



House Committee on State Affairs

April 28, 2016

Condition of the Texas State Banking System

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Commissioner – Texas Department of Banking

Executive Director – Finance Commission of Texas



Ensuring Texas Has a Safe, Sound and Competitive Financial Services System

TOUGH BUT FAIR

PROFILE OF REGULATED ENTITIES

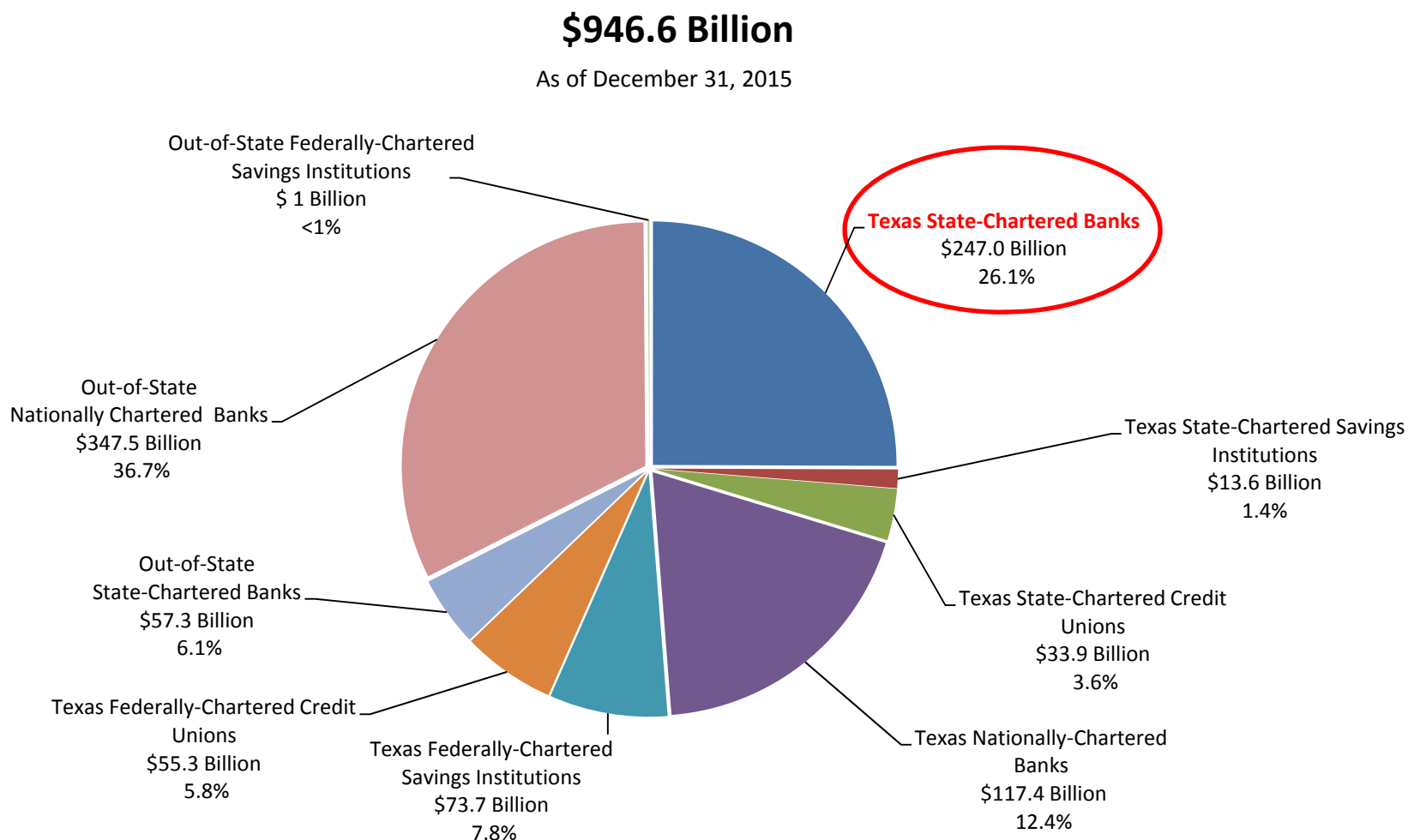
| Regulated Entities | Number of Entities | Total Assets (\$ millions) |
|--|-------------------------------------|-------------------------------|
| As of December 31, 2015 | | |
| Commercial Banks | 252 | 246,960 |
| Trust Companies | 20 nonexempt 17 exempt | 97,453 |
| Foreign Bank Agencies | 9 FBAs 17 representative offices | 77,941 |
| Money Services Businesses | 147 | 104,133 |
| Prepaid Funeral Contract Sellers | 378 | 3,638 |
| Perpetual Care Cemeteries | 245 | 308 |
| Cemetery Brokers* | 9 | NA |
| Private Child Support Enforcement Agencies* | 10 | NA |
| Check Verification Entities* | 2 | NA |
| Texas Bullion Depository Agent Services* | 0 | NA |

The Department conducts examinations of entities under its supervision to evaluate the safety and soundness and compliance with state and federal laws. Total assets of the regulated entities represented in the table are approximately \$530.4 billion.

Eleven Texas state-chartered banks operate branches in nine other states. (AZ, CA, CO, FL, GA, IL, MI, NM & OK)

* Registration requirement only.

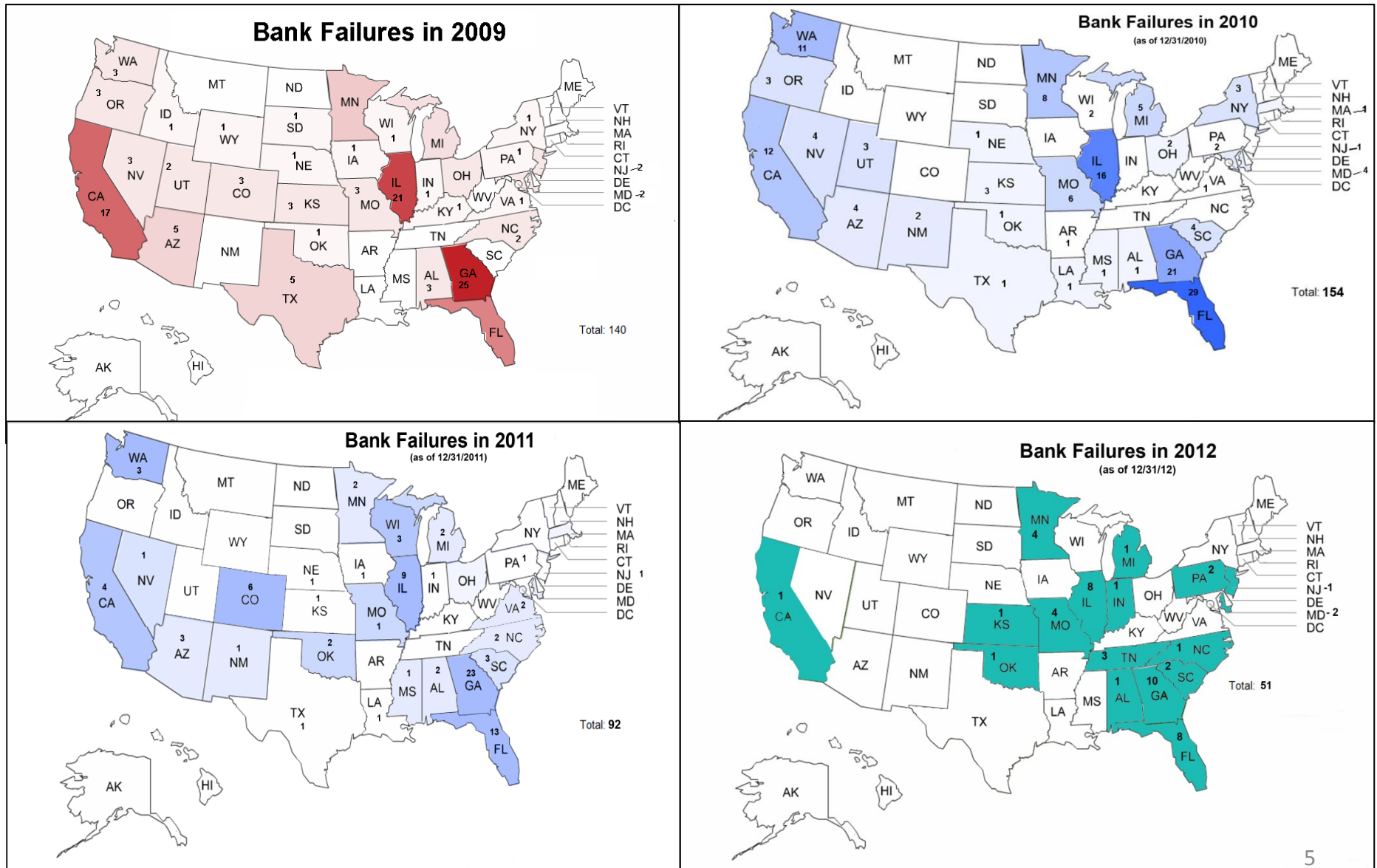
Assets of Federally Insured Texas Financial Institutions



Source: FDIC

Presented by the Texas Department of Banking

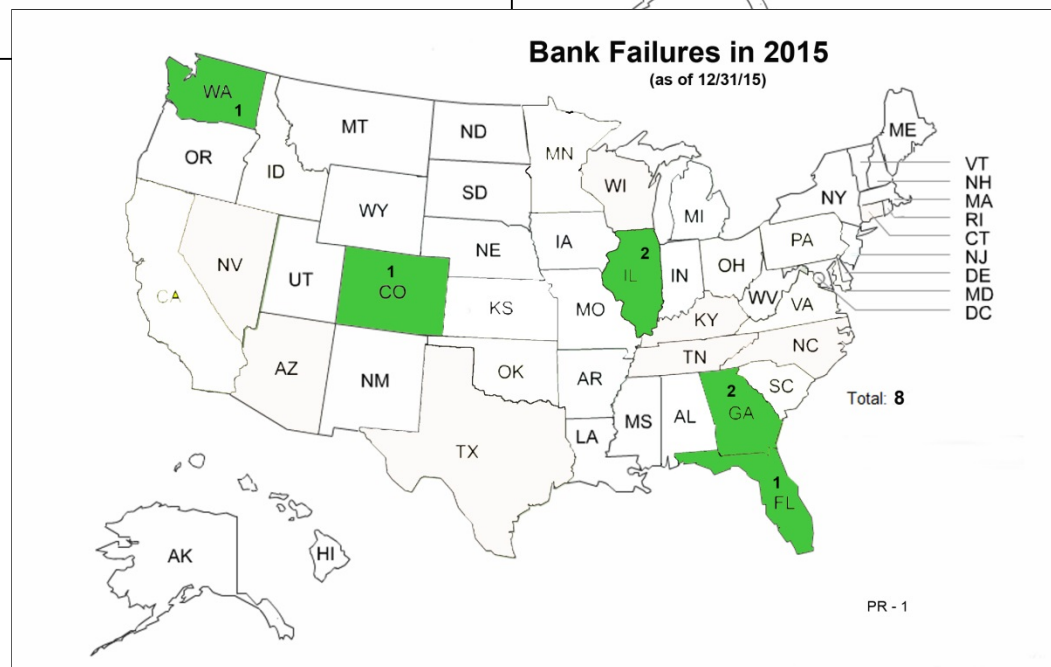
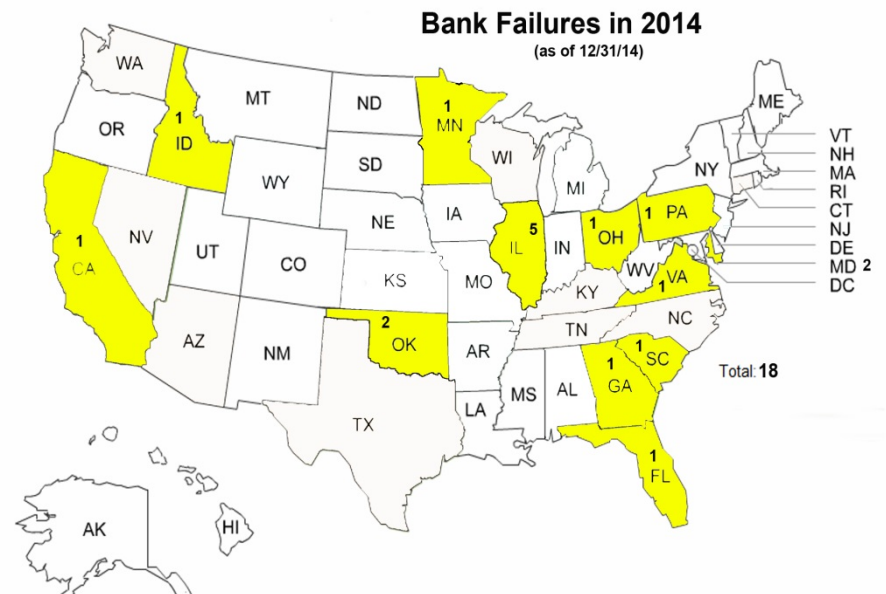
Bank Failures - Nationwide



Source: FDIC

Presented by the Texas Department of Banking

Bank Failures - Nationwide



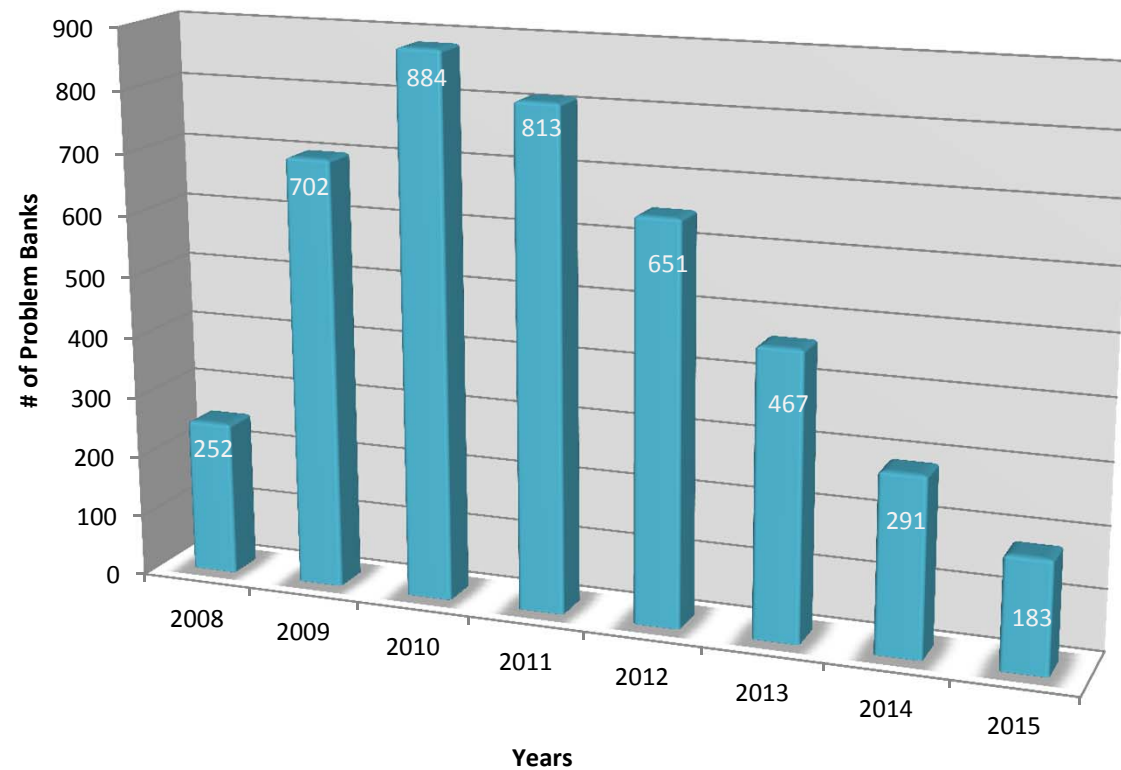
Bank Failures in Texas

| | | | |
|--|-------------------|---------------------|------------------|
| 2008 | | | |
| Franklin Bank, SSB | State Savings | Houston | November |
| Sanderson State Bank | State Bank | Sanderson | December |
| 2009 | | | |
| Millennium State Bank of Texas | State Bank | Dallas | July |
| Guaranty Bank | Federal Thrift | Austin | August |
| Citizens National Bank | National | Teague | October |
| Madisonville State Bank | State Bank | Madisonville | October |
| North Houston Bank | State Bank | Houston | October |
| 2010 | | | |
| The La Coste National Bank | National | La Coste | February |
| 2011 | | | |
| First International Bank | State Bank | Plano | September |
| 2013 | | | |
| First National Bank aka The National Bank of El Paso | National | Edinburg | September |
| Texas Community Bank, National Association | National | The Woodlands | December |

Presented by the Texas Department of Banking

FDIC Problem Banks Nationwide

The FDIC defines problem banks as any financial institution with a composite rating of “4” or “5”.

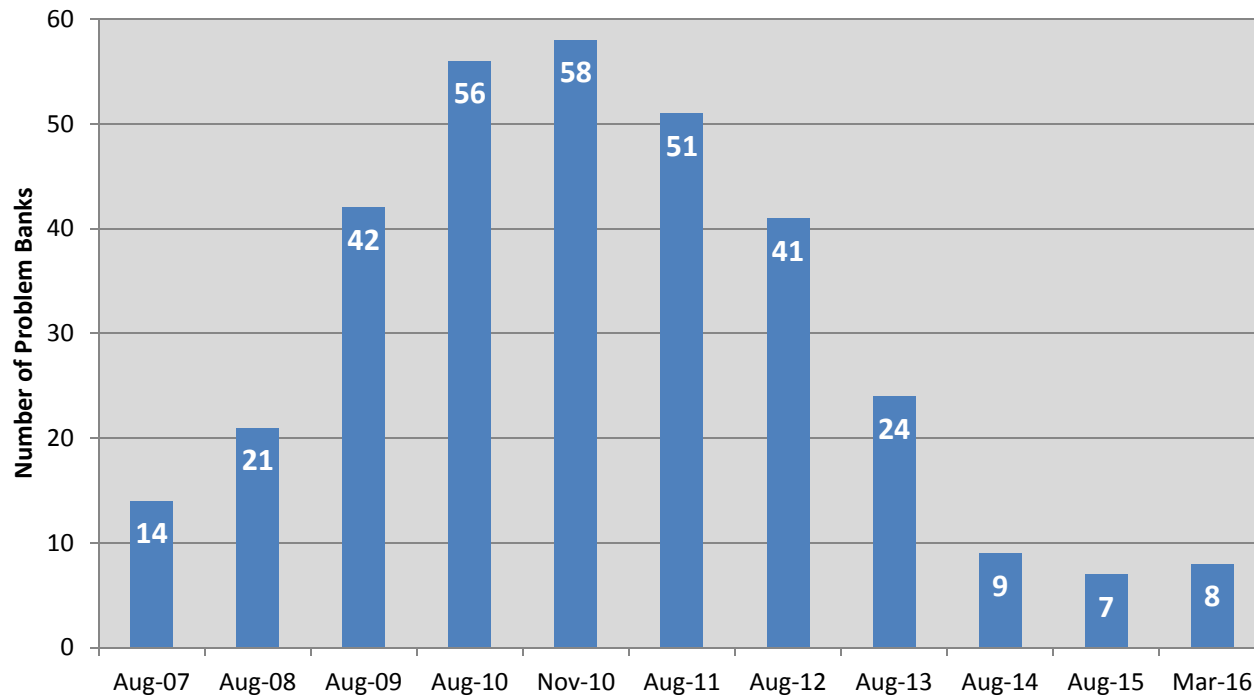


As of December 31, 2015

Department Problem Banks

The DOB defines problem banks as any financial institution with a composite rating of “3”, “4” or “5”.

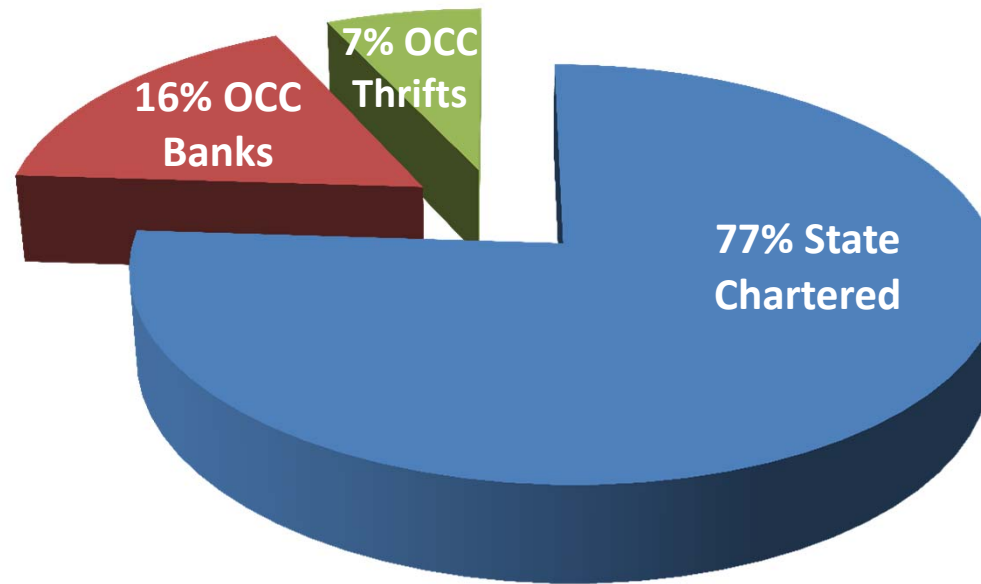
Historical State-Chartered Problem Banks Data



Bank Performance and Condition Ratios

| | Texas | Nation |
|---|------------|--------------|
| | 12/31/2015 | 12/31/2015 |
| Number of Banks | 480 | 6,182 |
| Total Assets (\$ in millions) | \$451,713 | \$15,967,923 |
| % of Unprofitable Institutions | 2.71% | 4.61% |
| Net Interest Margin | 3.58% | 3.07% |
| Return on Assets | 1.12% | 1.04% |
| Return on Equity | 10.16% | 9.31% |
| Net Charge-Offs to Loans | 0.31% | 0.44% |
| Loss Allowance to Loans | 1.31% | 1.34% |
| Efficiency Ratio | 63.27% | 59.91% |
| Equity Capital to Assets | 11.02% | 11.24% |
| Total Risk-Based Capital Ratio | 14.62% | 14.21% |
| Earnings Coverage of Net Loan Charge-Offs (x) | 8.98 | 7.22 |

U.S. Bank Charters by Authority



In 1985, there were more than 18,000 active bank charters in the United States. Since then, the US has seen a 65% decrease in the number of active bank charters. Despite this rapid consolidation, the state charter remains strong. Of the **6,127** banks in operation as of April 2016, **4,748** (77%) hold a state charter.

Challenges for Banks

1. Increasing federal regulatory burden stemming from the financial crisis, i.e. Dodd-Frank, etc.
2. Cyber crimes.
3. Economic impact of the Texas oil and gas industry.
 - Only 7% of state banks have a significant activity in oil and gas loans.
 - Ancillary industries could be affected by decreased investments in the oil industry.
4. Narrowing net interest margin in a low rate environment.
5. Revenue diversification through noninterest income sources.

Due to these challenges, we have seen an increased number of bank consolidations.

7,658 All U.S. Banks

As of December 31, 2010

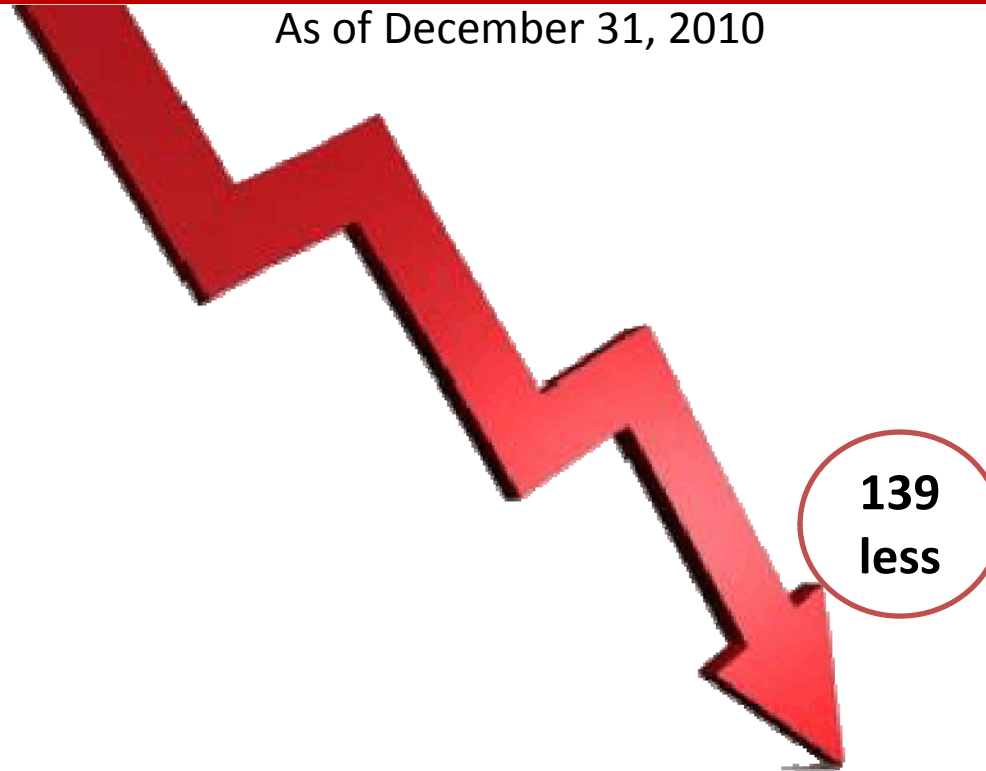


6,127 All U.S. Banks

As of April 14, 2016

615 All Texas Banks

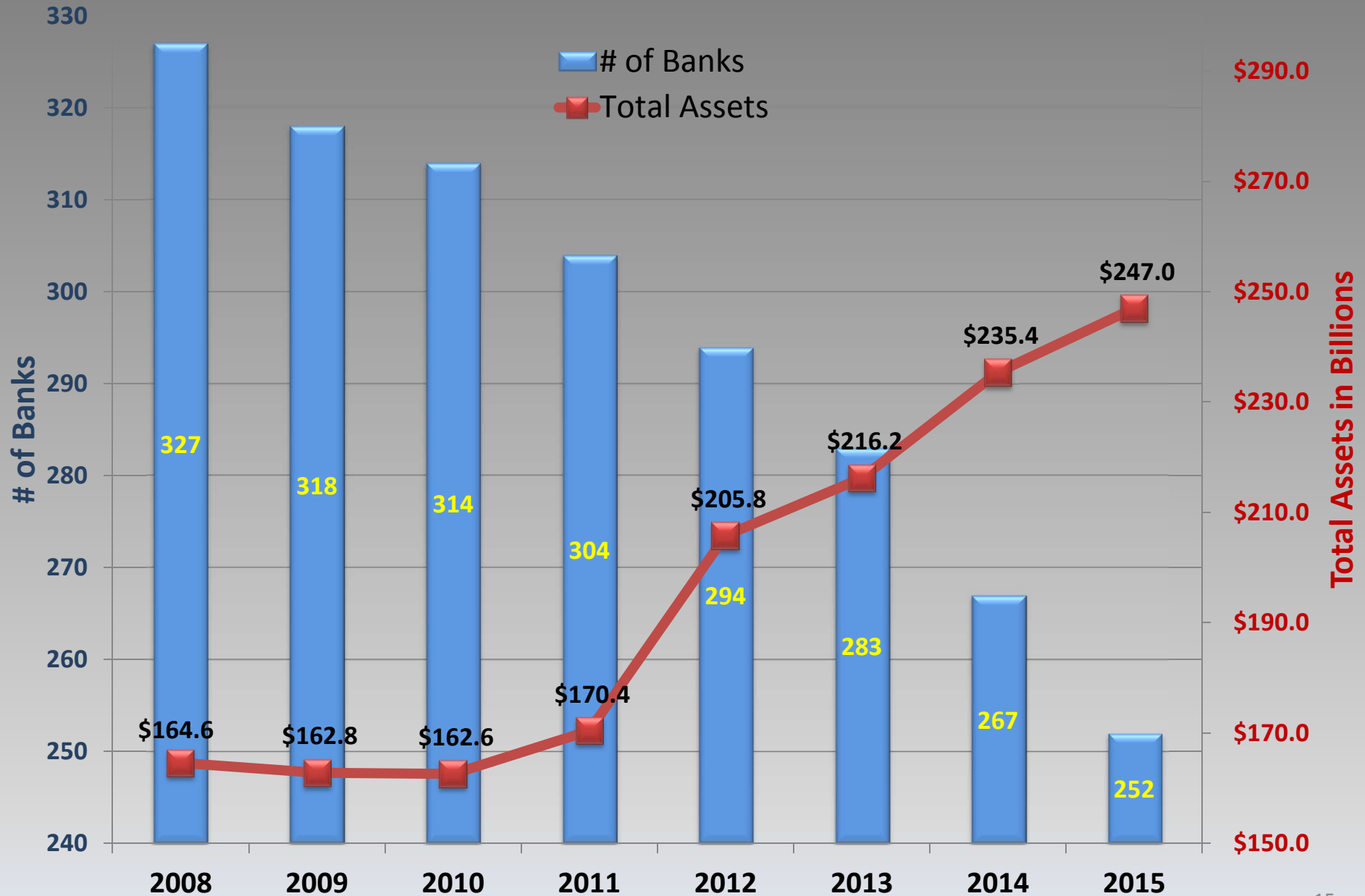
As of December 31, 2010



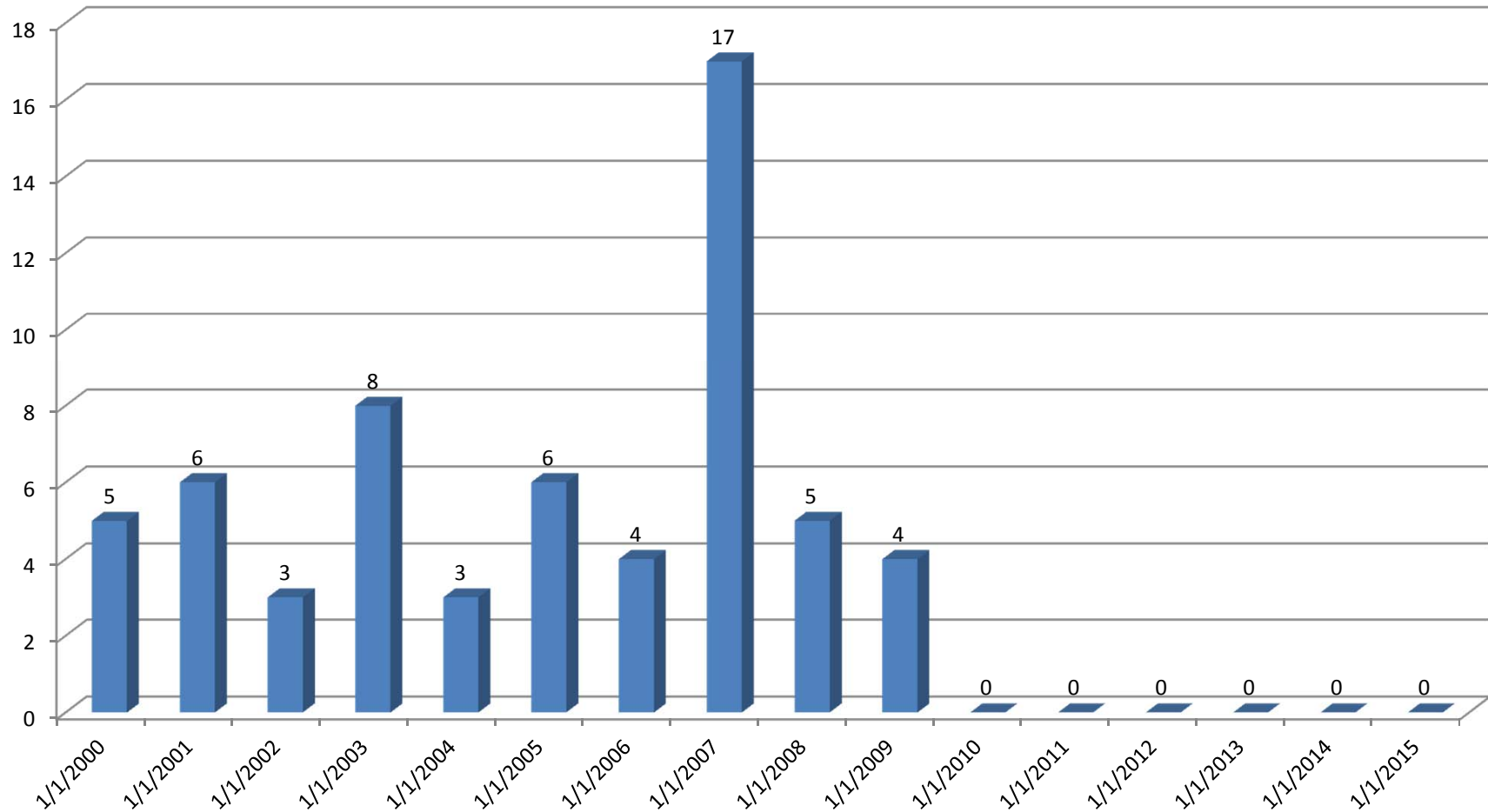
476 All Texas Banks

As of April 14, 2016

CHANGES OVER THE YEARS



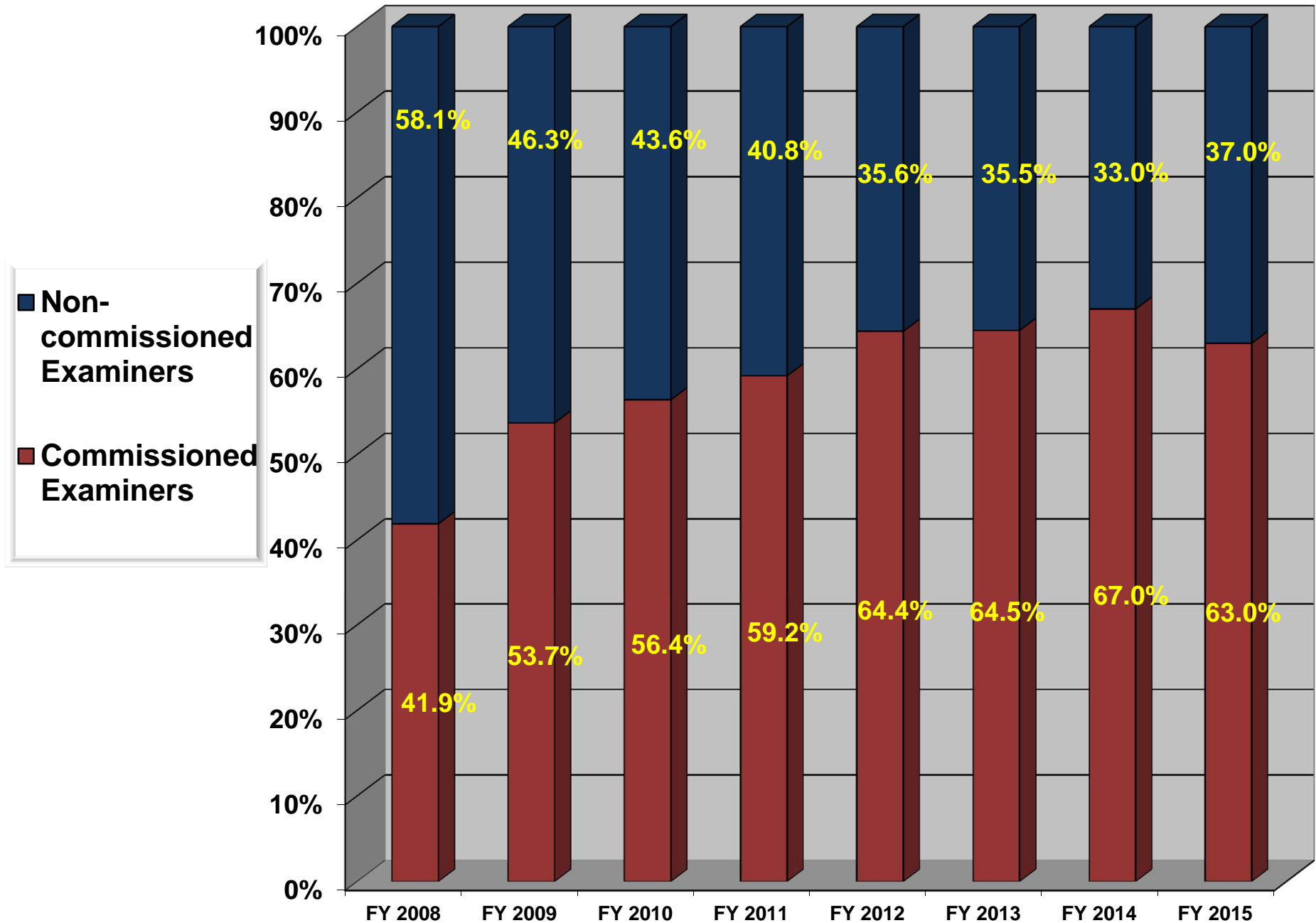
Number of De Novo State Bank Charters In Texas Since 2000



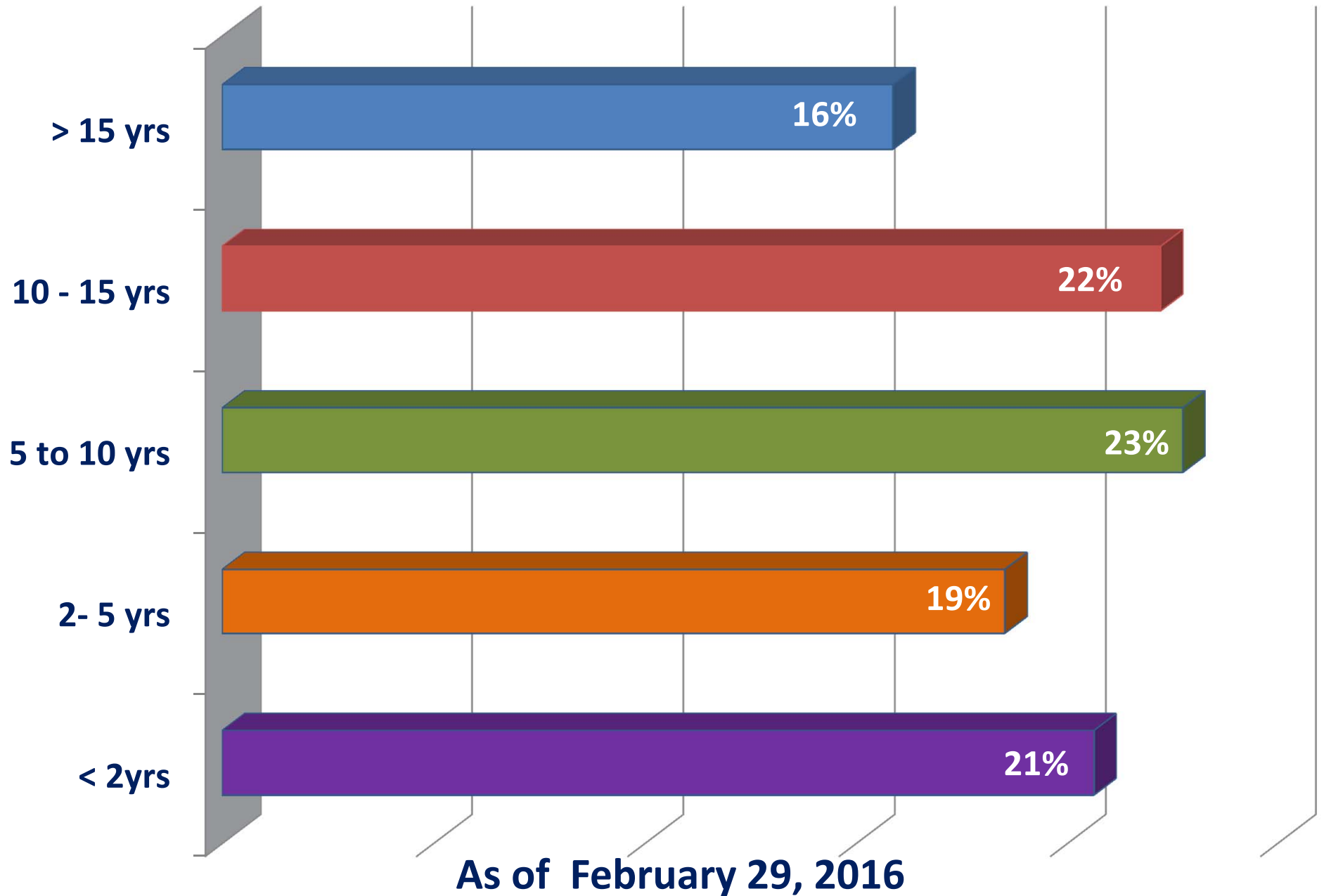
Presented by the Texas Department of Banking

Source: Texas Department of Banking Data

COMMISSIONED VS. NON-COMMISSIONED



DEPARTMENT TENURE



DEPARTMENT INITIATIVES

- ☆ Industry leader in Cybersecurity.
 - Hosted first Executive Leadership on Cybersecurity event in the nation.
- ☆ Recognized nationally on banking and money service business issues.
- ☆ Regulatory leader in developing supervisory policies, procedures and training, and only state regulator to have formal testing program for commissioning examiners.
- ☆ Extensive financial literacy outreach and community involvement.
- ☆ Active with:
 - Conference of State Bank Supervisors - CSBS
 - Money Transmitter Regulators Association - MTRA