State Profile

Summer 2004

Texas

Texas nonfarm job growth continues to lag the nation in first quarter of 2004.

- Texas companies added 17,000 jobs to payrolls in April, the seventh consecutive month of job gains, according to the Texas Workforce Commission.
- Consistent job growth in Texas underscores the long-awaited U.S. employment recovery; although the pace of job growth in Texas slightly lags the nation (See Chart 1).
- The state's somewhat slow employment growth can be attributed, in part, to locally troubled industries such as telecommunications and airlines. As a result of the very slow recovery in these industries, Texas ranked last among U.S. states in per capita personal income growth in 2003.

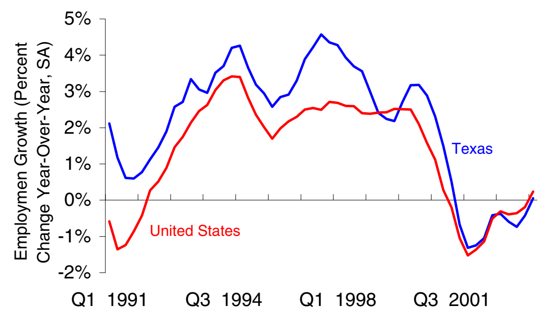
Job growth in Texas has been uneven with respect to the state's major industry sectors.

- Educational/health services and natural resources and mining have been the fastest growing sectors, led by favorable demographics, historically low mortgage interest rates and higher energy prices (See Chart 2).
- Employment losses were concentrated in the goods-producing sectors of manufacturing and construction as well as the sector of professional and business services.

Adverse World Trade Organization (WTO) ruling could affect Texas agriculture.

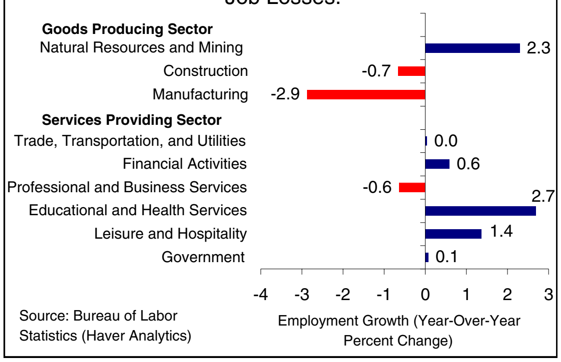
- An adverse WTO ruling against U.S. cotton subsidies was announced on June 18, 2004, which indicated that U.S. cotton subsidies were anti-competitive.
- Changes or reductions in cotton subsidies as a result of an adverse WTO finding against U.S. cotton subsidies may adversely impact U.S. cotton producers and lenders in highly concentrated cotton areas.
- Moreover, it is still unclear whether a decision to change or repeal cotton subsidies could affect subsidies for other agricultural commodities or future multi-lateral trade agreements.

Chart 1. Job Numbers Show Texas Employment Growth Slightly Trailing the Nation in Early 2004.



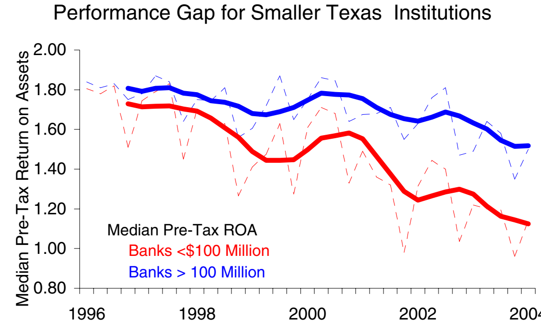
Source: BLS/Haver Analytics

Chart 2: The Texas Manufacturing Sector Leads Job Losses.



Source: Bureau of Labor Statistics (Haver Analytics)

Chart 3: Compressing Margins are Widening the Performance Gap for Smaller Texas Institutions



Source: Bank and Thrift Call Reports. Note: dotted is actual data; solid is moving median

The performance of Texas institutions under $100 million continues to decline compared to other banking companies.

- The disparity between large and small bank (under $100 million) net interest margins is growing (See Chart 3).
- Recent margin compression, a consequence of the very low interest rate environment, has contributed to declining profitability, particularly for small banks.
- A widening performance gap is attributed to the more pronounced effect margin compression has on small banks and the comparative advantage larger banks have in generating noninterest income.

Despite weakness in Commercial Real Estate (CRE) markets, lenders have not experienced significant deterioration in their portfolios.

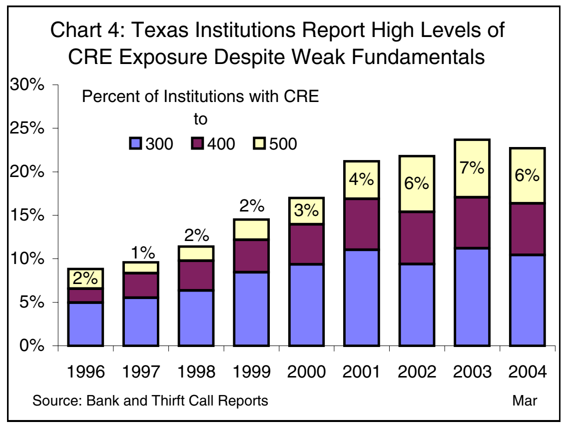
- The **Dallas** metro area continued to report the highest office vacancy rate in the nation at 28 percent as of March 31, 2004. **Austin** ranked second at 23.9 percent. Industrial, multifamily, and hotel property types exhibited similar signs of weakness.
- Despite continued weakness in CRE markets, Texas insured institutions reported among the highest concentration of CRE loans[1] as a percent of Tier 1 capital in a decade (See Chart 4).
- CRE past-due rates remained at the low end of the last five-year averages. This strong performance can be attributed to continued low interest rates; the tremendous growth in publicly held CRE debt and equity positions; the availability of related market information; continued regulatory scrutiny; and more stringent lending standards.[2]

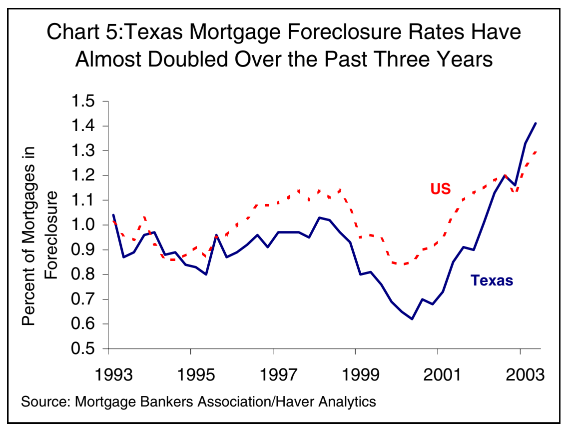
Despite weak consumer fundamentals insured institution credit quality has not been affected.

- Texas residential mortgage foreclosures rose to the highest level in a decade, almost doubling during the past three years (See Chart 5).
- While Texas insured institutions report stable residential loan past-due rates, similar to national levels, rising mortgage foreclosure rates could be an area to watch, especially if long-term interest rates rise.
- Texas per capita bankruptcy rates continued to hover near record levels, albeit below the national average. If short-term interest rates move higher, consumer cash flows will most likely be negatively affected. Despite these trends, consumer loans held by Texas insured institutions continued to report stable past-due and charge-off rates.

Home Equity Loans offer growth opportunities for Texas institutions

- With the passing of a state constitutional amendment last year, Texas homeowners can now tap into an estimated $12.7 billion of home equity lines of credit (HELOC).[3] Texas insured institutions held $1.9 billion in HELOCs at March 31, 2004, an increase of 45 percent from one-year earlier.





[1] Commercial real estate loans are defined as non-residential real estate, multifamily, and construction and development loans.
[2] Murray, Thomas, "How Long Can Bank Portfolios Withstand Problems in Commercial Real Estate?" FDIC FYI, June 23, 2003.
[3] Texas Comptroller of Public Account, "Home Equity Lending Gaps in Texas," March 2003.

Texas at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	692	712	727	746	799
Total Assets (in thousands)	206,182,048	220,193,126	200,593,852	186,349,325	244,304,295
New Institutions (# < 3 years)	21	17	17	23	35
New Institutions (# < 9 years)	57	53	50	50	48

Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	9.25	9.10	8.93	9.10	9.13

Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	1.96%	2.33%	2.17%	2.16%	1.91%
Past-Due and Nonaccrual >= 5%	101	133	107	119	106
ALLL/Total Loans (median %)	1.26%	1.29%	1.24%	1.19%	1.20%
ALLL/Noncurrent Loans (median multiple)	1.84	1.67	1.84	1.96	2.17
Net Loan Losses/Loans (aggregate)	0.27%	0.39%	0.42%	0.33%	0.34%

Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	41	46	53	33	38
Percent Unprofitable	5.92%	6.46%	7.29%	4.42%	4.76%
Return on Assets (median %)	1.09	1.08	1.14	1.19	1.26
25th Percentile	0.72	0.69	0.66	0.81	0.88
Net Interest Margin (median %)	4.20%	4.27%	4.43%	4.54%	4.72%
Yield on Earning Assets (median)	5.38%	5.80%	6.52%	8.17%	8.02%
Cost of Funding Earning Assets (median)	1.10%	1.53%	2.12%	3.64%	3.27%
Provisions to Avg. Assets (median)	0.10%	0.13%	0.14%	0.12%	0.11%
Noninterest Income to Avg. Assets (median)	0.88%	0.90%	0.85%	0.88%	0.87%
Overhead to Avg. Assets (median)	3.39%	3.33%	3.33%	3.36%	3.41%

Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	63.00%	62.25%	62.45%	62.09%	59.46%
Loans to Assets (median %)	54.01%	54.05%	54.38%	54.57%	52.37%
Brokered Deposits (# of Institutions)	75	62	50	48	42
Bro. Deps./Assets (median for above inst.)	3.54%	3.83%	2.01%	1.73%	2.53%
Noncore Funding to Assets (median)	16.54%	16.75%	16.60%	16.71%	15.22%
Core Funding to Assets (median)	72.18%	72.04%	72.56%	72.30%	74.26%

Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	292	293	297	307	329
National	314	329	340	351	374
State Member	43	43	41	40	43
S&L	11	11	12	10	11
Savings Bank	11	12	13	14	15
Stock and Mutual SB	21	24	24	24	27

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	367	35,718,701	53.03%	17.32%
Dallas TX PMSA	71	25,108,663	10.26%	12.18%
Houston TX PMSA	48	34,529,487	6.94%	16.75%
Ft Worth-Arlington TX PMSA	41	8,351,789	5.92%	4.05%
Austin-San Marcos TX	21	21,620,843	3.03%	10.49%
San Antonio TX	16	27,261,676	2.31%	13.22%
Longview-Marshall TX	12	1,606,451	1.73%	0.78%
Waco TX	11	1,646,861	1.59%	0.80%
Killeen-Temple TX	10	2,646,878	1.45%	1.28%
Lubbock TX	10	7,143,923	1.45%	3.46%
McAllen-Edinburg-Mission TX	10	10,282,157	1.45%	4.99%
Corpus Christi TX	8	1,913,309	1.16%	0.93%
Sherman-Denison TX	7	1,203,579	1.01%	0.58%