Preparing The President
Analyzing the Banking System

Economic Summit 2016
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The opinions expressed in this presentation do not necessarily reflect the positions of the Federal Reserve Bank of Dallas or the Federal Reserve System.
Overview

- Modern banking in context
  - Consolidation
  - Concentration
  - Complexity

- Condition and performance
  - Key aggregate indicators

- Particular concerns
  - Commercial real estate
  - Energy lending
Modern Banking in Context
Consolidation

Banks and Branches in Texas

Concentration

Banks by Asset Size

March 31, 2016

Percent of Total

Nationwide | 11th District

Financial reporting items:

1960: 241
2014: 1,955

Banking Laws:

Glass-Steagall (1933): 37 pages
Dodd-Frank (2010): 800+ pages
A Simplified Regulatory Map

Caught in the web
Who can do what to whom

Financial agencies:
- Old
- New
- Old with new powers
- Affected parties
- Can request information
- Has authority to examine

OFAC/FinCEN
Financial Stability Oversight Council
State Regulatory Authorities and AG’s

SEC
CFTC
Office of the Comptroller of the Currency
Federal Reserve
Office of Financial Research
FDIC

FINRA

Investment advisory
Derivatives
Consumer lending
Commercial lending
Broker-dealer
Retail banking
Alternative investments
Investment banking
Payment and clearing systems

Source: JPMorgan Chase

Source: The Economist; February 18, 2012
Condition and Performance
A safety and soundness rubric:

**CAMELS**

- Capital adequacy
- Asset quality
- Management
- Earnings
- Liquidity
- Sensitivity to market risk
Condition and Performance: Earnings

Profitability Trending Down

Return on Assets, Percent


*2016 data are as of March 31st, annualized.
District Profitability Driven by Higher Net Interest Income

March 31, 2016

- Net Interest Income: 3.38% (11th District), 2.80% (U.S.)
- Noninterest Income: 1.53% (11th District), 1.51% (U.S.)
- Provision Expense: -0.47% (11th District), -0.31% (U.S.)
- Noninterest Expense: -3.16% (11th District), -2.62% (U.S.)
- Taxes: -0.30% (11th District), -0.43% (U.S.)
- Net Income (Return on Assets): 1.01% (11th District), 0.98% (U.S.)

**Condition and Performance: Earnings**

**Provision Expense Trend**

**Percent of Average Assets**


*2016 data are as of March 31st, annualized.

SOURCE: Federal Financial Institutions Examination Council *Quarterly Report of Condition and Income*
Condition and Performance: Assets

Assets by Type

March 31, 2016

Percent of Total

100%

80%

60%

40%

20%

0%

11th District

Nationwide

Condition and Performance: Assets

Loans by Type

March 31, 2016

Loans by Type

March 31, 2016

Percent of Total

11th District

Nationwide

Residential real estate
Commercial real estate
Consumer
Commercial & industrial

Condition and Performance: Assets

Loan Growth Continues

Year-over-Year Growth, Percent


*2016 data are as of March 31st, annualized.

CRE Loan Growth Especially Strong

Percent Change

Condition and Performance: Assets

Nonperforming Loans

Percent of Loans


U.S. 1.55

[SERIES NAME] 1.12

*2016 data are as of March 31st.

Noncurrent Loans by Loan Type
(Percent of Total Loans)

11th District

U.S.

*2016 data are as of March 31st.

Particular Concerns
Particular Concerns: CRE

Commercial Real Estate Loan Quality

CRE Loans (% Noncurrent)

*2016 data are as of March 31st.

Particular Concerns: CRE

Commercial Real Estate Loan Concentration

Percent of Banks Exceeding CRE Guidance Thresholds

Regulatory Guidance Issued Dec. 2006


*2016 data are as of March 31st.
Particular Concerns: Energy Lending

Texas Bank Troubles Lag Oil Price Declines

- Oil Price per Barrel (WTI Spot Price, 2016 $)
- Texas Bank & Thrift Failures

*2016 data are as of March 31st.

SOURCE: Haver Analytics, FDIC Historical Statistics on Banking
From June 1980 to September 1986, oil prices declined 74%. From September 1986 to year-end 1990, a total of 706 Texas banks and thrifts failed.

*2016 data are as of March 31st.*

SOURCE: Haver Analytics, FDIC Historical Statistics on Banking
From June 2008 to March 2009, oil prices declined 65%. In 2008 and 2009, there were only seven Texas failures.

*2016 data are as of March 31st.

SOURCE: Haver Analytics, FDIC Historical Statistics on Banking
From September 2013 to March 2016, oil prices declined 70%. Since September 2013, only one Texas bank has failed.

*2016 data are as of March 31st.

SOURCE: Haver Analytics, FDIC Historical Statistics on Banking
Conclusion

- Modern banking in context
  - The structural realities

- Condition and performance
  - Safety and soundness, with a focus on
    - Earnings
    - Loan concentration and performance

- Particular concerns
  - Commercial real estate
  - Energy lending
Questions?