Preservation and Promotion of Minority Depository Institutions

The Federal Deposit Insurance Corporation Report to Congress for 2019

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 2019; a description of the FDIC's minority depository in stitution program; and detailed information on the FDIC's 2019 initiatives supporting MDIs.

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* provides additional information (see Attachment 1).

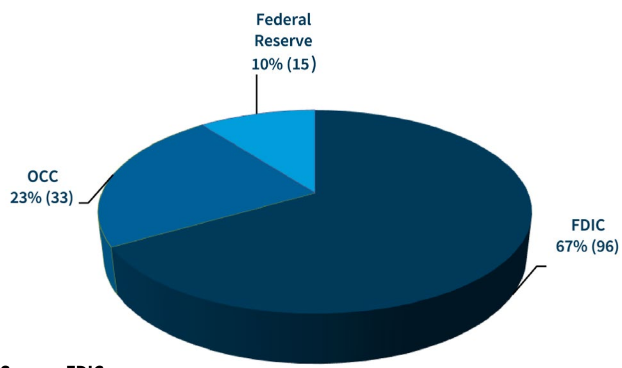
Summary Profile of Minority Depository Institutions

The FDIC maintains a list and tracks the insured MDIs it supervises, i.e., state-chartered institutions that are not members of the Federal Reserve System (Federal Reserve), as well as MDIs that are supervised by the Office of the Comptroller of the Currency (OCC) and the 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 was to fail.

Structure

As of December 31, 2019, FDIC-insured MDIs totaled 144 institutions with combined total assets of nearly $249 billion and 36,676 employees (see Attachment 2, *List of Minority Depository Institutions*). The FDIC supervised 96 of the 144 MDIs as their primary Federal regulator.

FDIC-Insured MDIs by Primary Federal Regulator as of 12/31/2019



Source: FDIC.

[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.

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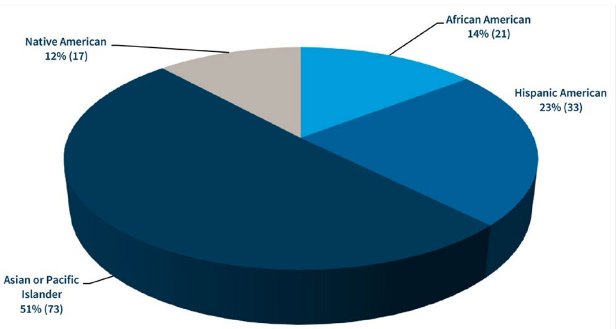
At the beginning of 2019, there were 149 FDIC-insured MDIs with combined total assets of nearly $234 billion. During the year, two new MDIs opened, both Asian American. The two new MDIs combined have nearly $71 million in assets.

One new Native American MDI was created due to a merger. Five MDIs merged with non-MDIs and thus lost status: two Asian American; one African American; one Native American; and one Hispanic American. Two MDIs merged with other MDIs thereby keeping their status: one Hispanic American and one Native American.

One MDI failed in 2019. The OCC closed a $120 million African American MDI on November 1, 2019, and appointed the FDIC as receiver. To protect depositors, the FDIC entered into a purchase and assumption agreement with another African American MDI that assumed all of the deposits of the failed institution, and purchased essentially all of its assets. The failure reduces the number of African American MDIs nationwide to 21 as of year-end 2019.

Of the total assets of the institutions involved in 2019 MDI acquisitions, mergers, or failures, 57 percent ($3.7 billion of $6.5 billion in MDI assets) remained in MDI institutions after the transactions.

FDIC-Insured MDIs by Type as of 12/31/2019



Source: FDIC.

Performance

As of December 31, 2019, the overall financial performance of FDIC-insured MDIs remains sound; however, there were nominal declines in key performance ratios. The number of profitable firms declined over the year to about 85 percent of all MDIs compared to 91 percent as of December 31, 2018. The percentage of unprofitable MDIs is over 14 percent and remains significantly higher than the percentage of both community banks and all banks that are unprofitable, at 3.81 and 3.59 percent, respectively. The unprofitable institutions generally are smaller institutions, many of which are located either in urban areas that experienced significant economic distress during the financial crisis or smaller rural markets with economic challenges.

MDI full-year net income of $3.2 billion declined by $133 million (4.0 percent) from the previous year due primarily to significant increases in noninterest and interest expenses, as well as income taxes. Net operating revenue, however, increased $620 million (6.2 percent) and was driven by an increase of net interest income of $457 million (5.5 percent) compared to the previous year. Despite the increase of net interest income, net interest margins declined modestly by 12 basis points to 3.97 percent, due to the $719 million (47.2 percent) increase in interest expense outpacing a nearly 12 percent increase in interest income.

Higher net interest income partially resulted from growth in loans and securities. Total earning assets increased $19 billion (8.9 percent) from the year prior as loan balances rose $11.3 billion (6.9 percent). This nearly 7 percent rate of loan growth for MDIs surpassed the loan growth rate at all community banks by 140 basis points. Commercial real estate (CRE) categories accounted for $4.8

billion of this growth and one- to four-family lending accounted for an additional $3.5 billion of total loan growth. Commercial and industrial (C&I) loan balances grew to $2.0 billion. Additionally, securities increased by $7.1 billion (21.1 percent).

Total 30-89 day past due balances increased by 15.7 percent from one year ago, driven by one- to four-family lending, and consumer and C&I 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 80 percent, up from 76.4 percent a year ago. The noncurrent rate in the fourth quarter was 1.54 percent, down seven basis points from the previous quarter and 27 basis points from the previous year. Despite the improvement, both of these figures trail the coverage ratio and noncurrent rate of all community banks (148.42 percent and 0.75 percent, respectively).

Total equity capital increased from the previous year by $2.8 billion (9.5 percent) to $31.8 billion. All standard capital ratios, except the Tier 1 Leverage ratio, increased from fourth quarter 2018. The Tier 1 Leverage ratio decreased by four basis points to 11.65 percent. All but one institution was considered well capitalized or adequately capitalized.

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 (LMI) 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 *Policy Statement Regarding Minority Depository Institutions* (see Attachment 1) provides the framework for the minority depository institutions program (MDI program). The FDIC has a National Director of Minority and Community Development Banking in the Washington, DC Office, and MDI coordinators in each of its six regional offices. The National Director reports to the Directors of the Division of Risk Management Supervision and the Division of Depositor and Consumer Protection to leverage resources and expertise in the two divisions. In 2019, the FDIC filled two additional dedicated positions that support the MDI program at the national level.

The National Director advises the FDIC Chairman on MDI activities and initiatives, provides overall direction and guidance, and consults with other FDIC divisions to provide appropriate resources across the agency to support 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 FDIC's efforts under this program, discuss possible training initiatives, and explore options for preserving and promoting minority ownership and management of depository institutions.