Texas Bank Report

Texas Department of Banking, Charles G. Cooper, Commissioner November 2017

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Commissioner's Comments

"...I can report that state-chartered institutions fared and responded well in light of the situation. To be expected after a major disaster, time is needed for local communities to recover. Economic challenges are expected..."

Over two months have passed since the Texas Coastal Bend Region and the Greater Houston areas were devastated by Hurricane Harvey. There have been countless human-interest stories and shear acts of heroism in an effort to help those in need.

After touring Houston immediately after Harvey, a few weeks ago my wife and I had an opportunity to visit the Port Aransas/Aransas Pass area to witness the devastation and rebuilding efforts underway. It is one thing to hear verbal reports and see photos on the news and social media, and quite another to see nature's destruction first-hand.

In the days following the hurricane, bankers shared stories about their staff helping those in need. From opening a location to assist customers, to helping the community and volunteering in the recovery.

Business continuity plans generally worked well and enabled institutions to restore operations swiftly. A few institutions had to adjust plans and improvise their responses to successfully address unexpected complications. Overall however, I can report that state-chartered institutions fared and responded well in light of the situation. Personally, I am very proud of how our banks performed during and after the crisis. To be expected after a major disaster, time is needed for local communities to recover. Economic challenges are expected and the Department will work with financial institutions to support and not impede the process.

After Harvey, initial unemployment claims soared. Once employment data is available, the economists suggest that employment will reflect a decline; however, it is likely to rebound in subsequent months and continue to grow. This trend should show the resiliency of the Texas economy. However, the full impact may not be completely known until the fourth quarter. While banks will have exposure due to affected borrowers, the continued recovery efforts are expected to increase loan demand for real estate and auto loans. Growth is also anticipated in the construction and retail sectors as people begin to rebuild and replace damaged items.

The Department has taken a long, hard look at the lessons learned from this disaster and asked several bankers to give us their thoughts on their preparedness and what they learned. In this edition, we believe the comments provide some insights and ideas to further improve your continuity plans.

Interestingly enough, the Department is undergoing its own review of its continuity by the Texas Sunset Commission. The sunset process is the regular assessment of the continuing need for a state agency or program to exist. The process creates an opportunity for stakeholders to provide their feedback or insights into the agency's performance. We welcome all our regulated entities to participate in this important process.

Charles G. Cooper
Banking Commissioner

The Sunset Review of the

Finance Commission of Texas and Texas Department of Banking

The mission and performance of the Texas Department of Banking are under review by the Legislature as required under the Texas Sunset Act. The Act provides that the Sunset Commission, composed of legislators and public members, periodically evaluate a state agency to determine if the agency is still needed and to explore ways to ensure that the agency's funds are well spent. Based on the recommendations of the Sunset Commission, the Texas Legislature ultimately decides whether an agency continues to operate into the future.

The Sunset review involves three steps. First, Sunset Commission staff will evaluate the Texas Department of Banking and issue a report in April 2018 recommending solutions to problems found. A month or so later, the Sunset Commission will meet to hear public testimony on the agency and the recommendations of the Sunset staff. Based on public input and the Sunset staff report, the Sunset Commission will adopt recommendations for the full Legislature to consider when it convenes in January 2019. Please refer to the Sunset Commission website or call the office for updated information on specific dates for these meetings.

Through the Sunset review, every Texan has the opportunity to suggest ways in which the mission and operations of the Texas Department of Banking can be strengthened. If you would like to share your ideas about the commission, please send an email to the address below, use the comment form on the Sunset Commission website, or contact Carissa Nash of the Sunset staff. Suggestions are preferred by **December 15, 2017**, so they can be fully considered by Sunset staff.

Sunset Advisory Commission
P.O. Box 13066
Austin, Texas 78711
512/463-1300
Fax: 512/463-0705
Email: sunset@sunset.texas.gov

Information about the Sunset process, Sunset Commission meetings, and how to receive Sunset Commission email updates is available at: www.sunset.texas.gov

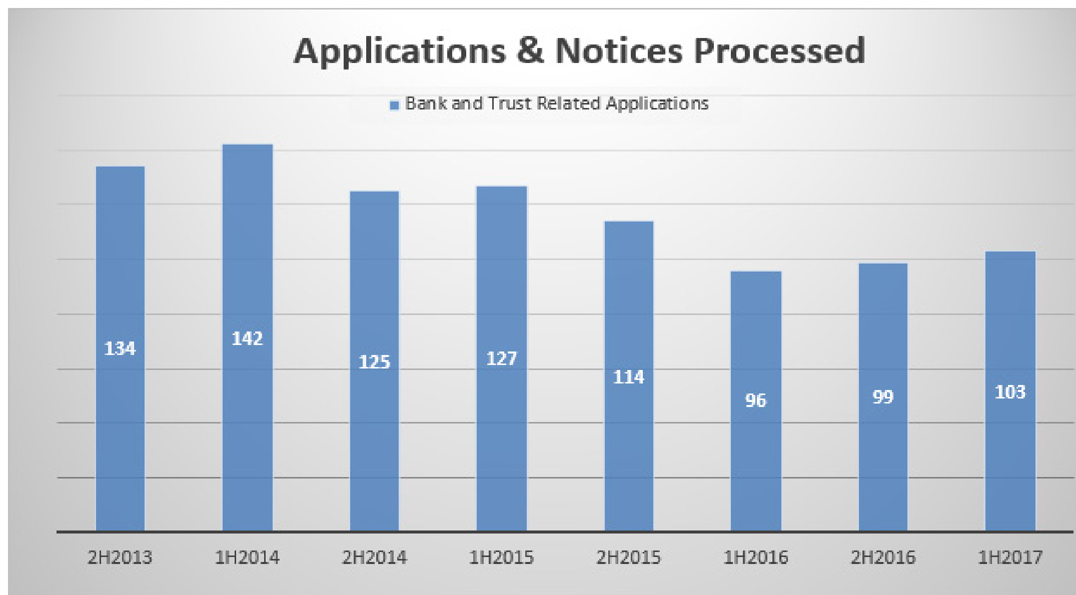
Corporate Corner

By Dan Frasier

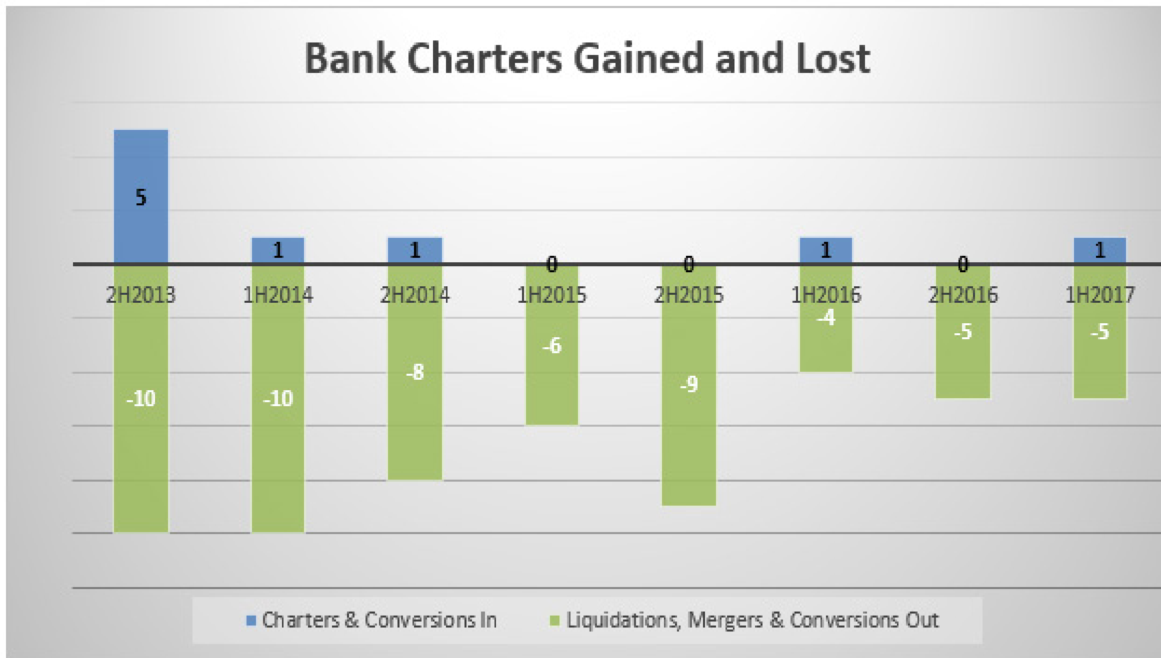
The Corporate Division is responsible for processing applications and notices for the various entities regulated by the Texas Department of Banking. The division prepares reports for the Department's governing body, the Finance Commission of Texas. A sample of the information prepared for those reports is provided below. As depicted in the charts, the Department continues to see consolidation in the Texas state banking system, which mirrors what is happening with the banking system throughout the country. What is not readily apparent in the charts is the complexity of banks' operations as their asset size increases.

The complexity of banks affects the application process by requiring additional time, effort, and resources to effectively review and evaluate applications. Examples of applications with more complex considerations include:

- Multiple lines of business, such as trust, insurance, mortgage, and securities operations;
- Source of capital from mutual funds, leveraged financing, and complex family limited partnerships and trusts;
- Substantive non-core funding or transactions involving subordinated debt; and
- Banks with multiple affiliate relationships.



The volume of bank and trust related applications and notices processed in the first half of 2017 remained low. Banking activity has recovered marginally from the lows noted in the first half of 2016 when oil prices were under pressure. Increases in the federal funds rate since the end of 2015 is also providing lift to banking activity. The improving interest rate environment is boosting bank profitability which in turn is increasing stock price to book value multiples on acquisitions announced.



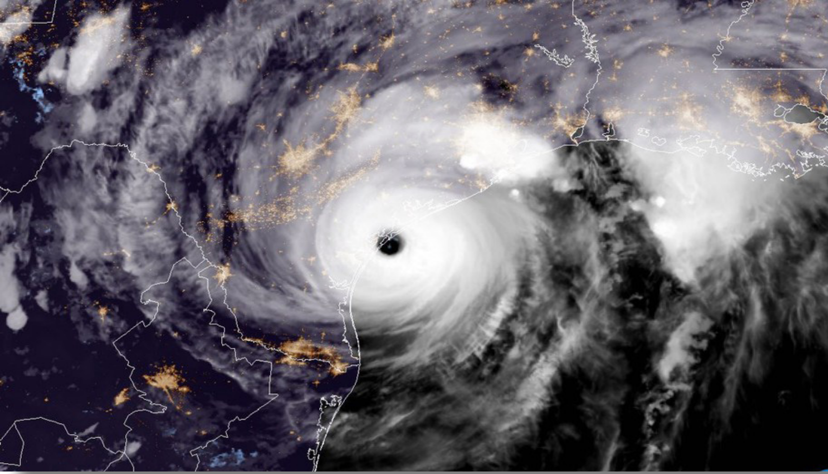
The declining trend in the number of Texas state-chartered banks continued in the first half of 2017. This decline was slightly offset by a national bank that converted to a state bank. This conversion in the first half of 2017 resulted in the First Community Bank, San Benito.

*Offices of Commercial and Savings Banks in Texas				
Date	# of Commercial Banks	Number of Offices	Year over Year Change in Branches	$ of Deposits in Billions
June 30, 2010	679	6,965	-	$499
June 30, 2011	663	6,875	-1.29%	$544
June 30, 2012	648	6,856	-0.28%	$599
June 30, 2013	612	6,853	-0.04%	$652
June 30, 2014	579	6,808	-0.66%	$719
June 30, 2015	556	6,730	-1.15%	$730
June 30, 2016	540	6,681	-0.71%	$769
June 30, 2017	530	6,508	-2.59%	$818

**Source – FDIC Deposit Market Share Report for all FDIC insured institutions.*

The chart above reflects the number of home office locations and branch "offices" of all commercial and savings banks operating in Texas. The number of branches in Texas peaked in 2010 and has been on a relatively slow decline ever since. Several large banks have announced major branch closures over the last few years while community banks have added branches to their networks. The effect of the large bank branch closures has been largely muted as a result.

If you have any questions about a filing or corporate application, contact the Corporate Division via email or phone at 512-475-1322.



Hurricane Harvey

By Jared Whitson

Hurricane Harvey will go down in the books as one of the largest, most severe hurricanes in the history of Texas. According to the Weather Channel, when Hurricane Harvey made landfall on August 25, 2017, it was the first Category 4 hurricane to hit the United States since Hurricane Charley hit southwest Florida in August 2004. Hurricane Harvey initially made landfall near Rockport, Texas, threatening millions of Texans with 130-mph plus winds, heavy rains, and a massive storm surge that drenched coastal areas. It then stalled around southern Texas for days as a weakening hurricane produced catastrophic flash flooding throughout most of southeast and central Texas. According to the National Weather Service, Cedar Bayou, Texas, located just southeast of Houston, recorded over 51 inches of rain, setting the record for the most rainfall ever from a single storm in the continental United States. In the aftermath, Governor Greg Abbott declared 54 Texas counties a disaster area, impacting 2,422 national and state-chartered branch locations. Loss estimates for these counties are in the multi-billions, and recovery efforts will take years to complete. At the peak, 260 state-chartered branches were temporarily closed due to the storm's massive destruction. In many cases, roadways were completely unpassable due to severe flood waters, which limited employee access to banking locations. However, through the strength and courage of many Texans, banks implemented their disaster recovery and business continuity plans, and their locations were quickly back up and functioning to serve their respected communities. Within several weeks, all state-chartered branches opened in some capacity, except for three that remain closed. This is truly remarkable considering the magnitude of the devastation caused by Hurricane Harvey.

Lessons Learned

Financial institutions responded admirably to the unique challenges caused by Hurricane Harvey. Disaster recovery and business continuity plans were activated and generally provided sound direction in restoring services in quick order. The lessons taken from previous storms such as Hurricanes Katrina, Ike and Rita proved to be invaluable, as many organizations utilized those experiences through advanced planning and preparation to guide them through this catastrophic event. Due to advancements in technology, the impact to some customers was less severe than with prior events as technology provided alternative means to conduct business. In areas that had continuous power, the large-scale adoption of mobile banking and remote deposit technologies allowed most customers access to their accounts, which bridged the gap until brick and mortar banking locations were fully functional and accessible. Below are a few takeaways provided by financial institutions regarding their disaster recovery plans and lessons learned from the effects of Hurricane Harvey.

- Focus on effective communication with customers and employees. Institutions reported difficulties communicating with their employees and customers in an efficient and timely manner to ensure they were safe and properly informed. As a result, several banks have since engaged third party companies that specialize in mass notification systems to help with delivering and receiving important messages to both staff and customers.

- Utilize social media (Facebook, Twitter, Snapchat, etc.) before, during, and after any catastrophic event. Social media was key in delivering cost-effective, timely updates and solutions to affected communities.

- Discuss with key third-party vendors their disaster recovery process and determine how a disruption in their operations would impact the execution of the institution's disaster recovery procedure. For example, there were instances of armored car services being understaffed and could not meet the demands of the institutions in affected areas.

- Some institutions deployed teams to Dallas, Texas prior to Hurricane Harvey's arrival, to operate the bank's information technology systems in the event of lost power or communications in the affected areas.

- Multiple facilities sustained considerable damage; however, bankers acted swiftly to obtain temporary mobile facilities to serve their communities.

- In areas that had no power for an extended period, the use of satellite service communications was vital in providing internet access to the bank's core operating systems.

- Ensure that payment systems business resumption plans consider the possibility that employees will be unable to access bank locations due to flooding.

- Accessing surveillance cameras of facilities offsite proved to be a useful tool in determining what, if any, damage had occurred during and after the storm. However, in some

instances, the positioning of the cameras did not capture a view of the street to determine if the roadways leading into the parking lot were flooded. In hindsight, a properly positioned camera would have provided useful information in determining if employees could access the banking facility.

- Ensure that ample cash is on hand and that automated teller machines are fully stocked prior to the arrival of a catastrophic hurricane.
- Establish a rapport with local law enforcement agencies so that in the event of a natural disaster or emergency, these first responders already know who they are communicating with.
- Develop an internal database application that has predetermined questions focused on the needs of employees impacted by an event. Creating a centralized process will make it easier to track and prioritize which employees need financial and/or other assistance.
- Ensure that policies and procedures for endorsing insurance checks are up to date and meet the institution's needs.
- Report any operational difficulties to the Department.

As institutions resume normal operations, it is vital for executive management to review existing disaster recovery and business continuity plans, solicit input from staff, and make necessary modifications for future events. The plans should be enterprise-wide and address all critical needs, functions and processes, and personnel. Factors to consider, include, but are not limited to: establishment of effective communications; operating with limited staff; restoration of infrastructure or core systems; loss of customer data; treatment of destroyed documents, files, and collateral; and handling contaminated or destroyed safe deposit boxes and contents.

Bankers should also consider threats like a cyber security event, terrorist attack, fire, tornado, pandemic event, etc. and prepare accordingly.

Recovery

The Department and federal regulatory agencies are encouraging financial institutions to work with borrowers in communities affected by Hurricane Harvey. Commercial borrowers are expected to face challenges as their normal business operations are interrupted, and unless they had business interruption insurance, it is anticipated that revenue losses may hinder their ability to service debt without some assistance. As such, many banks are forbearing payments and/or modifying loan terms to provide storm victims relief until they can reassess their financial condition.

Financial institutions with customers located in the disaster areas should consider performing risk assessments on a more frequent basis to identify loans and investments that are significantly affected and may show a higher potential for loss. The assessment should include a mechanism for monitoring collateral and the collectability and timing of insurance. This may necessitate an increase in the frequency of loan reviews and additional provisions for potential loan losses. In addition, management should consider developing a disaster credit policy that provides guidance on how to appropriately monitor customers in affected areas.

Bank management should also monitor municipal securities which might be negatively affected by the economic conditions in the coastal bend and greater Houston areas. Prudent efforts to monitor these investments should be taken as part of a bank's ongoing risk assessment process.

Real estate values in the affected areas will experience significant fluctuations in value, affecting existing and new real estate loans. As recovery efforts begin, it is anticipated that loan demand will increase as consumers and businesses will need funds to rebuild. Policies and practices regarding estimating values on collateral in the real estate market should be prudent and reasonable for the current situation. Sufficient documentation should be retained in each loan file to support valuations and credit decisions.

On October 17, 2017, the federal financial regulatory agencies took action and issued a press release announcing temporary exceptions to the appraisal requirements for areas affected by Hurricanes Harvey, Irma, and Maria to aid in the recovery process. Similar regulatory relief occurred in 2005 after Hurricanes Katrina and Rita.

The Department has been in contact with affected institutions and will monitor conditions as recovery efforts continue. We are prepared to provide guidance as necessary to help address the needs of regulated entities and their customers during this process.

Acknowledgements

This article was composed using a variety of sources, including the FDIC, CFPB, the Office of the Governor, and community bankers. Other sources include the Weather Channel and Deloitte.

Conference of State Bank Supervisors Sues the Office of the Comptroller of the Currency

On April 26, 2017, the Conference of State Bank Supervisors (CSBS), acting on behalf of state regulators, filed a complaint in the United States District Court for the District of Columbia against the Office of the Comptroller of the Currency (OCC). The complaint seeks to prevent the OCC from moving forward with an unlawful attempt to create a new special purpose charter for nonbank, fintech companies that do not take deposits. The OCC does not have the authority to create a special purpose charter for nonbanks without specific congressional approval.

The OCC has moved to dismiss the CSBS lawsuit on the grounds that the OCC has not yet done anything that it can be sued over, therefore the court should dismiss the CSBS case as premature without even reaching the merits of the CSBS' argument. The OCC does not rely solely on procedural arguments: however, it argues that even if the court were to reach the merits of the case, the OCC is within its authority to issue a charter. Briefing concluded in early October, but the court has yet to rule on the motion to dismiss.

State regulators have the following concerns about a new OCC charter:

- First, state regulators are concerned that the OCC's subjective criteria for awarding charters, and its intent to not include the normal regulatory safeguards placed on national banks – such as deposit insurance – would result in the OCC choosing winners and losers within the fintech industry as well as the broader banking industry, a sharp departure from the role of a financial regulator.

- Second, the OCC is expanding its mandate without statutory authority. The National Bank Act does not give the OCC authority to issue full-service bank charters to institutions that do not engage in deposit taking. To get around this, the OCC is relying on its own regulations, not the National Bank Act, to create a non-depository special purpose charter for fintech firms. However, there is no historical precedent for such a charter in the national banking system. In fact, Congress for more than a century and a half has purposely limited the OCC's chartering authority.

- Third, despite assurances to the contrary, state regulators believe consumers will be at risk. The OCC has a history of preempting state consumer protection laws in ways that damage consumers. During the early 2000s, many states adopted laws and brought enforcement actions to stop predatory lending. The OCC's response was to preempt the application of state anti-predatory lending laws to national banks and their operating subsidiaries, thereby permitting unsafe and abusive lending practices to flourish in the lead up to the U.S. financial crisis. It later required congressional action to reset the balance between state and federal regulation in consumer protection. State regulators believe that, when it comes to preemption, the past is prologue.

As reported by the American Banker, Acting Comptroller of the Currency Keith Noreika spoke on September 28th at a fintech conference organized by the Federal Reserve Bank of Philadelphia and escalated the concerns of state regulators by noting that the agency's fintech charter, if implemented, could be granted to commercial firms like Walmart. His comments appear to indicate a pivot from the fintech charter originally envisioned by Thomas Curry, the former OCC head who spearheaded the project, into much more dangerous territory. Under the fintech charter, a financial institution "wouldn't be a bank for purposes of the Bank Holding Company Act," he said. "It wouldn't be subject to those affiliation restrictions and also it wouldn't necessarily have to wait in the long queue to get insurance" from the FDIC.

DEX 2.0

The Department hosted two webinars in September 2017 to officially launch the newly upgraded Document Exchange Program (DEX 2.0). portal. The webinars provided users with helpful tips for navigating through the portal and showcased the new features, including the ability to drag and drop multiple files for easier uploading, downloading multiple folders, and receiving email notifications when files are added to folders.

The restructured DEX 2.0 program is designed to improve security, organization, and communication. Entities and their representatives will continue to access this portal through the DOB's external website. Data sharing between banks and regulators has been improved.

Entities and their representatives have various levels of secure access, as determined by the entities Authorized Contact and Email System or ACES administrator. DEX 2.0 is crucial as we improve effective communication channels with our federal counterparts. This portal gives us a secure space to share information, without compromising usability. The Department is confident that this upgrade will make a significant impact on banks and regulators.

Effective January 1, 2018, the older version of DEX will no longer be available. We encourage all entities to begin using DEX 2.0 for all their examination needs. A helpful user manual is available on the Department's entity login page for new users.

Trust and Third-Party Administrators of Individual Retirement Accounts

By Ryan McCarthy

Prior to Senate Bill 1401 passing the 85th Regular Session of the Texas Legislature and becoming effective September 1, 2017, Texas chartered banks and trust companies in the business of acting as custodian of individual retirement accounts (IRAs) had to compete with unauthorized third-party administrators (TPAs) of IRAs circumventing federal law. Senate Bill 1401 eliminated the competitive disadvantage faced by Texas chartered institutions by clarifying that the business of certain TPAs constitutes "trust business" under the Texas Finance Code. This clarification allows the Texas Department of Banking to eliminate unauthorized trust activity.

Internal Revenue Code §408 allows a bank, credit union, corporation subject to the supervision of a state banking agency, or person authorized by the Internal Revenue Service (IRS) to act as a custodian of IRAs. It is a common business practice for a custodian of IRAs to delegate certain account administrative functions to a TPA. While custodians normally delegate only limited functions to a TPA, it is the practice of some custodians to delegate to a TPA nearly every responsibility arising out of their role as custodian. For example, some TPAs are given authority by a custodian to take custody and title to assets, solicit business from the public, and perform all account administrative functions. Such an arrangement leaves the custodian with no involvement in their purported business of acting as custodian, except being custodian in name and collecting a fee from the TPA.

By merely paying a fee for the right to name an out-of-state bank or trust company as custodian, a TPA conducts the business of an IRA custodian in violation of the Internal Revenue Code and without regulatory supervision. This provided TPAs in Texas a competitive advantage over Texas chartered institutions operating in accordance with federal law and left consumer retirement funds in the possession of an entity without any oversight. Senate Bill 1401 addressed this problem by clarifying that TPAs acting as IRA custodians in substance are conducting unauthorized trust business.

Senate Bill 1401 amended Texas Finance Code §181.002(a)(49) to define "trust business" as including:

(A) the business of a trustee or custodian of an individual retirement account described by Section 408(a), Internal Revenue Code of 1986; and

(B) the business of an administrator or servicer of individual retirement accounts described by Section 408(a), Internal Revenue Code of 1986, who possesses or controls any assets, including cash, of those accounts and who makes the administrator's or servicer's services available to the public for hire or compensation.

Generally, a person must obtain a bank or trust company charter to conduct trust business in Texas, subject to applicable exemptions. In this context, Senate Bill 1401 also amended Texas Finance Code §182.021(20) to exempt persons authorized by the IRS to act as a custodian or trustee of IRAs who may not otherwise be authorized to conduct trust business in Texas.

In August, the Department sent a letter to all state bank regulators notifying them of the change in Texas law regarding TPAs of IRAs. Additionally, the Department has given TPAs the opportunity to come into compliance with the changes in the law and will continue to prevent unauthorized trust business activity in Texas.

If you have any questions about these changes, please contact Ryan McCarthy, Assistant General Counsel, via email or by phone at 512-475-1319.

85th Regular Session of the Texas Legislature: New Legislation Affecting Banks

By Catherine Reyer

The 85th Regular Session of the Texas Legislature convened on January 10, 2017 and adjourned *sine die* on May 29, 2017. During the Session, more than 6,600 bills were filed, and a little over 1,000 passed (51 were vetoed by the governor). Each session the Department monitors the legislative activity and bills that pass which affect Texas banks and trusts.

Below is a summary of some of those bills that passed and were signed by the governor and became effective on September 1, 2017:

Senate Bill 1401 (by Campbell) – Bank and trust company enforcement

- Modernizes language regarding examination and regulatory authority over third party service providers for banks and trust companies.
- Prohibits felons from serving as an officer of a state bank, trust company, or bank holding company, or as an employee of a bank holding company, unless specifically allowed by the commissioner.
- Allows the commissioner to terminate an order of supervision at any time.
- Clarifies the requirement for a trust charter if activities of the entity include acting as trustees or custodians as defined and approved by the Internal Revenue Service.

Senate Bill 1400 (by Campbell) – Bank cleanup bill

- Delays required publication of notice regarding a change of control until the application is complete. Upon completion of an application, the commissioner must promptly notify the applicant of the date the application is accepted for filing.
- Establishes procedures for the termination of safe deposit box rentals.
- Clarifies that acquisition of a Texas bank holding company in which the only subsidiary is a state savings banks does not require approval from the Texas Banking Commissioner.
- Aligns requirements regarding the minimum amount of foreign bank deposits with federal statute.
- Streamlines the list of permissible activities of a Texas representative office of a foreign bank and mirrors current Federal Reserve rule.

House Bill 471 (by Johnson) – Savings promotion raffles

- Adds Texas Finance Code Chapter 280 to allow financial institutions to hold savings promotion raffles, where individuals could enter the raffle by making deposits into a savings account.
- Raffles must be conducted in a manner that does not jeopardize the ability of an institution to operate in a safe and sound manner and does not mislead depositors.

- Will become effective as the constitutional amendment was approved by voters on November 7, 2017 ballot as Proposition 7.

House Bill 3921 (by Parker) – Financial abuse of vulnerable persons

- Adds Texas Finance Code Chapter 280 (note duplicate chapter number added by House Bill 471, above) addressing financial exploitation of vulnerable adults.
- Requires institution employees to file an internal report if an employee suspects financial exploitation of a vulnerable adult.
- Institution is required to investigate each report and must submit report to Texas Department of Family and Protective Services.
- Institutions must adopt internal policies and procedures for complying with these new reporting requirements, and for placing any holds on suspicious transactions (see below).
- Institutions may take additional action, such as notifying a "reasonably associated" third party of the suspected abuse, and/or placing a 10-day hold on a transaction that is suspected to be potentially abusive.

House Bill 1974 (by Wray) – Durable powers of attorney (DPOAs)

- Provides for reasonable acceptance of DPOAs in a timely fashion so that guardianship can be avoided.
- Eliminates risk to persons who accept DPOAs (such as banks) by allowing them to rely on an agent's certification that the DPOA is valid for the purpose it is being presented or an opinion of the agent's counsel who is hired at the principal's expense.
- Gives the person who is asked to accept the DPOA numerous valid reasons to reject, some of which cannot be challenged by the principal or agent.
- Provides a mechanism to have a court decide any disputes.

Senate Bill 714 (by Seliger) – Account disclosures

- Clarifies, simplifies, and expedites account opening process.
- Removes requirement for customer to initial on right-hand side.
- Streamlines disclosure requirements.

In addition to the House and Senate bills noted above, one Senate Joint Resolution will have meaningful impact on banks.

Senate Joint Resolution (SJR) 60 – Home Equity Lending

- Increases fee cap from 2% to 3% and exempts certain third-party fees from the cap.
- Permits refinancing a seasoned home equity loan into a traditional mortgage under certain conditions.
- Permits homeowner to obtain advances on a home equity line of credit (HELOC) until debt secured by the home reaches 80% of fair market value cap, up from 50%.
- Makes all homestead property eligible for home equity loans, including agricultural use property.
- Will become effective as the constitutional amendment was approved by voters on November 7, 2017 ballot as Proposition 2.

Financial Highlights

TABLE I
Quarterly Balance Sheet and Operating Performance Ratios
for Texas State-Chartered Commercial Banks 6/30/17 Through 6/30/16

ACCOUNT DESCRIPTIONS (IN MILLIONS OF $)	6/30/17	3/31/17	12/31/16	9/30/16	6/30/16
Number of State-Chartered Banks	240	244	244	245	249
Total Assets of State-Chartered Banks	253,873	255,762	254,560	254,637	248,535
Number of Out-of-State, State-Chartered Banks Operating in Texas	31	31	31	31	28
Total Texas Assets of Out-of-State, State-Chartered Banks Operating in Texas	62,492	62,492	62,492	62,492	57,340
Subtotal	316,365	318,254	317,052	317,129	305,875
Less: Out-of-State Branch Assets/Deposits	50,569	-50,569	-50,569	-50,569	-52,259
**Total State Banks Operating in Texas	366,934	267,685	266,483	266,560	253,616
BALANCE SHEET (Tx. State-Chartered Banks)					
Interest-Bearing Balances	14,121	20,158	17,301	18,262	13,003
Federal Funds Sold	665	698	561	575	685
Trading Accounts	198	178	293	435	516
Securities Held-To-Maturity	16,629	17,138	17,717	16,975	17,486
Securities Available-for-Sale	46,351	46,541	45,640	46,048	45,807
Total Securities	62,980	63,679	63,357	63,023	63,293
Total Loans	156,205	151,801	152,969	152,565	151,589
Total Earning Assets	233,971	236,336	234,188	234,425	228,570
Premises and Fixed Assets	3,636	3,647	3,818	3,894	3,897
Total Assets	253,873	255,762	254,560	254,637	248,535
Demand Deposits	29,279	30,315	29,829	29,873	27,671
MMDAs	115,224	118,126	117,022	115,876	112,762
Other Savings Deposits	22,700	22,419	22,150	21,324	20,646
Total Time Deposits	30,522	30,811	30,880	31,524	31,674
Brokered Deposits	3,473	3,366	3,298	3,394	3,315
Total Deposits	206,106	209,989	208,324	206,912	201,159
Federal Funds Purchased	2,562	2,616	2,909	2,854	3,792
Other Borrowed Funds	11,916	10,597	11,242	10,751	10,637
Total Liabilities	223,755	226,283	225,441	224,888	219,204
Total Equity Capital	30,118	29,478	29,119	29,749	29,331
Loan Valuation Reserves	1,863	1,872	1,891	1,882	1,871
Total Primary Capital	31,981	31,350	31,010	31,631	31,202
Past Due Loans > 90 Days	152	141	158	214	207
Total Nonaccrual Loans	1,128	1,199	1,259	1,246	1,161
Total Other Real Estate	259	281	276	346	360
Total Charge-Offs	197	113	502	382	294
Total Recoveries	62	25	130	101	65
Net Charge-Offs	135	88	372	281	229
INCOME STATEMENT					
Total Interest Income	4,228	2,079	8,090	6,073	4,028
Total Interest Expense	323	157	583	434	283
Net Interest Income	3,905	1,922	7,507	5,639	3,745
Total Noninterest Income	1,610	821	3,311	2,489	1,627
Loan Provisions	155	77	570	452	388
Salary and Employee Benefits	1,852	931	3,780	2,851	1,887
Premises and Fixed Assets Expenses (Net)	391	196	809	607	401
All Other Noninterest Expenses	1,068	551	2,285	1,725	1,141
Total Overhead Expenses	3,311	1,678	6,874	5,183	3,429
Securities Gains (Losses)	3	2	46	45	33
Net Extraordinary Items	0	0	2	2	4
Net Income	1,552	766	2,602	1,925	1,210
Cash Dividends	831	367	1,509	1,143	784
RATIO ANALYSIS					
Loan/Deposit	75.79%	72.29%	73.43%	73.73%	75.36%
Securities/Total Assets	24.81%	24.90%	24.89%	24.75%	25.47%
Total Loans/Total Assets	61.53%	59.35%	60.09%	59.91%	60.99%
Loan Provisions/Total Loans	0.20%	0.20%	0.37%	0.39%	0.51%
LVR/Total Loans	1.19%	1.23%	1.24%	1.23%	1.23%
Net Charge-Offs/Total Loans	0.09%	0.06%	0.24%	0.18%	0.15%
Nonperforming+ORE/Total Assets	0.61%	0.63%	0.67%	0.71%	0.70%
Nonperforming+ORE/Primary Capital	4.81%	5.17%	5.46%	5.71%	5.54%
Net Interest Margin	3.34%	3.25%	3.21%	3.20%	3.28%
Gross Yield	4.60%	4.54%	4.48%	4.47%	4.55%
Return on Assets	1.22%	1.20%	1.02%	1.01%	0.97%
Return on Equity	10.31%	10.39%	8.94%	8.61%	8.25%
Overhead Exp/TA	2.61%	2.62%	2.70%	2.71%	2.76%
Equity/Total Assets	11.86%	11.53%	11.44%	11.68%	11.80%
Primary Capital/Total Assets+LVR	12.51%	12.17%	12.09%	12.33%	12.46%

*Unrealized gains/losses are already included in equity capital figures.
**Total State Banks Operating in Texas includes branches of out-of-state, state-chartered banks.
Data was derived from the FDIC website.

Financial Highlights

TABLE II

Comparative Statement of Condition

Commerical Banks Domiciled in Texas

June 30, 2017 and June 30, 2016

ACCOUNT DESCRIPTIONS (In Millions of $)	6/30/2017 STATE CHARTERED		6/30/2017 NATIONAL CHARTERED		6/30/2017 ALL BANKS		6/30/2016 ALL BANKS	
Number of banks	240	% TA	184	% TA	424	% TA	441	% TA
BALANCE SHEET								
Interest-Bearing Balances	14,121	5.6%	8,239	6.5%	22,360	5.9%	20,461	5.6%
Federal Funds Sold	665	0.3%	8,014	6.3%	8,679	2.3%	3,507	1.0%
Trading Accounts	198	0.1%	32	0.0%	230	0.1%	569	0.2%
Securities Held-To-Maturity	16,629	6.6%	2,576	2.0%	19,205	5.0%	20,360	5.5%
Securities Available-For-Sale	46,351	18.3%	21,349	16.7%	67,700	17.7%	66,727	18.1%
Total Securities	62,980	24.8%	23,957	18.8%	86,937	22.8%	87,160	23.7%
Total Loans	156,205	61.5%	80,386	63.0%	236,591	62.0%	230,169	62.5%
Total Earning Assets	233,971	92.2%	120,596	94.5%	354,567	92.9%	341,297	92.7%
Premises & Equipment	3,636	1.4%	1,619	1.3%	5,255	1.4%	5,448	1.5%
TOTAL ASSETS	253,873	100.0%	127,616	100.0%	381,489	100.0%	368,136	100.0%
Demand Deposits	29,279	11.5%	17,914	14.0%	47,193	12.4%	44,197	12.0%
MMDAs	115,224	45.4%	49,925	39.1%	165,149	43.3%	159,054	43.2%
Other Savings Deposits	22,700	8.9%	15,027	11.8%	37,727	9.9%	34,942	9.5%
Total Time Deposits	30,522	12.0%	17,713	13.9%	48,235	12.6%	49,285	13.4%
Brokered Deposits	3,473	1.4%	3,980	3.1%	7,453	2.0%	7,010	1.9%
Total Deposits	206,106	81.2%	106,731	83.6%	312,837	82.0%	301,796	82.0%
Fed Funds Purchased	2,562	1.0%	1,383	1.1%	3,945	1.0%	4,800	1.3%
Other Borrowed Funds	11,916	4.7%	4,519	3.5%	16,435	4.3%	14,238	3.9%
TOTAL LIABILITIES	223,755	88.1%	113,679	89.1%	337,434	88.5%	325,589	88.4%
Equity Capital	30,118	11.9%	13,937	10.9%	44,055	11.5%	42,547	11.6%
Allowance for Loan/Lease Losses	1,863	0.7%	961	0.8%	2,824	0.7%	2,948	0.8%
Total Primary Capital	31,981	12.6%	14,898	11.7%	46,879	12.3%	45,495	12.4%
Past due >90 Days	152		92		244		402	
Nonaccrual	1,128		625		1,753		2,084	
Total Other Real Estate	259		98		357		468	
Total Charge-Offs	197		91		288		426	
Total Recoveries	62		29		91		101	
INCOME STATEMENT	Y-T-D		Y-T-D		Y-T-D		Y-T-D	
Total Interest Income	4,228	100.0%	2,267	100.0%	6,495	100.0%	6,132	100.0%
Total Interest Expense	323	7.6%	197	8.7%	520	8.0%	433	7.1%
Net Interest Income	3,905	92.4%	2,070	91.3%	5,975	92.0%	5,699	92.9%
Total Noninterest Income	1,610	38.1%	1,098	48.4%	2,708	41.7%	2,356	38.4%
Loan Provisions	155	3.7%	84	3.7%	239	3.7%	467	7.6%
Salary & Employee Benefits	1,852	43.8%	1,013	44.7%	2,865	44.1%	2,830	46.2%
Premises & Fixed Assets (Net)	391	9.2%	216	9.5%	607	9.3%	611	10.0%
All Other Noninterest Expenses	1,068	25.3%	572	25.2%	1,640	25.3%	1,676	27.3%
Total Overhead Expenses	3,311	78.3%	1,801	79.4%	5,112	78.7%	5,117	83.4%
Securities Gains(losses)	3	0.1%	9	0.4%	12	0.2%	52	0.8%
Net Extraordinary Items	0	0.0%	0	0.0%	0	0.0%	4	0.1%
NET INCOME	1,552	36.7%	970	42.8%	2,522	38.8%	1,934	31.5%
Cash Dividends	831		303		1,134		1,131	
Average ROA	1.22%		1.52%		1.32%		1.05%	
Average ROE	10.31%		13.92%		11.45%		9.09%	
Average TA ($ Millions)	1,058		694		900		835	
Average Leverage	11.86%		10.92%		11.55%		11.56%	
Dividends/Net Income	53.54%		31.24%		44.96%		58.48%	

*Unrealized gains/losses are already included in equity capital figures.

Table includes only banks domiciled in Texas. Branches of out-of-state banks are not included.

Data was derived from the FDIC website.