Section 1: Demographics of MDIs

Overview

Compared with the more than 5,400 insured financial institutions, the number of FDIC-insured MDIs is small. MDIs serve a number of minority groups, with half of MDIs designated as Asian American MDIs and a large share designated as Hispanic American MDIs.[4] The composition of the MDI segment has also changed during this study period (2001-2018), as the number of Asian American, Native American, and Hispanic American MDIs increased, and the number of African American and Multi-racial MDIs declined.[5] Although the balance sheet characteristics of MDIs generally resemble those of community banks, MDIs are more likely to be commercial real estate (CRE) lending specialists.[6]

Demographics of MDIs

This study focuses on the 149 FDIC-insured institutions designated as MDIs as of December 31, 2018. MDIs are compared to community banks without an MDI designation (non-MDI community banks) and noncommunity banks without an MDI designation (non-MDI noncommunity banks). Under FDIC's definition, community banks include both small and large institutions. Community banks include institutions with assets of less than $1.558 billion as of year-end 2018 that are not specialty banks (for example, which are not bankers' banks, credit card banks, or industrial loan companies). Large institutions that are considered community banks must rely primarily on core deposits to fund local lending, operate within a limited geographic area, and are not specialty banks.[7] Noncommunity banks are banks that do not meet these criteria. Among the 5,406 FDIC-insured institutions that filed a year-end 2018 Call Report, 4,979, or 92 percent, met the definition of a community bank as outlined in Chapter 1 of the 2012 *FDIC Community Banking Study*. Only 2.8 percent of insured institutions are designated as MDIs. All but 20 MDIs are also community banks.

Leading up to the 2008 financial crisis, the number of MDIs increased from 164 to 215 before declining to 149 as of December 31, 2018. Total assets underwent a similar change, growing from $82 billion in 2001 to $198 billion in 2009, followed by three years of contraction. Since 2015, MDI assets have exceeded their crisis-era high and grown to $234 billion as of year-end 2018. While 31 MDIs have assets greater than $1 billion, most MDIs are relatively small, but they are larger at the median than community banks. The median MDI held $336 million in total assets at year-end 2018, compared with $203 million in total assets at the median community bank.

MDIs tend to be younger than non-MDI financial institutions. At year-end 2018, the median age of an MDI was 34 years, compared with 98 years for community banks (see Chart 1.1, page 8). Just over one in five community banks were established before 1900, compared with only one of the 149 MDIs.

[4] The designation of MDI is voluntary. Institutions that are not already identified as MDIs can request to be designated as such by certifying that they meet the definition of an MDI. The FDIC, the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board and the National Credit Union Administration all provide an MDI designation for their qualified regulated institutions, although the majority of MDIs are regulated by the FDIC. For more information about how minority institutions are identified and defined, see the FDIC's 2002 Policy Statement Regarding Minority Depository Institutions, available at: https://www.fdic.gov/regulations/laws/rules/5000-2600.html. The OCC's definition is found at: https://www.occ.treas.gov/topics/community-affairs/resource-directories/native-american/moi-policy.pdf. The Federal Reserve Board definition is found at: https://www.federalreserve.gov/supervisionreg/srletters/sr1315.pdf

[5] 12 U.S.C. 1463(b)(2) Note. Although an MDI can be multi-racial, none of the 149 FDIC-insured MDIs at year-end 2018 were in that category. The MDIs included in the scope of this study, and the list of FDIC-insured MDIs published at FDIC.gov/MDI, do not include women-owned or women-managed institutions because they are not included in the statutory definition.

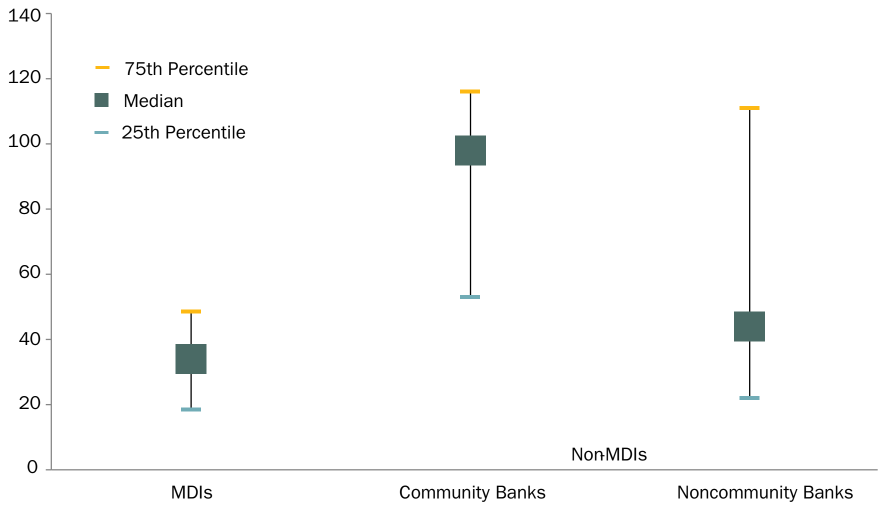
[6] Using the lending specialty group definitions from the FDIC Community Banking Study, CRE specialists are defined as institutions holding construction and development (C&D) loans greater than 10 percent of assets or total CRE loans (C&D, multifamily, and loans secured by other nonfarm, nonresidential properties) greater than 30 percent of total assets, while not meeting any other single-specialist definition. See Table 5.3 on page 5-3 of the Study, https://www.fdic.gov/regulations/resources/cbi/report/CBSI-5.pdf.

[7] Id. Since the release of the FDIC Community Banking Study, the FDIC has adjusted the asset threshold by 1.4 percent each quarter. As of year-end 2018, the threshold was $1.558 billion. See Chapter 1, https://www.fdic.gov/regulations/resources/cbi/report/CBSI-1.pdf.

Chart 1.1

MDIs Tend to Be Younger Than Other Institutions

Age of Charter in Years, Year-End 2018



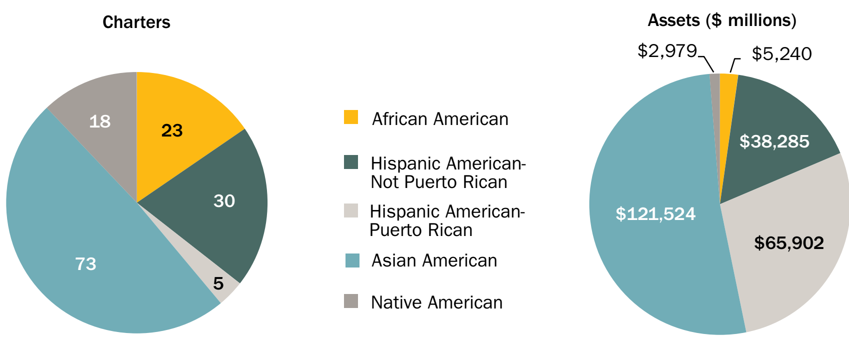
Source: FDIC

Most MDIs are owned or managed by individuals from a specific minority group. MDIs may be designated as having a minority status of Asian or Pacific Islander American (Asian American), Black or African American (African American), Hispanic American, or Native American or Alaskan Native American (Native American). Nearly half of all MDIs at year-end 2018 were designated as serving Asian American communities (see Chart 1.2). Another 23 percent were designated as Hispanic American, with five Hispanic American MDIs headquartered in Puerto Rico; 15 percent were designated African American; and 12 percent were designated Native American.

Chart 1.2

Most MDIs Are Organized to Serve the Financial Needs of a Specific Minority Group

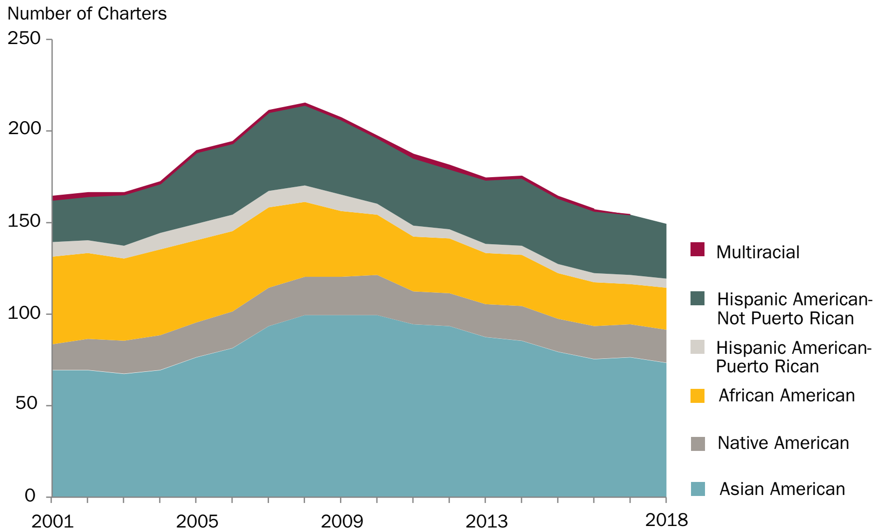
MDI Charters and Assets by Minority Status, 2018



Source: FDIC

Chart 1.3

The Number of MDI Charters Has Decreased Since 2007



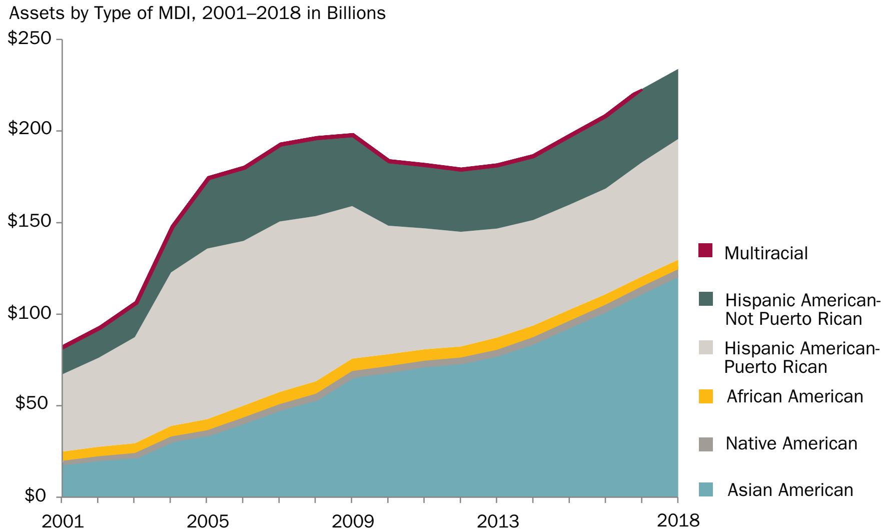
Source: FDIC

As the MDI sector has changed, so has its composition in terms of minority status. The number of African American MDIs declined by more than half since 2001 (see Chart 1.3). African American MDIs represented 15 percent of all MDIs at year-end 2018, compared with nearly 30 percent of all MDIs in 2001. In contrast, the number of MDIs with Native American minority status increased from 14 to 18 institutions since 2001. The number of Hispanic American MDIs grew from 31 institutions in 2001 to 35 in 2018, representing almost one-fourth of MDI charters. In addition, the number of Asian American MDIs increased from 69 to 73. Since 2013, the share of MDI charters by minority status has largely stabilized despite an ongoing decline in the number of charters.

As the composition of the MDI sector by minority status changed, so did the share of MDI assets. In 2001, Asian American institutions held 23 percent of MDI assets. By year-end 2018, their share of MDI assets had more than doubled to 52 percent (See Chart 1.4, page 10). The asset share of Hispanic American MDIs — those headquartered in Puerto Rico and on the mainland — began to decline after peaking at 75 percent of MDI assets in 2005, leaving them with just over half of total MDI assets by 2013. Since then, their asset share has slightly declined to 45 percent of total MDI assets in 2018. The decline in the asset share of Hispanic American MDIs has been largely driven by the decline in the asset share of Hispanic American MDIs headquartered in Puerto Rico. In 2001, Hispanic American MDIs headquartered in Puerto Rico held just over half of total MDI assets, while Hispanic American MDIs headquartered on the mainland held 18 percent. By 2018, mainland Hispanic American MDIs held 16 percent of total MDI assets, while the share of MDI assets held by Hispanic American MDIs headquartered in Puerto Rico had declined to 28 percent. Finally, African American and Native American MDIs each held 2 percent or less of MDI assets at year-end 2018, compared with 6 percent and 1 percent, respectively, at year-end 2001.

Chart 1.4

Assets at Asian MDIs Have Grown Since 2001



Source: FDIC

Balance Sheet Characteristics

Most MDIs meet the definition of a community bank as described in the *FDIC Community Banking Study*. Generally, MDI balance sheets are similar to those of other community banks. MDIs have a liability structure primarily built on core deposits like community banks.[8] MDIs fund 77 percent of their portfolios using core deposits, while the noncommunity bank core deposit ratio is 62 percent, and the community bank ratio is 79 percent (see Table 1.1, page 11).

[8]On March 31, 2011, the core deposits definition was updated to reflect the permanent increase in FDIC deposit insurance coverage from $100,000 to $250,000 and to exclude insured brokered deposits. This study uses the FDIC Community Banking Study definition of core deposits — domestic deposits less brokered deposits — as it provides consistency over time, since core deposits as defined before March 31, 2011, included some brokered deposits. https://www.fdic.gov/regulations/resources/cbi/report/cbi-full.pdf.

Table 1.1

The MDI Liability Structure Is Mostly Built Around Core Deposits

December 31, 2018	MDIs		Non-MDIs			
			Community Banks		Noncommunity Banks	
Liability	Dollars in Billions	Percent of Assets	Dollars in Billions	Percent of Assets	Dollars in Billions	Percent of Assets
Core Deposits	$180	77%	$1,720	79%	$9,642	62%
Other Deposits	$13	6%	$75	3%	$2,236	14%
Short-Term Borrowings[a]	$4	2%	$65	3%	$850	5%
Long-Term Borrowings[b]	$3	1%	$40	2%	$532	3%
Other Liabilities	$4	2%	$38	2%	$519	3%
Equity Capital	$30	13%	$248	11%	$1,741	11%
Total Liabilities and Equity Capital	**$234**	**100%**	**$2,185**	**100%**	**$15,520**	**100%**

Source: FDIC

Note: Amounts and percentages may not total due to rounding.

[a]Includes borrowings with a remaining maturity or time to next repricing of one year or less.

[b]Includes borrowings with a remaining maturity or time to next repricing of more than one year.

Table 1.2, page 12, shows the similarities in asset portfolios of MDIs and community banks. Loans secured by residential and commercial real estate make up 52 percent of MDI assets, compared with 51 percent for community banks, and 22 percent for noncommunity banks. Like community banks, MDIs hold a percentage of total small loans to businesses and farms that is greater than their share of industry assets.[9] MDIs held more than $13 billion in loans to small business in 2018, or 1.9 percent of the industry total, despite holding only a 1.3 percent share of industry assets. However, the total amount of small business loans outstanding among MDIs has fallen by about $1.3 billion since 2013. For comparison, small business loans held by non-MDI community banks grew slightly, from $291 to $292 billion, during the same period.

[9]The FDIC defines small commercial and industrial loans and small loans secured by nonfarm nonresidential properties as loans with an original loan amount of less than $1 million, whereas small farmland loans and agricultural production loans are defined as having original loan amounts of less than $500,000.

Table 1.2

MDI Asset Portfolios Resemble Those of Community Banks

December 31, 2018	MDIs		Non-MDIs			
			Community Banks		Noncommunity Banks	
Loan or Asset Category	Dollars in Billions	Percent of Assets	Dollars in Billions	Percent of Assets	Dollars in Billions	Percent of Assets
Mortgage Loans[a]	$43	18%	$434	20%	$2,018	13%
Consumer Loans	$10	4%	$60	3%	$1,673	11%
Commercial Real Estate (CRE) Loans[b]	$79	34%	$687	31%	$1,460	9%
Construction and Development (C&D) Loans	$8	3%	$110	5%	$232	1%
Commercial and Industrial (C&I) Loans	$26	11%	$215	10%	$1,923	12%
Agricultural Loans[c]	$1	0%	$127	6%	$59	0%
Other Loans and Leases	$7	3%	$24	1%	$1,234	8%
Less: Loan Loss Provisions and Unearned Income	$0.6	0%	$3	0%	$48	0%
Net Loans and Leases	$165	71%	$1,544	71%	$8,318	54%
Securities	$35	15%	$387	18%	$3,301	21%
Other Assets	$34	14%	$254	12%	$3,905	25%
Total Assets	**$234**	**100%**	**$2,185**	**100%**	**$15,524**	**100%**

Source: FDIC
Note: Amounts and percentages may not total due to rounding.
[a]Mortgage loans include home equity lines of credit, junior liens, and other loans secured by residential real estate.
[b]CRE loans include construction and development (C&D) loans, loans secured by multifamily properties, and loans secured by nonfarm nonresidential real estate.
[c]Agricultural loans include production loans and loans secured by farm real estate.

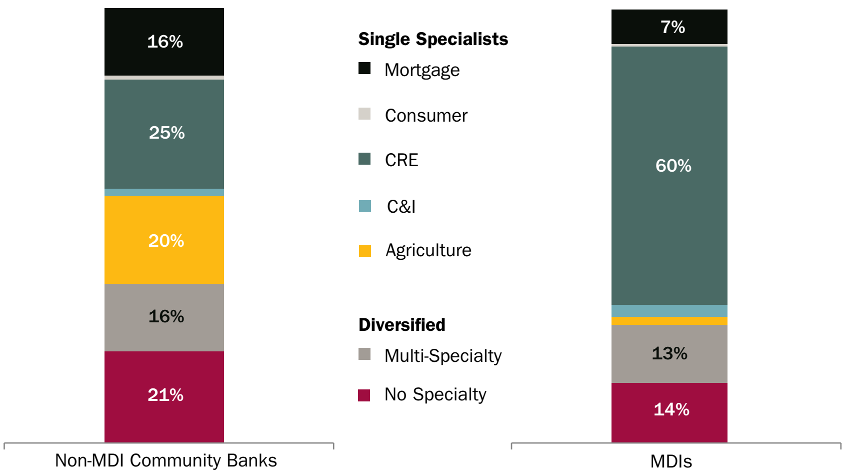
Lending Specialty Group

MDI institutions not only have a greater share of total loans secured by real estate, both residential and commercial, but they also have more loans secured by commercial real estate than non-MDI community or noncommunity banks. When identifying CRE specialists according to the definitions used in the *FDIC Community Banking Study*, 60 percent of MDIs met the definition of a CRE specialist, compared with 25 percent of community banks at year-end 2018 (see Chart 1.5, page 13). By contrast, fewer than 10 percent of MDIs were considered mortgage, commercial and industrial (C&I), or agriculture specialists and 14 percent of MDIs were classified as having no lending specialty.

Chart 1.5

Minority Depository Institutions Are Mostly Comprised of CRE Specialists

Percent of Institutions by Lending Specialty Group, Year-End 2018



Source: FDIC

Note: Loan categories with fewer than 5 percent of institutions are not labeled.

Since 2001, MDIs have migrated to the CRE specialty group from other lending groups. Just over 7 percent of MDIs changed their lending strategy from mortgage or C&I lending to CRE lending. However, most of the shift to the CRE specialty came from MDIs that previously had a more diversified portfolio and met none of the lending specialty criteria. In 2001, 32 percent of MDIs had no lending specialty and 29 percent were CRE specialists. By 2008, the share of MDIs with no lending specialty had declined to 13 percent, while the share of CRE specialists had risen to 56 percent. The share of MDI CRE specialists continued to rise at a slower pace after the recession, reaching 60 percent by 2018, while the share of MDIs with no lending specialty edged up to 14 percent. To put this in perspective, CRE specialists made up 13 percent of all non-MDI community banks in 2001, 29 percent in 2008, and 25 percent in 2018.

Among minority status groups, Asian American and African American MDIs had the highest concentration of CRE specialists in 2018, at 73 percent and 70 percent, respectively. Less than half of Hispanic American MDIs (46 percent) and Native American MDIs (28 percent) were CRE specialists. When including multi-specialist MDIs with CRE among their specialties, 85 percent of Asian American MDIs, 51 percent of Hispanic American MDIs, and 33 percent of Native American MDIs were CRE specialists.

The shift toward CRE specialization among MDIs that previously held more diversified portfolios may signal a turn toward a business model that could expose MDIs to distress or failure in the event of an economic downturn. However, not all CRE loans bear the same risk, and this study does not draw any conclusions regarding CRE lending and failures among MDIs. The risk profile of CRE loans may vary widely based on the property and occupancy type of the collateral. For example, CRE loans may consist of loans that finance construction and development projects, are secured by multifamily properties, or are secured by other nonfarm nonresidential properties.[10] Chart 1.6, on page 14 shows that of the total CRE

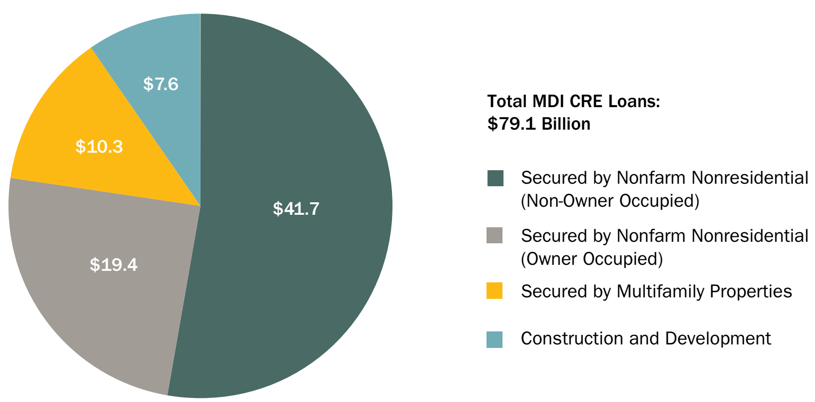
[10]Nonfarm nonresidential properties include business and industrial properties, hotels, motels, churches, hospitals, educational and charitable institutions, dormitories, clubs, lodges, assisted living facilities, association buildings, golf courses, recreational facilities, and similar properties.

loans held by MDIs in 2018, more than three-fourths were loans secured by nonfarm nonresidential properties. In addition, one-fourth of MDI CRE loans were secured by owner-occupied commercial properties. The *FDIC Community Banking Study*, in many cases, found that these loans resemble C&I loans, where real estate collateral was attached. That study also found that in terms of credit losses, owner-occupied CRE loans generally performed somewhat better than unsecured C&I loans during the recent crisis.[11]

Chart 1.6

CRE Loans Held by MDIs Are Mostly Secured by Nonfarm Nonresidential Properties

Commercial Real Estate Loans Held by All MDIs, Year-End 2018, Dollars in Billions



Source: FDIC
Note: Category amounts may not sum to total due to rounding.

The *FDIC Community Banking Study* also showed that concentrations in construction and development (C&D) lending were associated with higher rates of failure during real estate downturns, and C&D loans generally performed worse than other CRE loan types during these periods.[12]

Although MDIs held $7.6 billion in C&D loans as of year-end 2018, few MDIs have concentrations in this type of lending. Only 13 of the MDIs that met the CRE lending specialist criteria in 2018 had a greater than 10 percent concentration of assets in C&D loans, comprising 14 percent of all MDIs that met the CRE criteria (see Chart 1.7, page 15). This percentage is significantly lower than the 27 percent of community bank CRE lenders that had a C&D concentration greater than 10 percent of assets at year-end 2018 (see Chart 1.8, page 15).

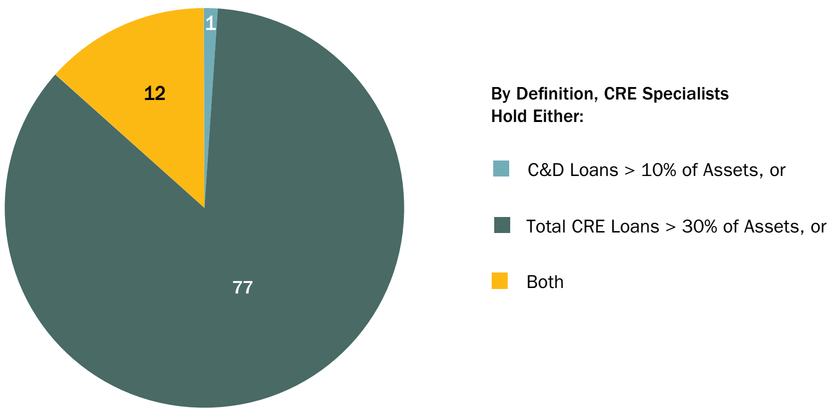
[11]See Chart 5.9 on pg. 5-15 of *FDIC Community Banking Study* (2012), https://www.fdic.gov/regulations/resources/cbi/report/cbi-full.pdf.

[12]Id. See pages 5-16 and 5-17. For an extended discussion of the comparative risks of various types of CRE lending, see Chapter 5 of the Study, http://www.fdic.gov/regulations/resources/cbi/report/CBSI-5.pdf.

Chart 1.7

While 60 Percent of MDIs Qualify as CRE Specialists, Few Hold C&D Loans Greater Than 10 Percent of Total Assets

MDI Commercial Real Estate Specialists, Year-End 2018 According to Which CRE Criteria They Met

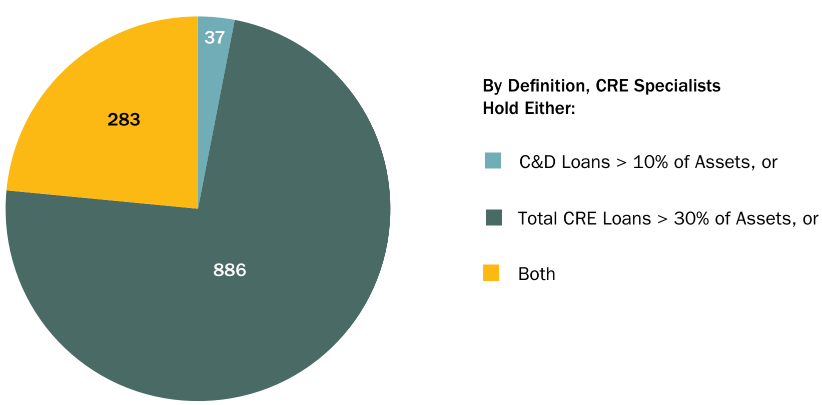


Source: FDIC

Chart 1.8

Non-MDI Community Bank CRE Specialists Are More Likely to Hold C&D Loans Greater Than 10 Percent of Assets Compared with MDI CRE Specialists

Non-MDI Community Commercial Real Estate Specialists, Year-End 2018 According to Which CRE Criteria They Met



Source: FDIC