March 2025

Condition of the Texas State Banking System

Texas Department of Banking

Texas Department of Savings and Mortgage Lending

Financial Data as of December 31, 2024

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<u>Symbols Used Throughout this Report</u>:		**<u>Abbreviations Used Throughout this Report</u>:**
⇧	Improving or strong conditions	FDIC – Federal Deposit Insurance Corporation
⇩	Deteriorating or weak conditions	OCC – Office of the Comptroller of the Currency
⇳	Mixed conditions	FRB – Federal Reserve Board

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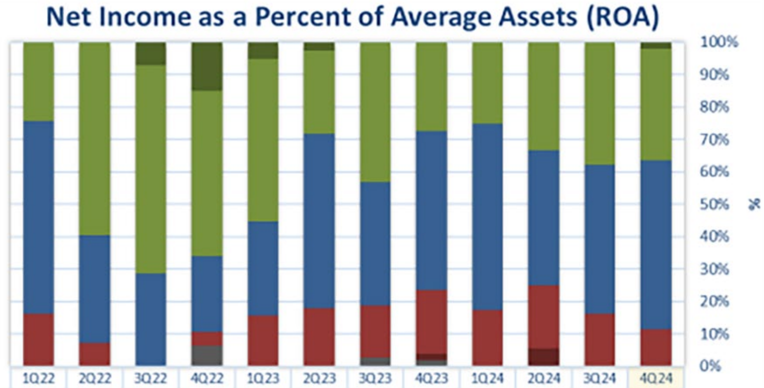
ECONOMIC REVIEW AND OUTLOOK

In 2024, Texas and the U.S. economy remained strong despite seeing signs of slowdown in job growth. The state outpaced the nation in growth last year while also experiencing massive migration numbers. A flexible housing market, elevated oil production in spite of a declining rig count, and improving drought conditions also kept Texas' economy healthy in 2024. While experiencing a mostly positive 2024, new leadership in the Texas Legislature and Washington, D.C. are creating uncertainty for the future.

The fourth quarter 2024 Banker Economic and Business Survey results by the Texas Department of Banking provide insight into the industry's perception about the health of the economy. Overall, bankers appeared optimistic about the future, but voiced some concerns about what might happen over the next few months. Bankers noted that cybersecurity and regulatory burden posed the greatest risks for financial institutions heading into 2025. Respondents reported state and local economic conditions, population growth, consumer confidence, national political direction, and loan demand as the most influential factors that will impact their banks' condition and performance in 2025.

The survey found that 37% of participants reported net income as a percent of average assets (ROA) increased or significantly increased in the fourth quarter. Thirty-eight percent of participants indicated that their institutions' net interest margin rose in the fourth quarter, while 21% reported a decline. Almost half, 46%, of the respondents had a positive outlook for the stock market over the next six months. While 31% of participants expected an increase in inflation (consumer prices), 56% expected no change for the first half of 2025.

Net Income as a Percent of Average Assets (ROA)



	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
Significantly Increasing	0%	0%	7%	15%	5%	3%	0%	0%	0%	0%	0%	2%
Increasing	24%	60%	64%	51%	50%	26%	43%	27%	25%	33%	38%	35%
Same	59%	33%	29%	23%	29%	54%	38%	49%	58%	42%	46%	52%
Decreasing	16%	7%	0%	4%	16%	18%	16%	20%	18%	19%	16%	12%
Significantly Decreasing	0%	0%	0%	0%	0%	0%	0%	2%	0%	6%	0%	0%
N/A	0%	0%	0%	6%	0%	0%	3%	2%	0%	0%	0%	0%

The Texas economy remains one of the strongest in the nation. Although the state has seen some slowdown in job growth, many sectors continue to produce elevated numbers ensuring Texas' economy remains strong. Many smaller metropolitan (metro) areas experienced a boom in job growth and produced remarkable numbers across the Lone Star State in 2024.

On March 28, 2025, the U.S. Bureau of Economic Analysis reported that the Texas' real gross domestic product (GDP) grew at an annual rate of 3.5% in the fourth quarter of 2024, ahead of the U.S. average of 2.4%. The report reiterates the state's economy grew at a faster rate than the nation during this period. Preliminary estimates also showed that the Texas economy grew to $2.7 trillion in size, up from $2.6 trillion in 2023.

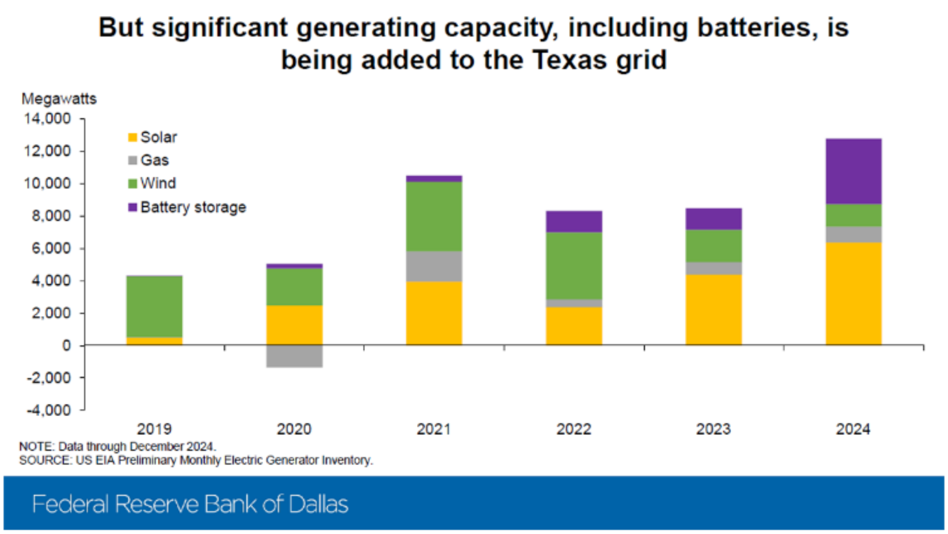
According to the U.S. Census Bureau report, Growth in Metros Outpaced Nation, between July 1, 2023, and July 1, 2024, the number of people living in a U.S. metro area increased by nearly 3.2 million (1.1%) to 293.9 million. Comparatively, the nation's total population increased by nearly 1% to more than 340 million. In 2024, 86.4% of the U.S. population lived in metro areas. Metro areas grew faster from 2023-24 than between 2022-23. The collective increase is largely due to net international migration, approximately 2.7 million, with an additional 0.6 million from natural increase (excess of births over deaths).

International and domestic migration help boost Texas' population to 31.3 million in 2024, up from 30.5 million in 2023, according to the U.S. Census Bureau. Texas ranked second in the nation in population for

2024, with only California outranking it with 39.4 million. Despite a slowdown in some areas, Texas still boasts some of the most populous areas in the nation, and that trend appears likely to continue into 2025.

The Federal Reserve Bank of Dallas (FRB Dallas) described the state's housing market as having an elastic housing supply, meaning the state builds a great deal, is flexible and responds to prices and incentives. For the most part, the 2024 housing market in Texas remained stable with most aspects mimicking the trends seen in 2023.

Despite a declining rig count in 2024, oil production rose slightly. Oil prices stayed around $70 a barrel for West Texas Intermediate (WTI) crude, despite experiencing some peaks and valleys that put prices above $85 a barrel or under $70 throughout 2024. Economists expect the price of oil to remain around $70, at least for the first half of 2025.



Energy demands continue to increase. In response, the state has been adding more capacity to the electric grid in order to meet growing electricity consumption demands.

Texas is adding more battery storage, improving capacity and encouraging more people to use renewable energy in an attempt to keep up with increasing demand.

Although drought conditions persisted, some areas appeared to improve in 2024. Texas Governor Greg Abbott renewed a Drought Disaster Declaration in January 2025. The declaration includes 71 counties classified as facing exceptional drought conditions. Extremely dry conditions and threat of wildfires could mitigate agriculture and farming industries in 2025.

State-Chartered Banking Profile (Department of Banking)

As of December 31, 2024, there were 212 state-chartered banks, compared to 213 reported as of December 31, 2023. This net reduction of one bank in the year-to-year comparison was the result of three banks leaving the Texas state banking system through mergers:

- Two state banks merged with and into other Texas state banks, and
- One state bank merged with and into an out-of-state national bank.

This activity was offset by two banks entering the Texas state banking system:

- One national bank converted to a Texas state-chartered bank, and
- One Texas state savings bank converted to a Texas state-chartered bank.

Overall assets of Texas state-chartered banks grew from $432.1 billion as of year-end 2023 to $452.3 billion as of year-end 2024; an increase of $20.2 billion. The two conversions noted above account for $18.9 billion of the net increase in banking assets in 2024.

The Department processed 273 applications and notices in 2024. The distribution of those filings is as follows:

- Bank and bank holding company related filings: 188;
- Foreign bank related filings: 3;
- Money services business filings: 13;
- Trust company related filings: 5;
- Check verification company related filings: 2; and
- Other filings primarily related to requests to use certain names: 62.

State-Chartered Thrift Profile (Department of Savings and Mortgage Lending)

State-chartered thrift assets under the Department's jurisdiction totaled $319.5 billion as of December 31, 2024, a decrease of $33.8 billion or 9.6% over the prior year. The number of thrift institutions totaled 21 during 2024, remaining the same as the prior year. One state savings bank converted out of the portfolio and one de novo charter was issued. Through December 31, 2024, state thrifts had $1.18 billion in year-to-date net income, remaining the same as December 31, 2023, in year-to-date income.

Total loans and leases increased $2 billion or 3.6% compared to the prior year, totaling $57.9 billion as of December 31, 2024. The increase in total loans was primarily due to the $1.1 billion increase in first lien residential real estate loans, and a $15.5 billion increase in other loans, offset with a $941 million decrease in commercial real estate loans, and a $9.3 billion decrease in loans to individuals. The level of non-current assets plus other real estate owned to total assets remains low in state-chartered thrifts at 0.07% of total assets, a slight increase from 0.05% 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 increased $4.3 million since December 2023, totaling $6.2 million as of December 31, 2024.

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

Texas Economic Profile

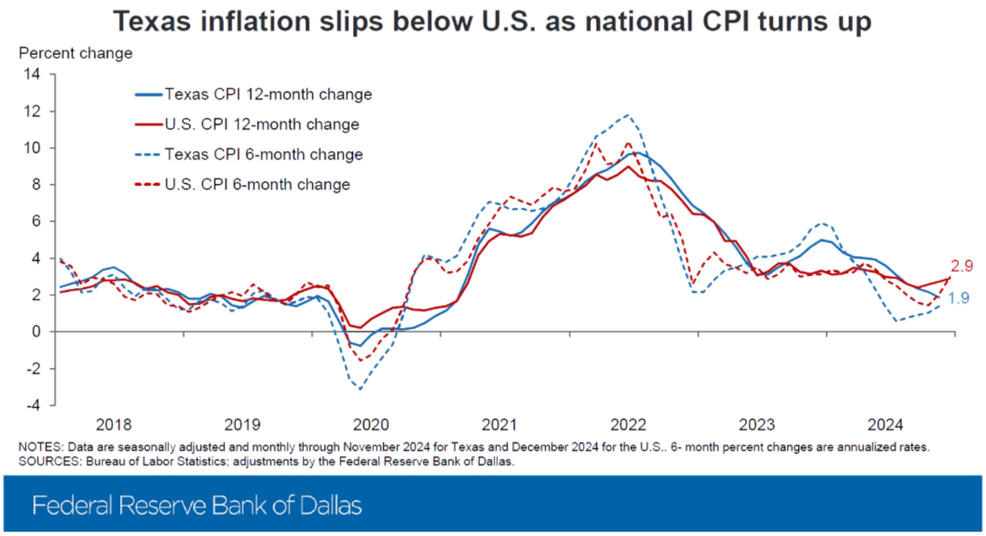
According to the FRB Dallas, the state's economy remains healthy but has slowed more than expected. Job growth for 2024 was 1.7%, after rising to 2.4% in 2023. This was below previous growth trends as well as the forecasted growth of 2%. Strong growth was seen in the oil and gas, financial services, and construction sectors. Government job growth slowed in 2024; however, more spending from the Texas government could boost hiring at the state and local level going into 2025.

Higher interest rates, falling oil and gas prices, and election uncertainty likely affected some investment and hiring decisions, especially in the second half of 2024. The FRB Dallas forecasts job growth will remain at 1.6% in 2025, slightly down, but on the same pace as in 2024.

FRB Dallas' Business Outlook Surveys reveal that business leaders are optimistic about what they will see in terms of deregulation, tax cuts, the state's robust business climate and budget surplus in 2025. Although factors like higher tariffs, lower immigration, and the rollback of federal government spending could negatively impact the Texas economy, businesses seem to hold a positive outlook for 2025.

The federal surveys also indicated that inflation remains one of the top concerns for Texas business owners in December 2024. Other concerns going into the first half of 2025 include domestic policy uncertainty and demand and labor costs. Texas businesses are expecting higher prices in 2025 but slightly lower wage and cost inflation.

The state's Consumer Price Index (CPI) rose 1.9% over a 12-month period ending in December 2024. This was a smaller increase than reported for the U.S. The national CPI rose 2.9% for the same year-over-year period.

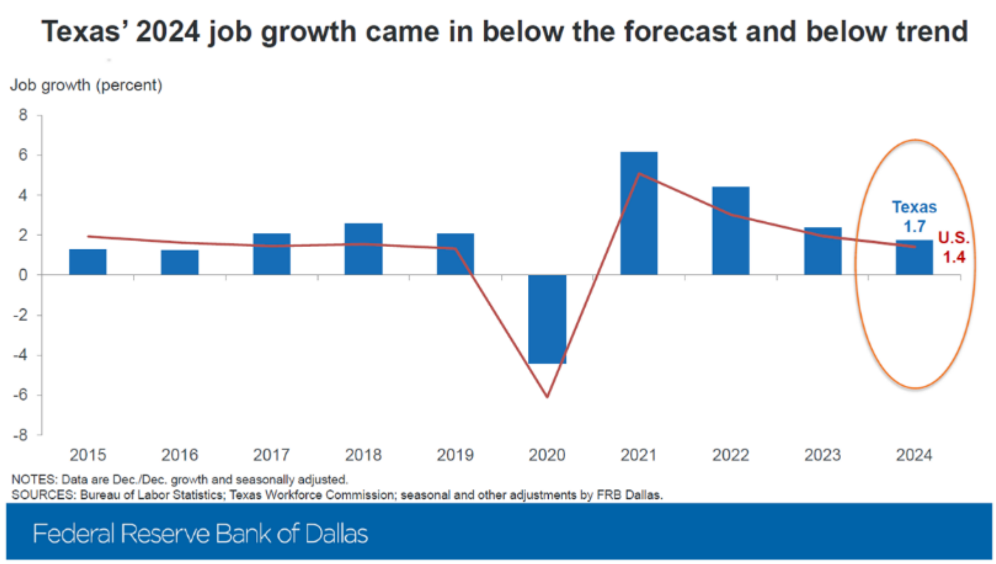


Bankers responding to the FRB Dallas' Banking Conditions Survey in December 2024 reported increases in loan demand and volume. Bankers also noted that nonperforming loans rose but at a slower pace. Financial institutions expect an increasingly rapid improvement in loan demand and business activity and just a mild deterioration in loan performance in the first half of 2025.

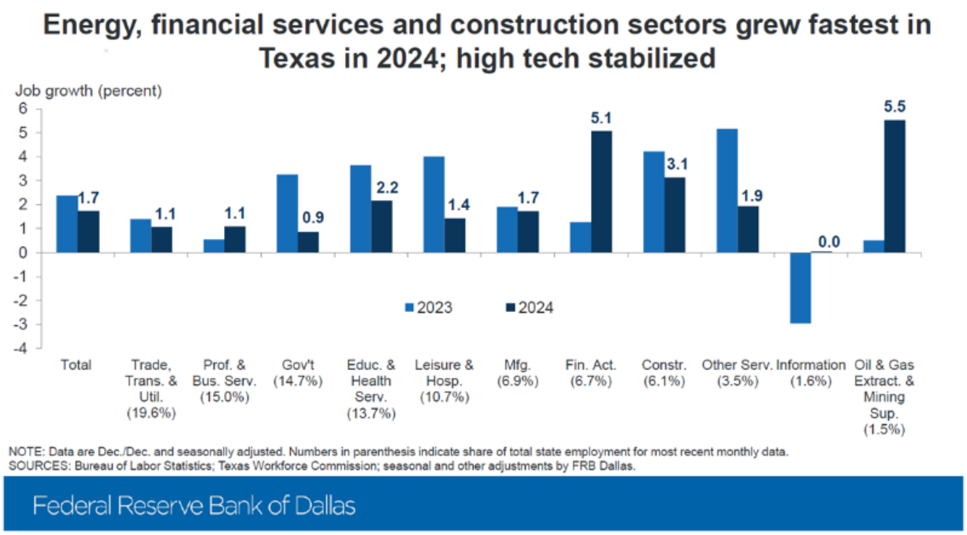
A March 2025 report released by the Perryman Group warns about the impact tariffs could have on the economy. Because Texas remains the largest exporting state in the nation, it bears a significant amount of the national burden. Mexico continues to be Texas' top import source country, with the state taking in $157.6 billion in products last year. Mexico is also the top export market for Texas. Many goods pass back and forth across the border multiple times during the production process, creating the prospect of cascading price increases. In 2024, Texas imported $38.6 billion in items from Canada and $35.9 billion from China, which is much less than Mexico, but still significant.

EMPLOYMENT

Typically, job growth in Texas outpaces the nation by a full percentage point. In 2024, however, Texas' job growth was 1.7%, slightly above the nation's 1.4% growth rate. While job growth in Texas remains at a healthy margin, it is just not as large or as typical for the Texas economy.



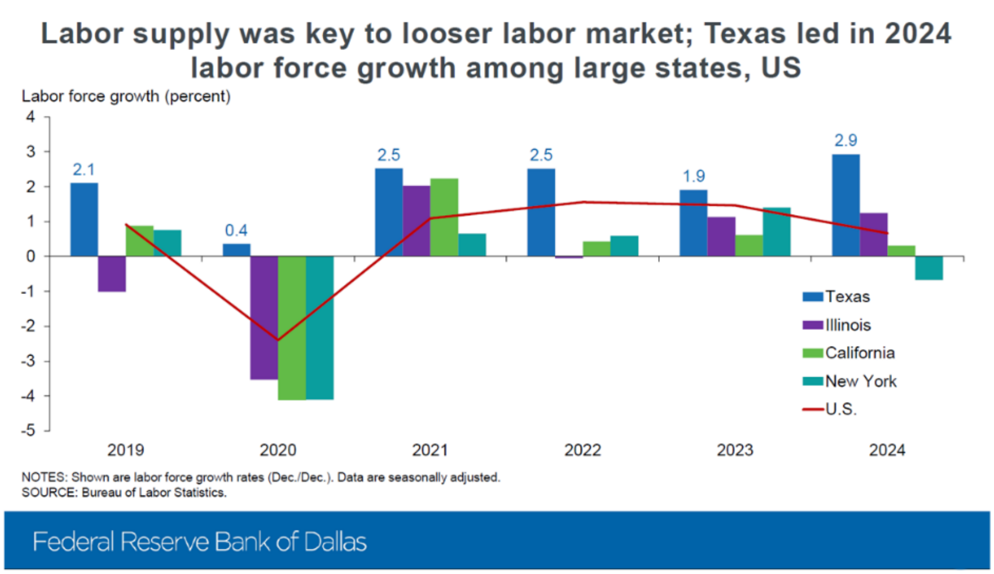
Job growth among the state's smaller sectors stood out last year. Energy, financial services and construction grew the fastest in 2024 when compared to 2023, while the high-tech sector stabilized in 2024. The information sector, which is mostly high-tech, saw layoffs mostly dissipate in 2023. A pick-up in growth in Texas helped towards the end of 2024, and therefore the information sector saw no net losses. Bigger sectors in Texas offered more high-paying jobs, which is significant going forward. Professional and business services, however, did not perform well in 2023 or 2024.



Major metropolitan areas experienced unimpressive job growth in 2024 when compared to the state average of 1.7%. Houston and Fort Worth grew the fastest at 1.4% last year. Dallas and San Antonio did not fare much better with 1.1% job growth. Austin, which did the worst among major metro areas, saw job growth of only 0.5%.

Smaller metro areas told a different story, however, with many, like Beaumont and Brownsville, seeing record labor force growth. Beaumont was Texas' top performer with a 4.9% increase, while Brownsville followed with a 3% boost. Other smaller regions like College Station (2.8%), Abilene (2.6%) and Amarillo (2.5%), also did well.

The labor market seemed more balanced in 2024 compared to previous years. The unemployment rate rose slightly by the end of 2024 to finish at 4.2% in Texas and 4.1% in the U.S. Both unemployment rates have stayed at around 4% since 2022, and that trend is expected to continue, which is a good sign for both economies. The labor market in Texas shows more signs of strength as the state is averaging one job opening per unemployed worker while the U.S. averages 1.1.



Texas continued the trend of leading in labor force growth among large states in 2024. The state's labor force grew by 2.9% in 2024, up from 1.9% in 2023, outpacing Illinois, California, New York and even the national average. Texas has continued to outpace these states since 2020.

Population

According to the U.S. Census Bureau, two Texas counties ranked in the Top 10 for most populous counties nationwide as of July 1, 2024.

- Harris County ranked third in the most populous counties in the nation in 2024 with 5.0 million people, up from 4.9 million in 2023.
- Dallas County was the eighth largest with 2.7 million people in 2024, increasing from 2.6 million the year before.

Four Texas counties were in the Top 10 for U.S. population growth from July 1, 2023, to July 1, 2024.

- Harris County took the top spot with the addition of 105,852 people.
- Collin County ranked fourth nationwide with an increase of 46,694 people.
- Montgomery County and Tarrant County ranked ninth and tenth, with numeric growth of 34,268 and 32,793, respectively.

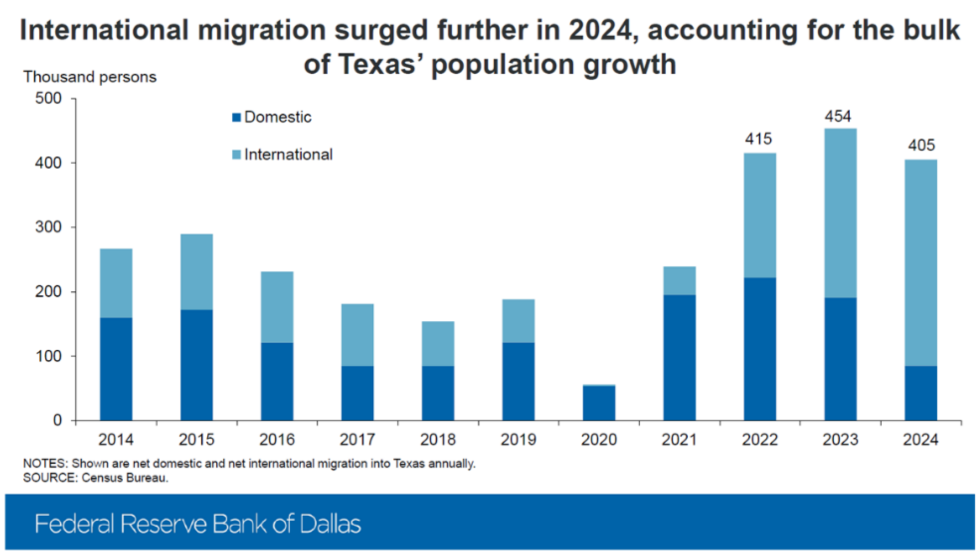
In addition, four counties in Texas were ranked in the Top 10 for year over year percent growth.

- Kaufman County ranked second nationally with growth of 6%, an increase from 186,715 in 2023 to 197,829 in 2024.
- Liberty County ranked sixth with a 5.4% growth rate, increasing from 109,172 in 2023 to 115,042 in 2024.
- Montgomery County, ranked seventh in the nation, grew by 4.8%, from 715,345 in 2023 to 749,613 in 2024.
- Caldwell County was ranked ninth with 4.6% growth, increasing from 50,107 in 2023 to 52,430 in 2024.

Two of the state's major metro areas saw higher population numbers in 2024.

- The Houston- Pasadena-The Woodlands metro area ranked second in the nation in numeric growth with an increase of 198,171 people, or 7.6 million in 2023 to 7.8 million in 2024.
- The Dallas-Fort Worth- Arlington metro area was ranked third nationally with 177,922, or 8.2 million in 2023 to 8.3 million in 2024.

A major contributing factor in the state's labor force growth and population figures in 2024 is migration. Usually, Texas averages about 220,000 people in net migration. Most of these numbers are attributed to domestic migration. Yet, in 2024, Texas saw an enormous decline in domestic migration, but, at the same time, saw a remarkable surge in international migration.



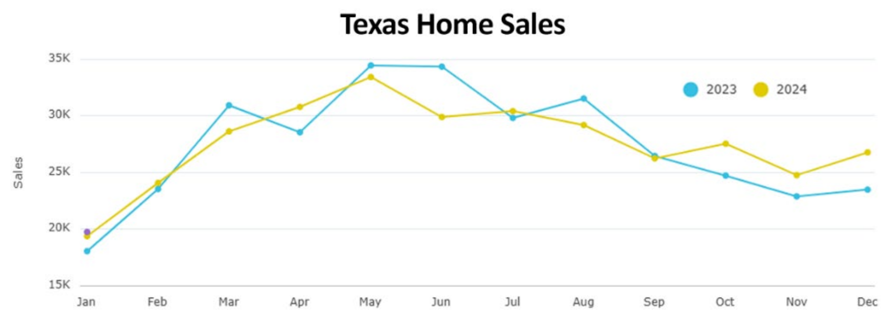
International migration accounted for the majority of the 405,000 people that moved into Texas in 2024. Population growth and labor force growth were both strong in 2024. Population growth last year was 1.8%, which is considered high.

HOUSING

The Texas' housing market appears to have stabilized in 2024, although there were some key fluctuations. The Real Estate Research Center at Texas A&M University (Real Estate Research Center) reported monthly home sales began the year at 19,353 in January 2024, then increased to a high of 33,403 in May, before gradually declining to finish the year at 26,754. Interestingly though, sales in year-over-year comparisons varied greatly with highs of 11.42% in October and 14% in December and lows of -12.97% in June and -7.44% in March and August.

Monthly sales dollar volume started the year at $7.6 billion, then gradually increased to a high of $14.7 billion in May. For the rest of the year, total dollar volume fluctuated until finishing at an elevated $11.4 billion in December 2024.

The median price of homes began the year at $324,950 and stayed relatively stable. The highest median home price was $345,000 in May, July, and August, then falling slightly over the next few months to end at $340,000 in December 2024.



The Real Estate Research Center at Texas A&M University

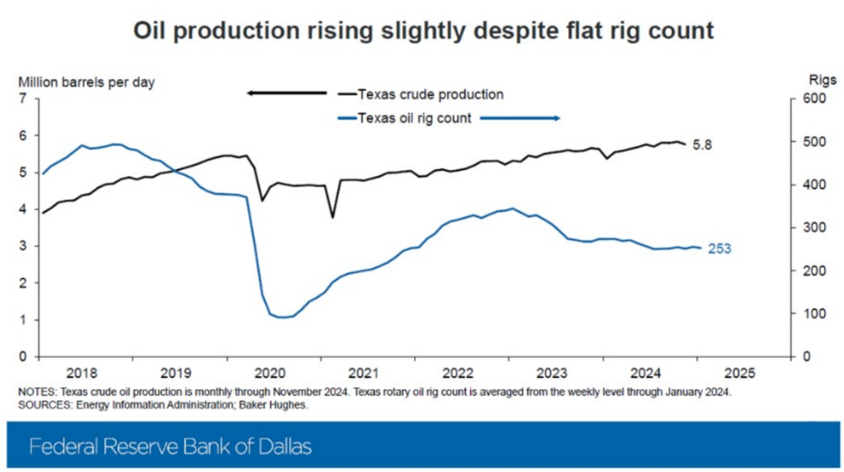
Active listings and months inventory show how long houses remained on the market in 2024. Active listings in January 2024 totaled 92,984 with months inventory of 3.38. Active listings hit their highest numbers in September and October with 127,179 and 127,944, respectively. Those numbers fell to 113,899 to finish the year. The number of months at which homes stayed on the market also saw their highest figures in September (4.73) and October (4.71), before finishing the year at 4.13 months.

In October 2024, Texas' mortgage rate was 6.4%, according to the most recent data from the Real Estate Research Center. Data also showed that the state's average mortgage rate began the year at 6.75% in the first quarter. The average mortgage rate stayed mostly the same for the rest of the year, hitting 7% in the second quarter, then falling to 6.51% and 6.63% for the third and fourth quarters, respectively.

Comparatively, the national 30-year-fixed mortgage average also wavered between 6% and 8% in 2024. It began the year at 6.62%, rose to a high of 7.22% in May, then fluctuated before finishing the year at 6.69%.

Single-family housing permits felt a slight boost in the Spring of 2024. The number of dwelling units began the year at 12,873 and proceeded to rise over the following months, hitting a high of 15,810 in April. March and May also saw elevated numbers at 14,458 and 14,788, respectively. The number of dwelling units varied over the following months, before settling in at 11,809 in December of 2024.

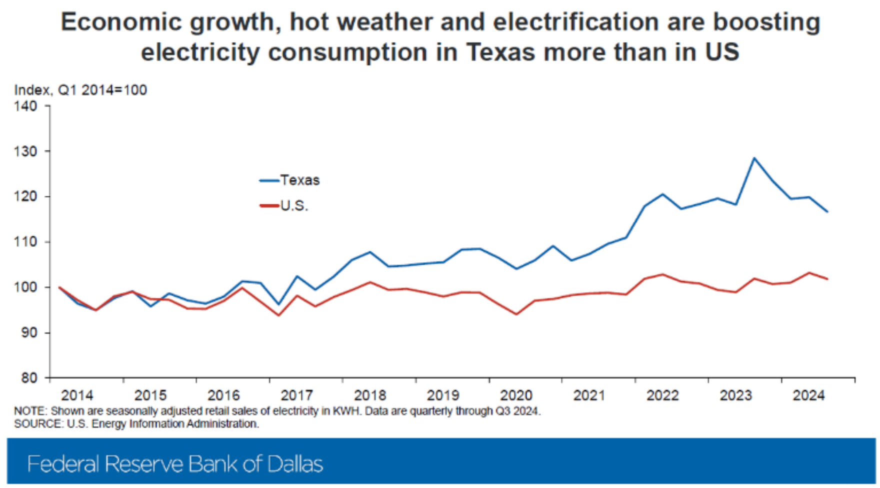
Oil and Gas



Oil production rose slightly in 2024. However, the state's average rig count finished the year at 253 rigs. Despite that, Texas ended 2024 producing about 5.8 million barrels per day, slightly above the beginning of the year production.

In 2024, oil prices fluctuated between $68 and $85 dollars per barrel. The Federal Reserve Bank of St. Louis Economic Data (FRED) reported the price per barrel of West Texas Intermediate (WTI) crude was at $70.62 at the beginning of 2024. Prices rose and fell throughout the year, hitting highs of more than $85 a barrel in April and July and lows under $70 for the last four months of 2024. Oil prices stabilized to end the year at $72.44 per barrel.

The Henry Hub gas spot price of natural gas started the year at $3.18 per million British thermal unit (btu), according to the U.S. Energy Information Administration. Natural gas prices quickly fell though, reaching a low of $1.49 btu in March. However, natural gas prices slowly rose through the remainder of the year to finish at $3.76 btu in December.

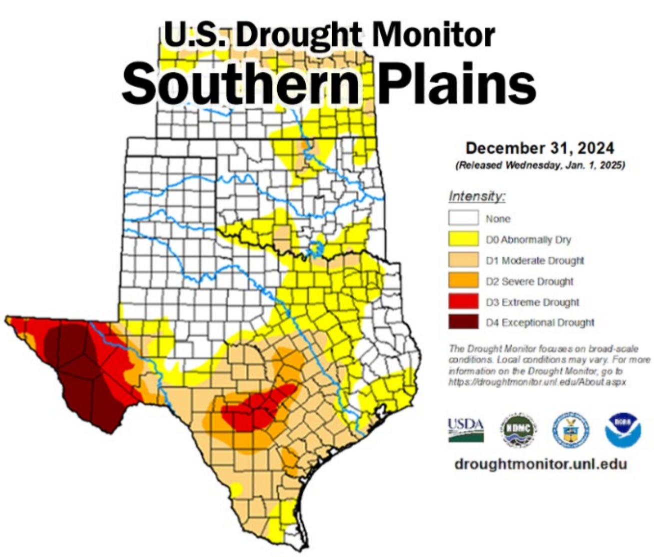


The state's energy sector appears stable, but the electric grid has been under economic pressure, according to the FRB Dallas. Electricity consumption demands are being boosted nationally, but even more so in Texas. Contributing factors, such as economic growth, population growth, above average temperatures, extreme, large weather episodes and electrification, require more and more electricity. Higher electric demands are putting a lot of pressure on the grid and causing apprehension among Texans, especially after experiencing rolling blackouts in 2021. Fortunately, Texas has been working on adding more capacity to the grid over the past few years.

The most significant development energy wise, despite adding more solar power overall, is deployment of batteries. Deploying more batteries has enabled the state to use renewables and ignore some of their more unreliable aspects. By adding more batteries to the grid, the state can bridge a critical gap. As a result, the grid appears to be solid and in good shape moving into 2025.

Agribusiness

The National Integrated Drought Information System reported that drought conditions persisted throughout the Southern Plains, which includes Texas, in 2024. But conditions shifted, waxed and waned over the course of the year. Moderate to extreme drought conditions continued in the Texas Hill Country in January 2024, but the most severe drought conditions were found along the Texas/Louisiana border and Southern New Mexico. A very wet week in January, which included more than 5 inches of rain, in Eastern Texas and Northern Louisiana improved, but did not eliminate, drought conditions in these areas.



Drought conditions rapidly intensified because of above-average temperatures that scorched the Southern Plains in late July and early August 2024. On July 8, Hurricane Beryl made landfall near Houston and bought heavy rain and flooding to Eastern Texas. However, rainfall missed the most drought-affected parts of the state. Extreme to exceptional drought conditions persisted or developed in far West Texas.

Average to below-average rainfall in August improved drought conditions in the Texas Hill

Country, but drought persists in this area. Kendall County, Texas got a break from extreme drought in September, breaking a 129-week streak, only to return, four weeks later.

The Federal Reserve Board (FRB) concluded in its January 2025 Beige Book that drought conditions in the 11th Federal Reserve District retreated in parts of the area and remained present in others. In the cattle sector, rainfall resulted in farmers seeing significantly higher calf prices and more ample grazing.

Row crop producers struggled financially in 2024 because of largely unprofitable crop prices. Many in the field expressed financial concerns heading into 2025. The winter wheat crop appeared as a bright spot for many producers because of strong production prospects and solid demand. The FRB reported that many contacts voiced concerns about potential retaliatory tariffs on agriculture exports disrupting the market.

Tax Revenue

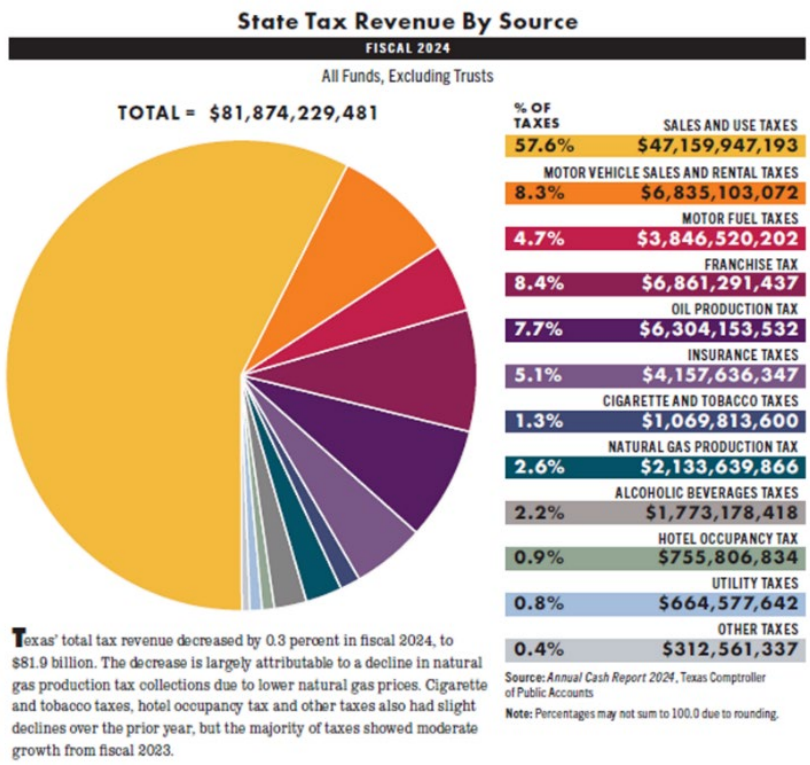
Texas' total tax revenue decreased by 0.3% in fiscal year 2024 to $81.9 billion according to the Texas Comptroller of Public Accounts' annual report, *Taxes of Texas, A Field Guide*. The report, which identifies the state's tax revenue by source, notes that the decline is most likely due to lower gas prices which caused a decrease in natural gas production tax collections. Overall, the majority of taxes showed moderate growth in fiscal year 2024 from 2023.

Sales taxes are the state's largest source of tax revenue, bringing in $47.1 billion in fiscal year 2024, slightly up from $46.6 billion in fiscal year 2023. Sales and use taxes accounted for 57.6% of revenue excluding trusts.

Motor vehicle sales and rental taxes, representing 8.3% of tax revenue, stayed relatively stable at $6.8 billion in 2024.

The state's primary tax on business franchise tax, accounted for about 8.4% of total tax revenue with $6.8 billion. The franchise tax revenue stayed mostly the same in 2024, earning $6.8 billion.

Oil production tax made up 7.7% of total tax revenue rising slightly to $6.3 billion in 2024 from $5.9 billion in 2023.



Texas Comptroller of Public Accounts

Insurance taxes earned 5.1% of tax collections in 2024 with $4.1 billion. Motor fuel taxes took in 4.7% of total tax revenue with $3.8 billion.

Natural gas production tax collections decreased again from $3.4 billion in 2023 to $2.1 billion in 2024, while still contributing to 2.6% of total tax revenue collected.

Alcohol beverage taxes tallied $1.7 billion, 2.2% of total tax revenue, while cigarette and tobacco taxes accounted for $1 billion, or 1.3%.

Hotel occupancy tax collections earned $755.8 million (0.9%) and Utility taxes brought in $644.5 million (0.8%) as other taxes filled out the rest of total revenue at $312.5 million (0.4%).

Supervisory Concerns

A number of 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:

Cybersecurity Risks

Financial institutions face threats on many fronts. Ransomware threat actors remain prolific in utilizing social engineering tactics and exploiting hardware and software vulnerabilities to gain a foothold into bank systems. Cyber threats are intensified by geopolitical threats from state-sponsored actors from China, Russia, Iran, North Korea and others. Successful ransomware attacks involving the unauthorized access to or theft of customer and/or company data can create nightmare scenarios for financial institutions.

Ransomware threat actors are skilled at utilizing phishing and other social engineering tactics against unsuspecting employees and executives to gain access to systems or system credentials. Financial institutions are also exposed to risks associated with the actions of state-sponsored threat actors. Russian threat actors have compromised Microsoft email systems and Chinese threat actors have compromised nine telecommunications companies in the United States. The use of “Living Off the Land” techniques enables threat actors to remain undetected in networks and systems for the purpose of disrupting systems and networks, gaining lateral access to critical operational control systems, and creating chaos when the threat actor chooses. Financial institutions should ensure that appropriate cyber hygiene practices and controls are in place to mitigate cybersecurity risk.

Market Risk

Many in the industry have growing concerns about the financial market heading into 2025. Some of these factors include:

- In 2024, the Federal Open Market Committee determined inflation had stabilized enough to cut short-term interest rates three times. Rates declined 100 basis points in the second half of 2024.
- The level of non-core funding across Texas banks declined overall compared to year-end 2023. Core deposits have returned to pre COVID-19 levels, but cost of funding has increased due to elevated deposit competition. Deposits remain a priority topic for banks. Although interest rates are falling, banks must manage profit margins amid heightened deposit competition. Competition for deposits has expanded due to the rise in digital banking, fintech’s and neobanks.
- The implementation of increased tariffs has led to uncertainty regarding future inflation, price risk, and interest rates. Additionally, the potential price impact to business customers could lead to an uptick in nonperforming loans, impacting already tight net interest margins.
- The March 2025 FRB Beige Book states its contacts noted sharply higher uncertainty around the economic outlook, with a wait-and-see stance echoed widely.
- Regulators will continue to focus on asset liability management, including interest rate risk. Banks and thrifts should ensure appropriate risk management practices are in place.

Managing Third-Party Relationships

Financial Institutions continue to increase their reliance on third-party vendors to bridge the gap between technology and security expertise, staffing limitations, and economies of scale. While some level of risk is necessary, proper risk management can ensure that early adopters of novel technology are rewarded for their ingenuity. Risk assessment plays a major role in risk management. Risks and hazards must be identified and evaluated, paying close attention to who might get harmed and how. The risk identification process can yield success if financial institutions begin with understanding of who does what, when, where, why, and how between the bank, the fintech vendor, any other intermediaries or sub-contractors, and the end-users. Bank officers and directors must continue to perform adequate risk assessments before employing new technology, either directly or through vendors, and must ensure records and information are shared and reconciled between the various parties involved.

Competition for Deposits

Since rate cuts in late 2024, the U.S. banking industry has taken steps to lower deposit costs, while calculating liquidity necessities, and the competition for deposits. In the recent past, the high-rate environment caused many depositors to shift towards higher rate paying accounts. However, now that rates are declining, many banks are repricing their deposits. These changes allow banks to offer lower rates on interest bearing accounts without substantial deposit losses. Banks are starting to shift toward noninterest bearing deposits. Expectations of future deposit costs largely depends on loan growth. If rates continue to fall, loan growth is anticipated to rise and deposit competition will likely advance.

Regulatory Uncertainty

Financial institutions are facing an unpredictable regulatory environment in 2025. Even with the clarity received on the political front, there is more uncertainty and more unknowns about the regulatory environment for banking. Changes in leadership of regulatory agencies began soon after the new year, and more are expected. New acting directors have been appointed to both the Consumer Financial Protection Bureau (CFPB) and Office of the Comptroller of the Currency (OCC), as well as new leadership promotions for the Federal Deposit Insurance Corporation (FDIC) and Federal Reserve Board. With new leadership coming, there will be changes to examination and enforcement priorities. Some existing rules are expected to be amended or rewritten entirely, and rulings that are currently being finalized in the courts are expected to be challenged. All of this has increased regulatory uncertainty. Despite industry insecurity, many banks are using this time to remediate their outstanding examination findings to better position themselves for their next examination.

Departmental Supervisory Measures Being Taken

Texas Department of Banking

- Monitor the changes the administration is making;
- Assess risks posed by inflation and higher interest rates and their impact to banks' and trust companies' balance sheet and profitability;
- Encourage our regulated industries to implement proper cyber hygiene to reduce the risk of ransomware and breaches;
- 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;
- Monitor efforts to prudently assess and mitigate concentration risks in commercial real estate, oil and gas, and agriculture lending;
- Assess risks to bank liquidity including institutions' ability to attract and retain deposits;
- 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;
- Conduct examinations and visitations jointly with federal regulators on a priority schedule;
- Communicate with state savings banks on emerging trends and supervisory hot topics via monthly Emerging Issues webinar;
- Host Thrift Industry Day, annually;
- Conduct off-site quarterly monitoring of each institution's activity (i.e. call reports, supplemental regulatory filings, and institution responses to supervisory comments, criticisms, and recommendations);
- Process applications and other requests for regulatory approval timely;
- Monitor level of interest rate risk exposure within the state savings bank portfolio;
- Monitor liquidity risk management and positions;
- Monitor credit risk trends and levels at institutions;
- Monitor Information Technology challenges for the industry and within the portfolio;
- Monitor political and economic events impacting the financial services 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

Texas state-chartered bank metrics remain favorable. For the year ending 2024, state-chartered banks reported continued loan growth and favorable asset quality. The Allowance for Credit Losses (ACL) remains stable at 1.2%, while noncurrent assets plus other real estate owned stands at 0.4%. As of year-end, state-chartered banks remain well-capitalized with average leverage capital of 10.9%, a 56 basis point increase from 2023.

There were 212 Texas state-chartered banks as of December 31, 2024, which dropped by one from year-end 2023. Over the same period, total assets of state-chartered banks increased 4.5%. Of the 212 state banks, 12 operate branches in 13 other states. As of December 31, 2024, state-chartered banks held $452.3 billion in total assets with approximately 46,254 full-time employees.

State-chartered banks reported increased net income year-over-year (YOY) of 2.0%. State-chartered banks reported a return on assets (ROA) of 1.1% in 2024 compared to 1.2% in 2023. The net interest margin (NIM) decreased slightly by 7 BP due to an increase in interest expense. Overall, 48.4% of state-chartered banks reflect earnings gains over the prior year. Conversely, 4.7% of the banks ended the year unprofitable, which is an increase from 2.8% last year.

State-chartered banks were well-capitalized with an average leverage capital of 10.9% in December 2024, an increase from 10.3% at year-end 2023. State banks with less than $1 billion in total assets reflected a leverage ratio of 11.7%, while banks between $1 billion-$10 billion reported a 11.9% leverage ratio. Although the nine largest state-chartered banks with assets over $10 billion have a lower leverage ratio of 10.3%, they are all well above regulatory capital requirements. Dividends remained virtually unchanged from last year with $2.7 billion for December 2024.

Asset quality indicators ticked up by year-end with the noncurrent loan rate at 0.45%, from 0.32% during the same period in 2023. The level of the ACL have remained virtually unchanged with a slight decrease from 1.25% to 1.24% YOY. Provision expenses through December 2024, total $389 million, up slightly from $378 million a year ago. Further, the ACL represents 190.23% of noncurrent loans versus 286.6% at year-end 2023. Net charge-offs for 2024 totaled $337 million, which is 170% higher than December 2023.

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

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

As of December 31, 2024, 92% of state-chartered banks were rated a Composite Rating of 1 or 2. The Department considers any institution with a Uniform Financial Institution Composite Rating of a 3, 4, or 5 as a problem institution.

State-Chartered Thrifts

As of December 31, 2024, state thrifts had $1.18 billion in net income year-to-date, remaining the same as December 31, 2023. The pretax ROA totaled 0.45% as of December 31, 2024, a 4 basis points decrease from the prior year’s total of 0.41%. As of December 31, 2024, non-interest income to assets increased 3 basis points from the prior year, totaling 0.14%, and non-interest expense to assets, totaled 0.60% as of December 31, 2024, a 6 basis points decrease from December 31, 2023, total of 0.66%.

The Texas thrift ratio of nonperforming loans plus other real estate owned to total assets increased two basis points to 0.07% as of December 31, 2024, and remains minimal. Provisions for credit losses totaled $10.9 million year-to-date as of December 31, 2024, a $19.5 million increase compared to December 31, 2023.

The total risk-based capital ratio for the industry totaled 39.84% as of December 31, 2024, a 409 basis points increase compared to 35.75% totaling as of December 31, 2023. Total capital levels increased $3.8 billion since year end 2023, to $24.1 billion as of December 31, 2024. Three state savings banks elected the Community Bank Leverage Ratio in the fourth quarter 2024, and therefore, do not report any capital ratios besides the leverage ratio.

As of December 31, 2024, 71% 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 Institutions and Total Assets

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

	12-31-2024		12-31-2023		Difference	
	No. of Institutions	Assets	No. of Institutions	Assets	No. of Institutions	Assets
Texas State-Chartered Banks	212	$452.4	213	$432.1	-1	+$20.3
Texas State-Chartered Thrifts	21	$329.6	22	$363.5	-1	-$33.9
	233	$782.0	235	$795.6	-2	-$13.6
Other states' state-chartered:						
Banks operating in Texas*	57	$66.4	55	$66.2	+2	+$.2
Thrifts operating in Texas*	0	0	0	0	0	0
	57	$66.4	55	$66.2	+2	+$.2
Total State-Chartered Activity	**290**	**$848.4**	**290**	**$861.8**	**0**	**-$13.4**
National Banks Chartered in Texas	141	$130.9	143	$140.0	-2	-$9.1
Federal Thrifts Chartered in Texas	3	$2.2	4	$112.6	-1	-$110.4
	144	$133.1	147	$252.6	-3	-$119.5
Other states' federally-chartered:						
Banks operating in Texas*	31	$611.7	31	$630.1	0	-$18.4
Thrifts operating in Texas*	6	$101.9	5	$1.4	+1	+100.5
	37	$713.6	36	$631.5	+1	+$82.1
Total Federally-Chartered Activity	**181**	**$846.7**	**183**	**$884.1**	**-2**	**-$37.4**
Total Banking/Thrift Activity	**471**	**$1,695.1**	**473**	**$1,745.9**	**-2**	**-$50.8**

**Indicates estimates based on available FDIC information.*

Ratio Analysis

As of December 31, 2024
FDIC financial data is reflective of FDIC insured institutions only.

	State-Chartered Banks 212	Texas National Banks 141	All Texas Banks 353	State-Chartered Thrifts 21	Texas Federal Thrifts 3	All Texas Thrifts 24
% of Unprofitable Institutions	4.69%	5.67%	5.08%	14.29%	0.00%	12.50%
% of Institutions with Earnings Gains	48.36%	58.87%	52.54%	52.38%	66.67%	54.17%
Yield on Earning Assets	5.64%	5.75%	5.66%	2.64%	3.86%	2.65%
Net Interest Margin	3.33%	3.52%	3.38%	1.01%	2.79%	1.02%
Return on Assets	1.07%	1.25%	1.11%	0.40%	1.21%	0.41%
Return on Equity	9.98%	13.21%	10.64%	5.98%	7.63%	6.01%
Net Charge-offs to Loans	0.12%	0.27%	0.16%	0.04%	0.12%	0.04%
Earnings Coverage of Net Loan C/Os	19	9	15	93	19	87
Loss Allowance to Loans	1.24%	1.26%	1.25%	0.25%	1.11%	0.27%
Loss Allowance to Noncurrent Loans	190.23%	173.90%	186.06%	64.15%	36.78%	60.15%
Noncurrent Assets+OREO to Assets	0.45%	0.54%	0.47%	0.07%	1.75%	0.08%
Net Loans and Leases to Core Deps	83.91%	81.65%	83.37%	23.72%	80.44%	24.08%
Equity Capital to Assets	10.81%	9.56%	10.53%	7.53%	16.27%	7.59%
Core Capital (Leverage) Ratio	10.88%	10.84%	10.87%	11.77%	11.61%	11.77%
Total Risk-Based Capital Ratio	15.55%	16.16%	15.67%	40.55%	19.46%	40.31%

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, 2024
FDIC financial data is reflective of FDIC insured institutions only.
Assets in Billions

	< $1 160	$1 - $10 42	>$10 10
% of Unprofitable Institutions	4.97%	2.38%	10.00%
% of Institutions with Earnings Gains	49.07%	47.62%	40.00%
Yield on Earning Assets	5.89%	6.02%	5.44%
Net Interest Margin	3.76%	3.58%	3.15%
Return on Assets	1.28%	1.69%	0.78%
Return on Equity	12.90%	15.36%	7.34%
Net Charge-offs to Loans	0.14%	0.10%	0.12%
Earnings Coverage of Net Loan C/Os	25	25	16
Loss Allowance to Loans	1.24%	1.20%	1.25%
Loss Allowance to Noncurrent Loans	157.46%	246.08%	197.82%
Noncurrent Assets+OREO to Assets	0.39%	0.60%	0.40%
Net Loans and Leases to Core Deps	83.91%	90.87%	81.43%
Equity Capital to Assets	10.12%	11.10%	10.83%
Core Capital (Leverage) Ratio	11.70%	11.93%	10.30%
Total Risk-Based Capital Ratio	17.82%	17.62%	14.65%

Ratio Analysis by Asset Groups for State-Chartered Thrifts

As of December 31, 2024
FDIC financial data is reflective of FDIC insured institutions only.
Assets in Billions

	< $1 14	$1 - $10 4	>$10 3
% of Unprofitable Institutions	21.43.%	0.00%	0.00%
% of Institutions with Earnings Gains	57.14%	50.00%	33.33%
Yield on Earning Assets	6.09%	7.14%	2.43%
Net Interest Margin	3.66%	5.16%	0.83%
Return on Assets	0.77%	0.82%	0.38%
Return on Equity	8.55%	5.80%	5.93%
Net Charge-offs to Loans	0.13%	0.17%	0.00%
Earnings Coverage of Net Loan C/Os	10	13	1,567
Loss Allowance to Loans	0.97%	0.99%	0.05%
Loss Allowance to Noncurrent Loans	107.53%	54.45%	60.00%
Noncurrent Assets+OREO to Assets	0.66%	1.32%	0.01%
Net Loans and Leases to Core Deps	101.79%	104.01%	19.61%
Equity Capital to Assets	9.19%	14.02%	7.26%
Core Capital (Leverage) Ratio	10.46%	12.20%	11.78%
Total Risk-Based Capital Ratio	17.72%	16.89%	43.80%

Comparison Report

Select Balance Sheet and Income/Expense Information
FDIC financial data is reflective of FDIC insured institutions only.
December 31, 2024

	State Banks*		State Thrifts	
	End of Period	% of Total Assets	End of Period	% of Total Assets
Number of Institutions	212		21	
Number of Employees (full-time equivalent)	46,254		5,615	
(In millions)				
Total Assets	$452,371		$329,601	
Net Loans and Leases	$272,146	60.16%	$57,796	17.54%
Loan Loss Allowance	$3,415	0.75%	$144	0.04%
Other Real Estate Owned	$240	0.05%	$6	0.00%
Goodwill and Other Intangibles	$8,506	1.88%	$395	0.12%
Total Deposits	$372,981	82.45%	$304,743	92.46%
Federal Funds Purchased and Repurchase Agreements	$6,544	1.45%	$5,499	1.67%
Other Borrowed Funds	$16,381	3.62%	$17523	5.32%
Equity Capital	$48,912	10.81%	$24,859	7.54%
Memoranda:				
Earning Assets	$416,443	92.06%	$318,993	96.76%
Long-term Assets (5+ years)	$123,774	27.36%	$206,118	62.54%
	Year-to-Date	**% of Avg. Assets†**	**Year-to-Date**	**% of Avg. Assets†**
Total Interest Income	$23,200	5.19%	$8,574	2.55%
Total Interest Expense	$9,491	2.12%	$5,288	1.57%
Net Interest Income	$13,709	3.07%	$3,286	0.98%
Provision for Loan and Lease Losses	$389	0.09%	$11	0.00%
Total Noninterest Income	$3,854	0.86%	$569	0.17%
Total Noninterest Expense	$11,105	2.48%	$2,063	0.61%
Securities Gains	-$197	-0.04%	-$41	-0.01%
Net Income	$4,764	1.07%	$1,357	0.40%
Memoranda:				
Net Loan Charge-offs	$337	0.08%	$19	0.01%
Cash Dividends	$2,709	0.61%	$263	0.08%

**Excludes branches of state-chartered banks of other states doing business in Texas. As of December 31, 2024, there are an estimated 57 out-of-state state-chartered institutions with $66.4 billion in assets. Assets are based upon the June 30, 2024, 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, 2024.

PERFORMANCE SUMMARY: UNITED STATES BANKING SYSTEM

FDIC QUARTERLY BANKING PROFILE

Fourth Quarter 2025 - *www.fdic.gov*
All Institutions Performance

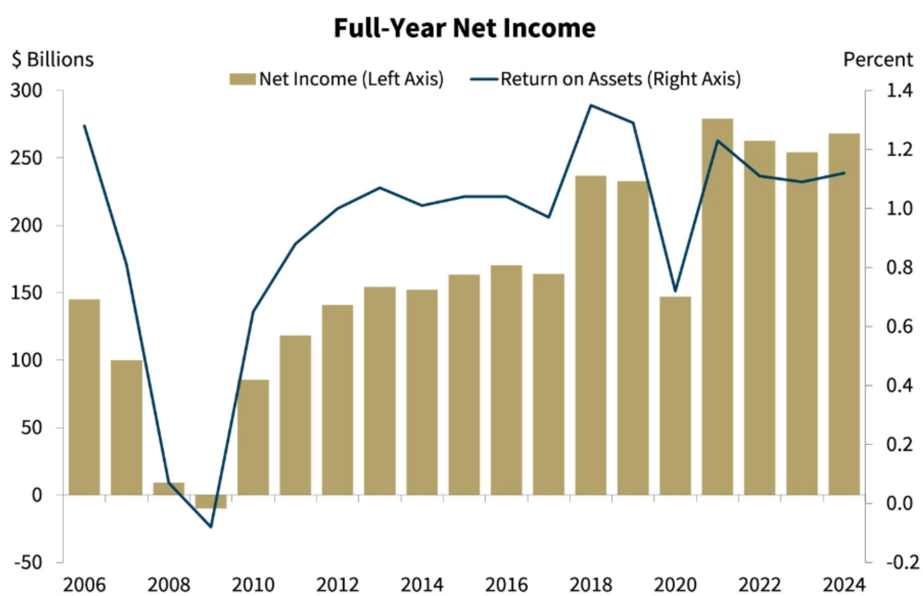
The banking industry finished the year with strong earnings, resulting in a return on assets ratio of 1.12 percent for the full year. Domestic deposit growth was higher in 2024 than in 2023, while loan growth remained modest in the elevated-rate environment. Asset quality metrics remained favorable overall despite continued weakness in certain portfolios, which we are monitoring closely.

With strong capital and liquidity levels to support lending and protect against potential losses, the banking industry continued to support the country's needs for financial services while navigating the challenges presented by elevated unrealized losses, asset quality weakness in certain portfolios, and volatility in market interest rates.

⇧ Full-year 2024 banking industry net income increased from 2023

The full-year 2024 banking industry net income increased from 2023. Net income totaled $268.2 billion in 2024, up 5.6 percent from 2023. The annual increase was driven by lower interest expense, higher noninterest income, and lower realized losses on the sale of securities. The industry's return on assets ratio increased 3 basis points to 1.12 percent, and 6.7 percent of banks were unprofitable during the year.

Community banks reported annual net income of $25.9 billion, down 2.4 percent from the prior year. The decrease in community bank net income was primarily attributable to higher noninterest expense and higher provision expense. Community banks reported a pre-tax return on assets ratio of 1.14 percent in 2024, down 8 basis points from 2023.

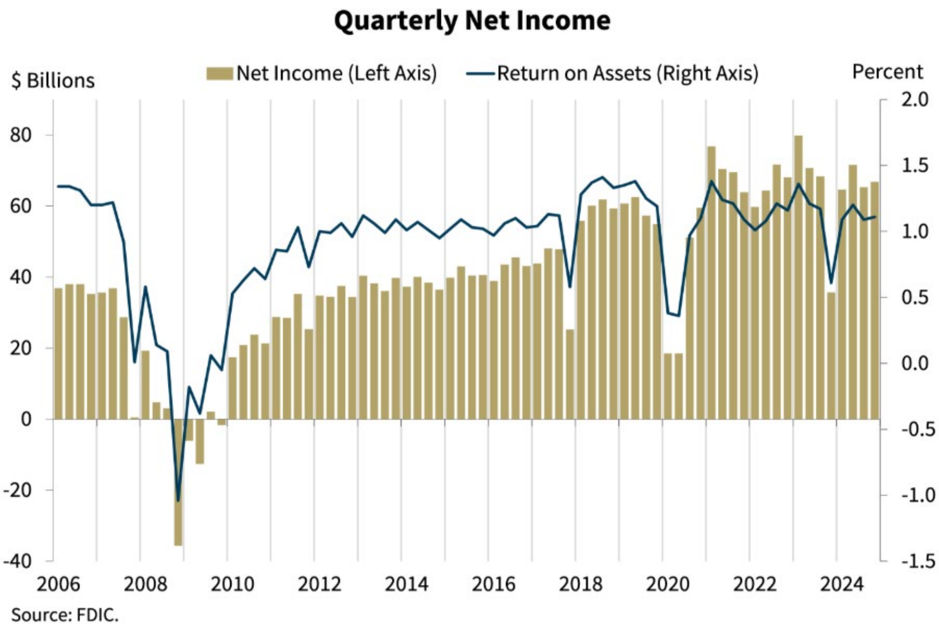


Source: FDIC.

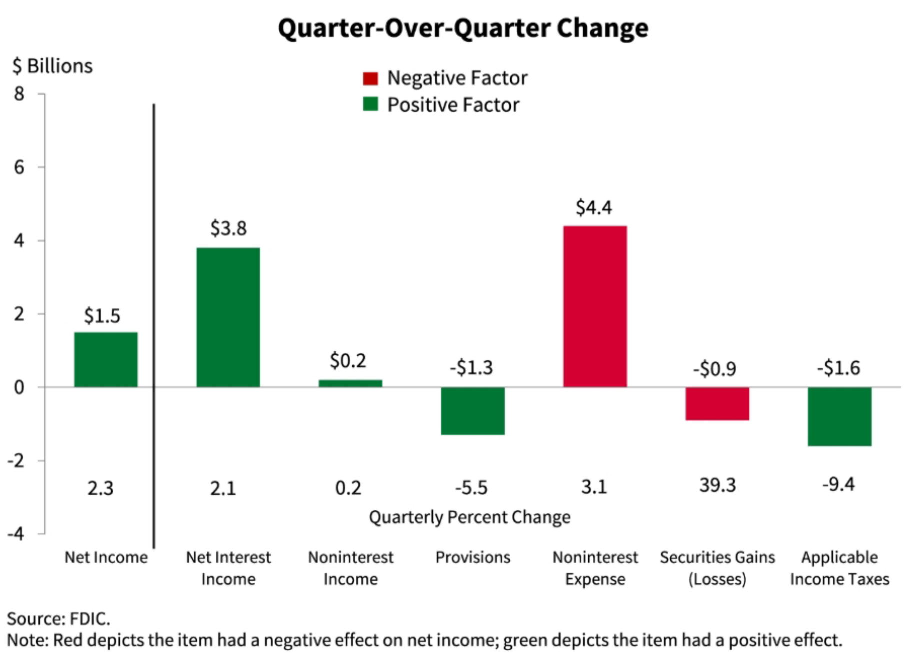
⇧ Quarterly Net Income increased Quarter Over Quarter

The banking industry reported quarterly net income of $66.8 billion, an increase of $1.5 billion, or 2.3 percent, from the prior quarter. The quarterly increase in income was mainly due to recent short-term interest-rate cuts, which caused interest expenses to decline more than interest income. As a result, the industry reported an increase in net interest income of $3.8 billion this quarter. The banking industry reported an ROA ratio of 1.11 percent in fourth quarter 2024, up 2 basis points from one quarter earlier and up 50 basis points from one year earlier.

Community bank quarterly net income decreased 6.5 percent from the prior quarter to $6.4 billion, driven by higher noninterest expense, higher provision expenses, and realized losses on the sale of securities of $566 million.

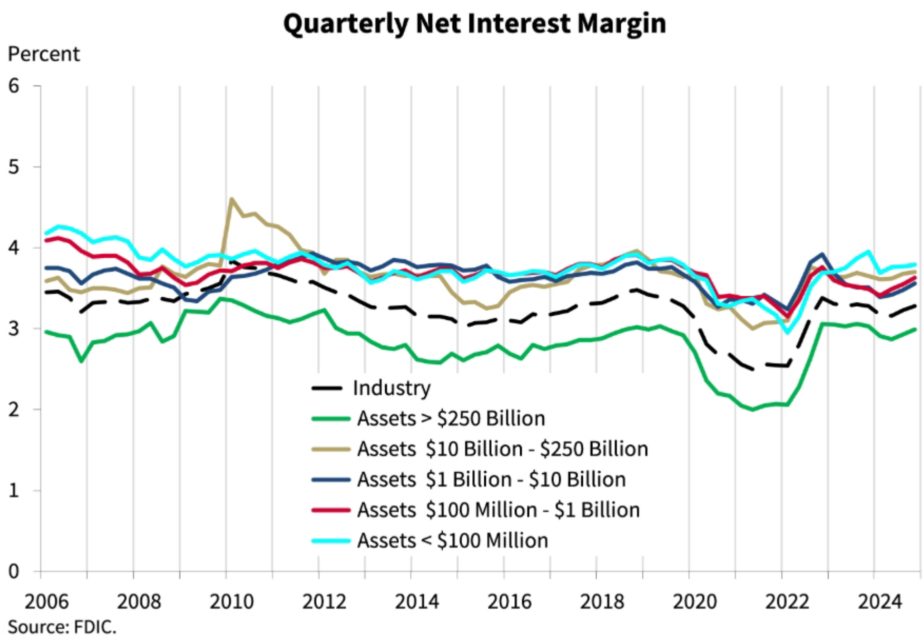


The chart below shows the breakdown of the changes in the industry's net income quarter over quarter. The primary driver of the industry's $1.5 billion increase in net income was net interest income, which increased $3.8 billion, or 2.1 percent, as interest expense fell faster than interest income in the falling rate environment, leading to higher net interest income. The increase in net income was partially offset by a $4.4 billion, or 3 percent, increase in noninterest expense.



⇧ The Industry’s net interest margin (NIM) increased

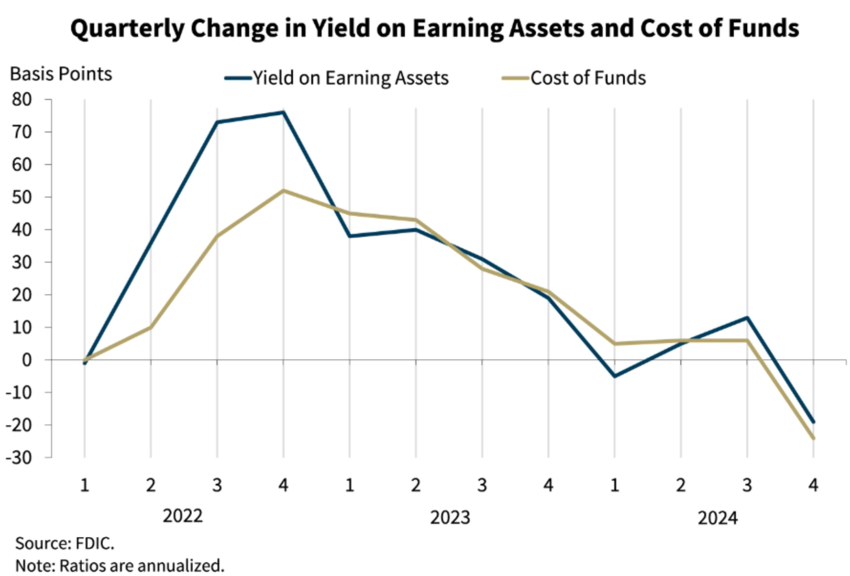
The Quarterly Net Interest Margin chart (see below) shows the average net interest margin for the industry and for five asset size cohorts. The industry’s NIM increased for a second consecutive quarter, improving 5 basis points from last quarter to 3.28 percent. The industry’s NIM is now above its pre-pandemic average of 3.25 percent. The NIM increased for all size cohorts in the fourth quarter, driven by lower funding costs. The industry’s full-year net interest margin (NIM) was 3.22 percent, 8 basis points lower than 2023, but higher than the industry’s reported NIM from 2020 through 2022.



The community bank NIM increased for the third straight quarter to 3.44 percent, up 9 basis points from prior quarter. Despite the improvement, community bank NIM remained below the pre-pandemic average of 3.63 percent.

⇩ The yield on earning assets and cost of funds decreased

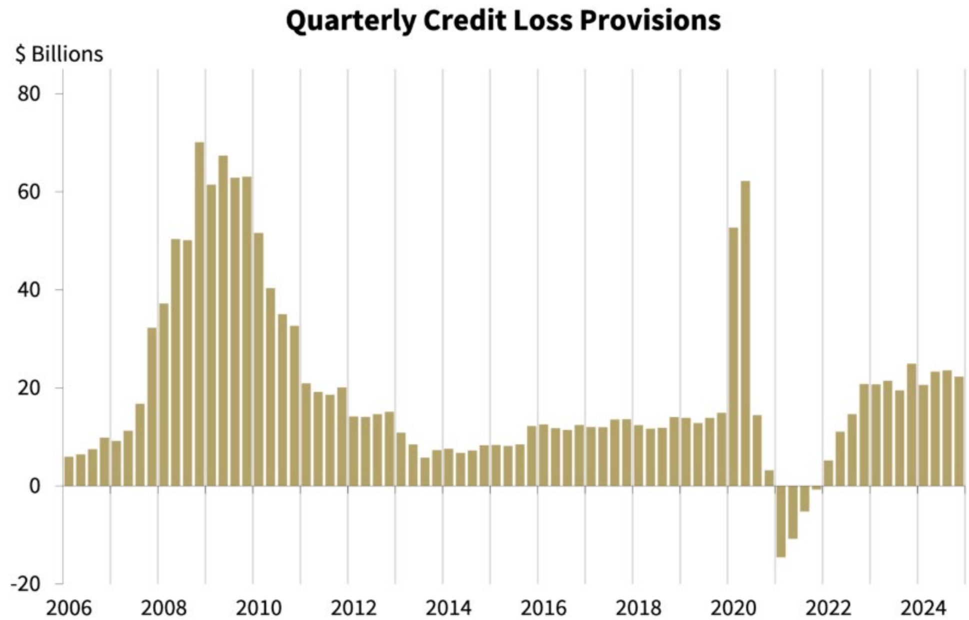
The chart on the right shows the quarter-over-quarter changes in the industry’s average yield on earning assets and average cost of funds. During the quarter, the yield on earning assets decreased 19 basis points and cost of funds decreased 24 basis points, which drove the increase in the industry’s NIM this quarter. This decline in yields and interest costs reflects the three rate cuts by the Federal Reserve in the second half of 2024. The industry’s decrease in costs of funds in the fourth quarter was the largest decline since second quarter 2020.



Community banks’ NIM increase in the fourth quarter was driven by an 11 basis-point decrease in the cost of funds, outpacing a 3 basis-point decrease in earning asset yields.

⇳ The industry's provision expense was down from the third quarter

The industry's provision expense was $22.3 billion in the fourth quarter, down $1.3 billion from the third quarter. The provision expense matched net charge-offs for the quarter, keeping the allowance stable from the prior quarter at $222.8 billion. The industry's provision expense has been higher than the pre-pandemic average for the past ten quarters.

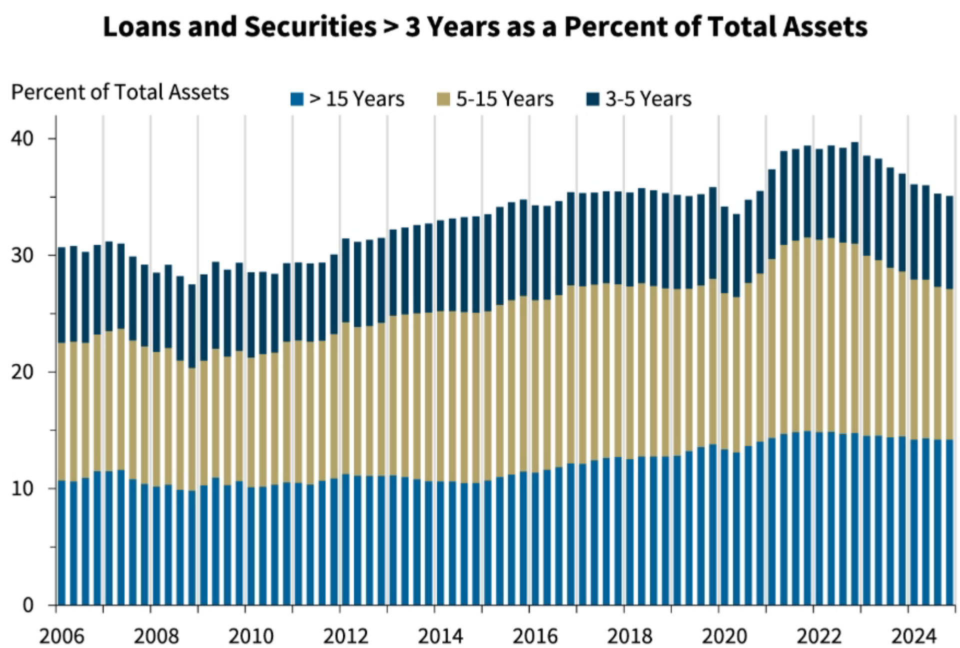


Source: FDIC.

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.

⇩ Longer-term loans, securities fell for the eighth quarter in a row

The banking industry's share of total assets made up of longer-term loans and securities fell for the eighth consecutive quarter to 35.2 percent after peaking at 39.7 percent in fourth quarter 2022. The industry's longer-term assets as a share of total assets is still slightly above the pre-pandemic average of 35.0 percent.



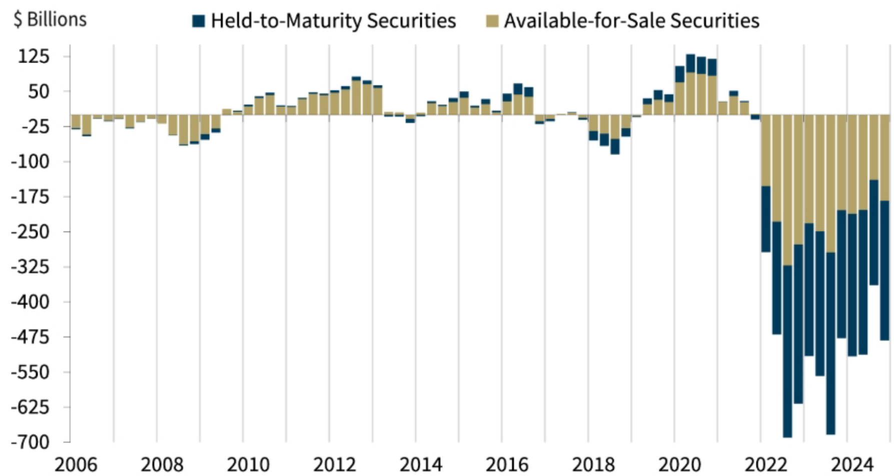
Source: FDIC.
Note: Insured Call Report filers only.

At community banks, longer-term loans and securities made up 45.0 percent of total assets in fourth quarter 2024, down from 46.3 percent last quarter and below the pre-pandemic average of 48.9 percent.

⇩ Unrealized Gains (Losses) increased from the previous quarter

The chart to the right shows the level of unrealized losses on held-to-maturity and available-for-sale securities portfolios. Total unrealized losses of $482.4 billion increased $118.4 billion (32.5 percent) from the prior quarter. Longer-term interest rates such as the 30-year mortgage rate and the 10-year Treasury rate increased in the fourth quarter after declining in the third quarter, decreasing the value of securities reported by banks and increasing unrealized losses.

Unrealized Gains (Losses) on Investment Securities

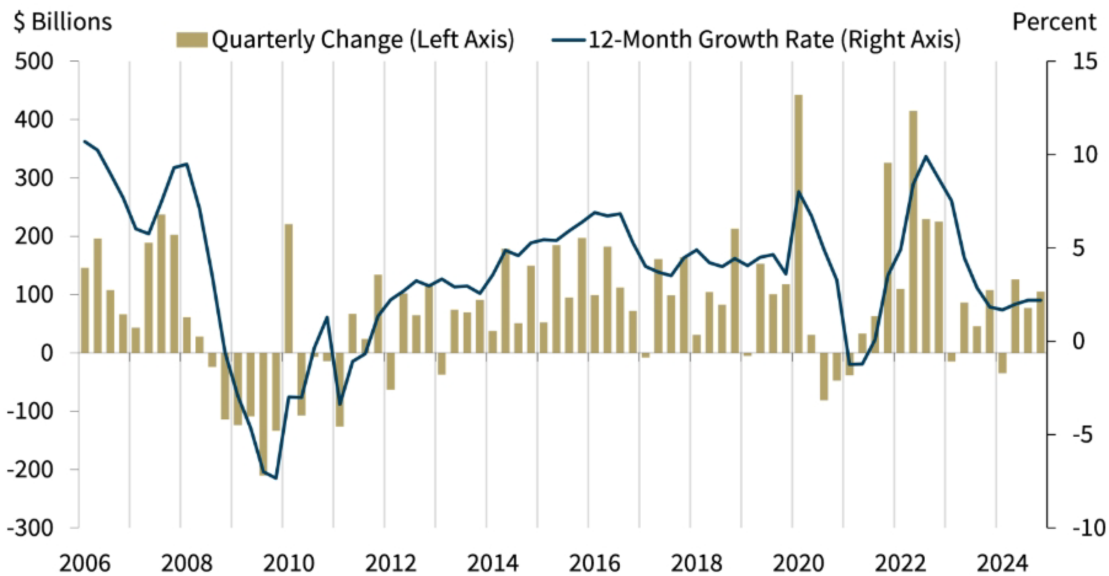


Source: FDIC.
Note: Insured Call Report filers only. Unrealized losses on securities solely reflect the difference between the market value and book value of non-equity securities as of quarter end.

⇧ Total Loans increase, Loan Growth remains steady

The chart below shows the change in loan balances on a quarterly and annual basis. The industry's total loans increased by $105.2 billion, or 0.8 percent, in the fourth quarter. The largest portfolio increases were reported in "all other" loans and loans to non-depository financial institutions, largely due to reclassifications following the finalization of changes to how certain loan products should be reported.

Quarterly Change in Loan Balances



Source: FDIC.
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.

Reclassifications also likely caused declines in other loan categories from which the loans were reclassified, particularly C&I and “other” consumer loans. In addition to these reclassifications, credit card loans and organic growth in loans to non-depository financial institutions contributed to quarterly loan growth. The industry’s annual rate of loan growth remained steady in the fourth quarter at 2.2 percent.

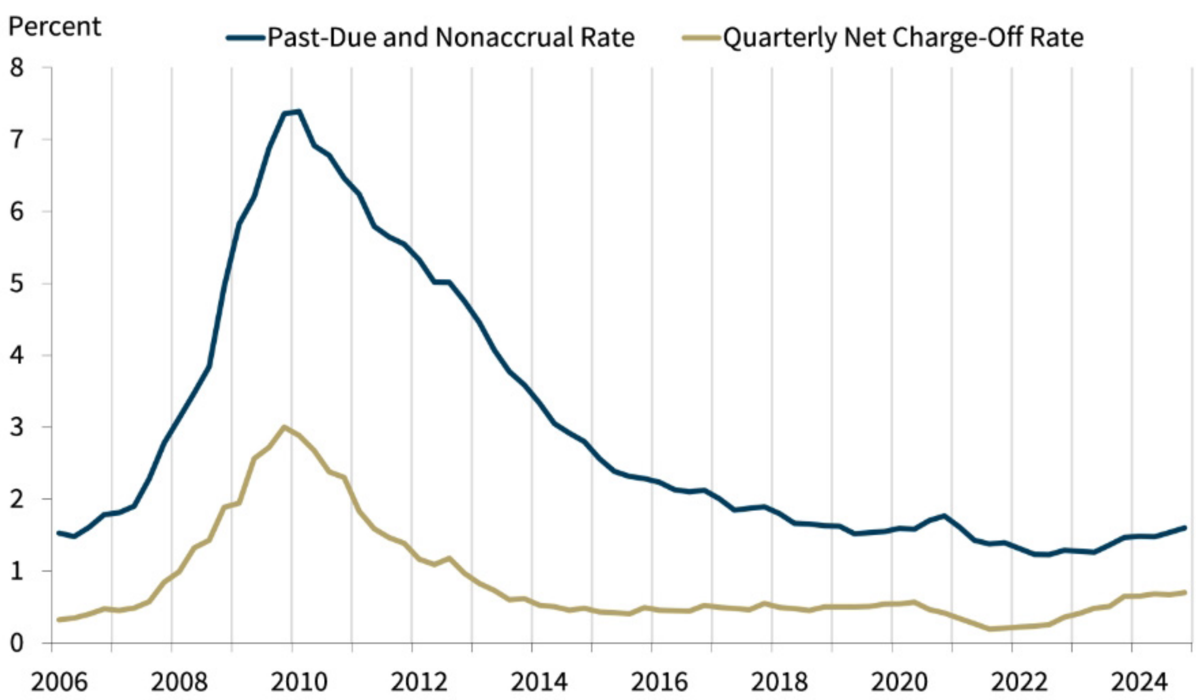
Community bank loan growth was more robust and widespread than the industry’s growth. Total loans at community banks increased 1.3 percent from the prior quarter and 5.1 percent from the prior year, led by increases in nonfarm nonresidential CRE and residential mortgage portfolios.

⇧ Asset quality metrics for the industry remain generally favorable

Asset quality metrics for the industry remained generally favorable despite modest deterioration in some portfolios. The overall past-due and nonaccrual (PDNA) rate increased 6 basis points from the prior quarter to 1.60 percent, a level still well below the pre-pandemic rate of 1.94 percent. The industry’s 1-4 family, multifamily, C&I, auto and credit card portfolios contributed the most to the increase in industry’s PDNA rate during the fourth quarter. The PDNA rate for 1-4 family loans increased 14 basis points to 1.97 percent from the previous quarter, the multifamily PDNA rate increased 38 basis points to 1.35 percent, the C&I PDNA rate increased 14 basis points to 1.31 percent, and the auto loan rate increased 20 basis points to 3.33 percent. The industry’s credit card, auto, nonfarm nonresidential CRE, and multifamily PDNA rates remain above their pre-pandemic averages.

The industry’s quarterly net charge-off rate of 0.70 percent increased 3 basis points from last quarter and was 19 basis points higher than the year-ago quarter. The industry’s net charge-off rate was also 22 basis points higher than the pre-pandemic average. Credit card and nonfarm nonresidential portfolios drove the quarterly increase in the total net charge-off rate. The credit card net charge-off rate was 4.57 percent in the fourth quarter, up 9 basis points quarter over quarter and 109 basis points higher than the pre-pandemic average. The net charge-off rate for nonfarm nonresidential loans increased by 4 basis points quarter over quarter to 0.33 percent and is 25 basis points higher than the pre-pandemic average.

Past-Due and Nonaccrual Rate and Quarterly Net Charge-Off Rate



Source: FDIC.

⇧ Elevated Past-Due and Nonaccrual rates persisted in 2024

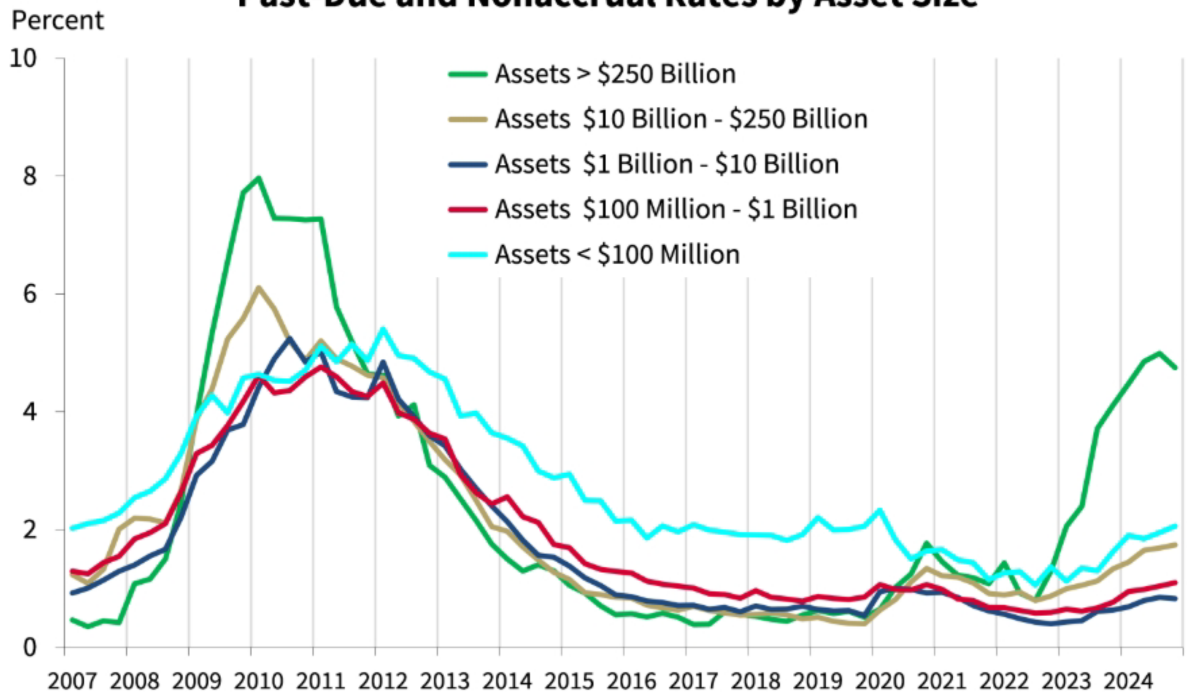
Looking deeper into the CRE portfolio, the elevated PDNA rates of non-owner-occupied property loans persisted in the fourth quarter, driven by the portfolios of the larger institutions. While the industry's volume of PDNA non-owner-occupied CRE loans decreased $680 million, or 2.8 percent, quarter over quarter, the industry also reported increases in charge-offs for this portfolio.

The greatest weakness in non-owner-occupied CRE loans continued to be reported by the largest banks, or those with greater than $250 billion in assets. These banks reported a non-owner occupied CRE PDNA rate of 4.75 percent, down from 4.99 percent last quarter but well above their pre-pandemic average rate of 0.59 percent. However, these large banks tend to have lower concentrations of such loans in relation to total assets and capital than smaller institutions, mitigating the overall risk.

The next tier of banks, those with between $10 billion and $250 billion in assets, have greater concentrations in non-owner occupied CRE loans than the industry's largest banks and reported a non-owner occupied PDNA rate of 1.74 percent in the fourth quarter, up from 1.69 percent in the third quarter and above its pre-pandemic average of 0.66 percent.

Banks in size cohorts below $10 billion in assets reported non-owner occupied PDNA ratios near their pre-pandemic averages.

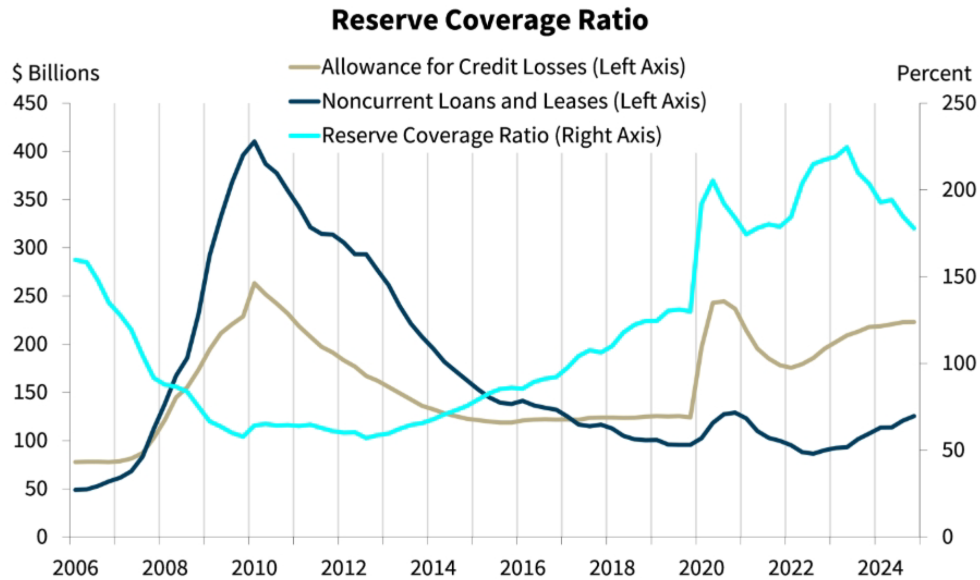
Bank Non-Owner Occupied, Nonfarm Nonresidential Loan Past-Due and Nonaccrual Rates by Asset Size



Source: FDIC.

⇳ Allowance for credit losses remained flat, noncurrent loan balances increased decreasing reserve coverage ratio

The allowance for credit losses remained flat while noncurrent loan balances increased, resulting in a decrease in the reserve coverage ratio. The ratio of the allowance for credit losses to noncurrent loans decreased from 184.8 percent in the third quarter to 177.8 percent this quarter. This is still a much higher coverage ratio than the pre-pandemic average.

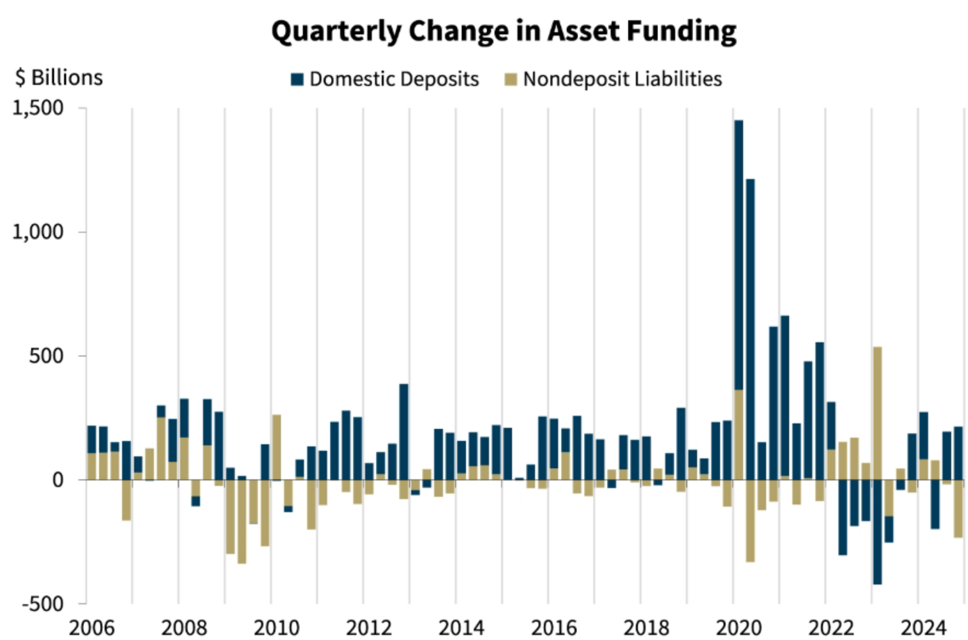


Source: FDIC.
Note: The reserve coverage ratio is the allowance for credit losses to noncurrent loans and leases.

The reserve coverage ratio at community banks was 179.7 percent, down 6 percentage points quarter over quarter as noncurrent loan balances increased faster than the allowance for credit losses. Community banks' pre-pandemic average reserve coverage ratio was 129.4 percent.

⇳ Domestic transaction deposits rise, time, brokered deposits fall

Domestic deposits increased $214.4 billion, or 1.2 percent, during the fourth quarter. Transaction deposits increased from the prior quarter by $230.7 billion while time deposits declined $122.4 billion. Brokered deposits decreased for the fourth straight quarter, down $46.0 billion (3.6 percent) from the prior quarter.



Source: FDIC.

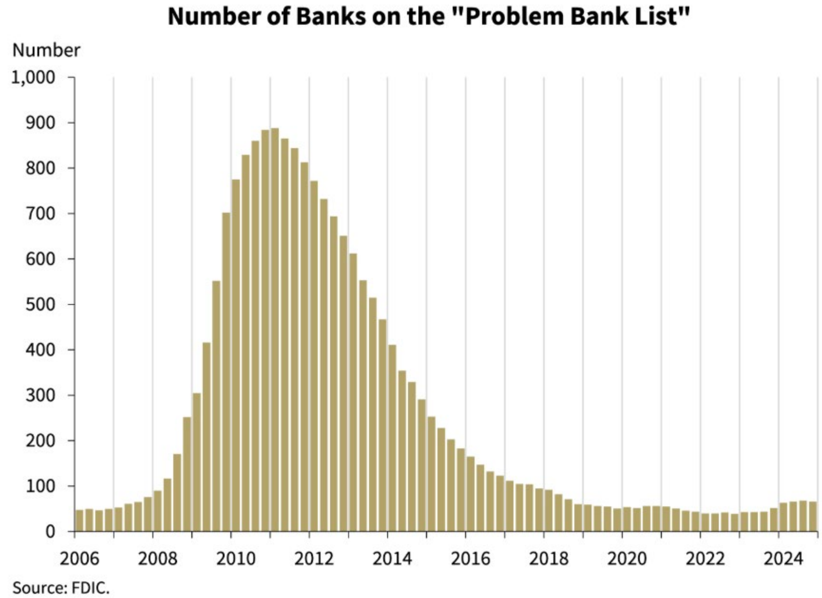
Estimated uninsured domestic deposits increased $218.5 billion, or 3.0 percent, during the quarter. Growth in estimated uninsured deposits was widespread; banks in all QBP asset size groups that report estimated uninsured deposits reported an increase in uninsured deposits from the previous quarter.

The industry's insured deposits also increased, but at a slower pace. Insured deposits increased $39.1 billion quarter over quarter, or 0.4 percent.

The industry's nondeposit liabilities decreased by $233.4 billion from the prior quarter, driven by a decrease in securities sold under agreement to repurchase.

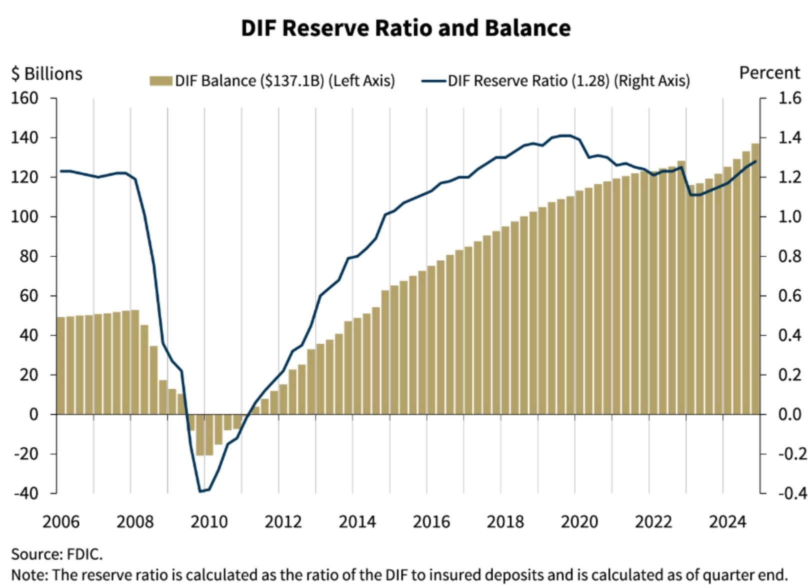
⇧ Number of Banks on the 'Problem Bank List' drops by 2

The chart on the right shows the number of banks on the FDIC's "Problem Bank List." Banks on this list have a CAMELS composite rating of "4" or "5". The number of banks on the list decreased by two in the fourth quarter to 66 banks. The number of problem banks represent 1.5 percent of total banks, which is in the middle of the normal range for non-crisis periods of 1 to 2 percent of all banks. One bank failed during the fourth quarter.



⇧ DIF Balance continues to increase in fourth quarter

The DIF balance was $137.1 billion on December 31, 2024, up $4.0 billion from the third quarter. Assessment revenue continued to be the primary driver of the increase, adding $3.2 billion to the DIF balance. Interest earned on investment securities, negative provisions for insurance losses, and unrealized gains on securities also contributed a combined $1.5 billion to the fund, partially offset by operating expenses of $666 million.



Insured deposits increased approximately 0.4 percent during the fourth quarter, while year-over-year insured deposit growth was 0.5 percent. The reserve ratio increased by 3 basis points in the fourth quarter to 1.28 percent as of December 31, 2024, and was 13 basis points higher 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 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 2025

Name	Last Trade		52 Wk Range		PE	EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	03/11	**40.41**	30.24	50.72	10.83	3.713	427.694M	1.26	3.13%
BancFirst Corporation	03/11	**108.88**	81.21	132.29	16.90	6.44	3.616B	1.75	1.64%
Bank7 Corp.	03/11	**39.12**	26.07	50.26	8.08	4.84	367.345M	.90	2.31%
Business First Bancshares, Inc.	03/11	**24.06**	18.97	30.30	10.65	2.26	711.326M	0.56	2.33%
BOK Financial Corporation	03/11	**98.88**	85.02	121.58	12.13	8.14	6.343B	2.22	2.26%
Cadence Bank	03/11	**29.22**	26.16	40.20	46.33	0.63	5.341B	0.99	3.44%
Cass Information Sys, Inc.	03/11	**42.40**	37.99	49.16	30.69	1.39	574.408M	1.21	2.83%
Commerce Bancshares, Inc.	03/11	**60.09**	47.89	72.75	15.52	3.87	8.042B	1.04	1.69%
Cullen Frost Bankers, Inc.	03/11	**123.02**	94.09	147.64	13.90	8.87	7.917B	3.74	2.95%
Enterprise Fin Serv Corp	03/11	**54.63**	37.28	63.13	11.31	4.83	2.021B	1.06	1.94%
First Community Corp S C	03/11	**22.00**	15.40	27.96	12.15	1.81	168.177M	0.58	2.65%
First Financial Bankshares, Inc.	03/11	**35.02**	27.62	44.66	22.46	1.56	5.00B	0.72	2.02%
First Financial Northwest, Inc.	03/11	**19.63**	18.03	23.50	163.21	0.12	180.77M	0.26	1.31%
First Guaranty Bancshares, Inc.	03/11	**6.95**	6.85	15.25	8.58	0.81	86.908M	0.41	5.77%
Great Southern Bancorp, Inc.	03/11	**55.71**	49.74	61.94	10.59	5.26	646.241m	1.60	2.87%
Guaranty Bancshares, Inc.	03/11	**38.99**	27.01	42.95	14.23	2.74	445.376m	0.96	2.48%
Heartland Financial USA, Inc.	03/11	**64.67**	32.11	70.27	36.33	1.78	2.77B	1.20	0.00%
Home Bancorp, Inc.	03/11	**43.72**	33.30	52.77	9.61	4.55	353.761M	1.01	2.30%
Investar Holding Corp.	03/11	**17.01**	14.60	24.81	8.34	2.04	167.28	0.41	2.41%
International Bancshares Corp	03/11	**61.76**	51.80	76.91	9.40	6.57	3.841B	1.32	2.18%
Landmark Bancorp, Inc.	03/11	**23.83**	17.05	26.75	10.54	2.26	137.623M	0.80	3.57%
MidWestOne Finl Group, Inc.	03/11	**27.67**	19.43	34.56	N/A	-3.54	577.789M	0.97	3.49%
Origin Bancorp, Inc.	03/11	**35.19**	27.69	41.17	14.36	2.45	1.098B	0.60	1.69%
Prosperity Bancshares, Inc.	03/11	**70.83**	57.16	86.76	14.04	5.05	6.752B	2.26	3.16%
QCR Holdings, Inc.	03/11	**72.11**	54.37	96.08	10.76	6.71	1.22B	0.24	0.34%
Simmons First National Corp.	03/11	**19.90**	16.03	25.95	16.45	1.21	2.504B	0.83	4.21%
Solera National Bancorp, Inc.	03/11	**9.40**	8.30	10.61	*2.21*	4.25	40.42M	*N/A*	*0.00%*
Southside Bancshares, Inc.	03/11	**28.93**	25.30	38.00	9.94	2.91	879.174M	1.44	4.98%
Stellar Bancorp, Inc.	03/11	**27.33**	21.27	32.36	12.71	2.15	1.447B	0.52	1.98%
Texas Capital Bancshares, Inc.	03/11	**72.19**	54.68	91.80	56.29	1.28	3.323B	*N/A*	*0.00%*
Third Coast Bancshares, Inc.	03/11	**32.08**	18.00	39.45	11.54	2.78	442.417	*N/A*	*0.00%*
Two Rivers Fin Group	03/11	**36.50**	26.50	38.00	10.46	3.49	76.923M	0.68	1.87%
Triumph Financial, Inc	03/11	**74.50**	58.76	110.58	109.60	0.54	1.386B	*N/A*	*0.00%*
UMB Financial Corporation	03/11	**59.05**	76.00	129.94	11.04	8.99	7.207B	1.57	1.59%
Veritex Holdings, Inc.	03/11	**23.91**	18.08	31.62	12.27	1.95	1.304B	0.80	3.41%
West Bancorp Incorporated	03/11	**20.21**	15.80	24.85	14.23	1.42	340.187M	1.00	4.94%

Source: Yahoo Finance (March 2025)
N/A: Indicates information was not available.

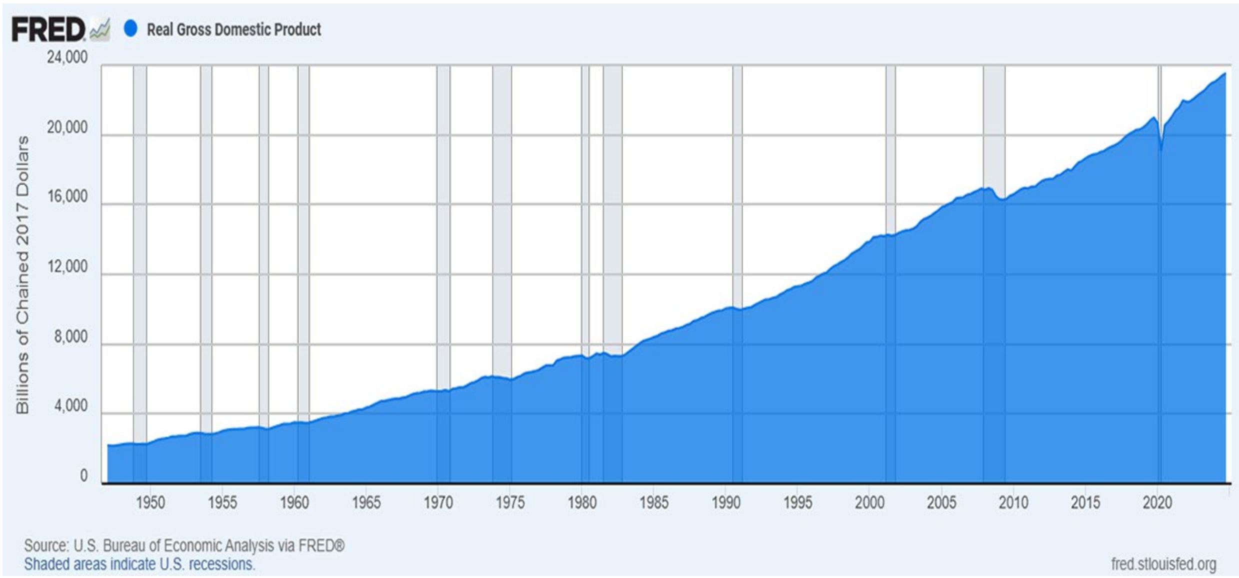
Snapshot Stock Performance
Southwest Regional Banks (MSECTOR415)
MARCH 2024

Name	Last Trade		52 Wk Range		PE	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.	03/13	**19.70**	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%

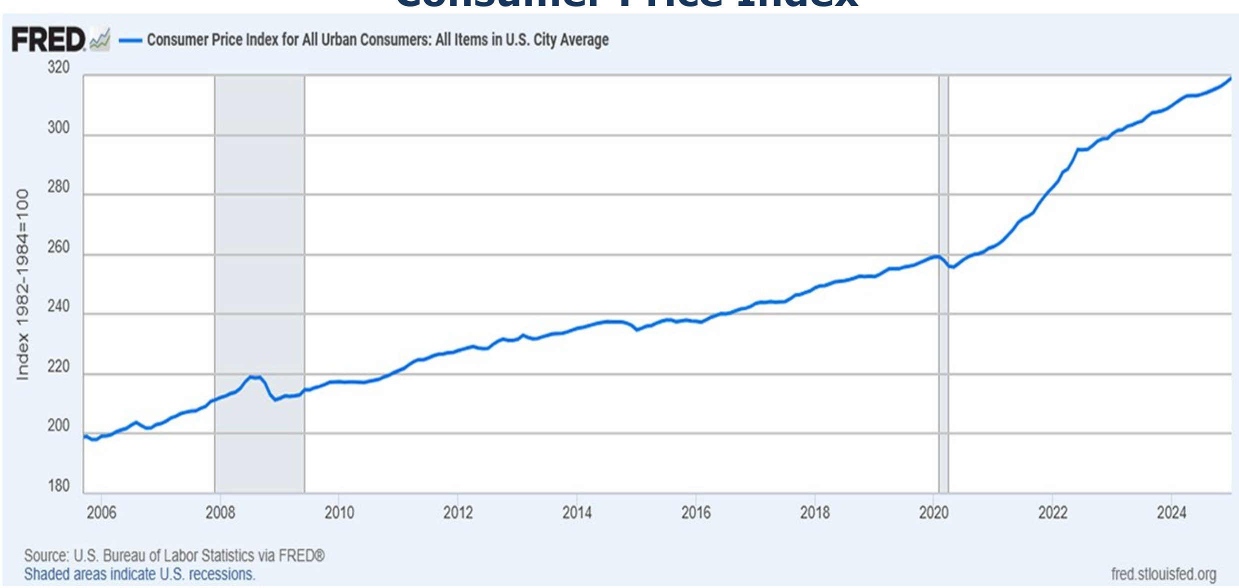
Source: Yahoo Finance (March 2024)
N/A: Indicates information was not available.

NATIONAL ECONOMIC TRENDS

Real Gross Domestic Product



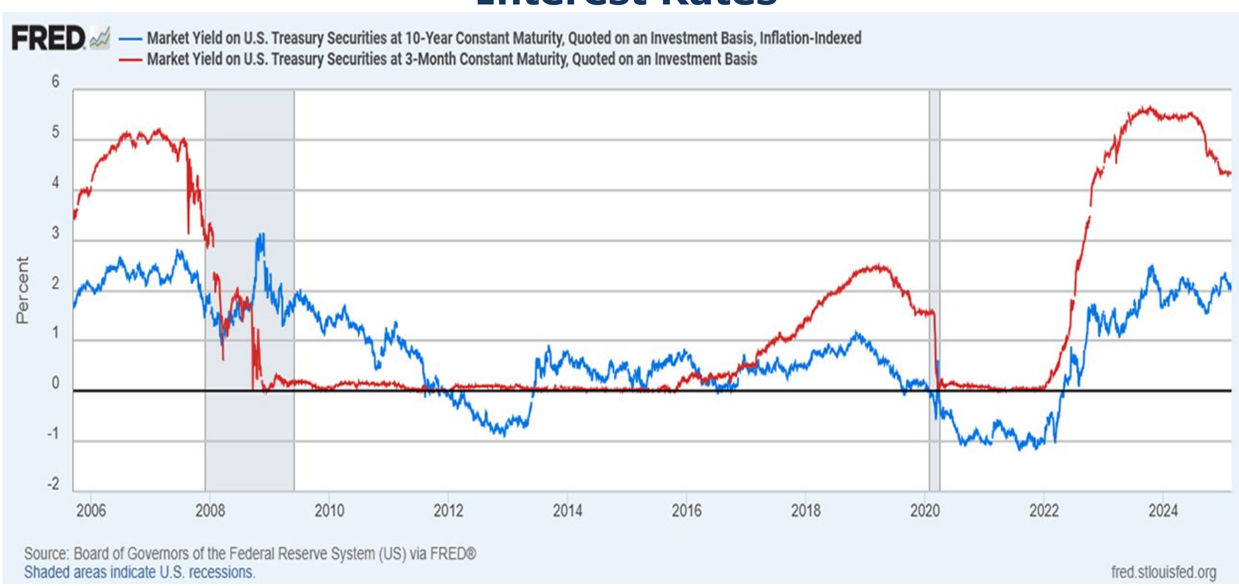
Consumer Price Index



Source: Federal Reserve Bank of St. Louis, National Economic Trends, March 2025.

Unemployment Rate

Interest Rates



Source: Federal Reserve Bank of St. Louis, National Economic Trends, March 2025.

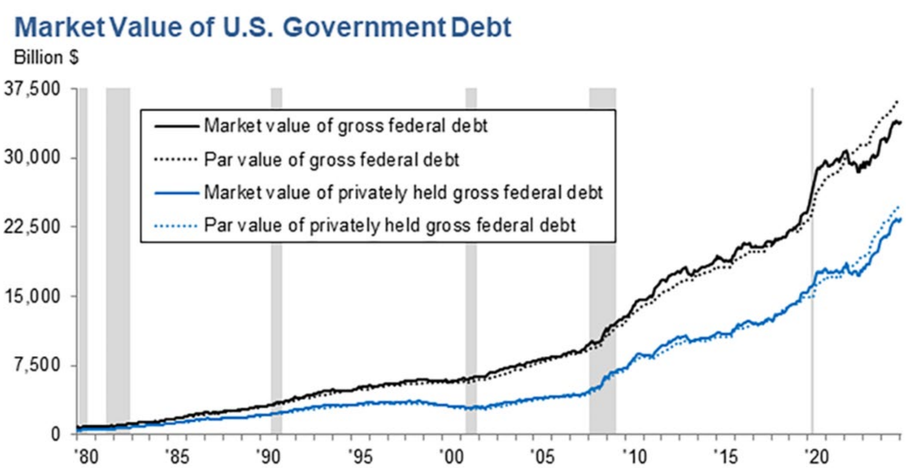
ECONOMIC REPORTS AND FORECASTS: UNITED STATES

Federal Reserve Bank, Dallas National Update

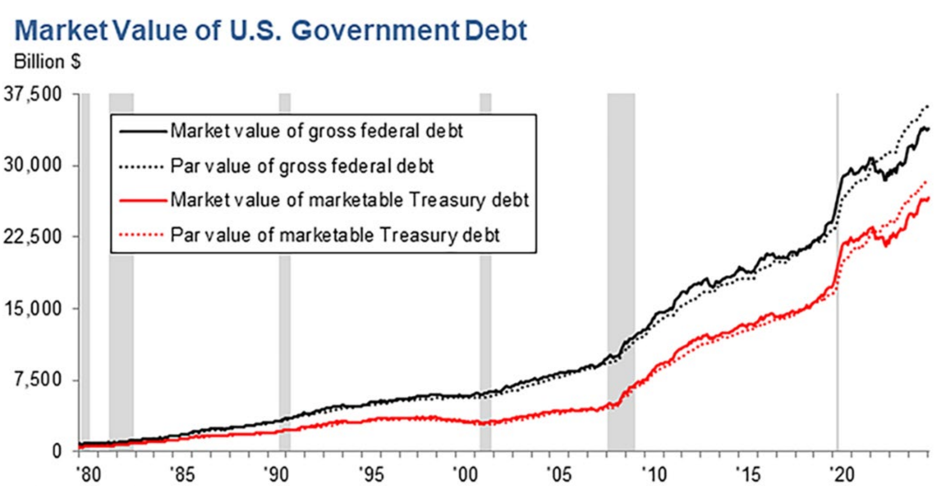
February 2025 - www.dallasfed.org

⇳ 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.

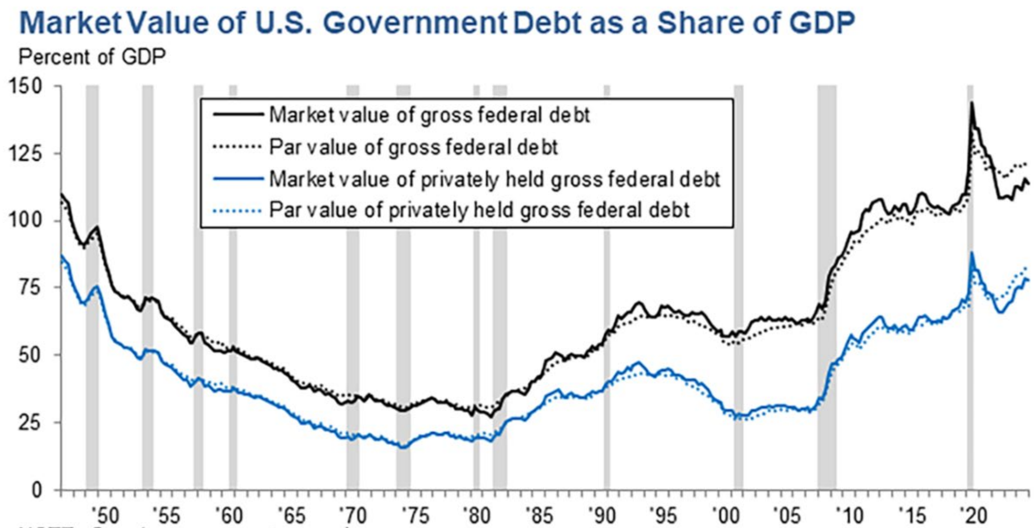


NOTE: Gray bars represent recessions.
SOURCES: U.S. Treasury; Federal Reserve Bank of New York; Wall Street Journal; Bloomberg L.P.; Federal Reserve Bank of Dallas calculations.

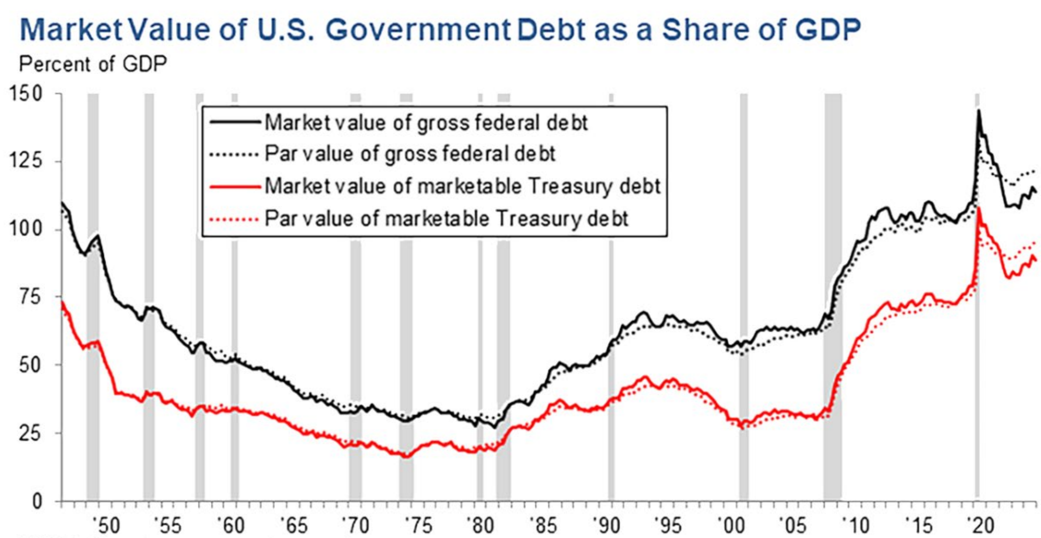


NOTE: Gray bars represent recessions.
SOURCES: U.S. Treasury; Federal Reserve Bank of New York; Wall Street Journal; Bloomberg L.P.; Federal Reserve Bank of Dallas calculations.

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



NOTE: Gray bars represent recessions.
SOURCES: U.S. Treasury; Federal Reserve Bank of New York; Wall Street Journal; Bloomberg L.P.; Bureau of Economic Analysis; Federal Reserve Bank of Dallas calculations.



NOTE: Gray bars represent recessions.
SOURCES: U.S. Treasury; Federal Reserve Bank of New York; Wall Street Journal; Bloomberg L.P.; Bureau of Economic Analysis; Federal Reserve Bank of Dallas calculations.

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.

NOTE: Gray bars represent recessions.
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 December was 2.77 percent. According to the BEA, the overall PCE inflation rate was 2.55 percent on a 12-month basis, and the inflation rate for PCE excluding food and energy was 2.79 percent on a 12-month basis.

The tables on the right 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.

One-month PCE inflation, annual rate

	Jul-24	Aug-24	Sept-24	Oct-24	Nov-24	Dec-24
PCE	2.0	1.5	2.1	2.9	1.5	3.1
PCE ex F&E	2.1	2.0	3.0	3.3	1.3	1.9
Trimmed mean	2.0	2.1	2.5	3.0	2.0	2.8

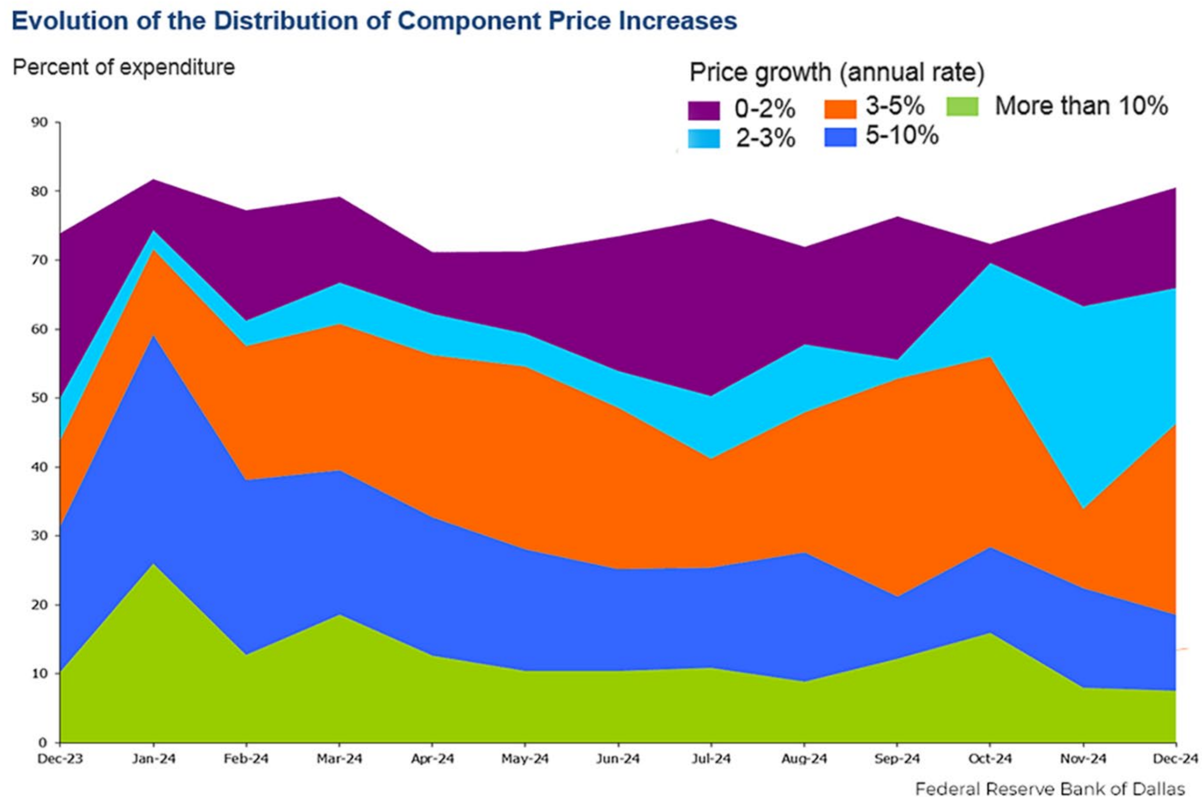
Six-month PCE inflation, annual rate

	Jul-24	Aug-24	Sept-24	Oct-24	Nov-24	Dec. 24
PCE	2.4	2.0	1.7	1.6	1.9	2.2
PCE ex F&E	2.6	2.5	2.3	2.4	2.4	2.3
Trimmed mean	2.6	2.4	2.3	2.3	2.3	2.4

12-month PCE inflation

	Jul-24	Aug-24	Sept-24	Oct-24	Nov-24	Dec--24
PCE	2.5	2.3	2.1	2.3	2.4	2.6
PCE ex F&E	2.7	2.7	2.7	2.8	2.8	2.8
Trimmed mean	2.8	2.7	2.7	2.7	2.7	2.8

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.



U.S. Economy at a Glance
U.S. Bureau of Labor Statistics

Data Series	Sept 2024	Oct 2024	Nov 2024	Dec 2024	Jan 2025	Feb 2025
Unemployment Rate (1)	4.1	4.1	4.2	4.1	4.0	4.1
Change in Payroll Employment (2)	240	44	261	323	(P) 125	(P) 151
Average Hourly Earnings (3)	35.33	35.48	35.61	35.68	(P) 35.83	(P) 35.93
Consumer Price Index (4)	0.2	0.2	0.3	0.4	0.5	N/A
Producer Price Index (5)	0.3	(P) 0.2	(P) 0.2	(P) 0.5	(P) 0.4	N/A
U.S. Import Price Index (6)	-0.4	0.1	0.1	(R) 0.2	(R) 0.3	N/A

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 2023	1st Qtr 2024	2nd Qtr 2024	3rd Qtr 2024	4th Qtr 2024
Employment Cost Index (1)	0.9	1.2	0.9	0.8	0.9
Productivity (2)	(R) 3.5	(R) 1.6	2.1	(R) 2.9	1.5

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 11, 2025

The Federal Reserve Board
The Beige Book – March 6, 2024, Excerpt

Overall Economic Activity

Economic activity increased slightly to moderately across the twelve Federal Reserve Districts in late November and December. Consumer spending moved up moderately, with most Districts reporting strong holiday sales that exceeded expectations. Vehicle sales grew modestly. Construction activity decreased overall, with several Districts indicating that high costs for materials and financing were weighing on growth. Manufacturing decreased slightly on net, and a number of Districts said manufacturers were stockpiling inventories in anticipation of higher tariffs. Residential real estate activity was unchanged on balance, as high mortgage rates continued to hold back demand. Commercial real estate sales edged up. The nonfinancial services sector grew slightly overall, with Districts highlighting growth in leisure and hospitality and transportation, notably air travel. Truck freight volumes, however, were down. Financial service providers reported modest growth in lending and little change in asset quality overall, though lenders and community organizations voiced concerns about delinquencies among small businesses and lower-income households. Nonprofit social service agencies faced high demand amidst uncertainty about future funding levels. Agricultural conditions remained weak overall, with generally lower farm incomes and weather-related struggles in some areas. The spread of avian flu reduced egg supplies and pushed up prices. Energy activity was mixed. More contacts were optimistic about the outlook for 2025 than were pessimistic about it, though contacts in several Districts expressed concerns that changes in immigration and tariff policy could negatively affect the economy.

Highlight of Dallas Federal Reserve

The Eleventh District economy continued to expand moderately over the reporting period. Growth resumed in manufacturing output and activity picked up in nonfinancial services and retail. Bank loan volume expanded, and banks reported increased demand for loans despite continued credit tightening. Home sales increased slightly, while energy activity was steady. Overall employment rose slightly in December, although manufacturing employment was flat. Wages and prices grew moderately. Demand for nonprofit services remained high amid uncertainty regarding government funding. Outlooks continued to improve although there was concern regarding potentially adverse effects of future immigration and trade policies.

ECONOMIC REPORTS AND FORECASTS: STATE OF TEXAS

FEDERAL RESERVE BANK, DALLAS

February 2025 - www.dallasfed.org

INDUSTRIAL BUILDING BOOM IS BIGGER IN TEXAS, SIGNALING GROWTH WAVE

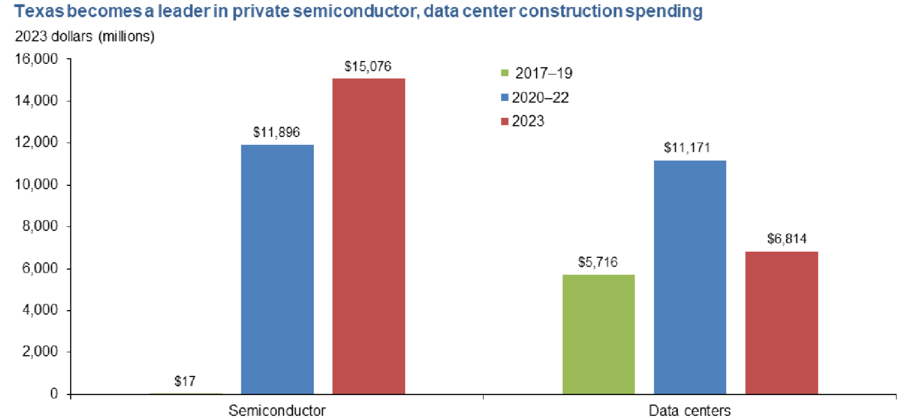
By Jesse Thompson and Prithvi Kalkunte

Texas is undergoing a boom in technology and energy-related construction that follows a pandemic-era warehouse and logistics building surge. A strong energy sector supports the construction and anticipated end-user plans for electricity-hungry artificial intelligence and data center facilities as well as burgeoning petrochemical and energy exports.

A trio of federal programs — the Inflation Reduction Act, the Infrastructure Investment and Jobs Act and the Creating Helpful Incentives to Produce Semiconductors and Science Act (popularly known as the CHIPS and Science Act) — have supercharged construction of technology and energy-transition-related projects. They follow the pandemic-era warehouse and logistics building boom, boosting Texas' reputation as a go-to central location for distribution of goods nationally.

Additionally, advances in data processing central to emerging artificial intelligence and cloud-based data services are behind a wave of data center construction. The building activity, in turn, depends on the availability and distribution of electricity, increasingly produced by wind and solar generation for the Texas electric grid.

Texas becomes a leader in private semiconductor, data center construction spending

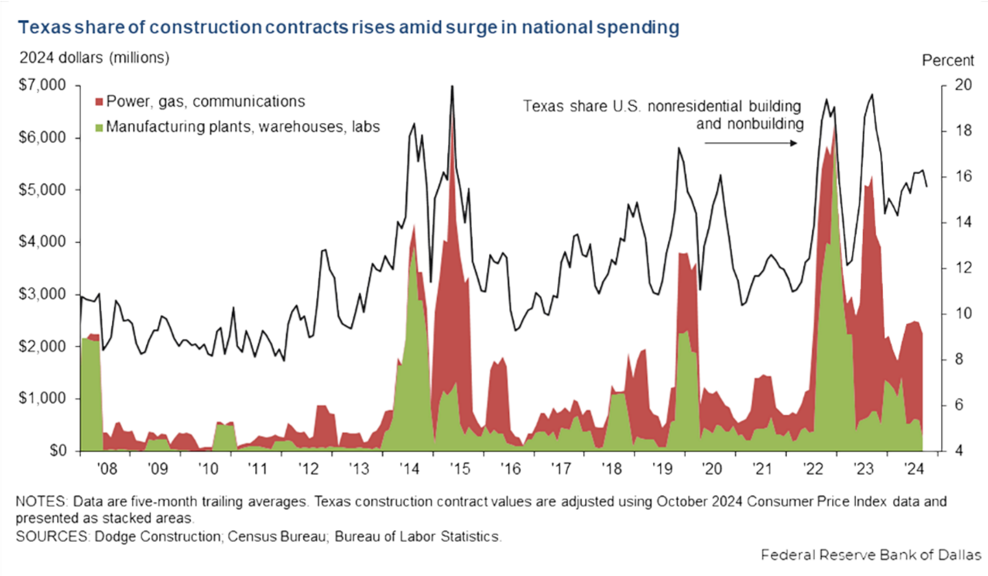


NOTE: Data are the dollar values of private construction contracts in Texas and adjusted for inflation using the industrial construction Producer Price Index.
SOURCES: Dodge Construction Network; authors' calculations.

Federal Reserve Bank of Dallas

A healthy energy sector provides backing for all of this and still more industrial construction — big-dollar projects needed to meet the demands of burgeoning petrochemical operations, manufacturing powered by natural gas, energy exports and electricity. This activity kicked into high gear a decade ago, building on Texas' unique positioning as a leader in both low- and high-carbon energy development.

From 2017 through 2019, before the 2020 onset of the pandemic, the state accounted for just $17 million of the nearly $5.1 billion in construction contracts for semiconductor plants (in 2023 dollars), according to from the Dodge Construction Network. With massive public subsidies and in the wake of pandemic-related supply-chain disruptions, construction contracts rose to $11.9 billion from 2020 to 2022, more than 17 percent of the U.S. total. In 2023 alone, semiconductor manufacturing facilities in Texas accounted for more than $15 billion — 23.9 percent of the U.S. total (see above). Thus, the state entered 2025 with



considerable ongoing activity before the Trump administration announced executive actions in January to pause or halt various spending programs.

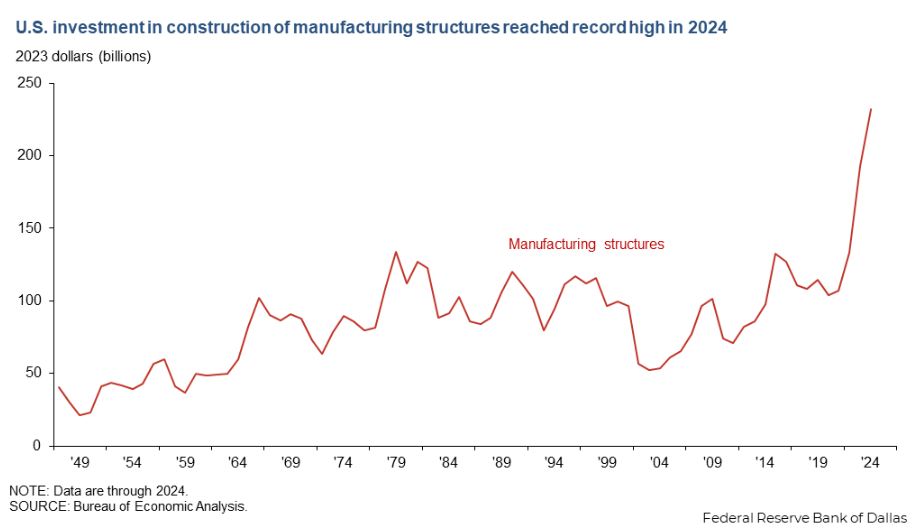
Altogether, contract values for nonresidential and nonbuilding (such as highways and communications structures) are rising. Texas' share of total U.S. spending in the two broad categories has tracked higher since the shale oil and gas boom years, 2011–14 (see above).

In the postpandemic period, Texas' share of spending has again increased, averaging 15.5 percent of the national total in 2023, a much higher share than the state's contribution to the U.S. GDP, at 9 percent. Two categories driving the surge are "manufacturing plants, warehouses and labs" and "power plants, gas and communications," Dodge data show. Mega projects in high-tech manufacturing, liquefied natural gas (LNG) facilities, chemical plants and data centers drove the outsized increases.

But that doesn't tell the whole story.

The construction activity supports growing production across sectors. In 2023, the state produced 9.6 percent of U.S. manufacturing GDP, including 13.2 percent of chemicals and 8.2 percent of computer and electronic product manufacturing. In the associated construction sectors, Texas has obtained an outsized amount in new building contracts.

Since mid-2022, after many of the recent federal industrial policy programs were enacted, Texas is responsible for more than $289 billion, amounting to 16.5 percent of the value of total U.S. nonresidential and nonbuilding construction contracts. Of that, $44.8 billion was for manufacturing and $51.2 billion for power, gas and communications.



Nationally, total real (inflation-adjusted) investment in manufacturing structures reached a record high of $231.9 billion in 2024. During 2023 and 2024, construction in this sector logged its biggest contributions to annual real GDP growth since 1979 (see left).

Investment in manufacturing structures, typically industrial facilities, dramatically outpaced real fixed capital spending by oil and gas companies on wells and shafts — historically concentrated in Texas — by $135.2 billion, a record gap.

⇧ Old advantages spawn new investments

Texas' outsized share of a national investment boom in manufacturing builds on earlier industrial growth, including the high-tech boom of the 1970s and 1980s that eventually stretched from Dallas-Fort Worth to Austin and beyond. The shale oil and gas boom that began 15 years ago — itself an iteration of more than a century of oil and gas discovery in the state — helped produce the latest wave of construction in refining, petrochemical, pipeline and export facilities.

Supporting this development, Texas has consistently prompted new investment with its growing, diverse and skilled workforce operating in an accommodative tax and regulatory environment. Admittedly, much of the growth in the workforce has come about through migration to the state, as growing labor demand has long outstripped the state's ability to produce enough qualified workers.

Dallas-based Texas Instruments, which began in 1930 as a provider of seismographic data to the oil industry and became a global semiconductor leader, plans this year to open the first of four new manufacturing plants in Sherman, 70 miles north of Dallas. The company, which says its investment could reach $30 billion and create 3,000 jobs, is to receive $1.6 billion in CHIPS and Science Act funding.

Also in Sherman, Hsinchu, Taiwan-based GlobalWafers is building a 3.2 million-square-foot semiconductor manufacturing facility, with operations also to begin in 2025. The parent company is to receive $400 million in CHIPS and Science Act funding.

South Korea-based Samsung Electronics, which began its technology manufacturing in the Austin area in 1996, started construction on what was proposed as a $17 billion semiconductor manufacturing facility in 2022 in Taylor, 30 miles northeast of Austin, with plans to begin operation this year. The project includes $6.4 billion in CHIPS and Science Act funds. Still more semiconductor facilities in Taylor are in various stages of planning, totaling at least $40 billion, and aided by state and federal incentives.

⇧ Digital activity proliferates in Texas

Even before the new semiconductor facilities come online, computing activity and services have contributed to outsized growth in data centers, cloud-based storage and digital services. The volume of annual data center builds tracked by Dodge boomed from less than 1.6 million square feet, worth $870 million in 2017, to 10.3 million square feet worth $6.8 billion in 2023.

Texas accounts for a little more than 9 percent of the U.S. population. The state was home to 10.1 percent of the value of all construction contracts for data centers in 2023 after achieving an 8 percent share during the pandemic years and an 8.7 percent share in the three years before the pandemic.

There are lots of reasons for the rapid growth. There is ample land available for development near major population centers, and the state and local regulations make it relatively easy to build new infrastructure to meet the immense power demands of large data centers. Additionally, the state has generally low-priced electricity relative to other regions — though the price and the cost of ensuring reliability in Texas is rising. Critically, the state also has a large, mature, high-tech labor force and services base to build upon.

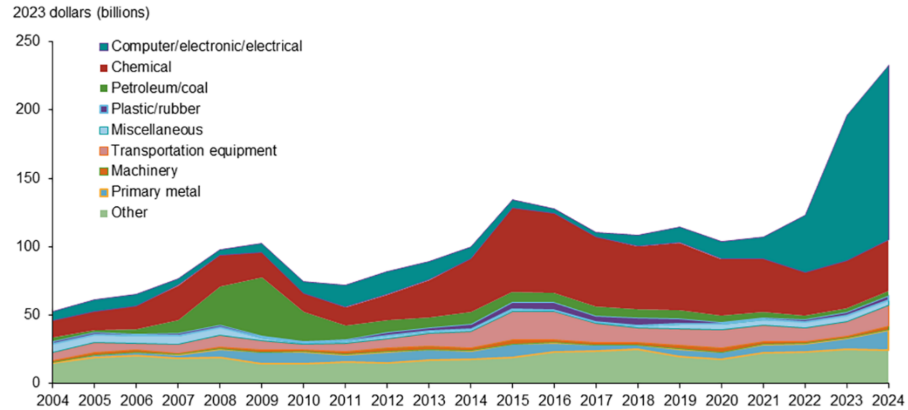
⇧ Playing to Texas' energy strengths

While Texas has yet to receive a significant piece of solar or battery manufacturing dollars outside of Tesla's lithium plant in Corpus Christi, Houston was named a "hydrogen hub" by the Department of Energy in 2022, with the metropolitan area to receive Inflation Reduction Act funds to expand hydrogen production. The massive network of Gulf Coast refining and petrochemical complexes centered in Houston already consumes large volumes of hydrogen for myriad processes such as removing sulfur from crude oil for refining.

The hydrogen initiative, which is under Trump administration review, is mainly aimed at lowering the emissions of hard-to-abate industries that rely on energy-intensive industrial processes. It also seeks to create supplies for newer hydrogen uses, such as fuel cells, or in the longstanding manufacture of ammonia. Texas received $1.1 billion (42.2 percent) of all the construction contracts for hydrogen in 2023 after drawing another $1.1 billion (29 percent) of investment during the pandemic years.

Notably, the same geology that made oil and gas a prominent resource along the Gulf Coast is rich with sites suitable for carbon sequestration — the process of warehousing CO_2 emissions underground. Subsidies aimed at promoting the utilization of these resources could at least partly offset emissions from industrial processes such as hydrogen production, crude oil refining, petrochemicals production and power generation.

Semiconductors and batteries drove 2022–24 U.S. construction spending, exceeding 2015 chemicals surge



NOTE: Construction values are deflated using the new industrial construction Producer Price Index (PPI) from 2007 to 2024 and the new warehouse PPI from 2004 to 2006.
SOURCES: Census Bureau; Bureau of Labor Statistics.

Federal Reserve Bank of Dallas

Meanwhile, abundant natural gas and natural gas liquids from shale continue to encourage new chemical plant expansions, such as a $1.1 billion addition to an OxyChem plant in La Porte, Texas. The investment underscores the nation's enduring transformation from a high-cost to a low-cost global producer of commodity plastics, resins and other organic and inorganic chemical products. Real construction spending in the U.S. chemicals sector totaled $37.6 billion in 2024, off its peak of $61.7 billion in 2015 but still well above the $13.2 billion spent in 2011 before the shale boom drove rapid expansion (see above).

LNG export facilities, such as ExxonMobil and Qatar Energy's $11.6 billion Port Arthur LNG facility and related energy export infrastructure projects, have boosted Texas construction spending as growing supplies of shale gas drive efforts to improve facilities needed to sell additional product.

⇧ Related construction wages accelerate

Such big projects require thousands of workers, many of them highly specialized. The average weekly wage in 2023 for industrial construction jobs in Texas was $1,927, or $48.18 per hour (based on a 40-hour workweek). The pay was 38.5 percent higher than the all-industry average weekly wage.

Nationwide, workers in the sector earned an average hourly wage of $41 per hour that year, more than 21 percent above the national average wage rate. Commercial and industrial construction earned $41 per hour in Texas, while oil and gas pipeline building earned $36 per hour in 2023. Hourly wages in all three categories continued rising in 2024.

These types of building involve specific kinds of structures. Industrial building construction includes inorganic chemical and industrial gas plants (hydrogen or battery components), factories, including for semiconductors, and vehicle assembly plants. Commercial and industrial construction includes office buildings, restaurants, warehouses (including prefabricated building component assembly) and data centers. Firms in the oil and gas pipeline and related structures construction sector build pipelines, gas plants, chemical plants and LNG terminals.

⇧ Even more projects likely on the way

A long road lies between project announcement, groundbreaking and completion. Challenges across shared supply chains and the availability of high-skilled construction workers may emerge amid competing labor demands from federal programs plus the ongoing investment in oil and gas infrastructure and data centers.

There have been nearly $1 trillion in private investment projects announced nationally since the pandemic — much of the planned expenditure the product of U.S. industrial development policies — according to the Biden White House.

Of the total, $165 billion (or 16 percent) are for projects intended for Texas in addition to federal government aid that amounts to nearly $44 billion for clean energy, infrastructure and manufacturing. The bulk of the spending surge is directed at semiconductors and electronics sectors, of which, $78 billion of private spending is for Texas, comprising 20 percent of the U.S. semiconductor total. Only California has attracted a larger target for current and promised projects.

Some of these announced projects have already broken ground — such as the semiconductor plants — while many others remain on the drawing board. In the case of CHIPS and Science Act money, about $34 billion in grant awards and another $9 billion in loans have been allocated. One-third to one-half of announced projects across all spending programs that have not started may ultimately fall by the wayside, according to industry analysts.

⇳ Uncertain outlook for future activity

Many of these projects wouldn't proceed — even with substantial government backing — without massive corporate and other private funding sources seeing opportunity in U.S. industrial and commercial expansion.

However, both the appropriateness and efficacy of government investment programs are a matter of ongoing national debate, and it remains unclear what will happen to many of the provisions in the Inflation Reduction Act, the Infrastructure Investment and Jobs Act and the CHIPS Act under the Trump administration. It has sought to pause disbursements for several programs and has been challenged in the courts. Additionally, the specter of trade wars and potential reductions in labor availability could increase costs and affect project viability.

Regardless, the scale of development already underway — spurred both organically by market forces and via subsidies —I s unprecedented in the postwar era. With a significant share of expenditures destined for Texas, future growth across diversified trade and manufacturing sectors seems assured.

TEXAS ECONOMIC STATISTICS
U.S. BUREAU OF LABOR STATISTICS

Data Series	July 2024	Aug 2024	Sept 2024	Oct 2024	Nov 2024	Dec 2024
Labor Force Data						
Civilian Labor Force (1)	(R) 15,652.9	(R) 15,687.8	(R) 15,136.3	(R) 15,715.0	(R) 15,731.7	(R) 15,727.7
Employment (1)	(R) 15,003.5	(R) 15,003.0	(R) 15,057.7	(R) 15,075.2	(R) 15,076.3	(R) 15,073.3
Unemployment (1)	(R) 649.3	(R) 654.8	(R) 657.2	(R) 657.1	(R) 655.4	(R) 654.5
Unemployment Rate (2)	(R) 4.1	(R) 4.2	(R) 4.2	(R) 4.2	(R) 4.2	(R) 4.2
Nonfarm Wage and Salary Employment						
Total Nonfarm (3)	14,161.2	14,260.7	14.286.9	14,277.6	14,281.2	(P) 14,318.7
12-month % change	1.9	2.3	2.3	2.0	1.9	(P) 2.0
Mining and Logging (3)	208.7	209.5	209.0	209.5	210.7	(P) 211.2
12-month % change	-2.5	-2.1	-2.0	-1.1	0.3	(P) -1.4
Construction (3)	852.6	863.8	870.8	867.0	867.1	(P) 869.4
12-month % change	3.8	4.8	5.0	4.6	3.8	(P) 3.8
Manufacturing(3)	975.8	981.6	983.3	985.1	984.3	(P) 983.6
12-month % change	2	2.4	2.3	2.6	2.5	(P) 2.2
Trade, Transportation, and Utilities (3)	2,786.6	2,795.7	2,799.2	2,800.7	2,793.0	(P) 2,804.4
12-month % change	0.9	1.1	1.1	0.7	0.7	(P) 0.9
Information (3)	234.1	235.5	235.5	237.8	238.5	(P) 237.9
12-month % change	0.2	1.1	1.4	1.7	2.1	(P) 2.4
Financial Activities (3)	919.9	927.3	931.2	936.8	940.0	(P) 941.6
12-month % change	1.7	2.4	2.8	3.0	3.4	(P) 3.6
Professional & Business Services (3)	2,129.1	2,152.8	2,159.5	2,144.8	2,147.5	(P) 2,165.3
12-month % change	0.4	1.6	2.0	1.3	0.9	(P) 2.0
Education & Health Services (3)	1,974.4	1,975.2	1,970.2	1,965.4	1,970.4	(P) 1,972.4
12-month % change	3.0	3.1	3.4	2.7	2.7	(P) 2.6
Leisure & Hospitality (3)	1,512.1	1,523.4	1,526.3	1,531.5	1,529.2	(P) 1,532.9
12-month % change	2.1	2.6	2.5	2.4	2.8	(P) 2.4
Other Services (3)	490.9	492.1	491.8	488.9	487.7	(P) 486.7
12-month % change	3.7	3.6	2.8	2.1	1.7	(P) 0.7
Government (3)	2,104.0	2,121.8	2,110.1	2,110.1	2,112.8	(P) 2,114.8
12-month % change	2.9	3.0	2.3	1.8	1.8	(P) 1.8

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 11, 2025

FEDERAL RESERVE BANK SENIOR LOAN OFFICER OPINION SURVEY

The January 2025 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 2024.

Regarding loans to businesses over the fourth quarter, survey respondents reported, on balance, tighter lending standards for commercial and industrial (C&I) loans to firms of all sizes. Meanwhile, banks reported stronger demand for C&I loans to large and middle-market firms, while demand for C&I loans to small firms remained basically unchanged. Furthermore, banks generally reported tighter standards and basically unchanged demand for commercial real estate (CRE) loans.

For loans to households, banks reported, on balance, basically unchanged lending standards and weaker demand across most categories of residential real estate (RRE) loans. In addition, standards reportedly tightened for credit card loans and remained basically unchanged for auto and other consumer loans, while demand weakened for credit card and other consumer loans but remained basically unchanged for auto loans. Further, banks reported basically unchanged lending standards and demand for home equity lines of credit (HELOCs).

The January SLOOS included a set of special questions inquiring about banks' expectations for changes in lending standards, borrower demand, and loan performance over 2025. Banks reported expecting lending standards to either ease or remain basically unchanged and demand to strengthen across all loan categories. In addition, banks generally reported expecting loan quality to improve for loans to businesses but to either deteriorate or remain basically unchanged for most consumer loan types.

Business Lending

C&I Loans

Over the fourth quarter, modest and moderate net shares of banks reported having tightened standards on C&I loans to large and middle-market firms and to small firms, respectively. Meanwhile, banks reported mixed changes to C&I loan terms over the fourth quarter. Moderate and modest net shares of banks reported charging higher premiums on riskier loans to large and middle-market firms and to small firms, respectively, while modest net shares of banks reported more frequent use of interest rate floors and tighter collateralization requirements to firms of all sizes. In contrast, modest net shares of banks reported narrowing interest rate spreads over the cost of funds and reducing the costs of credit lines to firms of all sizes. The remaining terms on C&I loans were basically unchanged, on net, to firms of all sizes. Foreign banks also reported that standards and most terms for C&I loans remained basically unchanged, except for a modest net share that reported increasing the costs of credit lines.

Among banks that reported tightening standards and terms for C&I loans, major net shares cited a less favorable or more uncertain economic outlook, the worsening of industry-specific problems, and a reduced tolerance for risk as important reasons for doing so. In contrast, among banks that reported easing standards or terms on these loans, major net shares cited more aggressive competition from other lenders and a more favorable or less uncertain economic outlook.

Regarding demand for C&I loans over the fourth quarter, a modest net share of banks reported stronger demand from large and middle-market firms, while demand from small firms remained basically unchanged on net. In addition, a moderate net share of banks reported an increase in the number of inquiries from potential borrowers regarding the availability and terms of new credit lines or increases in existing lines. Furthermore, a significant net share of foreign banks reported stronger demand for C&I loans.

The most frequently cited reasons for stronger demand, reported by major net shares of banks, were increased customer investment in plant or equipment and increased customer financing needs for inventory, accounts receivable, and merger or acquisition.

CRE Lending

Over the fourth quarter, modest net shares of banks reported having tightened standards for construction and land development loans as well as loans secured by nonfarm nonresidential properties, while standards for loans secured by multifamily properties remained basically unchanged on net. These responses were similar across large and other banks. Foreign banks reported that, on balance, standards for CRE loans remained basically unchanged.

Regarding demand for CRE loans, a modest net share of banks reported weaker demand for construction and land development loans, while demand was basically unchanged for other types of CRE loans. These responses were mixed across bank size categories. Modest net shares of large banks reported stronger demand for loans secured by nonfarm nonresidential and multifamily properties. Meanwhile, demand was basically unchanged for construction and land development loans at large banks. In contrast, modest to moderate net shares of other banks reported weaker demand across all CRE loan types over the fourth quarter. In addition, a significant net share of foreign banks reported stronger demand for CRE loans.

Lending to Households

Residential Real Estate Lending

Banks reported having left standards basically unchanged over the fourth quarter for most RRE loan types, on balance, except for subprime and non-qualified mortgage (QM) jumbo mortgages, for which modest net shares of banks reported having tightened standards. Similarly, banks reported that standards for HELOCs remained basically unchanged.

Meanwhile, banks reported weaker demand, on balance, for most RRE loan categories over the fourth quarter. A significant net share of banks reported weaker demand for subprime mortgages, and moderate net shares of banks reported weaker demand for non-QM non-jumbo, GSE-eligible, government, and QM non-jumbo non-GSE-eligible mortgages. Additionally, a modest net share of banks reported weaker demand for QM jumbo mortgages, while demand for non-QM jumbo mortgages and HELOCs remained basically unchanged

Consumer Lending

Over the fourth quarter, a modest net share of banks reported having tightened standards on credit card loans, while standards were basically unchanged for auto and other consumer loans on balance. Banks reported having tightened most queried terms on credit card loans, with a moderate net share of banks increasing minimum credit score requirements and modest net shares tightening credit limits and lowering the extent to which loans are granted to customers that do not meet credit scoring thresholds. In contrast, most queried terms for auto and other consumer loans remained basically unchanged on net.

Regarding demand for consumer loans, modest net shares of banks reported weaker demand for credit card and other consumer loans over the fourth quarter, while demand for auto loans remained basically unchanged.

Special Question on Banks' Outlook for 2024

The January SLOOS included a set of special questions inquiring about banks' expectations for changes in lending standards, borrower demand, and asset quality over 2025, assuming that economic activity evolves in line with consensus forecasts. On balance, banks reported expecting lending standards to either ease or remain basically unchanged and demand to strengthen across all loan categories. Banks also reported expecting credit quality to improve for most business loan types during 2025, and to either deteriorate or remain basically unchanged for most household loan types.

Regarding lending standards, modest net shares of banks reported expecting to ease standards for CRE loans secured by multifamily properties, for GSE-eligible residential mortgages, and for auto loans. Meanwhile, banks reported expecting standards to remain basically unchanged for all remaining loan types over 2025 on net. The most frequently cited reasons for expecting lending standards to ease, cited by major net shares of banks, were a more favorable or less uncertain economic outlook, an expected increase in competition from other lenders, an expected increase in risk tolerance, and an expected improvement in credit quality of their loan portfolio.

Meanwhile, major net shares of banks reported expecting stronger demand for C&I loans to firms of all sizes over 2025; significant net shares of banks reported expecting stronger demand for all CRE and RRE loan categories, as well as for auto loans; and a moderate net share of banks reported expecting stronger demand for credit card loans. Among banks who reported expecting stronger demand, major net shares cited an expected decline in interest rates and expected higher spending or investment needs due to more favorable or less uncertain income prospects as important.

Regarding expectations for credit quality — as measured by delinquencies and charge-offs — moderate or modest net shares of banks reported expecting improvements for C&I loans to large and middle-market firms, all CRE loan categories, and auto loans to prime borrowers. In contrast, modest net shares of banks reported expecting credit quality to deteriorate for GSE-eligible residential mortgages and for all queried consumer loan types to nonprime borrowers. Credit quality was expected to remain around current levels, on balance, for all other loan categories.

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Condition of the Texas State Banking System Reports.