

# **Adios “Texas Ratio”**

**(With an Unauthorized Rewrite of George Strait’s  
Most Memorable Song and a Tribute to Bob Hankins)**

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*Remarks at the Texas Bankers Association’s 128th Annual  
Convention & Exposition*



**Richard W. Fisher**  
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Fort Worth, Texas  
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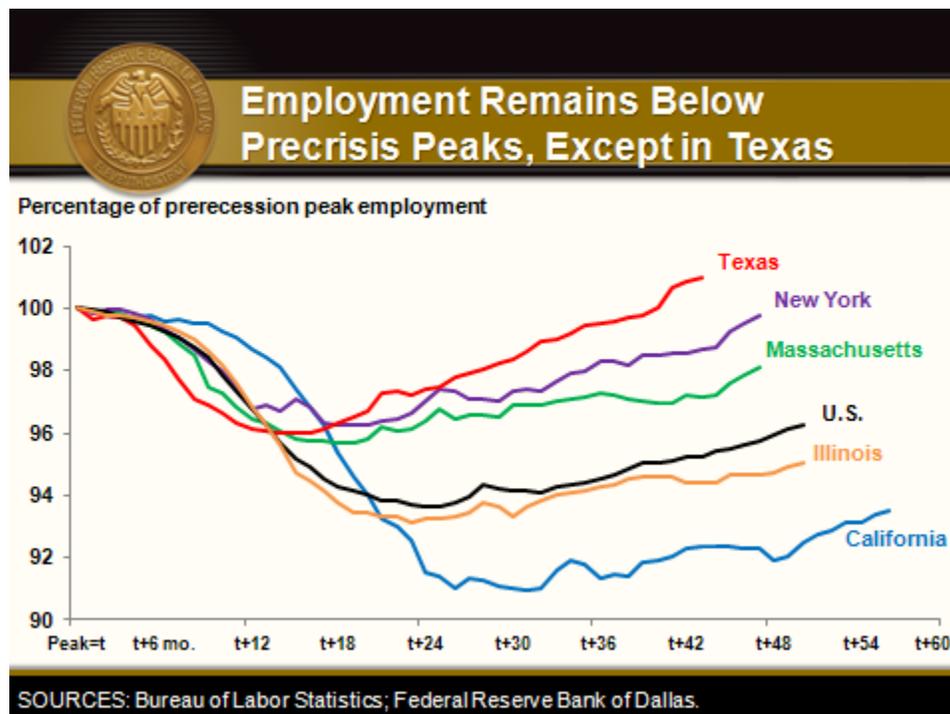
*The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.*

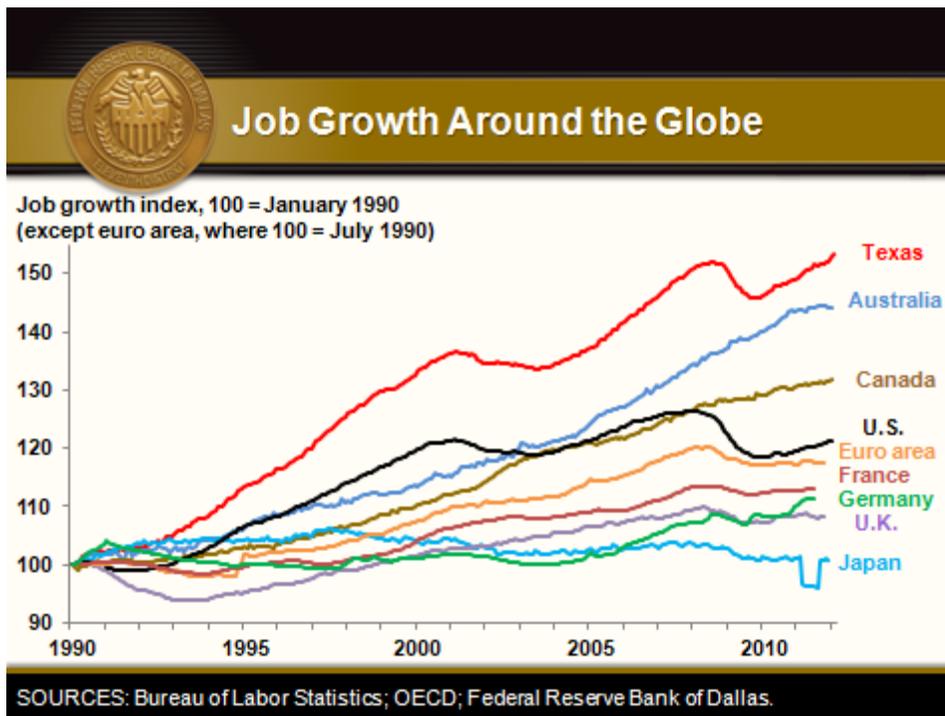
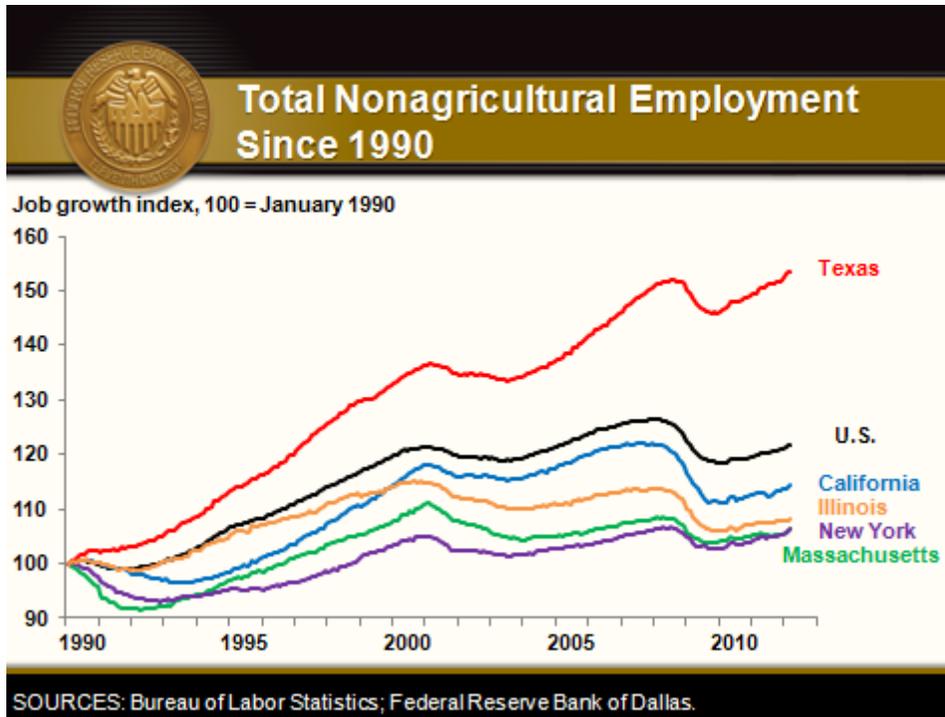
# Adios “Texas Ratio”

(With an Unauthorized Rewrite of George Strait’s Most Memorable Song and a Tribute to Bob Hankins)

Richard W. Fisher

In many of my recent speeches, I have noted that the Texas economy is outperforming the nation. Here are three slides I have used to illustrate the point: We were the first large state to punch through prerecession peak employment levels; we have led the nation and the other “power” states in job growth over the past 21 years; we have even outperformed the resource-rich countries of Australia and Canada, and core European countries, England and Japan—the so-called advanced economies.





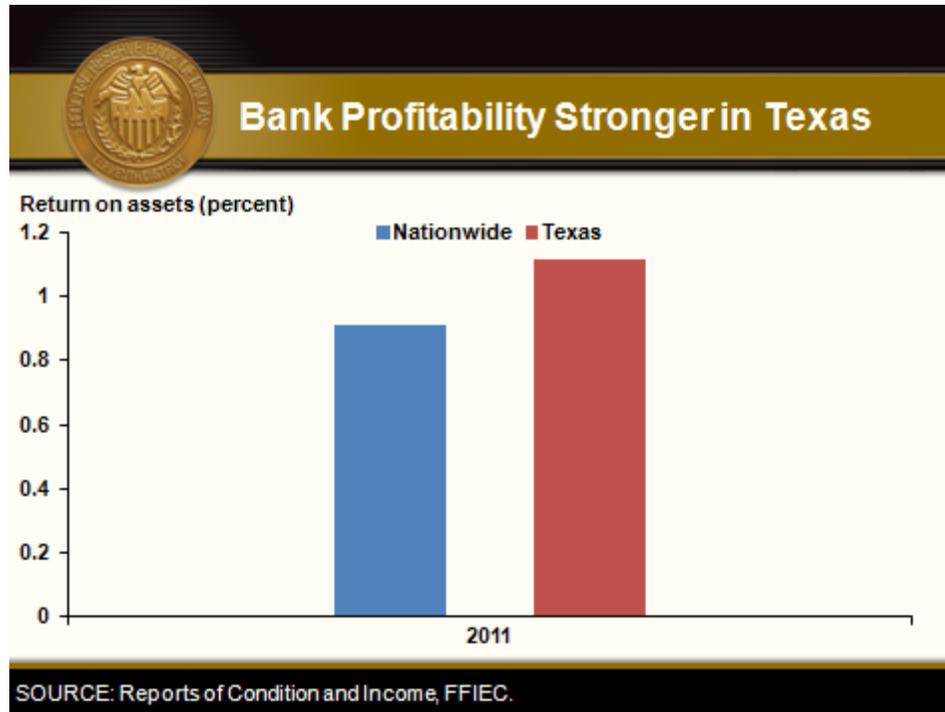
### “All My Exes Live in Texas”

Last week, I was on a panel titled “Jobs for America” at the Milken Institute’s 2012 Global Conference in Los Angeles with John Engler, the former governor of Michigan, who now runs the Business Roundtable.<sup>1</sup> Unprompted by me, the governor led off the discussion by saying that his home state of Michigan and his host state of California—indeed, the whole country—need to become more like Texas. I thanked him, and with prototypical Texas humility, suggested that we

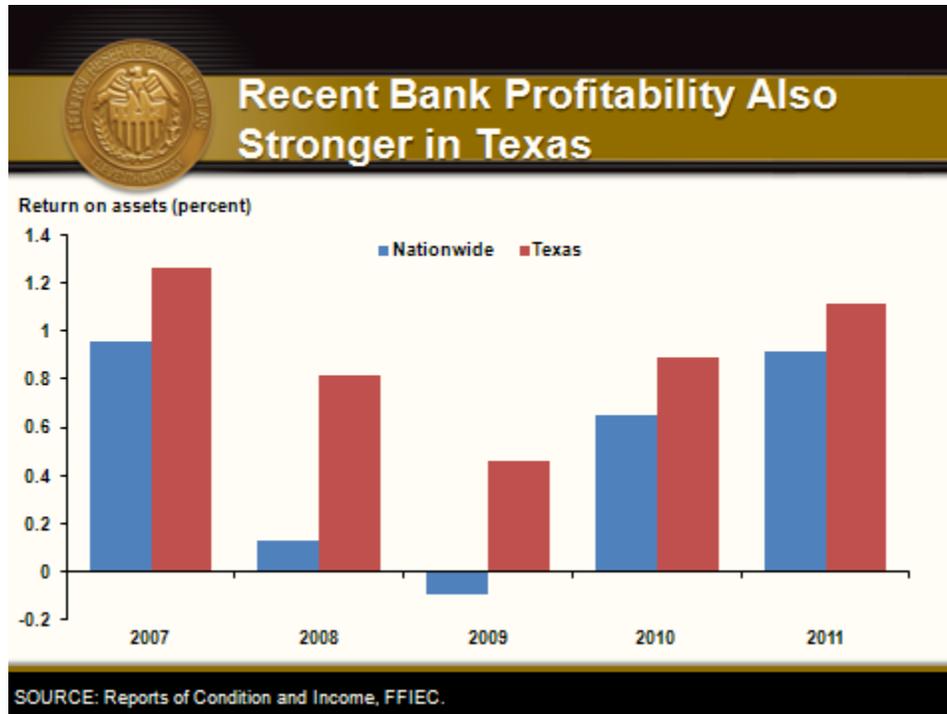
were simply rewriting the words to George Strait’s song, “All My Exes Live in Texas.”<sup>2</sup> It’s not just ex-wives, but ex-businesses, ex-employers, ex-taxpayers and ex-voters of Michigan and California (and New York and other areas of the country) who are pulling up stakes and coming to live a new life and thrive in Texas.

### **Texas Banks Continue to Outperform the Nation**

Just as we have outpaced others in job creation, our banking industry has outperformed the nation. For example, last year, Texas-based banks earned a return on assets (ROA) of 1.1 percent; banks nationwide earned an ROA of 0.9 percent.



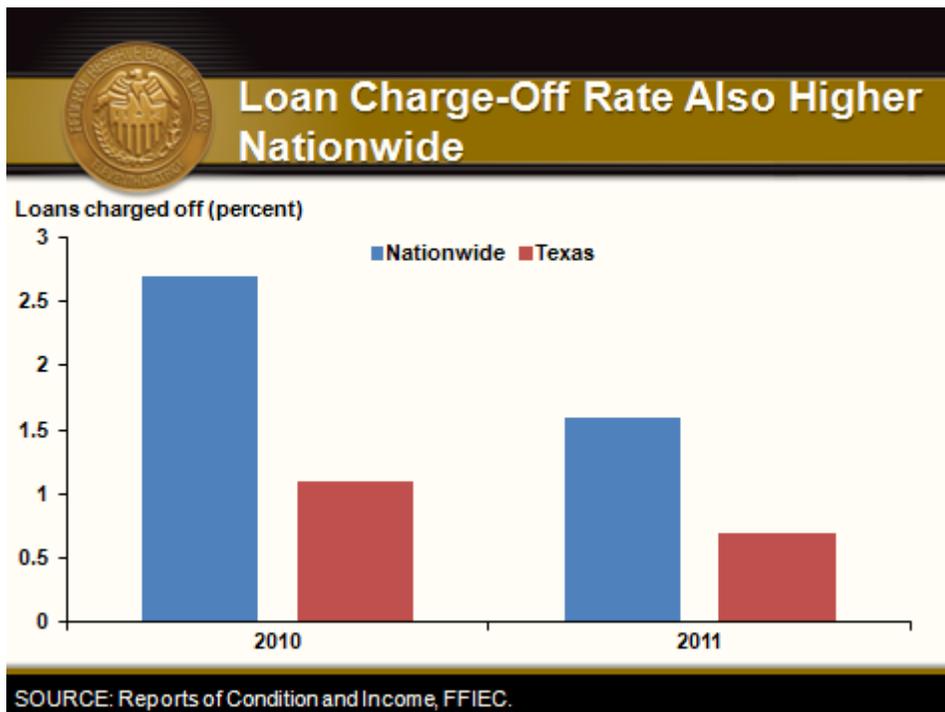
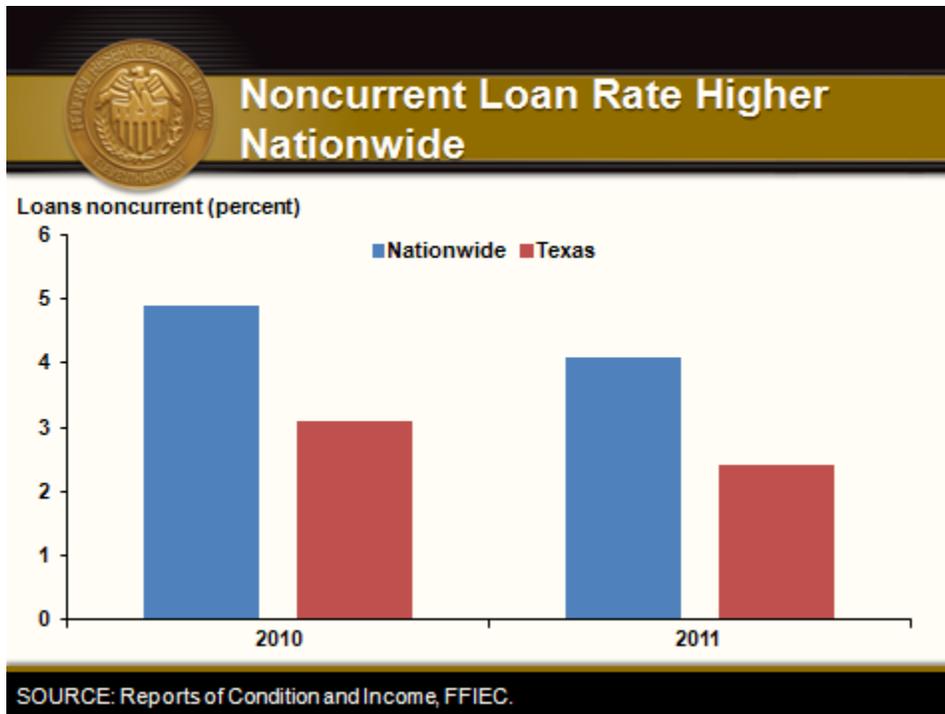
This is a pretty good performance, considering what the industry recently went through. But what’s most notable is that this marks the fifth consecutive year that Texas banks have done better than their counterparts nationwide in terms of profitability. In fact, at the height of the crisis, in 2009, Texas banks earned a profit of \$1.4 billion while the entire U.S. banking industry lost \$11.5 billion.



These slides tell the Texas banking story in high definition—you all are the pride of the nation’s banking community.

**“Twice as Good; Half as Bad”**

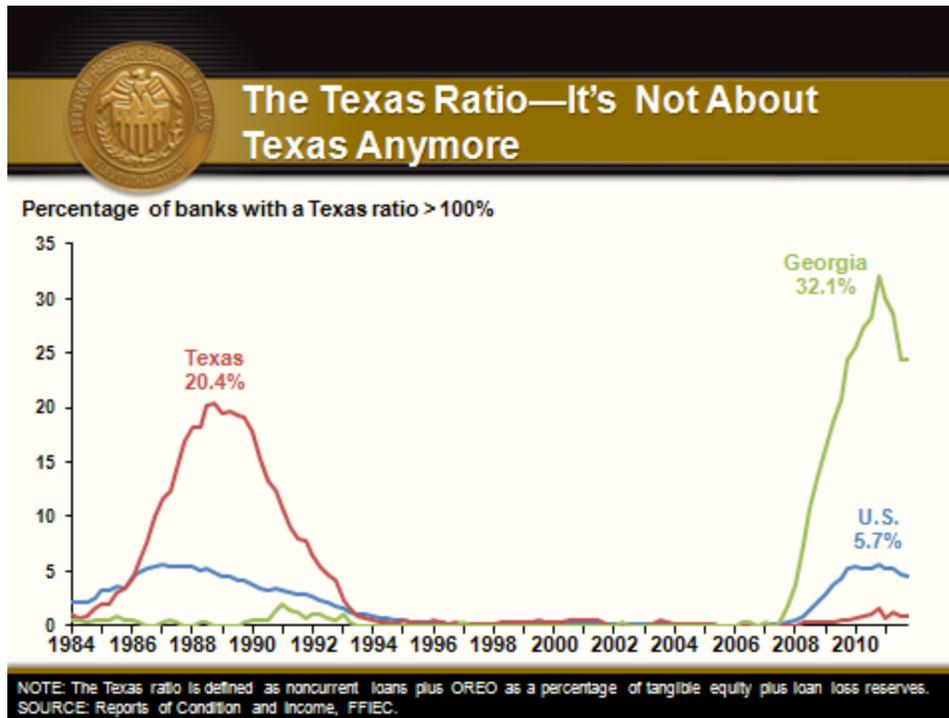
Most of you remember the legendary Bob Hankins, who recently retired after 20 years as head of supervision at the Federal Reserve Bank of Dallas. Bob had a saying that Texas banks were “twice as good and half as bad” as banks nationwide. That remains the case, though banks around the U.S. are slowly catching up with Texas. For example, in Texas last year, the noncurrent loan rate was down to 2.4 percent (from 3.1 percent in 2010). At banks across the U.S., the noncurrent loan rate was 4.1 percent (from 4.9 percent in 2010). Charge-offs were 0.7 percent of all loans in Texas in 2011, compared with 1.6 percent nationwide.



### Adios Texas Ratio

Maybe the best summary of what's going on with Texas banks when compared with the rest of the nation can be found in the so-called Texas ratio. Those of us of a certain age will remember the Texas ratio, which is technically defined as noncurrent loans plus OREO (other real estate owned) expressed as a percentage of tangible equity capital plus loan loss reserves.<sup>3</sup> Given that definition, no banker of any distinction would want the Texas ratio to exceed 100 percent.

We earned that moniker in the late 1980s when 20 percent of our banks had a Texas ratio exceeding 100 percent. However, in 2011 only 0.9 percent of Texas banks had a Texas ratio greater than 100 percent, compared with 4.6 percent nationwide—and that nationwide number is down from a 5.7 percent peak in 2010. That’s why, for the past 10 years or so, old Bob Hankins insisted on calling it the “anywhere-but-Texas ratio” and suggested it be replaced, perhaps, by the “Georgia ratio.” Last year, 24 percent of banks based in Georgia recorded a Texas ratio greater than 100 percent. And the peak in Georgia was even worse than the peak in Texas in the 1980s. In 2010, a remarkable 32 percent of Georgia banks recorded a Texas ratio exceeding 100 percent.



### Conclusion

While we pray for our banking brethren in Georgia and other areas of the country, let’s remember to say grace over what we have here at home. Texas is home to the nation’s best-run banks. And the best-performing economy in the country.

In his classic tome, *Lone Star: A History of Texas and the Texans*, historian T.R. Fehrenbach wrote: “The Texan ethic and Texas society rewarded enterprise ... work was the real virtue. We chose this land; we took it; we made it bear fruit.” We are a people for whom “the cult of courage was obvious.”<sup>4</sup> This remains the case for the working men and women of this great state and for its business operators and bankers. It is why we thrive when others wither. It is why even a Michigan governor sings our praises. I am counting on the Texas Bankers Association to keep it that way.

Good luck and Godspeed.

## Notes

<sup>1</sup> A video of this panel can be found on the Milken Institute's website: [www.milkeninstitute.org/events/gcprogram.taf?function=detail&eventid=gc12&EvID=3211](http://www.milkeninstitute.org/events/gcprogram.taf?function=detail&eventid=gc12&EvID=3211).

<sup>2</sup> "All My Exes Live in Texas," by Sanger D. Shafer and Lyndia Shafer and popularly performed by George Strait, MCA, April 1987.

<sup>3</sup> OREO—other real estate owned—refers to real estate property owned by a bank as a result of foreclosure.

<sup>4</sup> *Lone Star: A History of Texas and the Texans*, by T.R. Fehrenbach, New York: Macmillan Publishing Co., 1985, chapter 15.