

Financial Data as of June 30, 2015

Condition of Texas Banking System

Texas Department of Banking
Texas Department of Savings and Mortgage Lending

September 2015



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<u>Symbols Used Throughout this Report:</u>	<u>Abbreviations Used Throughout this Report:</u>
<ul style="list-style-type: none"> ↑ Improving or strong conditions ↓ Deteriorating or weak conditions ↕ Mixed conditions ❖ Interest item 	<ul style="list-style-type: none"> FDIC – Federal Deposit Insurance Corporation OCC – Office of the Comptroller of the Currency FRB – Federal Reserve Board

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BANKING SYSTEM OVERVIEW

The Texas banking industry's performance was favorable in the first half of 2015 as Texas state-chartered financial institutions continued to perform better than most of their national peers and remained crucial to the financial prosperity of Texas. Of the \$933.2 billion in assets of all federally insured Texas financial institutions, state-chartered banks and thrifts control approximately 27% of the state's banking assets. The financial results to date are in line with economic conditions that have been conducive with a generally sound banking system.

Generally, no systemic decline in loan quality or poor management of interest rate risk has been detected. However, bank and thrift supervisors remain watchful of these areas as well as a number of other areas, including increased concentrations of commercial real estate and energy related customers. Of heightened concern for all banks and thrifts is the emerging financial services environment that will require significant managerial, technological, and financial muscle to maintain the momentum that has emerged in combating the threats of cybersecurity. These topics are discussed further in the *Supervisory Matters* section of this report.

The recent release of the Federal Reserve Bank of Dallas Beige Book shows that despite the pressure on the oil and gas industry, the Texas economy is still enjoying moderate growth. Refining, petrochemicals and service industries have managed to offset oil-producer woes. The Texas Department of Banking and the Department of Savings and Mortgage Lending have not received reports of significant negative effects on financial institutions due to the decline in oil prices. Statewide, employment in education and health services has also been a strong aid to job growth. Only a few isolated municipalities and counties have seen a decrease in employment growth and tax revenues. Since prices in the oil patch began sliding a year ago, many commentators forecasted that the Texas model would likely begin to fail; however, it seems that the state's economy is sufficiently diversified to sustain the weaker energy sector. For consumers, lower gasoline prices and a stable economy have had a positive impact on consumer confidence which resulted in increased consumer spending. This explains how tax revenues continue to increase.

The outlook for Texas financial institutions through the end of 2015 is cautiously positive given the current economic trends, sustained asset quality, and capital levels.

STATE-CHARTERED BANKING PROFILE (DEPARTMENT OF BANKING)

The number of Texas state-chartered banks continued their downward trend during the first half of 2015, with 261 banks as of June 30, 2015 as compared to 267 banks at December 31, 2014. The decline is due to seven mergers, three of which were mergers into national banks, two mergers into an out-of-state state chartered bank, and one merger into a Texas state-chartered bank. Of the 261 banks under the Department's regulatory purview, only seven were defined as a problem and reflected an overall CAMELS rating of "3," "4," or "5" as of September 2015.

Although mergers caused a decline in the number of Texas state-chartered banks, the overall asset size continues to increase due to internal asset growth. In this regard, the Texas state-chartered banking system grew from \$236.2 billion at December 31, 2014 to \$242.1 billion by June 30, 2015.

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

Increased profitability occurred in 62.96% of the thrift institutions since the end of 2014, due to an increase in the volume of loans and additional noninterest income. No thrift charters were unprofitable at June 2015, which is an improvement from 6.9% as of year-end 2014. The median level of nonperforming loans and other real estate foreclosed remains low in state-chartered thrifts at 0.34% of total assets. Past due and nonaccrual loans, and foreclosed real estate continue to be monitored closely by state and federal regulators.

State-chartered thrift assets under the Department's jurisdiction totaled \$11.8 billion as of June 30, 2015, which represents an increase of 7.1% or \$782.9 million from the end of last year. The total number of state-chartered savings banks at June 2015 is down from 30 to 27 due to the merger of sister state savings banks. Of the 27 current state thrifts regulated by the Department, none are currently classified as problem institutions as of August 2015. This is down from 37.9% at the peak in 2010. The peak was primarily due to the economy at the time and its intensified effect on several recently chartered thrifts.

The Department continues to receive and process applications. During 2015, there have been nine branch office applications, one merger/reorganization application, and various other types of applications.

TEXAS ECONOMIC PROFILE

Texas sustained moderate economic expansion during the first half of 2015, with continued growth in jobs, sales tax collections and building permits. As a result, the state continues to outpace the national economy. Despite the recent downturn of the oil and gas industry, Texas remains attractive to technology, education and health care jobs. The Lone Star State also has affordable real estate which is attractive and aids in the population and business expansion. New estimates released by the U.S. Census Bureau in May support projections made by State Demographer Lloyd Potter that the population is expected to double by 2050 to 54.4 million people.

The state's economy is also affected by other countries and their economies, and recent fluctuations in the U.S. stock market have been partially attributed to China's slowing economy. The country has the world's second-largest economy and any changes in consumer spending directly affect exports. In the last ten years, Texas exports to China have doubled to about \$10.9 billion. Any reductions in household spending by the Chinese could impact Texas.

Employment

The Texas unemployment rate continues to be at or below the national rate since 2006. In July 2015, the national unemployment rate was 5.3% while the state's unemployment rate was 4.2%, a 0.9% and 0.8% decrease from July 2014, respectively. The July 2015 rate is equivalent to the prerecession low of eight years ago. Total nonfarm employment increased by 31,400 jobs in July and 2% or 260,500 jobs during the previous 12-month period, adding jobs in nine of the 11 major industries. In comparison, the United States added 215,000 for the month contributing to an increase of 1.4% over the year.

Housing

Home sales remained strong in the second quarter of 2015, and Texas home prices hit an all-time high according to the latest edition of the Texas Quarterly Housing Report by the Texas Association of Realtors. The median sales price increased by approximately 8.1% to \$200,000 compared to the second quarter of 2014. In July 2015, existing home sales were 11.2% higher than in July 2014. The impact observed from the recent slowdown in the energy sector is not as significant as observed in the 1980's due to a more diversified economy.

During the 12 months ending in July 2015, building permits for single-family homes increased by 8.1% to 101,271 and multi-family increased by 3.2% to 65,913. Foreclosure rates in Texas, for the same period, are 42.9% lower than the national rate. One in every 1,850 homes is foreclosed in the state, while one in every 1,057 homes is foreclosed nationally. The top five counties with high foreclosures in Texas are Hood, Kaufman, Bell, Galveston, and Rockwall according to RealtyTrac.

Industries in Texas with Job Gains

- Professional and Business Services
- Trade, Transportation and Utilities
- Leisure and Hospitality
- Education and Health Services
- Construction
- Government
- Financial Activities
- Information
- Other Services

Texas Comptroller of Public Accounts

Tax Revenue

Total sales tax revenue for August 2015 was 0.4% lower than for August 2014. The decline is attributed greatly to the drop in oil and gas activity. Even with the decline observed in August, overall sales tax collections in fiscal 2015 through August were 5.7% above the same period in fiscal 2014. The Texas Comptroller of Public Accounts reports that higher collections from retail trade, restaurants and services indicated continued growth in consumer spending.

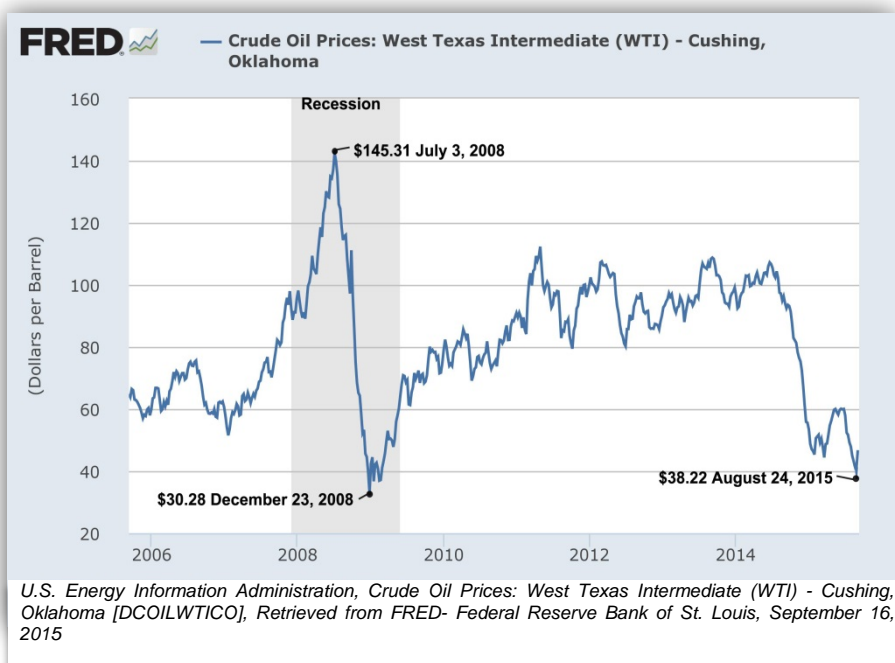
Concerns over the effects of the energy sector weakening and the revenue it generates for the state have been noted over the last year. However, the impact on the state's revenue is minimal. Based on the state revenue summary from the Comptroller of Public Accounts, taxes from oil and gas production in fiscal year 2015 were only 3% of the total state revenue and totaled \$4.2 billion. This is approximately \$1.6 billion less than fiscal year 2014.

Crude Oil

The slowing of the energy industry has strained job growth in areas dependent on this sector. However, it should be noted that the weakening price of crude oil has not affected Texas as severely as the last major oil price bust in 1986.

The Departments continue to monitor and evaluate economic information from a variety of sources. This includes state and national rig counts, hotel occupancy tax receipt levels, and oil production levels.

Quarterly analysis of key performance indicators, including specific asset quality measures designed to provide effective early detection of significant risks, are taken into consideration to assess the ongoing impact of the energy sector on the banking industry.



On August 24, 2015, the price of crude oil (West Texas Intermediate (WTI)) dropped to \$38.22 per barrel, the lowest level since mid-January 2009. This barrel price is less than \$8 away from the ten-year low of \$30.28 reached in December 2008. Analysts report that the market is not optimistic as futures prices are declining.

**Texas Field Production of
Crude Oil
3,460 Million Barrels Per Day**

U.S. Energy Information Administration, June 2015

As of September 11, 2015, Baker Hughes reports the total rotary rig count in North America at 1,033, which includes land and offshore rigs. Overall, the North American sum diminished by 1,303 rigs for the same period last year. The United States comprises 82.1% or 848 of the reported total count. A closer look at the rig data, specifically for the United States, shows that the count is the lowest since late summer 2002.

Various media outlets have reported that the decision to reduce production depends on a company's break-even point, which varies greatly from company to company, and from well to well, based in part on timing and the maturity of a given site. Furthermore,

once a well is drilled, the particular piece of equipment used for drilling is no longer needed for further oil production from the well. For a company facing a credit crunch as prices decline, the only option is to keep running those wells. Should prices remain low, companies struggling to maintain a profit are expected to fold, clearing the way for the acquisition of their troubled company's assets by larger and more efficient producers who can continue to produce in a suppressed market.

According to industry experts, a six-month lag exists between crude price fluctuations and a cutback in production. Expectations are that overall U.S. production will slow down through the rest of 2015, with a decrease of as much as 1 million barrels per day in early 2016.

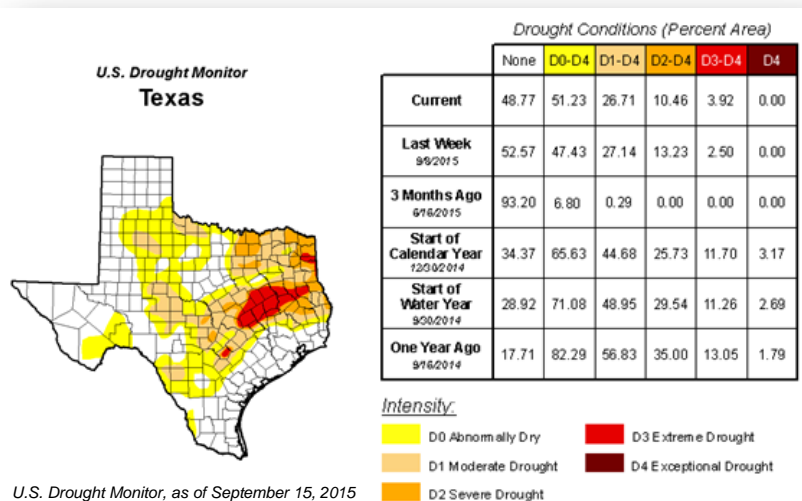
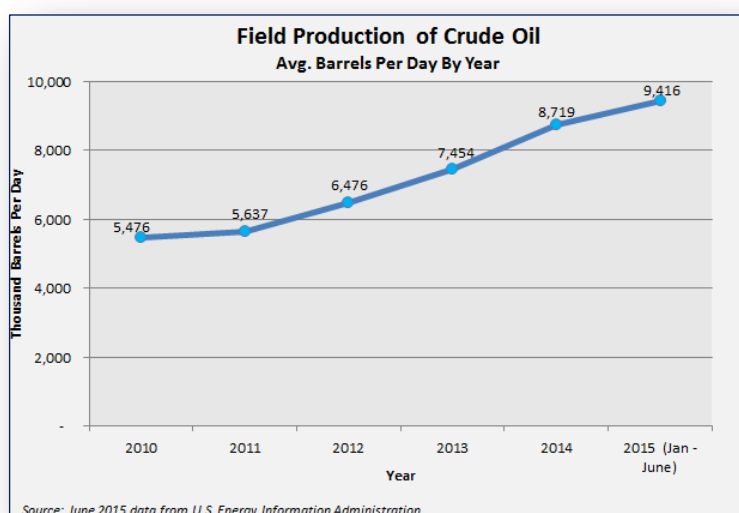
DROUGHT

According to state climatologist, John Nielsen-Gammon, despite the recent heavy rains and flooding across the state, the next Texas drought may already be in progress. It will depend on how well Texans conserve water and prepare for the next potential drought. As of September 15, 2015, the U.S. Drought Monitor indicates that about 51.2% of the state is in some level of drought and 3.9% of the state is in extreme drought. It was only three months ago that 93.2% of the state was no longer in a drought status, calming the uncertainty of water availability. Today, parts of the state are once again dealing with diminishing water supplies.

The National Oceanic and Atmospheric Administration (NOAA) latest prediction indicates a particularly strong El Niño that hopefully favors a wet fall, winter and spring.

SUPERVISORY MATTERS

The level of problem state-chartered banks has stabilized and is manageable as of September 14, 2015. This is a slight improvement from January 2015. Balance sheet improvements were noted in the second quarter financial data, however the operating environment remains challenging. On a positive note, asset quality remains sound as most banks have demonstrated they will not deviate from their credit underwriting standards. Institutions have generally not attempted to reach for higher yielding securities to increase income. Some institutions attempting to sustain earnings have cut back on backroom operations which is concerning. This being said, regulators and bankers understand that adequate earnings are necessary to maintain current operations and should be sufficient to maintain capital and loan loss



reserves in the future. Below are several areas being monitored and evaluated by the Departments to ensure safe and sound practices are being observed.

Compressed Margins Continue

The federal monetary policy continues to suppress the interest rate environment making it difficult for smaller financial institutions to operate with compressed margins. On September 17, 2015, the Federal Reserve announced they would once again postpone increasing interest rates. Uncertainties abroad, including weaknesses in China's economy, persuaded the Fed to wait and reconsider raising the rate later this year.

Unfortunately, those institutions that have made efforts to sustain earnings including acquiring higher-yielding, long-term assets are more vulnerable to a rise in interest rates. It is imperative that bank management engage its team to contemplate the risks and returns to promote sustainable earnings and growth. The Department of Banking has also noted isolated situations where institutions have relaxed their credit standards due to intense competition and generate fee income. This practice is troubling and highly discouraged. Supervisory attention to this type of activity is ongoing.

Commercial Real Estate on the Rise

The recent FDIC second quarter financial data shows that commercial real estate (CRE) for commercial banks in Texas has risen to levels exhibited at year-end 2008. The percent of CRE to total loans as of June 30, 2015, with owner occupied properties and commitments is at 46.1%, approximately 2% higher than 2008. Although balance sheets are stable and loan demand has increased, the concentration in CRE is concerning to regulators. Prudence and caution in situations regarding concentration risk is recommended for institutions heavily engaged in real estate construction and land development financing. Bankers are encouraged to counter concentrated risk with additional capital support should there be further economic stresses in their communities. The key takeaway is that despite asset quality remaining stable in the second quarter, growth in CRE is a regulatory concern going forward.

Cybersecurity

Cyber intrusions continue to advance and accelerate, creating a particular challenge to the banking industry. It is imperative that banks continue to improve their cyber risk management in order to overcome and manage cyber threats. The Departments recognize the growing importance of this area and have dedicated significant resources to cultivate an educated staff to assist financial institutions with this rising threat.

The Department of Banking participated with federal agencies in the development of the Cybersecurity Assessment Tool that was released by the Federal Financial Institutions Examination Council (FFIEC) on June 30, 2015. The Cybersecurity Assessment Tool is designed to assist banks in measuring their inherent risks to cyber threats as well as measuring their cybersecurity maturity (preparedness). Although using the Cybersecurity Assessment Tool is voluntary for banks, measuring risk and preparedness have never been optional elements of banking. Due to the advanced and increasing trend of cyber threats to the banking system, the Department of Banking is requiring that all banks measure their inherent cyber risks and cybersecurity maturity (preparedness) by December 31, 2015.

Banking examination staff will begin reviewing completed cybersecurity assessments beginning January 1, 2016. Staff will also be reviewing assessments during normal on-site examinations and as part of the off-site review process.

Energy Customers

Each financial institution's Board of Directors is responsible for ensuring policies and procedures as well as control systems are in place to help identify, measure, monitor, and control the bank's exposure to oil and gas activity. The decline in oil prices in the last 15-months has made this area of risk management especially important. The continued impact of depressed oil prices on the Texas economic landscape and the banking industry are being actively monitored by the Departments.

The Report of Condition and Income (Call Report) data does not contain detailed information specific to the oil and gas or energy related lending. In order to obtain specific information, in the first quarter of 2015, the Department of Banking surveyed 59 state-chartered institutions. Generally, the results of the survey revealed that banks have a moderate exposure to the energy sector in relation to total capital. While the dollar volume of adversely classified assets was minimal at that point in time, many of the banks surveyed indicated an increase in their allowance for loan and lease losses via qualitative and environmental factors as a result of the decline in oil prices. In the second quarter of 2015, the Department of Banking was invited, along with several other states, to assist in developing with the FDIC an Assessment of Exposure to Oil and Natural Gas Price Volatility Work Program. The work program assesses the bank's direct and indirect exposure to oil and gas lending and management's general underwriting, monitoring and controls over this segment. The program was implemented in July 2015 at select examinations.

The Department of Savings and Mortgage Lending 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 in 2014. Combining the information gathered from state savings banks with additional research, the Department 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 primarily 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 affected individuals transition to 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.

DEPARTMENTAL SUPERVISORY MEASURES BEING TAKEN

The supervisory practices of each Department are designed to identify trends in the industry as a whole, or practices of individual banks that could threaten the industry or an institution's safety and soundness. Changes in economic conditions, fluctuations in interest rates, weaknesses in key industries, cybercrimes, and fraud all influence these supervisory responses. Problems and other weaknesses can sometimes be prevented or improved by timely regulatory identification and positive management response. Below, each Department has detailed the areas in which supervisory staff is currently monitoring.

Prudent Risk Management Practices for Monitoring

- Code loans in accordance with North American Industry Classification System (NAICS codes) to monitor the direct and indirect exposure based on collateral types;
- Monitor credit concentrations on a recurring basis;
- Perform regular borrowing base redeterminations and sensitivity analysis on borrowers when significant commodity price changes occur;
- Assess the qualitative factors used in calculating the ALLL (ASC 450 Accounting for Contingencies) to ensure severe price changes are captured in the methodology;
- Stress test the most recent engineering report and determine ongoing collateral support;
- Evaluate internal loan grades, including borrower financial capacity, probability of default, and collateral protection;
- Review customer ongoing hedging strategies designed to offset commodity price risk; and
- Monitor large depositors linked to the energy sector.

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

Texas Department of Banking –

- ❖ Assessing banks' inherent risks to cyber-security attacks and determining their preparedness for such attacks;
- ❖ 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, and loan review and training programs to reduce overhead costs;
- ❖ 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 –

- ❖ Participate in regular conference calls and close coordination with other state and federal regulators;
- ❖ Engage in regular correspondence with state savings banks regarding institution-specific issues and industry issues;
- ❖ Perform targeted examinations of high risk areas of state savings banks;
- ❖ Issue enforcement actions and place supervisory agents when deemed necessary;
- ❖ Conduct off-site monitoring of each institution's activity (i.e., regulatory correspondence and approvals, independent audit reports, reports of examination, and institution responses to examination comments, criticisms and recommendations);
- ❖ Develop regular assessments of each institution's activities, strengths and weaknesses, and revising the Department's plan of examination and monitoring for the institution, including the downgrading of institutions, if deemed necessary, by the Department and the FDIC;
- ❖ Monitor local, state, national and world political and economic events impacting the industry; and,
- ❖ Participate in FDIC Compliance examinations of each institution.

PERFORMANCE SUMMARY AND PROFILE

TEXAS BANKING SYSTEM

FDIC INSURED STATE-CHARTERED BANKS

Collectively, Texas state-chartered banks continue to perform better than most of their national peers. Despite some challenges and uncertainties sustained in the first half of 2015, the state's banking system is generally sound.

As of June 30, 2015, there were 261 Texas state-chartered banks operating in the state. While the number of state banks doing business in Texas has decreased by 13 since June 30, 2014, total assets for these institutions increased by \$16.1 billion or 7.20% in the 12 month period. The reduction in the number of banks is not limited to state banks. Similarly, federally-chartered Texas institutions diminished by eight and out-of-state federal charters doing business in Texas decreased by one during the same period. Despite the reduction in the total number of institutions, total assets for this group increased by \$36.2 billion.

Texas state-chartered institutions reported an aggregate profit of \$1.3 billion in the second quarter of 2015, a \$124 million improvement from the same period in 2014. However, the average return on assets (ROA) rose only slightly to 1.11%, from 1.09% a year ago. More than half of state-chartered banks or 63.80% reported year-over-year improvements to their quarterly net income. Meanwhile 4.20% reported net losses for the quarter, compared to 3.30% in 2014. During the last 12 months, core capital ratios decreased nominally from 9.80% to 9.76% and net interest margins (NIM) declined 6 basis points (BP) to 3.28% due to decreasing yields on earning assets.

Asset quality continues to show strength with the ratio of noncurrent assets plus other real estate to total assets at 0.59%, a decrease from 0.74% at June 30, 2014. The median ratio for Texas banks is 43 BP below the national average. While nonperforming loans have declined, second quarter financial data shows that commercial real estate (CRE) for commercial banks in Texas rose to levels exhibited at year-end 2008. As of June 30, 2015, there is no immediate indication that CRE held by state banks is deteriorating; however, additional capital support should be considered to counter the concentration risk.

State-chartered banks appear to have adequate reserves to absorb potential losses as their allowance for loan and lease losses (ALLL) is 1.12%. In addition, net charge-offs decreased slightly during the last 12 months to 0.10% from 0.11% a year ago. The average nationwide is 0.42%.

FDIC INSURED STATE-CHARTERED THRIFTS

Through June 2015, state thrifts had \$111.9 million in net income, compared to \$192.2 million for all of 2014. The quarterly, pretax return on average assets for the median thrift remains strong at an annualized 1.07%. The level of unprofitable savings banks decreased from 6.90% to zero. The most recently chartered or reorganized institutions have reached profitability. Provision expenses for loan and lease losses also remain low at 0.06% percentage of average assets. Noninterest income to average assets has decreased by 17 BP, offset slightly by a corresponding decrease in noninterest expense of 6 BP.

State thrifts experienced a slight decrease in the median core capital levels since year-end 2014, from 10.30% to 10.23%. This decrease is a result of asset growth.

NIMs for state thrifts continued to narrow slightly from 3.98% at year-end 2014 to 3.93% at June 2015. Year-to-date provisions to the ALLL increased \$4 million from the prior year. The prior year was exceptionally low, primarily due to large reverse provisions at one institution with federal loss share agreements. ALLL coverage of non-current loans and leases, with a median level of 164.11%, is much stronger than the median ratio of 98.15% for all savings institutions nationwide.

The median Texas thrift ratio of noncurrent loans plus other real estate owned to total assets remains low at 0.34%. Texas thrifts also have a lower ratio of noncurrent loans to total loans relative to the thrift industry across the nation at 0.38% versus 1.09%, indicating less of a supervisory concern. However, loan growth has outpaced loss reserve provisions, reducing the reserve-to-loans ratio from 1.06% to 0.92% over the past year.

Number of Institutions and Total Assets

FDIC financial data is reflective of FDIC insured institutions only.

Assets in Billions

	<u>06-30-15</u>		<u>06-30-14</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	261 [^]	\$241.3	274	\$225.5	-13	+\$15.8
Texas State-Chartered Thrifts	<u>27</u>	<u>\$11.8</u>	<u>30</u>	<u>\$10.6</u>	<u>-3</u>	<u>+1.2</u>
	288	\$253.1	304	\$236.1	-16	+\$17.0
Other states' state-chartered:						
Banks operating in Texas*	27	\$49.9	26	\$43.3	+1	+\$6.6
Thrifts operating in Texas*	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	27	\$49.9	26	\$43.3	+1	+\$6.6
Total State-Chartered Activity	315	\$303.0	330	\$279.4	-15	+\$23.6
National Banks Chartered in Texas	198	\$126.4	206	\$142.0	-8	-\$15.6
Federal Thrifts Chartered in Texas	<u>7</u>	<u>\$72.5</u>	<u>9</u>	<u>\$71.3</u>	<u>-2</u>	<u>+1.2</u>
	205	\$198.9	215	\$213.3	-10	-14.4
Other states' federally-chartered:						
Banks operating in Texas*	22	\$342.3	23	\$292.1	-1	+\$50.2
Thrifts operating in Texas*	<u>8</u>	<u>\$0.9</u>	<u>9</u>	<u>\$0.9</u>	<u>-1</u>	<u>0</u>
	30	\$343.2	32	\$293.0	-2	+\$50.2
Total Federally-Chartered Activity	235	\$542.1	247	\$506.3	-12	+35.8
Total Banking/Thrift Activity	550	\$845.1	577	\$785.7	-27	+\$59.4

*Indicates estimates based on available FDIC information.

[^] One state-chartered bank was inadvertently removed from the FDIC database.

RATIO ANALYSIS

As of June 30, 2015

FDIC financial data is reflective of FDIC insured institutions only.

	<u>State- Chartered Banks</u> 261 [^]	<u>Texas National Banks</u> 198	<u>All Texas Banks</u> 459	<u>State- Chartered Thrifts</u> 27	<u>Texas Federal Thrifts</u> 7	<u>All Texas Thrifts</u> 34
% of Unprofitable Institutions	4.23%	1.52%	3.06%	0.00%	14.29%	2.94%
% of Institutions with Earnings Gains	63.85%	52.02%	58.73%	62.96%	57.14%	61.76%
Yield on Earning Assets	3.51%	3.74%	3.59%	5.11%	4.63%	4.70%
Net Interest Margin	3.28%	3.51%	3.36%	4.59%	4.32%	4.36%
Return on Assets	1.11%	1.15%	1.13%	1.95%	1.16%	1.27%
Return on Equity	9.77%	10.27%	9.94%	11.08%	12.92%	12.48%
Net Charge-offs to Loans	0.10%	0.10%	0.10%	0.09%	1.12%	0.96%
Earnings Coverage of Net Loan C/Os	26.17	25.49	25.93	32.23	3.48	3.91
Loss Allowance to Loans	1.12%	1.54%	1.28%	1.05%	1.55%	1.47%
Loss Allowance to Noncurrent Loans	159.35%	116.63%	137.13%	33.37%	147.87%	106.16%
Noncurrent Assets+OREO to Assets	0.59%	0.94%	0.71%	3.09%	0.69%	1.02%
Net Loans and Leases to Core Deps	77.42%	83.56%	79.56%	108.72%	80.12%	83.67%
Equity Capital to Assets	11.44%	11.31%	11.40%	17.32%	9.08%	10.23%
Core Capital (Leverage) Ratio	9.76%	10.27%	9.94%	17.24%	9.15%	10.29%

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

[^] Information derived from the FDIC website. One Texas state-chartered bank was inadvertently removed from the FDIC database.

Comparison Report

Select Balance Sheet and Income/Expense Information
FDIC financial data is reflective of FDIC insured institutions only.
June 30, 2015

	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	261		27	
Number of Employees (full-time equivalent) (In millions)	42,486		2,142	
Total Assets	\$241,317		\$11,814	
Net Loans and Leases	\$142,678	59.12%	\$8,829	74.73%
Loan Loss Allowance	\$1,621	0.67%	\$93	0.79%
Other Real Estate Owned	\$404	0.17%	\$71	0.60%
Goodwill and Other Intangibles	\$5,054	2.09%	\$55	0.46%
Total Deposits	\$199,655	82.74%	\$8,753	74.09%
Federal Funds Purchased and Repurchase Agreements	\$2,898	1.20%	\$0	0.00%
Other Borrowed Funds	\$7,446	3.09%	\$900	7.62%
Equity Capital	\$27,624	11.45%	\$2,046	17.32%
<u>Memoranda:</u>				
Noncurrent Loans and Leases	\$1,017	0.42%	\$280	2.37%
Earning Assets	\$220,105	91.21%	\$10,944	92.64%
Long-term Assets (5+ years)	\$72,261	29.94%	\$3,892	32.94%
	<u>Year-to Date</u>	<u>% of Avg. Assets</u>	<u>Year-to Date</u>	<u>% of Avg. Assets</u>
Total Interest Income	\$3,830	3.20%	\$272	4.74%
Total Interest Expense	\$256	0.21%	\$28	0.49%
Net Interest Income	\$3,574	2.98%	\$244	4.25%
Provision for Loan and Lease Losses	\$134	0.11%	\$2	0.04%
Total Noninterest Income	\$1,608	1.34%	\$68	1.19%
Total Noninterest Expense	\$3,282	2.74%	\$185	3.22%
Securities Gains	\$16	0.01%	\$-1	-0.01%
Net Income	\$1,331	1.11%	\$112	1.95%
<u>Memoranda:</u>				
Net Loan Charge-offs	\$73	0.06%	\$4	0.07%
Cash Dividends	\$704	0.59%	\$52	0.91%

*Excludes branches of state-chartered banks of other states doing business in Texas. As of June 30, 2015, there are an estimated twenty seven out-of-state state-chartered institutions with \$49.9 billion in assets. Also, one Texas state-chartered bank was inadvertently removed from the FDIC database.

No branches of state-chartered thrifts of other states conducted business in Texas as of June 30, 2015.

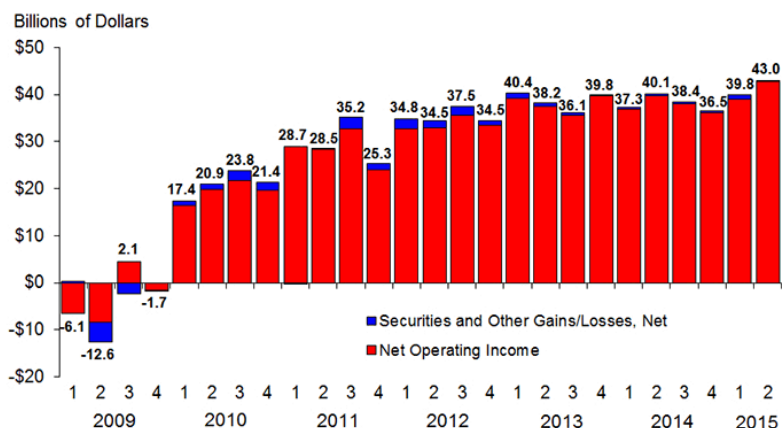
PERFORMANCE SUMMARY UNITED STATES BANKING SYSTEM

FDIC Quarterly Banking Profile Second Quarter 2015 - www.fdic.gov

- ↑ **Improving Earnings Trend Remains Broad-Based** – FDIC-insured commercial banks and savings institutions earned \$43 billion in net income in second quarter 2015, an increase of \$2.9 billion (7.3%) compared with second quarter 2014. Higher net operating revenue and lower noninterest expenses outweighed increased expenses for loan-loss provisions. Almost 60% of all banks—58.9%—reported year-over-year growth in quarterly net income, while only 5.6% were unprofitable in the quarter. In second quarter 2014, 6.8% of all banks reported net losses. The average return on assets rose slightly to 1.09%, from 1.07% in the 2014 quarter.

Quarterly Net Income

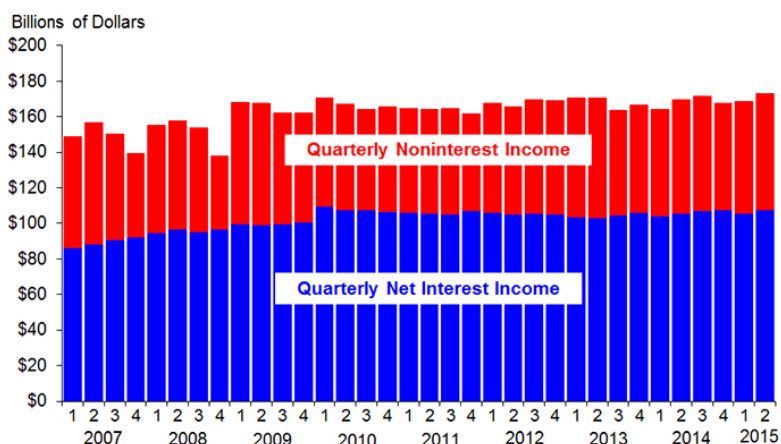
All FDIC-Insured Institutions



- ↑ **Margins Rebound Slightly From 30-Year Low** – Net operating revenue—the sum of net interest income and total noninterest income—totaled \$172.9 billion in the quarter, up \$3.6 billion (2.1%) from the year before. More than two-thirds of all banks—67.9%—reported higher net operating income. Net interest income increased by \$2.4 billion (2.3%), as average interest-bearing assets were 5.3% higher than a year earlier. The industry net interest margin of 3.06% was down from 3.15% in second quarter 2014, but was up slightly from the 30-year low of 3.02% in first quarter 2015. Noninterest income rose by \$1.2 billion (1.9%), as servicing income grew by \$1.8 billion (63.9%), and trading revenue declined by \$904 million (14.1%).

Quarterly Net Operating Revenue

All FDIC-Insured Institutions

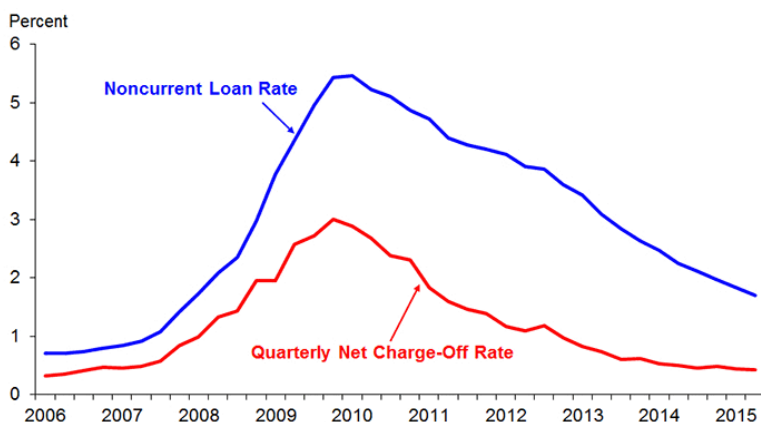


- ↑ **Litigation Expenses Are Lower** – Noninterest expenses declined \$1.1 billion (1.1%) from 2014 levels, as itemized litigation expenses at a few large banks were \$1.3 billion less than in second quarter 2014, and charges for goodwill impairment were \$191 million lower. Payroll expenses were up \$1.3 billion (2.8%), while expenses for premises and fixed assets were only \$6 million (0.1%) higher than the year earlier. Loan-loss provision expenses posted a fourth consecutive year-over-year increase, rising by \$1.4 billion (20.2%).

↑ **Net Charge-Off Rate Improves to Pre-Crisis Level** – Net charge-offs declined for a 20th consecutive quarter, falling \$1.1 billion (11.2%) from the 2014 level. The average net charge-off rate fell to 0.42% in the quarter, down from 0.50% the year before. This is the lowest quarterly charge-off rate for the industry since third quarter 2006. Charge-offs were down, year over year, in all major loan categories except commercial and industrial (C&I) loans and auto loans. C&I net charge-offs were \$146 million (15.7%) higher than the 2014 quarter, while auto loan charge-offs were up \$71 million (21.2%).

Noncurrent Loan Rate and Quarterly Net Charge-Off Rate

All FDIC-Insured Institutions

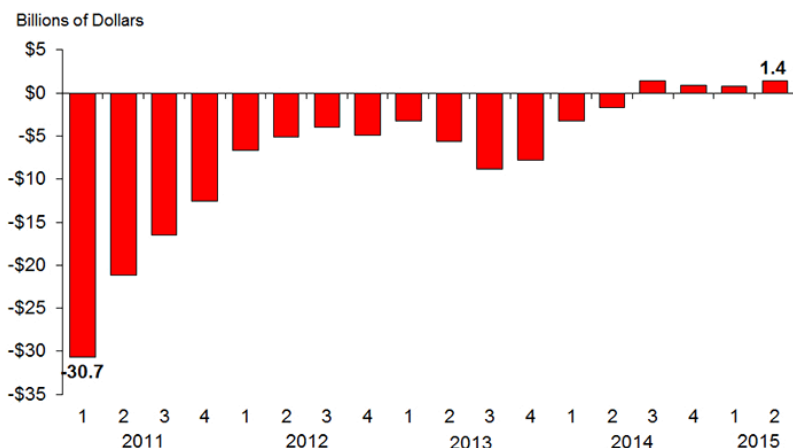


↑ **Noncurrent Rate Continues to Improve** – The amount of noncurrent loans and leases (90 days or more past due or in nonaccrual status) fell by \$8.3 billion (5.4%) during the three months ended June 30. This is the 21st consecutive quarterly decline in noncurrent loan balances. Noncurrent C&I loans increased by \$1.5 billion (15.4%) during the quarter, and noncurrent auto loans rose by \$40 million (4.4%). Noncurrent levels declined in all other major loan categories, led by a \$6.4 billion (6.7%) decline in noncurrent residential mortgage loans. At the end of June, more than a third of the industry's \$144.7 billion in noncurrent loan balances (\$50 billion, or 34.6%) consisted of loans with U.S. government guarantees, or loans covered by loss-sharing agreements with the FDIC.

↑ **Banks Continue to Release Reserves** – Insured institutions reduced their loan-loss reserves for a 21st consecutive quarter. Reserve balances declined by \$1.4 billion (1.2%) during the quarter, as net charge-offs of \$8.9 billion exceeded loan-loss provisions of \$8.1 billion. This is the smallest quarterly decline in industry reserves since banks began reducing them in second quarter 2010.

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

All FDIC-Insured Institutions



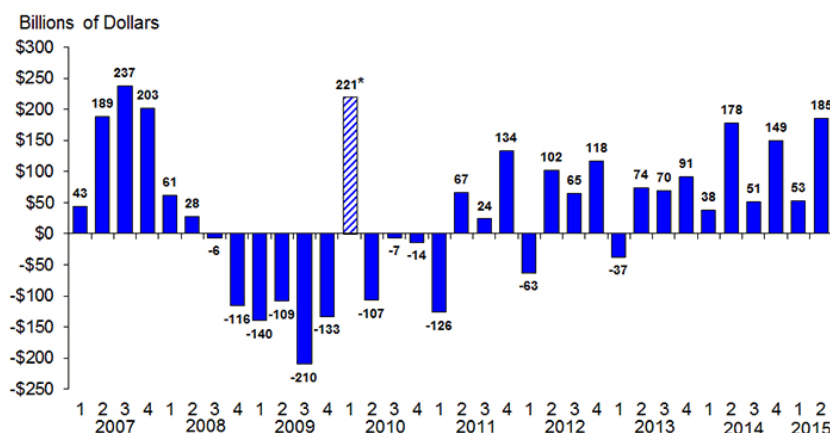
The industry's ratio of reserves to total loans and leases fell from 1.45% to 1.40% during the quarter. This is the lowest average since year-end 2007. However, the average coverage ratio of reserves to noncurrent loans rose for the 11th quarter in a row, from 79.1% to 82.7%, because of the decline in noncurrent loan balances.

↑ **Capital Growth Is Modest** – Banks added \$4.5 billion to equity capital during the quarter. The modest 0.3% increase reflected a reduced contribution from retained earnings and a decline in unrealized gains in available-for-sale securities portfolios. Retained earnings totaled \$14.4 billion, which was \$3.8 billion (20.9%) less than in second quarter 2014. Banks declared \$28.6 billion in dividends in the second quarter, up \$6.7 billion (30.8%) versus the 2014 quarter. Higher interest rates lowered the market values of securities portfolios. Accumulated other comprehensive income, a component of equity capital that includes unrealized gains on securities held for sale, declined by \$12.9 billion. The industry's equity-to-assets ratio rose from 11.18% to 11.23% during the quarter. At mid-year, 98.6% of all FDIC-insured institutions, representing 99.9% of industry assets, met or exceeded the requirements for well-capitalized banks, as defined for Prompt Corrective Action purposes.

↑ **Banks Reduce Their Balances at Federal Reserve Banks** – Total assets declined by \$24.7 billion (0.2%) in the three months ended June 30. Banks reduced their balances at Federal Reserve banks by \$182 billion (12.6%) during the quarter. Assets in trading accounts declined by \$70.3 billion (10.6%). Securities and loans maturing in over 15 years increased by \$45 billion (2.7%). Total loans and leases rose by \$185 billion (2.2%). C&I loans increased by \$49.4 billion (2.8%), residential mortgage loans rose by \$24.7 billion (1.3%), credit card balances grew by \$21.2 billion (3.1%), and loans to nondepository financial institutions increased by \$18 billion (7.6%). This last loan category is up 39.9% over the 12 months ended June 30.

Quarterly Change in Loan Balances

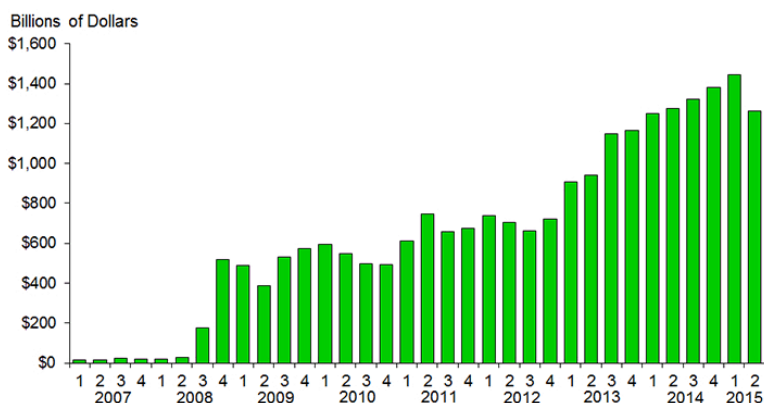
All FDIC-Insured Institutions



↑ **Non-Operational Deposit Balances Decline** – Total deposit balances fell by \$25.8 billion (0.2%), as at least one large bank reduced its non-operational deposits (wholesale funds in excess of the level needed to provide operational services to wholesale customers) to avoid a regulatory capital surcharge. Deposits in foreign offices declined by \$34.1 billion (2.5%), and domestic office deposits rose by \$8.3 billion (0.1%). Domestic deposits in interest-bearing accounts fell by \$37.1 billion (0.5%), while noninterest-bearing deposits increased by \$45.4 billion (1.5%). Nondeposit liabilities declined by \$34.1 billion, as trading liabilities fell by \$57.9 billion (18.9%). Federal Home Loan Bank advances rose by \$40.7 billion (9.4%), and other unsecured borrowings increased by \$38.6 billion (13.1%).

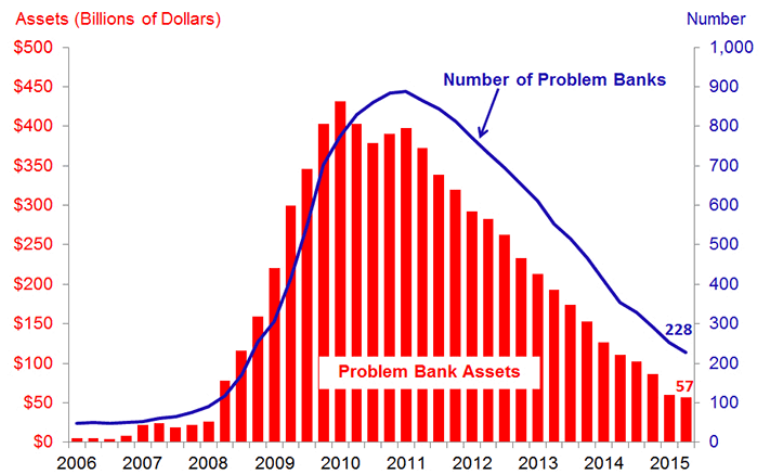
Balances Due From Federal Reserve Banks

All FDIC-Insured Institutions



↑ **Only One Bank Failure in the Quarter** – The number of insured commercial banks and savings institutions reporting quarterly financial results in the second quarter fell to 6,348 from 6,419 reporters in the first quarter. During the quarter, 66 institutions were merged into other banks, while one insured institution failed. This is the first time since fourth quarter 2007 that there has been only one failure in a quarter. For a sixth consecutive quarter, no new charters were added. Banks reported 2,042,386 full-time equivalent employees in the second quarter, down from 2,042,688 in the first quarter and 2,059,827 in second quarter 2014. The number of insured institutions on the FDIC’s “Problem List” declined for a 17th consecutive quarter, from 253 to 228. Total assets of problem institutions fell from \$60.3 billion to \$56.5 billion.

Number and Assets of Banks on the "Problem List"



Snapshot Stock Performance Southwest Regional Banks September 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	09/14	20.24	18.85	22.9	11.66	1.74	122.05M	0.80	4.01
BancFirst Corporation	09/14	61.59	55.51	69.49	14.06	4.38	959.62M	1.44	2.35
Banco Bilbao VizcayaArgentaria	09/14	8.78	8.44	12.62	11.71	0.75	55.29B	0.35	3.92
BOK Financial Corporation	09/14	63.42	53.01	71.66	14.94	4.25	4.37B	1.68	2.65
Cass Information Sys, Inc.	09/14	48.02	39	59.09	24.01	2.00	548.42M	0.84	1.70
CoBiz Incorporated	09/14	13.06	10.88	13.6	18.55	0.70	529.14M	0.18	1.38
Commerce Bancshares, Inc.	09/14	44.36	38.1	48.7	16.63	2.67	4.14B	0.90	2.02
Comerica, Inc.	09/14	41.99	40.09	53.45	13.63	3.08	7.47B	0.84	2.00
Community Shores Bank Corp	09/14	2.45	1.25	3.24	0.92	2.67	3.6M	N/A	N/A
Cullen Frost Bankers, Inc.	09/14	62.33	59.35	82	13.82	4.51	3.94B	2.12	3.41
Enterprise Fin Serv Corp	09/14	24.21	16.38	25.07	15.14	1.60	483.19M	0.28	1.16
First Community Corp S C	09/14	12.74	10.51	12.97	14.28	0.89	85.1M	0.28	2.24
First Financial Bankshares, Inc.	09/14	30.46	24.46	36.2	20.58	1.48	1.95B	0.64	2.08
Great Southern Bancorp, Inc.	09/14	41.99	29.8	42.99	12.54	3.35	581.72M	0.88	2.13
Guaranty Fed Bancshares, Inc.	09/14	14.59	12.11	15.5	10.64	1.37	63.9M	0.20	1.39
Heartland Financial USA, Inc.	09/14	36.63	23.33	38.96	13.32	2.75	755.6M	0.40	1.10
International Bancshares Corp	09/14	25.77	22.47	28.49	12.16	2.12	1.71B	0.58	2.25
Landmark Bancorp, Inc.	09/14	24.75	20.54	28.68	8.75	2.83	82.6M	0.76	3.05
Liberty Bancorp, Inc.	09/14	16.45	N/A	N/A	12.75	1.29	59.22M	0.15	1.00
Mackinac Financial Corp	09/14	10.40	9.95	12.75	19.22	0.54	64.89M	0.40	3.86
Metrocorp Bancshares, Inc.	09/14	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MidWest One Finl Group, Inc.	09/14	29.35	22.73	34.04	14.42	2.04	334.78M	0.60	2.06
OmniAmerican Bancorp, Inc.	09/14	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prosperity Bancshares, Inc.	09/14	50.31	43.76	61.52	11.71	4.30	3.52B	1.09	2.18
QCR Holdings, Inc.	09/14	21.97	16.91	23.23	17.70	1.24	257.42M	0.08	0.38
Southside Bancshares, Inc.	09/14	26.31	24.05	33.28	26.44	1.00	667.17M	0.92	3.50
Southwest Bancorp, Inc.	09/14	16.23	15.08	19	15.74	1.03	308.92M	0.24	1.46
Texas Capital Bancshares, Inc.	09/14	52.08	40.4	63.7	17.10	3.04	2.39B	N/A	N/A
UMB Financial Corporation	09/14	49.59	47.03	61	17.97	2.76	2.45B	0.94	1.92
West Bancorp Incorporated	09/14	18.72	14	20.99	14.11	1.33	300.62M	0.64	3.43
Zions Bancorp	09/14	28.23	23.72	33.03	26.21	1.08	5.76B	0.24	0.85

Source: Yahoo Finance (September 2015)

NA – Indicates information was not available.

Previous Year Snapshot Stock Performance Southwest Regional Banks September 2014

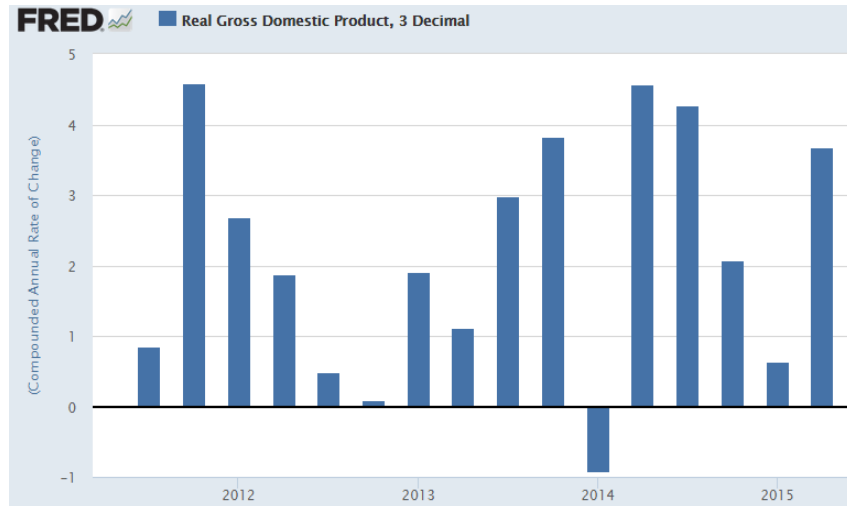
Name	Last Trade	52 Wk Range	PE	EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	09/18 19.35	16.65 21.00	11.86	1.57	1165.2M	0.76	4.00%
BancFirst Corporation	09/18 66.90	50.62 68.00	18.23	3.57	1.03B	1.24	2.00%
Banco Bilbao Vizcaya Argentaria	09/18 12.56	10.81 13.60	84.86	0.27	73.9B	0.34	2.80%
BOK Financial Corporation	09/18 68.71	60.59 71.10	15.76	4.42	4.76B	1.60	2.40%
Cass Information Sys, Inc.	09/18 45.54	44.96 68.81	22.77	2.00	525.3M	0.80	1.70%
CoBiz Incorporated	09/18 11.71	9.19 12.45	17.12	0.65	468.48M	0.16	1.40%
Commerce Bancshares, Inc.	09/18 46.86	40.37 47.65	16.98	2.75	4.29B	0.90	2.00%
Comerica, Inc.	09/18 52.22	38.56 53.50	17.82	2.88	9.44B	0.80	1.60%
Community Shores Bank Corp	09/18 2.70	2.15 4.95	10.80	0.24	3.96M	N/A	N/A
Cullen Frost Bankers, Inc.	09/18 80.88	68.01 81.70	20.53	3.85	5.09B	2.04	2.70%
Enterprise Fin Serv Corp	09/18 17.43	16.38 20.96	13.67	1.49	344.64M	0.21	1.20%
First Community Corp S C	09/18 10.69	9.70 11.37	16.12	0.71	71.2M	0.24	2.30%
First Financial Bankshares, Inc.	09/18 30.00	28.26 33.76	22.81	1.29	1.91B	0.56	1.90%
Great Southern Bancorp, Inc.	09/18 32.10	25.87 33.77	12.11	2.45	439.42M	0.80	2.60%
Guaranty Fed Bancshares, Inc.	09/18 12.32	10.12 13.42	8.88	1.66	52.66M	0.20	1.60%
Heartland Financial USA, Inc.	09/18 24.27	22.38 30.06	14.11	1.70	448.19M	0.40	1.70%
International Bancshares Corp	09/18 27.04	21.14 28.00	11.96	2.11	1.81B	0.50	2.00%
Landmark Bancorp, Inc.	09/18 22.68	18.10 23.98	12.84	1.56	71.99M	0.76	3.60%
Liberty Bancorp, Inc.	09/18 14.95	11.90 15.50	16.25	0.92	43.91M	0.12	0.80%
Mackinac Financial Corp	09/18 11.47	8.38 15.06	12.48	1.00	63.39M	0.20	1.70%
Metrocorp Bancshares, Inc.	09/18 15.06	9.05 15.63	N/A	0.64	N/A	0.08	0.50%
MidWest One Finl Group, Inc.	09/18 23.78	22.50 29.30	10.66	2.20	199.73M	0.58	2.40%
OmniAmerican Bancorp, Inc.	09/18 25.93	20.46 26.15	44.71	0.57	272.94M	0.20	0.80%
Prosperity Bancshares, Inc.	09/18 60.57	55.99 67.68	15.16	3.80	4.22B	0.96	1.70%
QCR Holdings, Inc.	09/18 17.99	15.65 18.20	9.81	1.95	142.62M	0.08	0.50%
Southwest Bancorp, Inc.	09/18 16.62	14.11 18.77	16.01	0.95	328.96M	0.16	1.10%
Texas Capital Bancshares, Inc.	09/18 58.23	44.49 67.08	21.50	2.52	2.51B	N/A	N/A
UMB Financial Corporation	09/18 57.99	51.86 68.27	20.25	2.84	2.64B	0.90	1.60%
West Bancorp Incorporated	09/18 14.93	13.1 16.64	13.43	1.06	239.07M	0.48	3.30%
Zions Bancorp	09/18 29.87	26.79 33.33	16.79	1.51	6.06B	0.16	0.60%

Source: Yahoo Finance (September 2014)

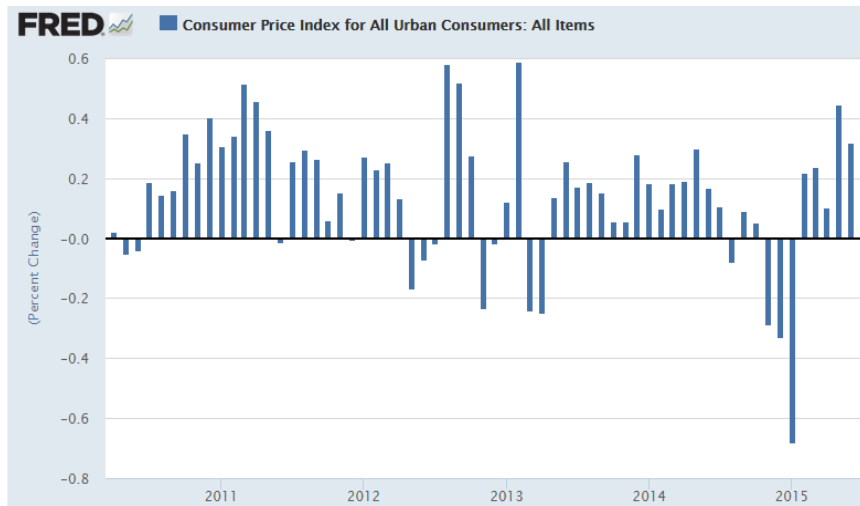
NA – Indicates information was not available.

NATIONAL ECONOMIC TRENDS

Real GDP



Consumer Price Index

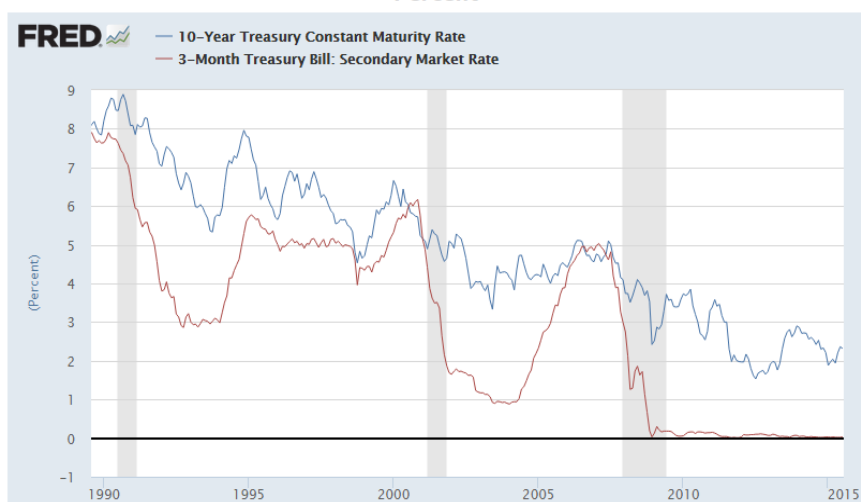


Unemployment Rate

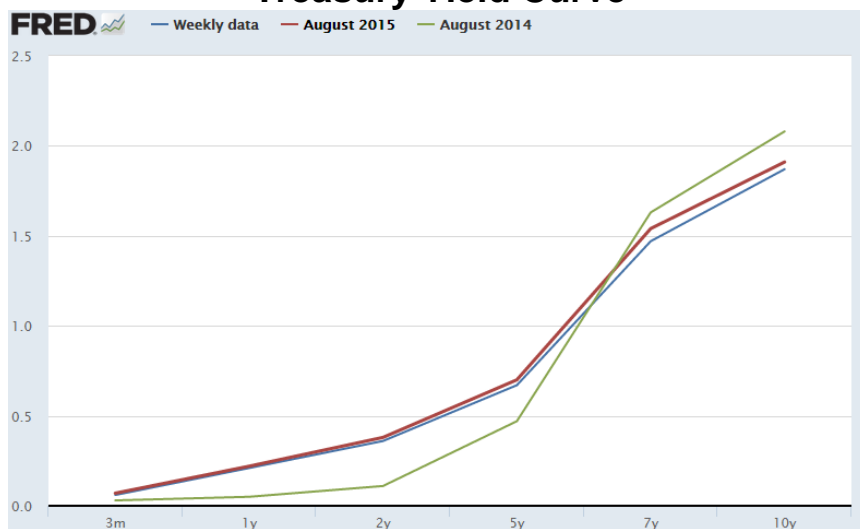


Source: Federal Reserve Bank of St. Louis, [National Economic Trends](#), September 8, 2015.

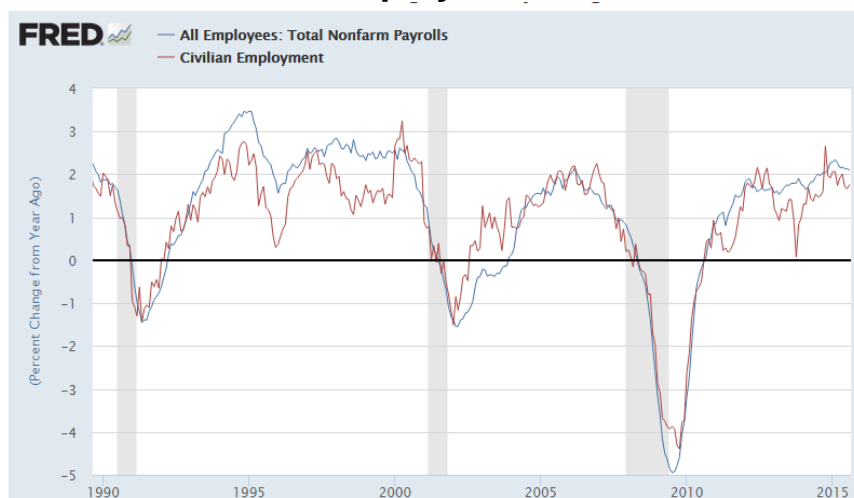
Interest Rates



Treasury Yield Curve



Employment



Source: Federal Reserve Bank of St. Louis, [National Economic Trends](#), September 8, 2015.

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

↑ **Economy** – Indicators released over the past two months suggest an upturn in U.S. economic activity. The first estimate of second quarter real gross domestic product (GDP) growth came in at an annualized 2.3%, putting first-half average growth at a modest 1.5%. Average job growth from April to June, although weaker than the red-hot 260,000 per month average of 2014, was nonetheless an impressive 221,000 per month. Meanwhile, the jobless rate dipped to 5.3%, its lowest since April 2008. On a 12-month basis, measures of headline inflation continued to be tepid, reflecting lower oil prices, while trimmed-mean inflation held steady.

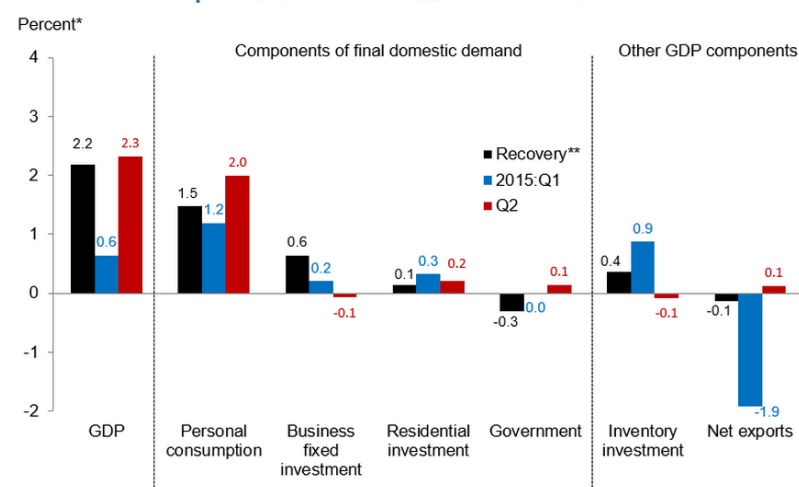
⇄ **Output Growth Rebounds** – Initial data from the Bureau of Economic Analysis (BEA) showed that the economy shook off some of the weakness observed earlier in the year, with personal consumption expenditures (PCE) by far the leading contributor with 2 percentage points added to growth. Other components either added or subtracted only slightly, with their cumulative contribution about 0.3 percentage points.

Before the latest report—and somewhat paralleling last year's concerns—the economy exhibited a weakness in the first quarter that analysts often attributed to seasonal-adjustment measurement issues, dollar appreciation and cutbacks in oil-related investment.

Every July, the BEA conducts a revision of national accounts data for the prior quarter and at least three of the preceding years, during which updates are made for new seasonal-adjustment factors and incorporation of more source data. This time around, the BEA found the main culprit of residual seasonality to be in third quarter data spanning 2012–2014, caused by ramped-up government defense spending at the end of fiscal years. It consequently revised *down* third-quarter numbers by an average of 1.4 percentage points. Residual seasonality in 2012 to 2015 first quarter data was less clear, with both additional source data and seasonal adjustment to construction data likely playing similar roles in the average upward revision of 0.4 percentage points. Importantly, this is just the first part of a three-phase project by the BEA to address seasonality concerns, leaving further work to be done.

International trade balances exhibited a turnaround: Net exports added 0.1 percentage points to growth in the second quarter compared with the mostly unrevised 1.9 percentage points subtracted in the first quarter—an indication that stronger-dollar effects attenuated between April and June.

Personal Consumption Drives Second Quarter Rebound



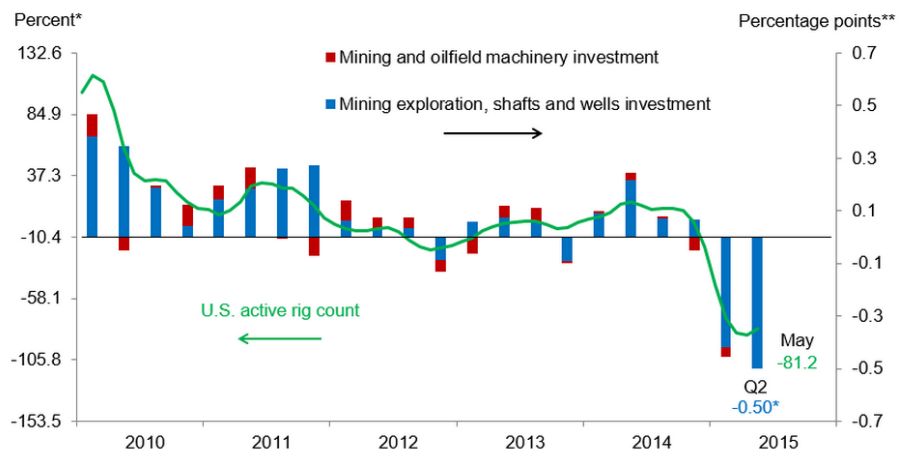
*Contribution to percent change in GDP growth; quarter/quarter, seasonally adjusted, annualized rate.

**Calculated over 2009:Q2–2014.

SOURCES: Bureau of Economic Analysis; author's calculations.

Although some underlying data on oil-related activity—namely, investment in mining and oilfield machinery—isn't yet available for the second quarter, a strong historical relationship exists between oil-related investment and U.S. active rig count. Second-quarter data on mining exploration, shafts and wells investment recorded its second-largest decrease on record. From this and the last few months' rig count data, it's clear that this subcomponent exerted a large drag in the second quarter, much as it did in the first quarter. Even so, the overall drag from business fixed investment was a small 0.1 percentage points.

Growth Contribution from Oil-Related Investment Closely Linked to Rig Count



*Three-month percent change in centered three-month moving average.

**Contribution to percent change in GDP growth; quarter/quarter, seasonally adjusted, annualized rate.

NOTE: Due to data availability, the final data point reflects only mining exploration, shafts and wells investment.

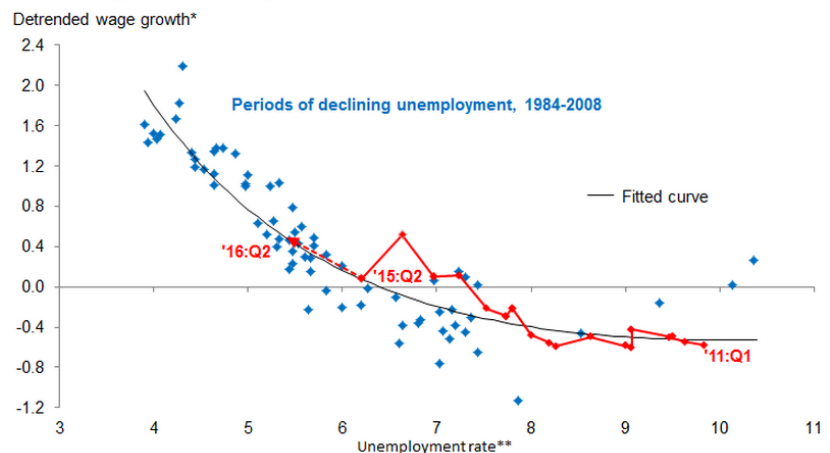
SOURCES: Baker Hughes; Bureau of Economic Analysis; Haver Analytics; author's calculations.

⇄ **Inflation Outlook** – The jobless rate's downward progression, and how much further it can fall before wage and price pressures kick in sometime later as a result, is of keen interest to analysts and policymakers. For Federal Reserve policymakers, the Fed's dual mandate of full employment and price stability makes it especially important to understand the relationship between the jobless rate and wage and price pressures.

In the August 2014 National Update, the wages and salaries component of the employment cost index (ECI) was used as a measure of wages. In order to forecast how wages will change over the coming year, the relationship between ECI inflation (less inflation expectations) and lagged values of the jobless rate was estimated. There's strong intuition (validated by empirical studies) for this relationship: One narrative among others is that as the supply of available labor lessens, firms subsequently realize that they must bid up wages to attract the remaining job candidates.

The forecast generated previously by our model was for a year-over-year 0.5 percentage point acceleration in wages from the second quarter of 2014 to 2015. Actual wage growth came in at 2.1% year to year, an acceleration of only 0.2 percentage points.

Latest Wage Data Entirely Consistent with Historical Behavior



*ECI wages and salaries growth, less Survey of Professional Forecasters four-quarter lagged 10-year PCE inflation expectations, year/year.

**Lagged four quarters, seasonally adjusted.

SOURCES: Bureau of Labor Statistics; Survey of Professional Forecasters; author's calculations.

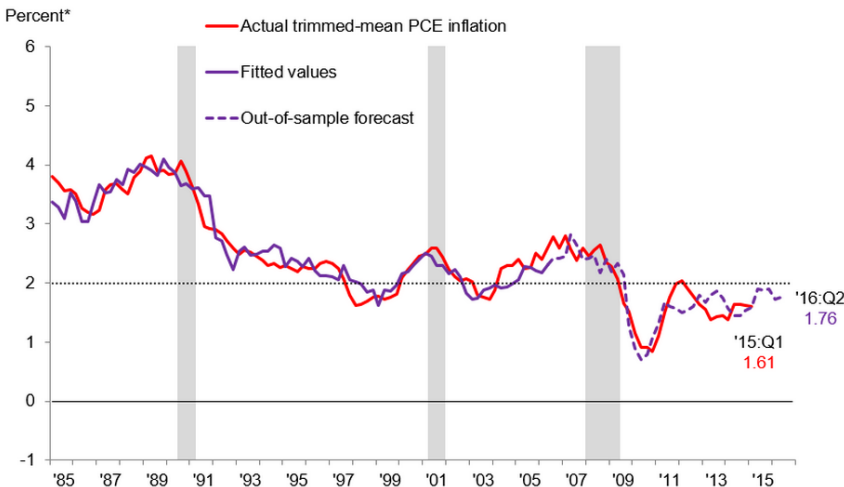
Using a more refined, better fitting model that separates periods in which the jobless rate is increasing or decreasing, our updated analysis suggests that wage inflation has recently accelerated more than expected given the historical relationship between a declining jobless rate and wage inflation. However, before any new data came in, with our refined model we would have forecasted wage inflation to be 2.1% in second quarter 2015—exactly as it turned out.

Assuming consistency with historical movements, the forecast calls for wage inflation to rise, from its current year-to-year rate of 2.1%, to 2.5% in second quarter 2016.

Turning to price inflation, the Dallas Fed's preferred measure of inflation is the trimmed-mean PCE price index, which excludes the greatest individual price movements (high or low) from a basket of items during a given month and consequently better captures the underlying trend. This gives

trimmed-mean PCE a tight association with labor-market slack.

Trimmed-Mean Inflation Forecasted to Reach 1¼ Percent by 2016:Q2



*Year/year growth.

SOURCES: Bureau of Economic Analysis; Federal Reserve Bank of Dallas; NBER; author's calculations.

Unlike often-erratic measures of headline inflation that have been depressed due to the collapse of energy prices, 12-month trimmed-mean PCE inflation has been little changed, holding steady at around 1.6% since April 2014. Just as was the case with wage inflation, one can anticipate future trimmed-mean inflation using lagged values of the jobless rate. Doing so suggests a slight increase in trimmed-mean inflation to about 1.76% over the coming year.

↑ **Economic Prospects** – Consensus forecasts, considered separately, offer competing views on future economic activity. A more informative alternative is to “average” competing consensus expectations, thereby generating forecasts possessing the relative strengths of each.

For the present analysis, Blue Chip Economic Indicators and the Survey of Professional Forecasters were used. The results imply that by second quarter 2016, GDP will grow about 2.6% over the period and the jobless rate will fall to around 4.7%.

The most recent staff economic projections from the Federal Reserve Board put the long-term jobless rate between 5 and 5.2%. The Congressional Budget Office has estimated the so-called “natural rate of unemployment” at 5.2%—which means consensus expectations are for little to no labor-market slack by early 2016.

Given that wage and price inflation respond to slack with a considerable delay, and assuming well-anchored inflation expectations, it's very likely over the next two years that inflation will rise to around 2% should these forecasts be realized.

U.S. ECONOMY AT A GLANCE

U.S. BUREAU OF LABOR STATISTICS

Data Series	Mar 2015	Apr 2015	May 2015	June 2015	July 2015	Aug 2015
Unemployment Rate ⁽¹⁾	5.5	5.4	5.5	5.3	5.3	5.1
Change in Payroll Employment ⁽²⁾	119	187	260	245	(P) 245	(P) 173
Average Hourly Earnings ⁽³⁾	24.85	24.89	24.95	24.95	(P) 25.01	(P) 25.09
Consumer Price Index ⁽⁴⁾	0.2	0.1	0.4	0.3	0.1	-0.1
Producer Price Index ⁽⁵⁾	0.0	-0.1	(P) 0.4	(P) 0.4	(P) 0.2	(P) 0.0
U.S. Import Price Index ⁽⁶⁾	-0.2	-0.2	(R) 1.1	(R) 0.1	(R) -0.9	(R) -1.8

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	2nd Qtr 2014	3rd Qtr 2014	4th Qtr 2014	1 st Qtr 2015	2nd Qtr 2015
Employment Cost Index ⁽¹⁾	0.7	0.7	0.5	0.7	0.2
Productivity ⁽²⁾	2.8	3.1	-2.2	-1.1	(R) 3.3

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: September 16, 2015

THE FEDERAL RESERVE BOARD

THE BEIGE BOOK – September 2, 2015 EXCERPT

⇅ Reports from the twelve Federal Reserve Districts indicate economic activity continued expanding across most regions and sectors during the reporting period from July to mid-August. Six Districts cited moderate growth while New York, Philadelphia, Atlanta, Kansas City, and Dallas reported modest increases in activity. The Cleveland District noted only slight growth since the last report. In most cases, these recent results represented a continuation of the overall pace reported in the July Beige Book. Respondents in most sectors across Districts expected growth to continue at its recent pace, but the Kansas City report cited more mixed expectations. District reports on manufacturing activity were mostly positive, although among these, the Cleveland, St. Louis, Minneapolis, and Dallas Districts painted a somewhat mixed picture across manufacturing sectors. Only the New York and Kansas City Districts cited declines in manufacturing.

Retail contacts in a majority of Districts reported that their sales and revenues continued to expand. By contrast, the Cleveland and Minneapolis Districts cited flat consumer activity since the last report, Atlanta was mixed, and Dallas reported decreased sales year-over-year. Most Districts reported increased auto sales. Among Districts with information on tourism, activity was strong in most reports. Demand for nonfinancial services, including staffing, generally expanded over the reporting period. Districts mentioning the transportation sector mostly noted activity increases. Districts reporting on the banking sector mostly tallied increases in both business and consumer loan volumes. Credit quality was reported to be improving in most Districts, while credit standards were generally said to be unchanged.

Reports on residential and commercial real estate markets across the Districts were mostly positive. Existing home sales and residential leasing widely improved, with home prices moving up in most areas. Commercial real estate activity also rose in most Districts; commercial construction activity ranged from strong in the Cleveland and Minneapolis Districts to up only slightly in Chicago, while commercial leasing was reported to have increased across the board. Agricultural conditions were mixed across Districts. Farm contacts indicated that anticipated yields were up for corn and soybeans, but conditions deteriorated in the St. Louis and Kansas City Districts; drought was an ongoing concern in the San Francisco District and was also a factor in parts of the Atlanta and Minneapolis Districts. Districts reporting on the energy sector indicated that conditions were stable to declining; coal production was down in the Richmond and St. Louis Districts, while oil-related activity declined in the Cleveland, Atlanta, and Dallas Districts.

Most Districts reported modest to moderate growth in labor demand, although Boston, Cleveland, and Dallas cited only slight increases in hiring. This tightening of labor markets was said to be pushing wages up slightly in selected industries or occupations, especially in the New York, Cleveland, St. Louis, and San Francisco Districts. Across all Districts, input and selling prices were reported to be stable or up only slightly.

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

↑ **Texas Economy** – Further glimmers of hope have emerged since mid-June, hinting that the worst of the energy bust may be past. Texas payroll employment grew at an annualized pace of 2% in May and 1.8% in June, pushing up growth more than a percentage point in the second quarter over the first. The Dallas Fed's Texas Business Outlook Surveys (TBOS) also capture the recent economic pickup.

Despite the improvement, annualized year-to-date job growth of 1.1% in the state remains quite modest by Texas standards. The state economy continues to battle the effects of low oil prices, a strong U.S. dollar, uncertainty in Europe and weak global growth. Exports fell in May, and activity is still declining in the manufacturing sector. After stabilizing around \$60 per barrel, oil prices have dropped again to less than \$50 per barrel.

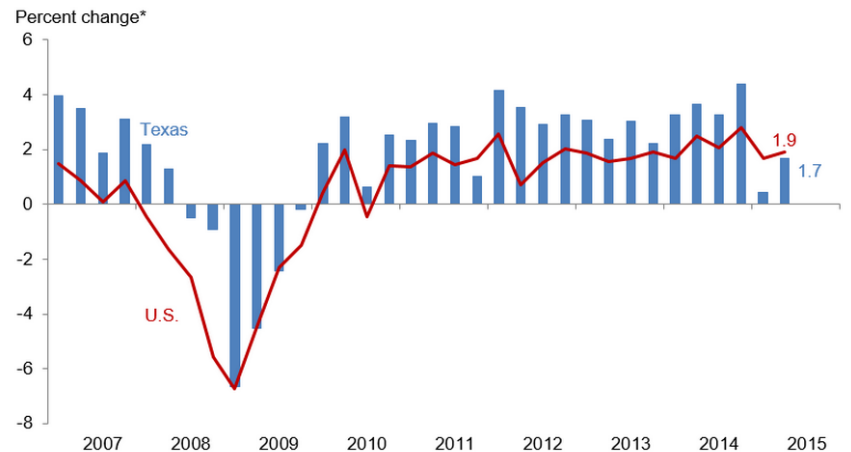
↑ **Employment Growth Accelerates in Second Quarter** – Texas employment improved in the second quarter, with annualized growth at 1.7% versus 0.5% in the first quarter. This acceleration is due to both a pickup in service sector employment gains and a slowing of goods-producing sector job losses.

Employment in the goods-producing sector was relatively flat in June following four successive months of steep declines, a result of strong gains in the oil and gas sector (3,900 new jobs). This is consistent with the Dallas Fed's July Beige Book, which reported that massive layoffs in the energy sector had largely concluded and the industry had weathered the downturn well. In contrast, job losses continued in the manufacturing sector in June, registering a 4.8% annualized decline.

For the first half of 2015, however, the goods-producing sector lost jobs on net. Drilling declines have led to annualized year-to-date job losses of 16.6% in oil and gas and contributed to an annualized 4.6% decline in manufacturing employment. Unusually wet weather also suppressed growth in construction employment, which fell an annualized 0.8% in the first half of the year.

Among the large metros, Houston has been most affected by the oil price slump, with year-to-date employment down an annualized 0.5%. Austin continues to grow at a rapid pace; year-to-date employment is up an annualized 4.5%, thanks to rapid service sector expansion. Year-to-date job growth in Dallas–Fort Worth (2.1%) and San Antonio (1.9%) has slowed from last year's robust pace but remains higher than the state employment trend this year.

Job Gains Accelerate in the Second Quarter



*Quarter/quarter; seasonally adjusted, annualized rate.

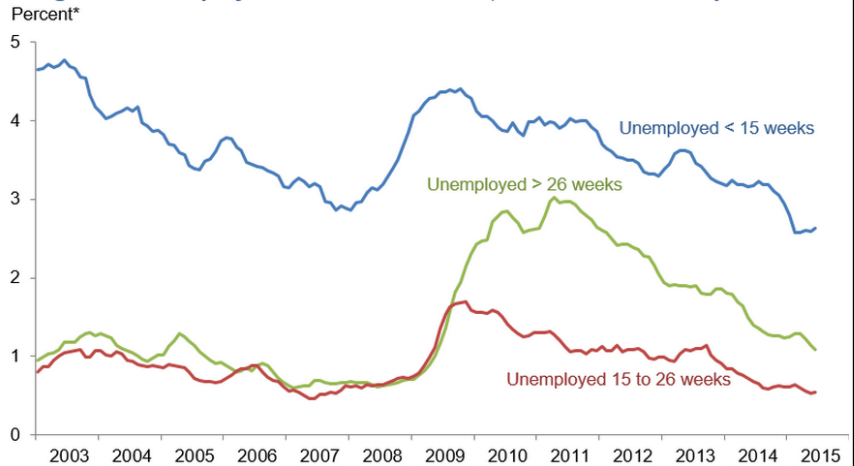
NOTES: Quarterly employment is last month of each quarter. Employment data are early benchmarked to first quarter 2015.

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

↑ **Unemployment at Prerecession Low; Long-Term Jobless Rate Falls** – The Texas unemployment rate was down to 4.2% in June after ticking up to 4.3% in May. The June rate matches the prerecession low of eight years ago. Strong job growth in 2012, 2013 and 2014 has helped reduce joblessness, particularly among the long- and medium-term unemployed in Texas.

The long-term unemployment rate—measuring those unemployed 26 weeks or more—is 1.1% in the state based on a six-month moving average, just shy of its 2005–07 average of around 0.9%. The rate for the medium-term unemployed (those unemployed 15 to 26 weeks) has fallen to 0.5% and is below its 2005–07 average of 0.7%. The rate for the short-term unemployed (those unemployed 15 weeks or less) has ticked up recently to 2.6% due to layoffs in the goods sector but remains well below the 2005–07 average of about 3.4%.

Long-Term Unemployment Declines Further; Short Term Ticks Up



*Six-month moving average; seasonally adjusted.

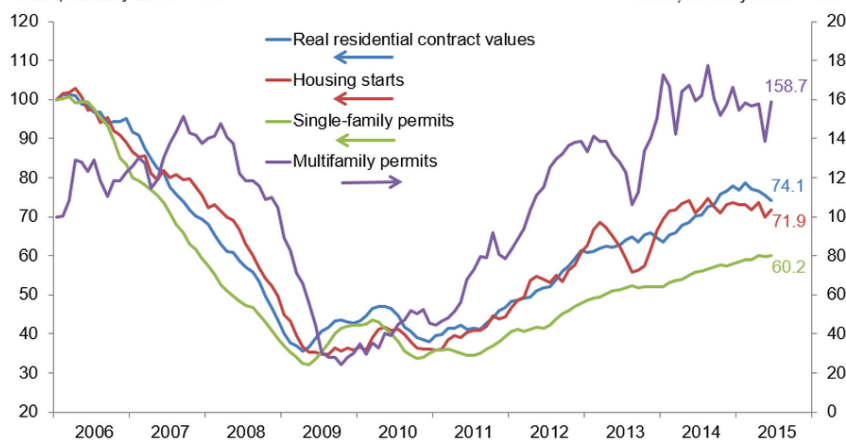
NOTE: Last data point is June.

SOURCES: Census Bureau, Current Population Survey; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

⇄ **Drier Weather Boosts Construction; Home Sales Mixed** – Record rainfall in May hampered homebuilding in the state, but activity bounced back with drier weather in June. Housing starts and permits fell in May, but housing starts rose 35.1% and single-family permits increased 3.6% in June,

Rain Dampens Homebuilding in May; Activity Resumes in June

Index, January 2006 = 100*



*Five-month moving average; seasonally adjusted.

NOTE: Last data point is June.

SOURCES: Bank of Tokyo-Mitsubishi; Census Bureau; F.W. Dodge.

accompanied by a surge in multifamily permits. Real residential contract values fell 3.3% in May and were relatively flat in June.

May rains also restrained homebuyers, with existing-home sales flat in May but up 2.6% in June. Six-month moving averages show moderating sales activity across Texas and a mixed picture for the metros. Signs of slowing are apparent in Austin and Houston. Sales have flattened in Dallas, but are rising in Fort Worth and San Antonio.

↑ **Apartment Rent Growth Solid; Home Price Gains Slow** – Strong apartment demand has led to rapid increases in rents, with Dallas–Fort Worth (DFW) leading the pack with annual growth of 5.5%. Annual rent increases in Houston and Austin are just shy of the DFW figure. While rent growth in San Antonio is lower than in the other Texas markets, it has accelerated relative to growth in second quarter 2014.

Table 1: Texas Apartment Markets Strong in Second Quarter

Metro area	Occupancy	Occupancy growth	Rent growth	Net absorption	Units completed	Under construction
	Q2 2015	Q2 2015/Q2 2014	Q2 2015/ Q2 2014	Q2 2015	Q2 2015	Q2 2015
Dallas-Ft. Worth	95.4%	90 basis points	5.5%	8,100 units	4,700 units	35,100 units
Houston	94.7%	30 basis points	5.3%	6,000 units	2,900 units	32,000 units
Austin	95.4%	0 basis points	4.8%	1,600 units	1,000 units	13,800 units
San Antonio	94.0%	80 basis points	3.9%	2,000 units	600 units	8,900 units

NOTE: Demand is considered strong if net absorption exceeds units completed, rents are rising and occupancy is high.

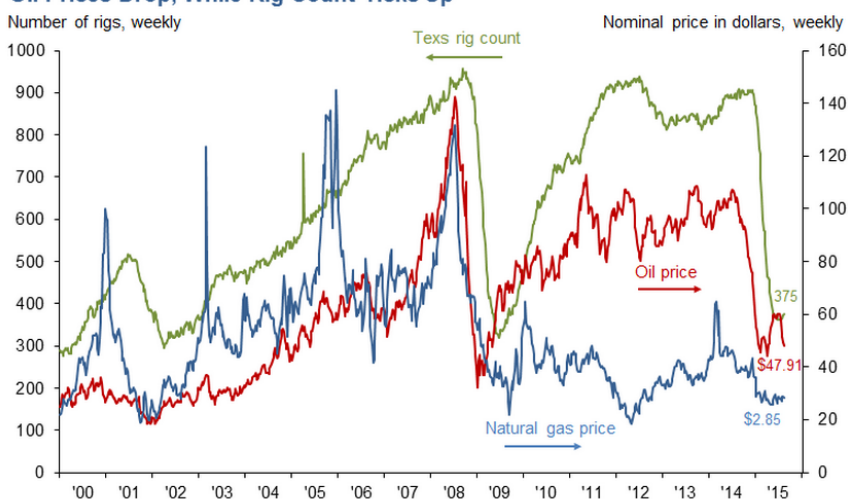
SOURCE: MPF Research.

House prices, which had been increasing at a steep rate, dipped slightly in June. While the inflation-adjusted median home sales price in Texas rose 7.8% from year-ago levels, it slipped 0.2% in June from its May level.

⇄ **Oil Prices Dip, but Rig Counts Recover Slightly** – During the week ended July 31, West Texas

Intermediate crude oil prices were down \$12 from their recent high of \$60 in June, while the Texas rig count was up 3.9% from the last week of June at 375. Oil prices fell in part because of worries over a slowing Chinese economy and the Greek debt crisis and in part because Iran and six western powers reached a nuclear agreement that could lift export sanctions against Iran. Ending the trade ban would allow Iranian oil to reenter an already oversupplied market. While natural gas prices ticked down in the last two weeks of July, prices are up 2.2% since the end of June.

Oil Prices Drop, While Rig Count Ticks Up

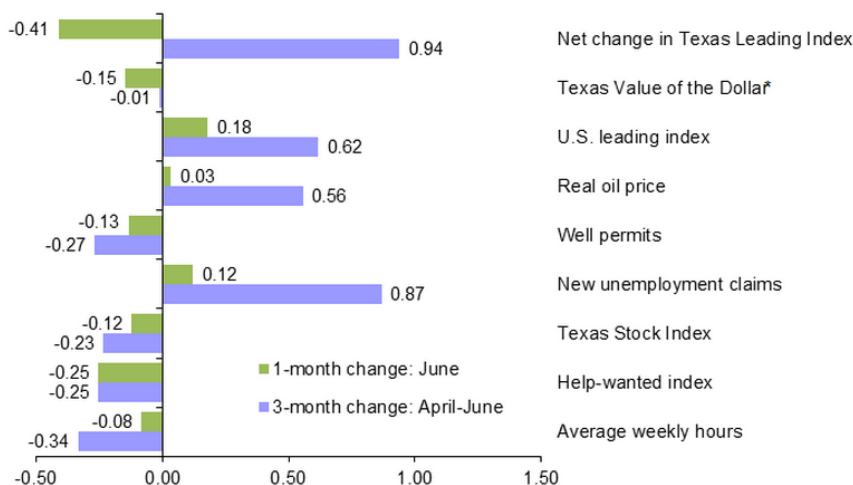


NOTES: Natural gas price is multiplied by 10. Last data point is week of July 31.

SOURCES: Wall Street Journal; Baker Hughes; Haver Analytics.

⇄ **Outlook Slightly Improved** – The Texas economy has seen slight improvement since the June update. Payroll employment growth accelerated in the second quarter compared with the first. TBOS

Leading Index Falls in June; Three-Month Change Positive



*Estimated using U.S. trade-weighted value of the dollar.

SOURCE: Federal Reserve Bank of Dallas Texas Leading Index.

respondents expect improved conditions ahead. The company outlook indexes for all three surveys—manufacturing, retail and services—rose in July. The headline index for manufacturing remained negative, but less so in June and July, suggesting that declines in the manufacturing sector are waning. Headline indexes for services and retail remained positive. Activity in the housing sector slowed in May but picked up in June as expected.

The Dallas Fed's Texas Leading Index, which had rebounded, dipped slightly in June. However, the three-month change in the index was positive, up 0.94% from April to June. As a result, the employment forecast is for 1.2% growth in 2015, up from under 1% in mid-June. The slightly improved outlook is largely a result of a pickup in job growth and gains in the U.S. Leading Index.

Despite hopeful signs the past six weeks, overall Texas economic growth remains modest at best. Year-to-date employment gains are underperforming year-to-date U.S. job growth of 1.8% (annualized) as well as the state's long-term average of 2.1%. The recent decline in oil prices also poses a risk to the outlook.

TEXAS ECONOMIC STATISTICS
U. S. BUREAU OF LABOR STATISTICS

Data Series	Feb 2015	Mar 2015	Apr 2015	May 2015	June 2015	July 2015
Labor Force Data						
Civilian Labor Force (1)	13,185.8	13,173.5	13,154.8	13,139.8	13,086.7	(P) 13,035.1
Employment (1)	12,620.2	12,614.6	12,596.8	12,579.9	12,542.0	(P) 12,493.9
Unemployment (1)	565.5	558.9	558.0	559.9	544.7	(P) 541.3
Unemployment Rate (2)	4.3	4.2	4.2	4.3	4.2	(P) 4.2
Nonfarm Wage and Salary Employment						
Total Nonfarm (3)	11,778.6	11,753.4	11,755.5	11,786.4	11,796.9	(P) 11,828.3
12-month% change	3.2	2.9	2.5	2.5	2.3	(P) 2.3
Mining and Logging (3)	311.4	307.9	300.0	293.2	295.0	(P) 294.8
12-month% change	4.6	3.1	-0.3	-3.3	-3.4	(P) -4.6
Construction (3)	678.9	672.7	668.3	666.0	665.1	(P) 667.3
12-month% change	7.1	6.1	4.1	3.0	2.7	(P) 2.2
Manufacturing (3)	883.9	880.3	876.0	869.3	864.0	(P) 863.8
12-month% change	0.5	0.1	-0.6	-1.7	-2.4	(P) -2.5
Trade, Transportation, and Utilities (3)	2,373.3	2,362.8	2,364.1	2,369.9	2,369.3	(P) 2,382.6
12-month% change	3.9	3.3	3.1	3.1	2.8	(P) 3.0
Information (3)	205.8	204.8	206.7	205.7	206.5	(P) 206.7
12-month% change	1.4	1.2	1.8	1.5	1.7	(P) 1.6
Financial Activities (3)	713.4	715.7	715.3	716.3	711.7	(P) 707.1
12-month% change	3.0	3.2	2.9	2.8	1.9	(P) 1.0
Professional & Business Services (3)	1,579.2	1,571.6	1,573.9	1,583.1	1,587.2	(P) 1,585.0
12-month% change	4.2	3.3	2.6	2.9	2.8	(P) 2.3
Education & Health Services (3)	1,559.2	1,562.8	1,564.3	1,574.4	1,585.6	(P) 1,592.7
12-month% change	3.2	3.5	3.3	3.7	4.3	(P) 4.5
Leisure & Hospitality (3)	1,223.1	1,226.6	1,232.0	1,247.8	1,249.8	(P) 1,255.1
12-month% change	4.7	4.6	4.7	5.7	5.5	(P) 5.5
Other Services (3)	413.1	411.9	414.7	413.0	416.7	(P) 418.3
12-month% change	1.7	1.3	2.0	0.8	1.9	(P) 2.2
Government (3)	1,837.3	1,836.3	1,840.2	1,847.7	1,846.0	(P) 1,854.9
12-month% change	1.0	0.9	1.0	1.3	0.9	(P) 1.3
Footnotes (1) Number of persons, in thousands, seasonally adjusted. (2) In percent, seasonally adjusted. (3) Number of jobs, in thousands, seasonally adjusted. (P) Preliminary.						

FEDERAL RESERVE BANK SENIOR LOAN OFFICER OPINION SURVEY

The July 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 71 domestic banks and 23 U.S. branches and agencies of foreign banks.

Regarding loans to businesses, the July survey results indicated that, on balance, banks reported little change in their standards on commercial and industrial (C&I) loans in the second quarter of 2015. In addition, banks reported having eased some loan terms, such as spreads and covenants, especially for larger firms on net. Meanwhile, survey respondents also reported that standards on commercial real estate (CRE) loans remained unchanged on balance. On the demand side, modest to moderate net fractions of banks indicated having experienced stronger demand for C&I and CRE loans during the second quarter. Regarding loans to households, banks reported having eased lending standards for a number of categories of residential mortgage loans over the past three months on net. Most banks reported no change in standards and terms on consumer loans. On the demand side, moderate to large net fractions of banks reported stronger demand across most categories of home-purchase loans. Similarly, respondents experienced stronger demand for auto and credit card loans on net.

Responses to a set of annual questions on the level of lending standards suggested that banks' lending standards relative to longer term norms were notably different across major loan types. Domestic and foreign banks generally reported that standards for all categories of C&I loans remained either easier than or near the midpoints of their ranges over the past decade. After reporting that standards had eased on the quarterly surveys over the course of the past year, domestic banks also generally indicated that standards on most types of CRE loans were now somewhat easier than or near the midpoints of their ranges. However, despite shifts toward somewhat more accommodative credit policies for most types of loans to households over the past few years, moderate fractions of banks continued to report that the levels of standards for all types of residential real estate (RRE) loans and consumer loans to subprime borrowers were at least somewhat tighter than the midpoints of their bank's longer-term ranges.

Business Lending

Commercial & Industry (C&I) Loans – On balance, banks reported little change in lending standards for C&I loans to firms of all sizes over the past three months. Among the small number of banks that indicated that they had changed their C&I lending standards, reports of easing were somewhat more common. Moreover, banks continued to report having reduced costs of credit lines and narrowed loan spreads for both large and middle-market firms and smaller businesses on net. The number of banks that indicated that they had eased loan covenants or increased the maximum size of credit lines outnumbered those that reported tightening such terms, especially for larger firms. Meanwhile, all foreign respondents indicated that their C&I lending standards had remained basically unchanged, but a few of them reportedly increased the maximum size of credit lines.

Most domestic respondents that 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. Smaller numbers of banks

also attributed the easing of loan terms to increased tolerance for risk or a more favorable or less uncertain economic outlook. In addition, the banks that reported having tightened either their standards or terms on C&I loans predominantly pointed to reduced tolerance for risk, worsening of industry-specific problems, or a less favorable or more uncertain economic outlook.

On balance, demand for C&I loans had increased during the second quarter, but the net fractions of banks reporting stronger demand were modest for firms of all sizes. Those banks that reported having seen stronger demand cited as reasons for the strengthening a wide range of customers' financing needs, particularly those related to accounts receivable, mergers or acquisitions, investment in plant or equipment, or inventories. Among the banks that reported weaker loan demand, a shift of borrowing away from their bank to other bank or nonbank sources was the most commonly cited reason. A modest net fraction of foreign banks also indicated that demand for C&I loans had

strengthened over the second quarter of 2015.

Commercial Real Estate Lending – The majority of survey respondents indicated that their lending standards for CRE loans of all types had essentially remained unchanged relative to the first quarter. Moreover, the smaller numbers of banks that reported having eased standards on construction and land development (CLD) loans and loans secured by multifamily residential properties were about the same as those that had tightened standards on such loans. Meanwhile, a modest net fraction of

banks eased lending standards on loans secured by nonfarm nonresidential (NFNR) properties, such as office buildings. Regarding changes in demand for CRE loans, the numbers of banks indicating that they had experienced stronger demand for all three types of CRE loans were somewhat larger than those reporting weaker demand. Similar to their domestic counterparts, foreign banks reported little change in their CRE lending standards while they indicated having experienced stronger demand for such loans on net.

Lending to Households

Residential Real Estate Lending – Modest net fractions of banks indicated that they had eased underwriting standards on residential mortgages with the exception of government-insured and subprime categories. The easing was more pronounced for jumbo residential mortgages that conform to the Consumer Financial Protection Bureau's qualified mortgage rules. Meanwhile, the vast majority of banks continued to report that they do not extend home-purchase loans to subprime borrowers. On the demand side, moderate to large to net fractions of banks reported stronger demand across most categories of home-purchase loans. On balance, lending standards were reportedly little changed for home equity lines of credit (HELOCs), and demand for such loans strengthened.

Consumer Lending – A small net fraction of banks indicated that they were more willing to

make consumer installment loans over the past three months. A few large banks reported having eased their standards for credit card loans, while standards for approving applications for auto loans and other types of consumer loans were about unchanged on net. Moreover, a few large banks also reported that, on net, they had increased credit card limits and reduced minimum credit scores to extend such accounts. On balance, terms on auto loans or other consumer loans were about unchanged. Regarding demand for consumer loans, a moderate net fraction of banks reported stronger demand for auto loans over the past three months. In addition, large banks also reported having experienced stronger demand for credit card loans on balance. Demand for other consumer loans was reportedly about unchanged at large banks and strengthened at other banks on net.

Levels of Lending Standards

The July survey included a set of special questions that asked respondents to describe the current level of lending standards at their bank, rather than changes in standards over the survey period. Specifically, for each loan category surveyed, respondents were asked to consider the range over which their bank's standards have varied between 2005 and the present and then to report where the current level of standards for such loans resides relative to the midpoint of that range.

Domestic and foreign banks generally reported that lending standards on different kinds of C&I loans to large and middle-market firms remained at levels that were easier than or near the midpoints of their ranges since 2005. Lending standards for smaller firms, with annual sales of less than \$50 million, have been gradually loosening over the past few years, and in the current survey, the majority of domestic respondents that extend loans to such firms indicated that their standards were easier than or near the midpoints of the respective ranges over the past decade. For very small firms, with annual sales of less than \$5 million, a somewhat smaller fraction of banks indicated that lending standards were easier than the midpoints of the ranges that those standards have occupied since 2005.

Regarding the level of standards for CRE loans, domestic banks reported that the current level of standards on loans secured by multifamily properties and loans secured by NFNR properties were generally easier than or near the midpoints of their ranges. However, nearly half of the respondents

reported that standards on CLD loans were tighter than the midpoints of their longer-term ranges. In general, survey responses are consistent with a gradual easing of lending standards for all three types of CRE loans from very tight levels that had prevailed during the most recent recession. However, the extent of easing appears to be more measured for the CLD category.

With respect to RRE loans, moderate fractions of domestic banks reported that lending standards for all five categories included in the survey (GSE-eligible mortgages, government-insured mortgages, jumbo mortgages, subprime mortgages, and HELOCs) remained at least somewhat tighter than the midpoints of the ranges that those standards have occupied since 2005. In addition, the measured easing of credit conditions for RRE loans during the economic recovery appear to be more pronounced for GSE-eligible and government-insured mortgages.

As for consumer loans, standards were reportedly easier than or near the midpoints of their ranges over the past decade for prime credit card borrowers. The vast majority of respondents indicated that standards were near the midpoints of their longer-term ranges for auto loans to prime borrowers as well as for other consumer loans. Relatively smaller numbers of banks offer credit card or auto loans to subprime borrowers, and their responses indicated that standards on such loans remained tighter than the midpoints of the corresponding ranges since 2005 on net.

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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Office of the State Demographer, Austin, TX
RealtyTrac, Irvine, CA
Texas Comptroller of Public Accounts, Austin, TX
Texas Department of Banking, Austin, TX
Texas Department of Savings and Mortgage Lending, Austin, TX
Texas Railroad Commission, Austin, TX
Texas Workforce Commission, Austin, TX
The Texas Tribune, Austin, TX
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