The RESURGENCE of Banking in the Southwest
Welcome to the premier issue of Financial Industry Trends, a publication in which we'll examine on an annual basis the structure and performance of the financial industry in the Eleventh District. Our goal is to provide readers with a concise and comprehensive overview of the district's financial institutions and their place in the economy.

Using data collected by the various federal agencies that oversee the industry, we took a look at commercial banks and bank holding companies, foreign banking operations, thrifts and credit unions based here.

For most of the region's financial institutions, 1993 was a good year. Banks continued to enjoy historically high earnings. Bank holding companies shed debt and had plenty of capital. Foreign banking organizations found this region to be a good place to do business. The thrift industry regrouped and gained strength. And credit unions, accustomed to gradual change, continued to prosper.

Hand in hand with these gains were improvements in the regional economy. Increasing employment, rising consumer demand and strength in the construction sector all fueled loan growth, which in turn helped to further boost economic activity across the region.

We hope you will enjoy Financial Industry Trends. You are welcome to send your comments to me by fax at (214) 922-5334, or by letter to P.O. Box 655906, Dallas, Texas 75265-5906. We look forward to your feedback.

Robert D. Hankins
Senior Vice President
Standing Tall

Eleventh District Banks See Stronger Earnings, Improved Capital Ratios and Higher Quality Assets

Net extraordinary items .03%
Net securities gains .19%
Net extraordinary items .03%
Net securities gains .01%
Net operating income .39%
Net operating income .46%

1990  1991
Historically high levels of profitability continued to prevail among the Eleventh District’s commercial banks in 1993, facilitating continued increases in bank capitalization. The low interest rate environment, which has benefited banks’ net interest margin, also has helped bail out some troubled borrowers. Moreover, 1993 saw a broad-based increase in lending activity that was fueled, in part, by recent employment gains throughout the District, particularly in areas not

The return on average assets for Eleventh District banks has increased from 0.43 percent in 1990 to 1.41 percent in 1993.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Operating Income</th>
<th>Net Securities Gains</th>
<th>Net Extraordinary Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>1.03%</td>
<td>0.12%</td>
<td>0.04%</td>
</tr>
<tr>
<td>1993</td>
<td>1.07%</td>
<td>0.08%</td>
<td>0.26%</td>
</tr>
</tbody>
</table>
closely tied to the energy sector. Rising consumer loan demand and strength in regional construction activity, together with the associated pickup in manufacturing, boosted loan growth.

Fully 97 percent of Eleventh District commercial banks reported net profits for 1993. Net income was $2.5 billion, an increase from $2 billion in 1992. As of year-end 1993, noncurrent loans equaled 1.03 percent of gross loans, down from 1.65 percent a year earlier. Similarly, troubled assets dropped to 0.85 percent of gross assets from 1.36 percent. Net loan losses were 0.3 percent of average loans for 1993, down from 0.66 percent for 1992.

After a decline in noncurrent loans, the coverage ratio of loan loss reserves to noncurrent loans rose to 155 percent at year-end 1993 from 124 percent at year-end 1992. The reserve account equaled 1.6 percent of total loans at year-end 1993, versus 2.06 percent a year earlier. Capital ratios benefited from strong retained earnings. A capital infusion of $680 million into Bank of America Texas, N.A., Irving, Texas, from its parent company also had a significant and positive effect on District capital levels. As of year-end 1993, Tier 1 leverage capital was

### Bank Risk-Based Capital and Leverage Ratios

<table>
<thead>
<tr>
<th>Year-end</th>
<th>Total capital</th>
<th>Tier 1 capital</th>
<th>Leverage capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Total Assets versus Number of Banks

<table>
<thead>
<tr>
<th>Year-end</th>
<th>Total assets</th>
<th>Number of banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1967</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1968</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1969</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Bank Income Stream Components as a Percentage of Average Assets

<table>
<thead>
<tr>
<th>Component</th>
<th>12-31-92</th>
<th>12-31-93</th>
<th>Basis Point Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>6.81</td>
<td>6.23</td>
<td>-58</td>
</tr>
<tr>
<td>Interest expense</td>
<td>2.94</td>
<td>2.33</td>
<td>-61</td>
</tr>
<tr>
<td>Net interest income</td>
<td>3.87</td>
<td>3.90</td>
<td>3</td>
</tr>
<tr>
<td>Noninterest income</td>
<td>1.67</td>
<td>1.72</td>
<td>5</td>
</tr>
<tr>
<td>Provision expense</td>
<td>.24</td>
<td>.09</td>
<td>-15</td>
</tr>
<tr>
<td>Overhead expense</td>
<td>3.91</td>
<td>3.94</td>
<td>3</td>
</tr>
<tr>
<td>Securities gains</td>
<td>.12</td>
<td>.08</td>
<td>-4</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>.35</td>
<td>.52</td>
<td>17</td>
</tr>
<tr>
<td>Extraordinary items, net</td>
<td>.03</td>
<td>.26</td>
<td>23</td>
</tr>
<tr>
<td>Net income</td>
<td>1.19</td>
<td>1.41</td>
<td>22</td>
</tr>
</tbody>
</table>

1 Noncurrent loans are the sum of loans and lease-financing receivables at least 90 days past due plus those in nonaccrual status.
2 Troubled assets are noncurrent loans and leases plus other real estate owned.
7.41 percent of tangible average assets, up from 7.17 percent at year-end 1992. Risk-based capital ratios were up as well. Dividends of $1.1 billion represented 43.7 percent of net income. For 1992, dividends equalled $882.5 million, a dividend payout ratio of 43.95 percent.

District banks' total assets increased to $194.8 billion at year-end 1993 from $186.1 billion a year earlier. Most of the gain occurred at Bank of America Texas, N.A., where total assets increased by $5.9 billion, primarily as a result of its acquisition of First Gibraltar Bank, F.S.B., Irving.

Total loans at District banks reached $95.2 billion at year-end 1993, up from $85.5 billion the previous year. Much of this 11-percent increase resulted not from new business but from loans transferred into an Eleventh District bank from its affiliate in another Federal Reserve District and from loans obtained in the acquisition of thrift institutions.

Nevertheless, 71 percent of the District's banks reported growth in total loans during 1993, while only 53 percent registered any loan growth during 1992. The median rate of loan growth in the District was about 7 percent for 1993, up from less than 1 percent for 1992.

Total deposits, continuing a slow upward trend, were $160.6 billion as of year-end 1993. This increase, a 1.87-percent gain over the previous year's figure, followed a 0.57-percent gain during 1992.

Although the downward slide in total assets ended after 1988, the number of banks operating within Eleventh District borders continued to shrink. Overall, the number of District banks declined 13.6 percent since 1990 to 1,128.

Reductions in the number of banks occurred in all size categories. Small banks have maintained their relative importance to the District's banking industry. The number of banks with inflation-adjusted assets below $50 million declined by 16 percent since 1990, which is roughly comparable to the decline in the total number of banks.

While the number of banks operating in the District has fallen, branching activity has been brisk. By year-end 1993, the number of branch offices had grown to 2,586 from 2,305 a year earlier, an increase of 12.19 percent.

For the first time in several years, bank failures were not a significant factor in the changing structure of the Eleventh District. Ten banks failed or received FDIC assistance during 1993, the fewest since 1984. Further, these failed banks were relatively small, with an average asset size of $43.2 million.

—Rick Mase
Financial Analyst

Eleventh District Banks by Size, Adjusted for Inflation
Base Year 1990

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $50 million</td>
<td>738</td>
<td>684</td>
<td>659</td>
<td>620</td>
</tr>
<tr>
<td>$50 - $99 million</td>
<td>314</td>
<td>300</td>
<td>299</td>
<td>275</td>
</tr>
<tr>
<td>$100 - $199 million</td>
<td>162</td>
<td>166</td>
<td>162</td>
<td>159</td>
</tr>
<tr>
<td>$200 - $499 million</td>
<td>61</td>
<td>59</td>
<td>57</td>
<td>51</td>
</tr>
<tr>
<td>$500 million or more</td>
<td>30</td>
<td>31</td>
<td>30</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>1,305</td>
<td>1,240</td>
<td>1,207</td>
<td>1,128</td>
</tr>
</tbody>
</table>

Bank Failures Including Open Bank Assistance

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of failures</th>
<th>Assets (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>105</td>
<td>$5,988</td>
</tr>
<tr>
<td>1991</td>
<td>33</td>
<td>1,371</td>
</tr>
<tr>
<td>1992</td>
<td>31</td>
<td>8,820</td>
</tr>
<tr>
<td>1993</td>
<td>10</td>
<td>432</td>
</tr>
</tbody>
</table>
Eleventh District Bank Holding Company Dividends, in Millions of Dollars

1990 Common Stock: $41.45
1990 Preferred Stock: $25.85
1991 Common Stock: $30.74
1991 Preferred Stock: $9.06
1992 Common Stock: $33.94
1992 Preferred Stock: $9.77
1993 Common Stock: $53.32
1993 Preferred Stock: $7.01
Well-Stocked

Bank Holding Company
Shareholders Reap the Benefits
of Improved Financial Performance

Bank holding companies in the Eleventh District have shown marked improvement in performance in recent years. On a consolidated basis, earnings, asset quality and capital levels appeared strong and stable. At the parent company level, generally low debt-to-equity ratios were indicators of financial strength.

In general, consolidated financial statements are filed with the Federal Reserve System by bank holding companies (BHCs) with more than one subsidiary bank or those with total consolidated assets of $150 million or more. For this analysis of consolidated organizations, BHCs were divided into three categories—small, medium and large—based on total assets: under $150 million, $150–300 million and over $300 million. The data pertain only to top-tier BHCs that are regulated in the Eleventh Federal Reserve District. These 115 organizations had total consolidated assets of $42 billion at year-end 1993.
For 1993, the return on average assets dropped for small and large BHCs but increased for medium-sized BHCs. Small companies were affected by reductions in net interest income, noninterest income and other tax-equivalent adjustments, although these declines were somewhat offset by improvements in overhead expense. Nevertheless, the small BHC group has recovered sharply since 1990, when 18 of 49 small companies had negative earnings and the aggregate return on average assets was -0.4 percent.

The medium-sized BHCs were the only group whose net interest income rose in 1993, although a large reduction in provision expense was the primary reason for improved earnings. Provision expense declined across the other size categories as well, but to a lesser extent.

For the large BHCs, an increase in overhead expense was the significant factor in the earnings decline. In recent years, the aggregate earnings ratios for the group with over $300 million in assets have been distorted by exceptionally large net losses that were reported by a few organizations. For 1993, First United Bank Group, Inc., Albuquerque, which posted a $40.5 million loss, had significant other operating expenses related to its subsequent acquisition by Minneapolis-based Norwest Corporation. Excluding First United, which had total consolidated assets of $3.9 billion at year's end, the return on average assets for the large BHC group would have risen 34 basis points to 1.33 percent. Overhead expense as a percent of average assets would have declined 30 basis points to 3.77 percent. Similarly, the loss reflected for the large BHC group in 1991 was due largely to a $224.8 million net loss reported by First City Bancorporation of Texas, Inc., Houston, and a $42 million net loss at MCorp, Dallas. Excluding First City and MCorp, the return on average assets would have been 0.69 percent for 1991, instead of -0.21 percent. Net losses of $158.3 million at First City adversely affected the

### Bank Holding Company Return on Average Assets

![Bank Holding Company Return on Average Assets](chart.png)

### Bank Holding Company Income Stream Components as a Percentage of Average Assets

<table>
<thead>
<tr>
<th>Component</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12-31-92</td>
<td>12-31-93</td>
<td>Basis point change</td>
</tr>
<tr>
<td>Interest income</td>
<td>0.89</td>
<td>0.72</td>
<td>-87</td>
</tr>
<tr>
<td>Interest expense</td>
<td>3.09</td>
<td>2.49</td>
<td>-60</td>
</tr>
<tr>
<td>Net interest income</td>
<td>4.81</td>
<td>4.53</td>
<td>-28</td>
</tr>
<tr>
<td>Noninterest income</td>
<td>1.17</td>
<td>1.01</td>
<td>-16</td>
</tr>
<tr>
<td>Provision expense</td>
<td>0.27</td>
<td>0.15</td>
<td>-12</td>
</tr>
<tr>
<td>Overhead expense</td>
<td>4.07</td>
<td>3.77</td>
<td>-30</td>
</tr>
<tr>
<td>Securities gains</td>
<td>0.16</td>
<td>0.03</td>
<td>-13</td>
</tr>
<tr>
<td>Other tax-equivalent adj.</td>
<td>0.22</td>
<td>0.03</td>
<td>-19</td>
</tr>
<tr>
<td>Pretax net operating income</td>
<td>2.02</td>
<td>1.68</td>
<td>-34</td>
</tr>
<tr>
<td>Applicable income taxes</td>
<td>0.81</td>
<td>0.61</td>
<td>-20</td>
</tr>
<tr>
<td>Minority interest</td>
<td>0.02</td>
<td>0.02</td>
<td>0</td>
</tr>
<tr>
<td>Extraordinary items, net</td>
<td>0.12</td>
<td>0.09</td>
<td>-3</td>
</tr>
<tr>
<td>Net income</td>
<td>1.32</td>
<td>1.14</td>
<td>-18</td>
</tr>
<tr>
<td>Number of BHCs</td>
<td>29</td>
<td>21</td>
<td></td>
</tr>
</tbody>
</table>
Asset quality improved for all size groups. Nonaccrual loans plus other real estate (ORE) as a percentage of total loans plus other real estate equaled 2.71 percent for small BHCs, 2.4 percent for the medium-sized companies, and 1.81 percent for large companies. Loan loss experience was satisfactory, with net charge-offs at modest levels of 0.47 percent of average loans and leases for small BHCs, 0.3 percent for medium BHCs, and 0.21 percent for large BHCs. The large group showed the most improvement because asset quality problems at First City, which significantly affected the nonperforming and net charge-off ratios for 1990 and 1991, were not a factor in 1992 and 1993.

Consolidated capital levels also improved, buoyed by retained earnings and common stock issuances. Net sales of common stock totaled $49 million in 1993: $31.8 million at large BHCs and $17.1 million at medium BHCs. This amount was down slightly from $50.2 million in 1992.

Common stock dividend payments increased to $53.3 million for 1993, from $33.9 million for 1992. Preferred stock dividends, nearly all of which were declared by the large BHCs, fell in 1993 to $7 million, from $9.8 million in 1992. Total dividends represented 14.04 percent of net income for 1993 and 10.11 percent for 1992.

Purchases of treasury stock exceeded sales of treasury stock in 1993. Total net treasury stock purchases were $12.2 million: $4.1 million at large BHCs, $7.1 million at medium BHCs and $1 million at small BHCs.

For all size groups, equity capital equaled 7.58 percent of total assets at year-end 1993, up from 6.6 percent a year earlier. For BHCs, risk-based capital measures, which were implemented in 1991, apply primarily to organizations with total consolidated assets of more than $150 million. For the past three years, leverage capital, Tier 1 and total risk-based capital ratios have continued to rise for both medium and large BHCs.

Certain parent-company-only data are available for all BHCs in the District, regardless of size.
As such, one-bank holding companies with consolidated assets of less than $150 million were included in the parent-only debt-to-equity analysis. These small one-bank holding companies—numbering more than 400 in the Eleventh District—have been incorporated in the small BHC group in the graph below.

Overall, debt-to-equity ratios were relatively low. Improvement was due to a material reduction in debt levels and, to a lesser extent, an increase in equity capital. At year-end 1993, the total debt of all District BHCs was $227.4 million, or 7.16 percent of equity capital. At year-end 1992, total debt of $793.9 million represented 30.34 percent of equity capital. Small and medium BHCs had debt-to-equity ratios of 43.51 percent and 9.12 percent, respectively, for 1993. Once again, the large BHC group reflected the most improvement in 1993, declining to 5.64 percent from 39.08 percent in 1992, because previous years’ aggregate ratios were negatively affected by First City and MCorp. The number of BHCs with no debt as of year-end 1993 was substantial: 16 of 36 large BHCs, 21 of 58 medium-sized BHCs and 169 of 432 small BHCs.

—Olga Zograf
Research Programmer Analyst
Karen Couch
Financial Industry Analyst

Parent Company Debt-to-Equity Ratios

Percent

Keeping a Low Profile
Nonbank Subsidiaries Maintain Limited Presence in Eleventh District

Nonbank subsidiaries of bank holding companies can engage in activities such as commercial and consumer finance, leasing, mortgage banking, trust services, insurance underwriting and brokerage, securities brokerage and data processing. However, unlike some other areas of the country, nonbank subsidiary activity in the Eleventh District is extremely limited. At year-end 1993, 27 active BHCs located in the Eleventh District had one or more active nonbank subsidiaries.

Detailed financial data on nonbank subsidiaries are collected for BHCs with total assets of $1 billion or more and for those with significant nonbank activity. Such combined financial data for nonbank subsidiaries were available for only eight District banking organizations. For these eight BHCs, total nonbank assets at year-end 1993 were $23 million, which represented less than 1 percent of consolidated assets. Nonbank data for the individual BHCs are provided in the table above.

—Wendy Zea
Financial Analyst
Strength in Numbers

Credit Unions Gain in Performance and Membership

Their small size belies their financial strength. Regional credit unions, whose balance sheets were not bogged down by higher risk commercial real estate loans, avoided the severe asset quality problems that once hindered commercial banks and thrifts. The favorable economic and regulatory environment also has helped enhance their financial performance.

The Eleventh Federal Reserve District was home to 927 credit unions as of December 31, 1993. Recent trends here have mirrored those nationwide, with the number of credit unions declining, while assets and membership were on the rise.

In 1991, the liquidation of a private insurer, the Texas Share Guarantee Credit Union (TSGCU), resulted in a large increase in the number of federally insured credit unions in the Eleventh District, as credit unions that had been insured by TSGCU were converted to federally insured institutions. Most conversions occurred in 1991,
Distibution of Credit Union Assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $1 million</td>
<td>24</td>
<td>22</td>
<td>21</td>
</tr>
<tr>
<td>$1—$5 million</td>
<td>20</td>
<td>18</td>
<td>17</td>
</tr>
<tr>
<td>$5—$15 million</td>
<td>14</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Greater than $25 million</td>
<td>4</td>
<td>6</td>
<td>8</td>
</tr>
</tbody>
</table>

Although the process was not completed until the end of 1993. At year-end 1991, the District had 953 federally insured credit unions, up from 757 a year earlier. Since then, however, the number of credit unions has declined.

Assets of District credit unions totaled $22 billion at year-end 1993, which represented growth of 6 percent over year-end 1992 and 24 percent over year-end 1991. Although District credit unions range in size from $58,000 to $1.5 billion in total assets, most asset growth has taken place at larger institutions, which generally offer more services than their smaller counterparts.

Recent earnings performance has been strong. During 1993, District credit unions earned net income of $277 million after cost of funds and net statutory reserve transfers, for an
annualized 1.29-percent return on assets, roughly even with the return on assets reported by credit unions located elsewhere in the United States.

As with banks and thrifts, credit union earnings have benefited from declining interest rates, which have resulted in a lower cost of funds. While declining rates also have meant lower operating income, District credit unions have maintained their spreads, keeping profitability high. In addition, District credit unions have lowered operating expenses over the past two-and-a-half years. The ratio of operating expenses to average assets declined to 3.3 percent in 1993 from 3.5 percent in 1991.

Because of their relatively low involvement in real estate lending, particularly on the commercial side, credit union asset quality never deteriorated to the same degree as at banks and thrifts. At Eleventh District credit unions, delinquent loans and repossessed real estate accounted for a low 0.9 percent of assets at the end of 1991. By year-end 1993, troubled assets had fallen to just over 0.6 percent of assets. The majority of remaining troubled assets at District credit unions is noncurrent loans.

Capital levels also reflect continued improvement. Due to steady increases in retained earnings, capital levels have kept pace with recent asset growth. By year-end 1993, equity capital as a percent of assets increased to 8.5 percent from 7 percent at year-end 1991.

Both the structure and the performance of the credit union industry depend on membership figures. Unlike commercial banks and thrifts, federally insured credit unions are nonprofit institutions, whose membership is limited by the 1934 Federal Credit Union Act to “groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community, or rural district.”

The National Credit Union Administration recently permitted many credit unions to expand their customer base by a total of about 2 million people. This action increased the customer base of credit unions in the Eleventh District to 14 million potential members as of December 31, 1993, up 23 percent over the year-end 1991 level. During this period, the number of current members rose to just over 5 million, a 15-percent increase. The increases in both current and potential membership resulted in a ratio of current to potential members of 36 percent, leaving Eleventh District credit unions with plenty of room to grow.

—Kelly Klemme
Financial Industry Analyst

### Troubled Asset Ratio for Credit Unions*

<table>
<thead>
<tr>
<th>Year</th>
<th>Eleventh District</th>
<th>Rest of the United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>1992</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>1993</td>
<td>0.6</td>
<td>0.5</td>
</tr>
</tbody>
</table>

*Ratio of loans two or more months delinquent plus other real estate owned to end-of-period gross assets.

### Equity Capital-to-Asset Ratio for Credit Unions*

<table>
<thead>
<tr>
<th>Year</th>
<th>Eleventh District</th>
<th>Rest of the United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>8.5</td>
<td>7.0</td>
</tr>
<tr>
<td>1992</td>
<td>8.5</td>
<td>7.0</td>
</tr>
<tr>
<td>1993</td>
<td>8.5</td>
<td>7.0</td>
</tr>
</tbody>
</table>

*Ratio of regular reserves, investment valuation reserves, other reserves and undivided earnings to total assets.
Foreign Agency Market
Share of Eleventh District
Commercial Loans
Foreign Banking Organizations May Not Be Native Texans But Got There as Fast as They Could
FOREIGN BANKING ORGANIZATIONS in Texas have become an important source of financing for regional corporations. Recent increases in commercial lending at foreign banking offices have coincided with declines in commercial lending at the District's domestic banks, suggesting that foreign banking organizations have been useful in preserving access to credit in the Eleventh District. In addition, the foreign banking offices have increased their off-balance-sheet activities through the provision of loan commitments and standby letters of credit. These trends suggest that, though few in number, foreign banking organizations have successfully established a significant and permanent position within the Texas financial landscape.

Although foreign banking organizations were attracted to the region by the booming energy industry in the early 1980s, they now provide financial services to corporations in a variety of industries. They have focused on wholesale lending activities, particularly commercial loans, lines of credit and standby letters of credit. Because foreign banking organizations are subsidiaries of multinational firms with billions of dollars in assets and capital, they can make multimillion dollar loans and loan commitments with little concern for capital constraints or legal lending limits.

Before 1985, Texas law limited foreign banks to establishing representative offices, Edge Act corporations or agreement corporations. The state banking code was subsequently amended to permit foreign banks to establish agencies in counties with populations of 1.5 million or more. At year-end 1993, the foreign presence in Texas...
consisted of 23 representative offices and 21 foreign agencies. The other District states—Louisiana and New Mexico—have no foreign bank operations at present.

As of December 31, 1993, the 21 foreign agencies in Texas had total assets of $7.5 billion, equal to about 4 percent of the commercial bank assets in the Eleventh District. Nearly all assets reported by foreign agencies were loans, and 89 percent of their combined loan portfolio was dedicated to commercial loans. These loans are funded by borrowings from related offices outside the District because Texas law prohibits foreign agencies from accepting deposits.

Commercial loan growth, some of which has come through loan participations and syndications with U.S. banks, has been swift. Commercial loans grew to over $6 billion at the end of 1993, from $45 million in 1985, even as commercial loans at domestic banks in this District were in decline. At year-end 1993, the foreign agencies had a 20-percent share of commercial loans held by banks in the Eleventh District. And, with the inclusion of loans booked at offshore branches, whose numbers were not reported before the first quarter of 1993, the commercial loan market share of foreign agencies reached 28 percent.

Asset quality was strong at year-end 1993, with noncurrent loans representing 0.24 percent of total assets, down from 1.78 percent at year-end 1992. The greatest improvement occurred in the real estate loan portfolio, where noncurrent real estate loans dropped to 0.93 percent of total real estate loans at year-end 1993 from 3 percent a year earlier. In the commercial loan portfolio, noncurrent loans fell to 0.11 percent from 1.73 percent.

Off-balance-sheet activities have grown as well, with commitments and contingencies climbing to almost $16 billion at year-end 1993 from $3 billion in 1986. Off-balance-sheet activities at the District's foreign agencies are primarily divided between commitments to purchase or make loans and standby letters of credit.

Loan commitments totaling $9 billion accounted for 59 percent of total off-balance-sheet activities. Commitments to make or purchase loans include loan draws, construction progress payments, seasonal or living advances, rotating or revolving credit arrangements, or similar transactions.

At year-end 1993, standby letters of credit (SLCs) made up 34 percent of total commitments and contingencies at the District’s agencies.
An SLC guarantees payment to the beneficiary by the issuing bank in the event of default or nonperformance by the bank's customer. At agencies in the Eleventh District, SLCs grew to over $5 billion in 1993, from $62 million in 1985.

Because Eleventh District foreign agencies and representative offices are not full-scale banking operations, other services and activities are generally conducted at branch offices of foreign banks in New York, Chicago, Los Angeles and San Francisco. While the agencies' primary focus is lending, both agencies and representative offices act as liaisons between parent banks and their customers, provide advisory services for customers and conduct economic research.

Foreign banking organizations are receiving increased regulatory scrutiny with the passage of the Foreign Bank Supervision Enhancement Act (FBSEA), part of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). This legislation expanded the Federal Reserve Board of Governors' oversight and authority over the regulation of foreign banks in the United States. As a result of FBSEA, foreign banks must obtain prior approval from the Federal Reserve Board to establish banking offices in the United States and are subject to annual examinations.

—Susan Tetley
Financial Analyst

### Foreign Banks with Agencies and Representative Offices in the Eleventh District

<table>
<thead>
<tr>
<th>Bank name</th>
<th>Home country</th>
<th>Year commenced business in the District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arab Banking Corporation, B.S.C.</td>
<td>Bahrain</td>
<td>1984</td>
</tr>
<tr>
<td>Bank of Montreal</td>
<td>Canada</td>
<td>1987</td>
</tr>
<tr>
<td>Bank of Nova Scotia</td>
<td>Canada</td>
<td>1985</td>
</tr>
<tr>
<td>Canadian Imperial Bank of Commerce</td>
<td>Canada</td>
<td>1985</td>
</tr>
<tr>
<td>National Bank of Canada</td>
<td>Canada</td>
<td>1985</td>
</tr>
<tr>
<td>Toronto Dominion Bank</td>
<td>Canada</td>
<td>1989</td>
</tr>
<tr>
<td>Banque Francaise du Commerce Exterieur</td>
<td>France</td>
<td>1979</td>
</tr>
<tr>
<td>Banque Nationale de Paris</td>
<td>France</td>
<td>1991</td>
</tr>
<tr>
<td>Banque Paribas</td>
<td>France</td>
<td>1986</td>
</tr>
<tr>
<td>Banque Indosuez</td>
<td>France</td>
<td>1987</td>
</tr>
<tr>
<td>Credit Lyonnais</td>
<td>France</td>
<td>1977</td>
</tr>
<tr>
<td>Societe Generale</td>
<td>France</td>
<td>1986</td>
</tr>
<tr>
<td>Hongkong and Shanghai Banking Corp.</td>
<td>Hong Kong</td>
<td>1986</td>
</tr>
<tr>
<td>Banca Di Roma</td>
<td>Italy</td>
<td>1989</td>
</tr>
<tr>
<td>Credito Italiano, S.P.A.</td>
<td>Italy</td>
<td>1979</td>
</tr>
<tr>
<td>Bank of Tokyo, Ltd.</td>
<td>Japan</td>
<td>1961</td>
</tr>
<tr>
<td>Dai-Ichi Kangyo Bank, Ltd.</td>
<td>Japan</td>
<td>1976</td>
</tr>
<tr>
<td>Daiwa Bank, Ltd.</td>
<td>Japan</td>
<td>1990</td>
</tr>
<tr>
<td>Fuji Bank, Ltd.</td>
<td>Japan</td>
<td>1985</td>
</tr>
<tr>
<td>Industrial Bank of Japan, Ltd.</td>
<td>Japan</td>
<td>1979</td>
</tr>
<tr>
<td>Long-term Credit Bank of Japan, Ltd.</td>
<td>Japan</td>
<td>1984</td>
</tr>
<tr>
<td>Mitsubishi Bank, Ltd.</td>
<td>Japan</td>
<td>1985</td>
</tr>
<tr>
<td>Sakura Bank, Ltd.</td>
<td>Japan</td>
<td>1991</td>
</tr>
<tr>
<td>Sanwa Bank, Ltd.</td>
<td>Japan</td>
<td>1977</td>
</tr>
<tr>
<td>Sumitomo Bank, Ltd.</td>
<td>Japan</td>
<td>1986</td>
</tr>
<tr>
<td>Banco Nacional de México</td>
<td>Mexico</td>
<td>1987</td>
</tr>
<tr>
<td>ABN AMRO Bank, N.V., Inc.</td>
<td>Netherlands</td>
<td>1986</td>
</tr>
<tr>
<td>Rabobank Nederland</td>
<td>Netherlands</td>
<td>1987</td>
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<td>De Norske A.S.</td>
<td>Norway</td>
<td>1979</td>
</tr>
<tr>
<td>Bank of Riyadh</td>
<td>Saudi Arabia</td>
<td>1990</td>
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<td>Credit Suisse</td>
<td>Switzerland</td>
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<td>Union Bank of Switzerland</td>
<td>Switzerland</td>
<td>1986</td>
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<tr>
<td>International Commercial Bank of China</td>
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<td>1980</td>
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<td>Bank of Scotland</td>
<td>United Kingdom</td>
<td>1975</td>
</tr>
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<td>National Westminster Bank</td>
<td>United Kingdom</td>
<td>1977</td>
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<tr>
<td>Standard Chartered Bank UK</td>
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<td>1990</td>
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Mounting a Comeback
Regional Thrift Industry Starts to Thrive

The 75 survivors of the attrited regional thrift industry have emerged from the financial debacle of the 1980s with renewed vigor. Working to their advantage were the saner competitive environment, which was precipitated by the resolution of numerous insolvent thrifts, and favorable economic conditions, which included a wide spread between long-term and short-term interest rates, strong growth in regional construction activity and increases in consumer loan demand.

Although the number and total assets of thrifts operating in the Eleventh District have declined dramatically over the past decade, the pace of consolidation started to slow in 1991 and leveled off in 1993. At the end of last year, 75 thrifts holding $44 billion in total assets remained in the Eleventh District.

Much of the decline during the late 1980s can be attributed to the resolution of failed thrift institutions by the Resolution Trust Corporation (RTC). The RTC resolved 150 thrifts in the Eleventh District from its inception in August 1989 through early 1992, when the last District thrift that was in conservatorship was finally resolved.

While 63 thrifts with assets of $7.8 billion remained in RTC conservatorship as of year-end 1993, none of these was in the Eleventh District.

The resolution of insolvent and unprofitable thrifts has resulted in overall improvement in the condition and performance of the Eleventh District thrift industry. The fourth quarter of 1993 was the seventh consecutive quarter in which the return on assets for District thrifts was positive, in excess of 1 percent and greater than that reported by thrifts outside the District. For all of 1993, Eleventh District thrifts earned net income of $754 million and a return on assets of 1.72 percent, compared with net income of $715 million and a return on assets of 1.53 percent in 1992.

With the exception of the first quarter of 1993, in which profits were affected by a change in accounting rules, much of the recent improvement in District thrift profitability can be attributed to a favorable interest rate environment and a decline in troubled assets. The spread between the ratio of interest income to average assets and the ratio of interest expense to average assets at District
Thrift Industry Capital Position

<table>
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<tr>
<th></th>
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<tr>
<td>Tier 1 leverage ratio</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Total risk-based capital ratio</td>
<td>-20</td>
<td>-20</td>
<td>-20</td>
<td>-20</td>
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Asset Composition of Thrift Institutions

<table>
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<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other assets</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Repossessed real estate</td>
<td>80</td>
<td>80</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Nonmortgage loans</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Investment securities</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

Thrifts rose to 247 basis points in 1993 from 213 basis points in 1992 and only 81 basis points in 1991. In addition, provision expenses continued to decline through 1993, falling to just 0.14 percent of average assets. As a result of the improvement in earnings, 99 percent of the District's thrifts were profitable in 1993, up from 95 percent in 1992.

A reduction in troubled assets also contributed to the improvement in thrift profitability. Noncurrent loans and repossessed real estate at Eleventh District thrifts declined to $1.3 billion, or 2.7 percent of assets, as of year-end 1993 from a peak of $26 billion, or 26 percent of total assets, in 1989. More than 80 percent of the remaining troubled assets at District thrifts is repossessed real estate.

Eleventh District thrifts also have made considerable progress toward improving their capital positions. As insolvent thrifts were resolved, the District’s risk-based and leverage capital ratios improved from negative positions just over two years ago to 15.7 percent and 6.6 percent, respectively, as of December 31, 1993. The proportion of District thrift assets in thrifts whose capital ratios meet FDICIA standards increased from less than 20 percent in early 1990 to 99 percent at the end of last year. It appears that most of the capital growth at District thrifts has been the result of retaining earnings rather than issuing stock.

As noted above, assets of Eleventh District thrifts have declined markedly since the late 1980s. Most of the decline occurred in the category of repossessed real estate and can be attributed to the resolution of 150 thrifts from 1989 to 1992. While mortgage loans declined by more than 50 percent over the four-year period ended in 1993, activity in this category picked up during 1993. Mortgage lending increased $1 billion, or 6 percent, in 1993, fueled mostly by an increase in the one- to four-family sector. And District thrifts’ nonmortgage loans outstanding rose 17 percent in 1993, due to increased consumer lending. While mortgage loans still account for roughly the same proportion of District thrift assets as they did at year-end 1989, consumer loans account for almost 10 percent of thrift assets, compared with just under 3 percent at the end of 1989. As a result, District thrifts hold a more diversified loan portfolio.

After the resolution of 150 thrifts, the Eleventh District thrift industry has returned to profitability, improved its asset quality and raised capital ratios above regulatory minimums. The number of District thrifts and their total assets appear to have stabilized, after suffering dramatic declines in the late 1980s when thrifts bogged down by bad real estate were taken over by the RTC and resolved. While District thrifts have continued to concentrate on mortgage lending, increased consumer lending has resulted in more diversified loan portfolios, leaving them less vulnerable to shocks in a particular industry.

—Kelly Klemme
Financial Industry Analyst