Contents

3 Commercial Banks
   Earnings Momentum
   Ag Banks Weather Drought

7 Bank Holding Companies
   Cruise Control

11 Foreign Banking Organizations
   Standing Firm

15 Credit Unions
   On Target

18 Thrifts
   Ahead of the Rest

FINANCIAL INDUSTRY TRENDS FEDERAL RESERVE BANK OF DALLAS

Robert D. McTeer, Jr.  President and Chief Executive Officer
Helen E. Holcomb  First Vice President and Chief Operating Officer
Robert D. Hankins  Senior Vice President
Genie D. Short  Vice President

Economists  Jeffery W. Gunther
            Robert R. Moore
            Kenneth J. Robinson
            Thomas E. Siems
            Sujit "Bob" Chakravorti

Financial Analysts  Robert V. Bubel
                   Robert Mahalik
                   Karen M. Couch
                   Susan P. Tetley
                   Kelly Klemme
                   Edward C. Skelton

Research Programmer Analyst  Olga N. Zograf
Eleventh District financial institutions benefited from the region's strong economy in 1996. Indeed, by many measures, the performance of financial institutions in Louisiana, New Mexico and Texas exceeded that of their counterparts in the rest of the country. For the most part, 1996 was characterized by stable earnings, steady loan growth and further increases in equity capital levels over 1995.

As economic growth moderated from 1995's pace, slight but broad-based increases in loan delinquencies and charge-offs became apparent. In early 1996, lenders began responding by adjusting their underwriting and monitoring procedures and increasing provision expenses. At year-end, asset quality indicators remained satisfactory overall, and high levels of equity capital, generated by retained earnings, lent strength to balance sheets.

Northern Louisiana, southern New Mexico and Texas make up the Eleventh Federal Reserve District. This publication provides an overview of the activities of the domestic and foreign financial institutions that are based in those states, using data for the entire state collected by the federal regulatory agencies that oversee these institutions.

Questions or comments can be directed to me at P.O. Box 655906, Dallas, Texas 75265-5906, or via E-mail at Bob.Hankins@dal.frb.org.

ROBERT D. HANKINS
Senior Vice President
Backed by strong loan growth and a healthy net interest margin, insured commercial banks in Louisiana, New Mexico and Texas maintained earnings momentum in 1996. Most of the growth stemmed from continued demand for business and commercial real estate financing. Rising delinquencies and charge-offs in the consumer and business loan sectors caused many banks to adjust their credit standards and increase provision expenses. Yet overall asset quality remained satisfactory, and capital levels, buoyed by strong retained earnings, stayed high.

The consolidation trend continued unabated in 1996, as the number of banks within the three states declined to 1,116 at year-end from 1,188 at year-end 1995 and 1,250 in 1994. During 1996, 76 banks were absorbed through mergers and acquisitions, two Texas banks were closed due to failure, and six new banks were chartered. Meanwhile, branch offices proliferated, increasing by 211 to 4,333.

Aggregate net income of $3.2 billion represented a return on average assets of 1.25 percent for 1996, equaling the earnings ratio of commercial banks in the rest of the country and slightly surpassing the 1.23 percent recorded by the three states for 1995. By state, the returns on average assets were 1.3 percent in Louisiana, 1.34 percent in New Mexico and 1.23 percent in Texas.

The strong earnings resulted from the favorable interest rate environment and growth in noninterest income, which includes fees and service charges. The tax-equivalent net interest margin was 4.45 percent for banks in Louisiana, New Mexico and Texas, which was 18 basis points above that for the rest of the country. Net interest income as a percentage of average assets edged up to 4 percent in 1996 from 3.92 percent in 1995. Noninterest income for 1996 grew to 1.84 percent of average assets from 1.7 percent. On the expense side, provisions for loan losses rose by 25 percent, but the increase to 0.2 percent of average assets from 0.16 percent in 1995 did little to detract from strong earnings. Other noninterest expenses increased minimally. Securities gains or losses were insignificant for both years. Finally, spurred by robust earnings, taxes were 0.62 percent of average assets, up from 0.53 percent in 1995.

Net loan volume in the region declined by $3.9 billion, but this was an aberration in the data caused by a major bank's sale of a mortgage subsidiary. With the region's median growth rate at 9.29 percent for 1996, compared with 9.87 percent for 1995, loan growth remained strong. Total loans grew at a median rate of 11.3 percent in Louisiana, up from 10.7 percent in 1995; 4.15 percent in New Mexico, down from 8.7 percent; and 9.3 percent in Texas, down from 9.5 percent. For the rest of the United States, median loan growth was 9.9 percent, compared with 8.7 percent during 1995.

In the three-state region, the strongest loan growth was in the commercial and industrial loan category, which rose by $4.3 billion, or 11.94 percent, following the 16.64
percent growth that occurred in 1995. Strong building activity, especially in Texas, spurred the demand for business and commercial real estate financing. As such, most of the growth in real estate lending was in loans secured by nonfarm nonresidential property and loans for construction and development. Regional growth slowed in the consumer loan portfolio, however, as lenders began tightening credit standards in response to rising consumer loan charge-offs. In 1996, loans to individuals were up by $1.3 billion, or 4.67 percent, compared with $2.7 billion in 1995, a 10.16 percent increase.\(^1\)

Problem assets remained low by industry standards, although increases in loan delinquencies and charge-offs hinted at some gradual deterioration in credit quality. Loans past due 30 to 89 days rose to 1.66 percent of gross loans from 1.27 percent in 1995, with most of this increase occurring in the commercial and industrial loan category. For the rest of the United States, the past-due ratio rose to 1.36 percent in 1996 from 1.29 percent in 1995.

In addition, at year-end 1996, banks in the region reported that 0.9 percent of gross loans and leases were noncurrent, compared with 0.81 percent a year earlier.\(^2\) This rise ran counter to the declining trend in the rest of the United States, although the region's noncurrent ratio remained lower than that reported for the rest of the country. For banks outside the region, noncurrent loans declined to 1.06 percent of gross loans and leases in 1996 from 1.19 percent in 1995.

In the region, the largest increase in delinquencies was on commercial and industrial loans; these delinquencies rose to $473 million from $384 million. Noncurrent consumer loans also rose significantly, to $190 million from $151 million. And noncurrent loans secured by one- to four-family residential real estate rose to $290 million from $266 million.

Because of continued reductions in other real estate owned by the region's banks, total troubled assets were unchanged from the 1995 year-end figure of 0.57 percent of gross assets.\(^3\) This compared favorably with the troubled asset ratio of 0.77 percent for the rest of the United States.

Loan charge-offs rose for the second consecutive year. Net loan losses

---

\(^1\) Consumer loans are loans to individuals for household, family and other personal expenditures. This category includes credit cards and related plans.

\(^2\) Noncurrent loans and leases are those past due 90 days or more plus those on nonaccrual status.

\(^3\) Troubled assets comprise noncurrent loans and leases plus other real estate owned.
totaled $510 million, or 0.36 percent of average loans, up from $322 million, or 0.24 percent of average loans in 1995. For the rest of the United States, net charge-offs rose to 0.62 percent of average loans from 0.52 percent, with most of the increase due to higher net loan losses in the consumer loan category.

Similarly, for banks in Louisiana, New Mexico and Texas, the largest increase in net charge-offs came from the consumer loan portfolio, where net loan losses of $369 million were $128 million above the 1995 level. Despite this large increase, the region fared better than the rest of the United States. In the three states, consumer loan net charge-offs represented 5.04 percent of average consumer loans, substantially below the 9.76 percent consumer loan charge-off rate reported for the rest of the country. On both a regional and a national level, rising consumer loan losses have been linked with an increase in the number of personal bankruptcy filings. In the three-state region, personal bankruptcy filings rose by 33 percent over 1995, to 83,342, which was slightly above the 28 percent increase nationwide.

At the regional level, loan losses also increased in the commercial and industrial category, where net charge-offs rose by $44 million to $138 million, or 1.13 percent of average commercial and industrial loans.

At year-end, the reserve for loan losses was 1.57 percent of total loans, a slight increase over the 1.53 percent posted a year earlier. Relative to noncurrent loans, however, the reserve account has exhibited a downward trend. The reserve coverage ratio was 174 percent at year-end 1996, compared with 188 percent at year-end 1995. For banks outside the three states, the reserve for loan losses equaled 1.93 percent of total loans and covered 182 percent of noncurrent loans at year-end 1996.

Banks in the region increased their already high capital levels, even as dividend payouts increased. Equity capital stood at 8.6 percent of total assets at year-end 1996, up from 8.2 percent. Common stock dividends of $2.3 billion were $300 million above the 1995 payout, and preferred stock dividends totaled $1.8 billion, or $200 million above the 1995 level. For 1996, dividends represented 72.4 percent of net income. For banks in the rest of the country, equity capital was 8.2 percent of total assets, and the dividend payout ratio was 74.1 percent.

—Karen Couch
Edward C. Shelton
Ag Banks Weather Drought

By many measures, agricultural banks in Louisiana, New Mexico and Texas demonstrated their continued strength in 1996, despite record drought in much of the region during the first half of the year. Coming out of a long period of profitability and slow growth, agricultural banks had built up sufficient capital strength to withstand the economic downturn.

At year-end, 220 banks in the three states had at least 25 percent of their loan portfolios in agricultural production loans or loans secured by agricultural real estate. These agricultural banks posted an aggregate return on average assets of 1.2 percent for 1996, up slightly from 1.18 percent for 1995. Noncurrent loans were 1.83 percent of total loans at year-end 1996, almost even with the 1.84 percent of a year earlier.

Within the agricultural loan portfolio, asset quality problems were evidenced by higher loan delinquencies than in recent years, particularly in the first two quarters. Some improvement was apparent by the fourth quarter. At year-end 1996, noncurrent agricultural loans equaled 2.62 percent of total agricultural loans, compared with 2.36 percent at year-end 1995. Net charge-offs rose to 0.72 percent of average agricultural loans for 1996 from 0.51 percent for 1995.

The reserve for loan losses fell to 1.77 percent of total loans at year-end 1996 from 1.84 percent at year-end 1995 and covered 95.51 percent of noncurrent loans. Total equity capital remained high at 10.39 percent of total assets at year-end 1996, versus 10.33 percent a year earlier.
Bank holding companies (BHCs) based in Louisiana, New Mexico and Texas reported robust financial results in 1996, though declining net interest margins and rising provision expenses pressured earnings. Net loan losses caused some concern because of their rate of increase. The total volume of net charge-offs was relatively low, however, and other asset quality indicators remained favorable. Capital ratios remained high but fell shy of 1995 levels. With bank subsidiaries profitable, little debt to service at the parent company and consolidated capital well above regulatory guidelines, bank holding companies increased dividends in 1996.

The three states had a total of 585 top-tier BHCs, the majority of which were small one-bank holding companies. Generally, only organizations with consolidated assets of $150 million or more were required to submit the consolidated financial data used in this analysis. As such, this report is based on the financial results obtained from 20 BHCs in Louisiana, 11 BHCs in New Mexico and 90 BHCs in Texas.

Louisiana BHCs were notable for significant loan growth and high dividend payouts during 1996. Total loans equaled 62.69 percent of total assets, up sharply from 56.78 percent at year-end 1995, as loan volume rose to $16.8 billion from $13.3 billion. While loan growth was widespread, big gains at two of Louisiana’s largest BHCs drove this ratio. Although loan growth was strong, a declining net interest margin, which slipped to 4.96 percent from 5.11 percent in 1995, pressured earnings. Net income of $318.7 million yielded a return on average assets of 1.34 percent for 1996, down from 1.44 percent for 1995. The primary source of revenue,
Regional Bank Holding Companies with Total Consolidated Assets of More Than $1 Billion

<table>
<thead>
<tr>
<th>Bank holding company</th>
<th>Headquarters</th>
<th>Total assets ($000)</th>
<th>Return on average assets (percent)</th>
<th>Equity capital to total assets (percent)</th>
<th>Asset growth rate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hibernia Corp.</td>
<td>New Orleans, La.</td>
<td>$9,306,796</td>
<td>1.39</td>
<td>10.06</td>
<td>29.33</td>
</tr>
<tr>
<td>First Commerce Corp.</td>
<td>New Orleans, La.</td>
<td>9,201,250</td>
<td>1.39</td>
<td>7.87</td>
<td>7.71</td>
</tr>
<tr>
<td>Cullen/Frost Bankers Inc.</td>
<td>San Antonio, Texas</td>
<td>4,894,886</td>
<td>1.22</td>
<td>7.74</td>
<td>17.07</td>
</tr>
<tr>
<td>Whitney Holding Corp.</td>
<td>New Orleans, La.</td>
<td>3,776,872</td>
<td>1.17</td>
<td>10.70</td>
<td>19.74</td>
</tr>
<tr>
<td>International Bancshares Corp.</td>
<td>Laredo, Texas</td>
<td>3,351,232</td>
<td>1.50</td>
<td>8.47</td>
<td>14.16</td>
</tr>
<tr>
<td>Laredo National Bancshares Inc.</td>
<td>Laredo, Texas</td>
<td>1,748,562</td>
<td>1.29</td>
<td>8.79</td>
<td>7.31</td>
</tr>
<tr>
<td>First Financial Bancshares Inc.</td>
<td>Abilene, Texas</td>
<td>1,262,041</td>
<td>1.51</td>
<td>10.39</td>
<td>18.80</td>
</tr>
<tr>
<td>Texas Regional Bancshares Inc.</td>
<td>McAllen, Texas</td>
<td>1,230,577</td>
<td>1.63</td>
<td>10.41</td>
<td>90.27</td>
</tr>
<tr>
<td>Central Bancorporation Inc.</td>
<td>Fort Worth, Texas</td>
<td>1,141,030</td>
<td>.88</td>
<td>6.73</td>
<td>23.14</td>
</tr>
<tr>
<td>Southwest Bancorporation of Texas Inc.*</td>
<td>Houston, Texas</td>
<td>1,047,125</td>
<td>1.11</td>
<td>5.92</td>
<td>N/A</td>
</tr>
<tr>
<td>Broadway Bancshares Inc.</td>
<td>San Antonio, Texas</td>
<td>1,013,271</td>
<td>1.54</td>
<td>10.32</td>
<td>24.39</td>
</tr>
</tbody>
</table>

*Formed July 1, 1996.

Bank Holding Company Profitability

Bank Holding Company Nonaccrual Loans Plus Real Estate Acquired for Debts Previously Contracted

Net interest income, fell 10 basis points to 4.58 percent of average assets. Noninterest income, which includes service charges and fees and other noninterest income, was unchanged from 1995 at 1.53 percent of average assets. Cost reductions offset the shortfall in net interest income, as Louisiana BHCs trimmed overhead and other noninterest expenses to 3.88 percent of average assets in 1996 from 4.08 percent in 1995. Provision expenses rose to 0.13 percent of average assets from 0.11 percent, reflecting a surge in net charge-offs, which climbed to 0.36 percent of average loans from 0.22 percent. However, other asset quality ratios remained strong. Nonaccrual loans plus real estate acquired for debts previously contracted fell to a low 0.51 percent of total loans plus real estate acquired for debts previously contracted, from 0.88 percent at year-end 1995. The Tier 1 leverage capital ratio was 8.91 percent, down from 9.67 percent but well above the regulatory minimum of 3 percent. Equity capital as a percentage of total assets dipped to 9.49 percent from 9.96 percent. In 1996, BHC common and preferred stock dividends of $127.5 million equaled 40 percent of net income, well above the $102.6 million, or 33.63 percent of net income, paid out in 1995.

New Mexico's BHCs held total assets of $3.6 billion and total loans of $2.2 billion at year-end 1996.

A banking organization operating at or near the minimum level is expected to have well-diversified risk—including no undue interest-rate risk exposure, excellent asset quality, high liquidity and good earnings—and in general be considered a strong banking organization. Organizations with supervisory, financial or operational weaknesses and those experiencing or anticipating significant growth are expected to maintain capital ratios well above the minimum.
With a return on average assets of 1.23 percent, earnings were little changed from the previous year's 1.26 percent. Net income was $42.7 million, with profits benefiting from loan growth of nearly 12 percent and a high net interest margin of 5.27 percent. The net interest margin declined, however, from 5.39 percent in 1995. While some New Mexico BHCs boosted noninterest income, in the aggregate these revenues remained low at 0.89 percent of average assets, compared with 0.83 percent in 1995. Provision expense of 0.12 percent of average assets approximated the 0.11 percent for 1995. Net loan losses were 0.15 percent of average loans, up from 0.13 percent. Nonaccrual loans plus real estate acquired for debts previously contracted were 0.89 percent of total loans plus real estate acquired for debts previously contracted, compared with 0.87 percent at year-end 1995. The Tier 1 leverage capital ratio edged up to 8.15 percent from 8.12 percent. Total equity capital of 8.4 percent of total assets declined from 8.74 percent a year earlier. The dividend payout for 1996 was $11.2 million, or 26.12 percent of net income, up from $9.1 million, or 23.21 percent in 1995.

Texas' BHCs had total assets of $41.7 billion and total loans of $19.5 billion at year-end 1996. Net income of $477.9 million equaled a return on average assets of 1.27 percent, up from 1.26 percent in 1995. The net interest margin also rose one basis point to 4.84 percent, which helped
increase net interest income. Non-interest income fell seven basis points to 1.39 percent of average assets. However, this decline was more than offset by a significant reduction in noninterest expense, which fell 10 basis points to 3.59 percent of average assets. Provision expense rose five basis points to 0.2 percent of average assets, as net loan losses continued a three-year climb to 0.28 percent of average loans. However delinquent loans and foreclosed property, which were at low levels in 1995, declined even further in 1996. Nonaccrual loans plus real estate acquired for debts previously contracted fell to 0.8 percent of total loans plus real estate acquired for debts previously contracted, from 1.03 percent. The Tier 1 leverage capital ratio was 8.17 percent, having fallen from 8.2 percent. Equity capital equaled 8.49 percent of total assets, down from 8.67 percent. Common and preferred stock dividends were $92.6 million, or 19.38 percent of net income, versus $80.7 million, or 17.45 percent of 1995 net income.

In all three states, parent company debt has been reduced to minimal levels. Large parent company debt-to-equity ratios were 3.92 percent in Louisiana, 6.89 percent in New Mexico and 3.44 percent in Texas. Similarly, small BHCs with under $150 million in consolidated assets reported low parent company debt-to-equity ratios of 2.78 percent in Louisiana, 11.27 percent in New Mexico and 7.8 percent in Texas.

In all, top-tier BHCs in the three states controlled 38 percent of the region's banking assets through 679 bank subsidiaries. Out-of-state BHCs, with 82 bank subsidiaries, held 54 percent of the region's banking assets. Specifically, out-of-state BHCs held 23 percent of the banking assets in Louisiana and 61 percent of the banking assets in both New Mexico and Texas. The remaining 8 percent of industry assets in the region belonged to the 355 independent banks operating within the three states.

—Karen Couch
Olga N. Zograf
Standing Firm
Global Banks Hold Their Own in the Southwest

At year-end 1996, 34 foreign banks were operating agencies and representative offices in Texas. The Texas operations of foreign banks are mostly loan production offices that focus on lending to Fortune 500 corporations in the Southwest. Louisiana and New Mexico have no foreign branches, agencies or representative offices.

During 1996, the combination of mergers, acquisitions and consolidation among U.S. offices of foreign banks led to changes in the structure of foreign banks in Texas. Mergers and acquisitions in 1996 resulted in a net reduction of three foreign agencies in Texas, as some agencies were converted to representative offices or closed. Additionally, some foreign banks reduced operating costs by consolidating agency assets at other U.S. locations. These offices maintain their agency charter but are operated as representative-style offices.

A representative office is less costly to maintain because loans or deposits are not booked, reducing the need for personnel and sophisticated accounting systems. Representative offices serve as marketing offices, and any loans originated at the office are usually booked at a related branch or agency elsewhere in the United States. The shift in foreign bank operations in Texas from agencies to representative offices resulted in a net increase of two representative offices in the state during 1996. The only foreign bank to establish a new presence in Texas during 1996 was a Swiss bank that opened a representative office in Houston.

Although the number of agencies declined in 1996, total assets at the state's foreign agencies increased almost 9 percent over year-end 1995. With a focus on lending to large corporations, asset growth at foreign agencies in Texas was driven by increases in their commercial loan portfolios. In addition to lending

1 Because representative offices do not book loans, the financial data cited in this article are only from foreign agency reports.
directly to regional corporations, Texas foreign agencies participate in the loan syndication market. Syndicated loans are large loans that creditors split up and sell to other banks. At year-end 1996, commercial loans held at the state’s foreign agencies totaled $10 billion and accounted for 91 percent of total agency assets.

Among Texas financial institutions, foreign banks remain a significant source of borrowed funds for the region’s large corporations. Although growth in the overall U.S. economy remained steady, with real gross domestic product increasing at a 2.4 percent pace in 1996, loan growth at domestic and foreign banks slowed both in the Southwest and nationally. Commercial loan growth at Texas foreign agencies paralleled their asset growth at nearly 9 percent, outpacing growth at domestic banks in the nation as a whole. Most foreign banks with Texas operations also have operations in other parts of the country. The combined commercial loan growth at these entities was 14.2 percent in 1996, compared with 7.3 percent at all U.S. commercial banks. Although foreign banks in Texas held only about 5 percent of the state’s banking assets, their share of commercial loans booked at Texas banks was 23 percent in 1996, down slightly from just under 25 percent in 1995.

In the January 1997 Senior Loan Officer Opinion Survey on Bank Lending Practices, foreign branches and agencies, as well as domestic commercial banks, indicated that competition for business credit has increased. Nonbank lenders—such as mutual funds, insurance companies and investment banks—have become an important alternative source of business funding. Also, attractive conditions in the U.S. capital markets have encouraged large corporate borrowers to access the capital markets directly. Although the demand for borrowed funds is strong, the number of players in the market has been growing, and spreads on loan products have tightened as more lenders vie for commercial customers.

Since most Texas foreign agencies are essentially loan production offices, they tend to limit their off-balance-sheet activities to loan commitments and standby letters of credit. Commitments to make or purchase loans include loan draws, construction progress payments, seasonal or living advances, rotating or revolving credit arrangements, or similar credit lines. At year-end 1996, loan commitments totaled $17 billion, 13.4 percent higher than at year-end 1995. As with commercial loans, the rate of growth in loan commit-
ments at Texas foreign agencies in 1996 was slower than in 1995. Standby letters of credit accounted for 24 percent of off-balance-sheet items in 1996. Standby letters of credit guarantee payment in the event of default or nonperformance by the bank's customer.

Texas law prohibits foreign agencies from accepting deposits. Therefore, funding at Texas agencies is obtained primarily from related offices elsewhere in the United States. At year-end 1996, borrowings from related U.S. offices totaled $11 billion, or 98 percent of total assets at Texas foreign agencies. Meanwhile, foreign branches and agencies elsewhere in the country relied more on nonrelated sources of funding; among these branches and agencies, nonrelated funding accounted for 83 percent of total assets at year-end 1996. Most of these branches and agencies are in New York, a state that permits deposit-taking activity.

While maintaining a relatively high rate of loan growth, Texas foreign agencies have preserved asset quality. Nonperforming loans accounted for 0.52 percent of total loans at year-end 1996, up just slightly from year-end 1995. Commercial loans accounted for the majority of nonperforming loans, followed by real estate loans. In contrast, nonperforming loans at domestic commercial banks in Texas accounted for 1.1 percent of total loans, with consumer and real estate loans constituting the majority of nonperforming loans.

Like domestic banks, foreign banks have been consolidating their operations throughout the country to become more efficient and cost competitive. Despite this consolidation, they remain active participants in U.S. banking markets. In Texas, a net reduction of three foreign agencies occurred in 1996, but commercial lending remained strong, though it grew at a somewhat slower pace than in 1995. Texas foreign agencies continue to be an important source of funding for the region, holding nearly one-quarter of commercial bank loans in Texas. Both nationally and regionally, foreign banks and U.S. commercial banks are facing increasing competition from nontraditional sources and are seeking innovative business strategies to compete effectively with the new players while remaining financially strong.

—Susan Tetley

Nonperforming loans are defined as nonaccrual loans and loans past due 90 days or more.
<table>
<thead>
<tr>
<th>Parent name</th>
<th>Home country</th>
<th>Texas entity</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABN AMRO Bank N.V.</td>
<td>Netherlands</td>
<td>Agency</td>
<td>Houston</td>
</tr>
<tr>
<td>Arab Banking Corp. B.S.C.</td>
<td>Bahrain</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Banco Nacional de México S.A.</td>
<td>Mexico</td>
<td>Agency</td>
<td>Houston</td>
</tr>
<tr>
<td>Banco de México, S.A.</td>
<td>Mexico</td>
<td>Agency</td>
<td>Houston</td>
</tr>
<tr>
<td>Bank of Montreal</td>
<td>Canada</td>
<td>Agency</td>
<td>Houston</td>
</tr>
<tr>
<td>Bank of Nova Scotia</td>
<td>Canada</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Bank of Scotland</td>
<td>Scotland</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Banque Française du Commerce Extérieur</td>
<td>France</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Banque Nationale de Paris</td>
<td>France</td>
<td>Agency</td>
<td>Houston</td>
</tr>
<tr>
<td>Banque Paribas</td>
<td>France</td>
<td>Agency</td>
<td>Houston</td>
</tr>
<tr>
<td>Caisse Nationale de Crédit Agricole</td>
<td>France</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Canadian Imperial Bank of Commerce</td>
<td>Canada</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Crédit Lyonnais</td>
<td>France</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Credit Suisse</td>
<td>Switzerland</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Den norske Bank AS</td>
<td>Norway</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Hongkong and Shanghai Banking Corp. Ltd.</td>
<td>Hong Kong</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>International Commercial Bank of China</td>
<td>China</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>MeesPierson N.V.</td>
<td>Netherlands</td>
<td>Representative office</td>
<td>Dallas</td>
</tr>
<tr>
<td>National Bank of Canada</td>
<td>Canada</td>
<td>Representative office</td>
<td>Dallas</td>
</tr>
<tr>
<td>National Westminster Bank</td>
<td>United Kingdom</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Rabobank Nederland</td>
<td>Netherlands</td>
<td>Agency</td>
<td>Dallas</td>
</tr>
<tr>
<td>Riyad Bank</td>
<td>Saudi Arabia</td>
<td>Agency</td>
<td>Houston</td>
</tr>
<tr>
<td>Société Générale</td>
<td>France</td>
<td>Agency</td>
<td>Dallas</td>
</tr>
<tr>
<td>Swiss Bank Corp.</td>
<td>Switzerland</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Bank of Tokyo-Mitsubishi Ltd.</td>
<td>Japan</td>
<td>Agency</td>
<td>Dallas</td>
</tr>
<tr>
<td>Dai-ichi Kangyo Bank Ltd.</td>
<td>Japan</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Fuji Bank Ltd.</td>
<td>Japan</td>
<td>Agency</td>
<td>Houston</td>
</tr>
<tr>
<td>Industrial Bank of Japan Ltd.</td>
<td>Japan</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Long-Term Credit Bank of Japan Ltd.</td>
<td>Japan</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Sakura Bank Ltd.</td>
<td>Japan</td>
<td>Agency</td>
<td>Houston</td>
</tr>
<tr>
<td>Sanwa Bank Ltd.</td>
<td>Japan</td>
<td>Agency</td>
<td>Dallas</td>
</tr>
<tr>
<td>Sumitomo Bank Ltd.</td>
<td>Japan</td>
<td>Agency</td>
<td>Houston</td>
</tr>
<tr>
<td>Toronto-Dominion Bank</td>
<td>Canada</td>
<td>Representative office</td>
<td>Houston</td>
</tr>
<tr>
<td>Union Bank of Switzerland</td>
<td>Switzerland</td>
<td>Agency</td>
<td>Houston</td>
</tr>
</tbody>
</table>
Credit unions in Eleventh District states continued to expand their auto loan portfolios during 1996 and also increased their focus on real estate lending. Several years of strong loan growth, however, resulted in continued increases in noncurrent loans and loan charge-offs. Earnings performance remained strong, and capital growth kept pace with asset growth.

A total of 1,155 federally insured credit unions, ranging from $24,000 to $1.9 billion in assets, were operating in the three-state region as of December 31, 1996. These credit unions accounted for a $30 billion segment of the regional financial marketplace, with most of the largest credit unions located in Texas. Nationwide, there were 11,376 credit unions holding $327 billion in assets at year-end 1996.

Unlike banks and thrifts, federally insured credit unions are nonprofit institutions whose membership is limited by the common bond restrictions of the 1934 Federal Credit Union Act. Although the interpretation of “common bond” and the expansion of credit union membership has been the source of much controversy nationwide, membership growth among regional credit unions has slowed considerably since the early 1990s. Membership at credit unions in Louisiana, New Mexico and Texas was 6.9 million as of year-end 1996, up 4.4 percent over the year-end 1995 level. This increase occurred despite a decline in the customer base of regional credit unions, from 18.7 million potential members at year-end 1995 to 18.6 million at the end of last year.

Loan portfolios at credit unions in the region and elsewhere in the
United States continued to expand during 1996, with growth rates of 11 percent. Last year marked the fifth consecutive year of double digit loan growth for regional credit unions, with the most significant increases reported for auto loans. Overall, auto loans increased $1.4 billion, or 14 percent, in 1996 to $11.7 billion. While growth in new car loans slowed to less than 10 percent, used car loans expanded almost 30 percent, reflecting the trend of consumers moving into the used car market.

Real estate loans at regional credit unions also expanded at a fairly rapid pace last year, growing $332 million, or 11 percent. Despite recent increases in real estate lending, it still accounts for a relatively small proportion of regional credit union lending, especially when compared with credit unions elsewhere in the country. Among credit unions in the three-state region, real estate loans accounted for 16 percent of total loans at year-end 1996, compared with 35 percent for credit unions located elsewhere in the United States. In contrast, auto loans, which have been increasing at a much faster rate among regional credit unions, accounted for 57 percent of regional credit unions' loans outstanding at the end of last year, compared with only 38 percent for other U.S. credit unions.

As regional credit unions focused on expanding their loan portfolios, investments declined, falling $287 million, or 3.3 percent, in 1996. A $195 million increase in holdings of U.S. agency securities and mutual funds was offset by a $481 million decline in investments in U.S. government obligations, corporate credit unions and other securities.

Regional credit union loan growth during 1996 was funded by increases in deposits, despite declines in the average rates paid on these funds. Deposits—or shares, as credit unions call them—increased $1.6 billion, or 6.5 percent, in 1996. Most of the growth is attributable to an $838 million increase in share certificates, which are similar to bank certificates of deposit. Money market share accounts, regular share accounts—which are similar to passbook savings accounts—and share draft accounts also increased, growing $285 million, $188 million and $171 million, respectively.

High loan growth over the past several years translated into increased delinquent loans and loan charge-offs as the loan portfolio matured, although overall asset quality measures remained favorable. Delinquent loans at credit unions in the three District states increased to $244 million at year-end 1996, raising the noncurrent loan rate to 1.19 percent from 1 percent at the end of 1995. Net loan charge-offs also have begun to trend upward, growing to $93 million, or 0.48 percent of average loans, in 1996, from $63 million, or 0.36 percent of average loans, in 1995. Among credit unions located outside the three District states, delinquent loans accounted for 1 percent of total
loans at year-end 1996, and net loan charge-offs were 0.50 percent of average loans.

A slight increase in operating income during 1996 was offset by increases in operating expense and cost of funds, leaving overall profitability roughly even with the 1995 value. For the three District states combined, the return on assets equaled 0.95 percent for 1996, compared with 0.94 percent for 1995. The returns for credit unions in Louisiana and New Mexico declined from their 1995 levels, while the profitability of Texas credit unions improved. Nevertheless, Louisiana credit unions continued to outperform those in the rest of this region as well as those elsewhere in the United States. The state's credit unions earned net income—after cost of funds and net statutory reserve transfers—of $41 million, for a return on assets of 1.17 percent during 1996. With net income of $222 million and a return on assets of 0.93 percent, Texas credit unions also turned in a strong performance. New Mexico credit unions earned net income of $17 million, for a 0.76 percent return on assets, and credit unions elsewhere in the United States earned a return on assets of 0.99 percent during 1996.

Capital growth more than kept pace with asset growth, raising the equity capital ratio among credit unions in Louisiana, New Mexico and Texas. Earnings retention and an increase in regular reserves raised the equity capital ratio for credit unions in the three-state region to 10.4 percent at year-end 1996. At 12.7 percent, the capital ratio for Louisiana credit unions exceeded that of credit unions in the other District states and those elsewhere in the United States. Capital ratios for credit unions in Texas and New Mexico were 10.1 percent and 9.9 percent, respectively, as of year-end 1996, compared with 10.7 percent for credit unions outside the region.

The regional credit union industry's trend of strong performance continued over the past year, with double digit loan growth that translated into continued strong profits. While a maturing loan portfolio led to a slight deterioration in loan quality, overall asset quality measures remained favorable. And capital continued to accumulate, raising the industry's cushion against any future losses.

—Kelly Klemme
Ahead of the Rest
Southwest Thrifts Outperform Those in Rest of United States

The cost of recapitalizing the Savings Association Insurance Fund hurt thrift industry profitability in 1996, but institutions in the Eleventh District states fared better than their counterparts elsewhere in the country. Asset quality remained strong, and increases in both securities and loans fueled overall asset growth. A decline in deposits was offset by increases in Federal Home Loan Bank advances and other borrowings.

At year-end 1996, 80 thrifts holding $59.5 billion in total assets were operating in the three Eleventh District states, compared with 89 thrifts holding $57.4 billion in assets at year-end 1995.1 Four savings and loans converted to state savings banks during 1996, two institutions were acquired by banks, and three institutions merged with other savings associations. Nationwide, 1,333 thrifts held assets of $768.9 billion at year-end 1996.

Thrifts in the three District states were more profitable than those elsewhere in the United States during 1996. Helped by the sale of several branches of First Nationwide Bank,
FSB, Texas thrifts earned net income of $1 billion, for a 1.91 percent return; Louisiana thrifts earned net income of $20 million, for a 0.56 percent return; and New Mexico thrifts earned net income of $10 million, for a 0.73 percent return. Thrifts outside the region earned a return on assets of 0.52 percent during 1996.

Recapitalizing the Savings Association Insurance Fund (SAIF) reduced most thrifts' profitability in 1996. The special SAIF assessment raised noninterest expense at thrifts in Louisiana, New Mexico and Texas to 2.66 percent of average assets, 60 basis points higher than in 1995. This increase was more than offset, however, by a 93-basis-point increase in noninterest income—mostly the result of First Nationwide, regional thrifts' other fee income, which includes proceeds from the sale of loans, increased to 1 percent of average assets, 5 basis points higher than in 1995. For thrifts elsewhere in the United States, other fee income was 0.71 percent of average assets in 1996, roughly even with the 1995 value.

Asset quality indicators among regional thrifts remained good through 1996 and better than those reported by thrifts elsewhere in the United States. Noncurrent loans and repossessed real estate at Texas thrifts totaled $524 million, or 0.91 percent of assets, at year-end. Among thrifts in New Mexico, troubled assets declined to $9 million, or 0.62 percent of assets. And Louisiana thrifts continued to report the lowest concentration of troubled assets among the three District states, with $9 million, or 0.32 percent of assets. Among thrifts located elsewhere in the United States, the troubled asset ratio declined to 1.16 percent as of December 31.

Increases in both loans and investment securities fueled regional asset growth in 1996. Assets at thrifts in Louisiana, New Mexico and Texas increased $2.2 billion, or 3.8 percent, last year. Loans increased $808 million, while securities were up $1 billion. Growth in securities resulted from a $1.9 billion increase in mortgage pool securities, while U.S. government securities declined $23.4 million, and other investment securities—including state and municipal obligations and mortgage derivative securities—fell $908 million.

Following a trend similar to that of the region's banks, loan growth during 1996 was concentrated in construction and commercial real estate, with smaller increases in commercial and consumer loans. Overall, regional thrifts' outstanding loans increased $808 million, or 2.2 percent, in 1996.
to $38 billion. Commercial loans grew $236 million to $633 million, a 59 percent increase over 1995. Consumer loans increased $327 million, or 5 percent, to $6.5 billion. Construction loans were up $888 million, or 44 percent, and commercial real estate lending—defined as loans secured by multifamily real estate and nonresidential property—increased $710 million, or 15 percent.

Regional thrifts' holdings of residential real estate loans, defined as loans secured by one- to four-family property, declined $1.5 billion in 1996. Although thrifts continued to originate such loans, they typically sell them in the secondary market, rather than keep them in their portfolios. For regional thrifts, total residential mortgage loans closed increased from $8.8 billion in 1995 to $12.2 billion in 1996. However, residential mortgage loans sold also increased, from $7.5 billion to $14.5 billion.

Regional thrifts continued to outperform their counterparts elsewhere in the United States in terms of both profitability and asset quality. Regional thrifts were able to offset SAIF recapitalization expenses with higher fee income from mortgage servicing and loan sales. A strong regional economy led to increased commercial and construction lending, and while residential real estate lending activity remained strong, sales of these loans into the secondary market reduced regional thrifts' holdings of such loans. Offsetting continued declines in deposits, FHLB advances and other borrowings were used to fund overall asset growth.

Equity capital also increased in 1996, as the strong earnings performance boosted retained earnings. Regional thrifts' equity capital grew $519 million in 1996, raising the ratio of equity capital to assets to 7.8 percent. Moreover, all thrifts in Louisiana, New Mexico and Texas were considered at least "adequately capitalized" based on risk-based capital guidelines, and 96 percent of them were classified as well capitalized at year-end.

Regional thrifts continued to outperform their counterparts elsewhere in the United States in terms of both profitability and asset quality. Regional thrifts were able to offset SAIF recapitalization expenses with higher fee income from mortgage servicing and loan sales. A strong regional economy led to increased commercial and construction lending, and while residential real estate lending activity remained strong, sales of these loans into the secondary market reduced regional thrifts' holdings of such loans. Offsetting continued declines in deposits, FHLB advances and other borrowings were used to fund overall asset growth.

—Kelly Klemme
Financial Industry Trends is published by the Federal Reserve Bank of Dallas. The views expressed are those of the authors and do not necessarily reflect the position of the Federal Reserve Bank of Dallas or the Federal Reserve System.

Articles may be reprinted on the condition that the source is credited and the Financial Industry Studies Department is provided a copy of the publication containing the reprinted article.

Subscriptions are available free of charge. Please send requests for single-copy and multiple-copy subscriptions to:

Public Affairs Department
Federal Reserve Bank of Dallas
P.O. Box 655906
Dallas, Texas 75265-5906

Or call (214) 922-5254
or (800) 333-4460, ext. 5254.

Sources for data are Reports of Condition and Income (call reports), Consolidated Financial Statements for Bank Holding Companies, Parent Company Only Financial Statements, Reports of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks, Credit Union Financial Reports, and Thrift Financial Reports.