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# Texas Bank Report

Texas Department of Banking, Charles G. Cooper, Commissioner

January 2023

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## What Does The **Future** Hold?



# Commissioner's Comments



***"...community bankers are starting the year with a pessimistic outlook and largely believe that the nation is in a recession. The top concerns are inflation, government regulation, the cost/availability of labor, and cyberattacks."***

**N**ow that 2022 is in our rearview mirror, many of us look ahead to the coming year with equal parts enthusiasm and uncertainty. One certainty for those of us in state government is we will be focusing on the 88th Texas Legislative Session.

Key legislative priorities for the state's leadership include property tax relief, the state's electric grid, and issues surrounding our shared border with Mexico. More than 900 bills were filed during the session's pre-filing period, which began November 14th, and thousands of additional bills will be filed in both chambers before the March 10th deadline. As in previous years, the Department will be monitoring the legislative activity throughout the session.

What does 2023 have in store for banking? The fourth quarter Community Bank Sentiment Index (CBSI) released January 10, 2023, reveals that community bankers are starting the year with a pessimistic outlook and largely believe that the nation is in a recession. The top concerns are inflation, government regulation, the cost/availability of labor, and cyberattacks. The CBSI is derived from quarterly polling by the Conference of State Bank Supervisors (CSBS) of community bankers across the country. This started in 2019, and many Texas bankers have contributed. The CBSI fell six points to 85, the second lowest level since the second quarter of 2022 when it was 84. A level of 100 indicates a neutral sentiment while anything above 100 indicates a positive sentiment.

In our observations of bank data, examination activity, and talking to many Texas bankers, the main concerns are consistent with those identified in the CSBI along with liquidity, funds management practices and administering investment portfolios with depreciation due to rising interest rates.

In the '80s, the saying was that banks with good core deposits wanted to keep them and banks without wanted to obtain them. For different reasons, we find ourselves nearly in the same environment today. "Sticky" deposits are what every banker desires. However, customers are more rate sensitive than in years past, have more selection alternatives, and it is much easier to transfer funds and open new accounts due to technological advances. All of this must be evaluated, and bank management should confirm the availability of contin-

gent funding sources. Using vigorous scenarios when stress testing for liquidity and interest rates allows for better understanding of potential risks to the balance sheet, including depreciation within the investment portfolio, earnings, and capital. These situations are complex enough, and introducing loan quality issues acerbates the concerns. As always, maintaining a quality portfolio is paramount.

On a much lighter topic, this edition of *Texas Bank Report* concludes our two-part look at how community banks are improving the quality of life in South Texas through their financial education efforts.

These banks, behind the enthusiasm and ingenuity of their respective staffs, are helping unbanked households overcome long-standing concerns over traditional banking providers while also developing financial life skills among the region's youth and nurturing small and new businesses throughout the Rio Grande Valley.

It is my hope that these stories inspire your bank to become involved in similar financial education programs if it is not doing so already. If you are participating in a financial literacy program, please let the Department know. We are always looking to share such success stories from our community banks.

Finally, on behalf of the entire Department, I wish you all the best in 2023.

A handwritten signature in blue ink that reads "Charles G. Cooper". The signature is fluid and cursive, with the first and last names being more prominent.

Charles G. Cooper  
Banking Commissioner

## How Investments in the “Community” are Paying Dividends

By: Gordon Anderson

### *Second in a Two-Part Series*

In this edition, we continue to spotlight South Texas and the financial education efforts of community banks throughout the region.

Banks serving communities along the Texas-Mexico border face challenges that, while also found in many cities across Texas, are greatly magnified when compared to other areas of the state because of a larger percentage of dual-language households, varying levels of education, and – perhaps the most critical – an often-uneasy view regarding traditional banking.

Plus, it is common for citizens of Mexico to cross the border to conduct their personal banking, adding another layer of uniqueness. The task South Texas banks face then is two-fold. They must serve and help grow local businesses while helping increase the understanding of and access to the financial services.

Here is how two banks, Rio Bank, McAllen, and International Bank of Commerce (IBC Bank), Brownsville, are fulfilling this mission and improving the quality of life in the communities they serve.

### **Rio Bank**

With 15 branch locations in Cameron, Hidalgo, and Starr counties, McAllen-based Rio Bank opened in February 1985 primarily as a retail-oriented bank catering to consumers for both deposit and loan business in South Texas.

Branch facilities include locations in Brownsville, Edcouch, Edinburg, Elsa, Harlingen, Palmview, Rio Grande City, Roma, San Juan, and Weslaco, in addition to its banking centers and McAllen headquarters. These are communities with income levels that lag those of the rest of the state, but it goes beyond a question of just income.

As Omar Rodriguez, Senior Executive Vice President for Operations in the McAllen headquarters explains, the bank recognizes that many households in the communities it serves have not been formally exposed to the fundamentals of personal finance.

“Our goal is simply to educate the community,” he says. “In South Texas, we have a large unbanked population, and we are



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Your Kind of Banker.*

trying to get folks to realize that banks are not the enemy. We are here to help them.”

“When we decided to begin a financial education program in April of this year, we started with an initial round of two workshops for consumers, talking about the basics of banking,” he continues, “what those benefits are, and how they can help them in their day to day lives.”

Rodriguez explains that the information is conveyed through a comprehensive yet easy to understand PowerPoint presentation suitable for a wide range of audiences. The presentation helps define wealth and net worth, and explains the different types of assets and liabilities, income-to-debt ratios, the importance of a household budget and how to create one, among other topics.



*Omar Rodriguez, Senior Executive Vice President, speaking to Region One educators.*

“We also recognized there was need for a way to help nurture small and new businesses within the region,” Rodriguez explains. “Some folks may be great at a certain skill, but those skills may not translate to actually running a business and knowing how to seek the right help.”

“So, in response, we created a new business start-up curriculum,” he continues. “The business courses are a partnership with the University of Texas Rio Grande Valley and their Business Development group, which is helping to extend our reach even further.”

Rio Bank also has a presence in classrooms across the Rio Grande Valley from Roma to Brownsville, providing financial education courses to K-12 classes with an emphasis on grades 8 and higher. Specifically, the bank developed a financial life skills series tailored to high school juniors and seniors.

According to Rodriguez, this is where bank staff feels they can really make a difference.

“So far, students have responded very positively,” he says. “For most of our staff who venture out to these classrooms, they look like most of the students, so we’re someone they can relate to. Personally, I made a lot of bad financial decisions when I was 16, and I can help them understand the implications of a free credit card, or what it means to take on a student loan. I was where they are now and I tell them they can pull themselves up, too.”

While the focus may be on juniors and seniors, Rodriguez points out the series is open – and of great interest – to teachers and parents alike. Financial education knows no age or professional limitations. Rodriguez details the bank’s approach.

“We’ve done a couple of things to help develop our program and meet our objectives,” he says. “One, we created our own set of presentations tailored to students. And the Texas Bankers Association has been a huge help to us in getting these shaped. Secondly, we’ve partnered with our local Region One organization to help us get in front of students, teachers, school district staff, and parents.”



*Rio Bank Financial Literacy Team: Bernardo Garcia, Yanelly Jimenez, Omar Rodriguez, Kimberly Ramos and Anahi Garcia.*

Rodriguez is describing the Region One Education Service Center, part of a state-wide system of 20 regional education service centers created in 1965 by the 59th Texas Legislature to assist school districts in several ways across the entire state.

While obviously proud of the strides Rio Bank has made in the community, Rodriguez says that everyone on staff is extremely enthusiastic about being part of a program being built from scratch.

“It has taken a little bit of time for us to get our program where we want it. We are still developing it and probably always will,” he acknowledges. “However, finding good partners has been key to our outreach and we are grateful for that. Our experience in the field has been positive all the way around.”

“We’ve realized that the information we share benefits not just students but anyone who is willing to listen, including all of our employees,” Rodriguez concludes. “We see a lot of ‘a-ha!’ moments. Knowing that they learned at least one thing, makes it very worthwhile for us.”

Here is hoping for many more “a-ha!” moments to come.

## International Bank of Commerce



As the name suggests, International Bank of Commerce (IBC Bank) is a large, multi-bank financial holding company headquartered in Laredo. Founded in 1966, the bank maintains 167 facilities serving 75 communities throughout Texas and Oklahoma.

In addition to the traditional banking services it provides, IBC Bank also leverages its border locations to offer robust foreign exchange services, including both pesos and euros.

Despite this geographic reach, the bank's staff strives to maintain its local roots and remains committed to working with communities at the local level to improve the quality of life for all residents. As Karen Peña, Assistant Vice President in the Brownsville office explains, its unique effort goes way back.

In fact, Peña says the program began over 25 years ago, and while it is primarily for elementary students, all grade levels can participate, she notes. But what exactly is this financial education program offered by IBC Bank?

“The program we operate is called *Minitropolis*, a really visionary program that mirrors a fully-functioning, real-life community that creates an academic learning experience for younger students,” she explains.

The *Minitropolis* program concept was created by two IBC Bank employees in 1996, working with one small elementary school in McAllen. It is an extraordinary tool helping teachers communicate the importance of financial literacy to youngsters and their parents.

The significance of the program grew in scale and exposure, she says, as more schools throughout the IBC Bank footprint became interested in the concept of a fully functioning community with a mayor and city council, as well as businesses and key services such as a post office, recycling center, grocery store and – obviously – a bank.

Children work and earn play money to pay taxes, bills, and purchase goods, Peña notes, just as they will when they achieve adulthood. The *Minitropolis* principles provide a way for students to master the basics of financial literacy within their academic experience. The program is now a part of 30 elementary schools in essentially every Texas community served by IBC Bank, yet the bank's goals remain the same.

“The motivation is to provide students with social, academic, and real-life skills they need to be successful and responsible citizens, while introducing them to the possibility of different careers,” she continues. “At the same time, the incentives embedded in the program are designed to increase students' attendance and improve their attitudes towards learning.

“What makes the *Minitropolis* program different from other programs is the students are in charge,” Peña continues. “Additionally, the students also run a bank located inside their school; they have a bank president, managers, tellers, security, and many other positions within their in-school bank.” The idea is for both exercises to complement one another, further building on what knowledge they have already acquired.

To introduce the programs to students whose role is bank-related, Peña and staff give them a tour of a local branch office, where they meet their role model, and observe how they dress and act. She notes how seriously students are expected to treat whichever job each is assigned.

“Whether it is the branch manager position or another job within the in-school bank, students and teachers both have certain expectations,” Peña says. “The students dress professionally and carry themselves accordingly. The students become quite engaged. It is very rewarding seeing how they embrace the program and make it their own.”

Reflecting on the success of *Minitropolis*, she is quick to give credit to the cooperation and participation of all the superintendents, principals and teachers for the success and growth of this initiative; however, she also reserves her highest praise for the two (now retired) staff members who developed the program.

“With this program, IBC Bank truly becomes part of the school, working hand in hand with the administration to create a fulfilling experience for the students.

“There is nothing like this out there for elementary school children,” she concludes. “This is such a unique program, and it is doing so much good. I don't know if the employees who created it had any idea how big a program this could be. And how big it has become.”

Whether it be the program or the students who it benefits, the old saying is still true: From small things, big things one day come.

# Financial Highlights

TABLE I Quarterly Balance Sheet and Operating Performance Ratios for Texas State-Chartered Commercial Banks 9/30/2022 Through 9/30/2021					
ACCOUNT DESCRIPTIONS (IN MILLIONS OF \$)	9/30/2021	6/30/2022	3/31/2022	12/31/2021	9/30/2021
Number of State-Chartered Banks	213	213	214	214	215
Total Assets of State-Chartered Banks	419,779	418,289	422,822	423,528	412,751
Number of Out-of-State, State-Chartered Banks Operating in Texas	52	48	48	48	48
Total Texas Assets of Out-of-State, State-Chartered Banks Operating in Texas	63,414	85,338	85,338	85,338	85,338
Subtotal	483,193	503,627	508,160	508,866	498,089
Less: Out-of-State Branch Assets/Deposits	(71,591)	(72,689)	(72,689)	(72,689)	(72,689)
**Total State Banks Operating in Texas	411,602	430,938	435,471	436,177	425,400
<b>BALANCE SHEET (Tx. State-Chartered Banks)</b>					
Interest-Bearing Balances	35,877	39,163	55,507	72,727	71,432
Federal Funds Sold	2,274	2,470	2,401	1,470	895
Trading Accounts	1,097	1,699	1,960	1,028	1,477
Securities Held-To-Maturity	23,810	23,464	22,269	17,707	17,232
Securities Available-for-Sale	84,894	86,121	84,948	79,379	73,868
Total Securities	108,704	109,585	107,217	97,086	91,100
Total Loans	240,791	236,714	226,620	224,316	221,489
Total Earning Assets	387,646	387,932	391,745	395,599	384,916
Premises and Fixed Assets	5,430	5,377	5,463	5,307	5,244
Total Assets	419,779	419,289	422,822	423,528	412,751
Demand Deposits	79,792	78,673	82,664	70,473	66,746
MMDAs	190,654	194,692	196,863	211,600	205,003
Other Savings Deposits	33,876	32,735	31,669	30,740	29,349
Total Time Deposits	36,815	35,745	35,601	33,833	35,063
Brokered Deposits	10,981	10,368	9,773	8,920	7,971
Total Deposits	356,922	357,609	363,127	360,992	349,668
Federal Funds Purchased	3,945	3,359	3,304	4,073	3,403
Other Borrowed Funds	13,439	11,807	7,651	7,556	7,634
Total Liabilities	381,702	378,669	379,652	377,664	366,828
Total Equity Capital	38,077	40,620	43,170	45,865	45,922
Loan Valuation Reserves	2,808	2,746	2,725	2,739	2,793
Total Primary Capital	40,885	43,366	45,895	48,604	48,715
Past Due Loans > 90 Days	280	189	220	225	315
Total Nonaccrual Loans	751	829	992	950	1,076
Total Other Real Estate	113	105	94	99	159
Total Charge-Offs	166	107	58	241	174
Total Recoveries	85	57	27	150	102
Net Charge-Offs	81	50	31	91	72
<b>INCOME STATEMENT</b>					
Total Interest Income	9,748	5,907	2,815	11,243	8,431
Total Interest Expense	846	376	158	715	556
Net Interest Income	8,902	5,531	2,657	10,528	7,875
Total Noninterest Income	2,993	1,938	948	4,124	3,126
Loan Provisions	210	104	14	(448)	(407)
Salary and Employee Benefits	3,953	2,587	1,303	5,111	3,822
Premises and Fixed Assets Expenses (Net)	720	466	235	935	697
All Other Noninterest Expenses	2,034	1,315	663	2,549	1,870
Total Overhead Expenses	6,707	4,368	2,201	8,595	6,389
Securities Gains (Losses)	(59)	(45)	(11)	43	45
Net Extraordinary Items	0	0	0	0	0
Net Income	4,047	2,433	1,157	5,374	4,151
Cash Dividends	2,085	1,364	633	2,719	1,568
<b>RATIO ANALYSIS</b>					
Loan/Deposit	67.46%	66.19%	62.41%	62.14%	63.34%
Securities/Total Assets	25.90%	26.14%	25.36%	22.92%	22.07%
Total Loans/Total Assets	57.36%	56.46%	53.60%	52.96%	53.66%
Loan Provisions/Total Loans	0.12%	0.09%	0.02%	-0.20%	-0.24%
LVR/Total Loans	1.17%	1.16%	1.20%	1.22%	1.26%
Net Charge-Offs/Total Loans	0.03%	0.02%	0.01%	0.04%	0.03%
Nonperforming+ORE/Total Assets	0.27%	0.27%	0.31%	0.30%	0.38%
Nonperforming+ORE/Primary Capital	2.80%	2.59%	2.85%	2.62%	3.18%
Net Interest Margin	3.05%	2.85%	2.71%	2.66%	2.72%
Gross Yield	4.04%	3.74%	3.56%	3.63%	3.72%
Return on Assets	1.28%	1.16%	1.09%	1.27%	1.34%
Return on Equity	14.14%	11.98%	10.72%	11.72%	12.02%
Overhead Exp/TA	2.13%	2.08%	2.08%	2.03%	2.06%
Equity/Total Assets	9.07%	9.69%	10.21%	10.83%	11.13%
Primary Capital/Total Assets+LVR	9.67%	10.28%	10.78%	11.40%	11.72%
*Unrealized gains/losses are already included in equity capital figures.					
**Total State Banks Operating in Texas includes branches of out-of-state, state-chartered banks.					
Data was derived from the FDIC website.					

# Financial Highlights

TABLE II  
Comparative Statement of Condition  
Commercial Banks Domiciled in Texas  
September 30, 2021 and September 30, 2022

ACCOUNT DESCRIPTIONS (In Millions of \$)	9/30/2022 STATE CHARTERED		9/30/2022 NATIONAL CHARTERED		9/30/2022 ALL BANKS		9/30/2021 ALL BANKS	
Number of Banks	213	% TA	157	% TA	370	% TA	372	% TA
<b>BALANCE SHEET</b>								
Interest-Bearing Balances	39,163	9.3%	11,888	8.1%	51,051	9.0%	90,799	16.4%
Federal Funds Sold	2,470	0.6%	3,909	2.7%	6,379	1.1%	3,304	0.6%
Trading Accounts	1,699	0.4%	17	0.0%	1,716	0.3%	1,493	0.3%
Securities Held-To-Maturity	23,464	5.6%	6,682	4.5%	30,146	5.3%	22,117	4.0%
Securities Available-For-Sale	86,121	20.5%	31,412	21.3%	117,533	20.7%	104,305	18.8%
Total Securities	109,585	26.1%	38,094	25.9%	147,679	26.1%	126,631	22.8%
Total Loans	236,714	56.5%	84,975	57.7%	321,689	56.8%	298,906	53.9%
Total Earning Assets	387,932	92.5%	138,866	94.2%	526,798	93.0%	519,640	93.7%
Premises & Equipment	5,377	1.3%	1,878	1.3%	7,255	1.3%	6,985	1.3%
<b>TOTAL ASSETS</b>	<b>419,289</b>	<b>100.0%</b>	<b>147,364</b>	<b>100.0%</b>	<b>566,653</b>	<b>100.0%</b>	<b>554,742</b>	<b>100.0%</b>
Demand Deposits	78,673	18.8%	39,547	26.8%	118,220	20.9%	101,726	18.3%
MMDAs	194,692	46.4%	39,585	26.9%	234,277	41.3%	243,971	44.0%
Other Savings Deposits	32,735	7.8%	22,224	15.1%	54,959	9.7%	50,363	9.1%
Total Time Deposits	35,745	8.5%	16,313	11.1%	52,058	9.2%	51,531	9.3%
Brokered Deposits	10,368	2.5%	757	0.5%	11,125	2.0%	8,829	1.6%
Total Deposits	357,609	85.3%	130,436	88.5%	488,045	86.1%	472,835	85.2%
Fed Funds Purchased	3,359	0.8%	1,556	1.1%	4,915	0.9%	4,970	0.9%
Other Borrowed Funds	11,807	2.8%	2,134	1.4%	13,941	2.5%	7,810	1.4%
<b>TOTAL LIABILITIES</b>	<b>378,669</b>	<b>90.3%</b>	<b>135,104</b>	<b>91.7%</b>	<b>513,773</b>	<b>90.7%</b>	<b>493,870</b>	<b>89.0%</b>
Equity Capital	40,620	9.7%	12,259	8.3%	52,879	9.3%	60,871	11.0%
Allowance for Loan/Lease Losses	2,746	0.7%	1,119	0.8%	3,865	0.7%	3,862	0.7%
Total Primary Capital	43,366	10.3%	13,378	9.1%	56,744	10.0%	64,733	11.7%
Past Due >90 Days	189		22		211		369	
Nonaccrual	829		448		1,277		1,572	
Total Other Real Estate	105		34		139		204	
Total Charge-Offs	107		95		202		255	
Total Recoveries	57		40		97		146	
<b>INCOME STATEMENT</b>								
	Y-T-D		Y-T-D		Y-T-D		Y-T-D	
Total Interest Income	5,907	100.0%	3,589	100.0%	9,496	100.0%	11,641	100.0%
Total Interest Expense	376	6.4%	315	8.8%	691	7.3%	768	6.6%
Net Interest Income	5,531	93.6%	3,274	91.2%	8,805	92.7%	10,873	93.4%
Total Noninterest Income	1,938	32.8%	1,307	36.4%	3,245	34.2%	4,568	39.2%
Loan Provisions	104	1.8%	127	3.5%	231	2.4%	(339)	-2.9%
Salary & Employee Benefits	2,587	43.8%	1,568	43.7%	4,155	43.8%	5,367	46.1%
Premises & Fixed Assets (Net)	466	7.9%	293	8.2%	759	8.0%	993	8.5%
All Other Noninterest Expenses	1,315	22.3%	954	26.6%	2,269	23.9%	2,772	23.8%
Total Overhead Expenses	4,368	73.9%	2,815	78.4%	7,183	75.6%	9,132	78.4%
Securities Gains(Losses)	(45)	-0.8%	3	0.1%	(42)	-0.4%	61	0.5%
Net Extraordinary Items	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>NET INCOME</b>	<b>2,433</b>	<b>41.2%</b>	<b>1,479</b>	<b>41.2%</b>	<b>3,912</b>	<b>41.2%</b>	<b>5,611</b>	<b>48.2%</b>
Cash Dividends	1,364		535		1,899		2,097	
Average ROA	0.77%		1.33%		0.92%		1.35%	
Average ROE	7.97%		16.05%		9.84%		12.26%	
Average TA (\$ Millions)	1,968		939		1,531		1,491	
Average Leverage	9.69%		8.32%		9.33%		10.97%	
Dividends/Net Income	56.06%		36.17%		48.54%		37.37%	

\*Unrealized gains/losses are already included in equity capital figures.

Table includes only banks domiciled in Texas. Branches of out-of-state banks are not included.

Data was derived from the FDIC website.