

Texas Department  
of Banking

# Texas Bank Report

Charles G. Cooper, Banking Commissioner

ISSUE 2009-1/March '09

Data as of December 2008

## Commissioner's Comments

On December 1, 2008, I assumed the responsibilities of Texas Banking Commissioner and as of this writing, have been in this position for three months. Receiving this appointment by the Texas Finance Commission is an extreme honor. I look forward to working with the bankers of Texas, the Governor's and Lt. Governor's Offices, legislative members, the employees of the Department, and citizens to maintain a strong, responsive and competitive banking system in Texas.

I want to commend Deputy Commissioner Bob Bacon for the leadership and professionalism he displayed while serving as the Interim Commissioner. Bob is truly an asset to the Department and the banking industry.

Below are a few comments that I would like to share with you. These comments are not intended to come across as preaching as you already know the issues and are dealing with them.

The Texas banking system remains stable despite the turmoil in the global financial sector. The Texas economy is relatively strong, especially when compared with many other states. However,

we are not an island, and what started as a national economic slowdown has developed into a global financial crisis that is now at our state's doorstep. Texas is the 12th largest U. S. economy, but is not immune from the recessionary conditions as displayed in the latest economic report released by the Texas State Comptroller. Leading economic indicators reflect that the financial stagnation will not be as severe in Texas as in other states. We must be mindful of the deteriorating national economic conditions and the impact it has on our communities. Sadly, Texas saw two institutions fail in 2008 - a state bank and a state savings bank.

In these three short months, I have met with many bankers from across the state, and one thing becomes apparent. We are very fortunate to have so many bankers presently in leadership roles that remember the 80's. All of us learned valuable lessons during those times and are now stronger and wiser because of it. Policies and procedures have been strengthened and will serve those well that stick by these safeguards. History proves that a solid balance sheet during a period of economic stress is essential. Probably never in our past has stable funding been more important. Over reliance on brokered deposits and other "hot" money has obviously become an

issue. During this time, everyone is searching for true core deposits.

We have been awakened to the latest industry wide concern - liquidity or lack thereof. Bankers have been prompted to plan their liquidity options more carefully. Strong analysis of funding requirements under alternative scenarios, diversification of funding sources, and contingency planning are crucial elements today. Almost overnight, contingency credit lines are no longer cost effective options or worse yet, no longer available. Wholesale funding sources are not as lucrative in today's market as a result of the changes to the risk

## *In This Issue:*

Summer Outreach For Independent  
Trust Companies

Capital-Linked Regulatory  
Restrictions on Brokered  
Deposit Use

Dual Banking System Resolution

Financial Education

Identity Theft Protection

Cyber Crimes

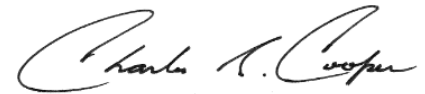
Troubled Asset Relief Program

rating programs that can impact an institution's borrowing capacity.

Lastly, I would like to mention that the financial crisis at the national level has rekindled the momentum to restructure and change the financial regulatory system. The very existence of the dual banking system has been questioned by some. It is my strong belief that the existence of the dual banking system has strengthened banking not only in

Texas but around the nation. Community banks have been the backbone of economic development for years. I believe that bankers across the state also share this belief. As the latest economic stimulus package along with financial regulatory reform is being considered in the 110th U.S. Congressional Session, please be mindful of the importance of the dual banking system that has served us well, and express your views to your elected officials. We certainly are living in inter-

esting and challenging times. As we go through this period, please do not hesitate to contact me to discuss any issue that is on your mind. I look forward to meeting with each of you.



## Summer Outreach For Independent Trust Companies

By: Angela Manzo

A one-day outreach program conducted by Department staff is planned for June and will provide an open forum to communicate with our independent Texas trust companies. Commissioner Charles G. Cooper will provide introductory remarks and the meeting will provide a rare opportunity for trust company managers to exchange ideas with their peers and Department staff. The program location will likely be in Houston or Dallas, where the majority of our 21 public trust companies are domiciled.

The purpose of the outreach program is to discuss on a face-to-face basis the continuing changes occurring in the trust sector, including the scope of examinations, regulatory structure, staffing, and fees.

In 2007, we revised Supervisory Memorandum 1020 to require examinations of trust company Information Technology (IT) departments to coincide with the safety and soundness examination of each financial institution. Now that all trust companies have received at least one IT examination, we would like to provide a forum to discuss what is expected at these examinations and give you the opportunity to provide feedback.

Bank Secrecy Act/Anti-Money Laundering (BSA/AML) reviews have also been added to the scope of trust company examinations in the last few years. Trust companies have always been subject to the requirements of the Bank Secrecy Act, as well as provisions of the USA PATRIOT Act. We will address the Department's expectations with regard to trust company compliance with BSA/AML rules.

The changes in examination scope, oversight, staffing, and fees are topics that we intend to discuss in detail at the trust outreach meeting this summer, as well as any other current "hot button" examination issues. If there are additional topics you would like to have included, please contact Review Examiner Angela Manzo at 512-475-1329, or by e-mail at [amanzo@banking.state.tx.us](mailto:amanzo@banking.state.tx.us). Registration information will be communicated when plans for the meeting are finalized.

# ALONG THE WATCH TOWER

## H O T B U T T O N

### Capital-Linked Regulatory Restrictions on Brokered Deposit Use

By: Gary M. May  
Capital Markets Specialist

#### Overview

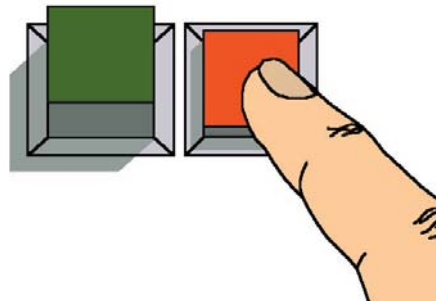
Brokered deposits (and their cousins, internet deposits) have become prevalent funding sources for many community banks. They can at times offer flexibility in pricing, maturity, and availability which is not present in a bank's local deposit market. However, they can also come with risks that may not be present in retail deposits.

As a response to perceived abuses of brokered deposit usage in the 1980s, 12 CFR 337.6 was enacted. This statute links regulatory restrictions on the use of brokered deposits and the rates that can be paid on retail deposits with the adequacy of banks' capital positions. Well-capitalized banks have no restrictions (besides prudence) on either their use of brokered deposits or on the rates which they can pay for internally generated deposits. However, banks that fall below the well-capitalized level are subject to constraints in both areas.

For the purposes of 12 CFR 337.6, there are several ways in which a bank can be put on notice that it is

"less than well-capitalized" and that legal restrictions on the use of brokered deposits will apply going forward. These "triggering events" include:

★ Filing a Report of Condition with levels of Tier 1 leverage, total risk-based capital, or Tier 1 risk based capital that are less than the minimum percentage considered as well-capitalized;



★ Receiving a written notice from the bank's federal regulator of the bank's status as a less than well-capitalized; or,

★ Receiving a final Report of Examination that states that the bank is less than well-capitalized.

There may occasionally be an "interim period" between the date that a bank initially becomes aware that one of the above "triggers" is forthcoming, and the date that the formal notification is received. Taking advantage of this "window" to substantially

increase holdings of brokered deposits before restrictions are technically implemented is not a practice viewed favorably by regulators. Section 337.6 (a)3(iii) states that a bank is considered to have entered into a particular capital category not just at the moment when it has been formally notified, but when it is "deemed to have been notified" of its new capital category, as well.

#### Adequately Capitalized Banks

Once a bank has become adequately capitalized, it is prohibited from both renewing existing brokered deposits, and from acquiring any new ones. Rates paid on all deposits (whether from inside the bank's normal market, or not) are restricted to 75 basis points above the prevailing rates paid within the bank's normal market area.

However, banks that are adequately capitalized may request a waiver from the FDIC from some of the above restrictions. If this waiver is granted, the bank may again participate in the brokered deposit market, but remains constrained on the rates which may be paid for deposits (both brokered and internally generated).

With an FDIC waiver, rates on all deposits (whether brokered or internally generated) are divided

## Hot Button (Cont.)

according to their place of origin.

### Undercapitalized Banks

In the case of banks that are undercapitalized, significantly undercapitalized, or critically undercapitalized, no waivers can be granted by the FDIC.

★ Such undercapitalized banks are thus unable to renew existing brokered deposits, or to acquire any new brokered deposits.

★ Rates paid on internally generated deposits from inside the bank's normal market area are restricted to 75 basis points above the prevailing rates paid within that market area.

★ For internally generated deposits that are originated from outside the normal market area, the rates are limited to the lower of:

\* 75 basis points above the rates paid in the bank's normal market; or

\* 75 basis points above the rates paid in the market in which the deposits are being raised.

### Proposed Simplifications

The complexity of the above framework for different rates may



be undergoing significant revision in the near future. Per the proposals in FIL-5-2009, issued by the FDIC on January 28, 2009, the "normal market rate" and the "national rate" in some instances could become one and the same. The proposal notes that for adequately capitalized banks with an FDIC waiver, the ability to pay a competitive rate on brokered deposits originated outside the normal market area has been greatly hindered recently by the very low rates being offered on U.S. Treasury securities. It also

notes that deposit competition has become largely national in scope. To address these market developments, FIL-5-2009 proposes that the FDIC will periodically calculate and publish a "national rate," based on the deposit rates paid by all U.S. banks and branches.

An adequately capitalized bank with an FDIC waiver would be permitted to pay up to the FDIC's posted "national rate," plus 75 basis points, for any deposit, whether brokered or internally generated, and whether originated within a bank's normal market area, or outside it. An individual bank would retain the option of documenting to the FDIC that the rates paid in its normal market area were above the "national rate," and obtain permission to pay a higher rate. This proposal will be open for comments through the end of March, 2009.

Should you have any questions about this article, please call Gary May at 512-475-1375.

# Dual Banking System Resolution

## TEXAS FINANCE COMMISSION

### RESOLUTION SUPPORTING THE DUAL BANKING SYSTEM

**WHEREAS,** The Texas Finance Commission in conjunction with the Texas Department of Banking and Texas Department of Savings and Mortgage Lending are duly authorized under the laws of the State of Texas to provide oversight and supervision of Texas state-chartered banks, savings banks and thrift institutions; and,

**WHEREAS,** The state-chartered system of financial institutions is a vibrant part of the Texas financial industry and as of September 30, 2008, totals 357 institutions, controls over \$164 billion in assets, employs over 37,300 citizens, and operates in 2,010 locations; and,

**WHEREAS,** These state-chartered financial institutions have by choice sought to be regulated by the Texas Department of Banking or Texas Department of Savings and Mortgage Lending in conjunction with a federal regulatory agency, being either the Federal Deposit Insurance Corporation or the Federal Reserve; and,

**WHEREAS,** The dual banking system in Texas has operated since 1905 and served the State of Texas and the United States of America well as evidenced by the general safety and soundness of its institutions; and,

**WHEREAS,** The dual banking system has strengthened, not weakened, community financial institutions in Texas by having cooperative state and federal regulatory oversight, which benefits from the independent analysis by two different regulatory bodies; and,

**WHEREAS,** These state-chartered financial institutions are important to the economic viability of these communities by providing home loans, commercial loans, and consumer loans in addition to purchasing debt obligations of local municipalities, providing insured depository accounts, other financial services, and charitable contributions

**NOW, THEREFORE, BE IT RESOLVED THAT** the Texas Finance Commission unanimously supports community financial institutions and the dual chartering of financial institutions in Texas.

**AND BE IT FURTHER RESOLVED THAT** the Texas Finance Commission requests that state legislative and federal congressional members fully support the dual banking system in the United States and support laws and regulations that foster community financial institutions through fair and reasonable regulation.



Given my hand at Austin, Texas,  
On the 19th day of December  
In the year two thousand and eight

A handwritten signature in cursive script, reading "John P. Snider", is written over a horizontal line.

JOHN SNIDER, Chairman  
Texas Finance Commission

# Statewide Financial EDUCATION TRAIN-THE-TRAINER WORKSHOPS

By: Leilani Lim-Villegas

*The Texas Department of Banking is hosting several one-day workshops designed to provide hands-on training on three financial education curricula: the Federal Reserve Bank of Dallas's "Building Wealth", the Federal Deposit Insurance Corporation's "Money Smart for Young Adults", and Junior Achievement. The target audience includes: financial institutions, teachers, government agencies, non-profit organizations and community leaders who are committed to or are interested in providing consumer education and improving financial literacy in their communities. Banking Commissioner Charles G. Cooper will be attending several workshops to address the importance of financial education in Texas and encouraging banks to get involved in this initiative.*

City	Date	Time	Location
Houston	May 13, 2009	7:30 AM to 4:00 PM	Sheraton Houston Brookhollow 3000 North Loop West Houston, Texas 77092
Dallas	August 19, 2009	7:30 AM to 4:00 PM	Crowne Plaza 7800 Alpha Road Dallas, Texas 75240
Lubbock	November 4, 2009	7:30 AM to 4:00 PM	Holiday Inn of Lubbock 801 Avenue Q Lubbock, Texas 79401

Registration information can be found on the Texas Department of Banking's website.

### FEATURED SPEAKER

Dora Brown, IBC Bank-Houstonville

Dora Brown, Senior Vice President of International Bank of Commerce (IBC) has been involved in the partnership since the inception of Houstonville twelve years ago. The success of teaching financial education to youth at Sam Houston Elementary is spreading, and could provide a model to other schools for productive instruction. The focus of the Houstonville program is geared toward teaching students how the success of a business and the overall health of an economy depend on citizens who adhere to financial responsibility.

Houstonville Micro-Society is a "city" composed of several businesses. Students learn first hand how to run their own city council, bank, newspaper, Internal Revenue Service, post office, Target store, public utilities, photography shop, and news station. These business employees are paid with Cougar Cash.

At the heart of any economy lies the banking institution. Houstonville has a micro-IBC Bank that teaches children the value of money and allows them the opportunity to understand how a bank works, as well as providing them with the experience of working in a bank. Ms. Brown will be addressing best practices and how to get a program started in local school districts.

## OVERVIEW OF FINANCIAL EDUCATION CURRICULA

### Money Smart for Young Adults-Federal Deposit Insurance Corporation (FDIC)

The FDIC's Money Smart for Young Adults curriculum helps youth ages 12-20 learn the basics of handling their money and finances, including how to create positive relationships with financial institutions.

The curriculum consists of eight modules, as described below.

★ The **Bank On It** module teaches banking basics, additional banking services that a bank might provide, and the functions of bank personnel.



★ The **Check It Out** module helps students understand checking accounts.

★ The **Setting Financial Goals** module shows students how to manage their money by preparing a personal spending plan, differentiating wants from needs, and identifying ways to decrease spending and increase income.

★ The **Pay Yourself First** module helps students identify ways they can save money and introduces savings options that they can use to save toward their goals.

★ The **Borrowing Basics** module helps the students learn how to use credit appropriately and determine what forms of credit best suit their needs.

★ The **Charge It Right** module teaches students about credit cards and how to use them responsibly.

★ The **Paying for College and Cars** module provides general information on installment loans, including car loans and student loans.

★ The **A Roof Over Your Head** module gives students information about renting their first apartment, the basics of getting a mortgage, and helps them make decisions and answer questions to determine their readiness to have a space of their own.

### Building Wealth- Federal Reserve Bank of Dallas

Building Wealth is the Federal Reserve Bank of Dallas's most

## Statewide Financial Education (Cont.)

popular publication. The new versions include an animated, interactive CD-ROM, plus updated internet and print editions. The interactive CD-ROM and online guides include introductory video comments by Federal Reserve Chairman Ben Bernanke and Federal Reserve Bank - Dallas, President/CEO, Richard Fisher. The CD-ROM and internet versions also feature animated characters from Building Wealth that use simple terms to explain the building blocks of personal finance:

- ★ Budget to Save
- ★ Save and Invest
- ★ Control Debt

Using built-in calculators and interactive worksheets, users can calculate their personal net worth and set wealth-building goals. Building Wealth's updated content includes tips on avoiding identity theft and understanding credit reports, credit scores and insurance.

### Junior Achievement

Junior Achievement is the world's largest organization dedicated to educating students in grades K-12 about entrepreneurship, work readiness and financial literacy through experiential, hands-on programs.

The programs help prepare young people for the real world by showing them how to generate wealth and effectively manage it,

how to create jobs which make their communities more robust, and how to apply entrepreneurial thinking to the workplace. Students put these lessons into action and learn the value of contributing to their communities.

The programs are divided in three sections: elementary school, middle school and high school, which includes the NEFE High School Financial Planning Program. The topics in each section vary based on the academic level.

For more information on financial education issues in Texas, please visit [www.banking.state.tx.us/-dss/fe.htm](http://www.banking.state.tx.us/-dss/fe.htm) or contact Leilani Lim-Villegas at (512) 475-1337 or [financial.education@banking.state.tx.us](mailto:financial.education@banking.state.tx.us)

## Identity Theft Protection

How would you like to help guard your customers from identity theft? On March 1, 2008, the Department launched the Closed Account Notification System or CANS, which is designed to help protect those who fall victim to fraud and subsequently close their deposit account.

Customer information reported through CANS by financial institutions is shared with check verification companies and used to recommend that merchants do not accept checks written against the closed account.

For more information or to report a compromised account, visit our web site at [www.banking.state.tx.us](http://www.banking.state.tx.us).

## Cyber Crimes have Evolved to Using the Trusted Phone (Small Banks Are Targets Also)

By: Phillip Hinkle, CISSP, CISA, Chief IT Security Examiner

As long as technology continues to evolve, the cycle of theft and protection will continue. When thefts using one technique are blocked, new ones emerge. Although phishing emails are still directing the public to fraudulent/spoofed websites, newer but similar techniques are creating financial losses for Texas banks.

The telephone has been a trusted communication device for decades, and thieves are exploiting that trust. It is also allowing them to reach more vulnerable consumers (often the elderly) that are not as aware of financial fraud threats as Internet savvy consumers.

There are numerous variations in how telephones are incorporated and how the scams are carried out. But, the fundamentals of the scams are the same as email phishing schemes. Consumers are contacted by thieves who are impersonating bank employees. The consumers are told something has happened (their account or card is being closed) and they need to take immediate action (to keep it active). The consumers are then told to call a phone number provided by the

thieves. When they do, the consumers are asked for their sensitive personal information. In some cases the thieves are just asking for card numbers and PINs. In other cases they request the expiration date, social security number, date of birth, and other sensitive information, all under the pretense that it is needed for verification of their identity.

The scam works because even Internet savvy consumers trust the phone. And all of us have become accustomed to inputting card numbers, PINs, and other verification data to call centers of banks and other businesses.

Similar to scams using spoofed websites, when the consumer calls the phone number provided by the thieves, they may first hear a pirated copy of the bank's call center welcome message. To further masquerade as a bank, the phone number provided by the thieves for consumers to call may have a local area code and prefix. (This has been done in at least one Texas town with a population of only 10,000 people.) The "local" number is actually a Voice of IP (VoIP) based number, and the call is routed

outside the community, such as overseas.

To further perpetrate telephone frauds, thieves even post their fraudulent phone numbers on Internet phone directories as the phone number of legitimate businesses they are impersonating. Then by taking advantage of the way popular search engines work, those fraudulent numbers will show up when some consumers look up the businesses' phone number. This nets the thieves additional victims, and fools the consumers that are trying to verify the phone number before they call it.

The thieves are contacting consumers in multiple ways. By email, where the message appears to come from the bank and attempts to calm the Internet savvy consumer by stating that for their security they should never provide embedded links, so the consumer should call the bank. Automatic dialers with recorded voice messages are also used to contact individuals, which will include individuals that do not use email. A third method is to send the consumer a text message that, again, appears to be coming from the bank. The fraudulent

## Cyber Crimes (Cont.)

text message may even ask the consumer to reply to the text message with their sensitive personal information.

All of these attack methods are difficult and slow to shut down. Ultimately someone must track down and close the origin of the solicitations as well as shut down the phone line that consumers are calling (which is collecting their information). Those are not easy tasks. It requires specialized knowledge.

One of the best defenses for a bank is to educate its customers. This will not only help protect you against financial loss, it will help protect the identity of your customers

when the thieves masquerade as other businesses.

Consumers should be warned of these newer techniques for stealing their identity and financial information. They should be educated regarding the numerous forms that these scams might take, such as placing voice calls to the consumer to tell them they have won a prize or are about to have their electricity turned off. The consumer should know that the thieves will ask them to input their sensitive personal information (for "verification") in order for the consumer to collect the winnings or resolve the problem.

To protect themselves, consumers should be told that when they have a concern, they should initiate the call themselves, and they should only contact the bank (or business) at the number printed on their statement or in a locally distributed telephone book. This education process is an opportunity for banks to both reduce their losses and help protect their community.

State-chartered banks and trust companies with questions regarding these and other IT security issues may contact Phillip Hinkle, Chief IT Security Examiner at 817-640-4050.

## Troubled Asset Relief Program (TARP)

By: Dan Frasier

### Capital Purchase Program

The U.S. Treasury Department announced the Capital Purchase Program (CPP) on October 14, 2008, with the primary purpose of injecting capital into the U.S. banking system. This program is one of a number of assistance programs that have emerged from the various federal agencies to steady the country's financial system. In the months following the Treasury announcement, a series of three capital investment facilities have been developed for banks different organizational structures beginning with publicly held institutions. Terms for capital injections applicable to non-publicly traded institutions were announced next, and lastly terms for Subchapter S corporations were recently released on January 14, 2009. A recap of the key terms that differ for the capital injection facilities designed for the three organizational structures is on the following page.

Financial institutions or their holding companies apply for the CPP through their primary federal regulator. The Treasury and the other federal regulators have been reviewing and approving bank applications for these funds beginning with the larger publically traded financial institutions. As of February 13, 2009, only 13 Texas based financial institutions are shown to have received TARP-CPP funds (see chart on the next page).

## TARP Capital Purchase Program \* Key Terms

	Public	Non-Public	S-Corp
Facility	Preferred Stock	Preferred Stock	Subordinated Debentures
Maturity	Perpetual Life	Perpetual Life	30 Years
Rate	5% first 5 Yrs, 9% after	5% first 5 Yrs, 9% after	7.7% first 5 Yrs, 13.8% after
Warrant	15% of Pref. Stock Purchased	5% of Pref. Stock Purchased	5% of Subordinated Debt
Exercise Price	Variable Declining	> of \$.01 or Par Value Pref. Stock	\$0.01
Term	10 Years	10 Years	10 Years
Rate	NA	9%	13.80%

### Texas Banks Participating in TARP

Total State-Chartered Banks Applying:	63
Amount of Capital Requested:	\$3.3 Billion
*Number of State-Chartered Banks Receiving Capital:	8
Amount of Capital Requested:	\$2.7 Billion
*Number of other Texas-based Financial Institutions Receiving Capital:	5
Amount of Capital Requested:	\$170 Million
*All U.S. Financial Institutions Applying:	418
Amount of Capital Requested:	\$196 Billion

\*Source: U. S. Department of Treasury Office of Financial Stability Information as of February 13, 2009.

<b>Temporary Liquidity Guarantee Program</b>	December 31, 2009, for banks not opting out.												
<p>The FDIC implemented this program to strengthen confidence and encourage liquidity in the U.S. banking system. There are two components of the program: 1) guarantee of newly issued senior unsecured debt of banks, thrifts, and certain holding companies; and, 2) full coverage of non-interest (or low interest) bearing deposit transaction accounts, regardless of dollar amount. This program is in addition to the temporary and automatic increase in the level of FDIC deposit insurance available per depositor up to \$250,000 through the end of 2009.</p> <p><u>Transaction Account Guarantee Component</u> 81 Texas chartered financial institutions have opted out of the program (29 national banks and 41 state-chartered banks). The coverage will last through</p>	<p style="text-align: center;"><u>Temporary Debt Guarantee Component</u> As of February 15, 2009</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Type</th> <th>*Opted Out</th> </tr> </thead> <tbody> <tr> <td>State-Chartered</td> <td style="text-align: center;">172</td> </tr> <tr> <td>National</td> <td style="text-align: center;">124</td> </tr> <tr> <td>State Savings Banks</td> <td style="text-align: center;">12</td> </tr> <tr> <td>Federal Savings Banks</td> <td style="text-align: center;">6</td> </tr> <tr> <td>Holding Companies</td> <td style="text-align: center;">180</td> </tr> </tbody> </table> <p>If you have any questions about these programs, please contact Dan Frasier at 512-475-1368 or your federal regulator.</p>	Type	*Opted Out	State-Chartered	172	National	124	State Savings Banks	12	Federal Savings Banks	6	Holding Companies	180
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TABLE  
Quarterly Balance Sheet and Operating Performance Ratios  
for Texas State-Chartered Banks 12/31/08 Through 12/31/07

ACCOUNT DESCRIPTIONS (IN MILLIONS OF \$)	12/31/08	9/31/2008	6/30/2008	3/31/2008	12/31/2007
Number of State-Chartered Banks	327	329	328	328	330
Total Assets of State-Chartered Banks	164,676	156,132	153,892	152,751	154,284
Number of Out-of-State, State-Chartered Banks Operating in Texas	23	23	20	20	18
Total Texas Assets of Out-of-State, State-Chartered Banks Operating in Texas	28,108	28,108	22,338	22,338	15,212
Subtotal	192,784	184,240	176,230	175,089	169,496
Less: Out-of-State Branch Assets/Deposits	-39,086	-39,086	-39,738	-39,738	-39,738
**Total State Banks Operating in Texas	153,698	145,154	136,492	135,351	129,758
<b>BALANCE SHEET (Tx. State-Chartered Banks)</b>					
Interest-Bearing Balances	4,075	1,023	971	1,002	906
Federal Funds Sold	1,891	2,606	2,731	3,783	3,650
Trading Accounts	774	408	631	512	292
Securities Held-To-Maturity	6,928	5,478	5,451	5,285	5,146
Securities Available-for-Sale	28,770	24,961	24,451	24,556	24,032
Total Securities	36,472	30,847	30,533	30,353	29,470
Total Loans	108,749	107,897	106,227	104,537	105,319
Total Earning Assets	151,187	142,373	140,462	139,675	139,345
Premises and Fixed Assets	2,733	2,648	2,603	2,536	2,637
Total Assets	164,676	156,132	153,892	152,751	154,284
Demand Deposits	13,891	13,608	12,785	13,345	13,614
MMDAs	40,059	40,839	41,999	42,950	43,873
Other Savings Deposits	9,305	8,687	8,628	8,329	8,237
Time Deposits < 100M	22,519	15,956	15,322	15,224	16,105
Time Deposits > 100M	24,250	23,796	26,159	28,208	28,004
Brokered Deposits	10,593	6,173	8,223	9,711	8,084
Total Deposits	118,490	108,847	110,916	114,278	116,644
Federal Funds Purchased	4,795	6,312	4,864	5,184	5,260
Other Borrowed Funds	20,413	20,492	18,257	13,242	10,687
Total Liabilities	148,593	140,550	138,655	137,465	137,180
Total Equity Capital	16,083	15,579	15,237	15,286	17,104
Loan Valuation Reserves	1,429	1,326	1,244	1,156	1,129
Total Primary Capital	17,512	16,905	16,481	16,442	18,233
Past Due Loans > 90 Days	207	183	190	170	156
Total Nonaccrual Loans	1,569	1,406	1,188	873	700
Total Other Real Estate	329	253	202	164	146
Total Charge-Offs	700	480	302	144	326
Total Recoveries	60	42	28	13	86
Net Charge-Offs	640	438	274	131	240
<b>INCOME STATEMENT</b>					
Total Interest Income	7,962	6,025	4,055	2,122	9,307
Total Interest Expense	2,899	2,238	1,568	868	4,019
Net Interest Income	5,063	3,787	2,487	1,254	5,288
Total Noninterest Income	1,929	1,477	987	489	1,907
Loan Provisions	978	676	433	202	334
Salary and Employee Benefits	2,440	1,809	1,200	599	2,429
Premises and Fixed Assets Expenses (Net)	618	454	296	147	581
All Other Noninterest Expenses	1,537	1,166	694	322	1,404
Total Overhead Expenses	4,595	3,429	2,190	1,068	4,414
Securities Gains (Losses)	-24	-22	58	30	-20
Net Extraordinary Items	1	0	-1	-1	4
Net Income	1,086	864	675	377	1,778
Cash Dividends	667	569	395	241	1,234
<b>RATIO ANALYSIS</b>					
Loan/Deposit	91.78%	99.13%	95.77%	91.48%	90.29%
Securities/Total Assets	22.15%	19.76%	19.84%	19.87%	19.10%
Total Loans/Total Assets	66.04%	69.11%	69.03%	68.44%	68.26%
Loan Provisions/Total Loans	0.90%	0.81%	0.82%	0.77%	0.32%
LVR/Total Loans	1.31%	1.23%	1.17%	1.11%	1.07%
Net Charge-Offs/Total Loans	0.59%	0.41%	0.26%	0.13%	0.23%
Nonperforming+ORE/Total Assets	1.28%	1.18%	1.03%	0.79%	0.65%
Nonperforming+ORE/Primary Capital	12.02%	10.90%	9.59%	7.34%	5.50%
Net Interest Margin	3.35%	3.46%	3.54%	3.59%	3.79%
Gross Yield	6.01%	6.25%	6.55%	6.84%	7.27%
Return on Assets	0.66%	0.72%	0.88%	0.99%	1.15%
Return on Equity	6.75%	7.21%	8.86%	9.87%	10.40%
Overhead Exp/TA	2.79%	2.86%	2.85%	2.80%	2.86%
Equity/Total Assets	9.77%	9.98%	9.90%	10.01%	11.09%
Primary Capital/Total Assets+LVR	10.54%	10.74%	10.62%	10.68%	11.73%

\*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.

TABLE II  
COMPARATIVE STATEMENT OF CONDITION  
COMMERCIAL BANKS DOMICILED IN TEXAS  
DECEMBER 31, 2008 AND DECEMBER 31, 2007

ACCOUNT DESCRIPTIONS (In Millions of \$)	12/31/2008 STATE CHARTERED		12/31/2008 NATIONAL CHARTERED		12/31/2008 ALL BANKS		12/31/2007 ALL BANKS	
Number of banks	327	% TA	267	% TA	594	% TA	612	% TA
<b>BALANCE SHEET</b>								
Interest-Bearing Balances	4,075	2%	2,194	2%	6,269	2%	1,989	1%
Federal Funds Sold	1,891	1%	1,784	2%	3,675	1%	7,614	3%
Trading Accounts	774	0%	281	0%	1,055	0%	594	0%
Securities Held-To-Maturity	6,928	4%	1,775	2%	8,703	3%	7,032	3%
Securities Available-For-Sale	28,770	17%	19,474	18%	48,244	18%	44,200	17%
Total Securities	36,472	22%	21,530	20%	58,002	21%	51,826	20%
Total Loans	108,749	66%	71,514	66%	180,263	66%	172,198	66%
Total Earning Assets	151,187	92%	97,022	89%	248,209	91%	233,627	89%
Premises & Equipment	2,733	2%	2,336	2%	5,069	2%	4,930	2%
<b>TOTAL ASSETS</b>	<b>164,676</b>	<b>100%</b>	<b>108,824</b>	<b>100%</b>	<b>273,500</b>	<b>100%</b>	<b>261,544</b>	<b>100%</b>
Demand Deposits	13,891	8%	11,161	10%	25,052	9%	25,491	10%
MMDAs	40,059	24%	31,796	29%	71,855	26%	74,512	28%
Other Savings Deposits	9,305	6%	7,325	7%	16,630	6%	14,958	6%
Time Deposits<100M	22,519	14%	13,190	12%	35,709	13%	28,261	11%
Jumbo Deposits	24,250	15%	16,299	15%	40,549	15%	45,452	17%
Brokered Deposits	10,593	6%	2,516	2%	13,109	5%	9,053	3%
Total Deposits	118,490	72%	86,625	80%	205,115	75%	203,105	78%
Fed Funds Purchased	4,795	3%	3,718	3%	8,513	3%	8,836	3%
Other Borrowed Funds	20,413	12%	4,784	4%	25,197	9%	13,492	5%
<b>TOTAL LIABILITIES</b>	<b>148,593</b>	<b>90%</b>	<b>96,464</b>	<b>89%</b>	<b>245,057</b>	<b>90%</b>	<b>231,678</b>	<b>89%</b>
Equity Capital	16,083	8%	12,359	11%	28,442	10%	29,866	11%
Allowance for Loan/Lease Losses	1,429	1%	932	1%	2,361	1%	1,877	1%
Total Primary Capital	17,512	11%	13,291	12%	30,803	11%	31,743	12%
Past due >90 Days	207		98		305		256	
Nonaccrual	1,569		706		2,275		1,003	
Total Other Real Estate	329		220		549		234	
Total Charge-Offs	700		275		975		492	
Total Recoveries	60		50		110		132	
<b>INCOME STATEMENT</b>								
	Y-T-D		Y-T-D		Y-T-D		Y-T-D	
Total Interest Income	7,962	100%	5,558	100%	13,520	100%	15,647	100%
Total Interest Expense	2,899	36%	1,792	32%	4,691	35%	6,546	42%
Net Interest Income	5,063	64%	3,766	68%	8,829	65%	9,101	58%
Total Noninterest Income	1,929	24%	1,746	31%	3,675	27%	3,549	23%
Loan Provisions	978	12%	436	8%	1,414	10%	537	3%
Salary & Employee Benefits	2,440	31%	1,866	34%	4,306	32%	4,281	27%
Premises & Fixed Assets (Net)	618	8%	506	9%	1,124	8%	1,066	7%
All Other Noninterest Expenses	1,537	19%	1,214	22%	2,751	20%	2,589	17%
Total Overhead Expenses	4,595	58%	3,586	65%	8,181	61%	7,936	51%
Securities Gains(losses)	(24)	-0%	(210)	-4%	(234)	-2%	(25)	-0%
Net Extraordinary Items	1	0%	0	0%	1	0%	4	0%
<b>NET INCOME</b>	<b>1,086</b>	<b>14%</b>	<b>1,042</b>	<b>19%</b>	<b>2,128</b>	<b>16%</b>	<b>3,097</b>	<b>20%</b>
Cash Dividends	667		585		1,252		1,889	
Average ROA	0.66%		0.96%		0.78%		1.18%	
Average ROE	6.75%		5.24%		5.00%		7.41%	
Average TA (\$ Millions)	504		408		460		427	
Average Leverage	9.77%		11.36%		10.40%		11.42%	
Dividends/Net Income	61.42%		56.14%		58.83%		60.99%	

\*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.

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**CONTACTS**

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<b>Deputy Commissioner</b>	<b>Robert L. Bacon</b>
<b>Deputy Commissioner</b>	<b>Stephanie S. Newberg</b>
<b>General Counsel</b>	<b>Kaylene Ray</b>
<b>Director of Corporate Activities</b>	<b>Lynda A. Drake</b>
<b>Director of Bank &amp; Trust</b>	<b>Kurt Purdom</b>
<b>Director of Strategic Support</b>	<b>Wendy Buitron</b>