November 2019

Data for this report were collected Oct. 29 to Nov. 6, and 51 financial institutions—43 banks and eight credit unions—responded.

The Eleventh District financial sector has continued to expand the past six weeks, according to survey respondents. The indexes for total loan volume and loan demand fell but remained positive, indicating growth at a slower pace than in the previous period.

Growth in loan volumes continued at a moderate pace over the reporting period. The expansion was bolstered primarily by commercial and residential real estate loans, which posted index readings of 25.5 and 31.9, respectively. Commercial and industrial loan volumes held steady, while consumer loan volumes contracted slightly again.

Total nonperforming loans experienced no change as the index fell from 2.1 to zero. However, there was variance by loan type.

Loan pricing declined further, with the index reaching its lowest level in the three-year history of the survey, falling from -42.6 to -45.1. Credit standards and terms continued to tighten in all loan categories, on net, although the majority of respondents reported no change from the previous period.

Survey respondents indicated that general business activity expanded but at a slightly slower pace since the previous survey, with the index edging down to 13.8.

According to respondents, core deposit volumes continued to increase over the six-week period. Net interest margins continued to erode, though the index recovered somewhat to -27.5 from -40.4. The cost of funds index plunged to -23.6, marking the first time the index has turned negative in the three-year history of the survey. The noninterest income index also turned negative, falling from 8.5 to -6.0, but the majority of respondents indicated no change.

The outlook for the Eleventh District financial sector is mixed compared with six weeks ago. Expectations for total loan demand six months from now point toward no growth, with the index falling from 13.0 to zero. Expectations for general business activity six months ahead worsened, with the index coming in at -9.8. Based on their responses, bankers' sentiment regarding the outlook was varied.

Next Release: January 15, 2020

The Federal Reserve Bank of Dallas conducts the Banking Conditions Survey twice each quarter to obtain a timely assessment of activity at banks and credit unions headquartered in the Eleventh Federal Reserve District. CEOs or senior loan officers of financial institutions report on how conditions have changed for indicators such as various loan types, deposits and loan pricings. Respondents are also asked to report on their banking outlook and how they perceive broader economic conditions to have changed (general business activity).

The answers serve a dual function: They provide supplemental anecdotal information for the Eleventh District Beige Book and supply timely information on banking conditions in preparation for monetary policy deliberations before the eight Federal Open Market Committee meetings each year.

Participants are asked whether they are seeing changes in a series of indicators. In addition, participants are given the opportunity to submit comments on current issues that may be affecting their business.

Survey responses are used to calculate an index for each indicator. Each index is calculated by subtracting the percentage of respondents reporting a decrease (or tightening or worsening) from the percentage reporting an increase (or easing or improvement). When the share of firms reporting an increase exceeds the share of firms reporting a decrease, the index will be greater than zero, suggesting the indicator has increased over the prior reporting period. If the share of firms reporting a decrease exceeds the share reporting an increase, the index will be below zero, suggesting the indicator has decreased over the prior reporting period. An index will be zero when the number of firms reporting an increase is equal to the number reporting a decrease. Note: Percentages may not add to 100 due to rounding.

1. Total loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	21.5	29.8	43.1	35.3	21.6
Loan demand	17.6	29.8	39.2	39.2	21.6
Nonperforming loans	0.0	2.1	10.0	80.0	10.0
Loan pricing	-45.1	-42.6	2.0	51.0	47.1

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-8.9	-19.0	0.0	91.1	8.9

2. Commercial and industrial loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	0.0	2.5	21.7	56.5	21.7
Nonperforming loans	2.3	-2.6	9.1	84.1	6.8

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-4.3	-9.8	2.2	91.3	6.5

3. Commercial real estate loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	25.5	32.5	40.4	44.7	14.9
Nonperforming loans	-13.4	-10.5	2.2	82.2	15.6

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-8.7	-12.5	2.2	87.0	10.9

4. Residential real estate loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	31.9	32.5	40.4	51.1	8.5
Nonperforming loans	-4.3	-7.9	0.0	95.7	4.3

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-2.1	-2.6	0.0	97.9	2.1

5. Consumer loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	-4.2	-6.6	10.4	75.0	14.6
Nonperforming loans	0.0	0.0	6.4	87.2	6.4

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-4.3	-4.4	0.0	95.7	4.3

6. Other banking developments: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Volume of core deposits	35.3	27.7	47.1	41.2	11.8
Cost of funds	-23.6	2.1	17.6	41.2	41.2
Net interest margin	-27.5	-40.4	13.7	45.1	41.2
Noninterest income	-6.0	8.5	4.0	86.0	10.0

7. Banking outlook: What is your expectation for the following items six months from now?

Indicator	Current index	Previous index	Percent reporting better	Percent reporting no change	Percent reporting worse
Total loan demand	0.0	13.0	27.5	45.1	27.5

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	5.9	8.7	19.6	66.7	13.7

8. General business activity: What is your evaluation of the level of activity?

Indicator	Current index	Previous index	Percent reporting improved	Percent reporting no change	Percent reporting worsened
Over the past six weeks	13.8	17.0	27.5	58.8	13.7
Six months from now	-9.8	0.0	23.5	43.1	33.3

9. Issues of concern: Please feel free to comment on any issue that may be affecting your business.

These comments are from respondents and have been edited for publication.

Banking Concerns

- We have concern with maintaining the same level of core deposits as rates decline.
- Continued decreases in the Fed funds rate are creating margin pressure and reducing flexibility for loan and deposit pricing.
- With a continued reduction in the Fed funds target rate, along with lower overall market rates, mortgage refinances will continue—but that will be a short-term spike with minimal new activity. Auto loan rates have already been lowered, and loan volume has slightly improved, but we're not sure this will be sustained as we end the year.
- We are concerned about the possibility of a recession scare

Regulatory Concerns

- For small community banks, the amount of resources needed to gather all of the information for audits—combined with regular examinations—makes it difficult to perform regular job duties. It is good to see some relief in the form of reducing the burden of reporting on a number of the line items and schedules from the call reports for small community banks.
- We are concerned about the burden of unnecessary regulations and red tape.