Office of the Comptroller of the Currency

FACT SHEETS

Southern District

Summary of Operations

Headquartered in Washington, D.C., the OCC charters, regulates, and supervises all national banks and federal savings associations and supervises the federal branches and agencies of foreign banks. The OCC has four district offices, which oversee the supervision of community banks throughout the country.

The OCC's Southern District, headquartered in Dallas, Texas, supervises a total of 511 institutions composed of 432 national banks (84.5 percent) and 79 Federal Savings Associations (15.5 percent). These institutions hold $210 billion in assets and range in size up to $10 billion in assets. The district also supervises four independent trust companies and 30 technology service providers.

These institutions spread across nine states spanning from Texas eastward to Georgia and Florida. More than half of the institutions are located in Texas and Oklahoma. The OCC has field or satellite offices in every state in the district. There are 21 field offices and three satellite offices supervised by Assistant Deputy Comptrollers.

Economic Conditions

The district covers a very large geographic area with many large population centers including Houston, Dallas-Fort Worth, San Antonio, Atlanta, Miami, and Tampa.

Major industries include real estate, finance, oil and gas, tourism, technology, defense, and agriculture.

Banks within the district offer traditional products and services, with credit concentrations in commercial and industrial, commercial real estate, multi-family, 1-4 family residential, and agriculture loans. Unique business lines in district banks include: mortgage banking, Small Business Administration (SBA) lending, payment processing, and asset-based lending.

Economic conditions have improved substantially over the past year, but the pace of the recovery has been uneven throughout the district.

Employment growth has been strongest in Texas and well below the national average in Arkansas and Mississippi. Employment remains significantly below pre-recession levels in Florida, Georgia, Alabama, and Mississippi.

Georgia, Florida, Alabama, and Tennessee suffered the most housing price declines in the real estate downturn. Georgia has shown good improvement followed by Florida and Tennessee.

However, Alabama's housing prices remain slow to rebound. Despite these improvements in many markets, Florida, Georgia and Alabama remain well below the peak valuations by 15 percent or more.

Texas, Oklahoma, and Louisiana have shown steady improvement in housing prices which are roughly at or above the peak prior to the recession. The role of oil and gas exploration has contributed heavily to the economic boost in this region of the district.

A lingering drought in parts of Texas and Oklahoma is affecting the agricultural industry and many rural communities.

Southern District Bank and Thrift Performance and Condition

Condition Summary

The overall financial condition of Southern District financial institutions continues to improve and metrics for key financial areas are positive. Most banks with asset quality issues are having success reducing problem assets and Other Real Estate Owned (OREO). The OCC has seen a significant decrease in the number of problem banks and has terminated many enforcement actions since 2012. Considerable work remains as national banks and federal savings associations struggle to stabilize shrinking net interest margins, but capital and liquidity levels are strong and economic conditions continue to improve. The OCC anticipates continued improvement in the condition of the community banks.

- Approximately 80 percent, or 308 banks, of the district's institutions are rated a composite 1 or 2.
- The percentage of problem institutions has fallen from a peak of 25 percent from the height of the recession. Despite improvement, problem bank levels remain historically high at 20 percent of OCC supervised institutions.
- Problem banks in the western region of the OCC's Southern District have shown faster improvement and greater reductions.
- Problem levels have stabilized in our eastern and central regions, but have been slower to show improvement to a satisfactory condition.
- A higher percentage of thrifts remain in problem status compare with national community banks. Community banks are improving at a more pronounced rate, while problem thrift numbers have remained essentially stable.
- From 2009 through August 2013, 28 national banks and federal thrifts (since the OTS integration in July 2011) have failed in the Southern District. Twenty-one of those failures were in Florida and Georgia. The number of failures has declined since 2010.

Financial Performance Indicators

Given the size of the district, we break it into three regions:

Eastern – Alabama, Florida, Georgia
Central – Arkansas, Louisiana, Mississippi, Tennessee
Western – Texas and Oklahoma

Earnings improved because of reduced provision and OREO expenses, but pressure on bank earnings will continue to increase because of low loan demand, excess liquidity, and declining investment yields.

- The average return on average assets (ROAA) for second quarter 2013 was 0.76 percent, which was the same at year-end 2012. The ROAA for the western region (Texas and Oklahoma Field Offices) is 0.87 percent; central (Arkansas, Louisiana, Mississippi, Tennessee) is 0.73 percent, and eastern (Alabama, Florida, Georgia) is 0.49 percent.
- The net interest margin (NIM) for second quarter 2013 is 3.69 percent, reflecting similar results from the fourth quarter of 2012. The NIM was relatively flat through September 30, but declined significantly in fourth quarter 2012 due primarily to lower investment yields. Investment yields are down approximately 48 basis points over the prior year. A further narrowing in the NIM is likely given low loan demand and the current rate environment.

Classified and special mention assets peaked in first quarter of 2011 and have decreased slightly each quarter since then. All regions in the Southern District are reflecting significant improvement in their net loan loss ratios over the prior year.

- Problem assets for banks in the central and eastern regions of the district remain well above national and district levels.
- Loan growth remains mixed across the regions and reflects the continued market competitiveness. The western region is reporting the strongest loan growth rate at 5 percent and is fueled by banks located in areas experiencing economic growth resulting from increased oil and gas industry activity. The remainder of the district is reporting little or no growth. Loan demand fell in 38 percent of the Southern District's institutions with an average rate of decline of 7 percent. However, the average loan growth rate for institutions experiencing growth is 10 percent. Leverage capital ratios improved slightly from the prior year for community national banks and federal thrifts on average. The average Tier 1 leverage and total risk-based capital ratios for second quarter 2013 are 10.6 percent and 19.6 percent, respectively, and are strong from a historical perspective. The leverage ratio is declining in some offices because of the influx of deposits resulting from cash flow from oil and gas activity. Total risk-based capital ratios improved or remained stable on average for most Southern District offices over the prior year.

- Most banks have ample liquidity.

The OCC sees five top risks facing community banks in its Southern District: strategic, interest rate, credit, compliance and reputation, and operational. Of these, only credit risk is less of a concern compared with prior years as the number of problem loans is decreasing.

Strategic Risk

Pressure on earnings remains high and increasing because of excess liquidity, mixed loan demand, and diminishing opportunities for fee income. The extended low interest rate environment also contributes to earning pressures. This means that securities gains and negative allowances for loan and lease losses (ALLL) provisions are not sustainable income sources. These are primarily centered in the eastern and central regions.

Good strategic planning and effective risk management processes are increasingly important in the current bank environment. Examination activities will assess the adequacy of the strategic plan with specific emphasis on managing risks associated with new products and services.

Sensitivity to Market Risk
Interest rate risk is another significant and increasing risk. Community banks are experiencing competitive pressure and a sustained low rate environment that make it difficult to obtain sufficient yields to cover overhead without assuming significant interest rate or credit risk.

Examiners will assess if bankers are increasing interest rate by investing in higher yielding, nontraditional, or longer-term investments.

Credit Risk
Although credit risk remains elevated in the eastern and central regions of the district, both regions experienced a significant decline in the number of banks with high or moderate, or increasing credit risk over the prior year.

Competition for loans in several field office locations is contributing to stagnant or minimal loan growth, and the pressure to loosen underwriting standards.

- Community banks are finding it increasingly difficult to compete on price and terms.
- Limited loan demand and competitive pressures may tempt bankers to ease underwriting standards (pricing, terms) or seek new lending products.
- Many banks have plans to limit Commercial Real Estate (CRE) exposure and expand into commercial and industrial (C&I) lending. C&I lending has increased in certain areas and the ability of bankers to prudently underwrite, analyze, and monitor the credits is a concern. Some banks have established working capital lines without the appropriate administrative controls.
- Banks are entertaining expansion into unfamiliar commercial loan products to improve their NIM.
- Other avenues of lending have included increasing loan participations purchased volume and increasing SBA lending activity.

The drought continues to affect regions of the district, primarily west Texas.

- Prolonged drought has affected crop production (primarily cotton) and increased feed costs.
- Somewhat offsetting the adverse impact of drought is the substantial oil and gas activity in west Texas. Because of this activity, housing prices have risen significantly in west Texas. The continued surge in oil and gas related markets is strengthening the local economy from Lafayette to Lake Charles, Louisiana.

The OCC is focusing on the quality of new underwriting and the adequacy of post-funding analysis. Areas of emphasis include new lending products and loan participations purchased. The OCC is continuing to ensure that bankers manage concentration risk proactively.

Compliance and Reputation Risks
Bank Secrecy Act/Anti-Money Laundering compliance continues to create elevated compliance and reputation risk given evolving money laundering schemes and the negative publicity that can result from system failures in this area.

The OCC will focus on compliance and reputation risks arising from new and expanded products and services. Also, the agency will assess regulatory change management, including the appropriateness of policies, procedures, risk assessments, and employee training.

Operational Risk
Advances in technology and changes in the delivery of new products and services require sound risk management. Earnings pressure may lead some banks to cut back on essential control and audit processes. Banks are also increasingly outsourcing critical functions to third parties, heightening the need for effective vendor management.

OCC will assess whether banks are maintaining effective internal controls and audit programs.

Concentrations
The eastern region of the district continues to slowly workout problem loans. There is still a lingering high level of OREO in many of the institutions. The principal cause of these problem assets was excessive CRE concentrations. However, most CRE related concentrations, with the exception of income producing CRE, are declining:

- Construction and land development loan concentrations declined sharply since 2008 from 167 institutions to 31 as of June 30, 2013.
- Seventy institutions have income producing CRE loan concentrations greater than 200 percent of capital or between 100 to 200 percent of capital with expanding portfolios. These institutions are located primarily in Florida and Texas metropolitan areas.

Because of continuing drought conditions, agricultural lending concentrations are being closely monitored:

- Seventy-seven institutions have agricultural loan concentrations exceeding 100 percent of capital.
- Of the 77 institutions with agricultural loan concentrations exceeding 100 percent of capital, 47 percent are located in areas (primarily Texas) experiencing severe drought conditions.
- Examinations in these banks indicate that underwriting remains sound.