

FEDERAL DEPOSIT INSURANCE CORPORATION

2019

Minority Depository Institutions

Structure, Performance, and Social Impact



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Introduction

The Federal Deposit Insurance Corporation (FDIC) recognizes that minority depository institutions (MDIs) play a unique role in promoting economic viability in minority and low- and moderate-income (LMI) communities. Preserving, promoting, and building capacity in these institutions are high priorities for the FDIC.

In 1989, Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), which recognized that minority banks can play an important role in serving the financial needs of historically underserved communities and minority populations. As a result, FIRREA established five goals related to MDIs: to preserve the number of MDIs; to preserve the minority character in cases involving merger or acquisition of an MDI; to provide technical assistance to help prevent insolvency of MDIs; to promote and encourage creation of new MDIs; and to provide training, technical assistance, and educational programs for MDIs.

FIRREA defines an MDI as “any depository institution where 51 percent or more of the stock is owned by one or more socially and economically disadvantaged individuals.” The FDIC’s Board of Directors adopted a Policy Statement Regarding Minority Depository Institutions in 1990 and updated it in 2002.¹ The statement set out the framework for how the agency would support the five statutory goals. It also established a process whereby an insured depository institution can choose MDI status if a majority of its board of directors is composed of minority individuals and the community that the institution serves is predominantly minority. Institutions not already identified as MDIs can request to be designated as

such by certifying that they meet the above definition. Requesting designation as an MDI is voluntary.

Over the past five years, the FDIC conducted a comprehensive research study on MDIs, published a resource guide to promote collaboration between MDIs and other financial institutions, held several MDI roundtables and conferences, and met with MDI trade groups and individual MDIs to provide technical assistance and share ideas for preserving MDIs.

In the FDIC’s 2018 Annual Report,² Chairman Jelena McWilliams noted in her introductory message that in 2019, the FDIC would increase its engagement with MDIs, as well as its focus on expanding access to and use of mainstream financial services to those who are unbanked and underbanked so that MDIs are better positioned to serve their communities.

This study accomplishes one of several initiatives that the FDIC is undertaking in 2019 to support MDIs and build capacity. It also helps to fulfill the statutory goals in Section 308 of FIRREA and builds on analytical work in the original 2014 MDI research study,³ starting with an analysis of the demographic designations of MDIs and how the MDI segment of the financial services industry has changed. The remainder of the study explores the geography of MDIs, how MDIs have performed financially, and the role MDIs have played in serving the needs of their communities.

A key conclusion of this study is that MDIs have had a substantial impact on the communities they serve. We hope that the study provides valuable information to policymakers, MDIs, and MDI stakeholders, and highlights why it is important to preserve and promote these mission-driven institutions.

¹Federal Deposit Insurance Corporation, Policy Statement Regarding Minority Depository Institutions, <https://www.fdic.gov/regulations/resources/minority/policy.html> (2002).

²Federal Deposit Insurance Corporation, 2018 Annual Report, <https://www.fdic.gov/about/strategic/report/2018annualreport/index-pdf.html> (February 14, 2019).

³Federal Deposit Insurance Corporation, “Minority Depository Institutions: Structure, Performance, and Social Impact,” <https://www.fdic.gov/bank/analytical/quarterly/2014-vol8-3/mdi-study.pdf> (2014).

Executive Summary

This study updates the FDIC's 2014 MDI research study and explores changes in FDIC-insured MDIs, their role in the financial services industry, and their impact on the communities they serve. The study period covers 2001 to 2018 and looks at the demographics, structural change, geography, financial performance, and social impact of MDIs. The study found that MDIs continue to consolidate, but the surviving MDIs are performing significantly better than they were five years ago. It also found that MDIs are effectively serving their communities.

Demographics of MDIs

Compared with the more than 5,400 insured financial institutions, the number of MDIs is small. 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. The number of African American MDIs declined by more than half during this period. African American MDIs represented 15 percent of all MDIs at year-end 2018, compared with almost 30 percent of all MDIs in 2001. However, the number of Native American, Hispanic American, and Asian American MDIs increased during the same time period.

MDIs tend to be younger institutions. At year-end 2018, the median age of MDIs was 34 years, compared with 98 years for community banks.

The characteristics of MDI balance sheets generally resemble those of community banks that rely on core deposits to fund loans mostly related to residential and commercial real estate (CRE).

MDIs also have more loans secured by CRE than non-MDI community or noncommunity banks. Since 2001, MDIs have migrated to the CRE specialty group from other lending groups. In 2001, 32 percent of MDIs had no lending specialty; by 2018, this number had declined to 14 percent. The share of MDI CRE specialists reached 60 percent at year-end 2018, compared to 25 percent at community banks.

KEY FINDINGS

- MDI financial performance has significantly improved over the past five years, particularly in terms of revenue generation and loan performance.
- From 2001 to 2018, the number of MDIs declined by 9.1 percent and community banks declined by 42.2 percent. Over this period, the number of Asian American and Hispanic American MDIs increased and the number of African American MDIs decreased.
- From 2008 to 2018, the number of MDIs declined 31 percent while community banks experienced a decline of 33 percent during the same period.
- Despite the consolidation of MDIs, primarily through voluntary mergers and failures, more than three-fourths of the assets of the merged institutions and 86 percent of the assets of the failed institutions remained with MDI institutions.
- MDIs originate a greater share of mortgage originations to borrowers in LMI census tracts.
- MDIs originate a greater share of HMDA-reported loans to minorities.
- Even though MDIs originate a greater share of their mortgage loans to minorities and borrowers in LMI census tracts than non-MDIs, both the share of loans and number of borrowers in the census tracts declined between 2011 and 2016.
- MDIs originated a greater share of SBA 7(a) loans in LMI census tracts than non-MDIs.
- MDIs originated a greater share of SBA 7(a) loans in census tracts with larger shares of minority populations than non-MDIs.
- The total number of MDI offices has recently declined somewhat more than non-MDIs.
- MDIs and particularly small MDIs still have much higher expenses in terms of the cost to bring in a dollar of revenue. However, that disadvantage has narrowed in recent years.

Structural Change Among MDIs

The number of MDIs has fluctuated as MDIs were chartered, redesignated, acquired, or closed. Fifty-eight percent of MDIs underwent structural change between 2001 and 2018, compared with 51 percent of non-MDI community banks. The size of the MDI sector grew rapidly in the years preceding the recent financial crisis, dramatically contracted during the recession, and began recovering in 2015.

MDIs initially grew from 164 charters in 2001 to 215 in 2008, an increase of 31 percent. Over the same time period, the number of community banks overall declined 14 percent, from 8,618 to 7,442. As of year-end 2018, failures, mergers, and closures had reduced the number of MDI charters by 31 percent from its peak in 2008 to 149 MDIs. The rate of decline in MDIs post-recession is still slightly lower than community banks overall, which declined 33 percent during the same period.

MDIs were about two and a half times as likely to fail as all other banks. Most of the MDI failures occurred during the crisis or shortly thereafter. Voluntary mergers were the greatest contributing factor to the consolidation of MDIs. However, most of the assets of the 118 MDIs acquired through mergers or failures were acquired by other MDIs. More than three-fourths of the assets of the merged institutions and 86 percent of the assets of the failed institutions remained with MDIs.

By 2016, MDI assets had surpassed pre-recession highs, and they continue to grow in absolute terms. The asset share of Asian American MDIs has increased, while the asset share of African American MDIs and Hispanic American MDIs has declined.

Geography of MDIs

MDIs are geographically linked to the communities they seek to serve. MDI headquarters are concentrated in metropolitan areas: 85 percent of MDI headquarters offices are located in one of the nation's 392 metropolitan statistical areas (MSAs). The remaining 15 percent are located in 19 nonmetropolitan areas.

On average, Asian American, African American, and Native American MDIs operated nine or fewer offices each. Hispanic American MDIs tend to operate larger branch networks.

The number of MDI offices has recently declined, consistent with the national downward trend in the number of bank offices. However, Native American MDIs operated several more offices in 2018 than in 2013. By contrast, Hispanic American MDIs and African American MDIs operated fewer offices in 2018 than they did five years earlier.

Financial Performance of MDIs

MDI financial performance has improved over the past five years, particularly in terms of loan performance. While MDIs tend to outperform non-MDI community banks in revenue generation, MDIs, particularly small MDIs, have much higher expenses. As a result, MDIs have long underperformed other community and noncommunity banks when measured by the cost to bring in a dollar of revenue, known as the efficiency ratio. However, that disadvantage has narrowed in recent years.

Since the recession, credit quality has improved greatly across the banking industry. For MDIs, loan performance has improved sharply, providing the most significant boost to post-recession MDI earnings. After lagging non-MDI metro nonfarm community banks in measures of pretax return on assets during the first 14 years of the study period, MDIs outpaced that group three of the past four years. Since 2013, MDI interest income has rebounded more quickly than at most non-MDI financial institutions. Since 2008, higher loan-to-asset ratios have also boosted interest income at MDIs relative to other bank groups.

Since 2013, the overhead expense ratios for MDIs — salaries, premises and fixed assets, and other noninterest expenses, such as technology costs as a percentage of average assets — have improved overall. Nonetheless, MDI overhead expenses are still well above those of other institutions.

Social Impact of MDIs

MDIs originate a greater share of their mortgages to borrowers who live in LMI census tracts and to minority borrowers, compared with non-MDI community or noncommunity institutions. MDIs also serve a substantially higher share of minority home mortgage borrowers compared with non-MDI metro nonfarm community banks.

Compared with non-MDIs, MDIs originate a greater share of small business loans guaranteed by the U.S. Small Business Administration (SBA) to borrowers in LMI census tracts and to borrowers in census tracts with higher shares of minority residents.

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.

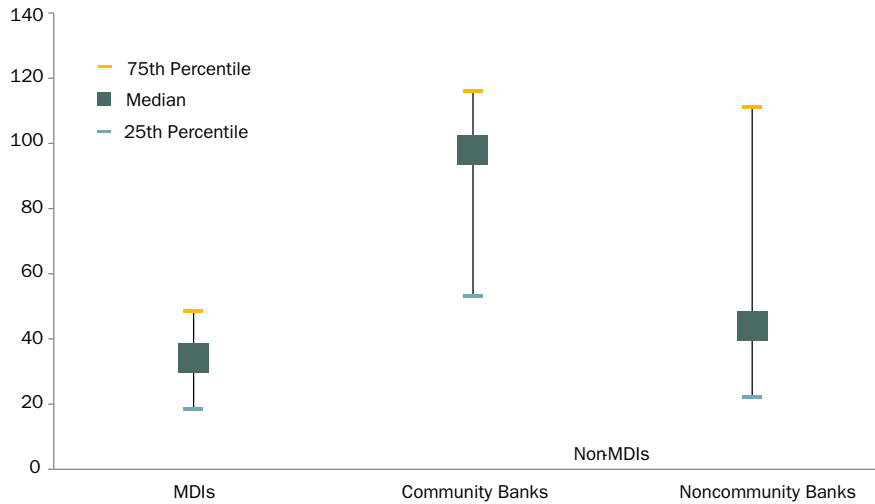
⁴The designation of MDI is voluntary. Institutions that are not already identified as MDIs can request to be designated as such by certifying that they meet the definition of an MDI. The FDIC, the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board and the National Credit Union 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>

⁵12 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](https://www.fdic.gov/MDI), do not include women-owned or women-managed institutions because they are not included in the statutory definition.

⁶Using 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>.

⁷Id. 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

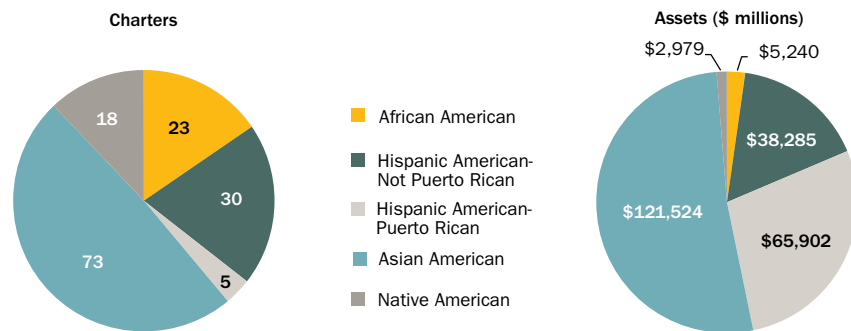


Source: FDIC

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

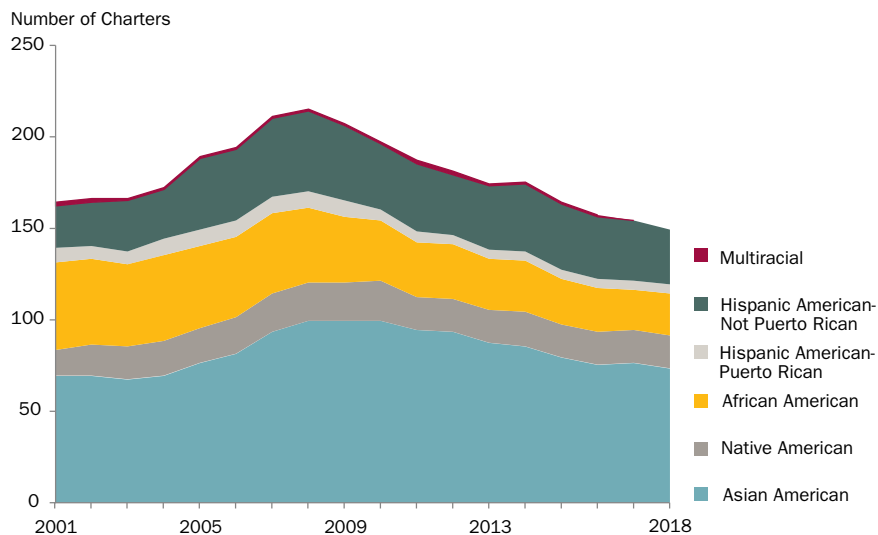
at year-end 2018 were designated as serving Asian American communities (see Chart 1.2). Another 23 percent were designated as Hispanic American, with five Hispanic American MDIs headquartered in Puerto Rico; 15 percent were designated African American; and 12 percent were designated Native American.

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



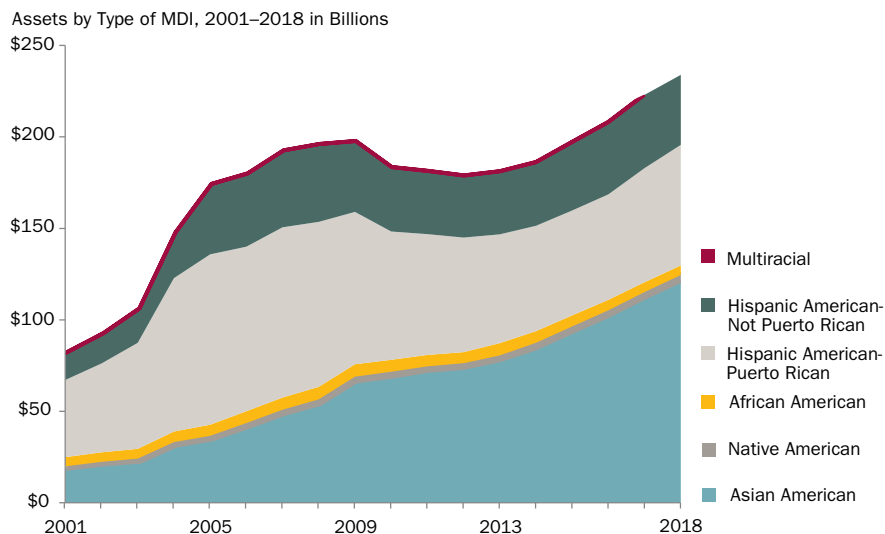
Source: FDIC

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).

⁸On 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			
	Dollars in Billions	Percent of Assets	Community Banks		Noncommunity Banks	
			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.

^aIncludes borrowings with a remaining maturity or time to next repricing of one year or less.^bIncludes 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.

⁹The 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			
	Dollars in Billions	Percent of Assets	Community Banks		Noncommunity Banks	
			Dollars in Billions	Percent of Assets	Dollars in Billions	Percent of Assets
Loan or Asset Category						
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.

^aMortgage loans include home equity lines of credit, junior liens, and other loans secured by residential real estate.^bCRE loans include construction and development (C&D) loans, loans secured by multifamily properties, and loans secured by nonfarm nonresidential real estate.^cAgricultural loans include production loans and loans secured by farm real estate.

Lending Specialty Group

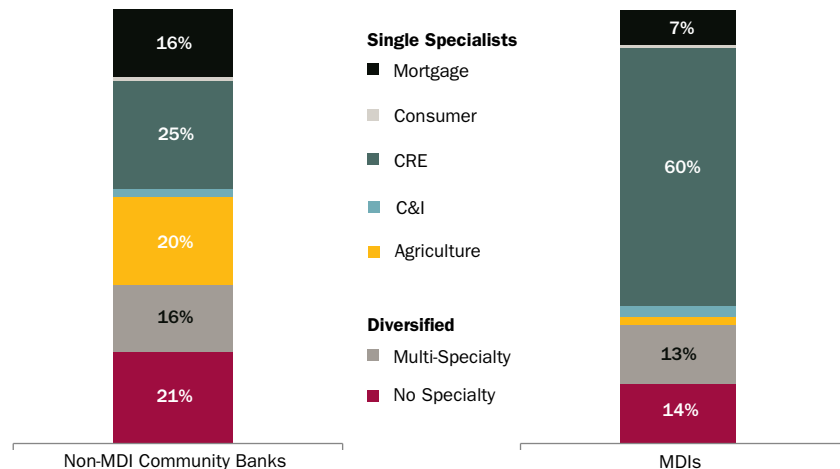
MDI institutions not only have a greater share of total loans secured by real estate, both residential and commercial, but they also have more loans secured by commercial real estate than non-MDI community or noncommunity banks. When identifying CRE specialists according to the definitions used in the *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

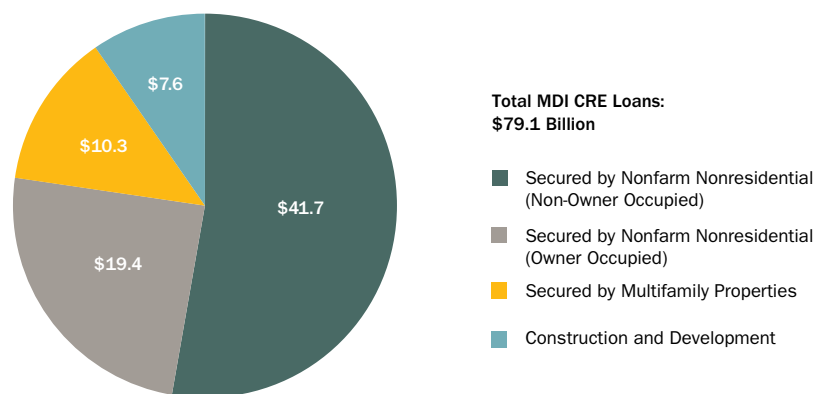
¹⁰Nonfarm nonresidential properties include business and industrial properties, hotels, motels, churches, hospitals, educational and charitable institutions, dormitories, clubs, lodges, assisted living facilities, association buildings, golf courses, recreational facilities, and similar properties.

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).

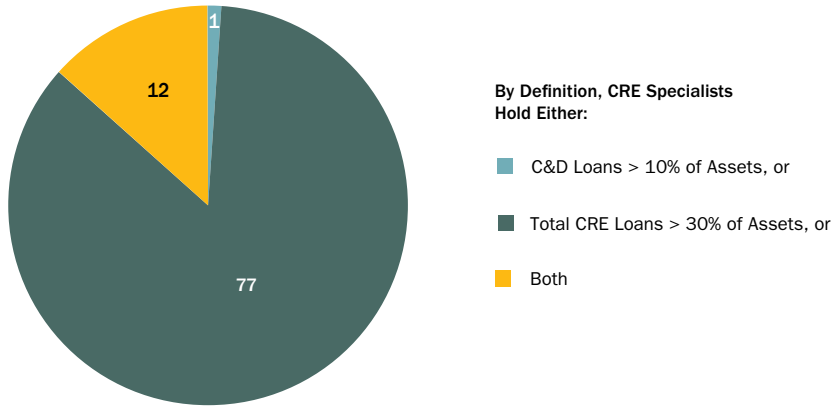
¹¹See Chart 5.9 on pg. 5-15 of *FDIC Community Banking Study* (2012), <https://www.fdic.gov/regulations/resources/cbi/report/cbi-full.pdf>.

¹²Id. 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

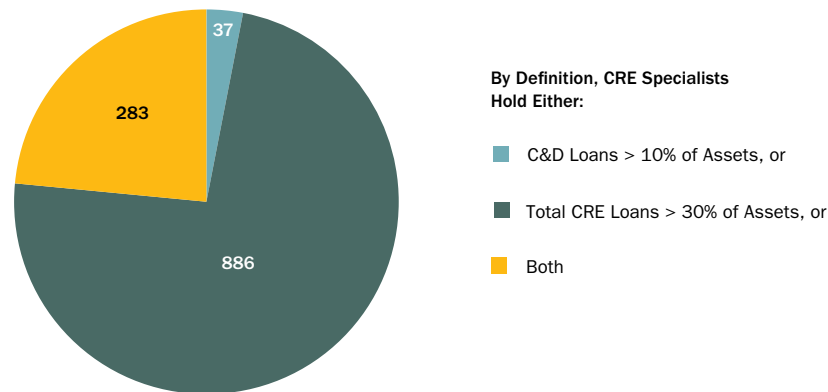


Source: FDIC

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

Section 2: Structural Change Among MDIs

Overview

Like other groups of depository institutions, the MDI banking segment experienced significant structural change during the 2001 to 2018 period of this study. The number of MDIs has fluctuated as MDIs were chartered, redesignated, acquired, or closed. Fifty-eight percent of MDIs underwent structural change during the study period, compared with 51 percent of community banks. Compared with the industry overall, the MDI population has experienced somewhat more volatility, with relatively fewer MDIs operating continuously as MDIs throughout the study period.

Structural Change Among Minority Depository Institutions

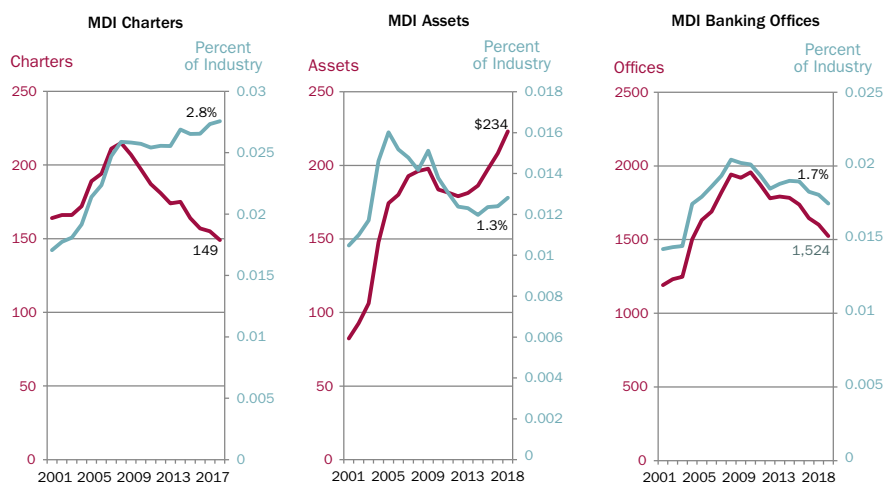
The financial services industry has changed significantly over the past two decades as a result of the last financial crisis, failures, mergers between banking organizations, and the consolidation of

charters within existing organizations. During the 18-year study period covered by the report, the MDI sector also underwent significant structural change. Factors particular to the MDI sector caused somewhat greater structural change than that observed among community banks as a whole. This section details the nature of structural change in the MDI sector between 2001 and 2018.

Number of Charters

During the study period, MDIs initially grew from 164 charters in 2001 to 215 in 2008, an increase of 31 percent. Over the same time period, the number of community banks overall declined 14 percent, from 8,618 to 7,442. As of year-end 2018, failures, mergers, and closures had reduced the number of MDI charters by 31 percent from its peak of 215 in 2008 to 149. The rate of decline in MDIs post-recession is slightly lower than community banks overall, which declined 33 percent to 4,979 from 2008 to 2018.

Chart 2.1
The MDI Share of the Banking Industry Has Leveled Off After Pre-Crisis Growth



Source: FDIC

MDI assets nearly tripled from \$82 billion to \$234 billion between 2001 and 2018. As shown in Chart 2.1, page 17, the size of the MDI sector grew rapidly in the years preceding the recent financial crisis, dramatically contracted during the recent recession, and began recovering in 2013. By 2016, MDI assets had surpassed pre-recession highs, and they continue to grow in absolute terms. Although MDIs held only 1.3 percent of bank industry assets in 2018, compared with their peak of 1.6 percent in 2005, this represents an increase in the MDI share of industry assets from 1.0 percent in 2001.

The decline in the number of charters in the MDI sector is related to several factors, including bank failures. Over the study period, MDIs were about two and a half times as likely to fail as all other banks. Between year-end 2001 and year-end 2018, 40 MDIs failed (see Chart 2.2–d, page 20).

Most of the MDI failures occurred during the crisis or shortly thereafter. Among MDIs that failed, 42.5 percent had less than \$100 million in total assets, while the median asset size of the surviving MDIs was \$183 million. Many of these failures occurred in metro areas, where the recession hit already economically distressed communities.

The number of MDI charters has also declined because of voluntary mergers. During the study period, 41 MDIs were acquired by other MDIs, and an additional 39 MDIs were acquired by non-MDI

financial institutions (see Chart 2.2–c, page 20). Overall, almost 3,200 banks were merged into other institutions during the same time period, 2002 to 2018.

While 14 MDIs reporting at year-end 2018 were chartered between 2005 and 2007 (see Chart 2.2–a, page 19), a sharp slowdown in the creation of new MDIs followed, paralleling the trend in de novo community bank formation. In January 2019, the FDIC approved a deposit insurance application for a new African American MDI in Washington, DC. The institution is currently raising capital and satisfying other conditions before its charter is granted. If granted, it will be the first de novo MDI in 10 years.¹³

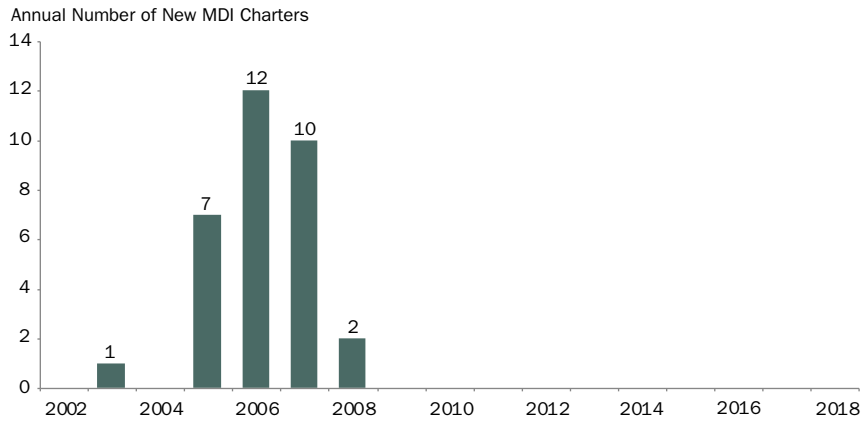
Over the past 18 years, many existing institutions were newly designated as MDIs, while far fewer institutions lost MDI status (see Chart 2.2–b, page 19). Redesignations were the most important source of growth for the MDI sector over much of the study period. The new designations can occur because of a change in control or the composition of the management structure, or because existing institutions that already qualified as MDIs request designation as MDIs.

¹³From 2011 through 2018, there were 19 newly chartered FDIC-insured institutions, representing 0.25 percent of the total number of institutions as of year-end 2010. The MDI de novo would represent 0.67 percent of total MDI institutions as of year-end 2018. Historically, the vast majority of new charters are de novo institutions.

Chart 2.2

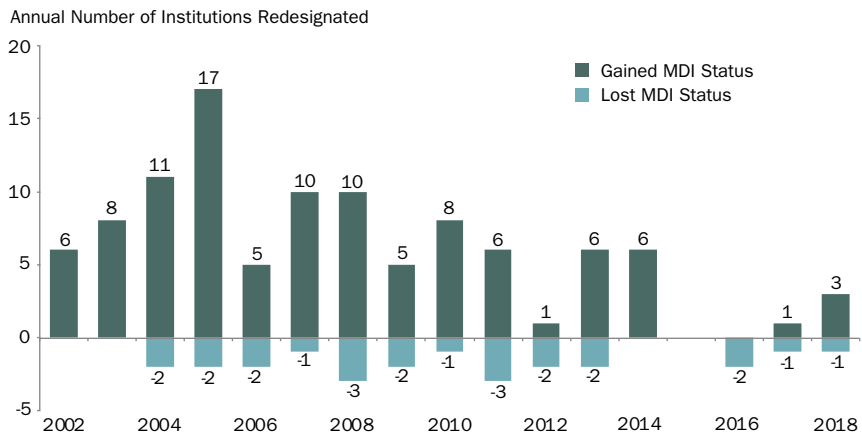
Sources of Structural Change Among FDIC-Insured MDIs, 2001 to 2018

Chart 2.2-a: 32 New MDIs Were Chartered



Source: FDIC

Chart 2.2-b: 103 Existing Institutions Gained MDI Status, 24 MDI Institutions Lost MDI Status



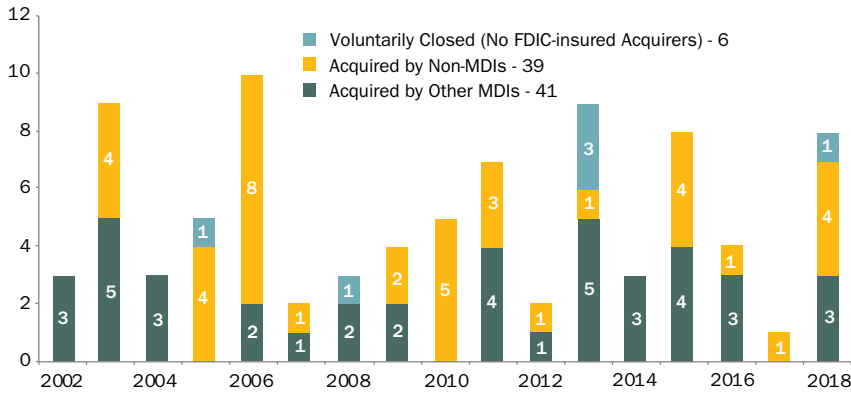
Source: FDIC

Chart 2.2 (continued)

Sources of Structural Change Among FDIC-Insured MDIs, 2001 to 2018

Chart 2.2-c: 80 MDIs Were Acquired in Voluntary Mergers, 6 MDIs Voluntarily Closed

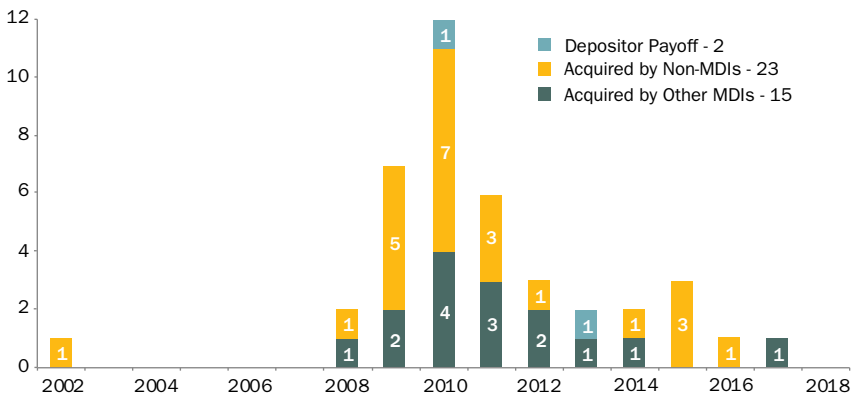
Annual Number of MDI Mergers or Voluntary Closures



Source: FDIC

Chart 2.2-d: 40 MDIs Failed

Annual Number of MDI Failures

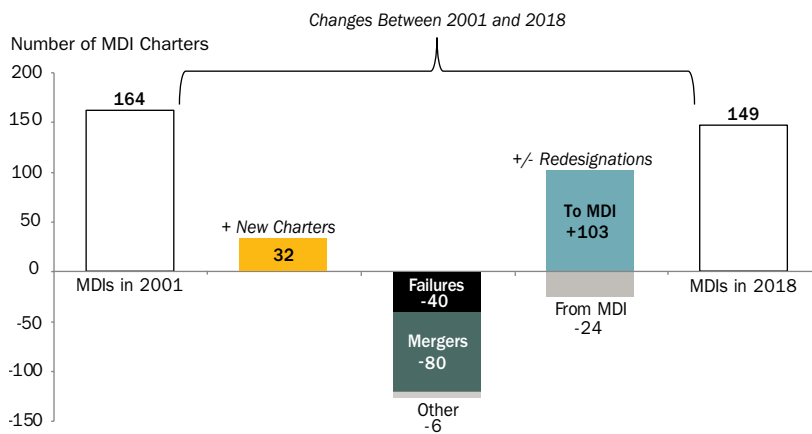


Source: FDIC

Chart 2.3 depicts the net effect of new charters, mergers, failures, and redesignations during the study period. A total of 103 institutions were redesignated as MDIs, compared with 24 institutions that lost MDI status. Voluntary mergers were the greatest contributing factor to the consolidation of MDI charters, reflecting a trend among community banks during the study period. The number of community banks declined by 42.2 percent, from

8,618 in 2001 to 4,979 in 2018, owing to failures, voluntary mergers and other voluntary closings, and redesignations of institutions that met the community bank criteria outlined in Chapter 1 of the *FDIC Community Banking Study*. By comparison, the number of MDIs declined by 9.1 percent from 164 in 2001 to 149 in 2018.

Chart 2.3
Voluntary Mergers Are the Greatest Source of Consolidation Among MDIs



Source: FDIC

Impact of Structural Change on the Assets Controlled by MDIs

One of the stated goals of Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) is to preserve, “the minority character in cases involving mergers or acquisitions....”¹⁴ As MDIs have failed or merged, questions have been raised as to whether these institutions are being acquired by entities that may not be focused on addressing the financial needs of minority communities.

Of the 80 MDIs acquired through voluntary mergers during the study period, slightly more than half (41 institutions) were acquired by other MDIs. In addition,

of the 40 MDIs that failed during the study period, 15 (38 percent) were acquired by other MDIs. Although these percentages might seem low, a much larger share of the total assets of closed MDIs remained under the control of other MDIs after acquisition. For example, most of the assets of the 118 MDIs acquired through mergers or failures during the study period were acquired by other MDIs (see Chart 2.4, page 22).¹⁵ In all, more than three-fourths of the assets of the merged institutions and 86 percent of the assets of the failed institutions remained with MDI institutions.

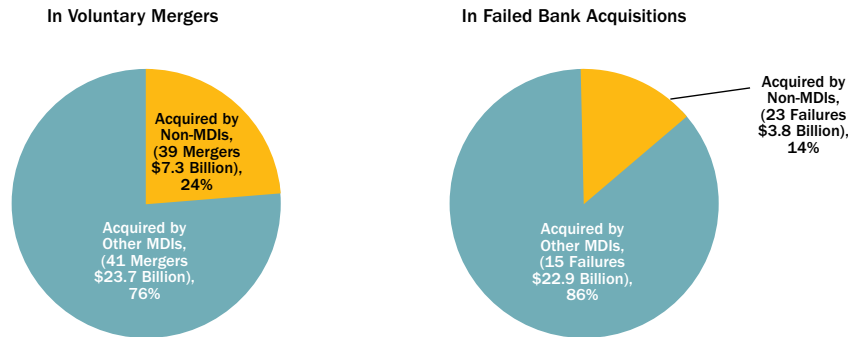
¹⁴12 U.S.C. 1463(a)(2) Note.

¹⁵Two failed banks had no acquirers as they were resolved as payouts.

Chart 2.4

Most of the Assets of Merged and Failed MDIs Have Been Acquired by Other MDIs

Percent of Assets Acquired, 2002–2018



Source: FDIC

Note: The merged bank acquisition amount excludes the six voluntary closings. The failed bank acquisition amount excludes the two depositor payouts.

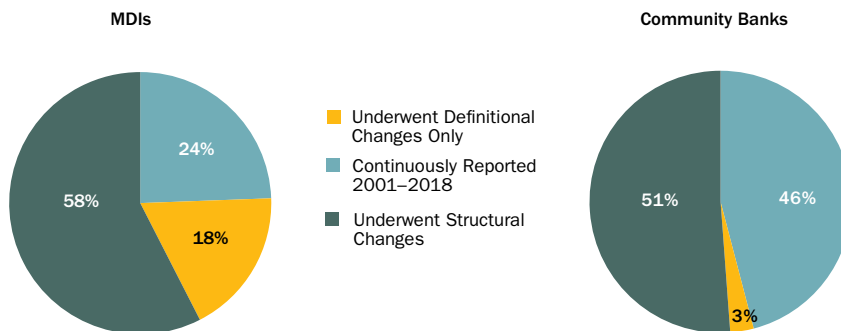
While every segment of the banking industry has undergone structural change in recent years, the MDI population has been somewhat more volatile compared with other types of institutions. For example, MDIs were about half as likely as community banks to operate continuously (that is, absent structural change or group redesignation)

throughout the study period (see Chart 2.5). To help distinguish MDI financial performance over time from that of other institutions, Section 4 of this study compares MDI financial performance to the performance of non-MDI community banks that are headquartered in metro areas and devote less than 25 percent of their total loans to agriculture.

Chart 2.5

The MDI Population Has Been Somewhat More Volatile Over Time Than the Community Bank Population

Unique Banks Reporting in at Least One Year-End as:



Source: FDIC

Section 3: Geography of MDIs

Overview

Minority depository institutions are geographically clustered in several of the most populous states, and many of their branch offices are concentrated in and around large metropolitan areas.¹⁶ MDIs generally hold a relatively small share of the local deposit market in their densely populated metropolitan locations. But a few large counties, including Los Angeles and Miami-Dade, have a significant share of total bank deposits held by MDIs. MDIs also hold a sizable share of deposits in some micropolitan areas and rural counties, although their overall presence in nonmetro areas is small. The concentration of MDI offices in a limited number of metropolitan areas is partly because most MDIs are headquartered in metropolitan areas and operate a relatively small number of banking offices spread across three or fewer counties. Unlike MDIs, non-MDI community banks are dispersed throughout all U.S. states and territories and only half are in metropolitan areas.

The Geography of MDIs

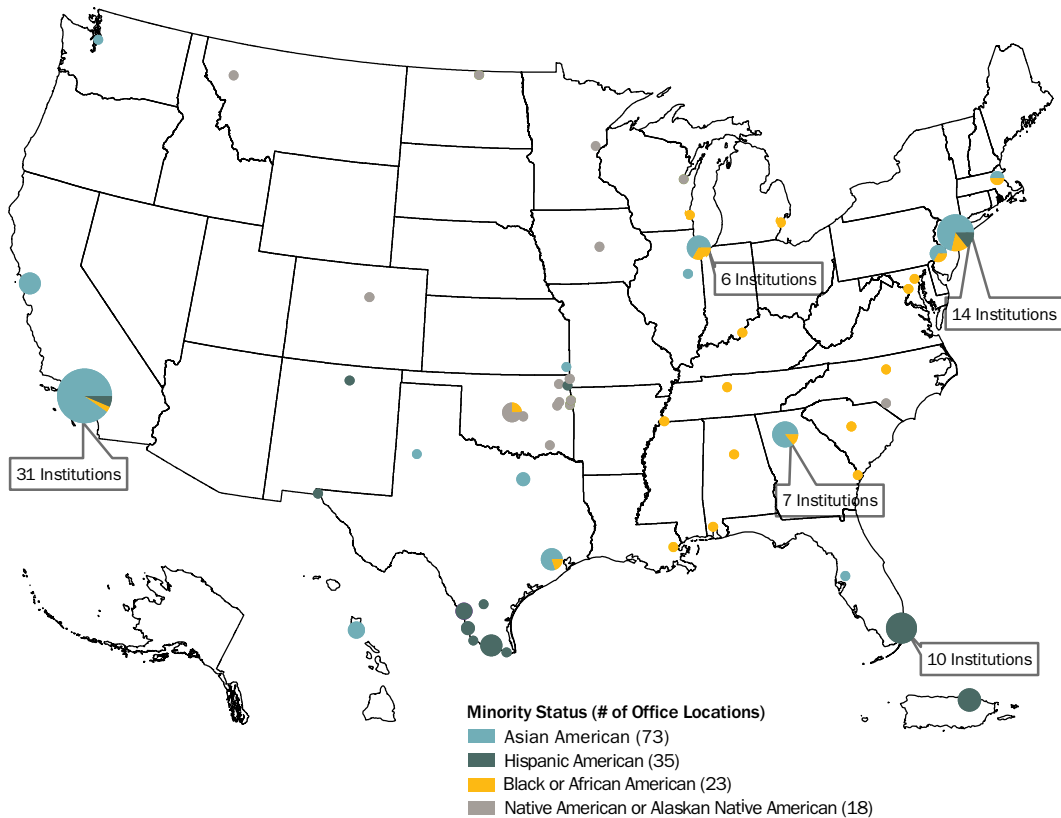
The 149 MDI headquarters are mostly in a relatively small number of densely populated metropolitan areas. However, these institutions maintain more

than 1,500 offices that are somewhat more widely distributed. This section describes the geographic characteristics of MDI headquarters and office locations, examines their market share, and briefly describes the geographic characteristics of FDIC-insured non-MDI community banks.

Map 3.1 on page 24 highlights several regional concentrations of MDI headquarters locations according to their minority status. The headquarters of MDIs are shown as pie charts, with the size of the pie increasing with the number of MDIs headquartered in each city and the slices of the pie indicating the breakdown of those institutions by minority status. For metropolitan and nonmetropolitan areas with few MDIs, each headquarters location is shown as a smaller circle. This depiction of MDI headquarters shows clusters of Hispanic American MDIs in Puerto Rico, Florida, and Texas. African American MDIs are clustered in the eastern and southern regions of the United States, while Native American MDIs are predominantly located in Oklahoma and the northern plains. By contrast, Asian American MDIs are dispersed throughout the West, the Midwest, the South, and the Mid-Atlantic regions of the country.

¹⁶The Office of Management and Budget delineates metropolitan and micropolitan statistical areas. A revised delineation was issued on September 14, 2018. See <https://www.whitehouse.gov/wp-content/uploads/2018/09/Bulletin-18-04.pdf>. Metropolitan Statistical Areas (MSAs, or metro or metropolitan areas) have at least one urbanized area of 50,000 or more people, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties. Micropolitan Statistical Areas (micro or micropolitan areas) have at least one urban cluster of at least 10,000 but less than 50,000 people, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties. For purposes of this study, places not defined as either metro or micro are considered rural. However, both metro and micro areas may contain rural parts.

Map 3.1
MDI Headquarters Tend to Cluster According to Minority Status
 Locations of MDI Headquarters by Minority Status



Source: FDIC

Headquarters

More than half of all MDIs at year-end 2018 were headquartered in the four most populous U.S. states: California, Texas, New York, and Florida. By far, California has the largest number of MDIs, with 36 MDIs headquartered in the state. This represents nearly one-fourth of all MDI charters (see Table 3.1,

page 25). California also has the largest number of MDI offices, with 349, or nearly one-quarter of all U.S. MDI offices. Texas has 22 MDIs operating 306 banking offices. While Puerto Rico has only five MDIs, it has 301 MDI banking offices, representing 20 percent of all U.S. MDI offices at year-end 2018.

Table 3.1

Top MDI Headquarters Locations by State

State	Number of Charters	Percent of Charters	Number of Offices	Percent of Offices
California	36	24%	349	23%
Texas	22	15%	306	20%
Oklahoma	12	8%	38	2%
Florida	11	7%	84	6%
New York	11	7%	117	8%
Georgia	8	5%	38	2%
Illinois	7	5%	40	3%
Puerto Rico	5	3%	301	20%
Guam*	3	2%	18	1%
Hawaii*	3	2%	30	2%
New Jersey*	3	2%	30	2%
Pennsylvania*	3	2%	8	1%
Alabama**	2	1%	10	1%
Massachusetts**	2	1%	13	1%
North Carolina**	2	1%	22	1%
Tennessee**	2	1%	4	0.3%
Wisconsin**	2	1%	3	0.2%
Other States	15	10%	113	7%
Total	149	100%	1,524	100%

Source: FDIC

Note: Headquarters are as of December 31, 2018. Offices are as of June 30, 2018, as reported in the 2018 Summary of Deposits. Offices include those physically located in each state, as opposed to the number of MDI offices operated by the MDIs headquartered in each state.

*States tied for the ninth-largest number of charters located in the state.

**States tied for the tenth-largest number of charters located in the state.

MDI headquarters are concentrated in metropolitan areas; some 85 percent of MDI headquarters offices are located in one of the nation's 392 MSAs. Just 10 cities have 62 percent of all MDI headquarters. There are 31 MDIs headquartered in greater Los Angeles, 14 are headquartered in New York, 10 are headquartered in Miami, and seven

are headquartered in Atlanta. Another 34 MDIs are headquartered in 26 other MSAs (see Table 3.2, page 26). The remaining 15 percent of MDI headquarters offices are located in 19 nonmetropolitan areas. Just over half (52 percent) of these nonmetro institutions are Native American MDIs.

Table 3.2

Top 10 MDI Headquarters Locations by Metro Area

Metro Area	Number of Charters	Percent of Charters	Number of Offices	Percent of Offices
Los Angeles-Long Beach-Anaheim, CA	31	21%	260	17%
New York-Newark-Jersey City, NY-NJ-PA	14	9%	147	10%
Miami-Fort Lauderdale-West Palm Beach, FL	10	7%	82	5%
Atlanta-Sandy Springs-Roswell, GA	7	5%	34	2%
Chicago-Naperville-Elgin, IL-IN-WI	6	4%	38	2%
Houston-The Woodlands-Sugar Land, TX	5	3%	51	3%
McAllen-Edinburg-Mission, TX	5	3%	67	4%
San Francisco-Oakland-Hayward, CA	5	3%	53	3%
San Juan-Carolina-Caguas, PR	5	3%	211	14%
Oklahoma City, OK	4	3%	10	1%
Top 10 Metro Areas	92	62%	953	63%
Other Metro Areas (59)	34	23%	410	27%
Nonmetro Areas (69)	23	15%	161	11%
Total	149	100%	1,524	100%

Source: FDIC

Note: Headquarters are as of December 31, 2018. Offices are as of June 30, 2018, as reported in the 2018 Summary of Deposits. Percentages may not total to 100 due to rounding.

Branch Offices

Like MDI headquarters locations, MDI branch offices are concentrated in clusters (see Map 3.2, page 27). Among the 1,524 offices maintained by MDIs as of

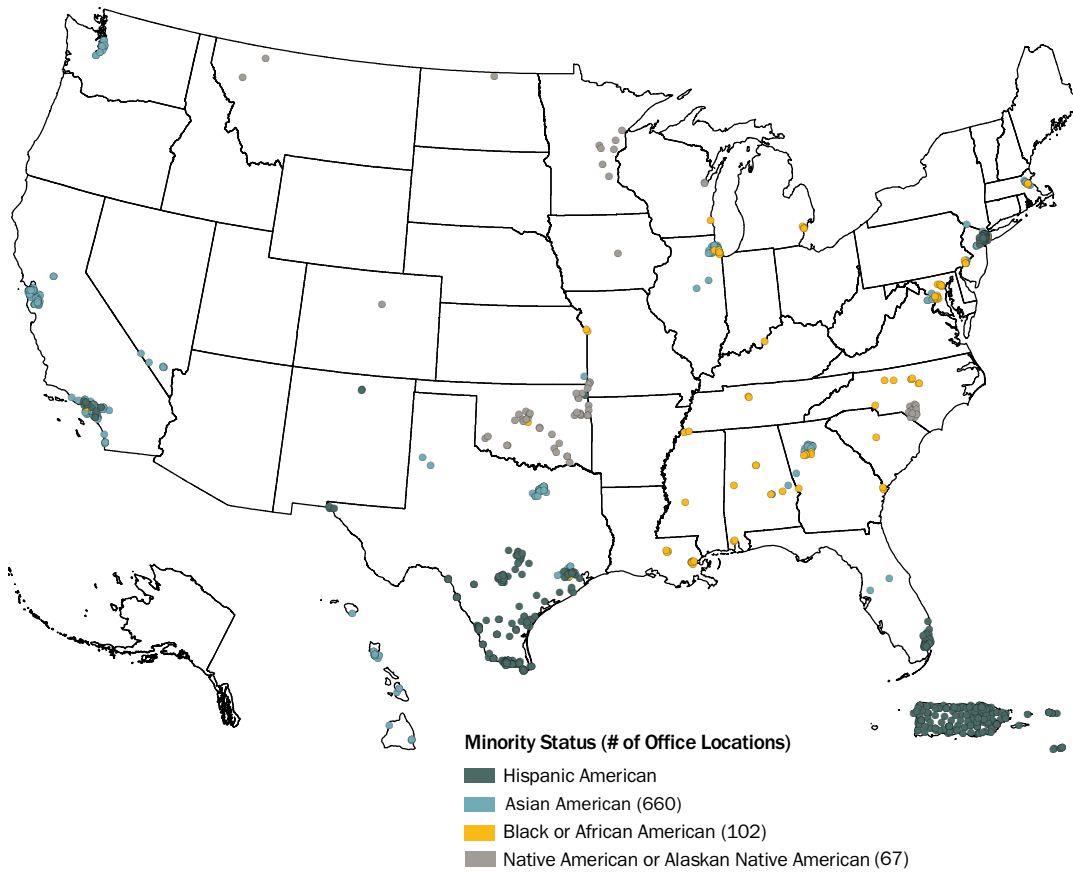
June 30, 2018, 63 percent were in the top 10 metro areas shown in Table 3.2; an additional 27 percent were in 59 other metro areas; and 161 branch offices, or 11 percent, were in 69 nonmetro areas.¹⁷

¹⁷Branch office location information is taken from the FDIC Summary of Deposits survey that is published annually as of June 30.

Map 3.2

MDI Branch Locations Tend to Cluster Geographically According to Minority Status

MDI Branch Locations



Source: FDIC Summary of Deposits as of June 30, 2018

Due to the comparatively small geographic footprint of most MDIs, their headquarters and office locations are distributed in a similar manner across the country. Like community banks, most MDIs establish branch offices near their headquarters. More than 70 percent of MDIs have offices in three or fewer counties, while 79 percent of community bank offices are in three or fewer counties (see Chart 3.1, page 28).

Except for Hispanic American MDIs, most MDIs maintain relatively few branch offices. On average, Asian American, African American, and Native American MDIs operated nine or fewer offices each (see Chart 3.2, page 28). By contrast, Hispanic American MDIs tend to operate larger branch networks. Hispanic

American MDIs operate 695 offices for an average of 20 offices per institution — more than twice as many as any other group. These offices are located primarily in Florida, New York, Puerto Rico, and Texas. However, this average is heavily influenced by the 301 MDI banking offices in Puerto Rico. Not including Puerto Rico MDI offices, Hispanic American MDIs still have an average of 13 offices per institution, 45 percent more than any other group.

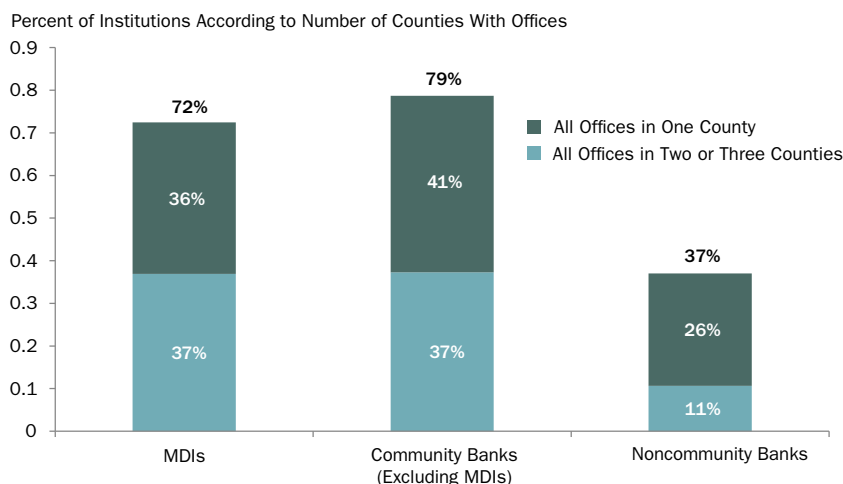
The number of MDI offices has recently declined, consistent with the national downward trend in the number of bank offices.¹⁸ From 2013 to 2018, the number of offices operated by all FDIC-insured institutions declined by 9 percent, whereas the number

¹⁸For a discussion of the recent overall decline in the number of FDIC-insured offices, see *Factors Shaping Recent Trends in Banking Office Structure for Community and Noncommunity Banks*, <https://www.fdic.gov/bank/analytical/quarterly/2017-vol11-4/fdic-v11n4-3q2017-article1.pdf> (2018).

of offices operated by community banks declined by 12 percent, and the number of offices operated by MDIs declined by 14 percent. Office closures, acquisitions by non-MDI financial institutions, and redesignations resulted in a net loss of 258 MDI offices between 2013 and 2018 (see Chart 3.3, page 29). However, the scale of office reduction varies widely among MDIs according to minority status (see Table 3.3 page 29). Native American MDIs operated several more offices in 2018

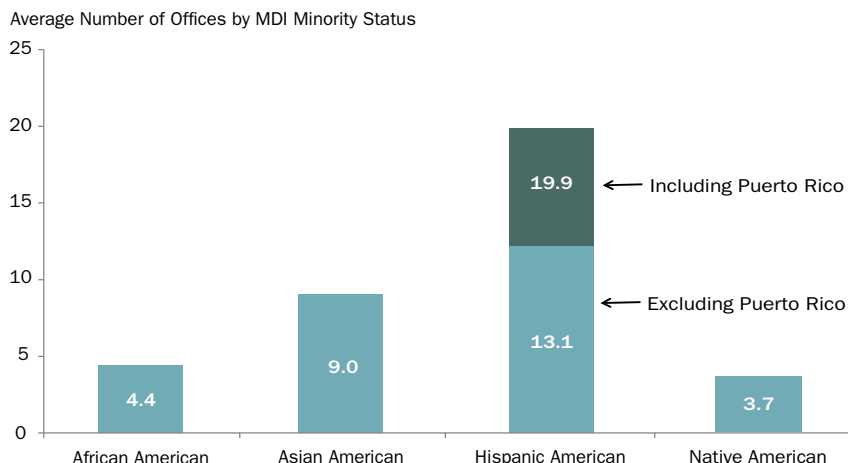
than in 2013, due in part to offices of institutions newly designated as MDIs. By contrast, Hispanic American MDIs and African American MDIs, respectively, operated 23 percent and 18 percent fewer offices in 2018 than they did five years earlier. While Hispanic American MDI office reductions outpaced other MDIs in absolute terms, these institutions continue to operate the largest number of offices of any MDI type.

Chart 3.1
MDIs Generally Have A Small Geographic Footprint, Similar to Community Banks



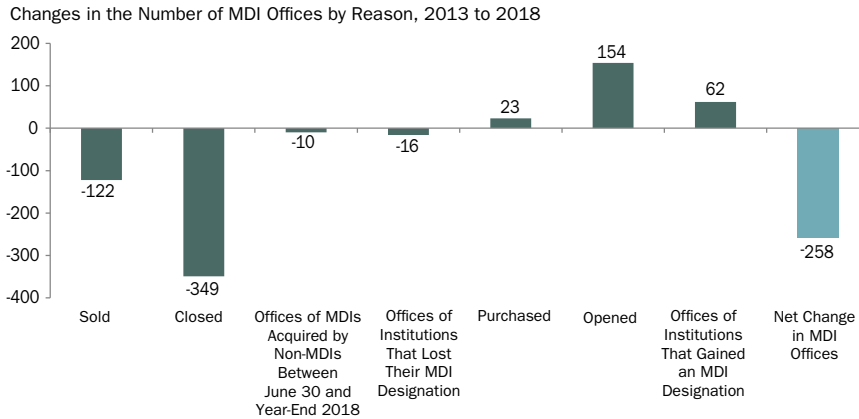
Source: FDIC Summary of Deposits as of June 30, 2018
 Note: Percentages may not total due to rounding.

Chart 3.2
Hispanic MDIs Tend to Have the Largest Branch Networks



Source: FDIC Summary of Deposits as of June 30, 2018

Chart 3.3
MDIs Sold or Closed Offices on Net Between 2013 and 2018



Source: FDIC Summary of Deposits (SOD) and Reports of Structure Changes (ROC)
 Note: Changes in offices measured between June 30, 2013 and June 30, 2018. Because historical SOD data are refreshed once annually to account for corrections or resubmissions of the prior year's survey, while ROC data are refreshed continuously for any historical period, discrepancies may arise between the two data sources over time.

Table 3.3
Office Reductions Vary Widely According to MDI Minority Status

Detailed Changes in the Number of Offices Between 2013 and 2018, by Type of MDI

MDI Type	Offices in 2013	Office Transactions				MDI Status Changes		Adj. for MDIs*	Net Change	% of Offices in 2013
		Opened	Closed	Purchased	Sold	Gained	Lost			
African American	152	7	-32	0	-2	1	-1	0	-27	-18%
Hispanic American	919	39	-184	19	-109	32	0	-9	-212	-23%
Asian American	658	105	-130	3	-11	23	-15	0	-25	-4%
Native American	63	3	-3	1	0	6	0	0	7	11%
Multi racial	1	0	0	0	0	0	0	-1	-1	-100%
Total	1,793	154	-349	23	-122	62	-16	-10	-258	-14%

Source: FDIC summary of Deposits (SOD) and Reports of Structure Changes (ROC). Offices in 2013 as of June 30.
 Note: Changes measured from June 30, 2013 to June 30, 2018. Because historical SOD data is refreshed once annually to account for corrections or resubmissions of the prior year's survey, while ROC data is refreshed continuously for any historical period, discrepancies may arise between the two data sources over time.
 *Adjustments for MDIs acquired since June 30, 2018.

Market Share

MDIs tend to hold a relatively small share of local banking market deposits due to the concentration of their headquarters and branch offices in metropolitan areas. Using the reported deposits held by individual banking offices from the FDIC Summary of Deposits (SOD) is a way to measure market share.¹⁹ Using this measurement, MDIs held just 1.5 percent of the metro office deposits of all FDIC-insured institutions

in 2018. However, four counties in metropolitan areas with populations greater than 250,000 had an MDI deposit-market share of at least 25 percent (see Table 3.4).²⁰ MDIs hold more than 10 percent of deposits in Los Angeles County and nearly 9 percent of deposits in Miami-Dade County, with combined populations of nearly 13 million and MDI deposits of more than \$60 billion.

Table 3.4
Top 10 Large Metro Counties by MDI Deposit Market Share

County	Metro	State	MDI Deposits (\$000)	MDI Market Share (Percent)
Webb	Laredo	TX	2,973,455	47.3%
Logan	Oklahoma City	OK	164,755	41.5%
Hidalgo	McAllen	TX	3,479,648	36.6%
Cameron	Brownsville	TX	1,130,145	26.8%
Los Angeles	Los Angeles	CA	48,899,198	11.8%
Gwinnett	Atlanta	GA	1,926,887	11.3%
Hoke	Fayetteville	NC	12,385	10.8%
Miami-Dade	Miami	FL	11,367,130	8.9%
Canadian	Oklahoma City	OK	156,916	8.5%
Caldwell	Austin	TX	25,813	7.0%
Total Metro			174,697,669	1.5%

Source: FDIC

Note: Calculations based on data from the Summary of Deposits and the Census Bureau.

Includes counties of the 50 states and DC with more than 40,000 people in metropolitan areas with total population greater than 250,000. Total Metro includes all counties in metropolitan areas.

Micropolitan areas and rural counties are home to relatively few MDIs, and they hold less than 1 percent of local deposits in these markets. However, MDIs hold a much larger deposit market share in some nonmetro areas. Excluding U.S. territories, MDIs held a deposit market share of more than 9 percent in 33

micropolitan areas and rural counties in 2018. Many of these counties, such as those in Oklahoma, North Dakota, and Montana, are served by Native American institutions. The top 10 nonmetro counties by MDI deposit market share are shown in Table 3.5, page 31.

¹⁹Data on total banking offices are collected through the FDIC's Summary of Deposits (SOD), which provides a detailed record of each individual banking office, its location, and total deposits, starting in 1987. The SOD covers all FDIC-insured institutions, including insured U.S. branches of foreign banks. Banking offices are defined to include any location or facility of a financial institution, including its main office, where deposit accounts are opened, deposits are accepted, checks paid, and loans are granted, and do not include loan production offices, computer centers, and other nondeposit installations, such as automated teller machines (ATMs).

²⁰These market shares exclude metropolitan counties in Puerto Rico, where MDIs control 100 percent of local deposits in 67 counties.

Table 3.5

Top 10 Nonmetro Counties by MDI Deposit Market Share

County	Area	State	MDI Deposits (\$000)	MDI Market Share (Percent)
Zapata	Micropolitan	TX	203,163	100.0%
Maverick	Micropolitan	TX	617,990	81.2%
Starr	Micropolitan	TX	341,459	73.5%
Pushmataha	Rural	OK	104,719	61.4%
Adair	Rural	OK	88,645	52.9%
Taos	Micropolitan	NM	223,379	43.9%
Duval	Rural	TX	44,170	39.7%
Atoka	Rural	OK	74,277	29.5%
Coal	Rural	OK	32,400	28.2%
Jim Hogg	Rural	TX	30,603	27.9%
Total Nonmetro			8,336,991	1.0%

Source: FDIC

Note: Calculations based on data from the Summary of Deposits and the Census Bureau.

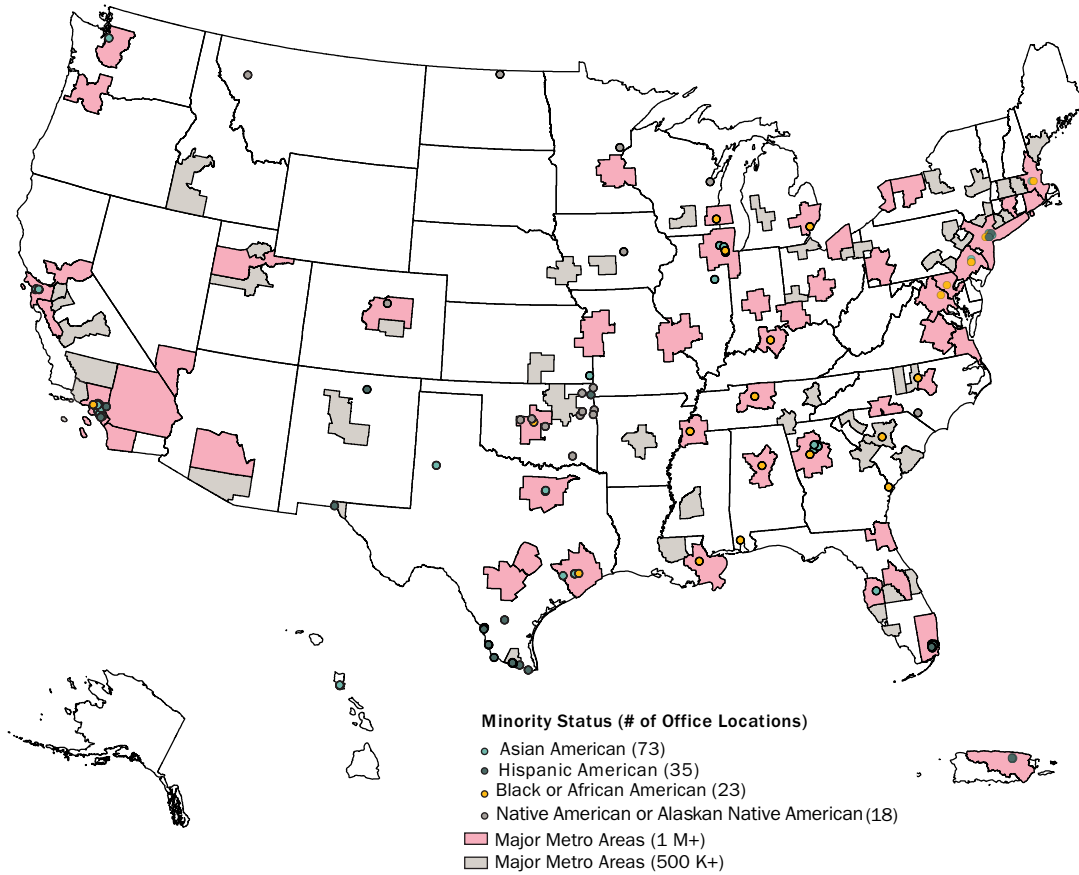
Note: The list of top 10 nonmetro counties excludes counties in U.S. territories. The total MDI market share for nonmetro counties includes counties in U.S. territories.

FDIC-Insured Non-MDI Community Bank Markets Differ From MDI Markets

The geographic footprint of non-MDI community banks differs substantially from that of most MDIs. Whereas MDIs are overwhelmingly located in the most populous states and metropolitan areas in the country, non-MDI community banks are dispersed

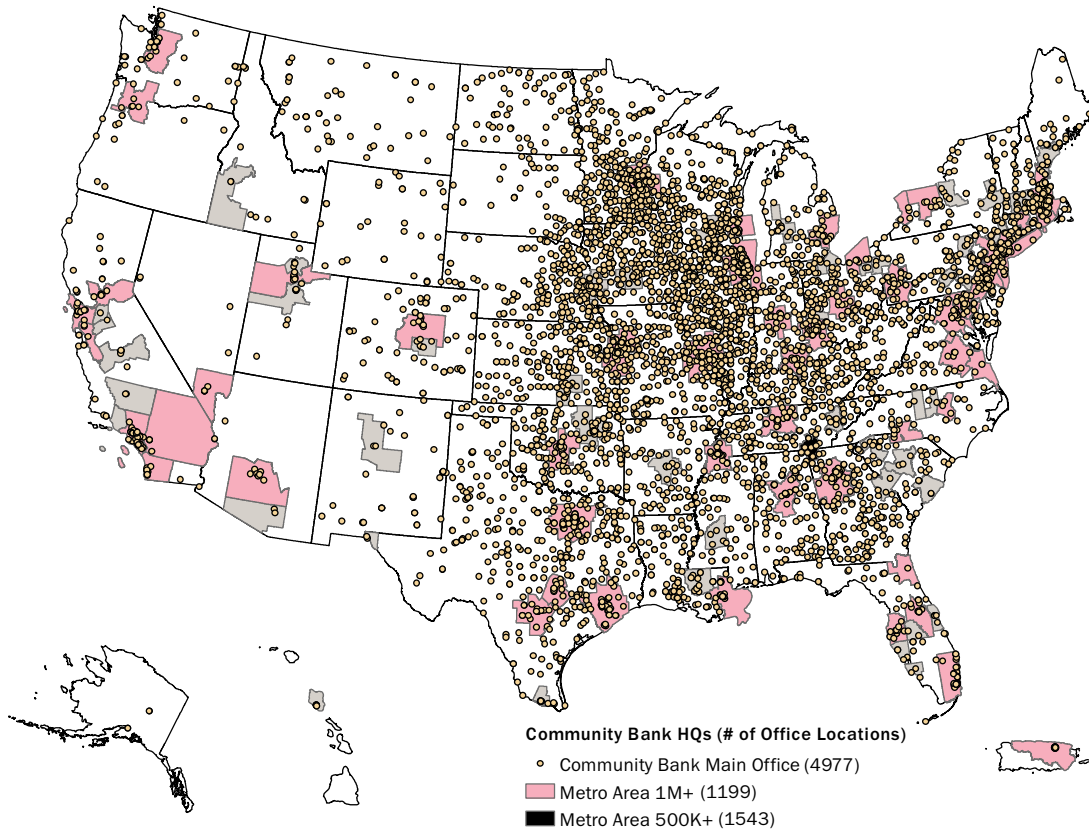
throughout the country, including urban and rural counties, and micropolitan areas. In 2018, half of non-MDI community banks were headquartered in nonmetropolitan areas, compared with only 15 percent of MDIs (see Maps 3.3 and 3.4, page 32–33).

Map 3.3:
MDI Headquarters Are Concentrated in Metropolitan Areas
 MDI Main Office Locations



Source: FDIC Summary of Deposits as of June 30, 2018

Map 3.4:
**Community Bank Headquarters Are Dispersed Across Metropolitan
and Non Metropolitan Areas**
Community Bank Main Office Locations



Source: FDIC Summary of Deposits as of June 30, 2018

Section 4: Financial Performance of MDIs

Overview

MDI institutions tend to outperform non-MDI community banks in revenue generation, including net interest income and noninterest income.

Generally higher loan-to-asset ratios and higher yields on earning assets at MDIs relative to non-MDI community banks more than offset the higher interest expenses at MDIs, leading to better net interest income performance. In recent years, the noninterest income of MDIs has outpaced that of non-MDI community banks owing to greater servicing fees on securitized loans and gains on loan sales.

Despite comparatively better revenue generation, MDIs have much higher noninterest expenses, especially among smaller MDIs, which tend to be predominantly African American and Native American MDIs. As a result, MDIs have long underperformed other community and noncommunity banks when measured by efficiency ratios. However, that disadvantage has narrowed in recent years.

Finally, credit quality and earnings at MDIs were especially hard-hit during the last recession and housing crisis. MDIs tend to have greater exposures to CRE lending than non-MDI financial institutions, and CRE was the hardest hit among major lending categories. However, credit quality has continued to improve in the past five years, and MDI noncurrent loans and net charge-offs are now at new lows.

Financial Performance of MDIs

As described in earlier sections, the MDI segment remains small. Only 149 out of 5,406 FDIC-insured institutions were designated as MDIs at year-end 2018. Over the past five years, the number of MDI charters has continued to decline, reflecting trends in the overall banking industry. The size and volatility

of the MDI segment makes long-term analysis of MDI performance difficult. Still, it is instructive to compare the financial performance of MDIs with similar financial institutions.

MDI financial performance has significantly improved over the past five years, particularly in terms of loan performance. While MDIs tend to outperform non-MDI community banks in revenue generation, MDIs, particularly small MDIs, have much higher expenses.

The divergence between MDI and non-MDI financial performance may be attributed to several factors, including differences in institutional age and geography. MDIs are on average younger and more often headquartered in urban areas than non-MDI financial institutions. The 2012 *FDIC Community Banking Study* showed that young institutions typically underperform relative to mature community banks. However, at year-end 2018, the MDI segment had no institutions that opened since 2013 and no young institutions (operating for seven years or less).²¹ In addition, the geographic concentration of MDI headquarters in metropolitan areas exposed the MDI segment to more extreme financial stress during the recession than non-MDI community banks located outside of metropolitan areas.

Loan Concentration and Geography

As discussed in Section 3, significant differences exist in the geography of MDI and non-MDI banks. These different geographic concentrations translate into significant differences in loan concentrations, particularly for agricultural loans. Table 4.1 breaks down MDIs, non-MDI noncommunity banks, and non-MDI community banks by headquarters location and farm bank status as of fourth quarter 2018.²²

²¹Eight banks designated as MDI banks in 2018 were in operation in 2013 but were not designated as MDI banks at that time.

²²The FDIC defines farm banks as insured institutions that have 25 percent or more of their total loans concentrated in agricultural lending.

Eighty-five percent of MDIs and 87 percent of non-MDI noncommunity banks are headquartered in metropolitan areas, compared with just 50 percent of non-MDI community banks. Table 4.1 shows that predominantly urban MDI and non-MDI noncommunity bank segments are far less invested in agriculture than non-MDI community banks. While less than 3 percent of MDIs and non-MDI noncommunity banks are considered farm banks, more than one-quarter of non-MDI community banks are farm banks.

Section 4 disaggregates community nonfarm banks headquartered in metropolitan areas (metro nonfarm) from other community banks to compare the financial performance of MDIs with the financial institutions they most closely resemble.

Table 4.1

Number and Share of Insured Institutions by Geographic Designation and Farm Bank Designation

Description of Bank Headquarters Location		MDI Banks		Non-MDI Noncommunity Banks		Non-MDI Community Banks	
		Metro	Nonmetro	Metro	Nonmetro	Metro	Nonmetro
Farm Bank Designation	Nonfarm Bank	123	21	351	48	2,109	1,408
	Farm Bank	3	2	5	3	294	1,039
	Nonfarm Bank	83%	14%	86%	12%	43%	29%
	Farm Bank	2%	1%	1%	1%	6%	21%
	Total	85%	15%	87%	13%	50%	50%

Source: FDIC fourth-quarter 2018 data

Note: Metro-nonmetro designation is based on whether the county in which the bank's headquarters is located exists within a metropolitan statistical area (MSA). The FDIC defines farm bank as an insured institution that has 25 percent or more of total loans concentrated in agricultural loans. Sum totals do not total due to rounding.

WHY DISAGGREGATE COMMUNITY BANKS FOR COMPARISONS OF FINANCIAL PERFORMANCE?

Earlier sections of this report showed that MDI balance sheets resemble those of most community banks. However, certain subgroups of community banks do not resemble MDIs and are therefore not suitable for comparative analysis.

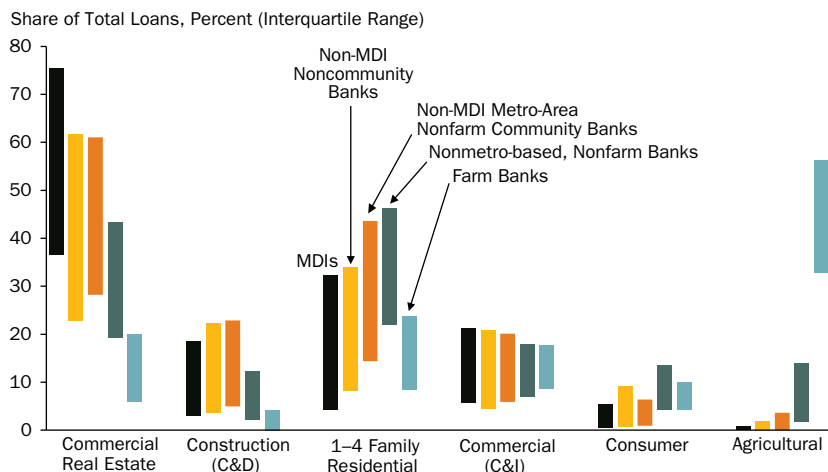
Chart 4.1 on pages 38–39 shows that both MDIs and community nonfarm banks headquartered in metropolitan areas (metro nonfarm) held assets that were heavily concentrated in CRE and C&D lending in 2007, at the cusp of the housing and financial crisis. The heavy concentration of both MDI and metro nonfarm community bank assets in CRE suggests that the performance of these bank groups was driven largely by commercial real estate market fundamentals.

Conversely, in 2007, agriculture was in the midst of its most prosperous period in more than half a century. As a result, institutions invested in agriculture, especially community farm banks, were much more insulated from the credit problems caused by the housing crisis. Delinquencies, loan charge-offs, and loan loss provision expenses among community farm banks increased little, in stark contrast to CRE-focused, metro-based community banks and MDIs. For this reason, community farm bank profitability suffered much less.

Given the strong divergence in financial performance between agriculture-focused community banks and MDIs, Section 4 limits financial comparison to only those community banks that most resemble MDIs: metro nonfarm community banks.

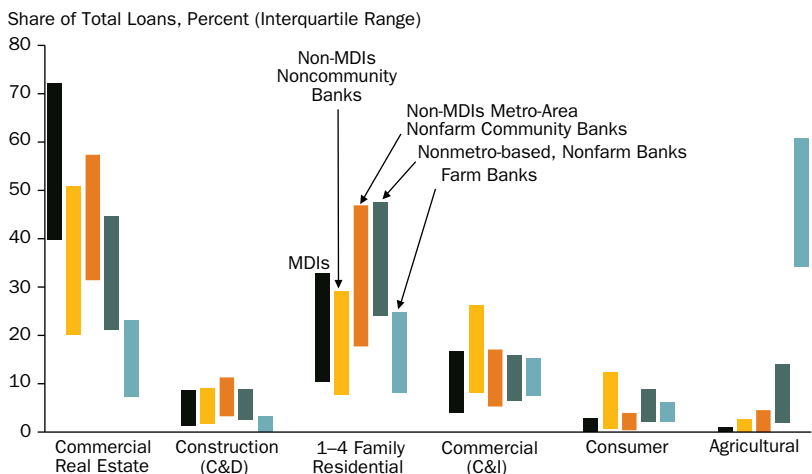
Chart 4.1
Institutions with High CRE Concentrations Fared Much Worse During the Last Recession Than Other Institutions

Chart 4.1-a: Loan Mix by Bank Designation - 2007



Source: FDIC, fourth quarter 2007 data
 Note: The interquartile range shows the range of loan mix for the middle 50 percent of banks in each bank group (25th–75th). Construction (C&D) is a subset of commercial real estate (CRE).

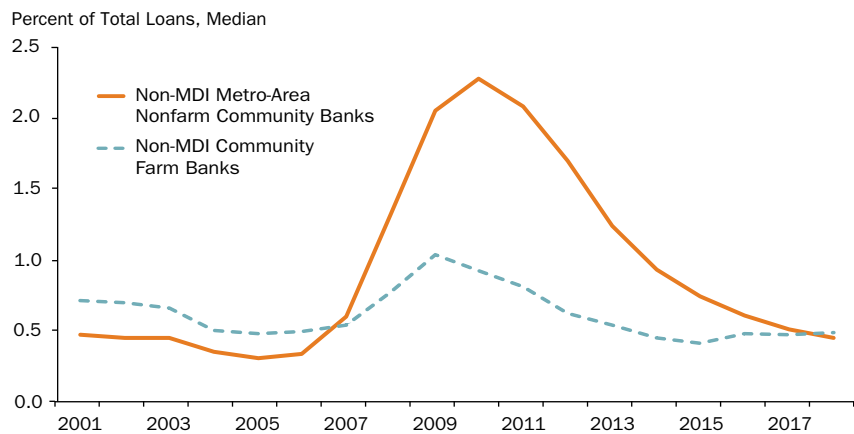
Chart 4.1-b: Loan Mix by Bank Designation - 2018



Source: FDIC, fourth quarter 2018 data
 Note: The interquartile range shows the range of loan mix for the middle 50 percent of banks in each bank group (25th–75th). Construction (C&D) is a subset of commercial real estate (CRE).

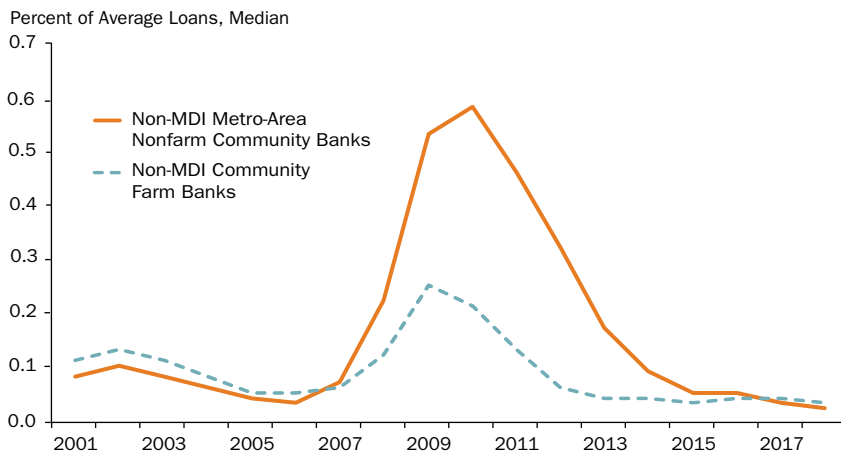
Chart 4.1 (continued)
Institutions with High CRE Concentrations Fared Much Worse During the Last Recession Than Other Institutions

Chart 4.1- c: Noncurrent Loans



Source: FDIC

Chart 4.1- d: Net Loan Charge-Offs



Source: FDIC

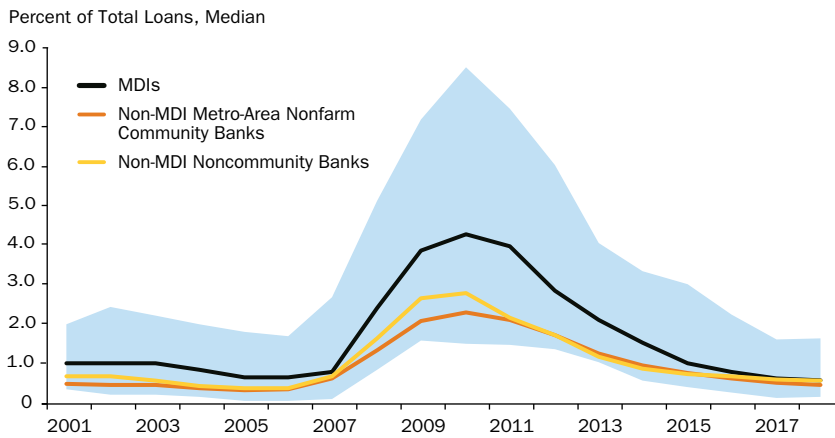
Profitability and Credit Quality

The 2008 to 2009 recession followed a collapse in home prices that quickly halted new housing development construction. As the construction halted, newly developed strip shopping centers built to accommodate these new housing developments saw significant vacancies. As

a result, the credit quality of insured institutions with heavy loan exposure in these largely urban markets was adversely affected, including MDIs, noncommunity banks, and metro nonfarm community banks (see Chart 4.2 below). MDIs saw higher delinquencies and charge-offs than non-MDI metro nonfarm community banks.

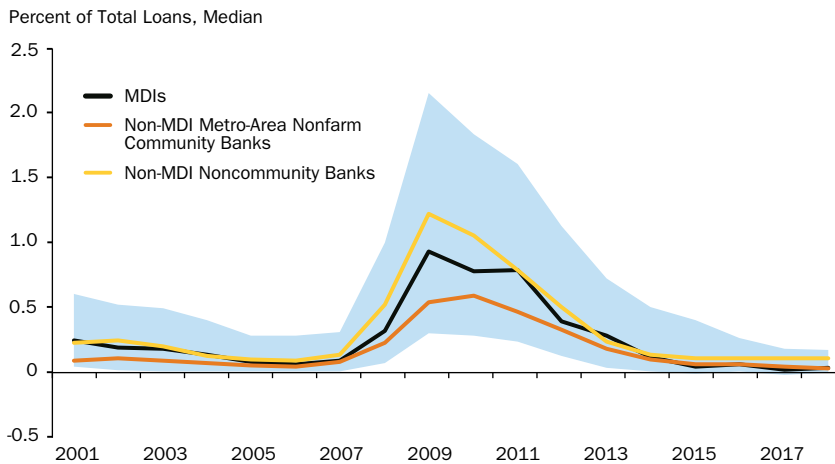
Chart 4.2
Credit Quality Indicators

Chart 4.2-a: Noncurrent Loans



Source: FDIC
Note: Light-blue shading represents the 25th percentile to 75th percentile range for MDIs.

Chart 4.2-b: Net Loan Charge-Offs



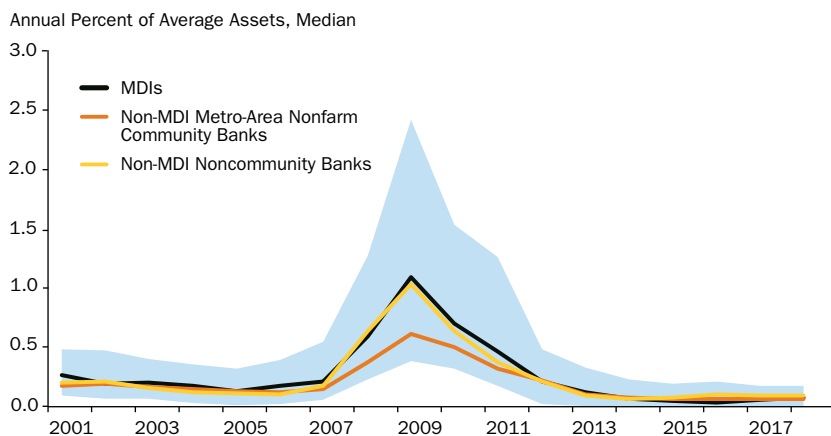
Source: FDIC
Note: Light-blue shading represents the 25th percentile to 75th percentile range for MDIs.

As a result, MDIs required substantially more loan loss provision expenses to maintain sufficient reserves than non-MDI metro nonfarm community banks, pushing pretax return on assets (pretax ROA) for MDIs into negative territory (see Charts 4.3–a and b below).²³ In 2009, more than half of MDIs were unprofitable, and the bottom quarter of MDIs had pretax ROA ratios worse than negative 2.5 percent.

Since the recession, credit quality has improved greatly across the banking industry. At year-end 2018, the median noncurrent loan ratio for MDIs fell to a study-period low of 0.56 percent, as did the net charge-off rate (0.02 percent). As a result, loan performance has increased sharply, providing the most significant boost to post-recession MDI earnings.

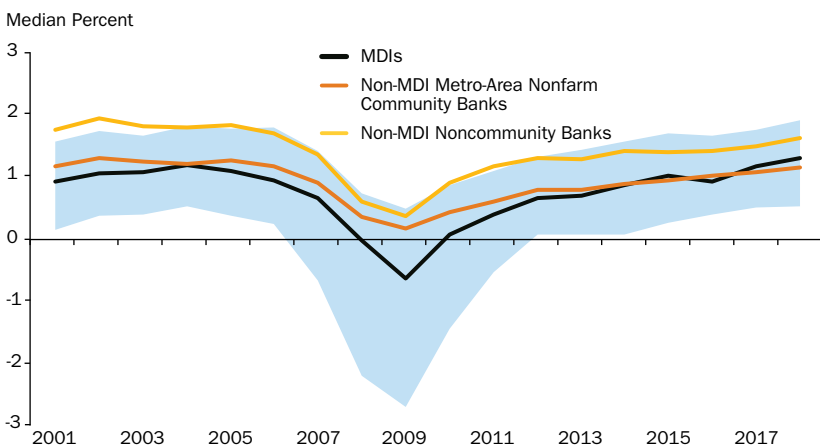
Chart 4.3
Total Revenue, Loan Loss Provisions, and Net Income

Chart 4.3–a: Loan Loss Provision Expense



Source: FDIC
Note: Light-blue shading represents the 25th percentile to 75th percentile range for MDIs.

Chart 4.3–b: Pretax Return of Assets

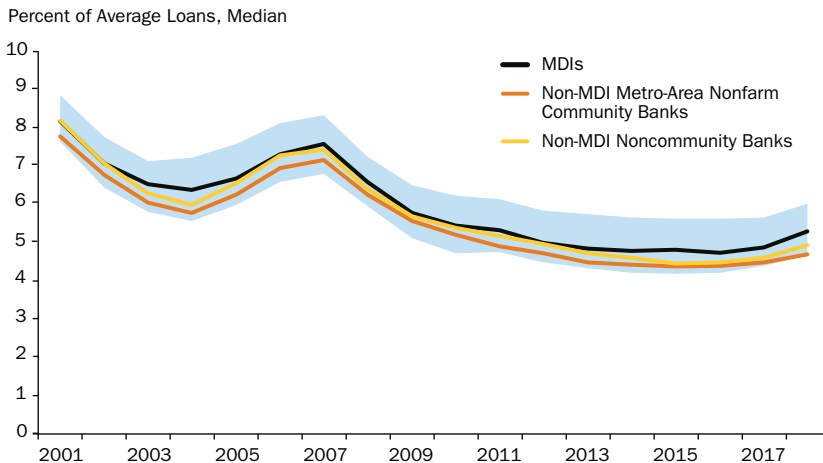


Source: FDIC
Note: Light-blue shading represents the 25th percentile to 75th percentile range for MDIs.

²³Pretax return on assets is one of the most widely-used measures of financial institution earnings performance. The measure shows pretax net income as a percent of average assets and includes extraordinary items and other adjustments, net of taxes.

Chart 4.3 (continued)
Total Revenue, Loan Loss Provisions, and Net Income

Chart 4.3–c: Total Revenue



Source: FDIC

Note: Light-blue shading represents the 25th percentile to 75th percentile range for MDIs.

Moreover, revenue (net interest income plus noninterest income) has rebounded slightly in recent years, also boosting median pretax ROA (see Chart 4.3–c above). Revenue performance was generally stronger at MDIs than it was at non-MDI noncommunity banks and non-MDI metro nonfarm community banks throughout the study period, particularly during the last four years.

MDIs posted year-over-year increases in median pretax ROA in eight of the past nine years. After lagging non-MDI metro nonfarm community banks in measures of pretax ROA during the first 14 years of the study period, MDIs outpaced that group three of the past four years. In addition, although MDI pretax ROA has consistently lagged non-MDI noncommunity bank pretax ROA, the spread has narrowed since 2013 to a study-period low.

Revenue

MDIs consistently generate greater net interest income than their non-MDI counterparts (see Chart 4.4–a, page 43).²⁴ Before the recession, the higher net interest income of MDIs was due to a combination of generally higher interest income and generally lower interest expense than other bank groups. Since 2013, MDI interest income has rebounded more quickly than at most non-MDI financial institutions (see Chart 4.4–b, page 43). While MDI interest expenses have also risen more quickly than those of other financial institutions, the difference has not been as significant as that reported in interest income (see Chart 4.4–c, page 44). Since 2008, higher loan-to-asset ratios have also boosted interest income at MDIs relative to the other bank groups (see Chart 4.4–d, page 44).²⁵ Because of these combined factors, MDIs exhibit a widening advantage in net interest income.

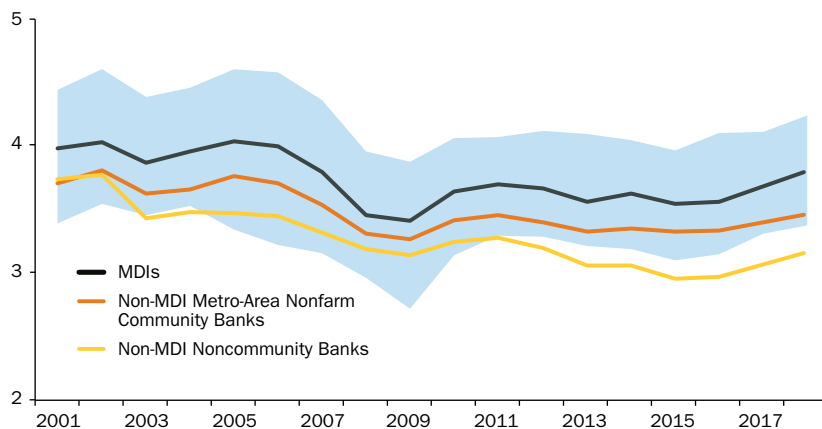
²⁴Net interest income is calculated as interest income less interest expense.

²⁵MDIs may price their loans higher to mitigate risk; however, loan pricing information is not reported by banks on Call Reports, and granularity of reported loan income is insufficient to infer pricing differences between the groups based on differences in loan yields.

Chart 4.4
Interest Income, Interest Expense, and Loans-to-Assets Ratios

Chart 4.4– a: Net Interest Income

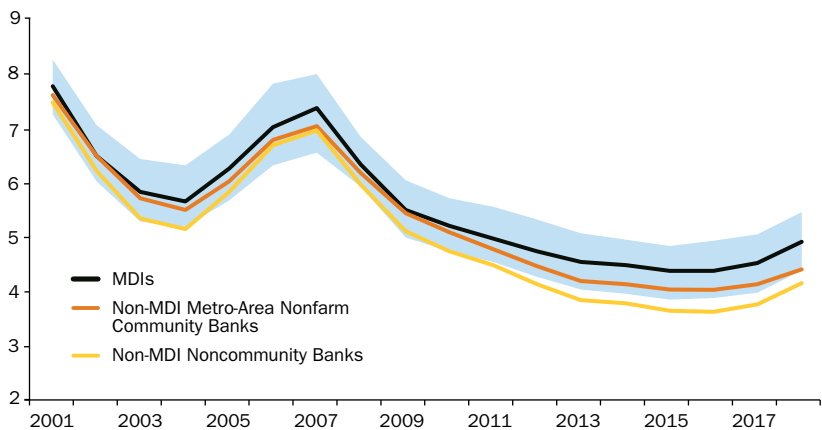
Annual Percent of Average Assets, Median



Source: FDIC
 Note: Light-blue shading represents the 25th percentile to 75th percentile range for MDIs.

Chart 4.4– b: Interest Income

Annual Percent of Average Earning Assets, Median

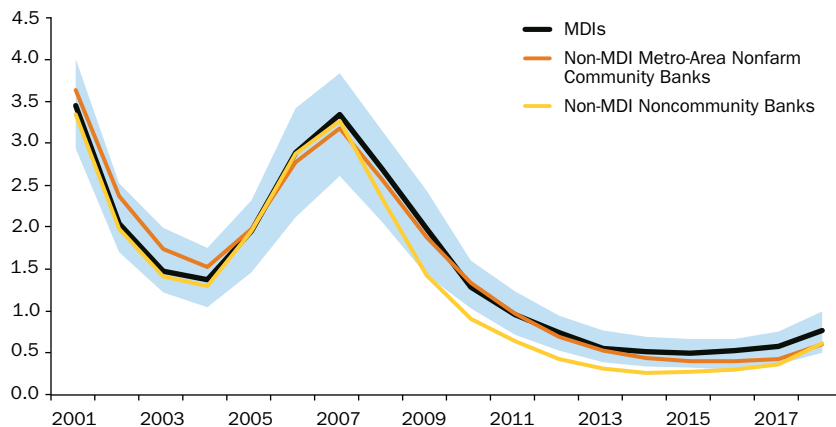


Source: FDIC
 Note: Light-blue shading represents the 25th percentile to 75th percentile range for MDIs.

Chart 4.4 (continued)
Interest Income, Interest Expense, and Loans-to-Assets Ratios

Chart 4.4- c: Interest Expense

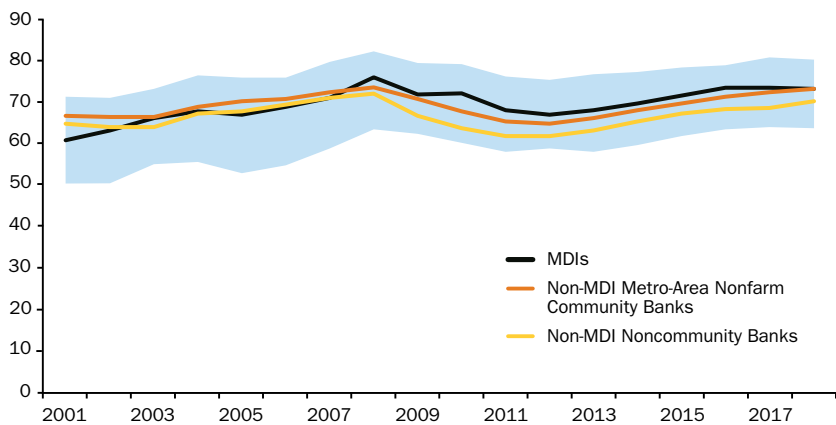
Annual Percent of Average Earning Assets, Median



Source: FDIC
Note: Light-blue shading represents the 25th percentile to 75th percentile range for MDIs.

Chart 4.4- d: Loans to Assets Ratio

Median Percent



Source: FDIC
Note: Light-blue shading represents the 25th percentile to 75th percentile range for MDIs.

Despite steady improvement over the past several years, MDI interest income as a share of average assets still lags its pre-recession levels, largely because of the low-interest rate environment.

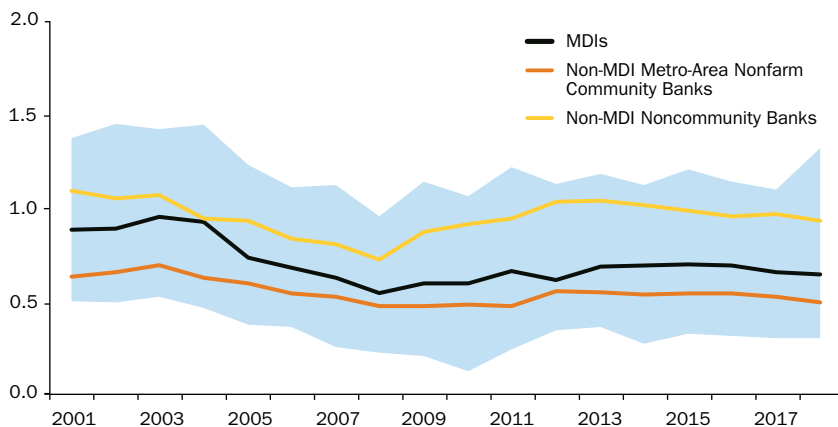
MDIs lag non-MDI noncommunity banks considerably in terms of noninterest income, but they have generally outpaced non-MDI metro nonfarm community banks (see Chart 4.5–a below). In 2001, MDIs had greater income related to service charges on deposits than non-MDI metro nonfarm banks, but

that advantage had dissipated by 2006. MDIs also reported greater other noninterest income, which includes income from sources including ATM fees, check printing fees, and safe deposit box fees (see Chart 4.5–b, page 46).²⁶ That advantage disappeared during the recession and never rematerialized. However, since 2009, MDIs have benefitted from higher loan servicing fee growth and net gains on loan sales, pushing overall performance of the MDIs above that of the non-MDI metro nonfarm banks (see Charts 4.5–c and d, page 46–47).

Chart 4.5
Noninterest Income Details

Chart 4.5–a: Noninterest Income

Annual Percent of Average Assets, Median



Source: FDIC

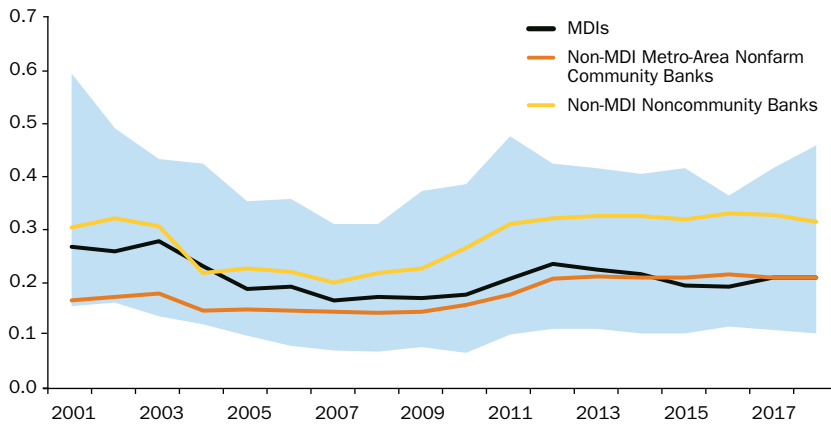
Note: Light-blue shading represents the 25th percentile to 75th percentile range for MDIs.

²⁶In most time periods, for all bank groups, median net loan servicing fee income and net gains on loan sales are zero, indicating that, in general, only a minority of institutions report this activity. However, income has grown for those institutions that do report these income items, as shown in Chart 4.5–c and d, pages 46–47.

Chart 4.5 (continued)
Noninterest Income Details

Chart 4.5-b: Other Noninterest Income

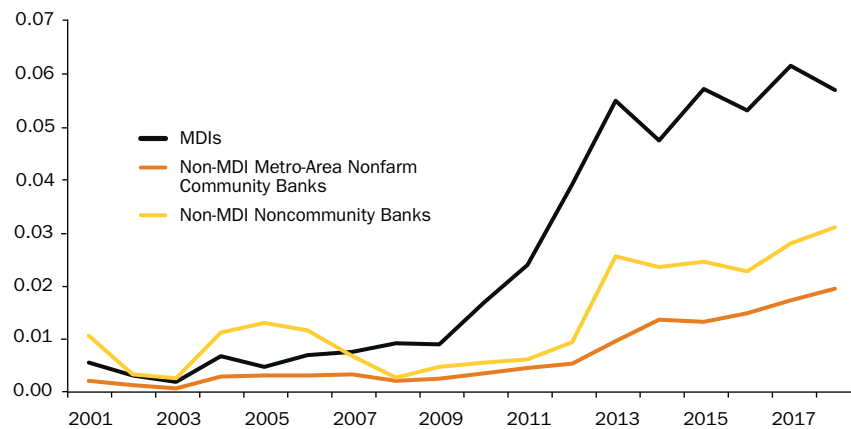
Annual Percent of Average Assets, Median



Source: FDIC
 Note: Light-blue shading represents the 25th percentile to 75th percentile range for MDIs.

Chart 4.5-c: Net Servicing Fees

Annual Percent of Average Assets, 75th Percentile

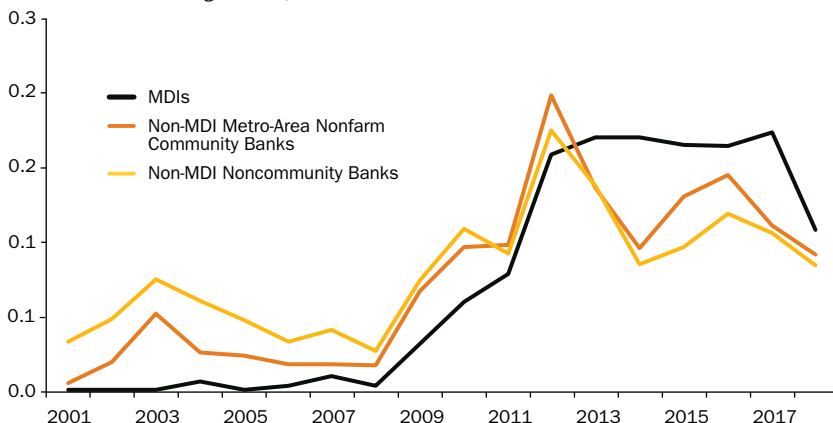


Source: FDIC

Chart 4.5 (continued)
Noninterest Income Details

Chart 4.5-d: Net Gains on Sales of Loans and Leases

Annual Percent of Average Assets, 75th Percentile



Source: FDIC

The consistent advantage in noninterest income generation by non-MDI noncommunity banks over MDIs and non-MDI metro nonfarm community banks is attributable, at least in part, to greater other noninterest income.

Overhead Costs

Since 2013, the overhead expense ratios for MDIs — salaries, premises and fixed assets, and other noninterest expenses, such as technology costs as a percentage of average assets — have improved overall (see Chart 4.6, page 48). Between 2013 and 2018, the median MDI noninterest expense ratio declined 29 basis points, the upper-

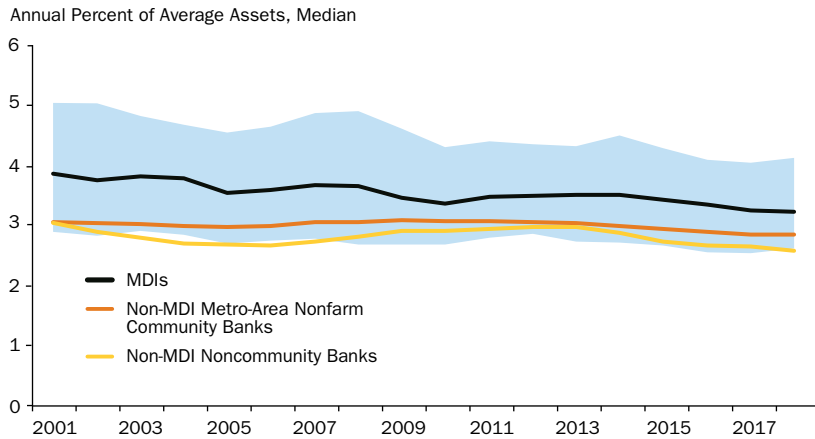
bound of the interquartile range declined 19 points, and the lower-bound of the interquartile range declined 11 basis points. Some of this improvement reflects the exit and entry of banks into the MDI group during the period, but improvements were seen in the median and upper- and lower-bounds even when considering only those MDI banks present throughout the entire five-year span.²⁷

Despite these improvements, MDI overhead expenses are still well above those of other institutions. Four of every 10 non-MDI banks have lower overhead expense ratios than the best 25 percent of MDIs.

²⁷There were 174 MDI institutions at year-end 2013 and 149 at year-end 2018. The exit of 33 institutions present in 2013 and the post-2013 entrance of eight institutions account for the change in number of MDIs. Of the 33 institutions that exited, 12 had noninterest expense ratios among the highest quartile in 2013 compared with six among the lowest quartile. Of the eight institutions added since 2013, three had noninterest expense ratios among the highest quartile in 2018 compared to one among the lowest quartile.

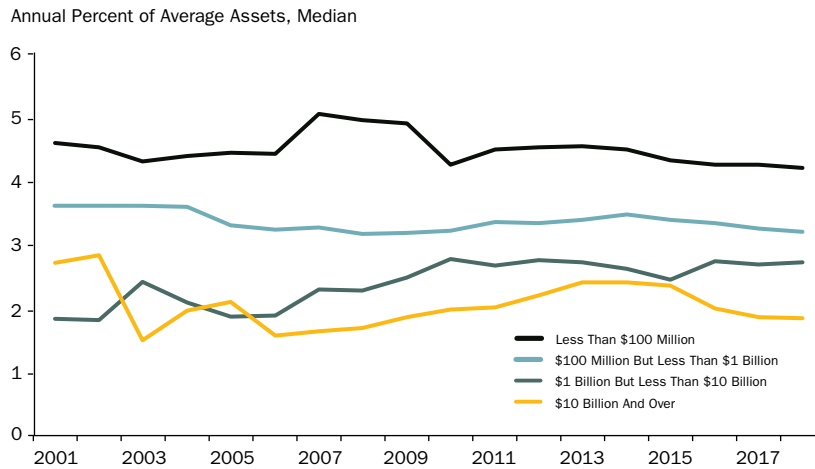
Chart 4.6
Noninterest Expense by Peer Group, MDI Size Group, and MDI Ethnicity Group

Chart 4.6-a: Noninterest Expense



Source: FDIC
 Note: Light-blue shading represents the 25th percentile to 75th percentile range for MDIs.

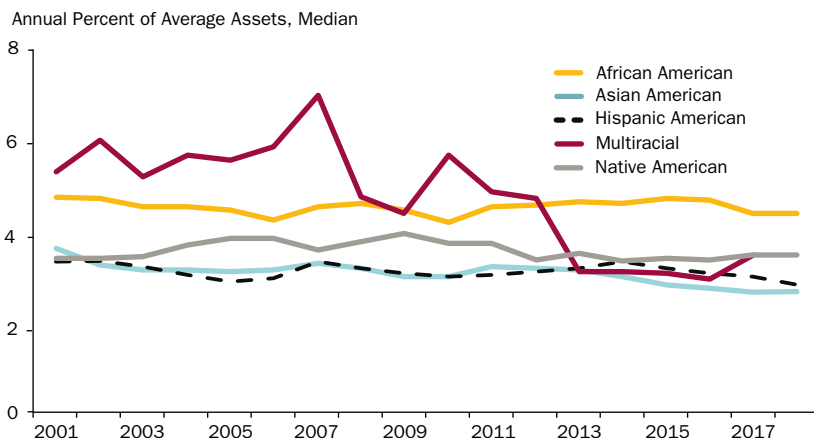
Chart 4.6-b: Noninterest Expense By MDI Size Group



Source: FDIC
 Note: The number of banks in the \$10 billion-plus size group ranges between 1 and 7 banks. The number of banks in the \$1-\$10 billion size group ranges between 9 and 26 banks.

Chart 4.6 (continued)
Noninterest Expense by Peer Group, MDI Size Group, and MDI Ethnicity Group

Chart 4.6–c: Noninterest Expense



Source: FDIC

Smaller MDIs report especially high overhead costs relative to asset size (see Chart 4.6–b, page 48). Across the study period, the median noninterest expense ratio for MDIs under \$100 million ranged from 4.2 percent to 5.1 percent, compared with 1.8 percent to 2.8 percent for MDIs with assets of \$1 billion or more. Moving from the largest asset-size group to the smallest asset-size group, the three primary overhead costs — personnel, premises, and other noninterest expenses — all increased. Differences are most pronounced in personnel costs and premises expenses.

African American MDIs and Native American MDIs tend to be much smaller than Asian American and Hispanic American MDIs, and this size difference likely explains why African American MDIs and Native American MDIs have higher costs relative to average assets than the other groups (see Chart 4.6–c above). At year-end 2018, African American MDIs averaged \$228 million in size and Native American MDIs averaged \$166 million in size — far smaller than the \$1.7 billion for Asian American MDIs and the \$3.0 billion for Hispanic American MDIs.

African American MDI personnel costs are fairly similar to those of Native American MDIs, but African American MDIs have much higher costs for premises and other noninterest expense costs. A likely explanation for this difference is the concentration of African American MDIs in higher-cost metropolitan areas relative to Native American MDIs concentrated in lower-cost rural areas.

Efficiency Ratios

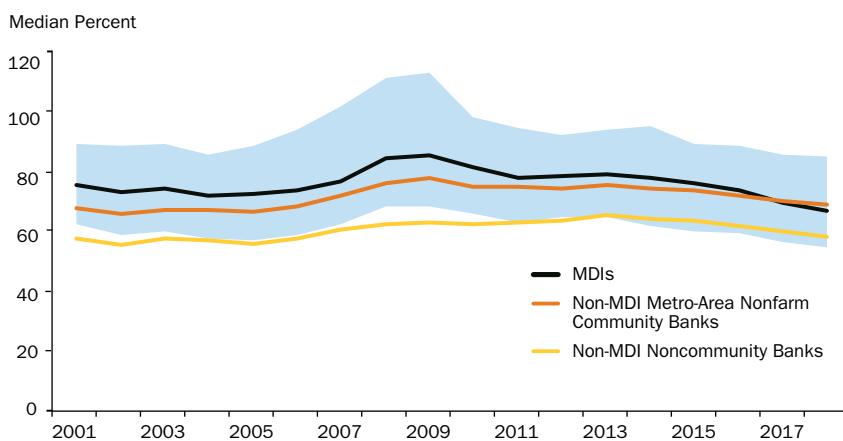
The efficiency ratio measures the ability of banks to generate revenue in relation to the expenses they incur in doing so. The efficiency ratio is the ratio of noninterest expense to net operating revenue, where a higher efficiency ratio indicates an institution that is less efficient at generating revenue per dollar of noninterest expense.²⁸ The *FDIC Community Banking Study* identified the emergence of a sizable “efficiency gap” between community and noncommunity banks beginning in the late 1990s that has narrowed only slightly since then.

²⁸Formally, the efficiency ratio is expressed as Efficiency ratio = Noninterest Expense / (Net Interest income + Noninterest Income).

MDIs have long reported higher efficiency ratios than their non-MDI counterparts (see Chart 4.7 below). The significant variation in overhead expenses of MDIs based on their size is also clearly seen in variations in efficiency ratios among MDIs (see Chart 4.8 below). Smaller MDIs tend to have much higher (worse) efficiency ratios, and larger MDIs tend to have much lower (better) efficiency ratios.

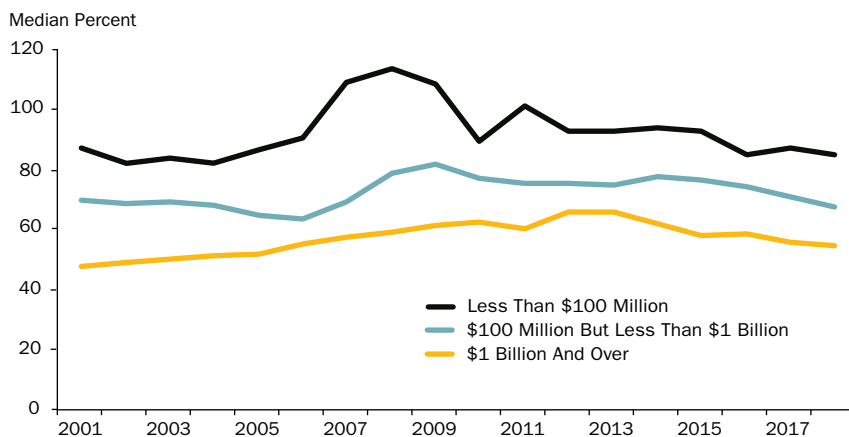
However, in the past five years, MDIs have closed the gap relative to non-MDI community banks. This improvement may be attributed to a combination of better revenue performance (greater interest and noninterest income) and greater reductions of noninterest expenses relative to reductions by non-MDI financial institutions.

Chart 4.7
Efficiency Ratio



Source: FDIC
Note: Light-blue shading represents the 25th percentile to 75th percentile range for MDIs.

Chart 4.8
Efficiency Ratio By MDI Size Group



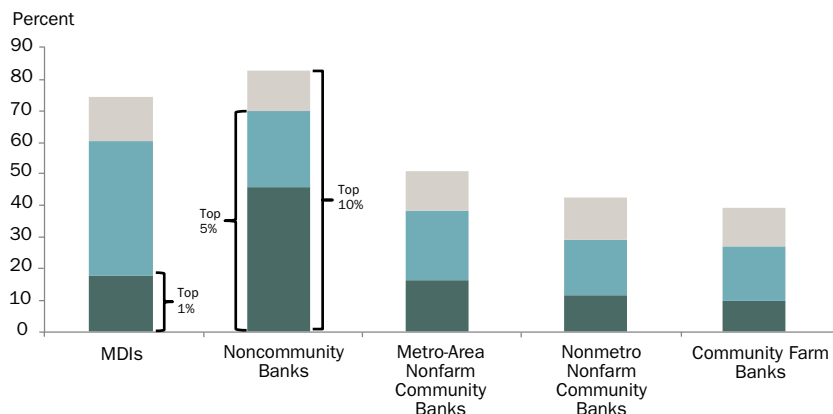
Source: FDIC

The assets of MDI and non-MDI noncommunity financial institutions are dominated by a small number of institutions. Because large institutions can skew measures of aggregate financial performance, this study examines median as opposed to weighted

average financial performance measures, as used in the original 2014 MDI study. The chart below shows the effects of large banks on the performance metrics of MDIs by contrasting weighted averages and medians.

Chart 4.9
Medians Versus Weighted Averages in Measures of Financial Performance

Chart 4.9-a: Cumulative Share of Bank Groups' Aggregate Assets



Source: FDIC, fourth quarter 2018 data

Chart 4.9-b: Pretax Return on Assets

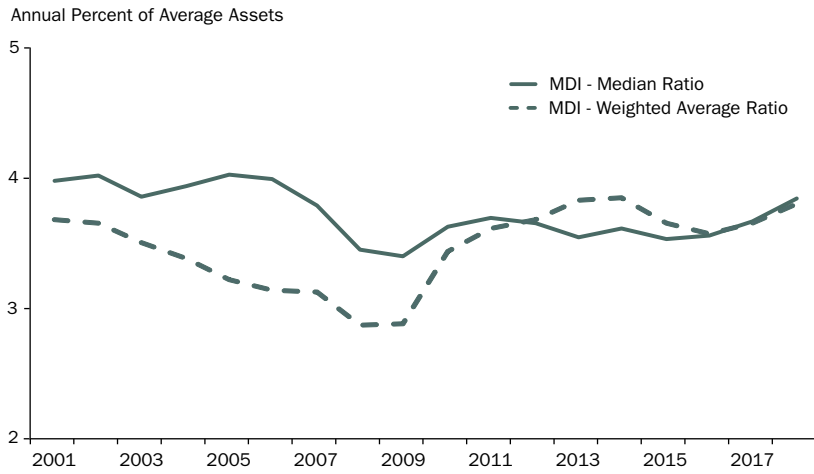


Source: FDIC

Chart 4.9 (continued)

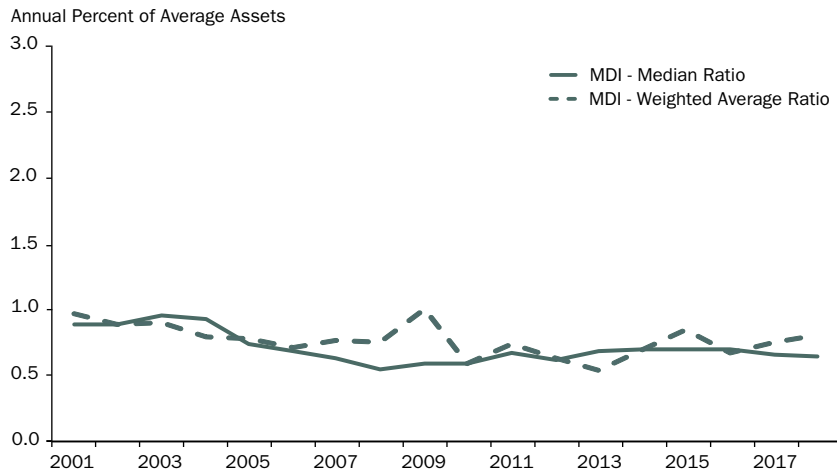
Medians Versus Weighted Averages in Measures of Financial Performance

Chart 4.9-c: Net Interest Income



Source: FDIC

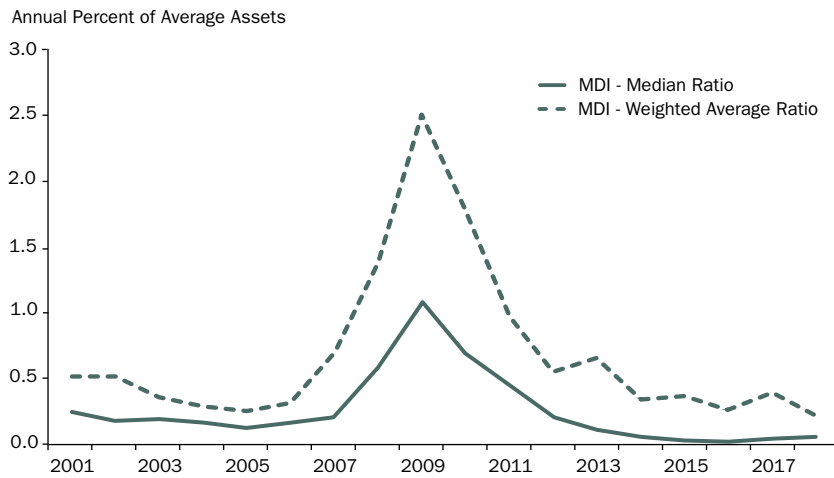
Chart 4.9-d: NonInterest Income



Source: FDIC

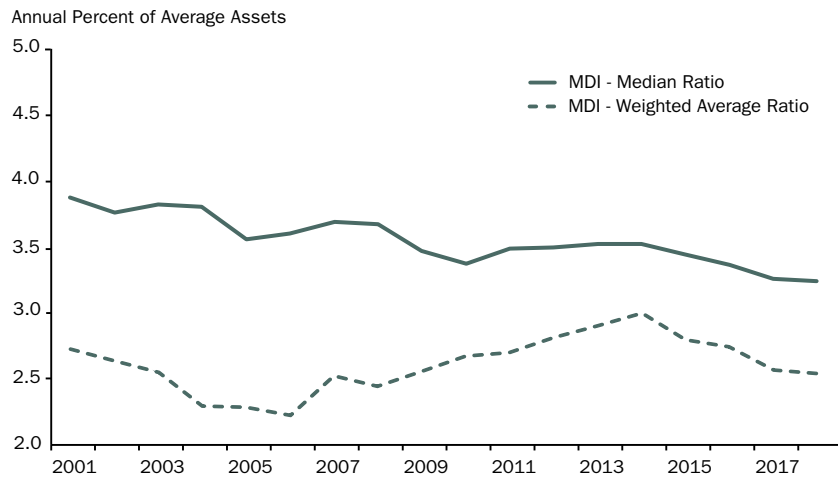
Chart 4.9 (continued)
Medians Versus Weighted Averages in Measures of Financial Performance

Chart 4.9–e: Loan Loss Provision Expense



Source: FDIC

Chart 4.9–f: Noninterest Expense



Source: FDIC

Section 5: Social Impact of MDIs

Overview

MDIs tend to serve communities in which a higher share of the population lives in LMI census tracts and a higher share of residents are minorities, compared with non-MDI metro nonfarm community banks. In addition, a comparison of mortgage lending based on analysis of Home Mortgage Disclosure Act data showed that MDIs originated a greater share of their mortgages for properties in LMI census tracts and to minority borrowers when compared with non-MDI metro nonfarm community banks. Compared with non-MDIs, MDIs also originate a greater share of SBA 7(a) loans to borrowers in LMI census tracts and to borrowers in census tracts with higher shares of minority residents. Based on these comparisons, MDIs appear to be effective in serving LMI communities and minority households and communities with high concentrations of minority populations.

Social Impact of Minority Depository Institutions

MDIs have played an important role in providing mortgage credit, small business lending, and other banking services to minority and LMI communities.

MDI headquarters and branches are concentrated in metropolitan areas. Similarities exist among the local demographics of MDI office locations, the lending activities they undertake, and the communities they seek to serve. This section compares the demographic characteristics of estimated service areas of MDI institutions with those of non-MDI metro nonfarm community banks, and explores lending by these groups of institutions in the context of those demographic characteristics.²⁹

We evaluate the social impact of MDIs using a unique estimate of each institution's geographic service area (see page 59). The results show that compared with other financial institutions, MDIs tend to serve communities in which a higher share of the population lives in LMI census tracts and in which higher shares of residents are minorities. MDIs also originate a greater share of their mortgages to borrowers who live in LMI census tracts and to minority borrowers, compared with non-MDI community or noncommunity institutions.³⁰ Compared with non-MDIs, MDIs also originate a greater share of small business loans guaranteed by the SBA to borrowers in LMI census tracts and to borrowers in census tracts with higher shares of minority residents.

²⁹The comparisons include MDI banks and non-MDI community banks that do not specialize in farm lending and that operate all of their branches in metropolitan areas. This limits the comparison of MDIs to similar institutions, because MDIs and their branches are more heavily concentrated in metropolitan areas than are non-MDIs. Limiting the 2011 analysis to banks that operate all their branches in metropolitan areas drops four African American MDIs, five Hispanic American MDIs, three Asian American MDIs, 522 non-MDI metro nonfarm community banks, and 202 non-MDI noncommunity banks. Limiting the 2016 analysis to banks that operate all of their branches in metropolitan areas drops two African American MDIs, eight Hispanic American MDIs, five Asian American MDIs, 491 non-MDI metro nonfarm community banks, and 187 non-MDI noncommunity banks.

³⁰Native American MDIs provide important services to Native American populations. They are not included in the analyses of geographic service areas or mortgage lending due to the fact that only a minority of Native American MDIs have all of their branches in metropolitan areas. For example, in 2011, only three Native American MDIs out of 18 had all of their branches in metropolitan areas and they were not representative of the universe of Native American MDIs.

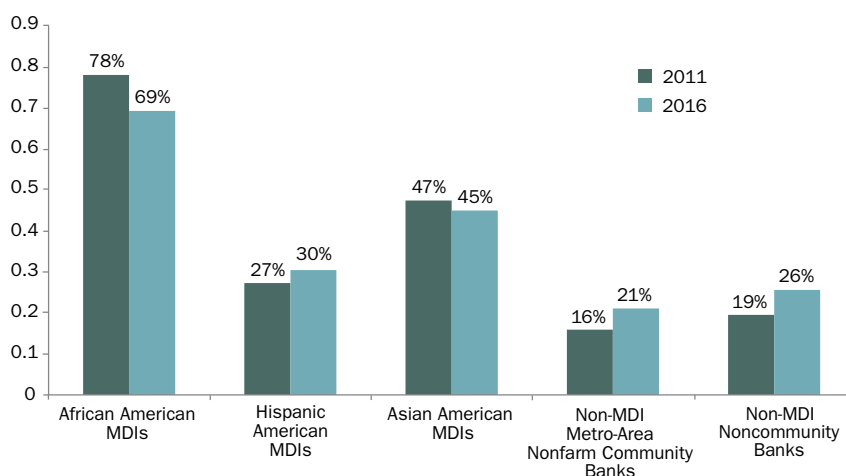
The Median Share of Service Area Population Living in LMI Tracts Is Higher Among MDIs

This report compares the populations served by MDIs with those served by non-MDI metro nonfarm community banks based on computed geographic service areas.³¹ The share of service area populations that live in LMI census tracts was higher for MDIs in both 2011 and 2016. The share of estimated service area populations living in LMI tracts was substantially higher for African American, Hispanic American, and Asian American MDIs,

compared with non-MDI metro nonfarm community banks (see Chart 5.1 below).

For example, in 2016, the estimated service area population living in LMI tracts was 69 percent for the median African American MDI, more than three times the share for the median non-MDI metro nonfarm community bank. Similarly, the estimated service area population living in LMI tracts was 30 percent for the median Hispanic American MDI and 45 percent for the median Asian American MDI.

Chart 5.1
The Median Share of Estimated Service Area Population Living in LMI Census Tracts Is Higher Among MDIs



Source: FDIC

The Median Share of Minority Populations in Service Areas Is Higher for MDIs

A 2017 FDIC survey showed that 8.4 million “unbanked” U.S. households did not have bank accounts with mainstream financial institutions, and another 24.2 million households were “underbanked.”³² The survey also indicated that minority households were more likely than other households to be unbanked. In 2017, 16.9 percent of African American households and 14.0 percent of Hispanic American households were unbanked, compared with 3.0 percent of

white households. Operating offices in minority communities helps provide underserved populations with access to mainstream financial services.

MDIs are important service providers to minority populations, which have higher percentages of unbanked households than other population groups. Using the geographic service area designations, MDI offices are typically in areas with a higher share of minority populations. Analysis of the demographic characteristics of these service areas shows that in

³¹See “Why Disaggregate Community Banks for Comparisons of Financial Performance?” on page 37.

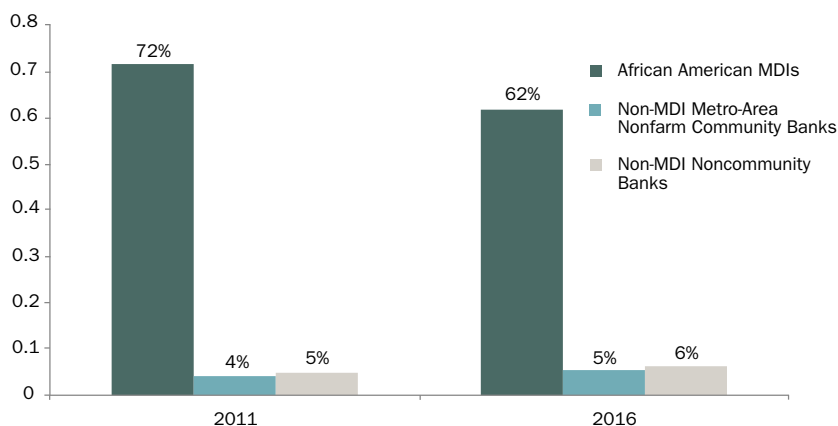
³²Federal Deposit Insurance Corporation, 2017 *FDIC National Survey of Unbanked and Underbanked Households*, https://www.economicinclusion.gov/downloads/2017_FDIC_Unbanked_HH_Survey_Report.pdf (2017).

both 2011 and 2016, the minority share of estimated service area populations was much higher for all three groups of MDIs compared with non-MDIs.

For example, in 2011, the median share of estimated service area population that was African American was 72 percent for African American MDIs, compared

with 4 percent among non-MDI metro nonfarm community banks (see Chart 5.2 below). For 2016, the median share of estimated service area population that was African American was 62 percent for African American MDIs, compared with 5 percent among non-MDI metro nonfarm community banks.

Chart 5.2
The Median Share of Estimated Service Area Population That Is African American Is Higher for African American MDIs



Source: FDIC

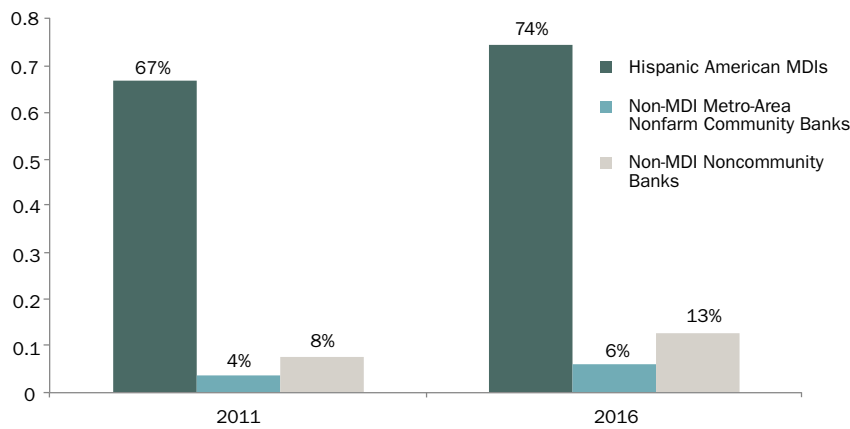
Hispanic American MDIs also have service area populations with a higher median share of Hispanic American residents compared with non-MDIs (see Chart 5.3, page 58). In 2011, the median share of the estimated service area population that was Hispanic American was 67 percent for Hispanic

American MDIs, compared with 4 percent for non-MDI community banks. In 2016, the median share of estimated service area population that was Hispanic American was 74 percent among Hispanic American MDIs, compared with 6 percent among non-MDI community banks.

Asian American MDIs also had service area populations with a higher share of Asian Americans compared with non-MDI community banks in both 2011 and 2016 (see Chart 5.4 below). In 2011, the median share of the estimated service area population that was Asian American was 28 percent for Asian American MDIs, compared with

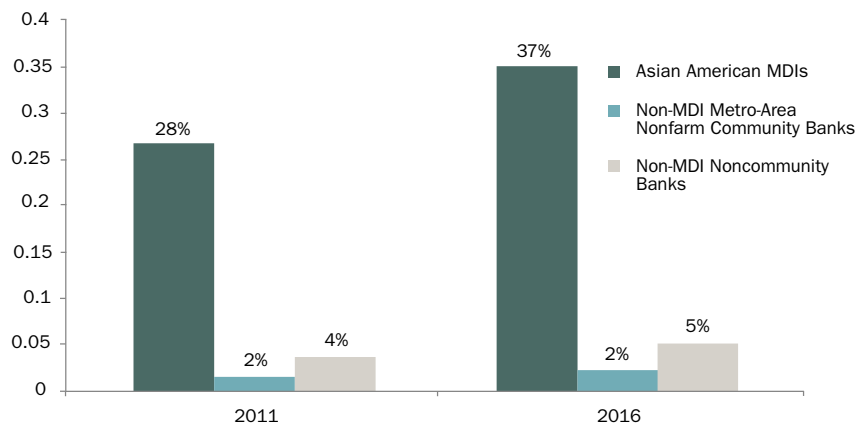
2 percent for non-MDI community banks. In 2016, the median share of estimated service area population that was Asian American was 37 percent among Asian American MDIs, compared with 2 percent among non-MDI community banks.

Chart 5.3
The Median Share of Estimated Service Area Population That Is Hispanic Is Higher for Hispanic American MDIs



Source: FDIC

Chart 5.4
The Median Share of Estimated Service Area Population That Is Asian American Is Higher for Asian American MDIs



Source: FDIC

ESTIMATING THE SERVICE AREA OF EACH BANK

To examine the impact of MDIs on the communities they serve, it is necessary to first identify the geographic service area of each bank. Unfortunately, no readily available data indicate each bank's self-identified market area. In addition, the data indicating a bank's Community Reinvestment Act (CRA) assessment area are only reported by large banks with assets that exceed \$1 billion (in 2005 dollars) in two consecutive years. Most MDIs and non-MDI metro non-farm community banks have assets below this threshold and therefore do not report their CRA assessment area. Previous research has estimated bank service areas as the combination of all census tracts in which each bank operates its headquarters and branch offices. A shortcoming of this approach is that a census tract often covers only a small geographic area, and the average size of census tracts tends to decline as population density increases. In addition, looking only at the census tracts in which a bank's offices are located ignores people living in other nearby tracts who may also be served by those offices.

This report uses a more nuanced strategy to estimate the service area of banks that operate their branches in metropolitan areas. Recognizing that different metropolitan areas, and the outlying and central counties of each metropolitan area, have distinct distributions of residential population and bank branches, this strategy incorporates those distributions to calculate a locally determined distance threshold (LDT) to estimate the likely service area for each bank branch.¹ This approach includes the census tract in which a bank's branch is located in its service area and any other census tract within the radius defined by the LDT. The overall service area for each bank is the combination of the service areas for each of its full-service branches. The following two-step process is used to identify the geographic service area of each bank.

STEP 1: Determine a "locally determined distance" that most customers might be expected to travel to conduct their banking business in the central or outlying counties of a given metropolitan area. For each geographic area, the LDT is computed so roughly 75 percent of the area's population has at least one full-service bank branch within that distance. Generally, this LDT is substantially longer for less densely populated metropolitan areas and for areas with more sparsely distributed bank branches than it is for more densely populated (with people or bank branches) metropolitan areas. Moreover, LDT distances can differ substantially across various metropolitan areas.²

STEP 2: Estimate the service area of each banking office based on this LDT. Using the distance calculated for the central and outlying counties of each metropolitan area, a circle can be drawn around each banking office located there. Census tracts with their population-weighted central point within or touching that circle are said to be served by that banking office, and the total population served by each banking office is the sum of the residents of those census tracts. The total population served by each bank is the sum of the residents of census tracts served by each of its individual banking offices.

¹ The Office of Management and Budget (OMB) defines central counties of each metropolitan area based on the share or size of their population that lives in urban areas of 10,000 or more people. All metropolitan areas have at least one central county. Many metropolitan areas also include outlying counties, which OMB defines based on commuting patterns to and from the central counties of the metropolitan area. See <https://www.census.gov/programs-surveys/metro-micro/about.html> for additional details regarding metropolitan areas and their central and outlying counties.

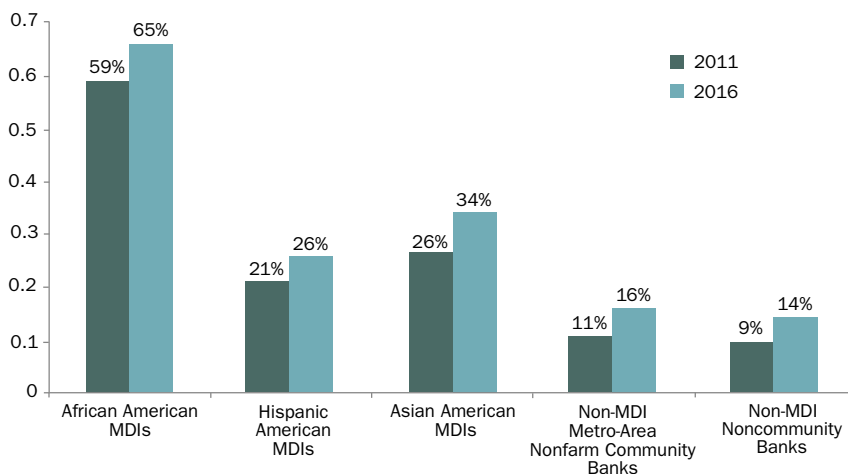
² For example, using 2016 data from the FDIC Summary of Deposits, the central counties of the New York-Jersey City-White Plains, NY-NJ metropolitan division (OMB divides 11 very large metropolitan areas into metropolitan divisions) had the shortest locally determined distance threshold (LDT) of any central counties (.46 miles), while the central counties of the Flagstaff, AZ, metropolitan area, had the longest LDT (6.73 miles). For outlying counties, LDTs based on 2016 data ranged from a low of .21 miles in the Provo-Orem, UT, metropolitan area to a high of 23.93 miles in the El Paso, TX, metropolitan area.

Home Mortgage Lending of MDIs

MDIs not only maintain offices in communities with higher LMI population shares than other institutions, but among banks that report data under the Home Mortgage Disclosure Act (HMDA),³³ MDIs also originate a greater share of their home mortgages to borrowers whose properties are in LMI census

tracts.³⁴ For example, in 2016, the median African American MDI originated 65 percent of its HMDA-reportable mortgages to borrowers in LMI census tracts, four times the share of mortgages originated to such borrowers by non-MDI metro nonfarm community banks (see Chart 5.5 below).

Chart 5.5
The Median Share of HMDA-Reported Mortgage Originations for Properties in LMI Census Tracts Is Higher for MDIs



Source: FDIC

Chart 5.5 also shows that in 2016, the median shares of mortgage loans made on properties in LMI census tracts by Hispanic American and Asian American MDIs substantially exceeded the share made by non-MDI metro nonfarm community banks.

MDIs also serve a substantially higher share of minority home mortgage borrowers compared with non-MDI metro nonfarm community banks. Chart 5.6 on page 61 shows that the median share of

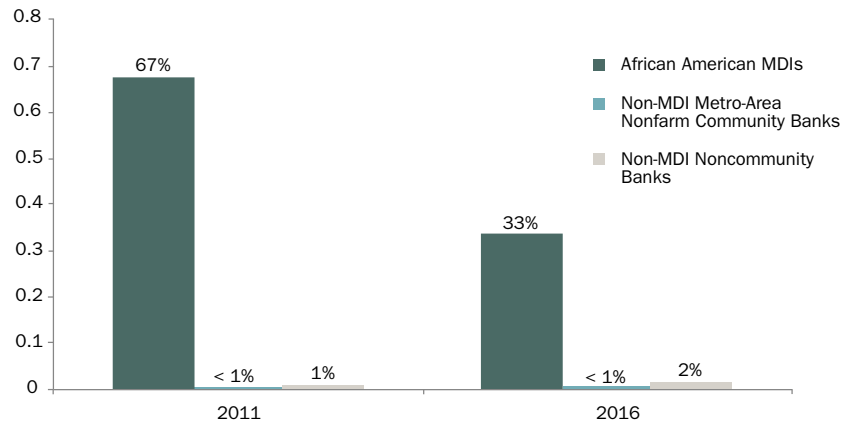
HMDA-reported mortgages made to African American borrowers in 2011 was 67 percent for African American MDIs, compared with less than 1 percent for non-MDI metro nonfarm community banks. The median share of mortgages made to African American borrowers was 33 percent for African American MDIs in 2016, a level that continued to substantially exceed the less than 1 percent share reported by non-MDI metro nonfarm community banks that year.³⁵

³³Depository institutions that meet three criteria must report HMDA data: (1) assets as of December 31 of the year preceding data collection exceed an annually adjusted threshold (\$44 million for collecting 2016 HMDA data and \$40 million for collecting 2011 HMDA data); (2) on December 31 of the year preceding data collection, the institution had a home or branch office in an MSA; and (3) in the calendar year preceding HMDA data collection, the institution originated at least one home purchase or refinance loan secured by a first-lien on a one- to four-family dwelling.

³⁴In this section, HMDA data is used for all analyses of home mortgage lending. HMDA data is the only available data with information about the race/ethnicity of the borrower.

³⁵The difference between the 2011 median of 67 percent and the 2016 median of 33 percent is not statistically significant. The demographics of the geographies in which African American MDIs originated these mortgages were comparable in 2011 and 2016.

Chart 5.6
The Median Share of HMDA-Reported Mortgage Originations to African American Borrowers Is Higher for African Americans MDIs

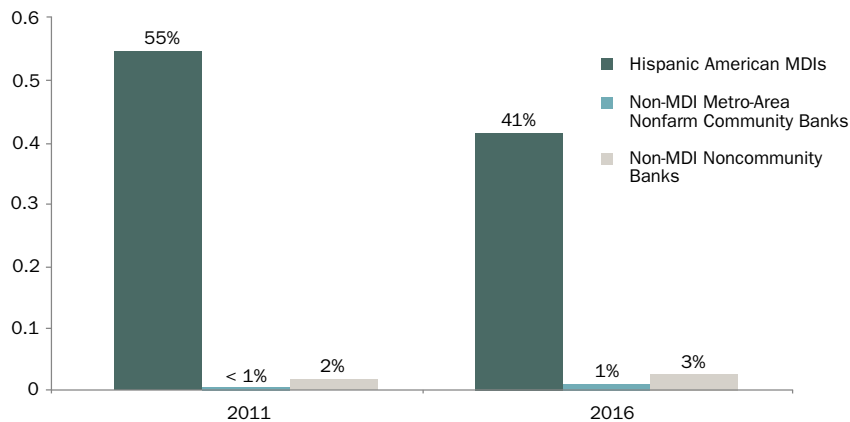


Source: FDIC

Chart 5.7 below shows that the median share of HMDA-reportable mortgages made to Hispanic American borrowers in 2011 was 55 percent for Hispanic American MDIs, compared with less than 1 percent for non-MDI metro nonfarm community

banks. In 2016, the median share of mortgages made to Hispanic American borrowers was 41 percent, while the share was 1 percent for non-MDI metro nonfarm community banks.³⁶

Chart 5.7
The Median Share of HMDA-Reported Mortgage Originations to Hispanic Borrowers Is Higher for Hispanic American MDIs



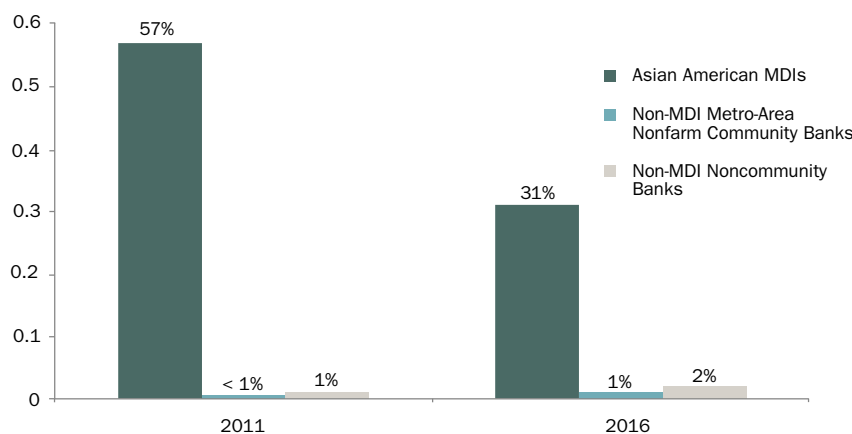
Source: FDIC

³⁶The difference between the 2011 median of 55 percent and the 2016 median of 41 percent is not statistically significant. The demographics of the geographies in which Hispanic MDIs originated these mortgages were comparable in 2011 and 2016.

Finally, Asian American MDIs also originated a higher percentage of their mortgages to Asian American borrowers. Chart 5.8 below shows that the median Asian American MDI originated 57 percent of its HMDA-reportable mortgages to Asian American

borrowers in 2011, compared with less than 1 percent for non-MDI community banks. In 2016, the median share of mortgages made to Asian Americans was 31 percent, while the share was 1 percent for non-MDI community banks.³⁷

Chart 5.8
The Median Share of HMDA-Reported Mortgage Originations to Asian American Borrowers Is Higher for Asian American MDIs



Source: FDIC

In addition to originating home mortgages to minority borrowers, MDIs also originated home mortgages to organizations, and shares of originations to organizations increased substantially between 2011 and 2016.³⁸ Organizations may be for-profit or non-profit entities. For example, small business borrowers may finance their business by taking out a mortgage on their personal residence.³⁹

Chart 5.9 on page 63 shows that the median share of HMDA-reportable mortgages made to organizations was 6 percent for African American MDIs in 2011. In 2016, the median share originated to organizations by African American MDIs increased to 40 percent.

The median share of HMDA-reportable mortgages originated to organizations was 25 percent for Hispanic American MDIs in 2011. In 2016, the median share originated to organizations by Hispanic American MDIs increased to 39 percent.

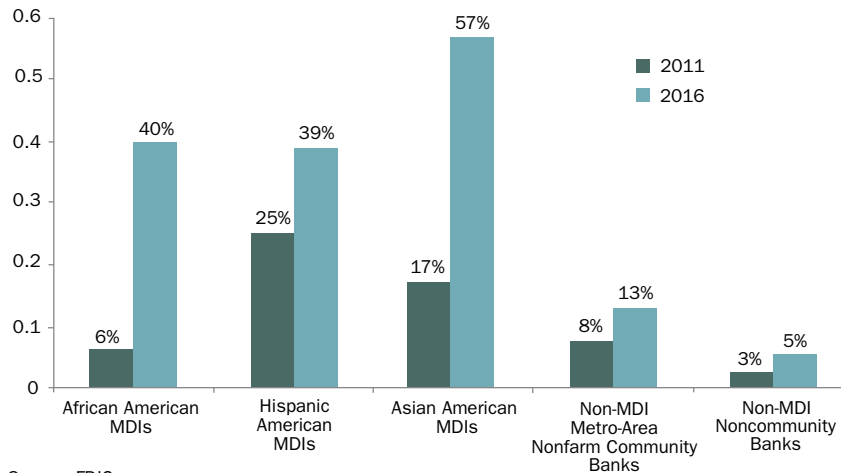
The median share of HMDA-reportable mortgages originated to organizations was 17 percent for Asian American MDIs in 2011. In 2016, the median share originated to organizations by Asian American MDIs increased to 57 percent.

³⁷The demographics of the geographies in which Asian American MDIs originated these mortgages were comparable in 2011 and 2016.

³⁸When the borrower is an organization, race/ethnicity information is not required to be collected.

³⁹The *FDIC Small Business Lending Survey* found that a majority of banks, particularly small ones, commonly accept one- to four-family residential properties as collateral for small business loans. See *FDIC Small Business Lending Survey*, section 5. <https://www.fdic.gov/bank/historical/sbls/> (2018).

Chart 5.9
The Median Share of HMDA-Reported Mortgage Originations to Organizations



Source: FDIC

MDI SBA 7(a) Lending Activity

This section compares small business lending activity by MDIs and non-MDIs in 2016 and 2018 to further analyze the social impact of MDIs on the communities they serve. This report focuses on loans guaranteed by the U.S. Small Business Administration (SBA), and specifically examines SBA's largest financing program, the 7(a) loan program. The SBA provides a guarantee between 50 and 90 percent of the loan taken by a small business borrower using the 7(a) program. These loans may be used for a variety of purposes, including financing working capital, financing the purchase of land or equipment to be used for the operation of the business, or refinancing existing business debt. SBA's 7(a) loan program is designed to facilitate lending to businesses otherwise unable to secure credit with reasonable terms

from conventional lending sources. Thus, the 7(a) loan data provide an opportunity to examine how MDIs offer credit to underserved communities.

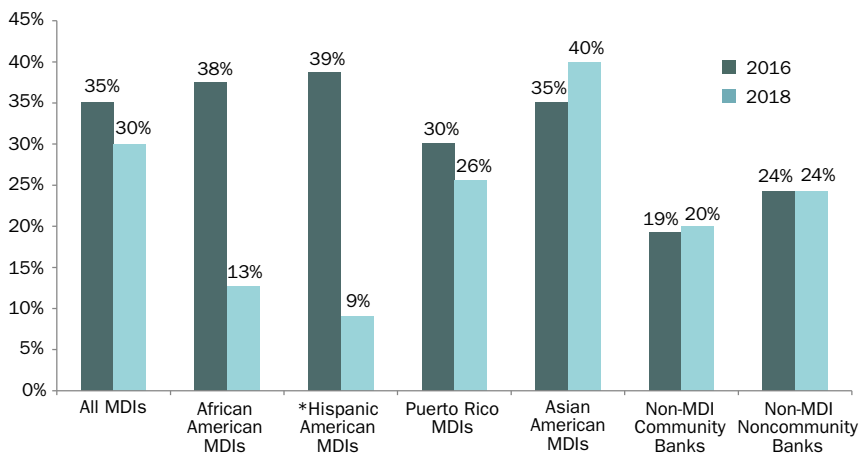
It would be optimal to use demographic information on both the small business borrowers and the communities they serve when measuring the social impact of MDI SBA lending. However, demographic data for each SBA loan borrower are not readily available. Therefore, this report uses the demographics of the census tract containing the address of the borrower when analyzing the communities served by MDIs. The demographic data are based on the census tract of the borrower's address, or the borrower tract, and not the specific demographics of each borrower.

MDIs Lend to Businesses in LMI Communities More Than Non-MDIs

During the years under analysis, MDIs made a greater share of their loans to small business borrowers located in LMI census tracts than non-MDI banks. In 2016 and 2018, the median MDI institution originated a higher median share of SBA 7(a) loans to borrowers in LMI tracts compared with both non-MDI community and noncommunity banks (see Chart 5.10 below). In fact, MDIs originated a 16 percentage point higher share of loans in LMI tracts than non-

MDI metro nonfarm community banks in 2016 and a 10 percentage point higher share in 2018. MDIs also loaned to borrowers in LMI tracts at a higher rate than non-MDI noncommunity banks. MDIs had a share 11 percentage points higher in 2016 than non-MDI noncommunity banks. Non-MDI noncommunity banks held their share stable in 2018 at 24 percent, while the share held by MDIs declined to 30 percent.⁴⁰ Despite this decline, MDIs continue to originate a higher share of SBA 7(a) loans to borrowers in LMI tracts.

Chart 5.10
Median Share of SBA 7(a) Loans in LMI Census Tracts



Sources: FDIC, U.S. Census Bureau, SBA

*MDIs headquartered in Puerto Rico were disaggregated from the Hispanic American MDI category.

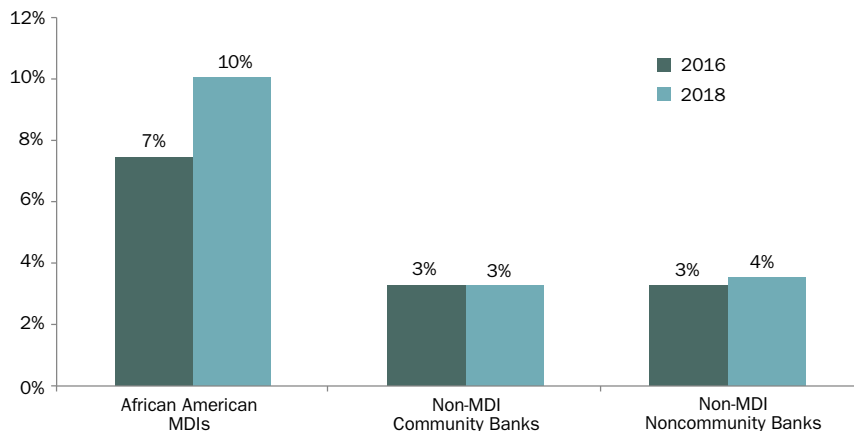
MDI Borrowers Live in Communities with Higher Shares of Minority Populations

The 7(a) lending activity of MDIs in 2016 and 2018 was concentrated in communities with higher shares of population within the MDI's minority group. The median share of the African American population in the borrower tracts of SBA loans made by African American

MDIs was 7 percent in 2016 and 10 percent in 2018. These levels are higher median population percentages than both non-MDI metro nonfarm community banks (3 percent for both time periods) and non-MDI noncommunity banks (3 percent in 2016 and 4 percent in 2018) (see Chart 5.11, page 65).

⁴⁰The decline in the median share of LMI census tracts among African American MDI and Hispanic American MDI SBA 7(a) loans between 2016 and 2018 is not statistically significant and may be a function of a small number of loans among those institutions.

Chart 5.11
Median Share of African American Population in Census Tracts of SBA 7(a) Borrowers

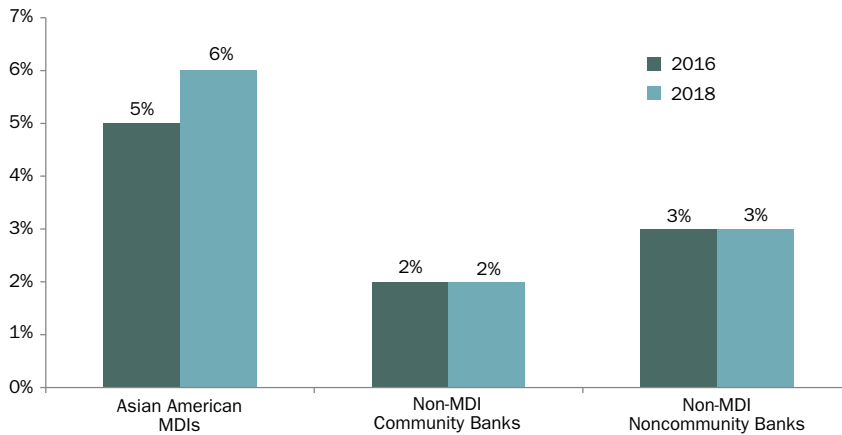


Sources: FDIC, U.S. Census Bureau, SBA

The median percentage of the Asian American population in the borrower tracts of Asian American MDI SBA 7(a) loans was also higher compared with non-MDI community banks and non-MDI noncommunity banks. During 2016, the percentage of the borrower tracts'

population that was Asian American was 5 percent, while the share was 2 percent for non-MDI metro nonfarm community banks and 3 percent for non-MDI noncommunity banks. The 2018 analysis reflected similar results (see Chart 5.12, page 66).

Chart 5.12
Median Share of Asian American Population in Census Tracts of SBA 7(a) Borrowers

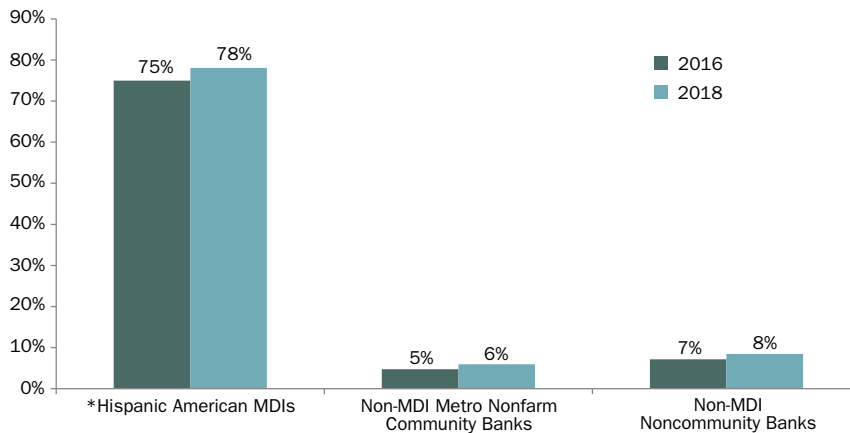


Sources: FDIC, U.S. Census Bureau, SBA

Finally, the median percentage of the Hispanic American population in the borrower tracts of Hispanic American MDI 7(a) loans was considerably higher than the share for non-MDIs.⁴¹ In 2016, the Hispanic American share of the population in borrower tracts for Hispanic American MDIs was 75 percent, compared with 5 percent for non-MDI metro

nonfarm community banks and 7 percent for non-MDI noncommunity banks. In 2018, the Hispanic American share of the population in borrower tracts was 78 percent for Hispanic American MDIs, 6 percent at non-MDI metro nonfarm community banks, and 8 percent at non-MDI noncommunity banks (see Chart 5.13 below).

Chart 5.13
Median Share of Hispanic American Population in Census Tracts of SBA 7(a) Borrowers



Sources: FDIC, U.S. Census Bureau, SBA

*MDIs headquartered in Puerto Rico were disaggregated from the Hispanic American MDI category.

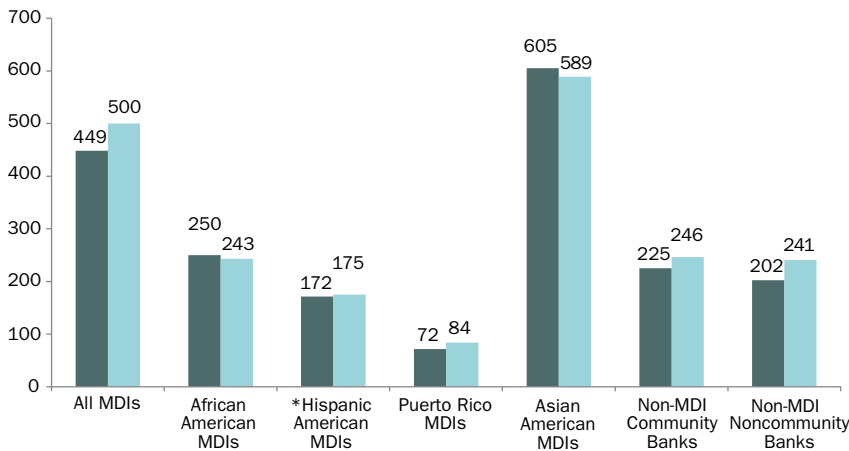
⁴¹MDIs headquartered in Puerto Rico were disaggregated from the Hispanic American MDI category in the SBA lending analysis.

MDI Loan Size Varies Widely by Minority Status

MDIs originated higher-dollar loans when compared with non-MDI community banks and non-MDI noncommunity banks in 2016 and 2018 (Chart 5.14 below). Factors affecting the difference may include loan program utilization and loan distribution amounts. Some 7(a) sub-programs vary with regard to loan terms, including maximum loan size. Not all SBA 7(a) lenders originate loans using all of the sub-programs available, which

may affect the size of the SBA 7(a) loans they originate. Standard 7(a) loans are offered up to \$5 million, while the SBA 7(a) Community Advantage caps loans at \$250,000 and the SBA 7(a) Express program limits loans to \$350,000. In 2016, non-MDI noncommunity banks originated 67 percent of their SBA 7(a) loans under the SBA Express loan program, compared with 22 percent for MDIs. The 2018 analysis reflected similar results.

Chart 5.14
Median SBA 7(a) Loan Size (Dollars in Thousands)



Sources: FDIC, U.S. Census Bureau, SBA
*Hispanic American MDIs headquartered in Puerto Rico were excluded.

In 2016, the median MDI loan was nearly \$450,000, compared with \$225,000 at non-MDI metro nonfarm community banks and more than \$200,000 at non-MDI noncommunity banks. In 2018, the MDI median loan size grew to \$500,000, double the non-MDI metro nonfarm community bank median of \$246,000 and the non-MDI noncommunity bank median of \$241,000. The relatively high median loan size of all MDIs is primarily driven by the high median loan size of Asian American MDIs, which originate more SBA

7(a) loans than other MDIs and also use the SBA 7(a) Express program at a lower rate than the aggregate share of all MDIs. The size of a small business loan does not necessarily indicate service to the borrower or a community. The *2017 Federal Reserve Small Business Credit Survey Report: Employer Firms* found that more than half of respondents that applied for loans sought financing of \$100,000 or less, and three-quarters sought financing of \$250,000 or less.⁴²

⁴²Federal Reserve Banks, 2017 *Federal Reserve Small Business Credit Survey: Report on Employer Firms*, <https://www.fedsmallbusiness.org/media-library/fedsmallbusiness/files/2018/sbcs-employer-firms-report.pdf>.

DEFINING SMALL BUSINESS ADMINISTRATION COMMERCIAL LENDING IN CENSUS TRACTS

This section analyzes the census tracts of the addresses of Small Business Administration (SBA) borrowers, hereafter referred to as borrower tracts. The following process is used to connect SBA loans by FDIC-insured institutions to tract-level demographic data:

STEP 1: Determine the individual 7(a) loans originated by FDIC-insured institutions headquartered in an MSA. Using loan-specific data as of December 31, 2018, applicable individual 7(a) loans were linked to FDIC-insured institutions headquartered in an MSA.¹ The institutions were then classified into the following categories: MDIs, non-MDI community banks, non-MDI noncommunity banks, African American MDIs, Hispanic American MDIs excluding Puerto Rico, Asian American MDIs, and Puerto Rico MDIs. For institutions with merger or acquisition activity within the same category, the loan origination data migrate to the new institution. However, for institutions with merger or acquisition activity outside their category, the loan data and institution are excluded from the analysis because data limitations prevent the identification of the originating lender.² Community banks qualifying as farm banks were excluded from the analysis.³

STEP 2: Connect the individual 7(a) loans to census tracts. The address of the borrower of every applicable 7(a) loan origination is linked to the appropriate Federal Financial Institution Examination Council (FFIEC) census tract data. For population analysis, a loan/tract-level dataset was constructed containing the shares of the tract population that are African American, Asian American, or Hispanic American. From this dataset, median values for each bank were extracted for each type of minority share of

population. With each FDIC-insured SBA 7(a) lender associated with a median share of loan/tract population that is African American, Asian American, or Hispanic American, “medians of medians” were extracted to capture the median loan/tract share of population for each minority group for all banks in each banking category.

A relatively small number of Hispanic American MDIs participated in the SBA 7(a) program in 2016 and 2018. Nearly half of those that participated were MDIs headquartered in Puerto Rico. As a result, the medians calculated for Hispanic American MDIs were skewed toward the demographics of Puerto Rico. For this reason, Hispanic American MDIs headquartered in Puerto Rico are included in the analysis and data visualizations of all MDIs but are excluded from Hispanic American MDI SBA analysis.

Table 5.1 on page 69 shows the universe of data analyzed for this section.⁴

¹MDI headquarters are concentrated in metropolitan areas; only banks headquartered in metropolitan areas were included in the scope of the analysis. Limiting the scope to banks headquartered in MSAs reduced the loan universe by 9.8 percent (from 59,744 loans to 53,909 loans) in 2016 and by 11.3 percent (from 56,468 loans to 50,086 loans) in 2018.

²Any merger or acquisition activity since loan origination will result in the reporting lender being a different entity than the lender that originated the loan within the SBA loan data. Data limitations prevent the identification of the originating lender in these cases. Removing loans related to merger or acquisition activity outside their category of classified FDIC-insured institutions further reduced the loan universe by 16.0 percent (from 53,909 loans to 45,299 loans) in 2016 and by 16.0 percent (from 50,086 loans to 42,113 loans) in 2018.

³Limiting the scope of community banks headquartered in metropolitan areas to those that do not meet the FDIC definition of farm banks limited the universe of metro community banks by 0.6 percent (290 loans) in 2016 and by 0.6 percent (273 loans) in 2018.

⁴Native American or Native Alaskan American MDIs were excluded from both 2016 and 2018 analysis as only three applicable loans were originated in 2016 and six in 2018. Two loans originated by Multi-racial MDIs were excluded from the loan universe as no Multi-racial MDIs existed as of year-end 2018.

Table 5.1
Small Business Administration Commercial Lending Loan Universe

	2016 Loan Count	2016 Average Loans Per Institution	2018 Loan Count	2018 Average Loans Per Institution
Hispanic American MDI*	46	11.5	21	4.2
African American MDI	39	5.6	102	10.2
Puerto Rico MDI	415	103.8	272	68
Asian American MDI	2,264	66.6	2,314	56.4
Non-MDI Community Bank	10,847	14.3	11,545	15.5
Non-MDI Non-Community Bank	31,395	266.1	27,578	237.7

Sources: FDIC, SBA

Notes: The community bank is defined in the FDIC Community Banking Study (2012). For 2016 analysis, 45,006 SBA loans originated by 926 institutions were included within the scope. For 2018 analysis, 41,832 SBA loans originated by 922 institutions were included within the scope.

*Hispanic banks headquartered in Puerto Rico were excluded.

Appendix

Additional Information on the Statistical Significance Tests

This report presents an observational study on FDIC-insured financial institutions that compares data on MDIs with data on non-MDI community banks and non-MDI noncommunity banks. In the study, the assignment of subjects to groups is nonrandom and outside the control of the observer.

Although our results indicate statistically significant differences between certain metrics of MDIs and non-MDI banks, the results do not establish that being an MDI is a primary reason for these differences. This is because of the possible existence of confounding factors. For example, the markets in which MDIs operate may differ on average from those of other banks, even though institutions from both subject groups that operate within the same market seem similar. Further research could compare MDIs and non-MDI banks within the same geographic area or that engage in similar lines of business.

The report considers a variety of data sources, including financial reports, residential mortgage lending data, and SBA-guaranteed small business lending data, which provide a more holistic picture of differences and similarities. However, since not all institutions engage in all activities, findings should be interpreted as representative of institutions from a particular subject group that engage in that activity rather than as representative of the subject group more broadly. As of December 31, 2018, MDIs comprised only 149 of 5,406 FDIC-insured financial institutions. Thus, when we break down our analysis by MDI type, some analyses contain a relatively small number of observations and results could be driven by outliers. For this reason, unless otherwise specified, we report the median value of a variable because of its robustness to outliers, especially when compared with the arithmetic mean.

For more information on the exact construction of our measures, see the discussion within the sections on pages 37 and 59.

This report follows a policy of only mentioning differences between subject groups when those differences are found to be statistically significant using a threshold of 10 percent. In other words, the differences we highlight are unlikely to occur if the groups were undistinguishable. Within the report, many of the differences we find have a statistical p-value substantially smaller than the 10 percent threshold, but we do not separately report the level of significance.

Our testing procedure entails running a median regression that includes institution-level observations for all subject groups where differences in median across the groups are captured by dummy variables indicating an institution's membership. For a given comparison between subject groups, the difference between the resulting coefficients are tested against the 10 percent threshold where those falling under the threshold are denoted as statistically significant. Unless otherwise noted, these regressions did not include additional controls and made standard assumptions about the distribution of errors. More information specific to each section is provided below.

Statistical Tests — Financial Performance

In analyzing financial performance, we use institution-level data from the December Call and Thrift Financial Reports each year from 2001 through 2018. From these data, we calculate the following financial ratios for each bank: pretax return on average assets, annualized net interest income, annualized noninterest income, annualized noninterest expense, annualized provisions, and efficiency ratio. Each ratio is calculated by dividing

the appropriate income statement item by an institution's five-quarter average assets. Using these metrics, we then compare various subgroups from the set of MDI and non-MDI community banks along several dimensions. The comparisons are always pair-wise but may contrast performance within a specific year or across multiple years.

The data consist of annual observations at the institution level. While adjustments were made for mergers, we do not adjust our metrics to account for the fact that not all institutions exist throughout the period. While observations across institutions within any given year may be plausibly independent, observations for the same institution across years are unlikely to meet this assumption. To account for the lack of independence across years, we test differences between subject groups for each year and we test differences in trends. The tests within a year follow the general outline for our statistical testing described above. To test for differences across multiple years, we include a set of indicator variables that denote which subject group and which year the observation belongs to and then perform a joint statistical test of the year-wise equality for the interactions specific to the two subject groups. A subject group is described as having a different trend only when the results of the joint statistical test meet our 10 percent threshold.

Statistical Test — Geographic Services Areas and Home Mortgage Disclosure Act Mortgage Lending

In these sections, we explore the computed geographic service areas of banks that operate all of their branches in metropolitan areas. The methodology used to compute each bank's geographic service area is described elsewhere in this report. We used demographic variables and LMI tract indicators from the FFIEC census data for this analysis. Each bank has a value for each outcome variable of interest (for example, share of geographic service area population living in LMI tracts, share of geographic service area population that is African American, etc.).

We perform a median regression for each outcome variable of interest. We treat the years as separate samples and run a separate test for each year so no institution has more than one observation per regression. We assume that observations across institutions within a year are independent.

To compare MDIs with non-MDIs, we include indicator variables showing membership in the MDI, non-MDI community banks, or non-MDI noncommunity banks. To compare the subgroups of the MDI banks, we use the analogous median regression with indicators for each separate MDI group and for the non-MDI groups. To test the differences, we test the pair-wise equality of coefficients pertaining to two subject groups. A subject group is described as having a different value only when the results of the statistical test meet our 10 percent threshold.

We use a similar method for statistical testing for Home Mortgage Disclosure Act (HMDA)- reported mortgages. In this analysis, we also test differences for outcome variables of interest across years within the same subject group. We test these differences using an indicator variable for 2016 and use clustered standard errors to account for the non-independence of errors across years for the same institution.

Statistical Test — Small Business Administration Commercial Lending

In this section, we look at institutions headquartered in a metropolitan area that made loans through the Small Business Administration's 7(a) program.

For our analysis, we look at the loan size, share of loans to borrowers located in an LMI tract, and the population share of a particular minority among the tracts to which an institution made a loan. For each variable, we take the median value from among the set of loans made by the institution. We do not adjust for differences in the number of loans across institutions. To be included, a bank has to originate a loan in the indicated year and, while we do adjust for mergers, we do not account for differences in the set

of participating institutions between the two years. Comparisons are made between two control groups consisting of non-MDI community banks and non-MDI noncommunity banks, and either MDIs as a whole or between distinct categories of MDI banks and the two control categories.

In our statistical testing of differences between subject groups, our procedure largely resembles that described above where we perform a median regression on the institution-level data. We treat the years as separate samples and run a separate test for each year so no institution has more than one observation per regression. We

assume that observations across institutions within a year are independent. To compare MDIs with non-MDIs, we include indicator variables denoting membership in the MDI, non-MDI community banks, or non-MDI noncommunity banks. To compare the subgroups of the MDI banks, we use the analogous median regression with indicators for each separate group of MDI classification and for the non-MDI groups. To test the differences, we test the pair-wise equality of coefficients pertaining to two subject groups. A subject group is described as having a different value only when the results of the statistical test meet our 10 percent threshold.

