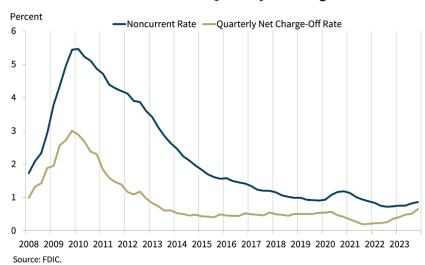
Note: ASC Topics 810 and 860 resulted in the consolidation of large amounts of securitized loan balances back onto banks' balance sheets in the first quarter of 2010. Although the amount consolidated cannot be precisely quantified, the industry would have reported a decline in loan balances for the quarter absent this change in accounting standards.

Loan growth at community banks has been more robust, increasing 1.8 percent from the prior quarter and 7.8 percent from the prior year. Loan growth at community banks has been broad-based, with all major loan category balances growing from the prior quarter and year.

Noncurrent Loans and Charge-Offs Edge up in Fourth Quarter

The noncurrent rate increased four basis points from the prior quarter to 0.86 percent, a level still well below the pre-pandemic average noncurrent rate of 1.28 percent. The increase in noncurrent loan balances was greatest among CRE loans and credit cards. The noncurrent rate for non-owner occupied

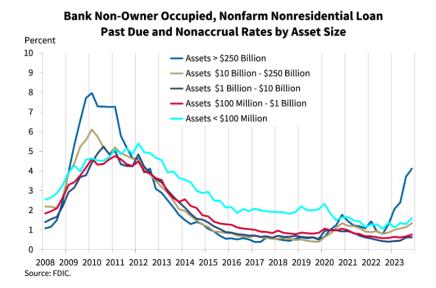
Noncurrent Loan Rate and Quarterly Net Charge-Off Rate



CRE loans is now at its highest level since first quarter 2014, driven by portfolios at the largest banks. Similarly, the noncurrent rate for credit card loans is at the highest level since third quarter 2011.

The quarterly net charge-off rate increased 14 basis points to 0.65 percent. This rate is now 17 basis points higher than the pre-pandemic average rate. Credit cards and CRE loans drove the annual increase in net charge-off balances. The credit card net charge-off rate was 4.15 percent, 67 basis points higher than its pre-pandemic average.

↓ Volume of Past Due, Nonaccrual Non-Owner Occupied Loans Rises

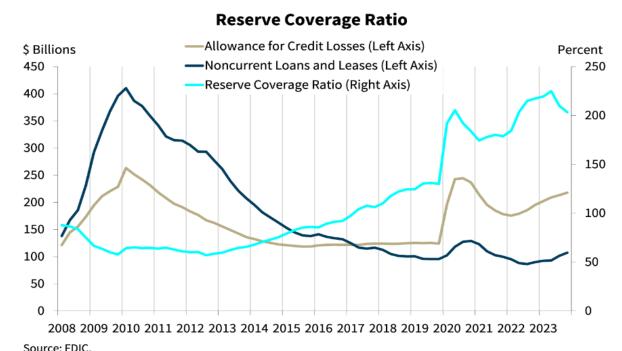


The volume of past due and nonaccrual non-owner occupied CRE loans increased by \$2.3 billion, or 13.1 percent, quarter over quarter. Deterioration is concentrated in the largest banks which reported a past-due-and-nonaccrual rate of 4.11 percent, well above the rate of 1.71 percent for the industry as a whole.

This trend is being driven primarily by deterioration in office loans in several major metropolitan central business districts, which tend to be serviced by large banks.

The Reserve Ratio for the Deposit Insurance Fund Declines

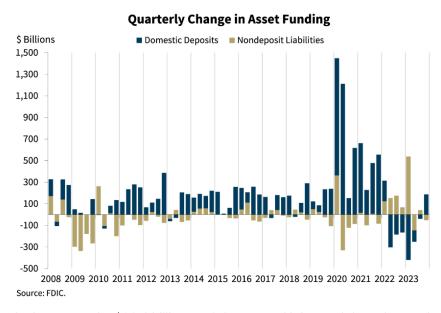
Increased provision expenses boosted the industry's allowance for credit losses by \$4.7 billion to \$217.8 billion quarter over quarter. However, the level of noncurrent loans increased at a faster rate than the allowance during the quarter. As a result, the industry's reserve coverage ratio, or the ratio of the allowance for credit losses to noncurrent loans, fell to 203.3 percent. This is still a much higher coverage ratio than the pre-pandemic average. The reserve coverage ratio at community banks was 227.8 percent.



Note: The reserve coverage ratio is the allowance for credit losses to noncurrent loans and leases.

Domestic Deposits Rise for the First Time in Last Seven Quarters

Domestic deposits increased \$186.9 billion, or 1.1 percent, during the fourth quarter. Growth in time deposits of 6.9 percent led the quarterly increase. Banks continue to report a shift away from noninterest-bearing deposits toward interest-bearing deposits. Noninterest-bearing deposits declined for the seventh



Number

100

0

consecutive quarter, while interest-bearing deposits increased 2.2 percent, the largest quarterly growth rate since fourth quarter 2021.

The industry's insured deposits increased \$46.6 billion, or 0.5 percent, in the fourth quarter. Uninsured deposit growth was masked by one large bank that eliminated \$165 billion in intercompany deposits. That bank likely would have reported higher uninsured deposits had those transactions not occurred. Excluding that bank from the calculations, the industry increased uninsured deposits

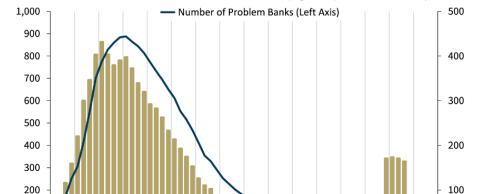
\$ Billions

in the quarter by \$92.4 billion, or 1.4 percent. Uninsured deposit growth was reported by every asset size group except for the largest group that had the bank with the elimination of intercompany deposits. Excluding the large bank from the calculations would have resulted in the industry's first increase in uninsured deposit levels after seven consecutive quarters of decline. Non-deposit liabilities fell by \$52.2 billion from the prior quarter, driven by a decline in fed funds purchased and repurchase agreements.

Number of Banks on the FDIC's 'Problem List' Rises by 1.1 Percent

Banks on the FDIC's "Problem List" have a CAMELS composite rating of "4" or "5" due to financial, operational, or

managerial weaknesses, or a combination of such issues. The number of banks on the list increased from 44 in the third quarter to 52 banks at year end, while total assets held by problem banks increased from \$53.5 billion to \$66.3 billion. The number of problem banks represents 1.1 percent of total banks. which is near the low end of the "normal" range for non-crisis periods of one to two percent of all banks. One bank failed in the fourth quarter.



Number and Assets of Banks on the "Problem Bank List"

Assets of Problem Banks (Right Axis)

Source: FDIC.

Note: The asset values of insured financial institutions on the problem bank list are what were on record as of the last day of the quarter.

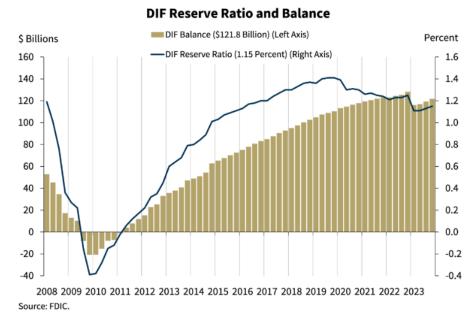
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

1 DIF Balance Increases by \$2.4 Billion from the Third Quarter

The DIF balance was \$121.8 billion on December 31, 2023, up approximately \$2.4 billion from the third quarter. Assessment revenue was the primary driver of the increase in the fund. Insured deposits increased by 0.5 percent during the fourth quarter, and year-over-year insured deposit growth was 3.6 percent. The reserve ratio — the fund balance relative to insured deposits — increased by two basis

points in the fourth quarter to 1.15 percent. The reserve ratio was ten basis points lower than a year ago.

The FDIC adopted a **DIF Restoration Plan** on September 15, 2020, to return the reserve ratio to the statutory minimum of 1.35 percent by September 30, 2028, as required by law. Based on FDIC projections, the reserve ratio remains on track to reach 1.35 percent by the statutory deadline. The FDIC will



 $Note: The\ reserve\ ratio\ is\ calculated\ as\ the\ ratio\ of\ the\ DIF\ to\ insured\ deposits\ and\ is\ calculated\ as\ of\ quarter\ end.$

continue to monitor factors affecting the reserve ratio, including but not limited to insured deposit growth and potential losses due to bank failures and related reserves.

SNAPSHOT STOCK PERFORMANCE SOUTHWEST REGIONAL BANKS (MSECTOR415) MARCH 2024

Name	Last	Trade		52 Wk Range		EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	03/13	35.35	27.00	48.55	9.53	3.71	308.88M	1.14	3.35%
BancFirst Corporation	03/13	87.18	64.44	104.00	13.80	6.34	2.882B	1.66	1.88%
Bank7 Corp.	03/13	27.69	19.53	28.99	9.08	3.05	254.684M	0.74	2.67%
Business First Bancshares, Inc.	03/13	22.42	13.05	25.57	8.67	2.59	569.251M	0.50	2.35%
BOK Financial Corporation	03/13	86.79	62.42	92.91	10.83	8.02	5.651B	2.17	2.53%
Cadence Bank	03/13	27.70	16.95	31.45	13.74	2.02	5.057B	0.94	3.39%
Cass Information Sys, Inc.	03/13	47.38	35.05	50.25	21.73	2.18	645.87M	1.17	2.48%
Commerce Bancshares, Inc.	03/13	51.81	42.96	62.02	14.27	3.64	6.745B	1.04	1.97%
Cullen Frost Bankers, Inc.	03/13	107.96	82.25	120.31	11.85	9.10	6.926B	3.58	3.32%
Enterprise Fin Serv Corp	03/13	38.97	32.97	49.98	7.66	5.07	1.455B	1.00	2.54%
First Community Corp S C	03/13	17.00	16.00	22.00	10.97	1.55	129.305M	0.56	3.26%
First Financial Bankshares, Inc.	03/13	31.25	22.84	33.40	22.54	1.39	4.472B	0.71	2.24%
First Financial Northwest, Inc.	03/13	20.60	9.70	22.17	29.88	0.69	189.282M	0.52	2.51%
First Guaranty Bancshares, Inc.	03/13	11.01	9.24	17.61	17.76	0.62	137.354M	0.64	5.82%
Great Southern Bancorp, Inc.	03/13	53.24	45.39	61.94	9.18	5.61	604.101M	1.60	3.10%
Guaranty Bancshares, Inc.	03/13	29.43	22.12	35.00	11.50	2.56	339.669M	0.92	3.10%
Heartland Financial USA, Inc.	03/13	33.38	26.10	41.63	19.92	1.68	1.428B	1.20	3.55%
Home Bancorp, Inc.	03/13	35.20	27.75	44.00	7.05	4.99	286.693M	0.99	2.86%
Investar Holding Corp.	03/13	16.01	9.07	17.99	9.47	1.69	156.619M	0.40	2.48%
International Bancshares Corp	03/13	53.29	39.10	55.37	8.05	6.62	3.314B	1.26	2.34%
Landmark Bancorp, Inc.	03/13	19.31	15.70	21.78	8.66	2.23	105.772M	0.80	4.10%
MidWestOne Finl Group, Inc.	03/13	22.52	17.80	27.78	16.95	1.33	355.016M	0.97	4.30%
Origin Bancorp, Inc.	03/13	29.91	25.59	36.91	11.07	2.71	929.655M	0.60	1.95%
Prosperity Bancshares, Inc.	03/13	62.33	49.60	68.88	13.85	4.51	5.841B	2.21	3.53%
QCR Holdings, Inc.	03/13	56.63	36.14	62.94	8.46	6.73	956.02M	0.24	0.42%
Simmons First National Corp.	03/13	18.90	13.36	20.82	13.70	1.38	2.369B	0.80	4.18%
Solera National Bancorp, Inc.	03/13	9.97	9.10	13.12	N/A	-1.06	28.487M	N/A	N/A
Southside Bancshares, Inc.	03/13	28.08	25.38	35.95	9.96	2.82	850.182M	1.40	4.95%
Stellar Bancorp, Inc.	03/13	23.76	20.24	29.04	9.68	2.45	1.264B	0.52	2.18%
Texas Capital Bancshares, Inc.	03/13	59.28	42.79	66.18	16.76	3.54	2.814B	N/A	N/A
Third Coast Bancshares, Inc.	lnc. 03/13		12.31	21.50	9.95	1.98	268.06M	N/A	N/A
Two Rivers Fin Group	03/13	35.25	35.00	41.99	9.30	3.79	74.191M	0.68	1.93%
Triumph Financial, Inc	03/13	74.50	46.67	82.22	46.29	1.61	1.739B	N/A	N/A
UMB Financial Corporation	03/13	80.29	50.68	86.24	11.19	7.18	3.917B	1.53	1.92%
Veritex Holdings, Inc.	03/13	19.15	14.88	24.46	9.69	1.98	1.046B	0.80	4.14%
West Bancorp Incorporated	03/13	17.08	15.04	22.39	11.91	1.44	286.835M	1.00	5.82%

Source: Yahoo Finance (March 2024) N/A: Indicates information was not available.

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)

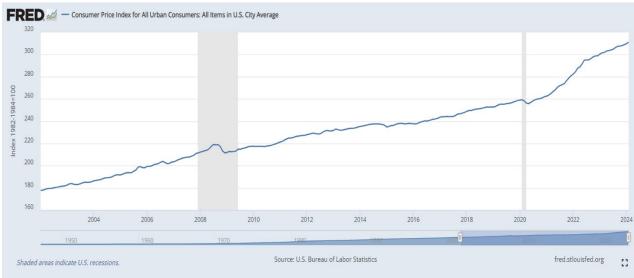
N/A: Indicates information was not available.

NATIONAL ECONOMIC TRENDS

Real Gross Domestic Product

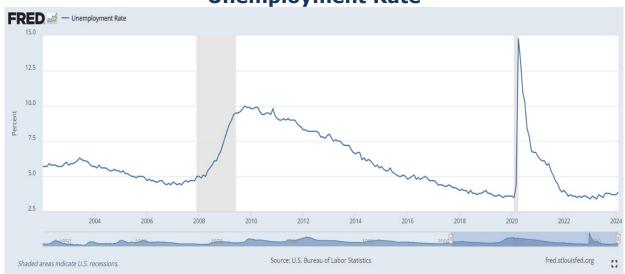


Consumer Price Index

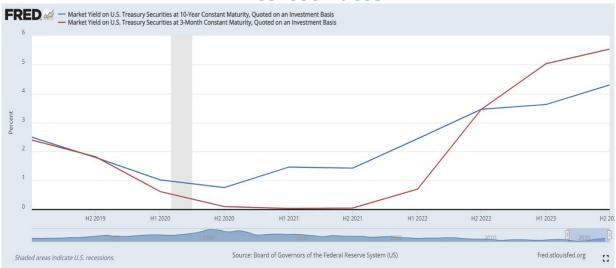


Source: Federal Reserve Bank of St. Louis, National Economic Trends, March 2024.

Unemployment Rate



Interest Rates



Source: Federal Reserve Bank of St. Louis, National Economic Trends, March 2024

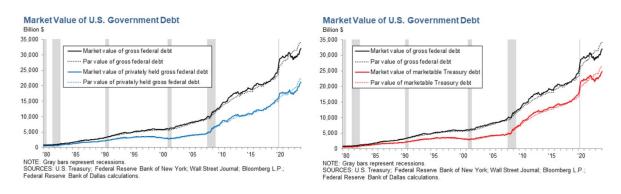
ECONOMIC REPORTS AND FORECASTS: UNITED STATES

FEDERAL RESERVE BANK, DALLAS NATIONAL UPDATE

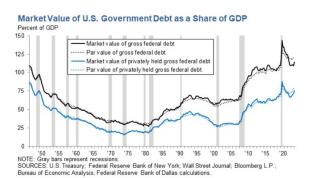
February 2024 - www.dallasfed.org

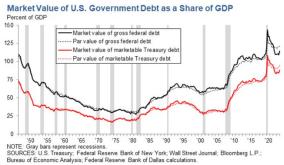
11 Market Value of U.S. Government Debt

The following charts plot the par and market values of U.S. government debt. Marketable Treasury debt and privately held gross federal debt are plotted in separate charts because they are generally very close to one another. This means that U.S. government debt held by the Federal Reserve and privately held nonmarketable U.S. government debt have historically been roughly the same size.

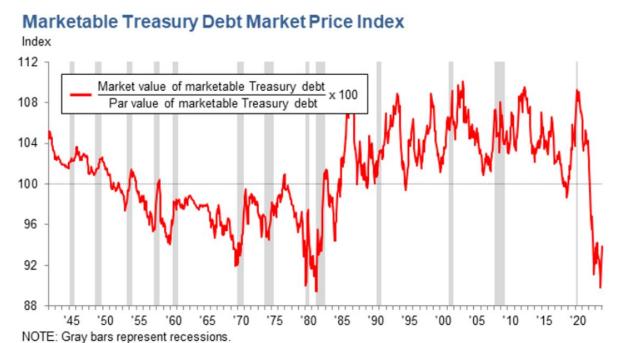


The following charts plot U.S. government debt as a percent of GDP to scale the debt to the nation's potential for repayment.





The following chart plots the price index for marketable Treasury debt. This index is applied to the nonmarketable debt components of gross federal debt and privately held gross federal debt to estimate their market value.



SOURCES: U.S. Treasury; Wall Street Journal; Bloomberg L.P.; Federal Reserve Bank of Dallas calculations.

↑ Trimmed Mean PCE inflation rate

The Trimmed Mean PCE inflation rate is an alternative measure of core inflation in the price index for personal consumption expenditures (PCE). It is calculated by staff at the Dallas Fed, using data from the Bureau of Economic Analysis (BEA).

The Trimmed Mean PCE inflation rate over the 12 months ending in January was 3.2 percent.
According to the BEA, the overall PCE inflation rate was 2.4 percent on a 12-month basis, and the inflation rate for PCE excluding food and energy was 2.8 percent on a 12-month basis.

One-month PCE inflation, annual rate

	Aug-23	Sept-23	Oct-23	Nov-23	Dec-23	Jan-24
PCE	4.4	4.7	0.5	-0.1	1.4	4.2
PCE ex F&E	1.2	4.0	1.9	1.1	1.8	5.1
Trimmed mean	2.5	3.7	2.6	1.8	1.8	5.0

Six-month PCE inflation, annual rate

	Aug-23	Sept-23	Oct-23	Nov-23	Dec-23	Jan-24
PCE	2.4	2.9	2.4	2.2	2.1	2.5
PCE ex F&E	2.7	2.7	2.3	1.9	1.9	2.5
Trimmed mean	3.1	3.1	2.8	2.6	2.5	2.9

12-month PCE inflation

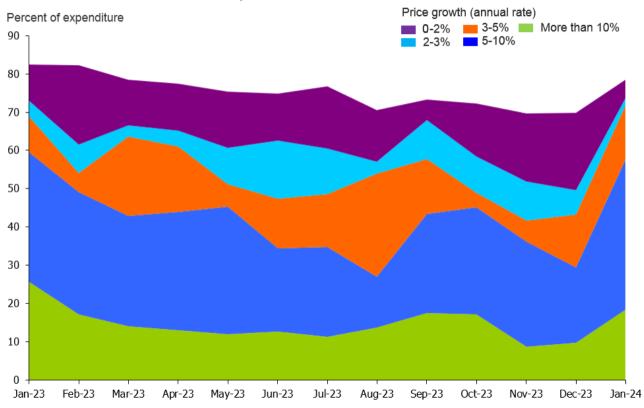
	Aug-23	Sept-23	Oct-23	Nov-23	Dec-23	Jan-24
PCE	3.3	3.4	3.0	2.7	2.6	2.4
PCE ex F&E	3.7	3.6	3.4	3.2	2.9	2.8
Trimmed mean	3.9	3.8	3.6	3.4	3.2	3.2

These tables present data on the Trimmed Mean PCE inflation rate and, for comparison, overall PCE inflation and the inflation rate for PCE excluding food and energy. The tables give annualized one-month, six-month and 12-month inflation rates.

	Jan-	Feb-	Mar-	Apr-	May-	Jun-	Jul-	Aug-	Sep-	Oct-	Nov-	Dec-	Jan-
	23	23	23	23	23	23	23	23	23	23	23	23	24
+0-2%	9.5	20.7	11.9	12.2	14.7	12.3	16.1	13.6	5.3	13.7	17.8	20.2	4.8
+ 2-3%	4.1	7.4	2.9	4.2	9.5	15.1	12.0	3.1	10.2	9.6	10.1	6.3	1.9
+ 3-5%	9.3	5.0	20.7	17.0	5.8	13.1	13.8	26.8	14.3	3.8	5.6	13.9	14.1
+ 5-10%	33.9	31.8	28.8	30.9	33.4	21.7	23.5	13.3	25.9	27.9	27.5	19.7	39.3
+ 10%	25.6	17.3	14.1	13.1	12.0	12.7	11.3	13.8	17.5	17.3	8.7	9.8	18.4
+ 2-3%	4.1	7.4	2.9	4.2	9.5	15.1	12.0	3.1	10.2	9.6	10.1	6.3	1.9
+ 3-5%	9.3	5.0	20.7	17.0	5.8	13.1	13.8	26.8	14.3	3.8	5.6	13.9	14.1

The following chart plots the evolution of the distribution of price increases in the monthly component data over the past year. The chart shows the percentage of components each month, weighted by their shares in total spending, for which prices grew between 0 and 2 percent (at an annual rate); between 2 and 3 percent; between 3 and 5 percent; between 5 and 10 percent; and more than 10 percent.

Evolution of the Distribution of Component Price Increases



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

Data Series	Sept 2023	Oct 2023	Nov 2023	Dec 2023	Jan 2024	Feb 2024
Unemployment Rate (1)	3.8	3.8	3.7	3.7	3.7	3.9
Change in Payroll Employment (2)	246	165	182	290	^(P) 229	^(P) 275
Average Hourly Earnings (3)	34.01	34.10	34.23	34.34	(P) 34.52	(P) 34.57
Consumer Price Index (4)	0.4	0.1	0.2	0.2	0.3	0.4
Producer Price Index (5)	0.2	-0.3	(P) 0.0	^(P) -0.1	(P) 0.3	(P) 0.6
U.S. Import Price Index (6)	0.5	-0.6	-0.5	-0.7	-0.8	0.3

Footnotes:

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

Data Series	4th Qtr 2022	1st Qtr 2023	2nd Qtr 2023	3rd Qtr 2023	4th Qtr 2023
Employment Cost Index (1)	1.1	1.2	1.0	1.1	0.9
Productivity (2)	^(R) 2.1	^(R) -0.6	^(R) 3.1	^(R) 4.7	3.2

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 18, 2023

THE FEDERAL RESERVE BOARD THE BEIGE BOOK — MARCH 6, 2024, EXCERPT

Overall Economic Activity

Economic activity increased slightly, on balance, since early January, with eight Districts reporting slight to modest growth in activity, three others reporting no change, and one District noting a slight softening. Consumer spending, particularly on retail goods, inched down in recent weeks. Several reports cited heightened price sensitivity by consumers and noted that households continued to trade down and to shift spending away from discretionary goods. Activity in the leisure and hospitality sector varied by District and segment; while air travel was robust overall, demand for restaurants, hotels, and other establishments softened due to elevated prices, as well as to unusual weather conditions in certain regions. Manufacturing activity was largely unchanged, and supply bottlenecks normalized further. Nevertheless, delivery delays for electrical components continued. Ongoing shipping disruptions in the Red Sea and Panama Canal did not generally have a notable impact on businesses during the reporting period, although some contacts reported rising pressures on international shipping costs. Several reports highlighted a pickup in demand for residential real estate in recent weeks, largely owing to some moderation in mortgage rates, but noted that limited inventories hindered actual home sales. Commercial real estate activity was weak, particularly for office space, although there were reports of robust demand for new data centers, industrial and manufacturing spaces, and large infrastructure projects. Loan demand was stable to down, and credit quality was generally healthy despite a few reports of rising delinquencies. The outlook for future economic growth remained generally positive, with contacts noting expectations for stronger demand and less restrictive financial conditions over the next 6 to 12 months.

Highlight of Dallas Federal Reserve

Economic activity expanded modestly, with most sectors holding steady or experiencing slight to modest growth. Wage growth was moderate, and input cost and selling price growth was generally at or below average. Texas firms were more bullish on demand expectations than late last year, with more than half of the firms' expecting increases over the next six months. Outlooks overall were less pessimistic.

ECONOMIC REPORTS AND FORECASTS: STATE OF TEXAS

FEDERAL RESERVE BANK, DALLAS

February 2024 - www.dallasfed.org 1

TEXAS ECONOMY MODERATES TOWARD MORE NORMAL GROWTH IN 2024

Texas economic growth remains healthy while gradually reverting to a more historically normal pace of expansion following the pandemic when a bust in the first half of 2020 preceded a subsequent boom.

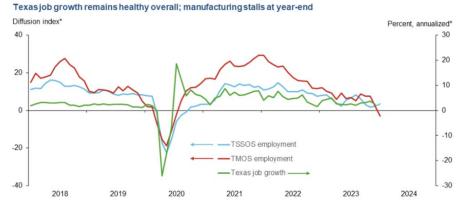
State job growth decelerated in fourth quarter 2023, and the latest readings from the Texas Business Outlook Surveys (TBOS) suggest that slowing continued in January and was more pronounced in manufacturing than in the service sector.

Labor market tightness is retreating, with fewer firms citing labor shortages as a concern and more reporting an improvement in the availability of applicants and in the ability to retain workers. Texas firms expect wage and cost pressures to ease in 2024 while remaining slightly elevated.

Texas job growth edged lower to 2.4 percent in fourth quarter 2023 from 3.0 percent in the third quarter. The

construction and energy sectors continued to post strong gains through year-end, while manufacturing job growth largely abated. In services, fourth-quarter job growth was broad based, led by health care and leisure and hospitality.

The services revenue index trended down throughout 2022, falling to zero at year-



*Seasonally adjusted three-month moving average.

NOTES: Texas Business Outlook Surveys are data through January 2024; Texas job growth is through December 2023. In a diffusion index, readings exceeding zero indicate growth and those below zero indicate contraction. The Texas Manufacturing Outlook Survey (TMOS) and the Texas Service Sector Outlook Survey (TSSOS) are shown.

SOURCES: Dallas Fed's Texas Business Outlook Surveys; Texas Workforce Commission, Bureau of Labor Statistics.

end before picking up slightly in January. Most services industries noted weakening revenues, with contacts citing high inflation and rising interest rates.

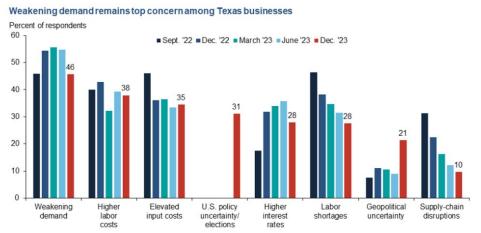
In 2023, employment grew 3.1 percent in Texas, down from 4.3 percent in 2022 and well above the U.S. growth of 2.0 percent.

¹ Ana Pranger and Emily Kerr

January data from the Texas Service Sector Outlook Survey (TSSOS) show continued employment growth, albeit at a slower pace than last year. Meanwhile, the Texas Manufacturing Outlook Survey (TMOS) employment index (three-month moving average) slipped into contractionary territory in January for the first time since 2020. Other Federal Reserve Banks' regional surveys also reported manufacturing weakness in January. However, upward movement in forward-looking TMOS indexes in January suggests the slump may be short-lived. Additionally, while 20 percent of manufacturers said in December that they were overstaffed, nearly all said they were opting not to undertake layoffs, suggesting they expect to need workers in the near future.

Weakening Demand Continues to Weigh on Outlook

Weakening demand was still the top outlook concern for 2024 among Texas businesses in December.



Elevated labor and input costs remain primary concerns, with a sharply higher share of firms citing geopolitical and domestic policy uncertainty. Labor shortages, higher interest rates and supply-chain disruptions are lessening worries.

NOTES: Firms were asked, "What are the primary concerns around your firm's outlook over the next six months, if any?" and could select up to three concerns. N = 351 in December 2023, and not all possible responses are shown. "U.S. policy uncertainty/elections" was added as a response choice in December 2023.

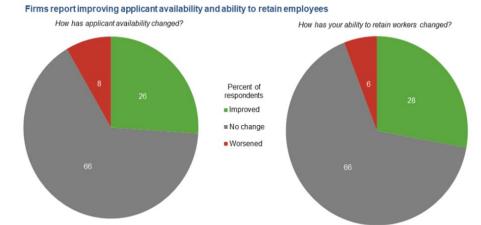
SOURCE: Dallas Fed's Texas Business Outlook Surveys

Federal Reserve Bank of Dallas

Texas firms are less apprehensive about labor shortages, which in December were largely contained to health care, retail, and leisure and hospitality.

Also, applicant availability was a retreating hiring impediment; in January, 26 percent of TBOS respondents said availability had improved over the prior month, while 8 percent said it worsened.

A similar share reported better ability to retain existing workers, a positive sign that the "Great Resignation" of 2021 and 2022 has petered out, and the very



NOTES: Respondents were asked, "How has the availability of applicants changed over the past month?" and "How has your ability to retain workers changed over the past month?" Data are from January 2024. SOURCE: Dallas Fed's Texas Business Outlook Surveys.

Federal Reserve Bank of Dallas

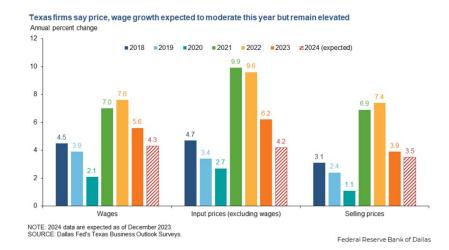
tight labor market that continued into 2023 is lessening.

1 Input Cost Growth Expected to Ease; Price Growth Likely Slower to Fall

Business cost growth — both labor and nonlabor — is likely to decelerate further in 2024, though not as strongly as last year. Wage growth is expected to slip to 4.3 percent in 2024 from 5.6 percent recorded in 2023, according to a TBOS special question. Nonlabor input cost growth is anticipated to fall to 4.2

percent from 6.2 percent in 2023. If these expectations for 2024 are realized, it will mean cost growth will have declined to near 2018–19 levels.

Businesses expect selling-price growth to remain slightly elevated, with only a modest stepdown this year. Selling-price growth of roughly 3.5 percent, if realized, would still exceed 2018-19 average growth of 2.7 percent.



Firms may be hoping relatively higher price growth will help them recapture some margins lost amid dramatic cost surges in the past two years. TBOS firms, particularly smaller businesses, have reported declining margins on net since mid-2022. Some contacts noted a lagging ability to pass on cost increases to customers.

☆ After a Strong Pandemic Recovery, More Normal Growth in 2024

Texas' economic expansion has downshifted but remains healthy moving through 2024. Employment growth is expected to continue in 2024, albeit at a slower pace and closer to the long-term trend.

There are some downside risks, however. Inflation remains a headwind for Texas, as growth in the Consumer Price Index for the state last year outpaced the nation (4.6 percent November/November compared with 3.1 percent for the nation). Among the largest U.S. metros, Dallas and Houston ranked second and seventh, respectively, for year-over-year price increases. Consumer resilience may be ebbing, and geopolitical risk and U.S. election uncertainty are increasing.

The outlook of Texas firms remains mixed and uncertain, as reflected in respondent comments in the latest TBOS. Some were positive, such as one warehousing and storage firm that said, "It's a very stable business environment at the moment." On the other hand, a textile product mill reported, "Overall, uncertainty is high, and I'm feeling less optimistic than I did last quarter."

Still, Texas is expected to experience further growth this year, outpacing the U.S. as it typically does.

TEXAS ECONOMIC STATISTICS U.S. BUREAU OF LABOR STATISTICS

Data Series	Aug 2023	Sept 2023	Oct 2023	Nov 2023	Dec 2023	Jan 2024	
Labor Force Data							
Civilian Labor Force (1)	^(R) 15,120.5	^(R) 15,131.4	^(R) 15,136.3	^(R) 15,132.9	(R) 15,130.6	^(R) 15,143.4	
Employment (1)	^(R) 14,154.6	^(R) 14,537.4	^(R) 14,545.8	^(R) 14,544.7	^(R) 14,542.8	(R) 14,558.8	
Unemployment (1)	^(R) 595.9	^(R) 594.0	^(R) 590.5	^(R) 588.1	^(R) 587.6	^(R) 584.6	
Unemployment Rate (2)	® 3.9	(<u>R</u>)3.9	^(R) 3.9	^(R) 3.9	^(R) 3.9	® 3.9	
Nonfarm Wage and Salary Employment							
Total Nonfarm ⁽³⁾	13,936.8	13,962.5	14,001.7	14,012.4	14,034.5	^(P) 14,053.4	
12-month % change	2.6	2.5	2.5	2.4	2.4	(P) 1.9	
Mining and Logging (3)	213.9	213.2	211.8	210.1	214.3	(<u>P</u>) 208.6	
12-month % change	4.9	3.5	2.0	0.9	2.2	(<u>P</u>)-1.6	
Construction (3)	824.3	829.6	829.0	835.6	837.9	^(P) 837.6	
12-month % change	6.8	4.3	4.1	4.5	4.2	(P) 3.0	
Manufacturing ⁽³⁾	958.6	960.8	960.3	960.4	962.0	^(<u>P</u>) 965.2	
12-month % change	2.5	2.3	2.1	1.8	1.8	(P) 1.8	
Trade, Transportation, and Utilities (3)	2,765.4	2,768.1	2,780.9	2,774.6	2,777.2	^(P) 2,773.8	
12-month % change	1.6	1.3	1.8	1.8	1.5	(P) 1.1	
Information ⁽³⁾	233.0	232.2	233.9	233.7	232.4	^(P) 232.4	
12-month % change	-0.8	-1.6	-1.0	-1.6	-1.9	P -2.1	
Financial Activities ⁽³⁾	905.8	906.1	909.5	909.3	908.4	^(P) 911.6	
12-month % change	2.0	1.7	1.7	1.6	1.5	^(P) 1.5	
Professional & Business Services (3)	2,118.2	2,116.7	2,117.1	2,127.3	2,122.1	^(P) 2,126.5	
12-month % change	0.6	0.5	0.2	0.6	0.3	^(P) 0.2	
Education & Health Services (3)	1,898.5	1,905.9	1,913.8	1,919.4	1,921.7	^(<u>P</u>) 1,925.7	
12-month % change	4.2	4.1	4.3	4.1	4.1	(<u>P</u>) 3.5	
Leisure & Hospitality (3)	1,484.6	1,489.5	1,494.9	1,487.5	1,497.4	^(<u>P</u>) 1,501.0	
12-month % change	4.2	4.1	4.2	3.2	3.7	(<u>P</u>) 2.0	
Other Services (3)	475.1	478.2	478.7	479.6	483.1	^(<u>P</u>) 488.1	
12-month % change	4.4	4.7	4.3	3.7	4.5	(<u>P</u>) 4.8	
Government (3)	2,059.4	2,062.2	2,071.8	2,074.9	2,078.0	(<u>P</u>) 2,082.9	
12-month % change	3.1	3.2	3.3	3.3	3.2	(<u>P</u>) 3.3	
Footnotes (1) Number of persons, in thousands, seasonally adjusted. (2) In percent, seasonally adjusted. (3) Number of jobs, in thousands, seasonally adjusted. (P) Preliminary. (R) Revised.							

Data extracted: March 13, 2024

FEDERAL RESERVE BANK SENIOR LOAN OFFICER OPINION SURVEY

The January 2024 Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) 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 2023.

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

For loans to households, banks, on balance, reported that lending standards tightened across all categories of residential real estate (RRE) loans other than government residential mortgages and government-sponsored enterprise (GSE)-eligible residential mortgages, for which standards remained basically unchanged. Meanwhile, demand weakened for all RRE loan categories. In addition, banks reported tighter standards and weaker demand for home equity lines of credit (HELOCs). Moreover, for credit card, auto, and other consumer loans, standards reportedly tightened, and demand weakened on balance.

While banks, on balance, reported having tightened lending standards further for most loan categories in the fourth quarter, lower net shares of banks reported tightening lending standards than in the third quarter across all loan categories.

The January SLOOS also included a set of special questions inquiring about banks' expectations for changes in lending standards, borrower demand, and loan performance over 2024. Banks, on balance, reported expecting lending standards to remain basically unchanged for C&I and RRE loans, but to tighten further for CRE, credit card, and auto loans. In addition, banks reported expecting loan demand to strengthen across all loan categories, and loan quality to deteriorate across most loan types.

BUSINESS LENDING

C&I Loans

Over the fourth quarter, moderate net shares of banks reported having tightened standards on C&I loans to firms of all sizes. Banks also reported having tightened most 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, costs of credit lines, and collateralization requirements, while significant or moderate net shares of banks reported tightening most other terms on C&I loans to firms of all sizes. Tightening of C&I lending

standards and terms was less widely reported by large banks than by other banks for loans to firms of all sizes. Regarding foreign banks, moderate net shares reported tightening standards on C&I loans and terms such as C&I loan covenants, while modest net shares reported tightening other terms, including the costs of credit lines, premiums charged on riskier loans, the maximum maturity of loans or credit lines, and collateralization requirements.

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, less aggressive competition from banks or nonbank lenders, and deterioration in their current or expected liquidity position as important reasons for doing so. Significant net shares of banks also cited the worsening of industry-specific problems; decreased liquidity in the secondary market for C&I loans; increased concerns about the effects of legislative changes, supervisory actions, or changes in accounting standards; and deterioration in their current or expected capital position as important reasons for tightening lending standards and terms over the fourth quarter.

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. Furthermore, 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. Meanwhile, foreign banks reported that

demand for their C&I loans remained basically unchanged.

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

CRE Lending

Over the fourth quarter, significant net shares of banks reported tightening standards for all types of CRE loans. Such tightening was more widely reported by other banks than by large banks. Major net shares of banks reported weaker demand for loans secured by nonfarm nonresidential and multifamily residential properties, and a significant net share of banks reported weaker demand for construction and land development loans. Similarly, significant net shares of foreign banks reported tighter standards and weaker demand for CRE loans over the fourth quarter.

LENDING TO HOUSEHOLDS

Residential Real Estate Lending

Over the fourth quarter, banks reported having tightened lending standards for all categories of RRE loans and HELOCs, except government residential mortgages and GSE-eligible residential mortgages, for which standards remained basically unchanged. Moderate net shares of banks reported tightening standards for qualified mortgage (QM) and non-QM jumbo residential mortgages, HELOCs, non-QM non-jumbo residential mortgages, and QM non-jumbo non-GSE-eligible residential mortgages. A modest net share of banks reported tightening standards for subprime residential mortgages.

Over the fourth quarter, major net shares of banks reported weaker demand for non-QM jumbo and non-jumbo residential mortgages, QM non-jumbo non-GSE-eligible residential mortgages, and GSE-eligible residential mortgages, while significant shares of banks reported weaker demand for QM jumbo residential mortgages, government residential mortgages, and subprime residential

mortgages. A moderate net share of banks reported weaker demand for HELOCs.

Consumer Lending

Over the fourth quarter, significant net shares of banks reported tightening lending standards for credit card and other consumer loans, while a modest net share of banks reported tighter standards for auto loans. Banks also reported tightening most gueried terms on credit card loans. Specifically, moderate net shares of banks reported tightening credit limits, higher minimum required credit scores, wider interest rate spreads over the cost of funds, and tightening 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 significant net share of banks reported wider interest rate spreads on such loans, and modest net shares reported higher minimum payment amounts on outstanding balances and tightening the extent to which loans are granted to some customers that do not meet

credit-scoring thresholds. For other consumer loans, moderate net shares of banks reported widening interest rate spreads over the cost of funds, higher minimum credit score requirements, and tightening the extent to which loans are granted to borrowers not meeting credit score criteria. A modest net share of banks reported higher minimum payment amounts on outstanding balances.

The remaining terms and conditions for each type of consumer loan remained basically unchanged.

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

SPECIAL QUESTION ON BANKS' OUTLOOK FOR 2024

The January SLOOS also included a set of special questions inquiring about banks' expectations for changes in lending standards, borrower demand, and asset quality over 2024, assuming that economic activity evolves in line with consensus forecasts. On balance, banks reported expecting lending standards to tighten for CRE, credit card, and auto loans, and expecting lending standards to remain basically unchanged for C&I and RRE loans. Banks reported expecting loan demand to strengthen across all loan categories. Banks also reported expectations of a deterioration in loan quality across most loan types during 2024.

Regarding lending standards, significant net shares of banks reported expecting to tighten standards for credit card loans and construction and land development loans. Moderate net shares of banks reported expecting to tighten standards for loans secured by nonfarm nonresidential properties and multifamily residential properties. A modest net share of banks expected to tighten standards for auto loans. Banks reported that they expect standards to remain basically unchanged over 2024 for C&I loans to firms of all sizes as well as for GSE-eligible residential mortgages and nonconforming jumbo mortgages. The most frequently cited reasons for expecting to tighten lending standards over 2024, reported by major net shares of banks, included an expected deterioration in collateral values, a less favorable economic outlook, an expected deterioration in credit quality of the bank's loan portfolio, an expected reduction in risk tolerance, an expected deterioration in the bank's liquidity position, and increased concerns about funding costs and about the effects of legislative or regulatory changes.

Regarding loan demand, significant net shares of banks reported expecting loan demand to strengthen across RRE loan categories and C&I loans to firms of all sizes over 2024, while moderate net shares of banks reported expecting loan demand to strengthen for loans secured by nonfarm nonresidential properties and credit card loans. Modest net shares of banks expected demand to strengthen for auto loans, loans secured by multifamily residential properties, and construction and land development loans. The most frequently cited reason for stronger loan demand over 2024, reported by a major net share of banks, was an expected decline in interest rates. Further, significant net shares of banks reported expected higher customer spending or investment needs, an expected shift of customers from other banks and nonbanks, and an expected decrease in precautionary demand for cash and liquidity as reasons for expecting stronger demand over 2024.

Regarding expectations for credit quality — as measured by delinquencies and charge-offs — significant or moderate net shares of banks reported expecting a deterioration in credit quality across most loan types over 2024. Specifically, significant net shares of banks reported expecting credit quality to deteriorate somewhat for credit card loans, loans secured by nonfarm nonresidential properties, C&I loans to small firms, auto loans, construction and land development loans, and loans secured by multifamily residential properties. Additionally, moderate net shares of banks reported expecting credit quality to deteriorate for GSE-eligible residential mortgages, nonconforming jumbo residential mortgages, and syndicated leveraged and non-syndicated C&I loans to large and middle-market firms. Credit quality is expected to remain basically unchanged for syndicated non-leveraged C&I loans to large and middle-market firms.

Regarding foreign banks, significant or moderate net shares of such banks reported expecting tighter standards for most C&I and CRE loans over 2024. In addition, foreign banks also reported expecting stronger demand for all C&I and CRE loan types, and a deterioration in the quality of most C&I and CRE loans during 2024.

ACKNOWLEDGEMENTS AND RESOURCES

"A Field Guide to the Taxes of Texas," Texas Comptroller's Office, Austin, Texas

"Advisory: Managing Commercial Real Estate Concentrations in a Challenge Economic Environment." Federal Deposit Insurance Corporation, Washington, D.C.

"Agencies issue 2023 Shared National Credit Program report." Federal Reserve System. February 16, 2024

"America's young population is shrinking overall – but growing in Texas and Florida. Here's why. Both domestic and international migration play a role." By Alejandra O'Connell-Domenech. The Hill. January 18, 2024

Baker Hughes, Houston, Texas

Banking Economic and Business Survey, Texas Department of Banking, Austin Texas

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

"Credit Risk Management. What it is and why it matters." SAS.com

"Do you know your level of Uninsured Deposits," By Melissa Dvoracek. Texas Department of Banking, Austin, Texas

Federal Deposit Insurance Corporation, Washington, D.C.

Federal Reserve Bank of Dallas, Dallas, Texas

Federal Reserve Bank of Dallas Energy Indicators report. January 4, 2024

Federal Reserve Bank of Dallas Texas Business Outlook Surveys

Federal Reserve Bank of St. Louis, St. Louis, Missouri

"Here's the inflation breakdown for December 2023 — in one chart." CNBC.com. January 11, 2024.

"Inflation rate grows to 3.4% in December 2023: High housing costs and rent are to blame." nbcnews.com.

Office of the Governor, Austin, Texas

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

"State Employment and Unemployment Monthly News Release," U.S. Bureau of Labor Statistics

"Supervision and Regulation Report," The Federal Reserve System

Texas Comptroller of Public Accounts, Austin, Texas

Texas A&M AgriLife Extension, College Station, Texas

Texas Department of Banking, Austin, Texas

Texas Department of Savings and Mortgage Lending, Austin, Texas

"Texas economy moderates toward more normal growth in 2024." By Emily Kerr and Ana Pranger Federal Reserve Bank of Dallas, Dallas, Texas

Texas Farm Bureau, Waco, Texas

Texas Housing Insight. December 2023 Summary. By Joshua Roberson and Koby McMeans. Real Estate Research Center at Texas A&M University. February 20, 2024. College Station, Texas

Texas Workforce Commission, Austin, Texas

"The Importance of Liquidity Risk Management," By Melissa Dvoracek. Texas Department of Banking, Austin, Texas

The Mortgage Reports, Bellevue, Washington

The Perryman Group, Waco, Texas

- 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
- "U.S. Population Trends Return to Pre-Pandemic Norms as More States Gain Population." U.S. Census Bureau. December 19, 2023

USDA Crop Progress Report for October 29, 2023w.

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

Condition of the Texas State Banking System Reports.