Office of the Comptroller of the Currency

FACT SHEETS

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

The condition of Southern District institutions improves.

- The condition of Southern District institutions continues to improve and the number of problem institutions is declining at an accelerating pace.
    - Eighty-six percent of national banks and federal savings associations located in the nine states in the OCC's Southern District are rated 1 or 2 on the five-point CAMELS scale nearing the pre-crisis level.
    - Problem banks and thrifts in the Southern District fell to 71 institutions at the end of 2013, down from 133 at year-end 2012 and 148 at year-end 2011.
- More than half, 56 percent, of the Southern District's supervised problem banks and thrifts are located in three states: Florida, Georgia, and Alabama.
- Banks in Texas and Oklahoma are faring well with 95 percent of institutions having a 1 or 2 CAMELS rating.

Loan Growth Accelerates.

- With the improved condition of institutions, loan growth is now starting to accelerate in certain areas of the district. The average loan growth rate doubled among community national banks and federal savings associations located in the nine states that make up the OCC's Southern District from 2012 to 2013, reaching 4 percent in 2013.
- Some areas experienced even greater average loan growth with as much as 11 percent in areas of Texas and Oklahoma, and 6 percent to 7 percent in some areas of Florida. Oil and gas industry activity helped lead accelerated growth in the dollar volume of loans in Texas and Oklahoma. While in Florida, retiree migration, good weather, a low-tax environment, and higher employment in hospitality and retail trade contributed to loan growth. Tampa and Miami remain among the more active areas in Florida.
- Economic growth in cities such as Birmingham, Little Rock, and Nashville lags other large cities in the district, which has contributed to modest and sometimes negative loan growth in those areas.

Key performance indicators show improvement, but sustaining earnings improvement will be difficult.

- Southern District banks' and thrifts' core earnings continued to improve.
    - District average return on average assets increased slightly to .75 percent in the fourth quarter of 2013, up from .72 percent a year ago.

  - This increase is primarily attributable to a continued reduction in provision for loan loss expenses going from 0.21 percent to 0.11 percent of average assets. However, reductions in provision levels have declined to about as low as they can go, and there should be little additional future earnings improvement from this source.
  - Other factors improving earnings were a modest decline in noninterest expenses and an increasing reliance on one-time gains on investment securities. The availability of future security gains are also a limited source and will provide limited future earnings support.
- Generating sustainable earnings growth remains difficult.
  - Seventy-three percent of Southern District banks saw their net interest margin decline by at least 20 basis points.
  - Only 17 percent of district institutions reflected a significant increase of 10 basis points or more to their net interest margin.
  - Competitive pressures and the continuing low interest rate environment make it difficult to obtain yields to cover overhead costs without assuming significant interest rate or credit risk.
- Leverage capital ratios improved slightly from the end of 2012 to the end of 2013 on average. Improvements resulted from a decline in asset growth, the retention of earnings and the accretion of capital.

Developing risks in Southern District institutions include strategic and interest rate risk.

- The OCC sees five top risks facing community banks and thrifts in its Southern District: strategic risk, sensitivity to market or interest rate risk, credit risk, compliance risk, and operational risk.
- Strategic risk and sensitivity to market risk (interest rate risk) continue to increase. Community national banks and federal savings associations face a number of strategic challenges:
  - Protracted low interest rates, excess liquidity, and slow economic growth continue to pressure earnings.
  - The lack of yield in short-term rates is enticing banks to increase their exposure to longer term assets. The ratio of long-term assets to total assets continues to trend upward. Long-term assets are defined as total loans and investment securities where maturity or repricing is greater than five years plus collateralized mortgage obligations with a maturity greater than three years.
  - Banks continue to report an increasing trend in holding long-term assets, locking in rates that are close to all-time lows.
  - Competitive pressures and the sustained low-rate environment have resulted in many institutions assuming significant interest rate or credit risk.

- While credit risk indictors reflect less of a concern compared with prior years, loan growth is uneven and the strong competition for good quality loans in most markets is affecting pricing and putting pressure on underwriting.
  - Traditional credit metrics reflect improving asset quality and fewer problem assets. Assets classified as substandard, doubtful, and loss, have declined in each quarter since peaking in the first quarter 2011.
  - Asset quality has improved. At the end of 2013, classified assets represented 25 percent of capital compared with 34 percent at the end of 2012. While problem assets and net loan losses continue to decline, credit risk remains a concern in parts of Alabama, Arkansas, Florida, Georgia, and Tennessee.

About the OCC's Southern District

The OCC's Southern District, headquartered in Dallas, Texas, supervises 490 community institutions composed of 413 community national banks and 77 federal savings associations. Of the savings associations, 24 have mutual charters. The OCC-supervised institutions in the Southern District hold $200 billion in assets and range in size up to $11 billion in assets. The district also supervises six 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 supervised by an Assistant Deputy Comptroller who make decisions locally. The OCC has field offices or satellite offices in every state in the district. The Southern District houses its examination staff in 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 1,808 institutions. These institutions include 40 large banks, 41 midsize banks, 48 federal branches, 1,164 community banks, and 515 federal savings institutions. Assets subject to OCC supervision total $10.4 trillion, which represent 69 percent of total U.S. commercial banking assets.

Headquartered in Washington, D.C., the OCC has four district offices, which oversee the 67 field and satellite offices responsible for the supervision of community banks and thrifts. In addition, the OCC maintains a London office to supervise the international activities of national banks.

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