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# TEXAS

## BUSINESS REVIEW

Bureau of Business Research  
College and Graduate School of Business, University of Texas at Austin

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### The Texas Economy: Financing Availability

Recovery from the 1986 downturn in the Texas economy has been slow and arduous by any economic measure. A variety of factors has contributed to the seemingly imperceptible slow pace with which much of the state is returning to prosperity: sagging oil prices (prior to the Kuwait crisis), the real estate glut, unprecedented financial institution failures, and a regulatory environment that has handicapped the lending ability of the banking and thrift industries. Entering the 1990s, 55 percent of Texas banks, representing 81 percent of Texas banking industry loans and 77 percent of Texas banking industry assets, were lending impaired.<sup>1</sup>

In an attempt to assess both the borrowers' and the lenders' perspectives, a survey of Texas businesses and lending institutions was undertaken during the summer of 1990. The results provide some important insights.

#### The Borrowers' Perspective

Surveys were mailed to all manufacturers and wholesalers (approximately 5,000) employing twenty-five or more persons and reporting sales or revenue amounts to the Bureau of Business Research for publication in the *Directory of Texas Manufacturers* and the *Directory of Texas Wholesalers*. Approximately 30 percent of the respondents (6 percent of those surveyed) showed revenues in excess of \$10 million, and 80 percent had been in business more than ten years.

Surveyed about the availability of commercial bank financing, borrowers were asked to indicate the number of both loan applications and loan approvals in the last twelve months. Respondents making application to Texas banks

experienced an 81 percent approval rate as compared to the 70 percent approval rate for applicants to non-Texas banks. Not surprisingly, the most frequent applications and the highest rates of acceptance were for working capital and equipment financing loans.

Borrowers were asked why loans were rejected, and an attempt was made to segment the reasons by credit factors and lender policy factors. Among credit factors, lack of equity, poor earnings record, and excessive existing leverage were cited as the major reasons for loan denial. The most prevalent lender policy rejection reason was that the loan type was not handled by the lender.

Many respondents not only completed the survey but also provided additional comments. Three themes emerged. First, borrowers were dismayed at the collateral-to-loan ratio required by lenders. A recent *Fortune* article echoed this point, noting that for a "\$4 million loan you needed to guarantee \$2 million personally and put up a \$2 million certificate of deposit as collateral for the rest."<sup>2</sup> A second concern was the apparent disregard for past credit history. One man, in business thirty years, wrote that he had "sought secured loans from fourteen banks unsuccessfully." Third, borrowers resented what they consider to be a "change in the rules" by the banking industry. Most comments on this point blame overly zealous regulators.

#### The Lenders' Perspective

Members of the Texas Bankers Association and the Texas Savings and Loan League were surveyed concerning loan approval rates today compared to two years ago, the relative importance of factors affecting credit evaluation, expectations concerning the level of economic activity during the 1991-1995 period, and the im-



**Analysis of Business Respondent  
Loan Application Status**

**Panel A: All respondents**

| Category                    | Number of applications | Approved (percentage) |
|-----------------------------|------------------------|-----------------------|
| Applied to Texas bank       | 270                    | 81                    |
| Applied to Texas thrift     | 14                     | 64                    |
| Applied to non-Texas bank   | 53                     | 70                    |
| Applied to non-Texas thrift | nm                     | nm                    |

**Panel B: Respondents in business 10 years or less**

| Category                    | Number of applications | Approved (percentage) |
|-----------------------------|------------------------|-----------------------|
| Applied to Texas bank       | 59                     | 78                    |
| Applied to Texas thrift     | nm                     | nm                    |
| Applied to non-Texas bank   | 19                     | 89                    |
| Applied to non-Texas thrift | nm                     | nm                    |

**Panel C: Respondents in business more than 10 years**

| Category                    | Number of applications | Approved (percentage) |
|-----------------------------|------------------------|-----------------------|
| Applied to Texas bank       | 211                    | 82                    |
| Applied to Texas thrift     | nm                     | nm                    |
| Applied to non-Texas bank   | 34                     | 59                    |
| Applied to non-Texas thrift | nm                     | nm                    |

nm: not meaningful.

fact of government regulation of banks. Ninety percent of the respondents (6 percent of those surveyed) had assets of less than \$250 million. (Lender responses are skewed toward smaller banks, hence their comments may not reflect the experience of the overall Texas banking community.)

In recent years the state of the Texas economy and a restrictive regulatory environment for Texas banks have resulted in substantial changes in the ability and willingness of Texas banks to make loans. Compared to two years ago, current approval rates for real estate, working capital, and equipment loans showed substantial decreases. In the case of entrepreneur and vehicle loans and letters of credit, a complete retreat from the market was noted for some lenders. When asked to indicate the importance of vari-

**Approval Rates by Loan Type  
(percentage)**

| Loan type*            | Approval rate |
|-----------------------|---------------|
| Working capital       | 70            |
| Equipment financing   | 71            |
| Vehicle financing     | 59            |
| Real estate financing | 51            |
| Letter of credit      | 85            |

\*listed in order of frequency applied for.

ous factors affecting credit evaluation today versus two years ago, bankers responded that cash flow, equity, and the level of existing debt are more important today; collateral and credit history, less important.

Lenders were generally optimistic about the level of economic activity expected in the short term (1991-1995). Only 18 percent anticipated unusually low economic activity for this period. (When borrowers were asked the same question, 11 percent anticipated unusually low levels of activity for the 1991-1995 period, indicating that borrowers, relative to lenders, are more optimistic for the short term.) Even less encouraging is the response of lenders as to how these expectations will influence their lending opportunities. Twenty-six percent expected a decrease in lending opportunities and 35 percent expected no change.

In addition to completing the survey, many respondents shared their thoughts on the current state of the Texas banking industry. Dominating the comments was dissatisfaction with the heavy-handed way in which regulators were overseeing Texas lenders.

**Conclusion**

Few of the results presented here are surprising to anyone who has observed the erosion of the Texas credit environment over the past few years. It is important to note the consistency of the borrower and lender responses. Both are keenly aware of the adverse impact of changing and inconsistent regulatory policies. Small to medium Texas businesses have traditionally looked to small to medium Texas banks for credit, and the changing regulatory environment



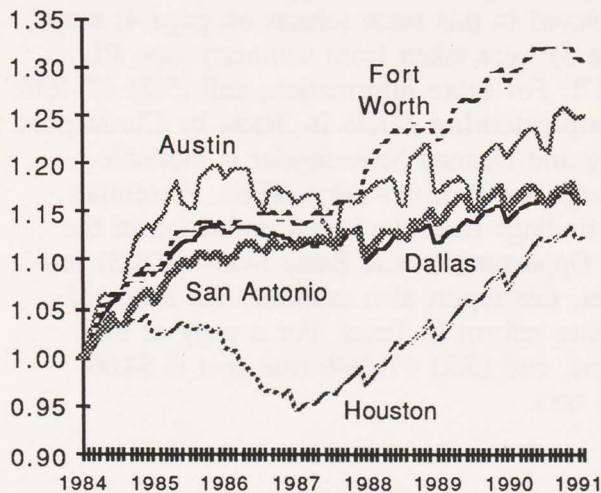
## Employment and Unemployment Rate by Metropolitan Area

| Area                     | Total nonagricultural employment<br>(thousands) |           |                      | Total employment<br>(thousands) |           |                      | Unemployment<br>rate |
|--------------------------|---|-----------|----------------------|---------------------------------|-----------|----------------------|----------------------|
|                          | Mar. 1991                                       | Mar. 1990 | Percentage<br>change | Mar. 1991                       | Mar. 1990 | Percentage<br>change | Mar. 1991            |
| Abilene                  | 48.6  | 48.4      | 0.4                  | 47.9                            | 48.0      | -0.2                 | 5.5                  |
| Amarillo                 | 77.5  | 76.8      | 0.9                  | 90.1                            | 90.1      | 0.0                  | 5.0                  |
| Austin                   | 383.8   | 374.5     | 2.5                  | 423.4                           | 412.6     | 2.6                  | 4.4                  |
| Beaumont-Port Arthur     | 148.2   | 139.6     | 6.2                  | 158.8                           | 149.7     | 6.1                  | 6.4                  |
| Brazoria                 | 67.4  | 65.3      | 3.2                  | 83.4                            | 81.1      | 2.8                  | 5.2                  |
| Brownsville-Harlingen    | 77.4  | 75.4      | 2.7                  | 94.7                            | 92.4      | 2.5                  | 12.8                 |
| Bryan-College Station    | 55.9  | 55.1      | 1.5                  | 61.1                            | 60.3      | 1.3                  | 3.2                  |
| Corpus Christi           | 137.8   | 134.5     | 2.5                  | 155.8                           | 152.1     | 2.4                  | 7.0                  |
| Dallas                   | 1,374.7   | 1,365.1   | 0.7                  | 1,364.9                         | 1,357.9   | 0.5                  | 5.6                  |
| El Paso                  | 209.7   | 206.4     | 1.6                  | 226.7                           | 223.5     | 1.4                  | 10.7                 |
| Fort Worth-Arlington     | 584.0   | 581.6     | 0.4                  | 692.5                           | 691.0     | 0.2                  | 6.3                  |
| Galveston-Texas City     | 76.4  | 75.2      | 1.6                  | 102.0                           | 100.9     | 1.1                  | 6.8                  |
| Houston                  | 1,622.4   | 1,570.0   | 3.3                  | 1,657.8                         | 1,611.0   | 2.9                  | 5.2                  |
| Killeen-Temple           | 72.8  | 73.7      | -1.2                 | 89.1                            | 89.9      | -0.9                 | 6.8                  |
| Laredo                   | 45.1  | 44.0      | 2.5                  | 47.7                            | 47.0      | 1.5                  | 12.0                 |
| Longview-Marshall        | 68.4  | 69.3      | -1.3                 | 72.7                            | 74.2      | -2.0                 | 7.7                  |
| Lubbock                  | 98.5  | 97.6      | 0.9                  | 110.2                           | 109.1     | 1.0                  | 5.1                  |
| McAllen-Edinburg-Mission | 103.1   | 101.6     | 1.5                  | 133.9                           | 132.9     | 0.8                  | 19.8                 |
| Midland                  | 44.8  | 43.9      | 2.1                  | 45.5                            | 45.0      | 1.1                  | 5.0                  |
| Odessa                   | 44.2  | 43.5      | 1.6                  | 49.0                            | 48.1      | 1.9                  | 6.0                  |
| San Angelo               | 36.7  | 36.2      | 1.4                  | 41.3                            | 41.6      | -0.7                 | 4.8                  |
| San Antonio              | 518.0   | 519.7     | -0.3                 | 564.0                           | 565.6     | -0.3                 | 6.5                  |
| Sherman-Denison          | 37.7  | 37.5      | 0.5                  | 44.5                            | 44.7      | -0.4                 | 6.5                  |
| Texarkana                | 45.8  | 47.1      | -2.8                 | 52.0                            | 53.4      | -2.6                 | 7.5                  |
| Tyler                    | 62.2  | 61.8      | 0.6                  | 69.6                            | 69.4      | 0.3                  | 6.5                  |
| Victoria                 | 28.7  | 27.7      | 3.6                  | 34.6                            | 33.5      | 3.3                  | 4.7                  |
| Waco                     | 82.6  | 81.4      | 1.5                  | 87.7                            | 86.6      | 1.3                  | 5.7                  |
| Wichita Falls            | 50.0  | 50.2      | -0.4                 | 51.7                            | 52.0      | -0.6                 | 6.7                  |
| Total Texas              | 7,093.4   | 6,989.5   | 1.5                  | 7,978.0                         | 7,874.0   | 1.3                  | 6.4                  |
| Total United States      | 108,610.0                                       | 109,343.0 | -0.1                 | 115,639.0                       | 117,093.0 | 1.3                  | 7.1                  |

Note: Data are not seasonally adjusted. Figures for 1990 have undergone a major revision; previously published 1990 figures should no longer be used. Revised figures are available upon request. All 1991 figures are subject to revision.  
Sources: Texas Employment Commission and U.S. Department of Labor, Bureau of Labor Statistics.

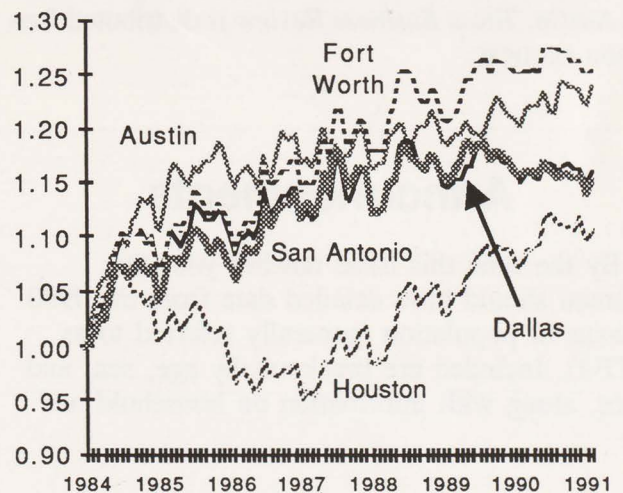
### Nonagricultural Employment in Five Largest Texas Metropolitan Areas

(January 1984=1.00)



### Total Employment in Five Largest Texas Metropolitan Areas

(January 1984=1.00)





has affected their ability to conduct business. Perhaps the feelings of both the business and banking communities are best captured in the comments of a bank respondent: "Congress needs to realize that our southwestern economy has been beset by all manner of economic setbacks and that a banker needs to be there for his customer in the bad times as well as the good times."

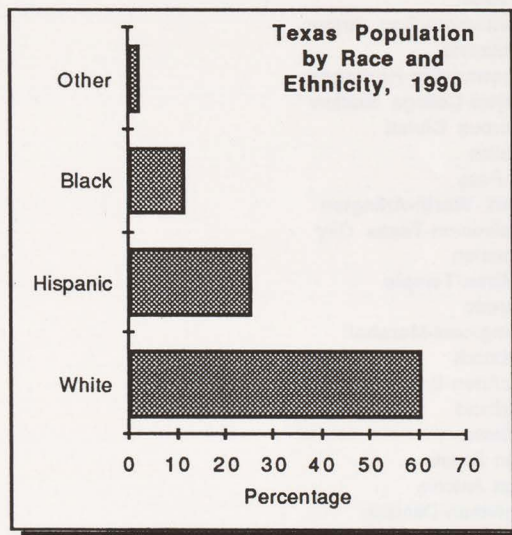
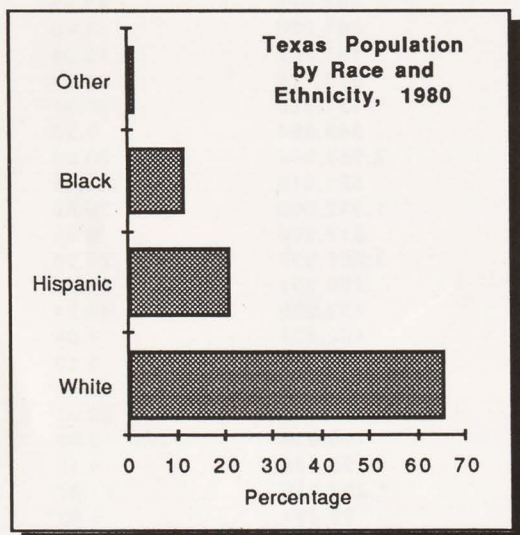
Under the present regulatory structure, the banking system is severely constrained and, at the same time, insulated from the discipline of the market. Much of the regulatory structure was designed for a less sophisticated financial environment. The risk, inherent in the banking business, cannot be adequately addressed by regulation. A complete review of deposit insur-

ance, capital requirements, and regulatory supervision needs to be undertaken. The objectives should be to strengthen the banking system through simplification of regulation and to assess risk by increasing exposure to market discipline.

— Beverly L. Hadaway  
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#### Notes

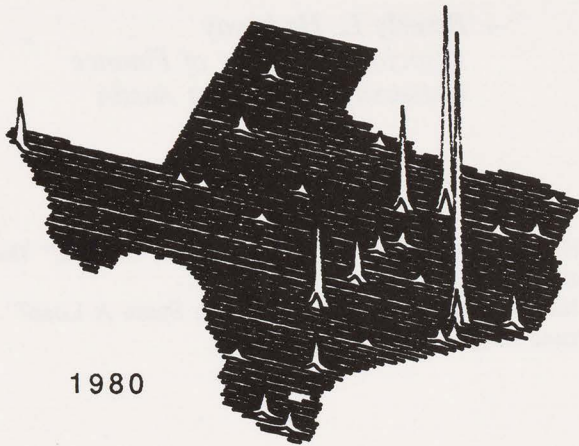
1. Harvey Rosenblum, "The Texas Credit Crunch," *The Southwest Economy* (September 1990).
2. John Davidson, "Brother, Can You Spare A Loan?" *Fortune* (August 27, 1990): 65.



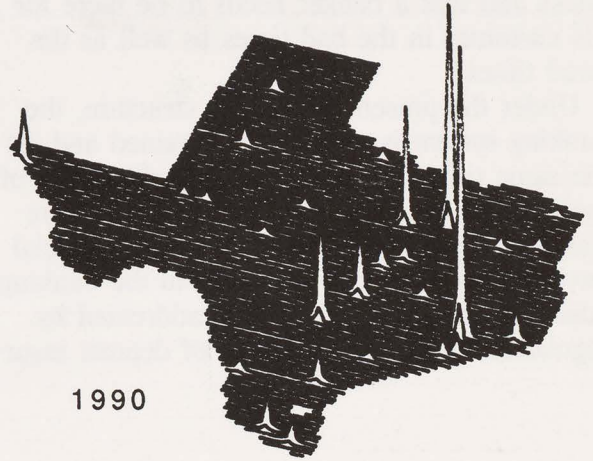
Source: U.S. Bureau of the Census, 1990 Census of Population and Housing (data are subject to revision); 1980 Census of Population and Housing.

Note: Graphics by the Bureau of Business Research staff.

## Population in the Metropolitan Statistical Areas of Texas, 1980 and 1990



1980



1990

| Metropolitan Statistical Area | 1980      | 1990      | Percentage change |
|-------------------------------|-----------|-----------|-------------------|
| Abilene                       | 110,932   | 119,655   | 7.86              |
| Amarillo                      | 173,699   | 187,547   | 7.97              |
| Austin                        | 536,688   | 781,572   | 45.63             |
| Beaumont-Port Arthur          | 375,497   | 361,226   | -3.80             |
| Brazoria                      | 169,587   | 191,707   | 13.04             |
| Brownsville-Harlingen         | 209,727   | 260,120   | 24.03             |
| Bryan-College Station         | 93,588    | 121,862   | 30.21             |
| Corpus Christi                | 326,228   | 349,894   | 7.25              |
| Dallas                        | 1,957,378 | 2,553,362 | 30.45             |
| El Paso                       | 479,899   | 591,610   | 23.28             |
| Fort Worth-Arlington          | 973,138   | 1,332,053 | 36.88             |
| Galveston-Texas City          | 195,940   | 217,399   | 10.95             |
| Houston                       | 2,735,766 | 3,301,937 | 20.70             |
| Killeen-Temple                | 214,656   | 255,301   | 18.93             |
| Laredo                        | 99,258    | 133,239   | 34.24             |
| Longview-Marshall             | 151,752   | 162,431   | 7.04              |
| Lubbock                       | 211,651   | 222,636   | 5.19              |
| McAllen-Edinburg-Mission      | 283,229   | 383,545   | 35.42             |
| Midland                       | 82,636    | 106,611   | 29.01             |
| Odessa                        | 115,374   | 118,934   | 3.09              |
| San Angelo                    | 84,784    | 98,458    | 16.13             |
| San Antonio                   | 1,071,954 | 1,302,099 | 21.47             |
| Sherman-Denison               | 89,796    | 95,021    | 5.82              |
| Texarkana                     | 75,301    | 81,665    | 8.45              |
| Tyler                         | 128,366   | 151,309   | 17.87             |
| Victoria                      | 68,807    | 74,361    | 8.07              |
| Waco                          | 170,755   | 189,123   | 10.76             |
| Wichita Falls                 | 121,082   | 122,378   | 1.07              |

Source: U.S. Bureau of the Census, 1990 Census of Population and Housing (data are subject to revision); 1980 Census of Population and Housing.

Note: Graphics by the Bureau of Business Research staff.



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*Texas Business Review* is published six times a year (February, April, June, August, October, and December) by the Bureau of Business Research, Graduate School of Business, University of Texas at Austin. *Texas Business Review* is distributed free upon request.

## Announcements

By the time this issue reaches you, the Bureau should have detailed data from the 1990 census of population (generally referred to as STF-1). Included are breakouts by age, sex, and race, along with information on household and

housing characteristics. Data are available for geographic areas down to the block group level. The Bureau is providing extractions from the computer tape on hard copy and diskette. Data displayed in this issue (charts on page 4; maps, page 5) were taken from summary tape PL 94-171. For more information, call (512) 471-1616.

**Implementing JOBS in Texas** by Christopher King and Deanna Schexnayder is available through the Bureau's sales office. Presenting the findings from the initial evaluation of the Job Opportunities and Basic Skills (JOBS) program, this report also examines the status of welfare reform in Texas. For a copy of the report, call (512) 471-1616 (the cost is \$8.00 plus tax).