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DISTRICT HIGHLIGHTS

Federal Reserve Bank of Dallas June 1983

Texas S&Ls Increase Construction Financing With New Deposits

The new investment powers authorized for federally-chartered savings and loan associations (S&Ls) in the Garn-St Germain Depository Institutions Act of 1982 had no impact on the asset powers of most S&Ls in Texas. The Garn-St Germain Act enabled federal thrifts to engage in commercial lending and broadened their scope for real estate lending. Investment powers of state-chartered S&Ls in Texas exceed those given to federal S&Ls in this legislation. In fact, these Texas institutions were the model for the new asset powers. But the money market deposit accounts (MMDAs) created in the Garn-St Germain Act have been responsible for very large increases in deposits at Texas S&Ls, enabling them to help finance the housing recovery here and to increase their role in the construction financing market.

Broad Asset Powers of State-Chartered S&Ls in Texas

Of the 284 S&Ls in Texas, 231 are state-chartered. These institutions control 80 percent of the assets held by Texas S&Ls, and they can participate directly in all areas of real estate development, including the taking of equity positions in projects they finance. Although state-chartered S&Ls in Texas have had the authority to make commercial, consumer, inventory, agricultural, and oil and gas loans since 1974, real estate remains their primary area of investment. S&Ls in Texas are becoming more involved in construction financing—particularly of income-producing properties—than S&Ls in the rest of the United States. In the first three months of the year, one-half of the volume of loans closed by S&Ls in Texas financed construction, compared with one-quarter at the rest of the nation's S&Ls.

The MMDAs authorized in the Garn-St Germain Act have considerably boosted the liquidity of all S&Ls. The MMDAs became available on December 15, 1982. In the first quarter, Texas S&Ls recorded $3 billion in net new savings, compared with $400 million in

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A Good Year for District Bank Holding Companies

Large bank holding companies in the Eleventh District were strong performers again in 1982. The combined net income of the District's eleven largest holding companies rose 15 percent over 1981. As measured by return on average assets, four Texas bank holding companies ranked as the nation's most profitable large banking organizations. Several factors contributed to this strength. The spread between the average yield on assets over average cost of funds widened. Together with a large growth in assets, this worked to raise net interest income. Rising noninterest income and diminished tax liabilities resulted in an increase in net income. In contrast, performance in the first quarter of 1983 indicates that the current year may not be as promising.

Total assets of the eleven largest holding companies grew 15 percent in 1982, which was nearly double the average rate of the 25 largest banking organizations in the nation. This growth was comprised of an $11 billion increase in loans and an increase of $4 billion in investment securities. The increase in assets was funded almost entirely by time deposit growth. Total deposits grew 15 percent in 1982, mainly from an $11 billion increase in time and savings deposits. Demand deposits declined $1 billion.

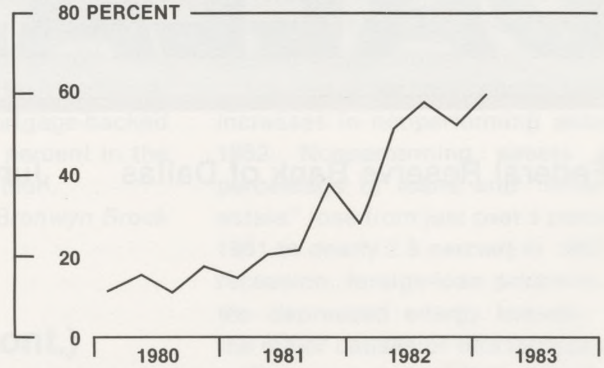
The net income of the 11 largest bank holding companies rose by $129 million. This increase was primarily due to the banks' investment in municipal bonds and other tax-exempt securities, which reduced tax liabilities. Income before taxes and security transactions increased by

(Continued on back page)

Chart 1
NET NEW SAVINGS DEPOSITS: TEXAS S&L'S[1]

1. Includes FSLIC-insured institutions.
SOURCE: Federal Home Loan Bank Board.

Chart 2
SHARE OF CONSTRUCTION LOANS FOR INCOME-PRODUCING PROPERTIES: TEXAS S&L'S[1]



1. Includes FSLIC-insured institutions.
SOURCE: Federal Home Loan Bank Board.
Federal Reserve Bank of Dallas.

ELEVENTH DISTRICT CREDIT CONDITIONS

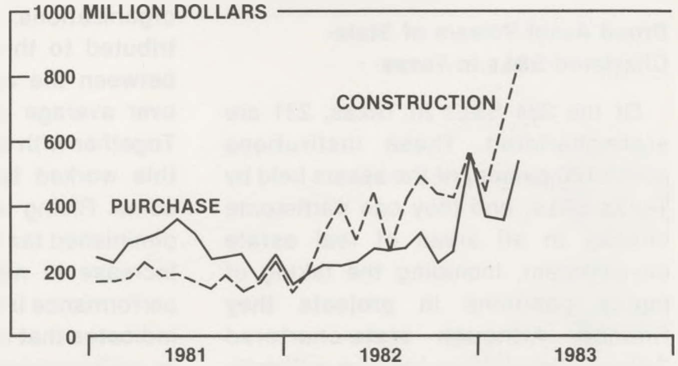
	1981 (12 months)		1982 (12 months)		1983 (3 months)	
	Change*		Change*		Change*	
	(Millions $)	(Percent)	(Millions $)	(Percent)	(Millions $)	(Percent)
ALL MEMBER BANKS						
Total Loan Growth	11,208.8	23.4	11,485.9	19.4	11,088.4	17.4
Total Deposit Growth	9,979.3	16.6	10,550.0	15.1	9,753.4	13.3
LARGE WEEKLY REPORTING BANKS						
Total Loans	5,305.7	25.8	4,881.2	18.9	4,657.1	16.8
Business	4,543.5	45.4	3,363.3	23.1	2,514.5	15.9
Real Estate	747.6	20.7	1,353.1	31.0	1,909.7	41.2
Consumer	– 160.3	– 8.4	158.6	9.1	173.9	10.0

* For 1981 and 1982, dollar and percent changes were calculated comparing fourth quarter averages to the fourth quarter of the previous year. For the first three months of 1983, dollar and percent changes were calculated comparing the first quarter average to the previous year's first quarter average. Quarterly averages were calculated using weekly reporting bank data.

NEW LOAN COMMITMENTS AT FSLIC-INSURED S&L'S: TEXAS

SOURCE: Federal Home Loan Bank Board.

LOANS CLOSED FOR CONSTRUCTION AND PURCHASE OF REAL ESTATE AT FSLIC-INSURED S&L'S: TEXAS

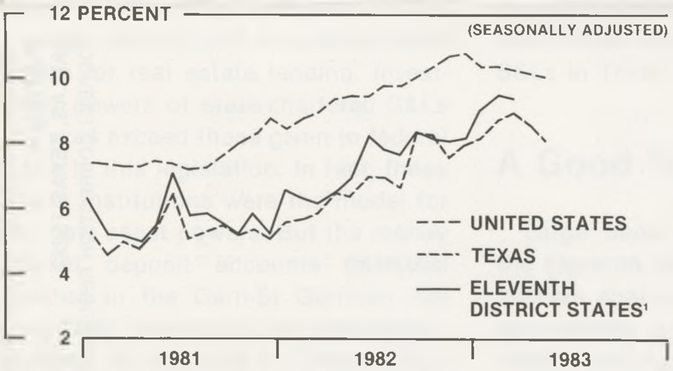


SOURCE: Federal Home Loan Bank Board.

DISTRICT BRIEFS

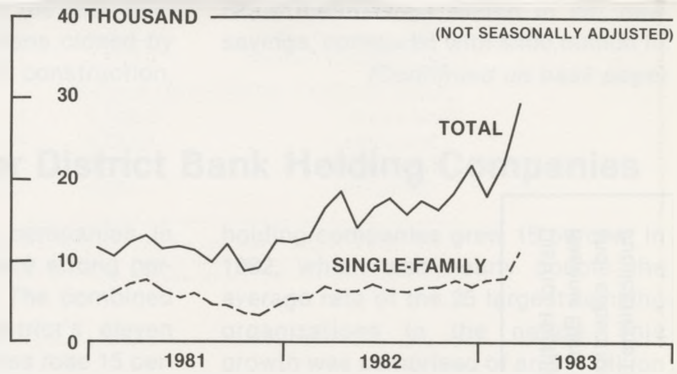
- Residential construction is strong. More than 90,000 permits were taken out in the first four months of this year.
- Occupancy rates of retail shopping centers are very high—around 95 percent in many places. Construction in this sector is proceeding at a strong pace.
- Department store sales in some cities in the District are up significantly on a year-over-year basis, but Houston and El Paso continue to post declines.
- Economic activity along the Mexican border remains depressed. Unemployment rates in many border towns exceed 15 percent.
- Employment is rising in the construction-related manufacturing sector, including the stone, clay, and glass industry and lumber and wood products.
- Employment and production in oilfield equipment manufacturing continue to decline. In Texas, March employment in this industry was 45 percent below its level one year ago.
- Increased demand by businesses and consumers has stimulated manufacturing production of electronic and electrical equipment.
- District agriculture is faring better. The index of prices received by farmers and ranchers declined very slightly in May, after posting strong increases since November.
- The outlook for drilling in this District is mildly optimistic. The rig count appears to have bottomed out. Bid values for drilling sites in the Gulf of Mexico, at $3.5 billion, represent the highest lease sale on record. That should foreshadow a pick-up in offshore drilling activity.

UNEMPLOYMENT RATE



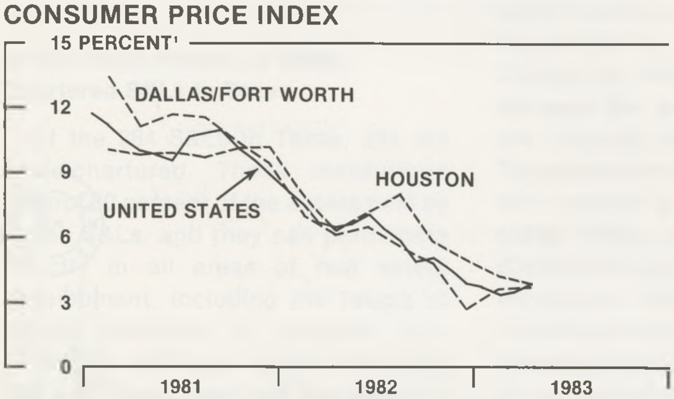
1. Louisiana, New Mexico, Oklahoma, and Texas.
SOURCES: U. S. Department of Labor, Bureau of Labor Statistics. Texas Employment Commission.

HOUSING PERMITS: TEXAS



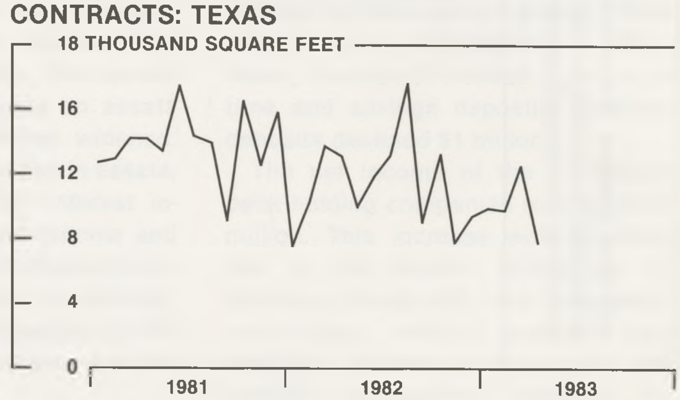
SOURCES: U. S. Department of Commerce, Bureau of the Census.

CONSUMER PRICE INDEX



1. Percent change from same month in previous year.
SOURCE: U. S. Department of Labor, Bureau of Labor Statistics.

NONRESIDENTIAL CONSTRUCTION CONTRACTS: TEXAS



SOURCE: F. W. Dodge, McGraw-Hill, Inc.

Texas S&Ls (cont.)

the same period last year.

Large Increases in Loans

The volume of construction loans closed by Texas S&Ls tripled in the first quarter from the same period last year. Sixty percent of this loan volume financed the construction of income-producing properties, compared with 28 percent in last year's first quarter. Income-producing properties include apartment buildings, office buildings, and retail shopping space. The volume of loans for single-family home and condominium construction is up substantially, but such loans now account for a smaller share of S&L's construction lending.

Texas S&Ls closed about $1.3 billion in loans for real estate purchases in the first quarter, doubling their volume of purchase loans on a year-over-year basis. About two-thirds of this amount financed single-family home purchases. But because most new mortgage loans are being sold in the secondary market, the $26 billion mortgage portfolio of Texas S&Ls has remained essentially unchanged since last year's first quarter. S&L loan participations and holdings of mortgage-backed securities increased 20 percent in the same interval, to $3.7 billion.

—Bronwyn Brock

A Good Year (cont.)

less than 4 percent over 1981 figures.

The spread of average yield on earning assets over the average cost of funds widened by 60 basis points. This accounted for 30 percent of the $410 million increase in net interest income. Falling interest rates moderated increases in both total interest income and expense. Noninterest income rose $155 million in 1982. Service charges on deposit accounts, a component of noninterest income, became more important in 1982 with the increase in deposit deregulation.

The rise in income occurred despite increases in nonperforming assets in 1982. Nonperforming assets as a percentage of loans and "other real estate" rose from just over 1 percent in 1981 to nearly 2.5 percent in 1982. The recession, foreign-loan problems, and the depressed energy industry were the major causes of this increase.

The outlook for 1983 initially appears less encouraging. First quarter reports of the four largest bank holding companies in the District indicate slower asset growth and lower net income. Nonperforming assets continued to increase. Hence, the relative performance of District banks may decline somewhat.

—Robert Clair

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