# 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.