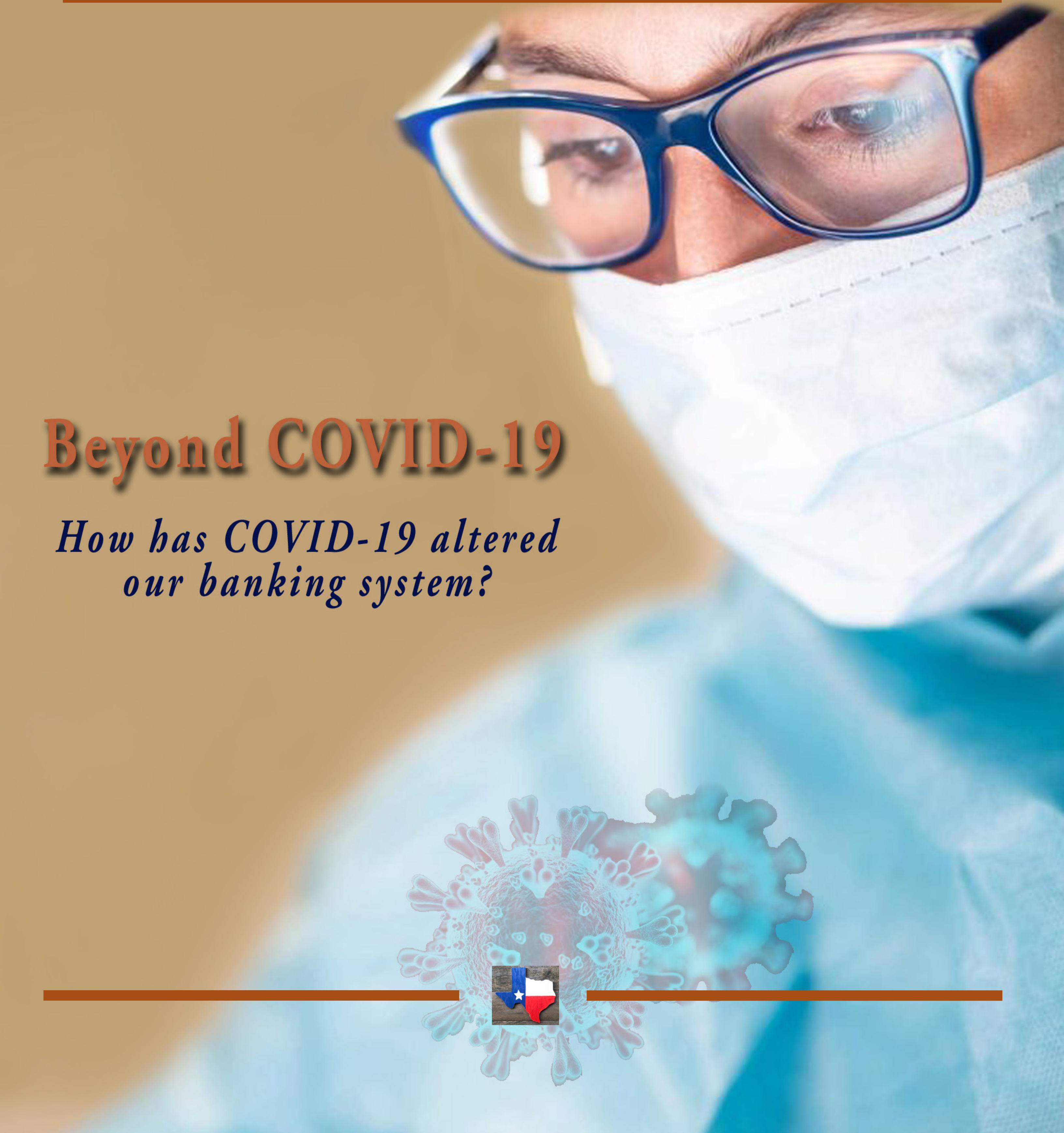
Texas Bank Report

Texas Department of Banking, Charles G. Cooper, Commissioner

September 2020



Beyond COVID-19

How has COVID-19 altered our banking system?

Commissioner's Comments

" After the Great Recession, I would not have imagined that the next financial crisis would have been brought on by a global pandemic."

Coronavirus Disease 2019 (COVID-19) arguably will be one of the most significant events in many people's lifetime. After the Great Recession, I would not have imagined that the next financial crisis would have been brought on by a global pandemic.

We immediately took numerous proactive measures to ensure financial institutions had the flexibility to help their customers recover and provide them an opportunity to ultimately repay their debt.

On March 16, 2020, the Department issued a proclamation authorizing banks organized under the laws of the State of Texas, at their discretion, to close all or part of their offices to protect the public health and the most vulnerable population, while ensuring financial institutions could still meet the financial needs of their customers and those affected by COVID-19.

Our financial institutions were asked to keep the Department informed about the closures of their offices. By the end of March, we received notifications from approximately 95% of our institutions that they had diminished operations to some degree (i.e. reduced operating hours, drive-through only open, lobby by appointment, etc.). Our Institutions have properly utilized this flexibility to do what is needed for their staff and communities.

In March, the Department also suspended future examinations; only those in process would be completed on an off-site basis. We halted on-site examinations to allow our institutions to focus on providing critical financial services to their customers and communities while focusing on their staff's health without further strain and stress from the regular examination process.

I believe that communication during a state of emergency is critical. Therefore, a senior examiner was assigned to every bank. The senior examiner contacted each Chief Executive Officer (CEO) or President to provide support as needed and establish two-way communication. The CEOs/Presidents were given the senior examiner's contact information for immediate access. While the examination process was suspended, a working group was created to develop a modified examination process that allows us to properly evaluate a bank or trust company's condition while being mindful of the burden an examination places on the institution's staff and resources.

On May 29, 2020, we announced the Department would resume examinations using the modified process beginning June 1, 2020 for all entities that we govern. COVID-19 has changed the method of examinations for the Department as they will be conducted off-site for the near future. The new examination procedures and processes implemented focus on the most relevant risks as conditions dictate.

In June, state financial regulators announced the implementation of a COVID-19 Recovery Steering Group, working through the Conference of State Bank Supervisors, to guide a multistate response to the financial risks and personal hardships caused by the global pandemic. I was asked to lead this group, which considers changes to bank and nonbank financial services oversight and shares lessons learned and best practices with fellow regulators and the financial services industry. More information on this initiative will be offered in the future.

To date, the number of problem banks is exceptionally low at approximately 3% of the total number of state banks. This illustrates that industry conditions were relatively strong headed into the pandemic. We are utilizing our off-site monitoring program, oil and gas risk assessment survey, and other capabilities to augment our examination process to stay current on the condition of the industry.

This edition of Texas Bank Report examines the impact of COVID-19 on the Department, our supervised entities, and key industries. It also focuses on the lengths some banks went to serve customers and care for their employees.

Thank you for doing the good work you always do when facing challenges.

Charles G. Cooper

Charles G. Cooper
Banking Commissioner

New Rules on Notification of Cybersecurity Incidents

By: Michelle Hodge

Financial institutions are facing increasing attacks in various forms by cybercriminals in the wake of COVID-19. These attacks have the potential to cause significant business disruption and potential loss of confidential business information, trade secrets, organizational strategies, and financial information.

New rules which took effect January 2, 2020, require banks, trust companies, and money services businesses regulated by the Department to promptly report to the Banking Commissioner any material cybersecurity incident in its information systems, whether maintained by the entity, an affiliate, or third-party service provider. The rules define a "cybersecurity incident" and "information systems."

The rules require a notice be submitted to the Department as soon as practicable, prior to customer notification, but not later than 15 days following the entity's determination that a qualifying cybersecurity incident has occurred. An incident must be reported if it will likely: (1) require a notice or report to another state or federal regulatory or law enforcement agency; (2) require sending data breach notification to bank customers under applicable state or federal law; or (3) adversely impact the ability of the bank to process transactions for customers. The required notice is confidential pursuant to the Texas Finance Code.

Examples of Cybersecurity Incidents Requiring Notice:

A bank's third-party vendor notices unusual activity on their system which alerts the vendor to perform a review. The review reveals that unauthorized access to the vendor's system has resulted in unauthorized access to a customer's bank account and personal information stored on the vendor's information systems. Notice to the Department is required since this is a data breach involving a bank's vendor and it is likely that customer notification is required by law.

Another example is when a financial institution's network becomes encrypted with ransomware. Although no customer information was stolen, a decryption key was obtained and the network decrypted, meaning this is a material incident that jeopardizes the cybersecurity of the information system and the financial institution should notify the Department.

Example of Cybersecurity Incident Not Requiring Notice:

A customer's debit card information is compromised through a cybersecurity breach at an unaffiliated retailer. While the customer's bank debit card information may have been compromised, the bank's information systems were not compromised and therefore, notice is not required.

FDIC Offering Free Nationwide Seminars for Bank Officers and Employees

The FDIC is conducting identical live seminars on FDIC deposit insurance coverage for bank employees and bank officers this fall via the Cisco WebEx conferencing software.

The presentation is designed to provide bank employees a better understanding of how to calculate deposit insurance coverage and will offer an overview of some of the most popular deposit insurance resources.

The seminars last approximately two hours, including a question-and-answer session. Seminars are free, but participants must register at least two business days prior to the event. For further instructions on how to register for the live seminars, see FDIC Financial Institution Letter 75-2020.

Comprehensive Deposit Insurance Seminar for Bankers		
Date	**Starting Time (Eastern)**	**Conference Number**
October 21	2:00 pm	1385186
November 2	1:00 pm	9968940
December 10	3:00 pm	1385214

State Banks and Trust Companies Share Concerns Related to COVID-19 Pandemic

By: Melissa Dvoracek

During the week of May 26, 2020, the Department reached out to all 217 state banks and 33 trust companies we supervise to determine how each was managing during the COVID-19 pandemic, their specific concerns, and the status of their plans to reopen. The consensus is that most banks were doing very well. This snapshot in time is summarized below.

Banks

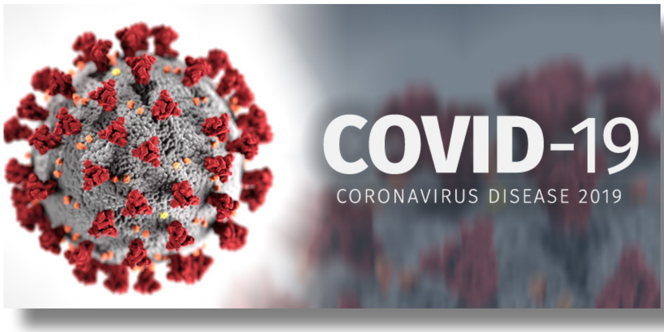
Asset Quality

The majority of bankers reported steady loan demand, excluding Paycheck Protection Program (PPP) loans. Any decline or increase in demand appears to be based on geography and bankers continue to monitor specific industries for deterioration. The majority reported past due loans remaining at historical low levels as stimulus checks, PPP loans, deferrals, and modifications may be allowing many borrowers to remain current on their loan payments. There were no reports of significant asset quality deterioration as many expect it could be the third or fourth quarter of 2020 before they realize financial stress in their loan portfolio.

Some institutions reported making deferrals, typically one to three months, and others noted they expected more deferrals than were ultimately requested. A few banks heavily involved in oil and gas, hotels, or commercial real estate expressed some concern regarding the economy's effect on asset quality.

Banks engaged in agricultural lending expressed some concern regarding commodity prices and their impact on borrowers; however, most felt confident government subsidies would help. Many banks surveyed indicated they participated in PPP, and a few said they acquired new relationships who previously banked at larger institutions.

Earnings and Liquidity



Most banks queried reported a shrinkage in their net interest margin due to compressed interest rates. Further, overdrafts and non-sufficient funds were down, as customers reduced spending and deposited stimulus checks, resulting in lower fee income. Fee income from PPP loans may have offset the loss somewhat, but several banks mentioned using any fee income from PPP loans to bolster the allowance for loan and lease losses.

Additionally, most banks reported having more than enough liquidity as stimulus checks and PPP funds were temporarily deposited into customers' accounts.

Capital

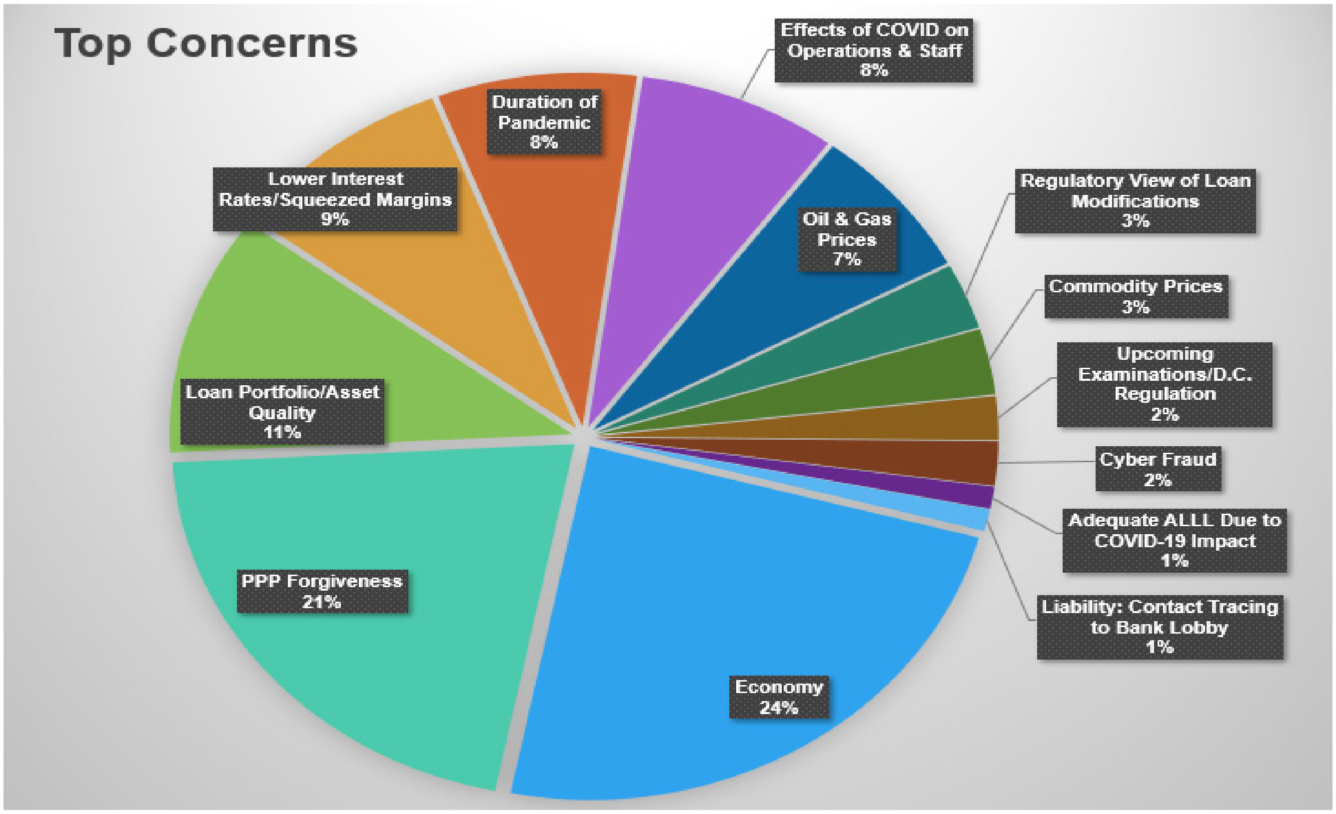
Capital was not mentioned often, but when it was referenced, the consensus was that capital ratios declined due to increasing assets from PPP loans and/or deposits increasing from stimulus checks. One bank had a Tier 1 leverage ratio of 6% but anticipated the ratio would return to 8.5% by October 2020.

Major Issues / Concerns

While the summary identified a variety of concerns, the top seven topics totaled approximately 60% of all concerns. Of those seven, the top two heavily outweighed the others and included: economic uncertainty and the ever-changing rules surrounding PPP forgiveness.

The chart on the next page illustrates the top issues / concerns that bankers noted in their survey responses.

Note: Institutions may have more than one concern listed in the chart. Also, any concerns with only one response were not included.



Status of Reopening Lobbies

As of June 1, 2020, 123 institutions had not fully reopened all their lobbies or restored normal operations, which equated to 58% of the responses. Most banks that had reopened their lobbies had done so in May. The table below illustrates target dates bankers reported for reopening branches. The majority stressed these were subject to change based on varying data and circumstances.

June 1st	June 8th	June 15th	June 22nd	July +	No Plans/Unsure
41.6%	12%	9.6%	2.4%	2.4%	32%

The vast majority were split between reopening the first week of June and having no plans to reopen at that time. Many of those that were unsure of their plans reported that their current set up was serving their customers well, and they did not feel pressure to reopen. Others mentioned having high-risk employees that made it difficult to fully reopen.

Branches in Amarillo and El Paso were concerned about local outbreaks and reopened slowly. Locations in major metro areas (Dallas, Houston, and San Antonio) that were not already open, appeared split on whether to reopen at the beginning of June or wait longer. As expected, most branches that did reopen were in rural towns located away from major outbreak areas.

The majority of banks took various precautions to ensure reopening went smoothly, such as installing sneeze guards; hand sanitizer stations; floor markers for traffic and line waiting; providing masks and gloves for employees; offering masks to customers; and some taking temperature checks or health questionnaires before customers could enter. Some also limited the number of people in the lobby at one time.

Trust Companies

Overall, trust companies reported that they were performing well. There were no major concerns reported by any of the trust companies, other than two mentioning general market concerns.

Twenty-three trust companies had their offices closed to visitors and clients as of June 1, 2020, with the remaining 10 open. Even though some offices were open, staff often rotated working from home. By nature, most trust companies do not have regular visitors; therefore, operations can be easily run remotely.

ALONG THE WATCHTOWER

By: Dan Frasier

Expectations for Bankers' Response to COVID-19

A timeworn saying that is often attributed to Benjamin Franklin, "a failure to plan is a plan to fail," seems especially appropriate in our present environment. This adage applies to nearly every aspect of business and is especially relevant to banks planning for the possible stress brought about by the global pandemic and the economic aftershocks that may materialize.

By now, every Texas state bank has felt the effects of the pandemic and implemented significant changes to their operations. Most have been required to either limit lobby traffic or close branches entirely due to outbreaks in the area. All of this has been accomplished while ensuring customers maintain access to their funds and are able to conduct transactions through the banking system. But now that the immediate fires have been extinguished, many banks are making plans to deal with the uncertain future.

Risk Assessments – A Good Place to Start Your Plan

A good place to start any plan is to consider your objectives and evaluate risks to the organization's asset quality, earnings, and capital. The plan should consider the risks stemming from the effects of COVID-19 including credit risk as well as funding, liquidity, operations, and sensitivity to market risk.

Credit Risk

When assessing asset quality, examiners will consider whether management has been able to identify loans substantially impacted by the pandemic and recognize any deterioration or loss exposure in a timely manner.

There are many places to begin this assessment process. Bank management can begin by evaluating:

- The volume of loans in higher risk industries such as oil and gas, transportation, hospitality, arts, entertainment, and recreation;
- Payroll Protection Program (PPP) loan borrowers;
- Loans with deferrals or extensions;
- Delinquent loans;
- Updated financials that show financial stress; and
- Credit classifications and loan review results.

Many banks try to identify borrowers with a greater likelihood of default given different economic scenarios. It is important to note that just because a borrower is in one of the most affected industries, does not mean that the borrower will default on their loan. Rather it only means that they will likely be subject to greater financial stress, and the likelihood of default might be greater. Borrowers who were already showing financial stress before the onset of the pandemic might be especially vulnerable to an economic downturn.

Some bankers have expressed concern that if they include a potentially troubled borrower in their planning scenarios, examiners will adversely classify the relationship. Examiners will *not* adversely classify a borrower just because the relationship is listed on the bank's watch list or identified as a higher risk relationship. Only if the credit meets the regulatory criteria and definition for classification will it be subject to adverse classification by the regulators.

Operational Risk

Similarly, there are several indicators of operational risk that bank management can leverage to assess the level and direction of risk. Examples include:

- Prevalence of COVID-19 infections in the bank's market areas;
- Reports of cybersecurity attacks;
- Status of the bank's business continuity plans;
- Audits and independent information security reports; and
- Demographics, location, and strength of the bank's staff.

The effects of COVID-19 should also be considered in other risk areas of the bank. The robustness of the risk assessment process should be reflective of the bank's size, complexity, and risk profile. Risk assessments should be dynamic; adjusted as risks to the bank change.

Response Plans – A Guide to Action

After considering risks to the organization, management should develop actionable steps to mitigate these risks. The steps should be incorporated into a board-approved plan to guide implementation by management and staff. For example, the plan's credit actions should provide direction to staff and management regarding:

- Policy and procedure considerations for granting extensions;
- When and what loan modifications are acceptable;
- Required underwriting for renewals;
- The process to monitor PPP loans and document PPP forgiveness;
- Approved credit risk mitigation strategies that are consistent with safe and sound practices; and
- Changes to the Allowance for Loan and Lease Losses (ALLL) methodology, considering the changing circumstances.

The plan should also consider needed changes due to increasing operational risks. Cybercriminal activity schemes are changing to target work-at-home bank employees and bank customers alike. COVID-19 themed phishing emails are being used by criminals to instigate Business Email Compromise (BEC), and Automated Clearing House (ACH) fraud. Additionally, video conferencing, and fake online/virtual meeting announcements are newer vectors used to deliver malicious links to trick employees into downloading malicious software. To evaluate cybersecurity readiness, bankers should consider utilizing the PPT model – People, Processes, and Technology as referenced in the April 8, 2020 Industry Notice.

Actions for staffing facilities and core business processes should also be incorporated into the plan. Many smaller institutions face staffing challenges as the number of employees and locations are limited. Similarly, backups for key individuals should be identified in advance with actions put in place to minimize the effect of staff unavailability. These actions are above and beyond social distancing and the use of personal protection equipment and should be a core component of the bank's plan.

Monitoring: An Evolving Landscape

The board of directors has ultimate accountability for the affairs of the entity that it oversees. For the board to fulfill its responsibilities, it must have information necessary to make informed decisions. It is therefore crucial that the plan include mechanisms for ensuring the ongoing effects of the pandemic are closely monitored and reported to the board. The complexity and depth of this monitoring and reporting should be based on the size, complexity, and risk profile of the bank.

The bank's COVID-19 monitoring must also be dynamic. As the effects of the pandemic on the bank occur rapidly or over time, monitoring and reporting to the board should be adjusted. Changes to the bank's asset quality, earnings, liquidity, and operations should all be monitored and reported to the board at each meeting. Only when armed with good information will the board and senior management have the tools needed to identify trends and issues to respond appropriately.

Knowledge is Power

Since the beginning of the pandemic, many government financial assistance programs have been initiated and numerous rules, issuances, and other guidance have been promulgated by regulatory and other governmental agencies. It is imperative that bank management keep abreast of the developments and activate plans to incorporate the assistance programs and regulatory changes into the bank's processes. Leveraging these financial assistance programs and utilizing regulatory guidance can be powerful tools when working with the bank's borrowers to improve cash flow and collection prospects as part of the bank's risk mitigation strategy.

Management Rating

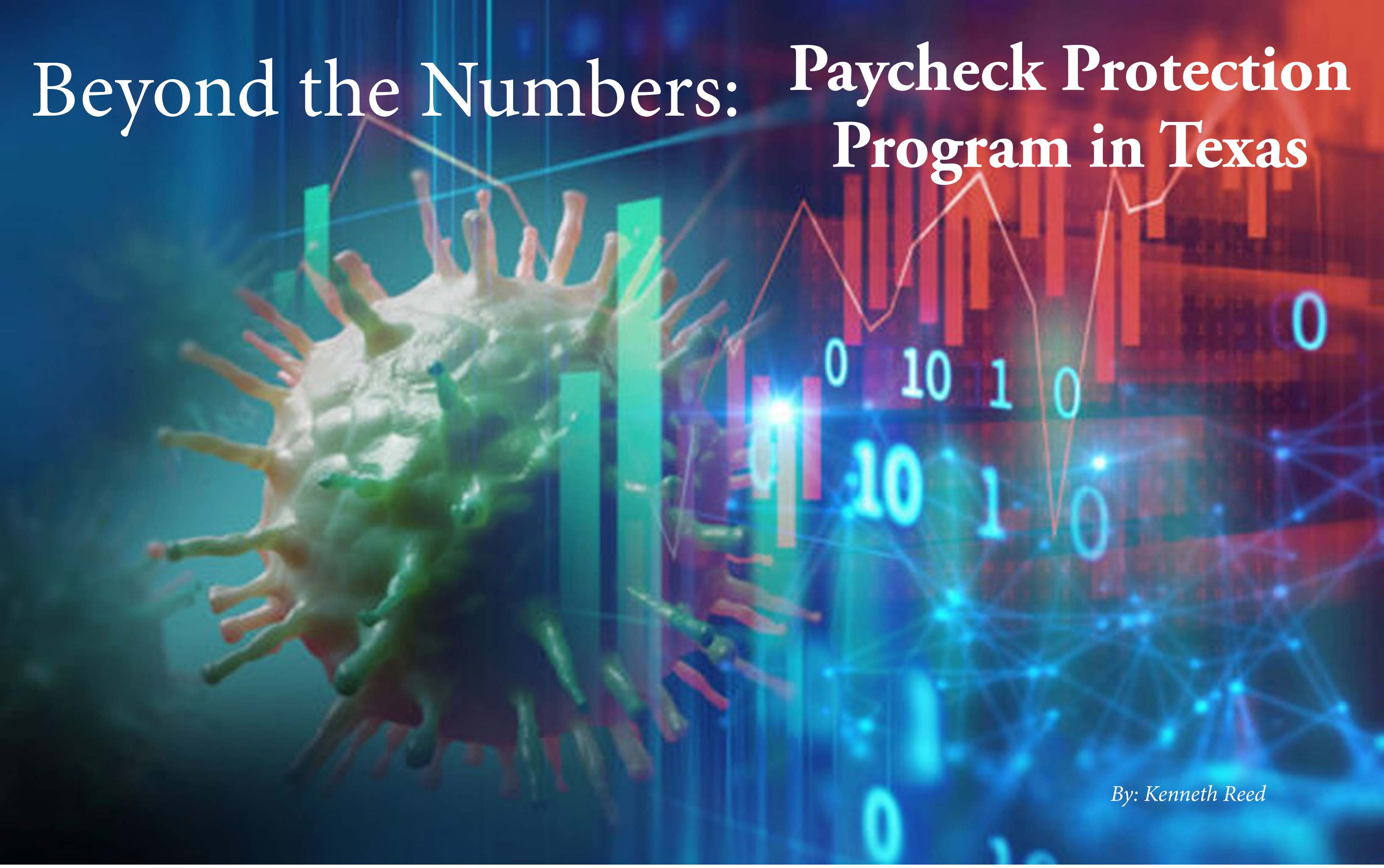
It is important to note that the Department supports the Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions. In part, this guidance provides that examiners will continue to assess institutions in accordance with existing agency policies and procedures and may provide supervisory feedback, or downgrade an institution's composite or component ratings, when conditions have deteriorated. In conducting their supervisory assessment, examiners will consider whether institution management has managed risk appropriately, including taking appropriate actions in response to stresses caused by COVID-19 impacts.

Demonstrating to regulators that your board and management team have a well-conceived plan for dealing with the effects of COVID-19 supports proactive behaviors and not simply reactive behavior. Taking it one step further, effectively implementing the plan and making necessary adjustments along the way demonstrates that management is identifying, monitoring, and controlling risk. Moreover, developing and implementing plans using fundamental risk management concepts and taking requisite action in controlling the bank's risks are key considerations for the bank's management rating and ultimately protecting it.

Relevant Guidance

- Business Continuity Planning Considerations – COVID-19
- Interagency Statement on Pandemic Planning
- Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions

Beyond the Numbers: Paycheck Protection Program in Texas



By: Kenneth Reed

The banking industry historically has shown to be adaptive and able to rise to the occasion when their communities need them the most. Whether it is dealing with a natural disaster, economic recession, or the fallout from a global pandemic, community banks play a vital role in the recovery process.

This can be seen once again in the efforts of thousands of community banks which were called upon to help roll out government assistance programs in the wake of the COVID-19 pandemic. One of the largest, the Paycheck Protection Program (PPP), was deployed to provide economic assistance for struggling small businesses and their employees.

PPP Overview and Loan Details

The PPP was enacted as part of the $2.3 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law on March 27, 2020. The program was implemented by the Small Business Administration (SBA) with support from the Department of Treasury to help individuals and businesses deal with the challenges and economic downturn brought on by the pandemic.

Specifically, the PPP provided small businesses the funding they needed to maintain their payroll, rehire employees who may have been laid off and cover applicable overhead. Loans made under the program were unsecured, required no personal guarantees, and are 100% guaranteed by the SBA. Additionally, the entire principal amount of the loan plus accrued interest is eligible for forgiveness if 60% of the loan was used for eligible payroll costs. Other PPP loan details provided by the SBA included:

- Interest rate of 1%;
- Loans issued prior to June 5 have a maturity of two years, while loans issued after June 5 have a maturity of five years;
- Loan payments are deferred six months; and
- Neither the government nor lenders will charge small businesses any fees.

Loan processing fees paid by the SBA to lenders include:

- Five percent for loans not more than $350,000;
- Three percent for loans of more than $350,000 and less than $2,000,000; and
- One percent for loans of at least $2,000,000

PPP Hurdles – A Bumpy Road

The PPP objectives and goals are relatively straightforward. Everyone can agree on the need to help small businesses deal with the pandemic and keep workers on the payroll. However, the process of getting the funds into the hands of those who needed it was not so simple.

Banks were pressed to get the money out quickly as the program was set up on a first-come, first-served basis. Add to that, the program's lack of clear direction and a myriad of unanswered questions fueled lender's frustrations and concerns about participating.

lished to provide clarity and help answer the program's many questions.

In a short and chaotic 14 days, the original funds were depleted with the SBA approving the equivalent of 14 years of loans in that short timeframe, illustrating what a staggering feat had been accomplished. An additional $310 billion was approved through legislation signed on April 24, 2020. Surprisingly, the additional funds did not go as quickly as the first round, resulting in the U.S. Congress extending the deadline to apply for a loan to August 8, 2020.

The PPP kicked off on April 3, 2020, and the race began to get the first round of funds totaling $349 billion dispersed. As quickly as it started, the program's limitations became apparent. Bankers around the state reported issues with the SBA loan application system, which quickly became overwhelmed and caused many to be unable to process applications. Others had problems setting up as an SBA lender or logging in to begin the process.

Next came the questions caused by the program's lack of clear direction, including how to determine loan amounts, what verification requirements were needed, what forms to use, and how to handle insider requests. Over the next few days and weeks these issues and others would be addressed, and numerous interim final rules would eventually be pub-

Management teams across the state were faced with several internal challenges as the wave of PPP applications came pouring in. The first was managing staffing levels and ensuring technologies were able to keep up with demand as banks worked around the clock to get loans processed. Many reported increased personnel expenses due to the overtime paid for those who worked to process the overwhelming number of applications. Management was also faced with the decision to determine how much to lend while trying to balance the effects of PPP loan growth against capital and liquidity levels and maintaining adequate margins.

The Paycheck Protection Program Liquidity Facility (PPPLF) was instituted on April 7, 2020, to help banks deal with some of these obstacles by providing an avenue for liquidity. Additionally, the PPPLF provided regulatory relief to capital by excluding PPP loans pledged to the facility from total leverage exposure, average total consolidated assets, standardized total risk-weighted assets, and advanced approaches total risk-weighted assets, as applicable.

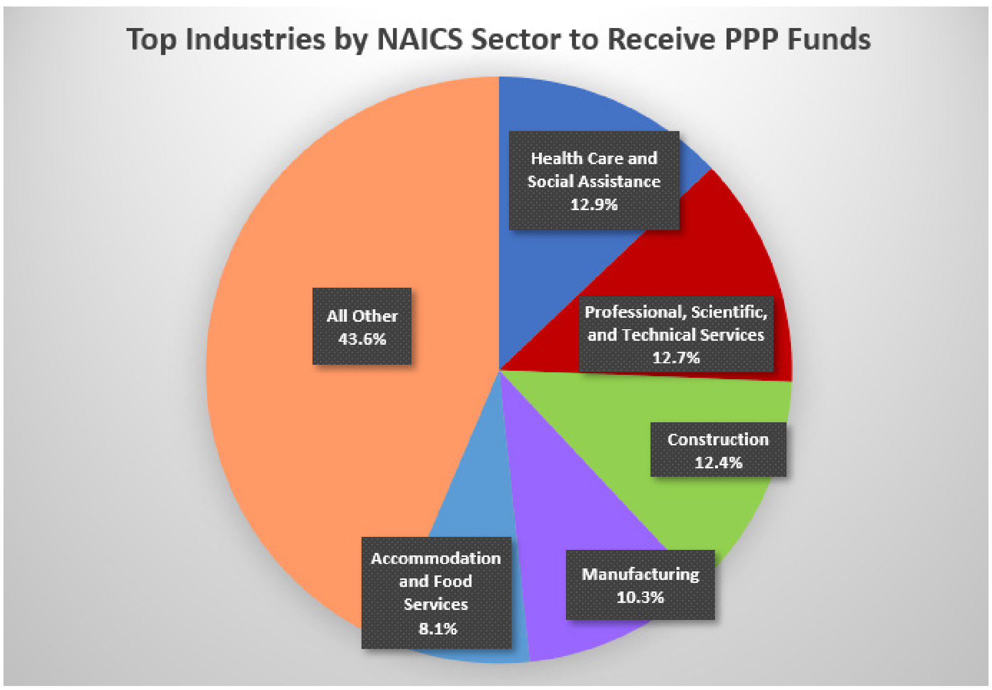
The program clearly had growing pains, and banks are currently wading through the forgiveness process as new guidance on the topic is released. Despite all the challenges with the PPP, banks stayed the course and made a far-reaching impact to millions of small businesses. The following national and state level PPP data summarizes some of the program's milestones.

Summary of Total PPP Approved Lending

Approved PPP lending totals nationally, as summarized on the SBA's website through August 8, 2020, show that approximately 5.2 million loans were made by 5,460 institutions totaling $525 billion. Banks less than $10 billion accounted for 44.5% of the total dollars funded under the program:

- Overall average loan size was $101,000.
- Amount of funding remaining: $134 billion.

The following chart taken from the SBA's PPP Report summarizes the approvals by industry through August 8, 2020:



NAICS codes: Health Care and Social Assistance (62); Professional, Scientific, and Technical Services (54); Construction (23); Manufacturing (31-33); Accommodation and Food Services (72).

Lender Size	Lender Count	Loan Count	Net Dollars
>$50 B in Assets	34	1,696,961	$190,260,579,519
$10 B to $50 B in Assets	88	769,963	$100,975,416,018
<$10 B in Assets	5,338	2,745,204	$233,776,205,586

Texas PPP Statistics

The 2020 SBA Small Business Profile for Texas shows the state has 2.8 million small businesses comprised of 817,658 employer firms reporting fewer than 500 employees and 2.4 million non-employer firms consisting mostly of self-employed individuals. According to the report, small businesses employ approximately 4.8 million people, or 45.1% of the state's private workforce.

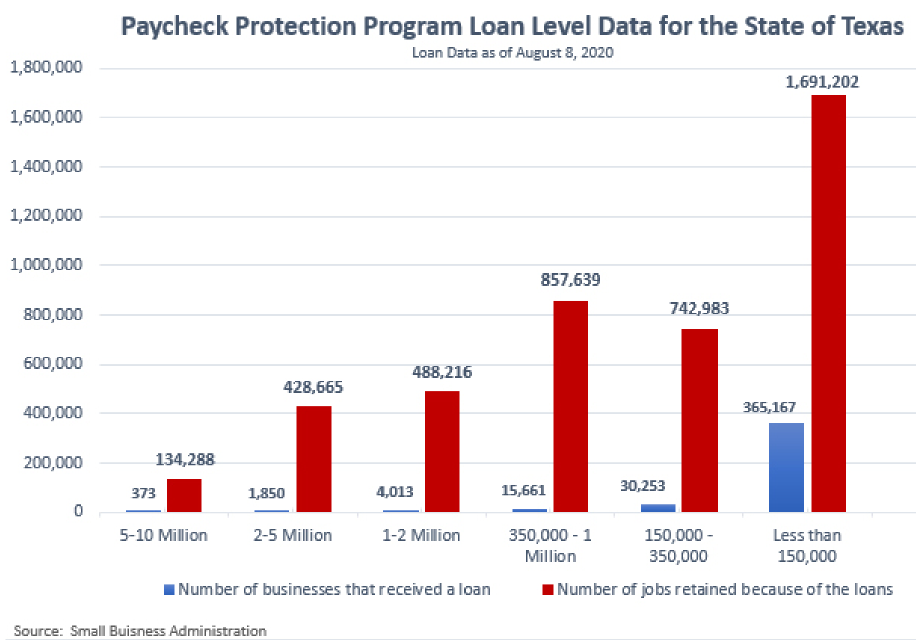
The million-dollar question that must be asked is how many small businesses in the state participated in the PPP. Fortunately, data tabulated by the SBA helps answer this question and provided insights into the overall impact of the program.

The Texas PPP data, final as of August 8, 2020, is based on information submitted by the lenders to the SBA and summarized in the chart below. The PPP data details specific loan amounts for loans less than $150,000. Larger loan amounts are not specifically reported but are instead broken out by the following dollar ranges: $150,000 to $350,000, $350,000 to $1 million, $1 million to $2 million, $2 million to $5 million, and $5 million to $10 million.

Overall, the numbers speak for themselves. Texas was responsible for $41.3 billion or 7.9% of the total PPP loans funded, second only to California. The $41.3 billion funded encompassed loans to approximately 417,000 small businesses in Texas.

The data also shows that over 4.3 million jobs in the state were retained because of the program. The largest loan sector was comprised of 365,167 businesses who received loans less than $150,000. Furthermore, Texas state-chartered banks were responsible for nearly half of the PPP loans funded in the state, as they reported $18.1 billion in PPP loans as of the June 30, 2020, call report.

Breaking down the numbers even further shows several industries in Texas reported strong participation. The healthcare industry received the most loans and retained the highest number of jobs at approximately 45,000 and 621,000, respectively. The oil and gas industry is obviously a significant contributor to the state's economy and was already showing signs of weakening before the pandemic. The mandated government shutdown further reduced demand causing many in the industry to seek government assistance. The SBA data shows almost 6,900 PPP loans went to the oil and gas industry which retained 90,500 jobs in the state. This represents about half of the Texas workforce employed in the industry.



The restaurant sector was another hard-hit industry which continues to operate at a limited capacity as the state tries to safely re-open. The PPP data shows that a total of 19,154 loans were made to full-service and limited-serve restaurants across the state, retaining approximately 490,000 jobs in the restaurant industry alone. The majority – approximately 15,500 of the restaurant loans – were for less than $150,000, and these small loans totaled an estimated $722 million.

Moreover, the hospitality industry was severely impacted as mandatory stay-at-home orders and reduced travel affected occupancy numbers across the state. The PPP loan data shows that a little more than 4,100 PPP loans were distributed in Texas to hotel and motel businesses, retaining approximately 75,000 jobs in the industry.

Overall PPP Impact

The PPP officially closed on August 8, 2020, leaving $134 billion in unutilized funds and many questioning whether the U.S. Congress will again extend the program. Overall, SBA data illustrate millions of small businesses around the country benefited from the program.

The Lone Star State was no exception, as the funding obtained by Texas' small businesses helped retain 4.3 million jobs state-wide. Banks participating in the program also benefited from the loan processing fees paid by the SBA. Many banks across the state reported they planned to use the additional revenue to bolster the allowance for loan and lease losses as they assess the financial impact of the economic downturn, including the need to increase bad debt reserves in anticipation of higher loan losses.

Clearly no one could foresee a global pandemic and the devastating fallout of a government mandated shutdown, but one thing that is certain is that Texas community banks did their part when called upon.

Department Gaging Impact of Oil Prices on State-Chartered Banks

By: Gordon Anderson and Jared Whitson

Texas' oil and gas (O&G) industry began 2020 with guarded optimism. Production in December of 2019 had increased for the 13th consecutive quarter, drilling activity had ticked up, and oil prices opened January 2020 at \$61.18, up \$14.64 per barrel year-over-year. A Federal Reserve Bank of Dallas energy survey predicted prices would stabilize around \$58 per barrel by year end 2020.

Meanwhile, more than 7,000 miles away in Wuhan, China, a previously unknown virus began spreading throughout the city and region, bringing it to the attention of the World Health Organization for the first time.

Three months later, the state's O&G industry was in a crisis.

The U.S. shutdown to contain the COVID-19 virus, together with an ill-timed price war between Saudi Arabia and Russia, combined to suppress the state's O&G sector and send trembles through the entire Texas economy.

The price of West Texas Intermediate (WTI) oil opened the year at \$61.18 a barrel, slid to \$20.48 by the end of March and hit bottom on April 21 at just \$11.25 a barrel, before beginning a slow recovery. The average breakeven price point for WTI is about \$48 per barrel.

This volatility made it essential for the Department to reinstate our O&G risk assessment to determine the potential impact this decline in price could have on the Texas banking system.

As the Report of Condition and Income (Call Report) does not contain detailed information specific to the energy related sector, in April the Department asked certain banks actively involved in O&G lending to provide more detailed data regarding their energy related credits as of March 31, 2020. This information provided more insight into the level of exposure these state-chartered banks inherently possess.

Banks were asked to submit this information no later than May 18, 2020, and this information established a baseline which the Department then compared to similar figures from a second June 30th survey to begin identifying industry trends. Due to the economic environment associated with the COVID-19 pandemic, banks with an elevated risk profile were asked to continue providing quarterly updates.

The information captured key performance indicators which include specific asset quality measures designed to provide effective early detection of significant risk with the bank's energy portfolio.

Generally, the results of those surveyed revealed that banks have moderate exposure to the energy sector in relation to total capital. While the dollar volume of adversely classified assets remains manageable, many of the banks surveyed indicate an increase in their allowance for loan and lease losses via qualitative and environmental factors because of COVID-19.

It is assumed that loan deferrals provided by banks and stimulus money associated with the Paycheck Protection Program have provided temporary relief to some of the borrowers as well. Future quarters could show further deterioration unless additional stimulus is provided by the federal government.

Proactive monitoring of credits, including those indirectly impacted by a decline in oil prices as mentioned in elsewhere in this report, should be a part of a solid risk management program to ensure timely identification of problem credits. Programs with stress testing of energy portfolios may also help identify borrowers who could have problems repaying loans in the COVID-19 environment. The board of directors are key to ensuring that bank policies and procedures are followed to help identify, measure, monitor, and control the bank's exposure to O&G activity. The Department will continue monitoring this area through quarterly off-site monitoring and future examinations.

Financial Education Resources Available for Parents

By: Gordon Anderson

Since the state closed schools in late March to help contain COVID-19, thousands of Texas parents labored to adapt to their new role as home educators. Yet despite all the challenges, some parents whose children have an underlying medical condition or face other issues may prefer to continue teaching at home as schools reopen, rather than risk their children's health.

One aspect of their children's education parents may overlook, however, is their *financial* education. The Department has long championed financial literacy in Texas schools to help students better understand how to manage their money. But parents now serving as teachers on the home front should know the subject is also a requirement for certain grades under the Texas Essential Knowledge and Skills (TEKS), the set of state standards that detail what students are expected to know.

To help parents introduce the concept of financial literacy in their home classroom, and continue meeting the TEKS requirements, the following resources have been gathered:

FDIC Money Smart: The *Money Smart for Young People* series consists of four free curriculum products. Each age-appropriate curriculum includes lesson plans along with guides for parents and caregivers. The materials are available for immediate download.

Federal Reserve Bank of Dallas/Building Wealth: *Building Wealth* is a personal financial education resource that presents an overview of wealth-building strategies for teachers, parents who are serving as teachers, and students. The Texas State Board of Education approved Building Wealth as one of the resources to meet the high school economics classes' financial education requirements.

Consumer Financial Protection Bureau / Money as You Grow: This program offers essential, age-appropriate financial lessons – with corresponding activities – that kids need to know as they grow. Written in down-to-earth language for children and their families, *Money as You Grow* helps equip your children with the knowledge they need to live fiscally fit lives.

Federal Reserve Bank of St. Louis / Econ Lowdown Newsletter: The *Econ Lowdown* e-newsletter is a convenient way for economics and personal finance teachers – and now parents – to stay up-to-date on the latest videos, podcasts, curriculum, and classroom activities from the St. Louis Fed. Each issue also includes a list of upcoming events where parents / teachers can get ideas for their home classrooms.

Junior Achievement: Junior Achievement provides the training, materials, and support necessary to bolster the chances for student success, with updated resources for parents. The organization's programs allow students to examine financial capabilities from a business perspective geared toward elementary, middle, and high school levels.

National Endowment for Financial Education (NEFE): NEFE provides a wide range of resources to teach students about money management and help you facilitate financial education in your home classroom. These self-help websites and resources are noncommercial and are updated frequently to ensure parents are provided credible and reliable information.

Texas Jump$tart: Texas Jump$tart is a statewide member-driven organization that brings together education champions committed to advancing financial literacy for young Texans. Programs offered include two specifically aimed at parents and teachers, which these days may be the same person in many cases.

Happy State Bank

By: Gordon Anderson

The Financial Education Show Must Go On

During normal times, Happy State Bank administers one of the most robust financial education programs in the state.

You remember normal, don't you? Back before COVID-19 meant anything to us?

Named for the city in which it is headquartered, the bank is well known throughout its service area for its Kids' Bank program.

The program, which features actual in-school banks, plays an active role in preparing children to effectively manage their finances. According to Stacie Smith, Vice President of Regional Operations for Happy State Bank, the Kids' Bank was developed to teach children the value of saving money while introducing them to the many aspects of banking.

"We feel the benefit of saving early in life helps children achieve financial success as adults," Smith explains, "which is why Happy State Bank designed a savings account with children in mind. The Kids' Bank Savings Account empowers children with the knowledge, experience and tools to start life on a good financial path."

Each in-school bank is supervised by two Happy State Bank employees but operated by fourth and fifth grade students, she says. Each student must complete an application and be interviewed at Happy State Bank for a teller position at their in-school bank.

Smith reports Happy State Bank supports 32 Kids' Banks in schools located in Lubbock, Abilene, Dallas-Fort Worth, and throughout the Texas Panhandle, and features nearly 1,500 active Kids' Bank accounts. These are real savings accounts, she says, where students may make deposits and withdrawals. Interest is accrued daily and compounded and paid quarterly.

However, nothing has been business as usual during COVID-19. When Texas schools were closed in March, all financial education efforts came to a sudden halt. Undeterred, Smith says the bank hopes to continue to grow the program in the upcoming school year.

In addition to the in-school banks, Happy State Bank has for the past two years also participated locally in Lemonade Day, a national, strategic lesson-based program that walks youths from a dream to an actual business plan while teaching them the principles required to start a company.

As the organization's website explains, Lemonade Day is a "fun, experiential program that teaches youth how to start, own and operate their very own business – a lemonade stand." And who hasn't run a lemonade stand at least once in their lives? Young children residing in participating cities can experience entrepreneurship each year by setting up a business of their own during their city's community-wide Lemonade Day.

Happy State Bank's participation may have begun just two years ago but its commitment continues to grow, Smith notes.

"In 2018, we provided financial support to the event locally, but in 2019 we took a lead role in organizing and fundraising for the event," she says. "This past May was supposed to be our first year to partner with Amarillo ISD to actually teach the Lemonade Day curriculum to all second-grade students after Spring Break, but obviously COVID prevented that from happening."

This should only be a temporary setback. Happy State Bank is already planning for Lemonade Day 2021 in Amarillo, tentatively scheduled for May.

Though COVID-19 may have put a temporary hold on Happy State Bank's financial education program, it certainly has not diminished Smith's and others resolve to ensure the program touches the minds of their community.

TEXAS

Banks Helping Communities

By: Michelle Hodge

Throughout the initial months of the pandemic, Texas state-chartered banks had a profound impact on the communities they serve, ensuring that customers had access to their deposit accounts, needed borrowing lines of credit were made available, and a sense of normalcy was maintained during a very stressful time. Customers could rely on their bank being open for business, even though it was far from business as usual.

Texas First Bank (Texas First) Chairman of the Board Charles Doyle perfectly summarized his bank's response to the pandemic, "Stop using the pandemic as an excuse to not do something and start using it as an excuse to do something!"

The following interviews illustrate how two Texas banks used the pandemic "to do something."

Chief Executive Officer (CEO) Aaron Flencher, of Somerville-based Citizens State Bank (Citizens State), and CEO Christopher Doyle, of Texas First, headquartered in Texas City were interviewed for their perspective on the pandemic. Both CEOs immediately recognized their employees' accomplishments, noting how proud they are of their staff and their handling of this unforeseen crisis. In addition, both banks are equally proud of their communities and how they rose to the challenge of this pandemic. Lending Officer Matt Stolz, of Citizens State, and Vice President SBA Business Development Officer (VP) Blake Barmore of Texas First were also interviewed.

Branch Activity

Citizens State

At Citizens State, CEO Flencher noted that their Pandemic Committee decided upon "A and B schedules" for employees at the beginning of the pandemic. The reasoning behind the split schedules was sound, if one employee became infected, they could call in the other shift to keep the branch open. Under this scenario, each employee worked one week on and one week off.

With lobbies closed, some customers had issues printing certain documents correctly or could not access the internet. Staff worked diligently to help their customers. Documents were printed for customers and picked up from a drive-through lane, then signed, and returned via the drive-through.

Texas First

CEO Doyle explained how at the peak of branch closures they enabled 170 of their 285 employees to work from home. They limited lobby access to appointment only, drive-through services remained open, and normal hours were maintained.

As of August, the service centers remain fully accessible via drive-through windows and by appointment, with approximately 50 employees working remotely. The bank added signs throughout the parking lot with the bank telephone number and a parking spot number for customers to call ahead for the banker to bring the business to their vehicle. They also added a feature to make lobby appointments online. CEO Doyle stated, "we are trying to think outside of the box to be more helpful to our customers."

Paycheck Protection Program

In April, when the Paycheck Protection Program (PPP) started, the impact bankers were having on their communities was witnessed across Texas. Both CEOs discussed how their employees were working well into the night to get their customers' loans approved.

Citizens State

At Citizens State, the first and most significant challenge related to the fact that they were not a Small Business Administration (SBA) approved lender. CEO Flencher, "I knew we would have our work cut out for us. With the hard work of our staff, we started the application and got the ball rolling." Citizens State also received help from Regional Loan President and SBA Department Manager Matt Crable at Texas First.

All employees were back at the bank prepared to do whatever it took. He further thanked the trade associations for keeping them updated about changes to the program.

Lending Officer Matt Stolz discussed how all PPP loans were generated through their main banking location. The loan administrative staff decided they would complete all the PPP loans to streamline the process and ensure the loans were properly documented for approval. He said this was a serious role that the staff willingly enlisted for because they wanted to help their customers survive and continue to serve the community. Due to the surge of PPP applications, employees were brought in from other departments who were cross trained to help with the "normal" loan operations.

Lending Officer Stolz recalled an email he received from a coworker's loan customer. This borrower had every employee and their families write thank you notes to the bank for the PPP loan, expressing how the loan saved their job and business. "This was most impactful," he stated.

These stories highlight the hard work and dedication community bankers demonstrate and will continue to demonstrate long after this pandemic is over.

As Lending Officer Stolz explained, "It was an experience for sure. It is one thing to accomplish it but, in a week, we went from having weekly loan officers' meetings which include all loan officers from all branches in the same location to everyone working remotely and schedules A and B. Everyone rose to the occasion and the work got done."

CEO Flencher noted Citizens State made 483 loans for over $32 million and helped save over 4,500 local jobs.

TEXAS FIRST BANK

Texas First

Texas First was an SBA approved lender when the PPP began in April. CEO Doyle discussed the weeks of working nights and weekends, sometimes until midnight or 1 AM; how one could really see the work that was being done and how everyone came together to succeed. He discussed business owners coming to Texas First for a PPP loan when their large bank could not provide a PPP loan. He noted multiple examples of being able to obtain PPP loans for clients who have now moved their entire banking relationship to Texas First. VP Barmore said, "This is a milestone marker that a banker can hang their hat on, helping the community like this."

CEO Doyle reported that Texas First originated 1,600 loans for $156 million, saving over 18,000 jobs. Further, in the two weeks that the first round of PPP was open they made more loans by number than they typically would in two years.

Bank Staff

Citizens State

Before the federal paid leave was available, Citizens State established an Emergency Paid Leave and Emergency Paid Short-Term Disability program for their employees. Management provided daily check-ins on staff who contracted COVID-19.

Concerned for their customers and to ease the stress on their employees and show appreciation, they ordered lunch for all employees every day in April. They purchased these individually packed meals from all their customers who own restaurants. It was a true win/win for the customers and employees. Loan Officer Stolz said that the word spread quickly of the bank's actions, and it was highly regarded in the communities it serves. In July, one of the establishments opened a food truck to try and survive, so once again, management ordered lunch for all their employees to help the bank customer.

"Our employees stepped up and did an amazing job working together," CEO Flencher stated. The Board and executive management wanted to show appreciation to the staff for all their hard work, especially during the PPP process. So, Citizens State rewarded staff with bonuses. This was greatly appreciated by the staff. In addition, Citizens State was able to increase salaries at their annual review.

Texas First

At the beginning of the pandemic, executive management became aware of some employees who wanted health insurance but could not afford it. So, they assessed the cost of health insurance and adjusted the amount the bank paid in insurance premiums. This adjustment was made bank-wide, enabling approximately 35 more people to sign up for health insurance.

Texas First also took some of the PPP fees earned and awarded bonuses to employees. CEO Doyle stated that they wanted to show their appreciation to all staff members not just members in the loan departments as it did not matter what division they worked in; they were all affected. The staff was very appreciative of the bonuses.

Overall

The actions taken by both banks are just a few examples of what community banks do across Texas to help their customers and staff. Their actions not only kept businesses open and people employed, but also helped reduce stress and hopefully kept spirits high.

CEO Flencher provided the notes of thanks received from their staff for the bonuses Citizen State paid. Four pages expressing gratitude and appreciation for working at the organization.

While speaking with CEO Doyle, he said "the things that you learn and get out of a crisis are really interesting. There are some terrible things that come out of it, but there are some really great things that happen that people can benefit from for years."

We thank Citizens State and Texas First for their contributions to this article and their support of Texas communities.

This is how the EMPLOYEES say THANK YOU

To the Board Members of Citizens State Bank, Somerville

Thank You!!!! CSB is the best around! You all have taken good care of the employees during this hard time, each and every one of you are a blessing! It's such a privilege to work here!

Thank you very much for your hard work, guidance and leadership through this time. It has been an adventure going through all of the PPP requests and taking care of the customers and our community.

I wanted to personally thank you and the rest of the Board for helping to always take care of us. From the beginning of my time here at CSB, I have always been told - and then shown - how much CSB cares about their associates and their families.

Words expressing my gratitude won't do enough ... it's a pleasure working for you. I know through the countless "THANK YOU" greetings from customers that we have made an impact in our communities.

I just wanted to say thank you to you & the board for all you do for us! I feel that I am truly blessed to work for such a wonderful family & company! It has been a stressful time for everyone but knowing that I have a safe environment & a job to come to each day is one of the many blessings!

Thank you so much for the bonus. That is an awesome surprise and I appreciate the generous gesture. The generosity of the management of CSB never ceases to amaze me. It is a great privilege to work for such a wonderful organization.

Here is an except from a Facebook post for Texas First Bank:

I have to take a moment to praise our friends and partners at Texas First Bank, and especially Blake Barmore & Sean Doyle! I will be gushing so you're forewarned…

I have read that the $329 billion dollars for the PPP program has been exhausted, and only approximately $2.9 billion went to restaurants, less than 4%. Like everyone else we applied for the PPP loans but with an exception, we used Texas First, a local, family owned, regional bank owned by the Doyle family.

The Doyle family are extremely great customers of ours and friends. In short they personally care about our businesses, the old fashioned way, the way before giant conglomerate banks took over.

Monday night, April 6, 10:27 pm Blake texts me to see if I was still awake, I was, he had a few questions for me, I answered, he replied back "Your two requests were approved." I got no sleep that night, he has been working until midnight basically 7 days a week to process these loans…then Jeanne Elliston emails us on a Saturday afternoon requesting documents…what banks do this? Work until midnight, Saturdays just to help their customers? Texas First does. We were funded on April 15th!

I made the individual phone calls and was met mostly with shock, joy, relief, some tears…on behalf of all of our employees, thank you again Texas First Bank for caring and working hard to support our local Texas Businesses and employees during this time!

Financial Highlights

TABLE I
Quarterly Balance Sheet and Operating Performance Ratios
for Texas State-Chartered Commercial Banks 6/30/2020 Through 6/30/19

ACCOUNT DESCRIPTIONS (IN MILLIONS OF $)	6/30/2020	3/31/2020	12/31/2019	9/30/2019	6/30/2019
Number of State-Chartered Banks	217	218	224	225	228
Total Assets of State-Chartered Banks	319,759	289,891	284,534	280,027	276,327
Number of Out-of-State, State-Chartered Banks Operating in Texas	42	42	42	42	41
Total Texas Assets of Out-of-State, State-Chartered Banks Operating in Texas	70,775	70,775	70,775	70,775	69,686
Subtotal	390,534	360,666	355,309	350,802	346,013
Less: Out-of-State Branch Assets/Deposits	-53,389	-53,389	-53,389	-53,389	-51,709
**Total State Banks Operating in Texas	337,145	307,277	301,920	297,413	294,304
BALANCE SHEET (Tx. State-Chartered Banks)					
Interest-Bearing Balances	32,082	16,364	16,517	13,228	11,539
Federal Funds Sold	1,103	975	966	880	1,095
Trading Accounts	966	917	358	446	335
Securities Held-To-Maturity	12,063	12,619	13,176	12,167	12,725
Securities Available-for-Sale	51,472	51,323	49,773	50,221	50,048
Total Securities	63,535	63,942	62,949	62,388	62,773
Total Loans	198,274	183,968	179,129	179,618	177,866
Total Earning Assets	294,994	265,249	259,561	256,114	253,273
Premises and Fixed Assets	5,048	5,038	5,023	4,981	4,914
Total Assets	319,759	289,891	284,534	280,027	276,327
Demand Deposits	38,732	30,991	31,132	29,399	28,566
MMDAs	147,140	127,042	125,598	123,650	120,445
Other Savings Deposits	31,433	27,965	27,784	27,081	26,987
Total Time Deposits	34,812	35,693	35,764	36,008	36,706
Brokered Deposits	4,906	4,541	3,597	4,666	6,101
Total Deposits	261,290	230,812	229,719	224,799	221,400
Federal Funds Purchased	3,061	3,916	2,963	2,364	3,043
Other Borrowed Funds	12,057	13,703	11,409	13,278	13,029
Total Liabilities	281,208	252,409	247,357	244,051	240,723
Total Equity Capital	38,552	37,482	37,177	35,976	35,604
Loan Valuation Reserves	2,854	2,599	1,752	1,823	1,836
Total Primary Capital	41,406	40,081	38,929	37,799	37,440
Past Due Loans > 90 Days	388	350	302	213	210
Total Nonaccrual Loans	895	851	762	773	805
Total Other Real Estate	199	193	194	189	187
Total Charge-Offs	331	161	332	287	147
Total Recoveries	39	19	101	83	47
Net Charge-Offs	292	142	231	204	100
INCOME STATEMENT					
Total Interest Income	5,207	2,668	10,926	8,526	5,677
Total Interest Expense	652	399	1,793	1,426	931
Net Interest Income	4,555	2,269	9,133	7,100	4,746
Total Noninterest Income	1,797	814	3,163	2,389	1,531
Loan Provisions	1,127	722	267	238	143
Salary and Employee Benefits	2,161	1,054	4,148	3,159	2,095
Premises and Fixed Assets Expenses (Net)	426	214	828	633	418
All Other Noninterest Expenses	1,165	606	2,178	1,609	1,081
Total Overhead Expenses	3,752	1,874	7,154	5,401	3,594
Securities Gains (Losses)	185	143	14	8	-2
Net Extraordinary Items	0	0	0	0	0
Net Income	1,426	543	4,034	3,184	2,098
Cash Dividends	851	603	3,048	2,182	1,398
RATIO ANALYSIS					
Loan/Deposit	75.88%	79.70%	77.98%	79.90%	80.34%
Securities/Total Assets	19.87%	22.06%	22.12%	22.28%	22.72%
Total Loans/Total Assets	62.01%	63.46%	62.96%	64.14%	64.37%
Loan Provisions/Total Loans	1.14%	1.57%	0.15%	0.18%	0.16%
LVR/Total Loans	1.44%	1.41%	0.98%	1.01%	1.03%
Net Charge-Offs/Total Loans	0.15%	0.08%	0.13%	0.11%	0.06%
Nonperforming+ORE/Total Assets	0.46%	0.48%	0.44%	0.42%	0.43%
Nonperforming+ORE/Primary Capital	3.58%	3.48%	3.23%	3.11%	3.21%
Net Interest Margin	3.09%	3.42%	3.52%	3.69%	3.75%
Gross Yield	4.38%	4.80%	4.95%	5.18%	5.22%
Return on Assets	0.89%	0.75%	1.42%	1.51%	1.52%
Return on Equity	7.40%	5.79%	10.85%	11.77%	11.79%
Overhead Exp/TA	2.35%	2.59%	2.51%	2.57%	2.60%
Equity/Total Assets	12.06%	12.93%	13.07%	12.85%	12.88%
Primary Capital/Total Assets+LVR	12.83%	13.70%	13.60%	13.41%	13.46%

*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
Commercial Banks Domiciled in Texas
June 30, 2020 and June 30, 2019

ACCOUNT DESCRIPTIONS (In Millions of $)	6/30/2020 STATE CHARTERED		6/30/2020 NATIONAL CHARTERED		6/30/2020 ALL BANKS		6/30/2019 ALL BANKS	
Number of banks	217	% TA	169	% TA	386	% TA	400	% TA
BALANCE SHEET								
Interest-Bearing Balances	32,082	10.0%	23,829	14.4%	55,911	11.5%	22,355	5.4%
Federal Funds Sold	1,103	0.3%	7,174	4.3%	8,277	1.7%	2,136	0.5%
Trading Accounts	966	0.3%	134	0.1%	1,100	0.2%	395	0.1%
Securities Held-To-Maturity	12,063	3.8%	2,293	1.4%	14,356	3.0%	15,491	3.8%
Securities Available-For-Sale	51,472	16.1%	23,398	14.1%	74,870	15.4%	70,285	17.1%
Total Securities	63,535	19.9%	25,691	15.5%	89,226	18.4%	85,776	20.8%
Total Loans	198,274	62.0%	100,647	60.7%	298,921	61.6%	270,978	65.8%
Total Earning Assets	294,994	92.3%	157,341	95.0%	452,335	93.2%	381,245	92.6%
Premises & Equipment	5,048	1.6%	1,786	1.1%	6,834	1.4%	6,628	1.6%
TOTAL ASSETS	319,759	100.0%	165,695	100.0%	485,454	100.0%	411,641	100.0%
Demand Deposits	38,732	12.1%	23,080	13.9%	61,812	12.7%	45,444	11.0%
MMDAs	147,140	46.0%	68,937	41.6%	216,077	44.5%	174,208	42.3%
Other Savings Deposits	31,433	9.8%	21,095	12.7%	52,528	10.8%	43,911	10.7%
Total Time Deposits	34,812	10.9%	20,949	12.6%	55,761	11.5%	56,704	13.8%
Brokered Deposits	4,906	1.5%	6,346	3.8%	11,252	2.3%	12,186	3.0%
Total Deposits	261,290	81.7%	140,471	84.8%	401,761	82.8%	334,412	81.2%
Fed Funds Purchased	3,061	1.0%	1,435	0.9%	4,496	0.9%	4,558	1.1%
Other Borrowed Funds	12,057	3.8%	5,484	3.3%	17,541	3.6%	17,657	4.3%
TOTAL LIABILITIES	281,208	87.9%	149,020	89.9%	430,228	88.6%	361,099	87.7%
Equity Capital	38,552	12.1%	16,675	10.1%	55,227	11.4%	50,542	12.3%
Allowance for Loan/Lease Losses	2,854	0.9%	1,246	0.8%	4,100	0.8%	2,850	0.7%
Total Primary Capital	41,406	12.9%	17,921	10.8%	59,327	12.2%	53,392	13.0%
Past due >90 Days	388		154		542		308	
Nonaccrual	895		657		1,552		1,340	
Total Other Real Estate	199		67		266		257	
Total Charge-Offs	331		234		565		238	
Total Recoveries	39		20		59		68	
INCOME STATEMENT	Y-T-D		Y-T-D		Y-T-D		Y-T-D	
Total Interest Income	5,207	100.0%	2,783	100.0%	7,990	100.0%	8,549	100.0%
Total Interest Expense	652	12.5%	403	14.5%	1,055	13.2%	1,465	17.1%
Net Interest Income	4,555	87.5%	2,380	85.5%	6,935	86.8%	7,084	82.9%
Total Noninterest Income	1,797	34.5%	832	29.9%	2,629	32.9%	2,452	28.7%
Loan Provisions	1,127	21.6%	423	15.2%	1,550	19.4%	268	3.1%
Salary & Employee Benefits	2,161	41.5%	1,156	41.5%	3,317	41.5%	3,189	37.3%
Premises & Fixed Assets (Net)	426	8.2%	209	7.5%	635	7.9%	635	7.4%
All Other Noninterest Expenses	1,165	22.4%	722	25.9%	1,887	23.6%	1,729	20.2%
Total Overhead Expenses	3,752	72.1%	2,087	75.0%	5,839	73.1%	5,553	65.0%
Securities Gains(losses)	185	3.6%	37	1.3%	222	2.8%	4	0.0%
Net Extraordinary Items	0	0.0%	0	0.0%	0	0.0%	0	0.0%
NET INCOME	1,426	27.4%	688	24.7%	2,114	26.5%	3,119	36.5%
Cash Dividends	851		360		1,211		1,948	
Average ROA	0.89%		0.83%		0.87%		1.52%	
Average ROE	7.40%		8.25%		7.66%		12.34%	
Average TA ($ Millions)	1,474		980		1,258		1,029	
Average Leverage	12.06%		10.06%		11.38%		12.28%	
Dividends/Net Income	59.68%		52.33%		57.28%		62.46%	

*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.