Texas Bank Report

Texas Department of Banking, Charles G. Cooper, Commissioner

January 2019

Commissioner's Comments

"I encourage you to be mindful of the importance of the dual banking system and express your viewpoint when requests for comments are made by federal regulators ..."

December 2018 marked my tenth year as Commissioner. I accepted this position just three months after the financial services firm Lehman Brothers filed for bankruptcy, an event that proved to be the tipping point in the economic crisis that was to come.

Within my first month on the job, the Department closed our first bank since January 2002. In the years that followed, many significant, even historic changes were made to the financial regulatory system at the Congressional level through the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

A decade later, additional changes continue to be implemented; however, recent emphasis has focused on scaling back the regulatory burden that arose from financial reforms enacted in 2010. What direction the pendulum will swing under the 116th U.S. Congress remains to be seen.

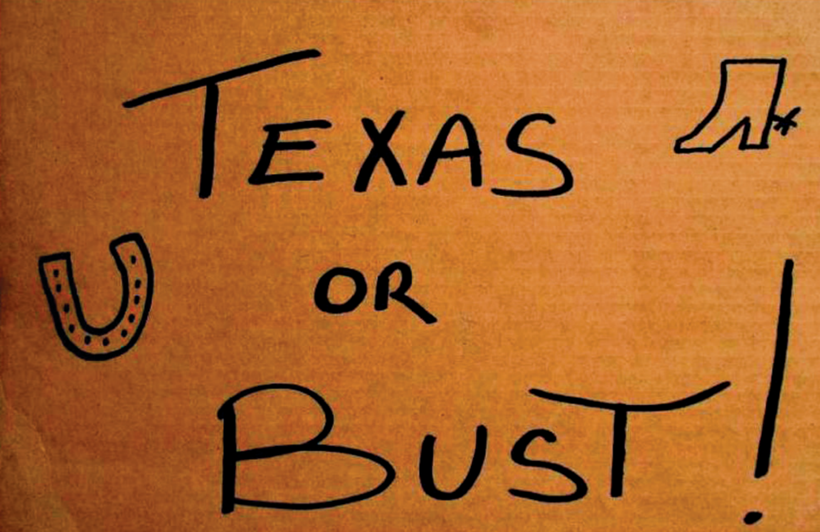
From day one, I have expressed my strong belief that the existence of the dual banking system, unique to our country, has strengthened banking not only in Texas but around the nation. Over the years, many bankers I have spoken with share this belief and have supported efforts to preserve this system.

I encourage you to be mindful of the importance of the dual banking system and express your viewpoint when requests for comments are made by federal regulators regarding rules impacting community banks. Recently passed SB 2155, also known as Economic Growth, Regulatory Relief, and Consumer Protection Act, contemplates a less complicated capital requirement, the Community Bank Leverage Ratio (CBLR), for qualifying institutions with less than $10 billion in assets rather than the current more complicated risk-based capital standards. However, the present regulatory implantation proposal creates other challenges. Please let your voice be heard on this issue.

You have heard me say "people are policy". We have a new slate of leadership in the federal banking regulatory agencies. While Congress passes the laws, as you know, these leaders and their staffs interpret and enforce the statutes. People **are** policy: Let your voice be heard by these new appointees.

Thank you for what you do for your communities. And as always, do not hesitate to contact me to discuss any issue that is on your mind affecting the stability and competitiveness of Texas' financial system. It is a pleasure to visit with each of you and I welcome the opportunity.

Charles G. Cooper
Banking Commissioner



Gone to Texas

by Gordon Anderson

State's Popluation Swells as Migration Trends Continue

It's official: The rest of the country really *is* moving to Texas.

Okay, not *everyone* is moving to the Lone Star State, it just seems that way. And it's probably not going to change anytime soon, so we may just have to get used to it.

Since the 2010 census, Texas' population has expanded 12.6%. The state is now home to 28.3 million people, all of whom seem to be in front of you whenever you're stuck in traffic.

An estimated 766,155 people moved to Texas in 2016 alone, according to the most recent figures available, the second-highest increase in population through migration among the states. Only Florida gained more residents via migration. Of this figure, 532,000 came to Texas from another state, with the balance immigrating from other countries.

To the surprise of absolutely no one, California led the way with more residents moving to Texas than from any other state. It wasn't even close; nearly 70,000 people relocated to Texas from the Golden State, with Florida (31,145 residents) and Oklahoma (30,532 residents) a distant second and third, respectively.

With a net gain in migration of 95,345 in 2016, Texas ranked second in the U.S. in that category, again trailing only Florida. Neither has a state income tax, by the way. Coincidence?

Probably not, but the lack of a personal income tax is only half of the reason why so many of our fellow Americans are dead set on becoming fellow Texans. The state, after all, has appealed to individuals seeking a fresh start for centuries.

But combine a business-friendly climate that attracts and nurtures growing companies with the state's tax-free environment on personal income, and the result is the stream of people currently flowing into Texas. This trend may continue, at least in the short-term, thanks to federal tax reforms passed last year limiting the amount of state and local taxes that can be deducted from one's federal returns.

Many states with the highest marginal tax rates were experiencing population declines even *before* President Trump signed the tax reform bill into law. Connecticut, New York, and New Jersey were recently rated by the Tax Foundation's Center for Federal Tax Policy as having three of the four worst business tax climates in the country (California is the other), which it defines as having "complex, non-neutral taxes with comparatively high rates," and all three appear on the list of states with the highest outbound migration in 2016.

Of the four, only California bucked this trend: Despite a heavy tax burden and a significant amount of outbound migration, the state still managed to experience a net gain in population.

While it's fun to brag about our state's economy, no one should underestimate the important political ramifications of this population growth: Texas could gain two and possibly three additional seats in the U.S. House of Representatives after the 2020 census. That's kind of a big deal.

And because they are based on each state's number of seats in Congress, the number of electors from Texas to the Electoral College will also increase, a scenario that may prove to be equally important one day.

Liquidity and the Loan to Deposit Ratio

by Melissa Dvoracek

Bankers always want to know about the latest "hot topics" in bank regulation. A few areas receiving more regulatory attention than others include cybersecurity, asset concentrations, commercial real estate, and liquidity management. More recently, the liquidity focus has expanded to include the loan-to-deposit ratio (LDR), which also serves as a barometer of whether the bank has sufficient funding to support lending and investment activity.

Loans typically hold the highest risk on the asset side of the balance sheet, and the level of risk is greatly influenced by the loan mix. Adding potential risks together, or risk layering, such as funding loan growth with potentially volatile funding sources or borrowings or mismatching asset and liability maturities can rightfully increase the attention examiners give these issues.

Financial institutions with a high LDR inherently have more balance sheet risk than those with a lower LDR and may not have enough liquidity sources to cover unanticipated funding fluctuations. A higher ratio, however, does not necessarily mean the liquidity position is strained; other factors can cause this ratio to be high and affect the liquidity position, including capital levels, the level and stability of borrowings, and products or programs that the bank offers, such as a mortgage origination program or seasonal agricultural loans.

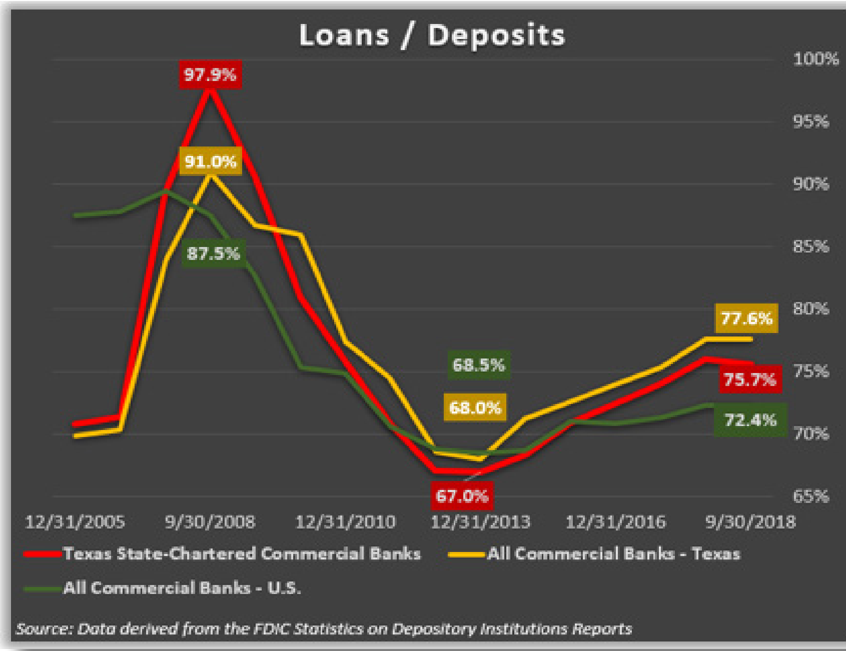
A bank with a mortgage origination program, for example, may have a higher LDR primarily due to the volume of mortgage loans funded by short-term borrowings. But in a stress scenario, where the borrowing become unavailable, the mortgage operation could be halted, allowing mortgage loans in the pipeline to quickly cycle off the balance sheet.

Due to the complexity surrounding a bank's liquidity position, we do not look at LDR as the only gauge for liquidity but rather as a starting point, one of many that plays into the overall picture of the bank's strategy, risk level, and liquidity position.

External factors can also impact the ratio as interest rates fluctuate. Adverse economic events tend to increase the deposit balances in banks, as investors seek safety in FDIC-insured bank deposits. Depositors leave their cash in the bank, as observed in 2011 through 2016 after the Great Recession, causing the LDR to decline.

Conversely, economic recoveries and resulting investment opportunities elsewhere tend to encourage depositors to pull cash out of banks, causing deposit balances to decline and the LDR to increase. Additionally, lending tends to increase during periods of economic expansion. Higher rates also cause increased competition for deposits among banks for those funds that are available.

Let's look at the ratio's trend since the Great Recession:



The LDR peaked in Texas state-chartered banks during 2008 and declined through 2013. Its highest point was September 30, 2008, when the ratio increased to 97.9 for Texas state-chartered banks. The ratio has increased steadily since its lowest point in 2013, as the economy has strengthened, loan demand has increased, and investors slowly pulled out their cash.

As of September 30, 2018, the LDR for all Texas state-chartered banks is slightly higher at 75.7%. When compared to all commercial banks in the nation with an LDR of 72.4%, it might be perceived as representing less risk than Texas state banks.

Another factor to consider when analyzing the LDR is the level of core deposits within the deposit base. When considering only core deposits in the denominator, Texas has more core deposits in its deposit base. The loan-to-core deposit ratio for the nation is 91.0% versus Texas state-chartered banks, which have a ratio of 81.6%.

While the current average LDR ratio for Texas state-chartered banks is 75.7%, a number of banks are operating with LDRs in excess of 90%. Institutions with very high LDR are receiving more attention regarding their funds management practices.

The strong Texas economy and increasing interest rates creates a formula for higher loan demand and slower growth in deposit balances, causing the LDR to inch higher each quarter. Competition for core deposits also means banks may elect to acquire funds through other sources, often brokered deposits or borrowings.

The loan growth rate for Texas state-chartered banks is 37.8% over the last five years, while the deposit growth rate is 21.7%. As a result of this imbalance, banks are utilizing borrowings and brokered deposits, which have seen growth rates of 90.1% and 99.2%, respectively.

While borrowings, brokered and listing service deposits are acceptable sources of funding, they are often more expensive, potentially increasing the risk profile of the institution. Banks using these sources should have well thought out limits and monitor the levels compared to those limits.

If a bank falls below Well Capitalized, per the Prompt Corrective Action framework, either through a decline in capital or through a formal enforcement action, brokered or listing service deposits may potentially no longer be accessed or renewed. If a bank is reliant on these sources, then the bank's liquidity position will be stressed. Terms on borrowings may become more restrictive, the FHLB borrowings could go from blanket lien to custody, and high cost deposits may be limited due to FDIC rate caps.

It is essential for management and the Board of Directors (Board) to actively monitor the bank's liquidity position. Management must remain proactive and be aware of the sources and uses that may be affected by capital levels, asset and liability concentrations, seasonality of loans or deposits related to agricultural customers, expected loan demand, and other products the bank may offer such as a mortgage origination program.

Stress tests are a key factor in a strong liquidity risk management program as well as pro-forma cash flow statements to forecast projected sources and uses of funds under various liquidity scenarios, identifying potential funding shortfalls or gaps. Assumptions in the pro forma should consider a wide range of potential outcomes regarding the stability of both retail and larger deposits, brokered deposits, public funds, borrowings, internet deposits, and the retention rate of funds obtained through deposit specials.

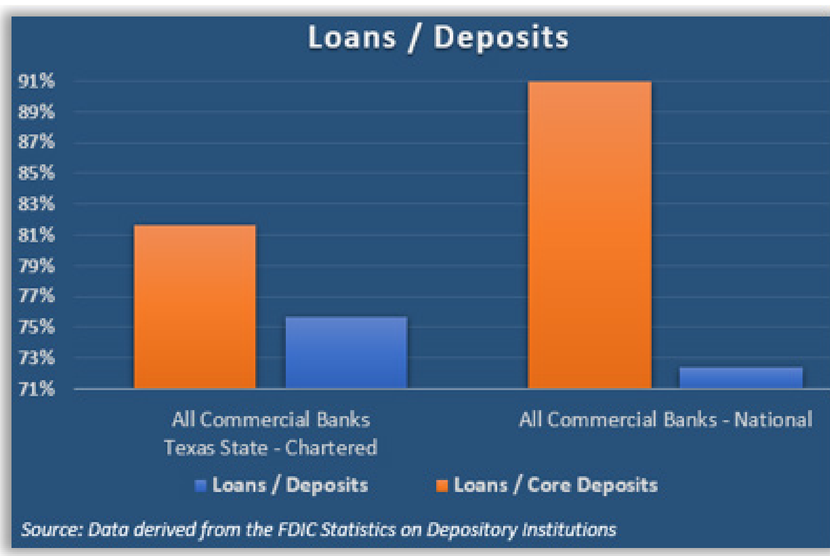
Additionally, a bank should create a Contingency Funding Plan (CFP), customized with potential stress scenarios it might encounter, as well as having plans in place that incorporate practical solutions that can be adopted quickly to address such contingencies should they arise.

For further guidance related to actions management and the Board should take to monitor the liquidity position and to prepare for adverse scenarios, refer to the Interagency Policy Statement on Funding and Liquidity Risk Management and the FDIC's Financial Institutions Letter (FIL) 13-2010 or the Federal Reserve's Bank's Interagency Policy Statement on Funding and Liquidity Risk Management SR 10-6.

Remember, the LDR is not the only ratio that should be relied upon to determine a bank's liquidity position. It is one of several ratios that can alert bankers, directors, and regulators that an additional review of other ratios, balance sheet composition, concentrations of credit, and other factors are necessary to determine if there is any cause for concern.

With the steady increase in the average LDR for all banks in Texas over the past five years, and the increase in competition for core deposits, it is important for management and the Board to remain vigilant in monitoring their liquidity position and to stay proactive to manage future adverse scenarios.

The next downturn is coming. Will your liquidity position be adversely affected, or will you have set in place strong risk management practices that will ensure you have enough liquidity to weather the economic storm?



Treasury Issues Recommendations for Reforming CRA

by Gordon Anderson

In April 2018, the U.S. Department of the Treasury released a series of recommended reforms to the 41-year old Community Reinvestment Act (CRA), which agency officials say could be used as a framework for potential changes.

The CRA, which grades financial institutions on lending and other activities in low- and moderate-income neighborhoods within their market, was intended to encourage depository institutions to help meet the credit needs of the communities in which they operate.

The U.S. banking industry has experienced enormous changes since the CRA became law in 1977; the regulatory and performance expectations under CRA, on the other hand, have not experienced significant modifications in over a quarter of a century.

From a community banker's perspective, CRA has over the years become too complex, too inconsistent, too subjective, and often unpredictable. These concerns were borne out by Treasury's research, which queried nearly 100 stakeholders that included community and consumer advocates, academics, financial institutions, trade associations, and law firms, among other groups.

The agency's recommendations, based on its findings, contain four key points:

1. Updating definitions for how banks are assessed based on geographic areas.
   - Under current law, which only looks at lending in the immediate area of a bank's physical location, the rules do not take into consideration recent changes in banking primarily as a result of evolving technology and customer behavior.
   - The Treasury recommends that assessments now reflect these changes and look beyond the immediate surrounding area of branch locations.
2. Increasing the flexibility and clarity of the CRA examination process, as well as adding greater transparency to how banks' ratings are established.
3. Reducing the amount of time between when a bank's evaluation is completed and when its rating is published, a process many stakeholders consider excessively long.
   - Treasury staff believes that its recommendations would help improve the timeliness of performance evaluations, allowing banks to be more accountable in planning their CRA activities.

4. Implementing more performance incentives for banks to encourage greater community lending.

The big question: What would these alterations to CRA mean for Texas community banks?

Bottom line, *any* changes that bring greater predictability to the process would be welcome by the banking industry. Respondents to the Treasury's research pointed out, for example, that banks frequently invest considerable time and resources into an activity, only to learn at the time of their performance evaluation that it's one not considered eligible for CRA credit.

Terms such as "innovativeness," "complexity," and "responsiveness" are used in CRA regulations to describe CRA-eligible activities, survey respondents note, yet often come with definitions that could be considered ambiguous at best.

Clarifying the eligibility criteria would allow community banks to better determine whether an investment will receive CRA credit when comparing it to other investment opportunities that may offer a better financial return.

As with investment qualifications, respondents reported seeing tremendous ambiguity regarding what community development loans qualify for CRA credits, in addition to the disparate treatment between community development loans and community development investments.

Objective criteria for investments that help construct or expand a local hospital, school, or mixed-income housing, for example – investments benefiting the entire community, and not just low- and moderate-income (LMI) households – would bring greater clarity to these financial transactions, according to the survey. A simple checklist of which activities earn credits would eliminate this uncertainty.

The topic of assessment areas is another criteria community bankers would like to see addressed. The concept of assessment areas originated within the banking environment that existed in 1977, an era when there was no interstate banking, and deposits almost always came from the community immediately surrounding a bank's physical location.

The changing nature of banking, arising from evolving technology and consumer behavior, has worked to outdate this aspect of the CRA.

Advances in financial technology, for example, have reduced the need for branch-based services and lessened community reliance upon traditional "brick and mortar" branches. In fact, the number of bank branches in the U.S. has decreased each year since 2009, according to the Treasury. The average monthly volume for bank teller transactions declined by 34% from 1992 to 2017, while internet transactions continue to grow.

However, the Service Test portion of the CRA continues to place a tremendous emphasis on branch activities, assessing the distribution of the bank's branches, services offered, operating hours, and other metrics.

Clearer guidelines would give community banks increased confidence regarding how alternative delivery systems would be viewed by examiners, according to the survey findings. Bankers note they would then be working within a regulatory framework that not only included areas where their bank has a physical location, but also in LMI communities outside of its physical footprint, in other areas where the bank accepts deposits and does substantial business.

Furthermore, bankers say, assessment areas are too often viewed differently by different examiners and bank staff who draw them up. Community banks want that task left to bankers.

The Treasury's recommendations came with no timeframe for further discussion, let alone implementation, and the other two regulatory agencies – the FDIC and Federal Reserve – have yet to weigh in, so community banks will see no immediate changes to the CRA. But it may only be a matter of time.

The 86th Regular Session of the Texas Legislature is Here!

by Catherine Reyer

The Texas Legislature convened for its 86th Regular Session on January 8, 2019. Per the Texas Constitution, the body meets for 140 days beginning in January of odd-numbered years.

This Session will include a new Speaker of the House, as Representative Joe Straus of San Antonio did not seek re-election in 2018 and retired at the end of his term.

Pre-filing of bills began on November 12. Of greatest interest to the Department of Banking is its Sunset legislation as well as that of the Finance Commission of Texas and fellow finance agencies, the Department of Savings and Mortgage Lending and Office of Consumer Credit Commissioner.

But the 86th Session will be about a whole lot more: More than 6,000 bills are typically filled each session, and this session should be no different. Below are key dates in the legislative process which Department staff will be following:

Dates of Interest

Tuesday, January 8, 2019 (1st day)

86th Legislature convenes. Upon the convening of the 86th Legislature, the Comptroller of Public Accounts delivers the Biennial Revenue Estimate to the governor and the 86th Legislature.

Monday, January 14, 2019

Legislative Budget Board (LBB) budget estimates delivered to the governor and the 86th Legislature.

Tuesday, January 15, 2019

- Inauguration of the governor and lieutenant governor.
- LBB general appropriations bill delivered to the governor and the 86th Legislature.

Before the governor's State of the State address to the 86th Legislature

The governor delivers the governor's budget to the 86th Legislature.

Friday, March 8, 2019 (60th day)

Deadline for the unrestricted filing of bills and joint resolutions other than local bills, emergency appropriations, and emergency matters submitted by the governor.

Monday, May 27, 2019 (140th day)

Last day of 86th Legislature (sine die).

Sunday, June 16, 2019

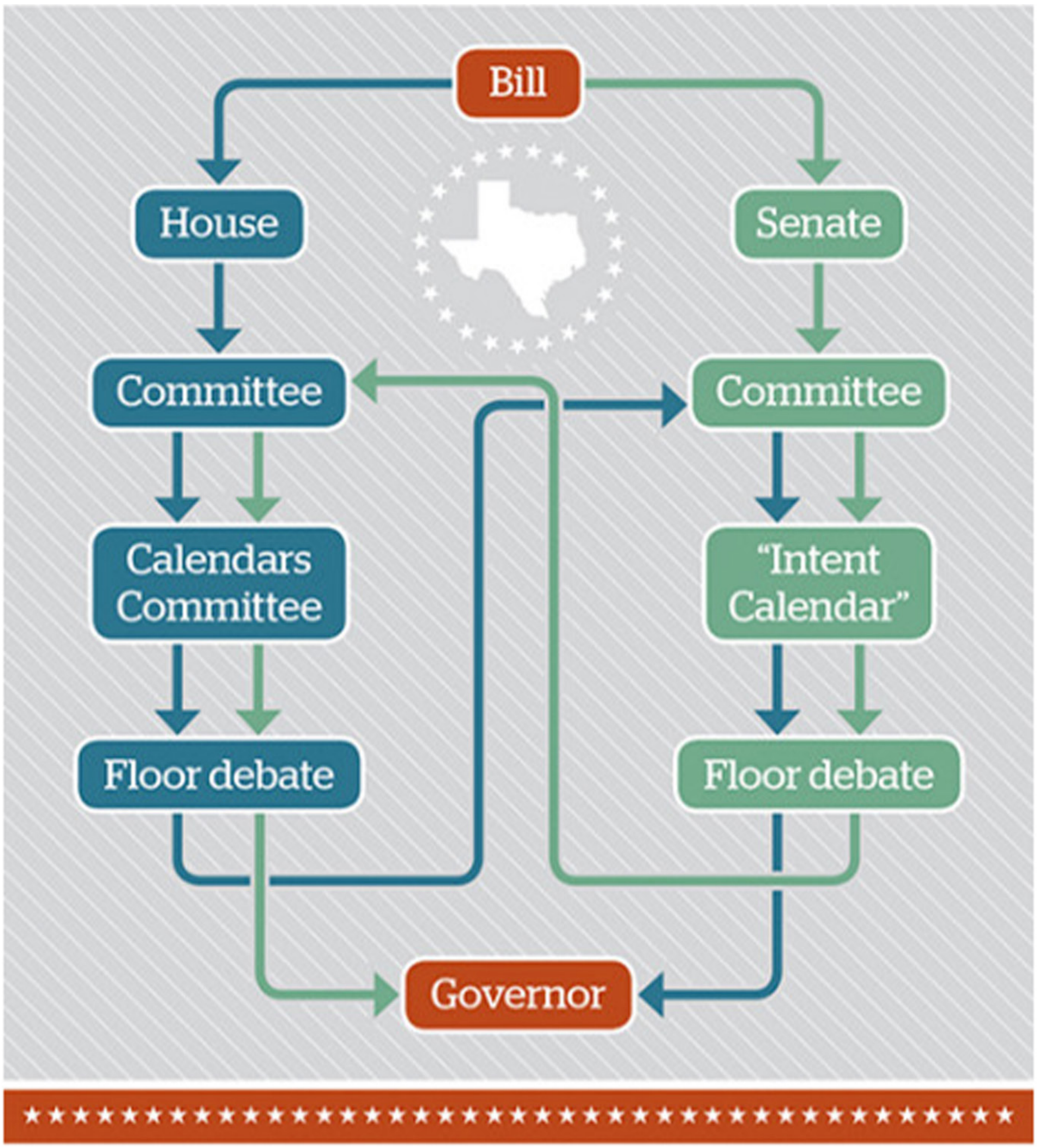
(20th day following final adjournment of 86th Legislature, Regular Session)

Last day the governor may sign, veto, or allow it to become law without a signature.

Monday, August 26, 2019

(91st day following final adjournment of 86th Legislature, Regular Session)

Date that bills without specific effective dates, other than bills with immediate effect, become law.



Source: Community Impact News

Banking Commissioner Names Deputy Commissioner, Director of Bank & Trust, and Lubbock Regional Director

Banking Commissioner Charles G. Cooper announced the promotion of W. Kurt Purdom to Deputy Commissioner. In his new position, he will have direct responsibility of overseeing the regulatory supervision of state-chartered banks and related activities.

After graduating from Texas A&M University in College Station with a Bachelor of Business Administration in Finance, Mr. Purdom began his career with the Department as an assistant bank examiner in 1982. He is also a graduate of the Graduate School of Banking at Colorado.

Mr. Purdom has advanced to various positions within the Department of Banking, including Austin Regional Director, Director of Strategic Support, and most recently as the Director of Bank and Trust Supervision. He is also active with the Conference of State Bank Supervisors and has previously served as the Vice-Chairman of the Education Foundation and Chairman of the Performance Standards Committee.

Commissioner Cooper said, "I am pleased to have such a dedicated employee with over 36 years of service to fill this key role."

Texas Banking Commissioner Charles G. Cooper announced the appointment of Daniel B. (Dan) Frasier to the position of Director of Bank and Trust Supervision. Mr. Frasier replaces Kurt Purdom who was named Deputy Commissioner in November 2018.

Mr. Frasier will be responsible for supervising the operations of the largest division within the agency with over 100 employees. As the Director of Bank and Trust Supervision, he will work closely with the directors of the four regional offices located in Dallas, Houston, Lubbock, and San Antonio to ensure all supervisory mandates are fulfilled.

"Dan's background and experience will benefit the Department's mission to provide effective supervision to our regulated entities," stated Commissioner Cooper.

Dan is originally from New Mexico and is a graduate of New Mexico State University in Las Cruces, New Mexico. He began his banking career as a teller in Santa Fe, New Mexico and later served as a loan officer at a financial institution in Austin, Texas. In 1991, he commenced his regulatory career with the Office of the Comptroller of the Currency as an Associate National Bank Examiner and received his commission as a National Bank Examiner in 1997. Dan joined the Department in April of 2008 as a Review Examiner and was promoted to Director of Corporate Activities in November 2010.

Texas Banking Commissioner Charles G. Cooper announced the appointment of David R. Reed as the Lubbock Regional Director of the Bank and Trust Supervision Division. The appointment is effective November 1, 2018. Mr. Reed is originally from Friona, Texas and is a graduate of Texas Tech University in Lubbock, Texas.

Mr. Reed began his employment with the Department in June of 1995 as an assistant examiner stationed in Lubbock. David will be responsible for the bank supervisory activities of the Lubbock Regional Office and its 12 field examiners.

The Lubbock Region includes the major cities of Abilene, Amarillo, El Paso, Lubbock, Midland, Odessa, and Wichita Falls, as well as several other towns. The region is home to 61 state-chartered banks that control approximately $25.9 billion in banking assets.

"Our banks in the Lubbock Region play a very important role in our Texas economy. I am very pleased to have such a dedicated bank examiner to oversee this segment of our banking population," stated Commissioner Cooper.

Requests for Comment on Rules Important to Community Banks

The federal government shutdown has temporarily halted the publication of the Federal Register. However, the following are rules or proposals that all bankers should review and provide comment once they are published and the comment period begins.

FDIC Issues Final Rule on Reciprocal Deposits and Seeks Comments on Brokered Deposits and Interest Rate Restrictions

The Federal Deposit Insurance Corporation (FDIC) took two actions related to brokered deposits. The FDIC adopted a final rule related to the treatment of reciprocal deposits, and it also issued an advance notice of proposed rulemaking (ANPR) related to brokered deposits and the interest rate restrictions.

The final rule implements Section 202 of the Economic Growth, Regulatory Relief, and Consumer Protection (EGRRCP) Act to exempt certain reciprocal deposits from being considered as brokered deposits for certain insured institutions. The final rule also makes conforming amendments to the FDIC's regulations governing deposit insurance assessments.

Under the reciprocal deposit exception addressed in the final rule, well-capitalized and well-rated institutions are not required to treat reciprocal deposits as brokered deposits up to the lesser of 20 percent of their total liabilities or $5 billion. Institutions that are not both well capitalized and well rated may also exclude reciprocal deposits from their brokered deposits under certain circumstances.

Pending publication in the Federal Register: Federal Regulators Seeking Comment on Capital Simplification for Qualifying Community Banking Organizations Rule

The three federal banking agencies – the FDIC, Federal Reserve Board, and Office of Comptroller of the Currency –issued a notice of proposed rule in November that would, according to a joint statement, provide for an "optional, simplified measure of capital adequacy for qualifying community banking organizations" through a Community Bank Leverage Ratio (CBLR).

The plan would create a community bank leverage ratio for qualifying institutions with less than $10 billion in assets, versus the more complicated risk-based capital standards.

Under the current proposal, federal regulators set the ratio at 9% of tangible equity to total assets, striking a middle ground between the 8% and 10% data points defined by Congress as the floor and ceiling, respectively, in Section 201 of the EGRRCP Act.

The rule also states that any qualified community bank that opts into the CBLR framework but fails to meet its criteria would have a two-quarter grace period in which to reestablish qualification before being deemed ineligible.

Also, under the proposal, a separate Prompt Corrective Action (PCA) framework is created. Banks should pay particular attention to this aspect of the rule.

The table below illustrates the differences between the current PCA and CBLR PCA frameworks:

PCA Threshold	Risk-Based Capital Ratios			Leverage Ratio	CBLR
	Total Capital	Tier 1 Capital	Common Equity Tier 1 Capital	Tier 1 Capital	
Well-Capitalized	≥ 10%	≥ 8%	≥ 6.5%	≥ 5%	**≥ 9%**
Adequately Capitalized	≥ 8%	≥ 6%	≥ 4.5%	≥ 4%	**≥ 7.5%**
Undercapitalized	< 8%	< 6%	< 4.5%	< 4%	**< 7.5%**
Significantly Undercapitalized	< 6%	< 4%	< 3%	< 3%	**< 6%**
Critically Undercapitalized	Tangible equity (defined as Tier 1 capital plus non-Tier 1 perpetual preferred stock) to total assets ≤ 2%				

Comment Sought on Actions to Promote a Transparent, Streamlined, and Accountable Deposit Insurance Application Process

Seeking to keep community banks off the endangered species list, the FDIC began seeking comment from the industry and general public regarding how it should process applications for deposit insurance as part of a significant effort to increase the number of startup banks.

This initiative combines a series of actions the FDIC announced in December aimed at streamlining how bank organizers apply for and receive a de novo charter and promote a "more transparent, streamlined, and accountable process for all applications submitted to the agency," according to an FDIC news release.

Thousands of existing banks have merged or closed nationally over the past decade, yet only 11 de novo banks have opened since the end of 2009; most of these occurred in just the past 18 months.

The situation in Texas reflects the national trend. The number of state-chartered banks has declined over the last decade, plunging from 318 in 2009 to just 234 last year. Only two de novo banks have opened in Texas during the same time period.

To help achieve its goal, the FDIC has republished two publications related to the deposit insurance application process and updated both its handbook and manual for groups applying for deposit insurance. Additionally, it has set up a new mailbox allowing groups to pose questions directly to de novo specialists with the FDIC.

The Texas Department of Banking has received several inquiries about chartering a state bank; however, to date no formal applications have been submitted.

Department staff certainly believes that Texas has a suitable economic and business environment to foster new bank charters that are well formulated and executed, and therefore highly recommends that groups considering chartering a bank in Texas visit with the Department early in the process.

Financial Highlights

TABLE I
Quarterly Balance Sheet and Operating Performance Ratios
for Texas State-Chartered Commercial Banks 9/30/18 Through 9/30/17

ACCOUNT DESCRIPTIONS (IN MILLIONS OF $)	9/30/18	6/30/18	3/31/18	12/31/17	9/30/17
Number of State-Chartered Banks	234	237	238	240	240
Total Assets of State-Chartered Banks	258,204	257,764	255,637	259,417	257,066
Number of Out-of-State, State-Chartered Banks Operating in Texas	41	39	39	39	38
Total Texas Assets of Out-of-State, State-Chartered Banks Operating in Texas	69,686	65,436	65,436	65,436	62,549
Subtotal	327,890	323,200	321,073	324,853	319,615
Less: Out-of-State Branch Assets/Deposits	51,709	50,904	50,904	50,904	50,904
**Total State Banks Operating in Texas	276,181	272,296	270,169	273,949	268,711
BALANCE SHEET (Tx. State-Chartered Banks)					
Interest-Bearing Balances	14,203	13,382	17,417	15,903	16,871
Federal Funds Sold	1,150	854	1,003	752	642
Trading Accounts	316	286	200	222	192
Securities Held-To-Maturity	13,652	14,050	14,070	16,251	16,060
Securities Available-for-Sale	46,988	46,893	46,838	46,061	45,555
Total Securities	60,640	60,943	60,908	62,312	61,615
Total Loans	161,126	160,973	156,439	159,305	157,646
Total Earning Assets	237,119	236,152	235,767	238,272	236,774
Premises and Fixed Assets	3,812	3,763	3,709	3,740	3,646
Total Assets	258,204	257,764	255,637	259,417	257,066
Demand Deposits	28,710	30,633	30,305	30,589	28,879
MMDAs	118,938	115,996	116,844	118,641	118,327
Other Savings Deposits	24,422	24,237	24,565	24,551	23,387
Total Time Deposits	30,246	29,638	29,394	29,607	30,053
Brokered Deposits	3,557	3,816	3,581	3,689	3,483
Total Deposits	210,610	209,549	210,430	212,733	209,380
Federal Funds Purchased	2,545	2,355	2,483	2,640	2,498
Other Borrowed Funds	10,793	12,045	9,543	10,280	11,807
Total Liabilities	226,875	226,634	225,111	228,335	226,364
Total Equity Capital	31,329	31,131	30,527	31,082	30,702
Loan Valuation Reserves	1,781	1,801	1,839	1,851	1,876
Total Primary Capital	33,110	32,932	32,366	32,933	32,578
Past Due Loans > 90 Days	176	171	191	195	147
Total Nonaccrual Loans	746	844	967	1,106	1,116
Total Other Real Estate	195	219	196	209	235
Total Charge-Offs	268	190	97	387	296
Total Recoveries	86	65	29	116	86
Net Charge-Offs	182	125	68	271	210
INCOME STATEMENT					
Total Interest Income	7,296	4,743	2,306	8,695	6,487
Total Interest Expense	839	503	226	705	516
Net Interest Income	6,457	4,240	2,080	7,990	5,971
Total Noninterest Income	2,243	1,488	725	3,181	2,413
Loan Provisions	145	105	72	316	254
Salary and Employee Benefits	2,913	1,930	957	3,714	2,797
Premises and Fixed Assets Expenses (Net)	594	393	196	783	589
All Other Noninterest Expenses	1,607	1,071	530	2,214	1,660
Total Overhead Expenses	5,114	3,394	1,683	6,711	5,046
Securities Gains (Losses)	-23	-2	-4	-3	1
Net Extraordinary Items	0	0	0	0	0
Net Income	2,889	1,877	892	2,965	2,324
Cash Dividends	1,562	965	344	1,840	1,218
RATIO ANALYSIS					
Loan/Deposit	76.50%	76.82%	74.34%	74.88%	75.29%
Securities/Total Assets	23.49%	23.64%	23.83%	24.02%	23.97%
Total Loans/Total Assets	62.40%	62.45%	61.20%	61.41%	61.33%
Loan Provisions/Total Loans	0.12%	0.13%	0.18%	0.20%	0.21%
LVR/Total Loans	1.11%	1.12%	1.18%	1.16%	1.19%
Net Charge-Offs/Total Loans	0.11%	0.08%	0.04%	0.17%	0.13%
Nonperforming+ORE/Total Assets	0.43%	0.48%	0.53%	0.58%	0.58%
Nonperforming+ORE/Primary Capital	3.37%	3.75%	4.18%	4.59%	4.60%
Net Interest Margin	3.62%	3.59%	3.53%	3.35%	3.35%
Gross Yield	4.91%	4.83%	4.74%	4.58%	4.60%
Return on Assets	1.49%	1.46%	1.40%	1.14%	1.20%
Return on Equity	12.26%	12.06%	11.69%	9.54%	10.07%
Overhead Exp/TA	2.63%	2.63%	2.63%	2.59%	2.61%
Equity/Total Assets	12.13%	12.08%	11.94%	11.98%	11.94%
Primary Capital/Total Assets+LVR	12.74%	12.69%	12.57%	12.61%	12.58%

*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
September 30, 2018 and September 30, 2017

ACCOUNT DESCRIPTIONS (In Millions of $)	9/30/2018 STATE CHARTERED		9/30/2018 NATIONAL CHARTERED		9/30/2018 ALL BANKS		9/30/2017 ALL BANKS	
Number of banks	234	% TA	181	% TA	415	% TA	424	% TA
BALANCE SHEET								
Interest-Bearing Balances	14,203	5.5%	8,952	6.5%	23,155	5.8%	26,373	6.8%
Federal Funds Sold	1,150	0.4%	3,659	2.6%	4,809	1.2%	8,537	2.2%
Trading Accounts	316	0.1%	33	0.0%	349	0.1%	222	0.1%
Securities Held-To-Maturity	13,652	5.3%	2,695	2.0%	16,347	4.1%	18,587	4.8%
Securities Available-For-Sale	46,988	18.2%	21,036	15.2%	68,024	17.2%	66,368	17.1%
Total Securities	60,640	23.5%	23,764	17.2%	84,404	21.3%	84,955	21.9%
Total Loans	161,126	62.4%	94,169	68.2%	255,295	64.4%	240,108	62.0%
Total Earning Assets	237,119	91.8%	130,544	94.5%	367,663	92.8%	359,973	93.0%
Premises & Equipment	3,812	1.5%	1,672	1.2%	5,484	1.4%	5,276	1.4%
TOTAL ASSETS	258,204	100.0%	138,157	100.0%	396,361	100.0%	387,260	100.0%
Demand Deposits	28,710	11.1%	17,488	12.7%	46,198	11.7%	46,936	12.1%
MMDAs	118,938	46.1%	54,252	39.3%	173,190	43.7%	170,881	44.1%
Other Savings Deposits	24,422	9.5%	16,830	12.2%	41,252	10.4%	38,608	10.0%
Total Time Deposits	30,246	11.7%	20,419	14.8%	50,665	12.8%	47,643	12.3%
Brokered Deposits	3,557	1.4%	5,944	4.3%	9,501	2.4%	7,826	2.0%
Total Deposits	210,610	81.6%	114,829	83.1%	325,439	82.1%	318,940	82.4%
Fed Funds Purchased	2,545	1.0%	1,511	1.1%	4,056	1.0%	3,607	0.9%
Other Borrowed Funds	10,793	4.2%	5,489	4.0%	16,282	4.1%	15,868	4.1%
TOTAL LIABILITIES	226,875	87.9%	123,050	89.1%	349,925	88.3%	342,243	88.4%
Equity Capital	31,329	12.1%	15,106	10.9%	46,435	11.7%	45,017	11.6%
Allowance for Loan/Lease Losses	1,781	0.7%	1,034	0.7%	2,815	0.7%	2,854	0.7%
Total Primary Capital	33,110	12.8%	16,140	11.7%	49,250	12.4%	47,871	12.4%
Past due >90 Days	176		115		291		242	
Nonaccrual	746		648		1,394		1,734	
Total Other Real Estate	195		86		281		328	
Total Charge-Offs	268		173		441		432	
Total Recoveries	86		32		118		126	
INCOME STATEMENT	Y-T-D		Y-T-D		Y-T-D		Y-T-D	
Total Interest Income	7,296	100.0%	4,105	100.0%	11,401	100.0%	9,943	100.0%
Total Interest Expense	839	11.5%	547	13.3%	1,386	12.2%	835	8.4%
Net Interest Income	6,457	88.5%	3,558	86.7%	10,015	87.8%	9,108	91.6%
Total Noninterest Income	2,243	30.7%	1,304	31.8%	3,547	31.1%	3,920	39.4%
Loan Provisions	145	2.0%	198	4.8%	343	3.0%	389	3.9%
Salary & Employee Benefits	2,913	39.9%	1,660	40.4%	4,573	40.1%	4,330	43.5%
Premises & Fixed Assets (Net)	594	8.1%	341	8.3%	935	8.2%	919	9.2%
All Other Noninterest Expenses	1,607	22.0%	938	22.9%	2,545	22.3%	2,524	25.4%
Total Overhead Expenses	5,114	70.1%	2,939	71.6%	8,053	70.6%	7,773	78.2%
Securities Gains(losses)	(23)	-0.3%	(1)	0.0%	(24)	-0.2%	19	0.2%
Net Extraordinary Items	0	0.0%	0	0.0%	0	0.0%	0	0.0%
NET INCOME	2,889	39.6%	1,461	35.6%	4,350	38.2%	3,696	37.2%
Cash Dividends	1,562		522		2,084		1,615	
Average ROA	1.49%		1.41%		1.46%		1.27%	
Average ROE	12.26%		12.86%		12.46%		10.92%	
Average TA ($ Millions)	1,103		763		955		913	
Average Leverage	12.13%		10.93%		11.72%		11.62%	
Dividends/Net Income	54.07%		35.73%		47.91%		43.70%	

*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.