

Condition of the Texas State Banking System

March 2015

Financial Data as of December 31, 2014

Texas Department of Banking
Texas Department of Savings and Mortgage Lending



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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
❖	Interest item		

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FDIC	Federal Deposit Insurance Corporation
OCC	Office of the Comptroller of the Currency
FRB	Federal Reserve Board

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ECONOMIC REVIEW AND OUTLOOK TEXAS BANKING SYSTEM

BANKING SYSTEM OVERVIEW

The state's economy continues to add jobs, with only isolated areas reporting job losses due to lower crude oil prices. Texas continues to attract businesses and is recognized by the media for a number of qualities, including but not limited to favorable growth prospects, labor supply, business costs, and regulatory environment. The state's economy should be well diversified and capable of handling deflated oil prices. Texas banks and thrifts are also positioned to handle changes in the energy sector. Over time, boards and management have improved lending practices and for the most part refrained from over extending credit facilities.

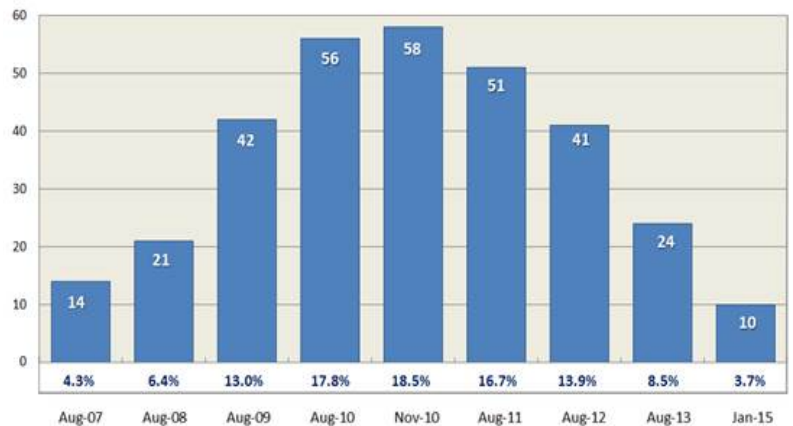
Texas is no stranger to changes in oil prices. A look back at the national recession that began in June 2008 and ended in January 2009 illustrates that oil prices dropped a little over \$115. While the nation fell into a deep recession during this time period, Texas did not share the same experience, rather it weathered the change and continued adding jobs.

Problem state-chartered banks are at a low level, with only 3.7% of state banks being listed as a regulatory concern as of January 2015. This is a significant improvement when compared to November 2010 at which time 18.5% of state-chartered banks were listed as problem banks. Of the 27 current state thrifts regulated by the Texas Department of Savings and Mortgage Lending, less than 5% are classified as problem institutions as of January 2015. De novo state banks received a higher concentration of troubled ratings than the remainder of the industry. Both agencies define a problem bank as an entity receiving an overall CAMELS rating of "3," "4," or "5".

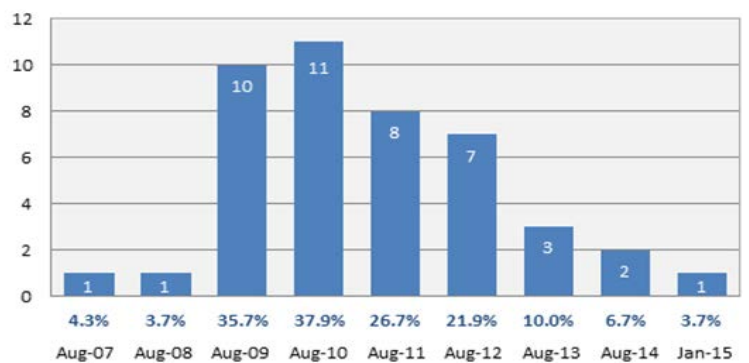
The latest financial data released by the Federal Deposit Insurance Corporation (FDIC) shows that less than 1% of state banks and thrifts have high levels of nonperforming loans. Credit losses at the end of 2014 were manageable and do not signal any major regulatory concerns at this time. The Texas Department of Banking and the Department of Savings and Mortgage Lending have not had reports of significant negative effects on financial institutions due to oil price decline; however, it is important to note that employment is a lagging economic indicator. Flush with cash, landowners have not had a great deal of need to borrow, leading to an imbalance between loans and deposits for some banks. The Departments expect some borrowers may have trouble repaying their debts, and are ready to offer guidance to bankers who are dealing with troubled credits.

Balance sheets are improving; but economic and regulatory challenges remain a constraint. Economists and analysts have expressed concern over financial institutions closest to shale regions. Deposit growth for banks in these areas have boomed due to landowners who leased land and mineral rights to energy companies. Future deposit growth expectations have been lowered due to depressed oil prices. On one hand, this can be a positive outcome for banks and thrifts as their assets are reduced, therefore improving their capital position.

*Department of Banking Problem Banks
as a Percent of Total Charters*



*Department Savings and Mortgage Lending Problem Banks
as a Percent of Total Charters*



Mergers and consolidations continued in 2014. There were 16 fewer state banks and one less thrift at December 31, 2014, compared to the previous year-end. State-chartered bank total assets grew by \$18.8 billion during the same time period to \$235.4 billion. State-chartered thrift assets increased by \$836 million from the previous year to \$11.0 billion.

STATE-CHARTERED BANKING PROFILE (DEPARTMENT OF BANKING)

The number of Texas state-chartered banks continued their downward trend during the second half of 2014, with 267 banks as of December 31, 2014 as compared to 273 banks at June 30, 2014. The decline was predominantly due to seven mergers, five of which were mergers into other state banks, one merger into a national bank, and one merger into an out-of-state state-chartered bank. In contrast, there was only one addition to the number of state-chartered banks in the second half of 2014 – the conversion of Farmers State Bank of Newcastle, Newcastle, Texas.

Although there were several mergers resulting in a decline of Texas state-chartered banks, the overall asset size increased due to a combination of internal asset growth, acquisition of various types of financial institutions, and the charter conversion mentioned above. In this regard, the Texas state-chartered banking system grew from \$225.5 billion at June 30, 2014 to \$235.4 billion by December 31, 2014. Of the increase in assets, \$8.1 billion was due to normal asset growth, \$1.2 billion was from acquisitions of various types of financial institutions, \$0.6 billion was due to a Purchase and Assumption transaction for the failed The National Republic Bank of Chicago, Chicago, Illinois, and \$43 million was the result of the charter conversion.

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

Increased profitability occurred in 51.72% of the thrift institutions since the end of 2013 as a result of an increase in the volume of loans and a decreased provision for loan loss. Only 6.90% of the thrift charters were unprofitable at year-end 2014, which is an increase over year-end 2013 of 3.45%. Nonperforming loans and other real estate foreclosed decreased in state-chartered thrifts during the past twelve months from 4.86% of total assets to 3.55%. Based on institution specific information obtained through examinations, a majority of nonperforming assets in the industry were purchased as troubled as a business strategy and not originated by the thrift. As such, these thrifts are generally subject to loss sharing agreements or other federal government agency guarantees and therefore do not pose a material supervisory risk. Past due and nonaccrual loans, and foreclosed real estate continue to be monitored closely by state and federal regulators.

The total number of state chartered savings banks at year-end 2014 was down from thirty to twenty-nine due to the merger of a state savings bank with and into a state commercial bank. The Department continues to receive and process applications. During the year, there have been three branch office applications, three merger/reorganization applications, and various other types of applications.

TEXAS ECONOMIC PROFILE

Moderate economic growth is anticipated for 2015. Trickle down effects on the state's economy as a result of slowing oil and gas activity is likely; however, it is not expected to cripple Texas. The expected offset of lower oil prices is consumer spending as households spend less on fuel and are able to allocate funds to other expenditures. An analysis of historical crude oil prices, leads to the conclusion that Texas will withstand the economic changes in the energy industry. Depending on how low prices go and for how long will determine the steadiness of the economy in 2015.

Employment

The unemployment rate for the state was 4.6% as of December 31, 2014, a 1.2% improvement over year-end 2013. Adding 460,500 jobs in the 12-month period, the Lone Star State's unemployment rate has been at or below the national rate for eight years. The national unemployment rate for December 2014 was 5.6%. On March 6, 2015, the Texas Workforce Commission announced that for January 2015, Texas

added 20,100 jobs and the state's unemployment rate fell to 4.4%.

Jobs were added in all 11 industry sectors in 2014. The state's mining and logging industry created the most jobs followed by the construction industry, transportation, warehousing and utilities industry, and professional and business services industry. For 2015, job growth is anticipated to moderate, with job losses anticipated in the energy and related sectors if low crude oil prices are sustained over a long period of time.

Population

The U.S. Census estimates that the state's population in 2014 was 26,956,958. The estimate is about 1.8 million more than the population in 2010, meaning that the workforce continues to expand.

Texas' population is expected to double by 2050 to 54.4 million people, according to projections released by the State Demographer, Lloyd Potter. According to the report the increase will largely be due to more people moving to the state.

Housing

New construction was strong in calendar 2014. A total of 95,201 building permits for single-family homes were issued, 10.2% more than in the previous year. Multi-family building permits also increased by 17.4% over calendar year 2013.

Existing home sales for the month of January 2015 were 12.2% more than in January 2014, with the median sales price increasing approximately 7.3% in a 12-month period. Foreclosure rates in Texas are better than the national rate by 50%. One in every 2,127 homes is foreclosed in the state, while one in every 1,102 homes is foreclosed nationally. The top five counties with high foreclosures in Texas are Bell, Johnson, Hidalgo, Dallas, and Delta according to RealtyTrac.

Tax Revenue

Total state revenue in fiscal year 2014 was \$140.6 billion, with state sales tax accounting for about 19%. Sales tax collections for fiscal 2015 through January were 11.2% above for the same period in fiscal 2014. The Comptroller of Public Accounts reports that collections have increased for 58 consecutive months (year-over-year), with improvement apparent across all major economic sectors.

Although oil and gas is a major industry in the state, Texas is not heavily dependent on the revenue from the energy sector. Based on the state revenue summary from the Comptroller of Public Accounts, taxes from oil and gas production in fiscal year 2014 were only 4% of the total state revenue and totaled \$5.8 billion. Tax collections from oil and natural gas production for the five months of fiscal 2015 were 0.2% lower than during the same period in 2014.

Oil and Gas Industry

Texas oil activity has increased over the years due to new technologies that enabled oil producers to increase production. The Railroad Commission of Texas reports there are five specific Texas producing regions or formations – Barnett Shale, Eagle Ford Shale, Granite Wash, Haynesville/Bossier Shale, and the Permian Basin. Any change in supply and demand affects production and employment in these areas. The most recent disruption to the industry has been the price of West Texas Intermediate (WTI) crude oil.

Texas is home to **6** of the 25 largest U.S. cities.



U.S. Census Bureau

The price of WTI crude oil began to fall during the summer of 2014. By the end of January 2015, the price had dropped to \$47.79 from \$107.95 in June 2014, as supply outpaced demand. As shown in the chart, the price of WTI crude oil was \$17.51 away from the ten-year low of \$30.28 reached in December 2008. Prices, however, hovered around \$50 in early March.

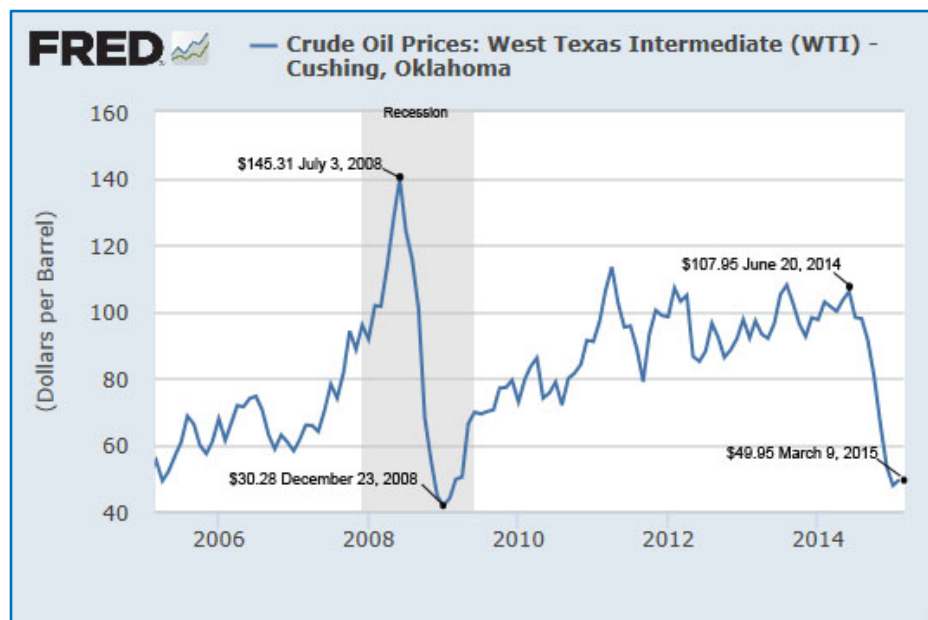
The economic impact due to the drop in oil prices on Texas and the banking industry is being actively monitored by the Department of Banking and Department of Savings and Mortgage Lending, as well as other economists.

The Beige Book released in January 2015 indicates that the demand for oilfield services fell in the Eleventh District. Overall activity in the oil and gas industry slowed with the uncertainty and weaker prices observed in the first few months of 2015. Firms reported they anticipate a decline in demand for their services of 15% to 40% in the first half of 2015.

With oil prices at a five-year low, the Texas rig count and oil well permits have declined. An evaluation of the Baker Hughes North America Rotary Rig Count as of February 27, 2015, shows the oil rig count in Texas at 570, a drop of 274 from one year ago. Based on available data, the count fell below 800 in January 2015. At the peak oil prices in 2008, the oil rig count in Texas was at 949. Nationally, the rig count dropped from 1,769 at the end of February 2014 to 1,267 a year later. The count is 63% of the peak count in August 2008 of 2,031. The Railroad Commission of Texas' monthly oil and gas statistics for January 2015 reflects a total of 1,102 original drilling permits in January 2015 compared to 1,791 in January 2014. Of these permits, 971 were to drill new oil and gas wells.

The effects caused by the decline in oil prices cannot be predicted. However, initial reports estimate approximately 125,000 jobs will be lost in the energy industry. Data released by the Federal Reserve of Dallas indicates that energy firms are reporting hiring freezes and layoffs. A majority of the losses are expected in the areas with higher concentrations of oil and gas extraction and oil-field support jobs. Economists believe that the more diversified economies, such as larger cities, are likely to see less of an impact.

In late February, the Texas Oil and Gas Association issued a press release stating that the Texas oil and natural gas industry paid a record \$15.7 billion in state and local taxes and royalties in 2014. Although the news was positive and Texas has a diverse economy, a cautionary warning was also issued about future tax revenue and the possibility that it will decrease in coming years if crude prices do not rebound. The warning came after Texas Comptroller Glenn Hegar released the Biennial Revenue Estimate which details the state's projected funding through



U.S. Energy Information Administration, Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma [DCOILWTICO], Retrieved from FRED- Federal Reserve Bank of St. Louis, March 9, 2015

Top Ten Oil Producing Texas Counties Ranked By Preliminary Production (County – Crude Oil)

1. Karnes
2. La Salle
3. De Witt
4. McMullen
5. Gonzales
6. Midland
7. Andrews
8. Upton
9. Martin
10. Dimmit

Railroad Commission of Texas, December 2014

2017. The estimate assumes taxes from oil and gas will fall as production levels off and prices remain moderate. The overall forecast suggests that state taxes from oil will decrease approximately 14%.

RESIDUAL EFFECTS OF DROUGHT

According to the state climatologist, Dr. John Nielson-Gammon, “It is possible for widespread drought to redevelop, possibly even this summer if spring rains don’t pan out as usual.” He also reports that even with normal amounts of rainfall, the drought will persist in areas where reservoir levels are most depleted. As a result of these conditions, over 70 bills related to water issues have been submitted by Texas legislators in the 84th Legislative Session, including bills to develop cost-effective water supplies from water desalination, and bills related to conservation strategies.

In 2013, the Texas legislators created the State Water Implementation Fund for Texas (SWIFT) to provide financial assistance to local governments for water supply, wastewater treatment, flood control, and agricultural water conservation projects. SWIFT, which is administered by the Texas Water Development Board (TWDB), is designed to fund approximately \$27 billion in water supply projects over the next 50 years. The application period for the first round of funding closed on February 3, 2015. Forty-eight SWIFT loan applications were received totaling more than \$5.5 billion. TWDB will evaluate all applications and is expected to approve approximately \$800 million in SWIFT loans.

In February 2015, the U.S. Department of Agriculture (USDA) designated 98 counties in Texas as primary natural disaster areas due to damages and losses caused by the drought. The designation will allow farmers and ranchers in these areas to apply and likely qualify for low interest emergency loans through USDA’s Farm Service Agency.

The economic losses have been devastating to the Texas agriculture industry, especially the cattle industry. The Texas cattle head count was reported at 3.91 million in 2014, about a 27% decline in comparison to 2005. Ranchers reduced their herds due to the drought and high feed prices and supplies fell. As economic conditions improved, beef demand rose, driving prices upward. Prices in 2015 will be determined by consumer demand and competing meat prices from pork and poultry.

In efforts to improve drought forecasting, the University of Texas at Austin and the Lower Colorado River Authority (LCRA) will be working with NASA to study the data collected by the newly launched satellite SMAP. The satellite measures levels of soil moisture in the ground. The data collected will provide government officials and farmers with more reliable forecasts helping them make informed water management decisions.

SUPERVISORY CONCERNS

There are a number of factors that can affect and challenge the banking industry at any one point in time. In an effort to mitigate those risks and offer guidance to regulated entities, the Texas Department of Banking and the Texas Savings and Mortgage Lending Department monitor a variety of areas.

Federal Policy Implications on Industry

Increased federal regulatory burden stemming from the financial crisis, i.e. the Dodd–Frank Wall Street Reform and Consumer Protection Act or Dodd–Frank, resulted in an overwhelming number of new compliance regulations. Community banks and thrifts have repeatedly reported experiencing higher costs associated with complying with these regulations. On the national front, a hearing was held in February to explore regulatory relief legislation. Several witnesses provided testimony that included suggestions for defining a community bank and factors that

Additional Items Reviewed At Examinations

- ✓ Bank Secrecy Act/Anti-Money Laundering
- ✓ Capital Levels
- ✓ Fraud
- ✓ Internal Watch Lists
- ✓ Overdraft Protection Programs
- ✓ Tax Liens
- ✓ Other Risk Areas:
 - Fair Lending
 - Deceptive Trade Practices

Texas Department of Banking and Texas Department of Savings and Mortgage Lending

should be considered other than asset size. The Departments will continue to monitor this as the debate continues.

With regard to the federal monetary policy, the persistent low interest rate environment has made it difficult for smaller financial institutions to operate with compressed margins. In a February 2015 hearing, Federal Reserve Chair Janet Yellen indicated that rates could rise as inflation moves toward the Fed targeted rate of 2%. However, rates are nowhere near the target rate as of the release of this report. Economists are speculating rates could rise by mid-2015; however, the Chair's comments allude to possibly the latter of 2015 or early 2016 before a change in the monetary policy takes effect and an increase is enacted.

To counter squeezed margins, community banks are continuing to look for revenue diversification through noninterest income sources. In some cases, some institutions have added new products to boost noninterest income, however, additional compliance costs associated with these new products have produced the opposite effect. Institutions should understand that expanding into unfamiliar products may be counterproductive without proper due diligence.

Impact of Declining Oil Prices

As mentioned previously, the effects of declining oil prices on institutions in Texas is difficult to predict. Since the Report of Condition and Income (Call Report) data does not contain detailed information specific to oil and gas or energy related lending, the Department of Banking has taken a proactive approach to obtaining information from state-chartered banks that actively lend in these areas to better measure the impact of declining oil and gas commodity prices on the Texas banking system. In an effort to gather more specific data, the Department contacted state-chartered institutions who are involved in oil and gas lending, as determined by examinations, and overall increased deposit and loan activity over a specific period. Also considered were institutions located in Texas counties with high oil production. The Department is in the process of gathering data from these institutions and expects to use the results to determine if on-site examinations or additional follow-up is necessary.

The Texas Department of Banking is also monitoring market reaction to the lower oil prices. A general review of stock prices for publically traded financial institutions indicates a noteworthy drop in prices over the last 12 months, some as much as 20%. It is anticipated that the Department's outreach efforts to the institutions with concentrations in oil and gas lending will provide an insight into the level of exposure these state-chartered banks inherently possess.

The Texas Department of Savings and Mortgage Lending has reached out to each state savings bank in an effort to assess the risk to Texas thrifts and their communities, directly or indirectly, from depressed oil prices. Combining the information gathered from state savings banks with additional research, the Department of Savings and Mortgage Lending has found that by virtue of the thrift business model and requirements of the Qualified Thrift Lender test, a typical thrift has less direct exposure to a decline in oil prices than many other depository institutions. The inherent risk for state savings banks is indirect. A limited volume of loans to businesses such as hotels and restaurants in high oil production areas may be at risk. Further, though employment across Texas is still increasing, specific jobs within the oil industry have been or are being reduced. As the individuals affected seek other employment, their capacity to make contractual home and consumer debt payments may be affected. The exposure is limited; however, the thrift industry is well-positioned to assist those affected through modifications and extensions.

The Department continues to receive and evaluate economic information from both industry and independent sources. Quarterly analysis is also conducted using key performance indicators which include specific asset quality measures designed to provide effective early detection of significant risks.

Cyber Risk: Crimes and Threats

Cybercrimes have been dubbed as one of the "greatest threats facing our country, with enormous implications on national security, economic prosperity, and public safety" by the Offices of the United States Attorneys. For the banking industry, the evolution of technology has created a new type of

criminal. Cybercriminals exploit the speed, convenience and anonymity of the Internet to commit a range of cybercrimes. Although physical bank robberies remain a common bank crime per the Federal Bureau of Investigation's 2011 Bank Crime Statistics, high-tech crimes have increased since 2006 prompting a need for financial institutions to safeguard themselves and establish a corporate culture of security.

One of the latest cybercrimes reported in February 2015 involved remote access hacking techniques, more specifically malware, used by computer criminals who stole millions of dollars over two years from over 100 banks around the world, including the United States. The sophistication of the attacks on these institutions along with the sheer scale of the crime has experts troubled that this type of offense is a sign of a new cybercrime era. Prior to this discovery, hackers traditionally targeted bank customers. In this case, financial institutions were targeted directly where the malware attacked employee computers that in turn infected the institution's entire network permitting the cybercrime to take place.

The Departments recognize that losses can occur suddenly and directly affect earnings and capital. In December 2014, in an effort to educate and communicate with the industry about the growing exposure to cyber threats, the Texas Department of Banking partnered with the Texas Bankers Association, Independent Bankers Association of Texas, SWACHA, law enforcement, and federal and state banking regulators, including the Texas Savings and Mortgage Lending Department, to host an event designed to provide Chief Executive Officers and Directors an overview of cyber threats to the banking industry as well as provide resources to manage these evolving threats. U.S. Deputy Secretary Sarah Bloom Raskin was the keynote speaker at the event which was the first of its kind in the nation and is being used as a model program for other states.

DEPARTMENTAL SUPERVISORY MEASURES BEING TAKEN

Each Department concentrates on specific areas of risks by monitoring current events to mitigate potential risks as early as possible and lessen a negative impact on regulated entities. Below, each Department has detailed the areas in which supervisory staff is currently monitoring.

Texas Department of Banking

- ❖ Assessing the potential effects that reduced oil and gas prices may have on Texas banks;
- ❖ Assessing interest rate risk to determine if banks are extending the duration of their investment portfolio to improve net interest margins;
- ❖ Monitoring reductions in internal and external audit functions, loan review and training programs to reduce overhead costs;
- ❖ Emphasizing cyber-security risks to senior bank managers;
- ❖ Conducting targeted reviews of new product lines as banks seek additional sources of revenue;
- ❖ Initiating enforcement actions early in the detection of deteriorating trends;
- ❖ Continuing frequent on-site examinations of problem institutions;
- ❖ Communicating and coordinating joint enforcement actions and other supervisory activities with other federal regulators;
- ❖ Placing monthly calls to state banks to obtain industry input on prevailing economic conditions;
- ❖ Expanding off-site monitoring to more closely follow-up on examination concerns;
- ❖ Utilizing a risk-focused examination process to free up resources for problem institutions;
- ❖ Monitoring state, national, and world political and economic events impacting the industry such as federal programs designed to stabilize the financial markets and new regulations; and,
- ❖ Increasing internal communication and training to improve examiner awareness of pertinent issues.

Texas Department of Savings and Mortgage Lending

- ❖ Participates in regular conference calls and close coordination with other state and federal regulators;
- ❖ Engages in regular correspondence with state savings banks regarding institution-specific issues and industry issues;

- ❖ Performs targeted examinations of high risk areas of state savings banks;
- ❖ Issues enforcement actions and place supervisory agents when deemed necessary;
- ❖ Conducts off-site monitoring of each institution's activity (i.e., regulatory correspondence and approvals, independent audit reports, reports of examination, and institution responses to examination comments, criticisms and recommendations);
- ❖ Develops regular assessments of each institution's activities, strengths and weaknesses, and revise the Department's plan of examination and monitoring for the institution, including the downgrading of institutions, if deemed necessary, by the Department and its federal counterparts;
- ❖ Monitors local, state, national and world political and economic events impacting the industry, including, but not limited to the changing price of crude oil; and,
- ❖ Participates in FDIC Compliance examinations of each institution.

PERFORMANCE SUMMARY AND PROFILE TEXAS BANKING SYSTEM

FDIC INSURED STATE-CHARTERED BANKS

Mergers and consolidations continued in calendar year 2014. However, bank assets increased by \$18.8 billion, marking another year of growth in community banks. Financial data as of December 31, 2014 shows that the margin of profitability in relation to assets, or return on assets (ROA), remains strained for state banks primarily due to pressure on net interest margins. Industry capital continues to afford generous protection for depositors and creditors at 9.6% for year-end 2014.

Improvements in state bank balance sheets can be attributed to several factors, including a reduction in interest expense and lower loan loss provisions. Most bankers report increased profitability due to steady loan growth and a reduction in problem loans.

Net income through December 31, 2014 was \$2.5 billion, about \$303 million more than the same period last year and ROA increased slightly to 1.12%, up 6 basis points (BP) from the previous year. Due to a healthy state economy, the level of unprofitable state-chartered banks improved from 5.30% at year-end 2013 to 3.36% one year later.

Interest income and expense as a percent of average earning assets decreased in 2014. Fortunately, interest expense decreased more than interest income, resulting in a nominal improvement in the net interest margin. Banks also trimmed provisions to the allowance for loan losses and cut charge-off activity almost in half for 2014, compared to 2013.

As discussed previously, net interest margins (NIM) continue to be compressed. For state banks, the NIM was virtually unchanged from 2013, with only a three BP increase to 3.33% as of December 31, 2014. Rates are predicted to begin to rise slowly in the latter half of 2015 which will begin to aid NIMs.

Banks are maintaining a sound asset structure, and most of the typical measures of asset quality show improvement over last year. Loan demand continues to increase, and as of December 31, 2014, total loan and leases were at \$132.7 billion, an increase of \$13.4 million from the previous 12-months. Loan growth has been exhibited in all loan categories.

The percent of noncurrent loans to loans for state banks are within a reasonable tolerance. The ratio of past due loans for banks improved to 0.68% from 1.14% a year ago. Noncurrent assets plus other real estate owned to total assets decreased to 0.58% from 0.92%. Loss

reserves appear to be adequate; however, this position is contingent upon conditions remaining relatively stable. Reserves represent 1.15% of loans at year-end 2014, a reduction from 1.30% the previous year. Overall, the charge-off level is considered reasonable.

FDIC INSURED STATE-CHARTERED THRIFTS

For 2014, state thrifts had \$192.5 million in net income, compared to \$210.0 million during 2013. The ROA for thrifts decreased 30 BP from 2.12% to 1.82%. The level of unprofitable savings banks increased from 3.45% to 6.67%. The most recently chartered or reorganized institutions have reached profitability. Provision expenses for loan and lease losses as a percentage of average assets have decreased by 14 BP. Non-interest income to assets has decreased by 37 BP, while non-interest expense to assets has remained about the same as a percent of assets.

State thrifts experienced a 16 BP increase in their core capital levels since year-end 2013 from 17.77% to 17.93%. This increase is a result of net income noted above and capital raises totaling \$13.85 million, and is further enhanced through reduced dividend payouts. Texas state thrifts also continue to far exceed the national capital ratios for all savings institutions, which was 11.52% for year-end 2014, and 11.64% for year-end 2013.

Net interest margins for state thrifts posted a 12 BP decrease from 4.92% at year-end 2013 to 4.80% at year-end 2014. Year-to-date provisions to the allowance for loan and lease losses (ALLL) decreased almost \$15 million from the prior year. ALLL coverage of non-current loans and leases, presently at 30.36%, is below the ratio of 65.86% for all savings institutions nationwide; however, the Texas thrifts' ratio includes a large volume of covered assets (assets acquired from a failed bank, with downside loss protection from the FDIC), which if removed from this calculation would reflect a ratio for Texas thrifts stronger than the national average.

Thrifts' ratio of noncurrent assets plus other real estate owned to total assets decreased to a total of 3.55% at December 31, 2014. Thrifts also experienced a significant decrease in noncurrent loans as a percentage of total loans from 5.40% to 3.78%, which continues to represent less of a supervisory concern. Loss reserves have decreased and now represent 1.15% of loans. This is a 33 BP decrease for state savings banks since December 31, 2013.

Number of Institutions and Total Assets
FDIC financial data is reflective of FDIC insured institutions only.
Assets in Billions

	<u>12-31-14</u>		<u>12-31-13</u>		<u>Difference</u>	
	<u>No. of Institutions</u>	<u>Assets</u>	<u>No. of Institutions</u>	<u>Assets</u>	<u>No. of Institutions</u>	<u>Assets</u>
Texas State-Chartered Banks	267	\$235.4	283	\$216.6	-16	+\$18.8
Texas State-Chartered Thrifts	29	\$11.0	30	\$10.3	-1	+\$0.7
	296	\$246.4	313	\$226.9	-17	+\$19.5
Other states' state-chartered:						
Banks operating in Texas*	27	\$49.9	26	\$43.3	+1	+\$6.6
Thrifts operating in Texas*	0	0	0	0	0	0
	27	\$49.9	26	\$43.3	+1	+\$6.6
Total State-Chartered Activity	323	\$296.3	339	\$270.2	-16	+\$26.1
National Banks Chartered in Texas	203	\$128.1	211	\$138.8	-8	-\$10.7
Federal Thrifts Chartered in Texas	8	\$71.3	9	\$68.0	-1	+\$3.3
	211	\$199.4	220	\$206.8	-9	-7.4
Other states' federally-chartered:						
Banks operating in Texas*	22	\$342.3	23	\$292.1	-1	+\$50.2
Thrifts operating in Texas*	8	\$0.9	9	\$0.9	-1	0
	30	\$343.2	32	\$293	-2	+\$50.2
Total Federally-Chartered Activity	241	\$542.6	252	\$499.8	-11	+\$42.8
Total Banking/Thrift Activity	564	\$838.9	591	\$770	-27	+\$68.9

*Indicates estimates based on available FDIC information.

RATIO ANALYSIS

As of December 31, 2014

FDIC financial data is reflective of FDIC insured institutions only.

	<u>State- Chartered Banks</u> 267	<u>Texas National Banks</u> 203	<u>All Texas Banks</u> 470	<u>State- Chartered Thrifts**</u> 29	<u>Texas Federal Thrifts</u> 8	<u>All Texas Thrifts</u> 37
% of Unprofitable Institutions	3.36%	1.97%	2.76%	6.90%	NA	5.56%
% of Institutions with Earnings Gains	71.27%	70.94%	71.13%	51.72%	50.00%	50.00%
Yield on Earning Assets	3.58%	3.64%	3.60%	5.36%	4.53%	4.64%
Net Interest Margin	3.33%	3.40%	3.36%	4.80%	4.17%	4.25%
Return on Assets	1.12%	1.25%	1.17%	1.82%	1.14%	1.23%
Return on Equity	9.94%	11.08%	10.37%	10.09%	12.73%	12.10%
Net Charge-offs to Loans	0.10%	0.12%	0.11%	0.13%	1.10%	0.96%
Earnings Coverage of Net Loan C/Os	27.51	22.48	25.30	21.22	3.46	3.81
Loss Allowance to Loans	1.15%	1.50%	1.28%	1.15%	1.55%	1.50%
Loss Allowance to Noncurrent Loans	170.56%	119.13%	143.04%	30.36%	135.12%	96.36%
Noncurrent Assets+OREO to Assets	0.58%	0.91%	0.70%	3.55%	0.78%	1.15%
Net Loans and Leases to Core Deps	74.00%	83.53%	77.37%	107.01%	82.14%	85.24%
Equity Capital to Assets	11.28%	11.16%	11.24%	17.93%	9.08%	10.27%
Core Capital (Leverage) Ratio	9.64%	10.28%	9.86%	17.63%	9.05%	10.20%

Data for other state-chartered institutions doing business in Texas is not available and therefore excluded.

** Information derived from the FDIC website. Texas state-chartered thrift data was computed internally by the Texas Department of Savings and Mortgage Lending from data drawn from the FDIC website plus one additional state savings bank.

COMPARISON REPORT

*FDIC financial data is reflective of FDIC insured institutions only.
Select Balance Sheet and Income/Expense Information
As of December 31, 2014*

	State Banks*		State Thrifts**	
	<u>End of Period</u>	<u>% of Total Assets</u>	<u>End of Period</u>	<u>% of Total Assets</u>
Number of Institutions	267		29	
Number of Employees (full-time equivalent) (In millions)	42,126		2,094	
Total Assets	\$235,417		\$11,031	
Net Loans and Leases	\$134,677	57.21%	\$8,211	74.44%
Loan Loss Allowance	\$1,571	0.67%	\$95	0.86%
Other Real Estate Owned	\$440	0.19%	\$78	0.71%
Goodwill and Other Intangibles	\$4,854	2.06%	\$53	0.48%
Total Deposits	\$197,078	83.71%	\$8,258	74.86%
Federal Funds Purchased and Repurchase Agreements	\$3,187	1.35%	\$1	0.01%
Other Borrowed Funds	\$4,467	1.90%	\$659	5.97%
Equity Capital	\$26,579	11.29%	\$1,977	17.92%
<u>Memoranda:</u>				
Noncurrent Loans and Leases	\$922	0.39%	\$314	2.85%
Earning Assets	\$213,548	90.71%	\$10,246	92.88%
Long-term Assets (5+ years)	\$70,790	30.07%	\$3,843	34.84%
	<u>Year-to Date</u>	<u>% of Avg. Assets</u>	<u>Year-to Date</u>	<u>% of Avg. Assets</u>
Total Interest Income	\$7,298	3.24%	\$524	4.96%
Total Interest Expense	\$515	0.23%	\$55	0.51%
Net Interest Income	\$6,783	3.01%	\$470	4.45%
Provision for Loan and Lease Losses	\$176	0.08%	-\$3	-0.03%
Total Noninterest Income	\$2,899	1.29%	\$101	0.96%
Total Noninterest Expense	\$6,185	2.74%	\$361	3.42%
Securities Gains	\$22	0.01%		-0.00%
Net Income	\$2,506	1.11%	\$193	1.83%
<u>Memoranda:</u>				
Net Loan Charge-offs	\$127	0.06%	\$10	0.09%
Cash Dividends	\$1,282	0.57%	\$82	0.78%

*Excludes branches of state-chartered banks of other states doing business in Texas. As of December 31, 2014, there are an estimated twenty seven out-of-state state-chartered institutions with \$49.9 billion in assets.

No branches of state-chartered thrifts of other states conducted business in Texas as of December 31, 2014.

**Texas State-chartered thrift data was computed internally by the Texas Department of Savings and Mortgage Lending from data drawn from the FDIC website plus one additional state savings bank.

PERFORMANCE SUMMARY UNITED STATES BANKING SYSTEM

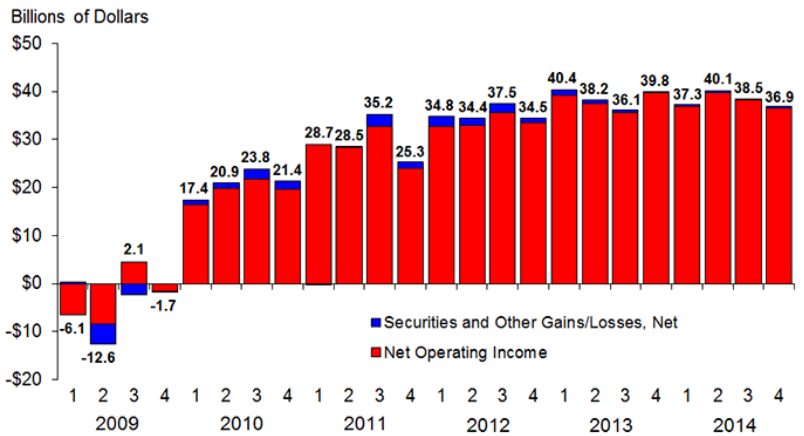
FDIC Quarterly Banking Profile Fourth Quarter 2014 - www.fdic.gov

↑ **Quarterly ROA Falls Below 1% for First Time in 2 Years** – Strengthening loan growth helped lift revenues at most banks, but higher litigation expenses at a few large banks and lower noninterest income from sales, securitization, and servicing of residential mortgage loans caused the industry's fourth-quarter net income to fall below the level of a year earlier. A majority of banks—61%—reported improved quarterly earnings, while the proportion of unprofitable institutions fell to 9.4% from 12.7% in fourth quarter 2013. However, fourth-quarter net income of \$36.9 billion was \$2.9 billion (7.3%) less than in fourth quarter 2013, as the four largest banks reported year-over-year declines in quarterly net income totaling \$4.1 billion. The average return on assets (ROA) fell to 0.96% from 1.09% the year before. This is the first time in two years that the average quarterly ROA has fallen below 1%.

↑ **Most Banks Report Increased Revenues** – Net operating revenue—the sum of net interest income and total noninterest income—increased by \$923 million (0.6%) in the fourth quarter compared with fourth quarter 2013. Net interest income was \$1.1 billion (1%) higher, while total noninterest income was \$160 million (0.3%) lower. The increase in net interest income was attributable to growth in interest-bearing assets, which increased 6.2% in the 12 months ended December 31. Almost 71% of all banks reported higher net interest income than a year earlier. The average net interest margin in the fourth quarter was 3.12%, compared with 3.27% in fourth quarter 2013 and 3.15% in third quarter 2014. The decline in noninterest income was primarily the result of a \$1.6 billion (30.8%) drop in revenue from the sale, securitization, and servicing of residential mortgage loans. More than half of all banks (54.4%) reported higher noninterest income than the year-earlier quarter.

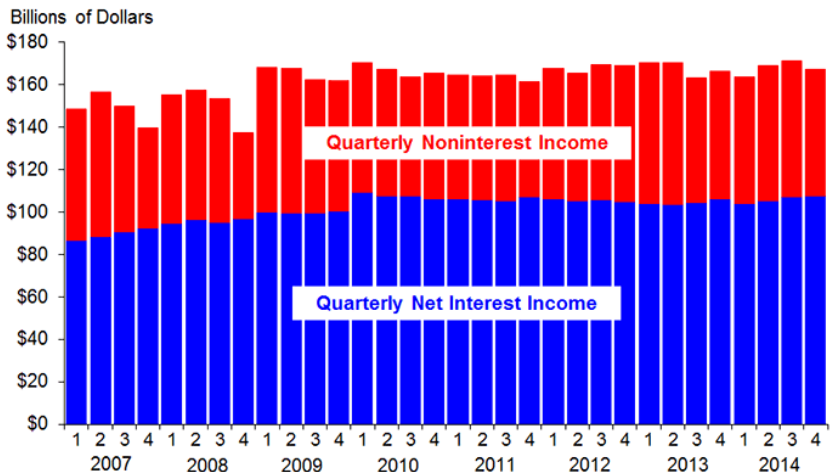
Quarterly Net Income

All FDIC-Insured Institutions



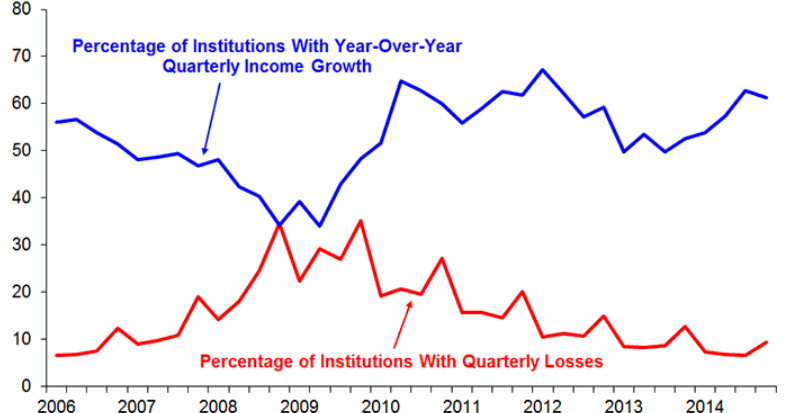
Quarterly Net Operating Revenue

All FDIC-Insured Institutions



Unprofitable Institutions and Institutions With Increased Earnings

Percentage of All FDIC-Insured Institutions



↓ **Loss Provisions Rise for a Second Consecutive Quarter**

For a second consecutive quarter, the amount that banks set aside for loan-loss provisions was higher than a year earlier. Loan-loss provisions totaled \$8.2 billion in the fourth quarter, up \$878 million (12%) versus fourth quarter 2013. Noninterest expenses were \$4.9 billion (4.8%) higher, as itemized litigation expenses at a few of the largest banks were \$4.4 billion more than the year-earlier quarter.

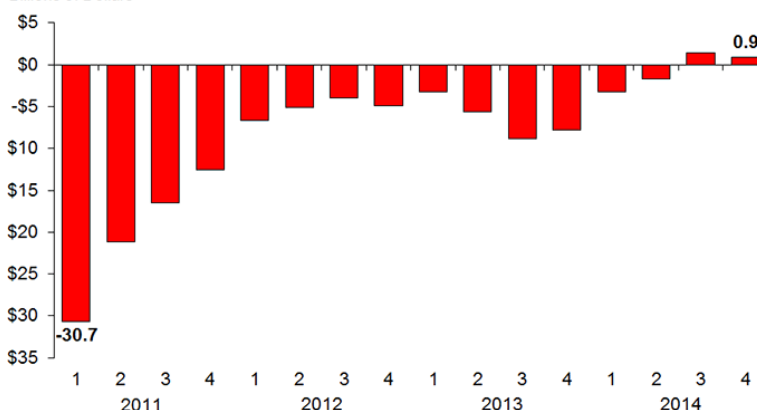
↓ **Full-Year Earnings Post First Decline in Five Years**

Full-year 2014 net income totaled \$152.7 billion, \$1.7 billion (1.1%) less than the industry earned in 2013. This is the first decline in annual net income in five years. The full-year ROA was 1.01%, marking the third year in a row that annual ROA has been above 1%. Reduced revenues from mortgage sales, securitization, and servicing (down \$9.1 billion, or 35.1%), and increased litigation expenses (up \$6.5 billion) were the main contributors to the drop in full-year earnings. Almost two out of every three banks (64%) reported increased earnings in 2014, but 7 of the 10 largest banks reported lower earnings. Although more than two-thirds of all banks reported higher net operating revenue, the industry total was essentially unchanged from 2013, as net interest income rose by \$5.5 billion (1.3%), and noninterest income fell by \$5.5 billion (2.2%). This is the first time in four years that annual net interest income has increased. Full-year loan-loss provisions were \$2.7 billion (8.4%) lower in 2014. Noninterest expenses were \$5.2 billion (1.2%) higher, as the higher litigation expenses were offset in part by a \$3.5 billion (72.9%) reduction in goodwill impairment charges.

Year-Over-Year Change in Quarterly Loan-Loss Provisions

All FDIC-Insured Institutions

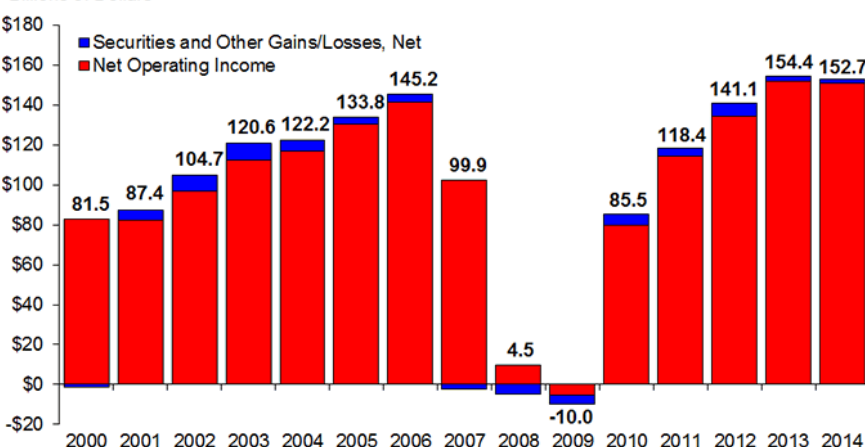
Billions of Dollars



Annual Net Income

All FDIC-Insured Institutions

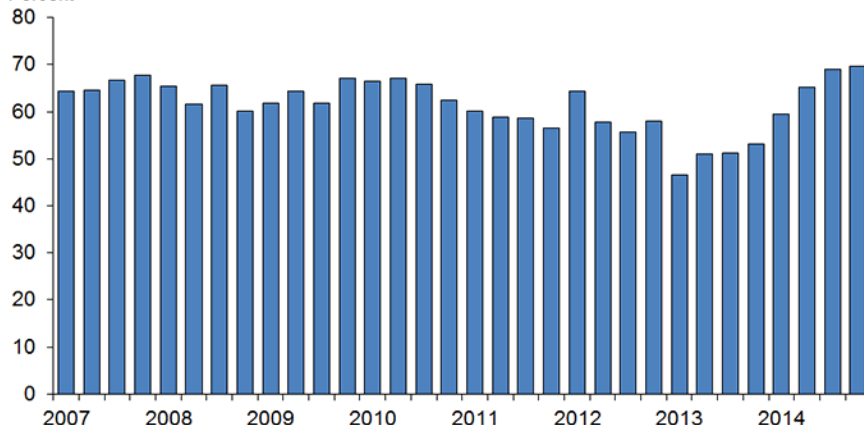
Billions of Dollars



Percentage of Institutions Reporting Year-Over-Year Growth in Net Operating Revenue

All FDIC-Insured Institutions

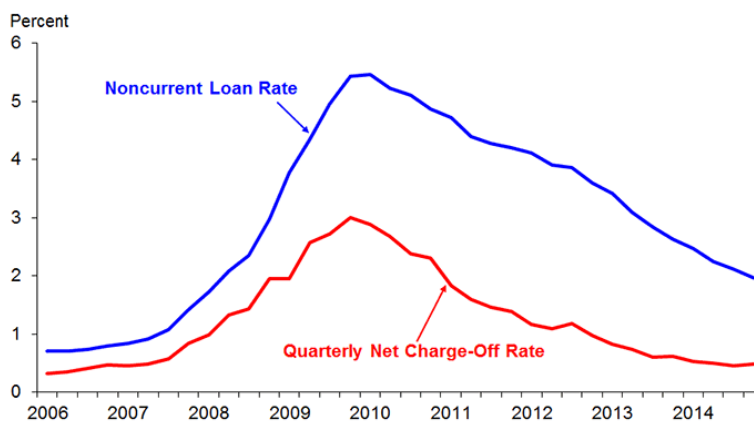
Percent



↑ **Net Charge-Off Rate Falls to an Eight-Year Low** – Asset-quality indicators continued to improve in the fourth quarter, as net charge-offs (NCOs) posted a year-over-year decline for the 18th consecutive quarter. Fourth-quarter NCOs were \$2.2 billion (18.3%) lower than in fourth quarter 2013. The largest improvements were in retail loan categories. Residential mortgage loan NCOs fell by \$785 million (49.9%), while charge-offs of home equity lines of credit were \$446 million (39.1%) lower, and credit card NCOs were \$356 million (6.4%) less than in fourth quarter 2013. The average net charge-off rate in the fourth quarter fell to 0.48%, from 0.62% a year earlier. This is the lowest fourth quarter NCO rate since 2006.

Noncurrent Loan Rate and Quarterly Net Charge-Off Rate

All FDIC-insured Institutions



Source: FDIC.

↑ **The Noncurrent Loan Rate Falls Below 2 Percent** – The amount of loans that were noncurrent (90 days or more past due or in nonaccrual status) declined for the 19th quarter in a row. During the three months ended December 31, noncurrent loan balances fell by \$9.2 billion (5.4%).

The biggest improvements occurred in real estate loan portfolios. Noncurrent residential mortgage balances fell by \$5.3 billion (4.9%) during the quarter, while noncurrent nonfarm nonresidential real estate loans declined by \$1.6 billion (9.4%), and noncurrent real estate construction and development loan balances declined by \$887 million (15.1%). The percentage of total loans and leases that were noncurrent fell from 2.11% to 1.96% during the quarter. This is the first time since the end of first quarter 2008 that the noncurrent rate has been below 2%.

↑ **The Industry Continues to Release Reserves** – Insured institutions reduced their reserves for loan losses by \$2.6 billion (2.1%) in the fourth quarter, as net charge-offs of \$9.9 billion exceeded the \$8.2 billion that banks set aside in loan-loss provisions. This is the 19th consecutive quarter that the industry's loss reserves have declined. At the end of 2014, reserves totaled \$122.6 billion, the lowest since the end of first quarter 2008. The ratio of reserves to total loans and leases fell to 1.48% at year-end, a seven-year low. Despite the reduction in reserves, the industry's coverage ratio of reserves to noncurrent loans and leases improved for the ninth quarter in a row, rising from 72.9% to 75.4%. This is the highest level for the coverage ratio since third quarter 2008.

↑ **Retained Earnings Are More Than Double the Year-Ago Level** – Equity capital increased by \$15.7 billion (0.9%) during the quarter. Retained earnings contributed \$13.9 billion to capital growth, more than twice the \$4.8 billion of a year earlier. Total risk-based capital rose by \$20.3 billion (1.3%). At the end of 2014, 98.6% of all insured institutions, representing 99.8% of industry assets, met or exceeded the requirements for the highest regulatory capital category, as defined for Prompt Corrective Action purposes.

↑ **12-Month Loan Growth Rate Rises Above 5 Percent** – Total assets increased by \$204.4 billion (1.3%), as loan and lease balances rose by \$149.4 billion (1.8%), holdings of U.S. Treasury securities increased by \$59.9 billion (17.3%), and balances at Federal Reserve banks grew by \$58.6 billion (4.4%). Loan growth was led by commercial and industrial (C&I) loans, which increased by \$42.2 billion (2.5%); credit cards, which posted a seasonal \$35.4 billion (5.2%) increase; nonfarm nonresidential real estate loans, which rose by \$16.7 billion (1.5%); and real estate construction and development loans, which grew by \$7.9 billion (3.4%). Loans to small businesses and farms increased by \$2.9 billion (0.4%), as small C&I loans rose by \$4.2 billion (1.4%). For the 12 months ended December 31, total loan and lease balances were up by 5.3%, the highest 12-month growth rate since mid-year 2008. Eighty percent of the increase in Treasury securities and 85% of the growth

in Federal Reserve balances in the fourth quarter occurred at banks with assets greater than \$250 billion, which are subject to a new Liquidity Coverage Ratio rule.

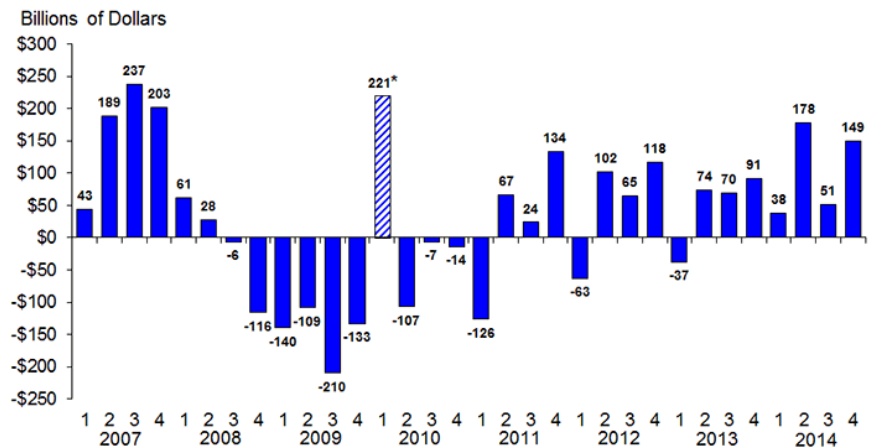
↑ **Large Denomination Deposits Continue to Lead Growth in Liabilities**

Deposits increased by \$167.3 billion (1.4%) in the fourth quarter, as balances in domestic offices rose by \$195.2 billion (1.9%), and deposits in foreign offices fell by \$27.9 billion (2%). Most of the growth in domestic deposits occurred in accounts with balances greater than \$250,000. Balances in these large denomination

accounts increased by \$158.9 billion (3.1%), while balances in domestic accounts of less than \$250,000 rose by \$50.3 billion (1%). Time deposits posted their largest quarterly increase since third quarter 2008, rising by \$96.8 billion (6%). Nondeposit liabilities increased by \$22.5 billion (1.1%), as banks increased their Federal Home Loan Bank advances by \$21.1 billion (4.8%).

Quarterly Change in Loan Balances

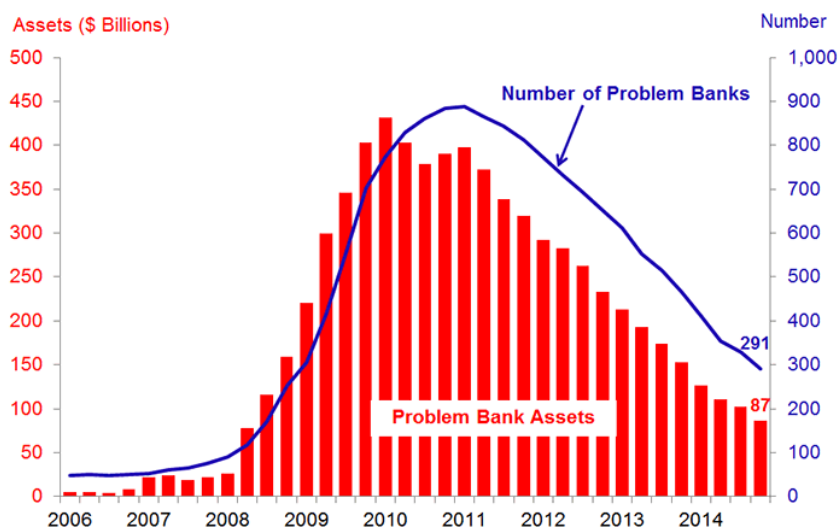
All FDIC-Insured Institutions



Source: FDIC. *FASB Statements 166 and 167 resulted in the consolidation of large amounts of securitized loan balances back onto banks' balance sheets in the first quarter of 2010. Although the total 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.

⇅ **No New Charters Added in 2014** – The number of FDIC-insured commercial banks and savings institutions reporting financial results fell to 6,509 at year-end, from 6,589 at the end of September, and 6,812 at the end of 2013. During the fourth quarter, mergers absorbed 75 institutions, while four insured institutions failed. For the full year, there were 274 institutions absorbed by mergers and 18 failures. This is the smallest number of bank failures in a year since 2007. In 2013, there were 24 failures. No new banks were chartered in 2014, marking the second time in the last three years that there have been no new bank charters. There were 2,047,879 full-time equivalent employees reported at year-end 2014, down 761 from September 30, and down 20,840 from year-end 2013. The number of banks on the FDIC's "Problem List" declined from 329 to 291 during the fourth quarter, and total assets of "problem" banks fell from \$102 billion to \$87 billion. The "Problem List" is at its lowest level since year-end 2008.

Number and Assets of Banks on the "Problem List"



Snapshot Stock Performance Southwest Regional Banks March 2015

<i>Name</i>	<i>Last Trade</i>		<i>52 Wk Range</i>		<i>PE</i>	<i>EPS</i>	<i>Mkt Cap</i>	<i>Div/Shr</i>	<i>Div Yld</i>
ACNB Corporation	03/12	20.35	17.99	22.90	11.87	1.71	122.41M	0.80	4.00%
BancFirst Corporation	03/12	60.95	52.51	69.49	15.09	4.04	944.97M	1.36	2.30%
Banco Bilbao VizcayaArgentaria	03/12	9.66	8.44	13.6	20.25	0.48	60.51B	0.38	3.90%
BOK Financial Corporation	03/12	60.64	53.01	71.10	14.37	4.22	4.19B	1.68	2.80%
Cass Information Sys, Inc.	03/12	52.72	39.00	56.70	25.59	2.06	607.12M	0.84	1.70%
CoBiz Incorporated	03/12	12.07	9.84	13.60	17.24	0.70	484.42M	0.16	1.40%
Commerce Bancshares, Inc.	03/12	42.74	38.10	45.38	16.36	2.61	4.12B	0.90	2.10%
Comerica, Inc.	03/12	46.88	40.09	53.50	14.84	3.16	8.36B	0.80	1.70%
Community Shores Bank Corp	03/12	2.75	0	3.60	N/A	2.95	N/A	N/A	N/A
Cullen Frost Bankers, Inc.	03/12	70.68	60.87	82.00	16.49	4.29	4.46B	2.04	2.90%
Enterprise Fin Serv Corp	03/12	20.59	16.38	20.93	15.20	1.36	408.46M	0.21	1.00%
First Community Corp S C	03/12	11.76	10.24	12.03	15.08	0.78	78.369M	0.28	2.40%
First Financial Bankshares, Inc.	03/12	27.89	24.46	32.54	20.06	1.39	1.77B	0.56	2.10%
Great Southern Bancorp, Inc.	03/12	38.63	28.00	40.44	12.46	3.10	532.01M	0.80	2.10%
Guaranty Fed Bancshares, Inc.	03/12	14.76	12.01	15.50	11.13	1.33	63.66M	0.20	1.30%
Heartland Financial USA, Inc.	03/12	32.37	22.38	32.41	14.78	2.19	599.201M	0.40	1.30%
International Bancshares Corp	03/12	26.27	22.24	28.49	11.52	2.28	1.74B	0.54	2.10%
Landmark Bancorp, Inc.	03/12	26.85	18.83	28.14	11.28	2.38	89.49M	0.76	2.80%
Liberty Bancorp, Inc.	03/12	15.90	0	17.00	17.28	0.92	57.24M	0.15	0.90%
Mackinac Financial Corp	03/12	11.40	9.95	15.06	38.00	0.30	71.43M	0.30	2.60%
Metrocorp Bancshares, Inc.	03/12	15.06	N/A	N/A	N/A	0.64	N/A	0.08	0.50%
MidWest One Finl Group, Inc.	03/12	28.98	22.50	29.82	13.23	2.19	242.56M	0.60	2.10%
OmniAmerican Bancorp, Inc.	03/12	26.17	N/A	N/A	N/A	0.52	N/A	0.20	0.80%
Osage Bancshares, Inc.	03/12	11.32	N/A	N/A	N/A	0.24	N/A	0.34	4.50%
Prosperity Bancshares, Inc.	03/12	53.29	45.01	67.68	12.34	4.32	3.73B	1.09	2.10%
QCR Holdings, Inc.	03/12	18.11	16.91	18.20	10.53	1.72	144.03M	0.08	0.50%
Southwest Bancorp, Inc.	03/12	17.63	14.97	18.49	16.48	1.07	338.37M	0.24	1.40%
Texas Capital Bancshares, Inc.	03/12	51.21	40.40	67.08	17.78	2.88	2.34B	N/A	N/A
UMB Financial Corporation	03/12	52.25	47.26	68.22	19.72	2.65	2.39B	0.94	1.80%
West Bancorp Incorporated	03/12	17.96	13.53	18.61	14.37	1.25	287.68M	0.56	3.20%
Zions Bancorp	03/12	28.04	23.72	33.33	16.69	1.68	5.7B	0.16	0.60%

Source: Yahoo Finance (March 2015)

NA – Indicates information was not available.

Previous Year Snapshot Stock Performance Southwest Regional Banks March 2014

Name	Last Trade		52 Wk Range		PE	EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	03/14	18.09	16.21	19.66	11.60	1.56	107.89M	0.76	4.20%
BancFirst Corporation	03/14	56.65	40.11	58.02	16.23	3.49	868.61M	1.24	2.20%
Banco Bilbao Vizcaya Argentaria	03/14	12.06	8.13	13.54	28.44	0.42	69.7B	0.43	3.40%
BOK Financial Corporation	03/14	67.19	60.4	69.36	14.63	4.59	4.63B	1.60	2.40%
Cass Information Sys, Inc.	03/14	54.73	39.41	68.81	27.09	2.02	630.11M	0.80	1.40%
CoBiz Incorporated	03/14	11.80	7.5	12.45	17.77	0.66	468.29M	0.14	1.20%
Commerce Bancshares, Inc.	03/14	44.74	36.63	46.49	16.47	2.72	4.29B	0.90	2.00%
Comerica, Inc.	03/14	48.60	33.55	49.95	17.05	2.85	8.85B	0.76	1.50%
Community Shores Bank Corp	03/14	2.75	0.21	4.95	0.73	3.75	4.04M	N/A	N/A
Cullen Frost Bankers, Inc.	03/14	75.19	59.11	76.63	19.79	3.80	4.57B	2.00	2.60%
Enterprise Fin Serv Corp	03/14	19.32	13.06	20.96	11.17	1.73	373.32M	0.21	1.10%
First Community Corp S C	03/14	11.08	8.44	11.37	14.19	0.78	58.69M	0.24	2.20%
First Financial Bankshares, Inc.	03/14	60.09	45.92	67.52	24.33	2.47	1.91B	1.04	1.60%
Great Southern Bancorp, Inc.	03/14	29.26	22.60	31.23	12.09	2.42	400.07M	0.72	2.50%
Guaranty Fed Bancshares, Inc.	03/14	12.66	9.3	14.5	8.01	1.58	34.59M	0.00	0.00%
Heartland Financial USA, Inc.	03/14	26.48	22.40	30.99	12.98	2.04	487.21M	0.40	1.40%
International Bancshares Corp	03/14	24.35	17.95	27.2	12.95	1.88	1.64B	0.46	1.80%
Landmark Bancorp, Inc.	03/14	19.41	17.39	21.43	13.09	1.49	61.26M	0.76	3.90%
Liberty Bancorp, Inc.	03/14	12.67	10.5	12.75	12.07	1.05	38.52M	0.12	0.90%
Mackinac Financial Corp	03/14	12.22	8.25	12.24	12.23	1.00	67.7659M	0.20	1.70%
Metrocorp Bancshares, Inc.	03/14	15.06	9.05	15.63	N/A	0.64	N/A	0.08	0.50%
MidWest One Finl Group, Inc.	03/14	25.20	22.82	29.30	11.56	2.18	213.72M	0.58	2.20%
OmniAmerican Bancorp, Inc.	03/14	21.32	20.46	26.17	34.95	0.61	223.09M	0.20	1.00%
Osage Bancshares, Inc.	03/14	11.32	7.5	11.50	N/A	0.24	N/A	0.34	4.50%
Prosperity Bancshares, Inc.	03/14	64.21	44.33	66.9	17.59	3.65	4.25B	0.96	1.50%
QCR Holdings, Inc.	03/14	17.15	13.18	18.2	8.25	2.08	135.21M	0.08	0.50%
Southwest Bancorp, Inc.	03/14	17.71	11.82	18.77	20.12	0.88	349.45M	0.16	0.90%
Texas Capital Bancshares, Inc.	03/14	63.97	36.75	65.38	23.52	2.72	2.74B	N/A	N/A
UMB Financial Corporation	03/14	63.84	46.34	68.27	19.95	3.20	2.89B	0.90	1.40%
West Bancorp Incorporated	03/14	15.15	10.1	16.64	14.85	1.02	204.04M	0.44	2.80%
Zions Bancorp	03/14	31.35	23.1	32.29	19.84	1.58	5.8B	0.16	0.50%

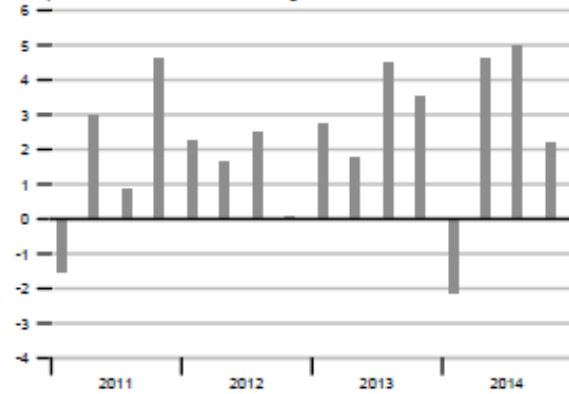
Source: Yahoo Finance (March 2014)

NA – Indicates information was not available.

NATIONAL ECONOMIC TRENDS

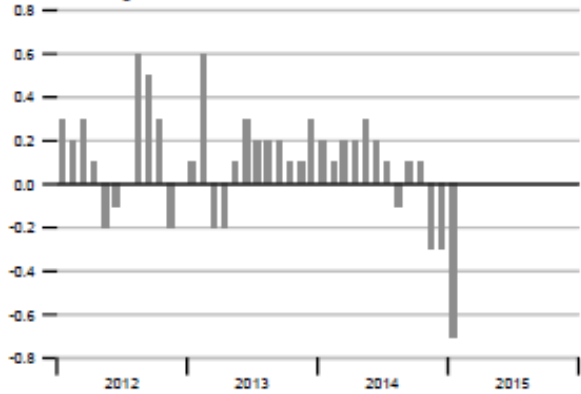
Real GDP Growth

Compounded annual rates of change



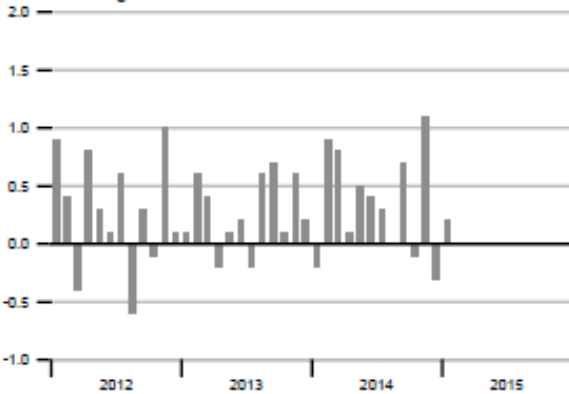
Consumer Price Index

Percent change



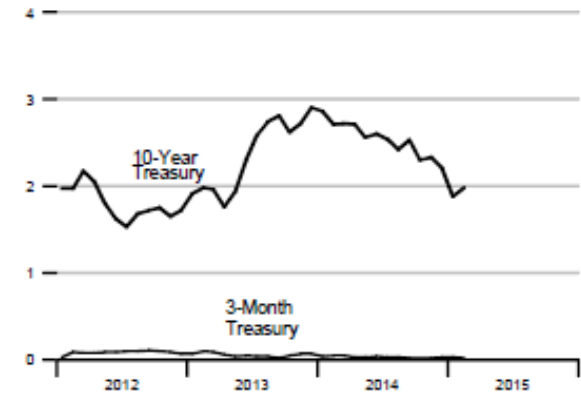
Industrial Production

Percent change



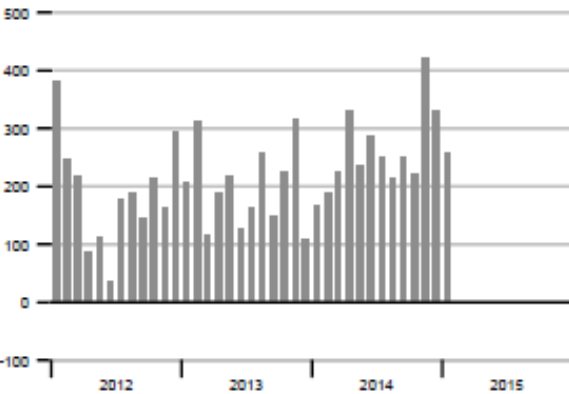
Interest Rates

Percent



Change in Nonfarm Payrolls

Thousands



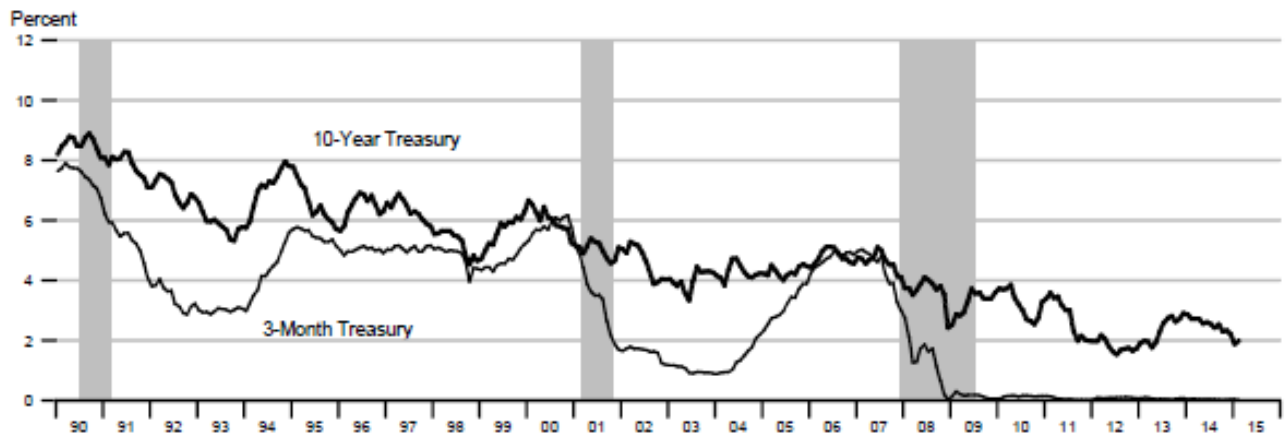
Unemployment Rate

Percent of labor force

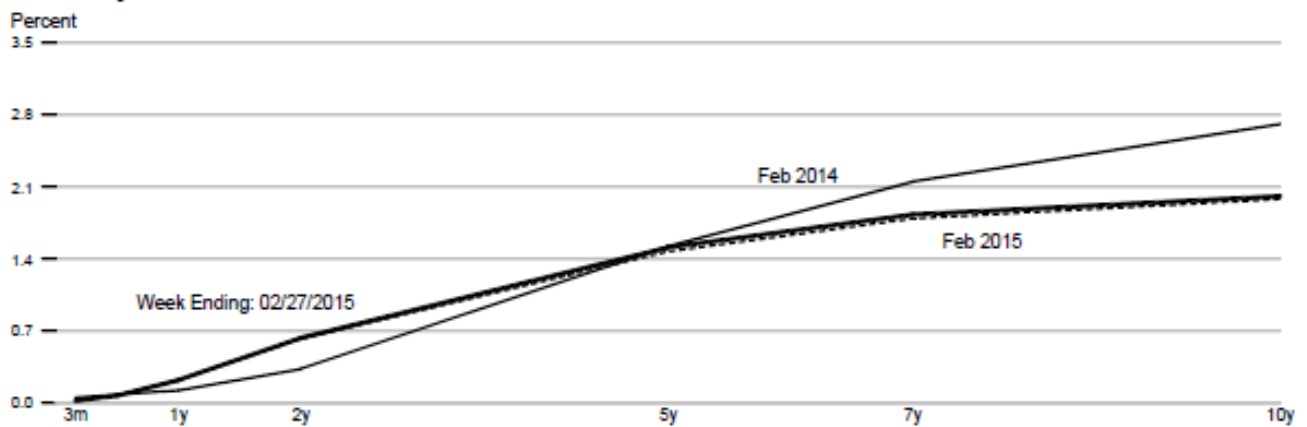


Source: Federal Reserve Bank of St. Louis, [National Economic Trends](#).
March 2, 2015.

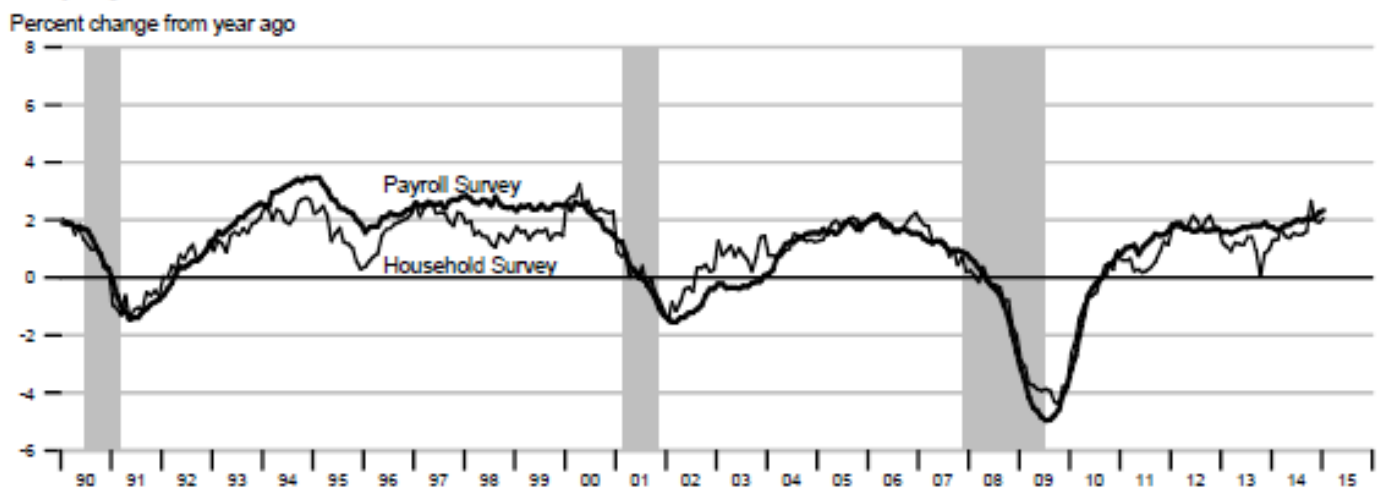
Interest Rates



Treasury Yield Curve



Employment



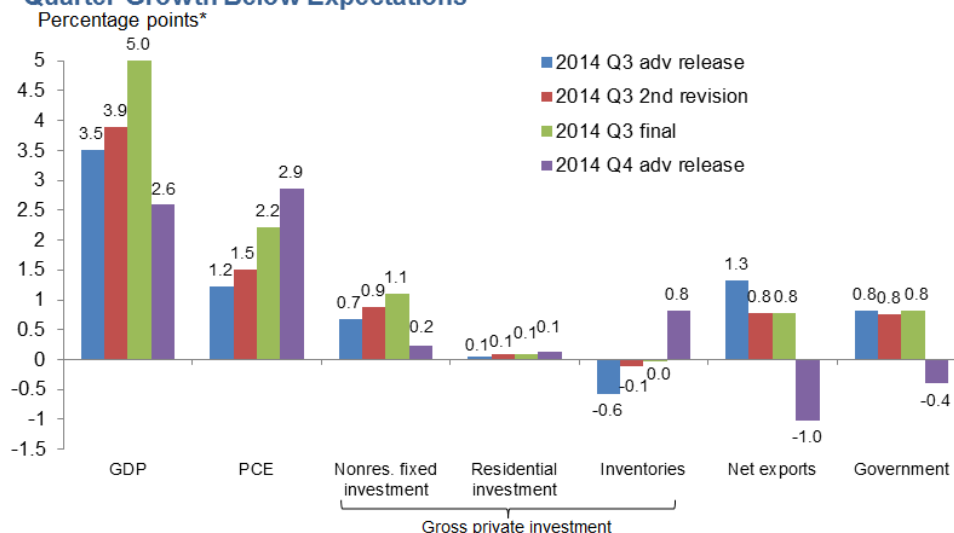
Source: Federal Reserve Bank of St. Louis, [National Economic Trends](#).
March 2, 2015.

Federal Reserve Bank, Dallas National Update
January 2015 - www.dallasfed.org

↑ **Economy** – Economic data released since mid-December indicate robust growth in the second half of 2014. Oil prices continued to decline, boosting household real disposable income. Consumer sentiment surged in the fourth quarter and has improved since. However, the trimmed mean inflation rate—a measure of core inflation—changed little, remaining below the Federal Reserve target of 2%. Strong consumption dynamics driven by improved household balance sheets and consumer sentiment are likely to promote private consumption growth and strengthen output going into 2015.

↑ **Second-Half Output Growth Robust in Latest Release** – Robust personal consumption expenditure (PCE) growth in the third quarter and declining energy prices brought positive momentum to fourth quarter 2014. In its advance estimate, fourth-quarter real gross domestic product (GDP) growth undershot expectations and came in at an annualized 2.6%. PCE, which makes up about 68% of U.S. GDP, contributed 2.9 percentage points to real annualized GDP growth, driven by unexpectedly strong core retail sales in October and November. Negative contributors were net exports, subtracting a whopping 1 percentage point, and government, subtracting 0.4 percentage points.

Third-Quarter GDP Growth Revised Upward, while Fourth-Quarter Growth Below Expectations



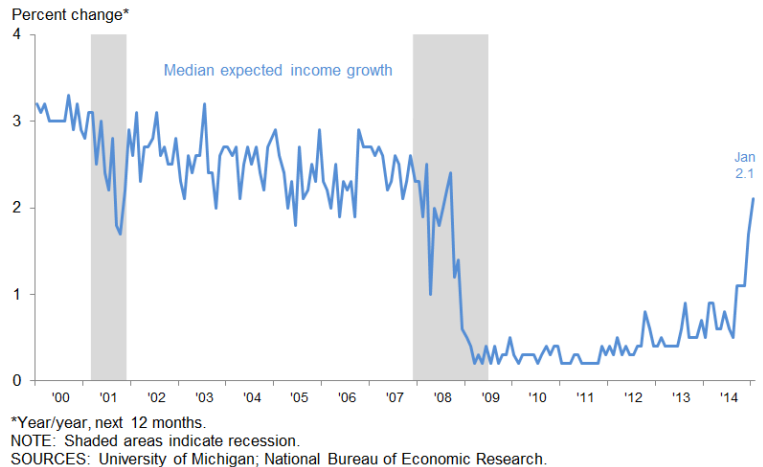
*Contribution to percent change in gross domestic product growth; quarter/quarter, seasonally adjusted annualized rate.
SOURCE: Bureau of Economic Analysis.

The large drop in net exports, a volatile component of GDP, reflects the 8.9% increase in imports due in part from appreciation of the U.S. dollar. Looking closely, real GDP growth in the fourth quarter followed fundamental expectations of strong private consumption growth but was dragged down by increased demand for discounted foreign goods and services. The advance estimate puts second-half real GDP growth at an annualized 3.8% and overall 2014 growth at 2.5%.

The fourth-quarter GDP release was preceded by a large upward revision to third-quarter growth. In its final estimate, third-quarter real GDP grew an annualized 5%—the strongest quarterly growth in more than a decade. Output growth was revised upward by 1.1 percentage points from its second estimate due to a sizable upward revision to PCE, from a 1.5 to 2.2 percentage-point contribution to real GDP growth, and a moderate upward revision to nonresidential fixed investment.

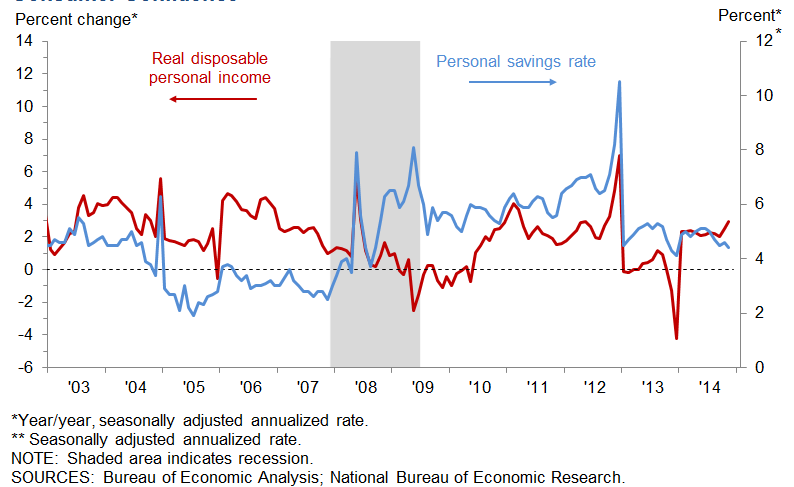
↑ **Improving Consumer Sentiment Seen in Fourth Quarter** – Consumer sentiment surveys from the Conference Board and the University of Michigan support the advance estimate of strong consumption growth in the fourth quarter and going into first quarter 2015. Consumer sentiment regarding expected-income growth climbed sharply in December and January. The exceptional jump in median expected-income growth over the next 12 months, a component of the University of Michigan's survey, reinforces the broad-based improvement in sentiment because median expectations remove the outliers in all income classes.

Expected Income Growth Suggests Strong Consumer Sentiment



Growing consumer confidence was likely driven by falling energy prices and associated growth in real disposable income. The Personal Income and Outlays survey released by the Bureau of Economic Analysis shows increases in real disposable personal income on a year-over-year basis in October and November 2014, alongside declines in the personal savings rate. This development in income and savings suggests further growth in private consumption in the fourth quarter and into the new year.

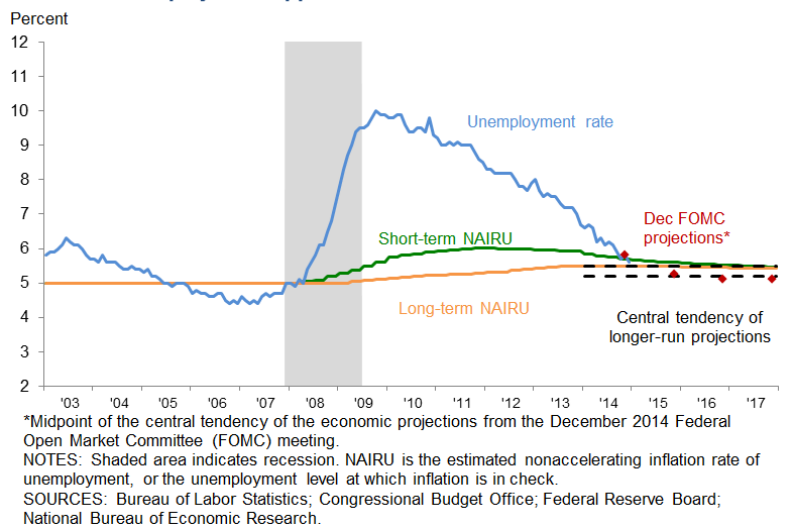
Divergence of Real Income, Savings Rate Reflects Growing Consumer Confidence



↑ **Headline Unemployment Reaches New Low** – The December establishment survey from the Bureau of Labor Statistics indicates a healthy addition of 252,000 nonfarm jobs, bringing 2014 average monthly job growth up to 246,000—which surpasses average monthly gains of 194,000 in 2013. According to the household survey, the headline unemployment rate decreased 0.2 percentage points from November to 5.6% in December 2014.

The current headline unemployment rate suggests that the labor market is outperforming projections from the Federal Open Market Committee's March 2014 Summary of Economic Projections of 6.1% to 6.3% as the central tendency for unemployment in fourth quarter 2014. The unemployment rate decline coincided with a drop in the labor force participation rate from 62.9% to 62.7%. While this decline in the size of the labor force could explain lower unemployment, it's notable that the employment-population ratio of those age 26

Headline Unemployment Approaches the Natural Rate

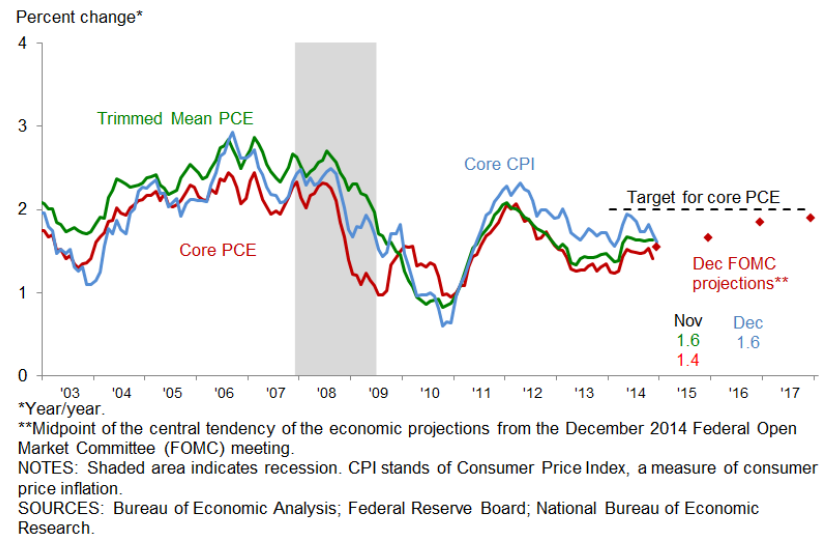


to 54 (the prime working ages) increased 0.1 percentage points in December and 0.9 percentage points for the year. Taken together, these movements suggest that labor force participation rates are returning to trends in line with demographic shifts.

⇄ **Trimmed Mean Inflation Static Despite Low Unemployment** – The steep drop in oil prices has dragged headline inflation measures down. However, the Dallas Fed's Trimmed Mean PCE inflation rate has been in a tight range of 1.6% to 1.7% going back to April 2014. Fourth-quarter headline unemployment is within the range of the Congressional Budget Office's estimate for a nonaccelerating inflation rate of unemployment (NAIRU) of 5.8% in the short term and 5.5 in the long term. In theory, an unemployment rate under NAIRU implies that labor is effectively utilized and inflation should accelerate. Yet, trimmed mean inflation has remained static.

There are several possible reasons for the static reading. The decline in oil prices has ripple effects to other core components in PCE because oil is an input cost in many products. For example, the price of physical goods is more susceptible to changes in oil prices than the price of services. The effect is observed in the disparity in price changes in various components of PCE. Core goods prices—goods apart from food and energy items—experienced a historic decline in November that resulted in a 12-month drop of 0.8%. Meanwhile, the “big three” core services—rent, owners’ equivalent rent and other purchased meals (the price index for dining out)—saw healthy gains of 2.9% for the 12 months through November.

Softening Core Inflation Suggests Slack in Labor Market



Another downside risk to inflation may be the possible underutilization of labor. The headline unemployment rate does not account for discouraged workers and those who are marginally attached. The U-6 unemployment rate—the broadest measure of unemployment, which includes the marginally attached and those employed part-time for economic reasons—declined considerably from 13.1% to 11.2% in 2014 but remains elevated compared with the past 20 years

Given the persistence of core inflation measures and some labor market slack not communicated through the headline unemployment rate, core inflation is likely to remain subdued in 2015 even as the unemployment rate moves below estimates of NAIRU.

U.S. ECONOMY AT A GLANCE

U.S. BUREAU OF LABOR STATISTICS

Data Series	Aug 2014	Sept 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015
Unemployment Rate ⁽¹⁾	6.1	5.9	5.7	5.8	5.6	5.7
Change in Payroll Employment ⁽²⁾	213	250	221	423	(P) 329	(P) 257
Average Hourly Earnings ⁽³⁾	24.55	24.55	24.59	24.68	(P) 24.63	(P) 24.75
Consumer Price Index ⁽⁴⁾	-0.1	0.1	0.1	-0.3	-0.3	-0.7
Producer Price Index ⁽⁵⁾	-0.1	-0.2	(P) 0.2	(P) -0.2	(P) -0.2	(P) -0.8
U.S. Import Price Index ⁽⁶⁾	-0.8	-0.8	-1.4	(R) -1.8	(R) -1.9	(R) -2.8

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.
- (R) Revised.
- (P) Preliminary.

Data Series	4th Qtr 2013	1st Qtr 2014	2nd Qtr 2014	3rd Qtr 2014	4th Qtr 2014
Employment Cost Index ⁽¹⁾	0.5	0.3	0.7	0.7	0.6
Productivity ⁽²⁾	3.3	-4.5	2.9	(R) 3.7	-1.8

Footnotes:

- (1) Compensation, all civilian workers, quarterly data, 3-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 on: March 4, 2015

↕ Reports from the twelve Federal Reserve Districts indicate that economic activity continued to expand across most regions and sectors from early January through mid-February. Six Districts noted that the local economy expanded at a moderate pace since the prior reporting period. Activity rose modestly in Philadelphia and Cleveland, while it increased slightly in Kansas City. Dallas noted a similar pace of growth as in the previous period, while Richmond reported that activity slowed from the modest pace seen in the prior period. Boston noted that business contacts were fairly upbeat this period, notwithstanding the severe weather.

Consumer spending rose in most Districts, and contacts were generally optimistic about near-term sales. Travel and tourism also increased in the reporting Districts. Manufacturing generally posted gains across the Districts, although at varying rates. The demand for nonfinancial services also grew moderately on balance. Home sales increased in most Districts, while reports on residential construction were mixed. Commercial real estate market conditions remained stable or improved across the Districts. Banking conditions generally improved, and credit quality remained largely unchanged. Agricultural conditions generally worsened, and oil and natural gas drilling declined.

Payrolls remained stable or expanded across the Districts, and contacts noted employment gains in a broad range of sectors. Wage pressures remained moderate and were limited largely to workers in skilled occupations. Most District contacts cited only flat to slightly increasing prices.

Federal Reserve Bank, Dallas Regional Economic Update **January 2015 - www.dallasfed.org**

⇅ **Texas Economy** – Economic growth in the Eleventh District moderated somewhat as oil prices fell to five-year lows. Oil well permits and the Texas rig count have seen significant declines, and exports have continued to fall.

Conditions outside the energy sector were generally upbeat in December data as payroll employment rose an annualized 3.7%, the unemployment rate continued to trend downward and the Texas Business Outlook Survey (TBOS) indexes remained positive. However, TBOS indexes fell markedly in January. The headline manufacturing production index came in near zero, and the service sector revenue index dipped as well.

Consistent with these developments, the Federal Reserve Bank of Dallas' forecast for 2015 employment growth in Texas is 2.2%, in line with the state's long-term average but slower than the 3.6% growth seen in 2014.

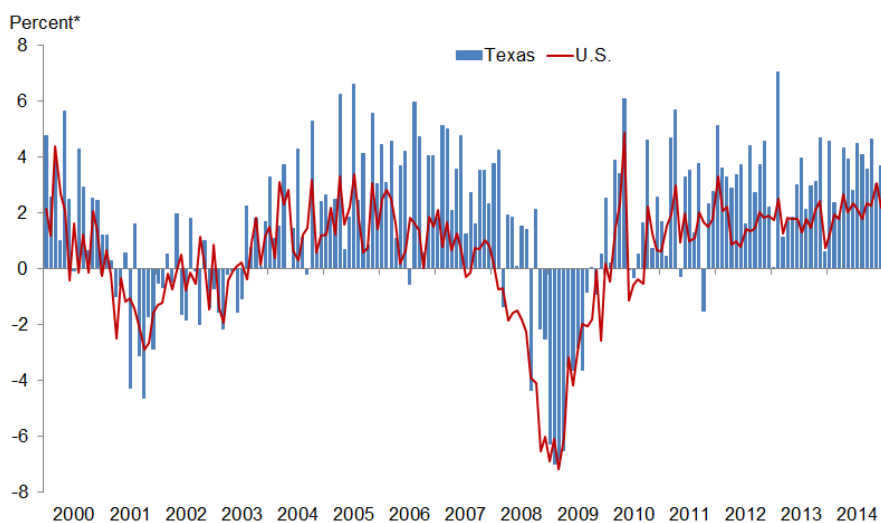
⇅ **Employment Remains Solid in December** – The December payroll employment increase of 3.7% represents solid growth, but the figure is down somewhat from the 4.6% increase recorded in October.

Other labor market data remain reasonably strong. The Texas unemployment rate fell to a postrecession low of 4.6% in December. Weekly initial claims in mid-January were only slightly above prerecession levels, although they have ticked up 2% since the end of December.

⇅ **Manufacturing Activity Flat** – Manufacturing employment grew at 0.8% annual rate in December, slightly slower than its 1.5% growth in 2014. Overall manufacturing activity as reflected in the Texas Manufacturing Outlook Survey showed a similar pattern, with the headline production index sinking in January to 0.7. Furthermore, the new orders index dropped to -7.7.

⇅ **Growth Slows Slightly in Service, Retail Sectors** – The headline revenue index from the Texas Service Sector Outlook Survey remained positive in January but fell from 22.2 to 12.1. Service sector employment declined at a 0.6% annual rate in December, compared with a 3.2% increase overall in 2014. The January Beige Book reported flat to higher demand across most of the sector, although some staffing

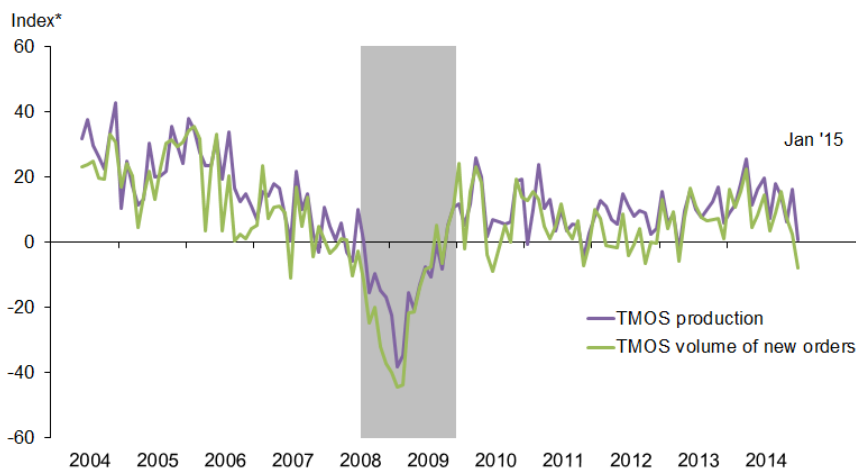
Payroll Employment Growth Remains Well Above 3 Percent



*Month/month; seasonally adjusted, annualized rate.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

TMOS Headline and New Orders Indexes Turn Sharply Downward



*Seasonally adjusted.

NOTE: Gray bar represents Texas recession.

SOURCE: Federal Reserve Bank of Dallas, Texas Manufacturing Outlook Survey (TMOS).

firms noted a slight decline in orders and one firm reported that employment demand in Houston was unusually weak.

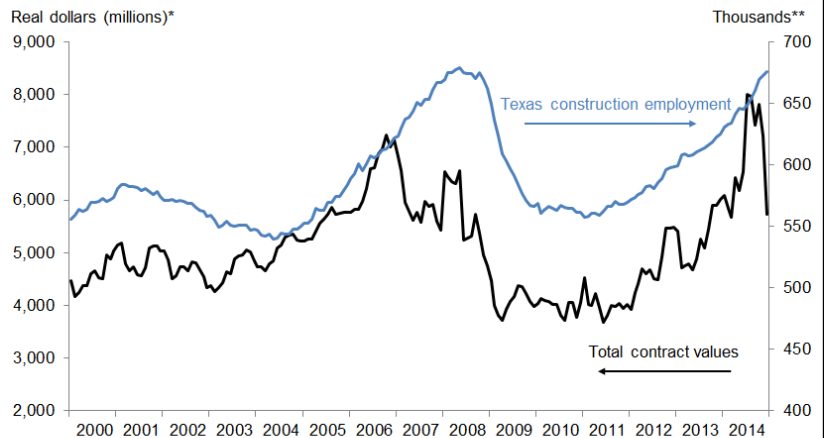
The Texas Retail Outlook Survey suggests that retail sales continued to grow in January, albeit at a slower pace than in December, with the sales index declining from 24.3 to 10.6. Beige Book noted that retail demand grew, although respondents' reports on the pace of growth were mixed, and some retail contacts noted that Texas sales were no longer outperforming the national average.

↕ **Construction Contract Values Drop in December** – Overall construction employment rose at a 5.7% annual rate in December. The five-month moving average of Texas contract values fell nearly 21% in December, in large part due to a sharp decline in nonresidential construction values. This is consistent with Beige Book contacts' reports of some nervousness about the potential impact of lower oil prices on construction activity, and it suggests that construction employment growth may slow in coming months.

↓ **Low Oil Prices Begin to Show Up in Energy Activity** – Six weeks ago, available data suggested low oil prices had not yet significantly affected energy activity. That has now changed. The Texas rig count fell by 143 from the first week in December to the third week in January—the most rapid decline since the onset of the 2007–2009 recession — after hovering around 900 throughout November. Well permits, a leading indicator of future oil production, have fallen a staggering 50.6% since October.

↓ **Texas Exports Continue to Fall** – Texas exports declined a nonannualized 11% from August to November, compared with a 3.3% increase for the rest of the nation. Anecdotal evidence suggests exports of chemical and petroleum products may be largely responsible for the slowdown, along with a rise in the Texas trade-weighted value of the dollar.

Contract Values Slide; Construction Job Growth Remains Strong

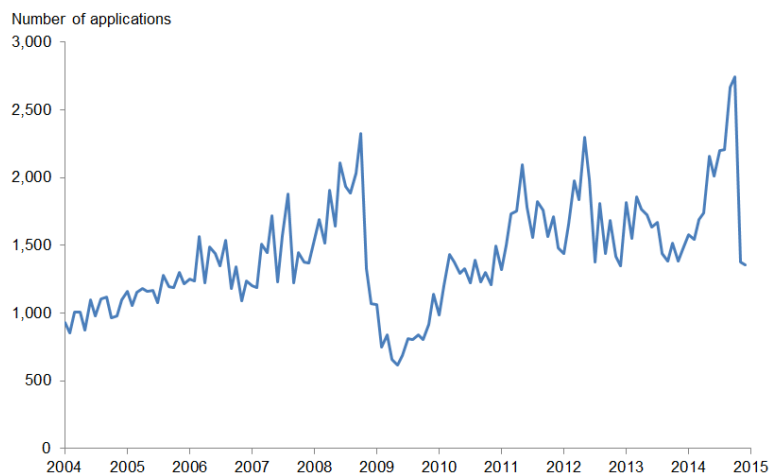


*Five-month moving average; seasonally adjusted.

**Seasonally adjusted.

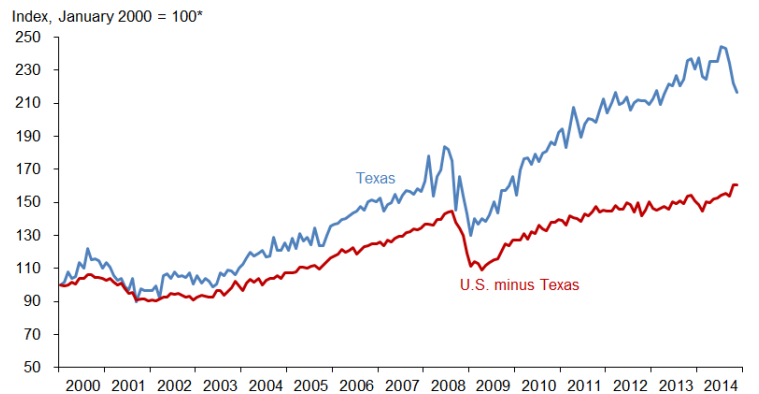
SOURCES: F.W. Dodge; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Well Permits Plummet to Lowest Level Since 2012



SOURCES: State agencies; Haver Analytics.

Texas Exports Continue to Plunge

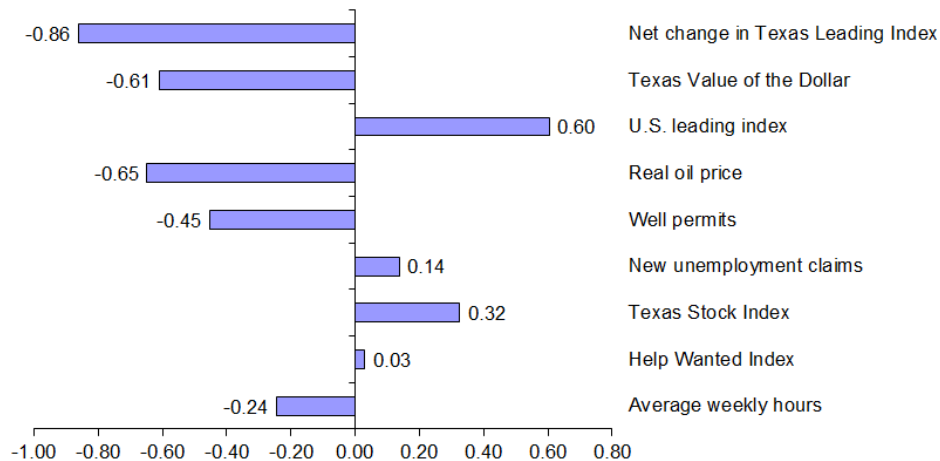


*Seasonally adjusted; real dollars.

SOURCES: Census Bureau; WISERTrade; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

↑ **Outlook Is for Continued but Slower Growth** – Increases in components of the Texas Leading Index resulting from a rise in the U.S. leading index were more than offset by decreases resulting from lower oil prices, the fall in well permits and an appreciating dollar. Based on the net drop in the Texas Leading Index, the 2015 employment forecast now stands at 2.2%. While broadly similar to the state's trend growth rate over the past few decades, the forecast is well below the 3.6% growth experienced in 2014.

Texas Leading Index Components Turn Negative
(Three-month change, September–November)



SOURCES: Federal Reserve Bank of Dallas; Conference Board; Haver Analytics; Texas Workforce Commission.

TEXAS ECONOMIC STATISTICS
U. S. BUREAU OF LABOR STATISTICS

Data Series	July 2014	Aug 2014	Sept 2014	Oct 2014	Nov 2014	Dec 2014
Labor Force Data						
Civilian Labor Force (1)	13,094.10	13,112.90	13,131.40	13,147.70	13,161.10	(P) 13,171.8
Employment (1)	12,445.30	12,473.50	12,501.70	12,528.10	12,551.40	(P) 12,570.1
Unemployment (1)	648.7	639.3	629.8	619.6	609.7	(P) 601.8
Unemployment Rate (2)	5	4.9	4.8	4.7	4.6	(P) 4.6
Nonfarm Wage and Salary Employment						
Total Nonfarm (3)	11,603.30	11,635.80	11,673.20	11,707.40	11,737.60	(P) 11,783.3
12-month% change	3.5	3.6	3.7	3.7	3.9	(P) 4.0
Mining and Logging (3)	316	318.9	323.2	326.1	323.7	(P) 328.6
12-month% change	8.1	8.5	9.4	10.9	10.2	(P) 11.5
Construction (3)	636.4	643.8	648.9	659.2	661.6	(P) 666.7
12-month% change	3.6	4.6	5.1	6.4	7.5	(P) 7.7
Manufacturing (3)	885.7	888.1	885.8	887.4	890.8	(P) 890.2
12-month% change	1.8	2.1	1.8	1.7	1.8	(P) 1.3
Trade, Transportation, and Utilities (3)	2,338.70	2,345.50	2,348.10	2,364.70	2,359.90	(P) 2,365.8
12-month% change	4.2	4.2	3.9	4.5	3.8	(P) 3.8
Information (3)	208.3	206.9	209.4	208	210.6	(P) 210.4
12-month% change	3.4	2.4	3.6	2.8	4.5	(P) 3.7
Financial Activities (3)	707.2	709.6	710.2	714.7	714.7	(P) 717.7
12-month% change	3.1	3.2	3.1	4.5	4.7	(P) 5.1
Professional & Business Services (3)	1,528.40	1,538.00	1,539.40	1,532.00	1,548.90	(P) 1,563.7
12-month% change	4.7	5.1	4.6	4.2	4.8	(P) 5.8
Education & Health Services (3)	1,532.90	1,542.60	1,547.20	1,555.80	1,560.60	(P) 1,567.4
12-month% change	3.3	3.7	3.9	3.8	4.2	(P) 4.4
Leisure & Hospitality (3)	1,193.00	1,188.50	1,197.50	1,201.30	1,206.10	(P) 1,205.1
12-month% change	4.4	3.8	4.3	3.5	3.9	(P) 3.5
Other Services (3)	402.7	403.5	406.3	406.9	406	(P) 405.1
12-month% change	1.5	1.6	2	1.4	1.6	(P) 1.3
Government (3)	1,854.00	1,850.40	1,857.20	1,851.30	1,854.70	(P) 1,862.6
12-month% change	1.8	2	2.2	1.8	1.8	(P) 2.1
Footnotes (1) Number of persons, in thousands, seasonally adjusted. (2) In percent, seasonally adjusted. (3) Number of jobs, in thousands, seasonally adjusted. (P) Preliminary.						

FEDERAL RESERVE BANK SENIOR LOAN OFFICER OPINION SURVEY

The January 2015 Senior Loan Officer Opinion Survey on Bank Lending Practices addressed changes in the standards and terms on, and demand for, bank loans to businesses and households over the past three months. This summary discusses the responses from 73 domestic banks and 23 U.S. branches and agencies of foreign banks. Regarding loans to businesses, the January survey results indicated that, on balance, banks reported little change in their standards for commercial and industrial (C&I) loans to firms of all sizes in the last quarter of 2014. In addition, smaller net fractions of banks than in prior surveys reported that they had eased price terms or some of the nonprice terms. Standards for all three categories of commercial real estate (CRE) loans included in the survey were also reported to be little changed on net. On the demand side, modest net fractions of banks reported stronger demand for C&I loans to larger firms; similarly, respondents experienced stronger demand for all three categories of CRE loans covered in the survey.

Regarding loans to households, the January survey featured revised and expanded categories of residential real estate loans to reflect the Consumer Financial Protection Bureau's qualified mortgage (QM) rules and provide more detailed information on the mortgage market. Several large banks reported having eased lending standards for a number of categories of residential mortgage loans over the past three months, including those eligible for purchase by government-sponsored enterprises (referred to as GSE-eligible). Most banks reported no change in standards and terms on consumer loans. On the demand side, modest net fractions of banks reported weaker demand across most categories of home-purchase loans. In contrast, modest fractions of large banks experienced stronger demand for auto and credit card loans on balance. Survey respondents were asked about their expectations for loan delinquency and charge-off rates in 2015, assuming that economic activity progresses in line with consensus forecasts. Banks stated that they generally anticipated improvements in the performance of most loan types this year. However, modest net fractions of domestic and foreign banks indicated that they expected the credit performance of syndicated leveraged loans to deteriorate this year, and about one-third of the banks that originate subprime auto loans expected delinquency and charge-off rates to increase in 2015.

Business Lending

Commercial & Industry (C&I) Loans – On balance, banks reported little change in standards for C&I loans to firms of all sizes over the past three months. Moderate net fractions of banks continued to report having eased spreads, interest rate floors, and the cost of credit lines. However, the number of banks that had eased price terms was noticeably lower than in prior surveys. Nonprice terms generally remained unchanged, except for a modest net fraction of banks which indicated having eased loan covenants. Foreign banks described most of their C&I lending policies as little changed on net, except for a modest net fraction which reported having increased the maximum size of credit lines. Most respondents that reported having eased either standards or terms on C&I loans over the past three months cited more-aggressive competition from other banks or nonbank lenders as an important reason for having done so. Smaller numbers of banks also attributed their easing to a more favorable or less uncertain economic outlook, increased tolerance for risk, or improvements in industry-specific problems.

Banks which reported having tightened either their standards or terms on C&I loans predominantly pointed to industry-specific problems as the main reason for having tightened their lending policies to nonfinancial businesses. Some survey respondents specifically noted their concerns about the oil and gas sector resulting from the sharp decline in the price of oil as a reason that they had tightened their lending policies. In addition, half of the banks reporting tightening indicated increased concerns about the effects of legislative changes, supervisory actions, or changes in accounting standards. On the demand side, a modest net fraction of domestic banks reported having experienced stronger demand for C&I loans from large and middle-market firms. In addition, a modest net fraction of banks reported an increase in the number of inquiries from potential business borrowers regarding the availability and terms of new credit lines or increases in existing lines. Banks reported that loan demand from small firms had remained about unchanged on net. To explain the reported increase in loan demand by larger firms, banks cited a wide range of customers'

financing needs, particularly those related to mergers or acquisitions, as well as inventories, accounts receivable, and investment in plant or equipment. Foreign banks also reported having seen stronger C&I loan demand on net.

Commercial Real Estate Lending – On balance, most banks reported little change in lending standards on all three categories of CRE loans: construction and land development loans, loans secured by nonfarm nonresidential structures, and loans secured by multifamily residential properties. As has been the case for the past several surveys, a few large banks

reported having eased standards for all three categories of CRE loans. Regarding changes in demand for CRE loans, modest net fractions of banks indicated that they had experienced stronger demand for construction and land development loans and loans secured by nonfarm nonresidential properties. A somewhat larger net fraction of banks reported stronger demand for loans secured by multifamily residential properties. A modest net fraction of foreign banks reported having eased lending standards on CRE loans and having seen stronger demand for such loans over the past three months.

Lending to Households

Residential Real Estate Lending – The January 2015 survey revised and expanded the residential mortgage loan categories to reflect the Consumer Financial Protection Bureau's qualified mortgage (QM) rules and provide additional detail on important developments in the residential mortgage market both now and in the future. In particular, the survey included the following seven mutually exclusive categories of residential home-purchase mortgage loans: GSE-eligible residential mortgages; government residential mortgages; QM non-jumbo, non-GSE-eligible residential mortgages; QM jumbo residential mortgages; non-QM jumbo residential mortgages; non-QM non-jumbo residential mortgages; and subprime residential mortgages. Modest net fractions of large banks indicated that they had eased standards on GSE-eligible and QM non-jumbo, non-GSE-eligible mortgage loans, as well as on both QM and non-QM jumbo mortgage loans. Regarding changes in demand, modest net fractions of banks of all sizes reported weaker demand across most categories of home-purchase loans. Few banks reported having changed their standards on

home equity lines of credit (HELOCs), and while survey respondents indicated, on balance, that they had experienced little change in demand, several large banks reported stronger demand for such loans

Consumer Lending – A small net fraction of large banks indicated that they were more willing to make consumer installment loans over the past three months. Few banks reported having eased their standards for auto loans, while standards for approving applications for credit card and other consumer loans were about unchanged on net. Moreover, most terms on credit cards were reported to have changed little. Very few banks reported changes on any of the terms on auto loans or other consumer loans, except for a small net fraction of banks that reported having reduced the spreads of loan rates over cost of funds for both loan types. Modest net fractions of large banks reported having experienced an increase in demand for auto loans and credit cards over the past three months. In contrast, demand for other consumer loans was reported to have remained about unchanged.

Banks' Outlook for Loan Performance in 2015

The January survey contained a set of special questions on respondents' expectations for loan performance in 2015, assuming that economic activity progresses in line with consensus forecasts (these questions have been repeated annually, with some changes in loan categories, since 2006). On balance, domestic banks expected improvements in delinquency and charge-off rates for most loan categories included in the survey over this year, with the notable exceptions of syndicated leveraged C&I loans and subprime auto loans. Regarding the outlook for the performance of business loans, most banks reported that they expected little change in the delinquency and charge-off rates on most types of C&I loans to firms of all sizes. The exception was syndicated leveraged loans, for which several large domestic and foreign banks anticipated credit quality to deteriorate somewhat this year. Turning to CRE loans, modest net fractions of banks indicated that they anticipated lower delinquency rates and charge-offs on all three categories of such loans. Almost all foreign banks reported that they expected little change in the credit performance of CRE loans.

Regarding the outlook for residential mortgage loans, modest net fractions of banks anticipated all seven categories of such loans to experience lower delinquency and charge-off rates in 2015. Similarly, on balance, domestic banks expected credit performance of HELOCs to improve this year, though that fraction was down somewhat from the fractions reported in last year's survey. In the consumer loan categories, most banks anticipated that delinquency and charge-off rates on credit card, prime auto, and other consumer loans would remain around current levels. In contrast, close to one-third of the banks that originated or held on their books subprime auto loans anticipated some deterioration in the performance of such loans in 2015, which is a somewhat smaller fraction of banks expecting deterioration relative to a year ago.

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