Preservation and Promotion of Minority Depository Institutions

The Federal Deposit Insurance Corporation Report to Congress for 2018

Pursuant to Section 367 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and Section 308 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989

Introduction

Section 308 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) established the following goals: to preserve the number of minority depository institutions; to preserve the minority character in cases involving merger or acquisition of a minority depository institution; to provide technical assistance to help prevent insolvency of minority depository institutions; to promote and encourage creation of new minority depository institutions; and to provide for training, technical assistance and educational programs for minority depository institutions.

Pursuant to Section 367 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, this report provides a summary profile of minority depository institutions (MDIs) as of the end of 2018; a description of the FDIC's minority depository institution program; and detailed information on the FDIC's 2018 initiatives supporting minority depository institutions. The FDIC defines an MDI as any federally insured depository institution for which (1) 51 percent or more of the voting stock is owned by minority individuals; or (2) a majority of the Board of Directors is minority and the community that the institution serves is predominantly minority. Ownership must be by U.S. citizens or permanent legal U.S. residents to be counted in determining minority ownership. The FDIC's *Policy Statement Regarding Minority Depository Institutions* (see Attachment 1) provides additional information.

Summary Profile of Minority Depository Institutions

The FDIC maintains a list and tracks insured MDIs it supervises, i.e. state chartered institutions which are not members of the Federal Reserve System, as well as MDIs that are supervised by the Office of the Comptroller of the Currency (OCC) and the Federal Reserve System (Federal Reserve).[1] The FDIC takes this broad approach given its role in considering applications for deposit insurance and in resolving institutions in the event an MDI were to fail.

Structure

As of December 31, 2018, FDIC-insured MDIs totaled 149 institutions with combined total assets of nearly $234 billion, and 35,582 employees (see Attachment 2, *List of Minority Depository Institutions as of December 31, 2018*). The FDIC supervised 98 of the 149 MDIs as their primary Federal regulator.

At the beginning of 2018, there were 155 FDIC-insured MDIs with combined total assets of approximately $223 billion. During the year, three institutions gained MDI status due to changes in control, adding one new African American, one new Hispanic American, and one new Asian American MDI to the list. Three MDIs merged into other MDIs, including two Asian and one Hispanic MDI. Four MDIs merged into non-MDIs, reducing the list of Hispanic MDIs by three and Asian MDIs by one. Finally, two MDIs lost status; one multiracial MDI terminated its deposit insurance and merged into a credit union, and one Asian

[1] The FDIC's published list of FDIC-insured minority depository institutions does not include women-owned or women-managed institutions because they are not included in the statutory definition.

MDI no longer qualified as an MDI under either the ownership or minority_managed definition. No MDIs failed in 2018.

Of the total assets of institutions involved in 2018 MDI acquisitions, mergers or failures, 31 percent ($1.6 billion of $5.2 billion in MDI assets merging into other institutions) remained in MDI institutions after the transactions.

Performance

As of December 31, 2018, the overall financial performance of FDIC-insured MDIs is sound. The number of profitable firms increased to its highest level since before the financial crisis, at more than 91 percent of MDIs. The percentage of unprofitable MDIs at 8.72 percent, however, is significantly higher than the percentage of both community banks and all banks that are unprofitable, at 3.41 and 3.24 percent, respectively. The unprofitable institutions generally are smaller institutions, many of which are located in either urban areas that experienced significant economic distress during the financial crisis or smaller rural markets with economic challenges.

MDI full-year net income of $3.4 billion increased $1.6 billion (over 87 percent) from the previous year due to higher net operating revenue, lower provisions, and lower taxes. Net operating revenue increased $1.6 billion (87 percent); both noninterest income and net interest income contributed to the increase. Net interest margins increased eleven basis points to 4.10 percent, aiding the increase in net interest income. Provision expenses dropped more than 40 percent to $520 million and tax expenses decreased more than 38 percent from $1.2 billion to $741 million.

Higher net interest income partially results from growth in loans and other earning assets. Total earning assets increased $16.6 billion (8.3 percent) from the year prior as MDI loan balances rose $12.9 billion (8.4 percent). The 8.4 percent rate of loan growth at MDIs surpassed the loan growth rate at all community banks by 188 basis points. Commercial real estate categories accounted for $4.1 billion of this growth, and 1-to-4 family lending accounted for an additional $3.5 billion of total loan growth. Auto loan balances reported growth of $2.0 billion largely due to a large MDI's purchase of another large bank's auto finance business.

Total 30-89 day past due balances increased by 1.9 percent from one year ago, driven by commercial and industrial and nonfarm nonresidential portfolios, but noncurrent and net charge-off balances declined. Lower noncurrent balances helped improve the coverage ratio (allowance for loan and lease losses to noncurrent loans and leases) to 74.8 percent, up from 61.2 percent a year ago. The noncurrent rate in the fourth quarter was 2.02 percent, down 26 basis points from the previous quarter and 72 basis points from the previous year. Despite the improvement, both of these figures trail the coverage ratio and noncurrent rate of all community banks (146.4 percent and 0.78 percent, respectively).

Total equity capital increased from the previous year by $2.6 billion (9.3 percent) to $30.1 billion. All standard capital ratios increased from fourth quarter 2017. All but two institutions were considered well capitalized or adequately capitalized.

Preservation and Promotion of Minority Depository Institutions

The Federal Deposit Insurance Corporation Report to Congress for 2018

Within the MDI sector, the financial performance of a small subset of institutions has been uneven. Generally, smaller MDIs and those serving low- and moderate-income communities, including both urban and rural markets, continue to face significant challenges, in part reflecting the continuing economic challenges faced by many of the communities they serve.

FDIC National Minority Depository Institutions Program

The FDIC's Minority Depository Institution Program ("MDI Program") is outlined in the FDIC's *Policy Statement Regarding Minority Depository Institutions* (see Attachment 1). In 2018, the FDIC appointed a new permanent, dedicated executive as National Director of Minority and Community Development Banking, reporting directly to the Directors of the Division of Risk Management Supervision and Division of Depositor and Consumer Protection to fully leverage resources and expertise in the two divisions. In addition, the FDIC created additional dedicated positions to support the program at headquarters. The FDIC also has designated MDI coordinators in each of its six regional offices.

The National Director provides overall direction and guidance, and ensures that appropriate resources across the agency are available for program initiatives. The FDIC's MDI Program is fully integrated into the supervision, consumer protection, insurance, and receivership business lines. The National Director works closely with MDIs and their trade associations to seek feedback on the FDIC's efforts under this program, discuss possible training initiatives, and explore options for preserving and promoting minority ownership and management of depository institutions.

In carrying out this work, the FDIC meets regularly with its Federal banking agency colleagues to discuss outreach and training efforts, to share ideas, and to identify opportunities where the agencies can work together to assist MDIs. In addition, the FDIC coordinates with other Federal agencies that provide programs that can assist MDIs.

Executives and staff in the FDIC's six regional offices communicate with each MDI regularly to outline the FDIC's efforts to promote and preserve minority ownership and management of financial institutions; offer to have a member of regional management meet with the institution's board of directors to discuss issues of interest; hold roundtable discussions and training sessions; and to seek input regarding any training or other technical assistance the institution may desire.

2018 Initiatives Supporting Minority Depository Institutions

Preservation of MDIs remains a high priority for the FDIC. In 2018, the FDIC continued to support MDI and Community Development Financial Institution (CDFI bank) industry-led strategies for success. These strategies include new business models and increased collaboration between MDIs, CDFI banks and other financial institutions.

During 2018, the FDIC led discussions with MDI bankers and its Advisory Committee on Community Banking (CBAC) about the FDIC's *Resource Guide for Collaboration with Minority Depository Institutions* (see Attachment 3). This guide, published in December 2017, encourages