OCC Southern District Performance and Condition of Community National Banks and Federal Savings Associations

The condition of Southern District institutions continues to improve, and the decline in the number of problem institutions is accelerating.

- The strength of institutions in the nine states in the Office of the Comptroller's Southern District is nearing pre-crisis levels. Eighty-nine percent of national banks and federal savings associations in the district are highly rated at 1 or 2 on the five-point CAMELS rating system.
- Problem banks and thrifts in the district fell to 54 institutions by June 30, 2014, compared with 71 at year-end 2013, 133 at year-end 2012, and 148 at year-end 2011.
- Banks in Texas and Oklahoma are faring well with 98 percent earning a 1 or 2 CAMELS rating.

Loan growth accelerates and expands to other areas of the district.

- The average loan growth rate doubled among community national banks and federal savings associations in the Southern District, rising to 6 percent in June 2014, up from 3 percent a year earlier. Approximately 10 percent experienced organic loan growth rates in excess of 20 percent in the past year.
- Texas, Oklahoma, and Florida saw the greatest growth rates.
    - Nearly all markets in Texas and Oklahoma showed loan growth above the overall district rate of 6 percent, influenced by the oil and gas industry activity in those states. Miami and Tampa were the more active loan growth areas in Florida, with retiree migration, good weather, a low-tax environment, and higher employment in hospitality and retail trade contributing to loan growth there.
- Healthy loan growth also occurred in Little Rock, Arkansas, and Atlanta, Georgia, which showed contracting loan volumes prior to 2013.
- Loan volumes in Birmingham and Nashville continue to contract.

Potential risks facing national community banks and thrifts include strategic, interest rate, operational, and credit risk.

- Strategic risk and interest rate risk are significant concerns as a result of competitive pressure and the sustained low-rate environment.
    - Protracted low interest rates, excess liquidity, and slow economic growth put pressure on earnings.
    - The lack of yield in short-term rates entices banks to increase exposure to longer-term assets, thus locking in rates that are already close to all-time lows. The ratio of long-

term assets to total assets continues to trend upward. Long-term assets include loans and investment securities where maturity or repricing is greater than five years plus collateralized mortgage obligations with a maturity greater than three years.

- Operational risk is increasing.
    - Losses relating to wire transfers, cyber fraud, and other activities are increasing.
    - Cost-cutting measures have affected risk management systems and internal controls in some of the district's institutions.

- While credit quality indicators continue to improve, competition for good quality loans in most markets is affecting pricing and putting pressure on underwriting.
    - Loan underwriting standards show signs of liberal concessions, including longer repayment terms, fewer and more liberal loan covenants, and releasing borrowers from personal liability on business and real estate development lending.
    - Of the 49 district banks with organic loan growth in excess of 20 percent in the past year, 90 percent showed a decline or no increase in their loan yields. This points to a highly competitive marketplace with interest rate concessions possibly offered to achieve loan growth which could mean improper pricing for risk.
    - Banks and thrifts with the most loan growth are not setting aside provisions for future loan losses at the previous high rate. Of the 49 institutions with the highest loan growth rates, 65 percent had a decline in their allowance for loan and lease loss to Total Loan ratio compared with a year ago. Additionally, 65 percent of the 49 banks report a provision expense to average asset ratio below the district average of 0.08 percent, which means these banks may not be setting aside appropriate provisions for future loan losses.

Earnings for district banks are flat, despite declining cost of bank funds and lower provisions for loan loss expenses.

- The average return on assets held steady in the past year at 0.78 percent, despite a reduction in the provision for loan loss expenses. Noninterest expenses remained stable.
- The cost of funds declined over the past year, while the net-interest margin increased to 3.73 percent from 3.70 percent.
- Atlanta, Little Rock, and Miami banks addressed significant problem assets, and are currently experiencing new loan growth.
- Birmingham and Nashville area banks have experienced improved profitability, a result of improvements in asset quality that reduced the need for additional loan loss provisions.
- Future earnings growth could be difficult.
    - The cost of funds and provision for loan losses have limited room for further improvement.
    - Competitive pressures and low interest rates make it difficult to obtain yields to cover overhead costs without assuming significant interest rate or credit risk.

About the OCC's Southern District

The OCC's Southern District, headquartered in Dallas, supervises 468 community institutions, composed of 395 community national banks and 73 federal savings associations. Of the savings associations, 23 have mutual charters. The OCC-supervised institutions in the district hold $210 billion in assets and range in size up to $11 billion in assets. The district also supervises nine community trust companies and 31 technology service providers.

These institutions spread across nine states: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Oklahoma, Tennessee, and Texas. More than half of the institutions are located in Texas and Oklahoma. The OCC supervises community banks and thrifts in its Southern District through a network of 21 field offices and three satellite offices managed by an Assistant Deputy Comptroller who makes decisions locally. The OCC has field offices or satellite offices in every state in the district. The district houses its examination staff near these field and satellite offices so that examiners live and work near the institutions they supervise.

About the Office of the Comptroller of the Currency

The OCC charters, regulates, and supervises national banks and federal savings associations and, supervises the federal branches and agencies of foreign banks. Nationwide, the OCC regulates and supervises nearly 1,650 national banks and thrifts with approximately $10.5 trillion in total assets, about 68 percent of total U.S. commercial banking assets, as of June 30, 2014.

Headquartered in Washington, D.C., the OCC has four district offices, which oversee the 63 field and satellite offices. In addition, the OCC maintains a London office to supervise the international activities of national banks.