Preservation and Promotion of Minority Depository Institutions

The Federal Deposit Insurance Corporation Report to Congress for 2020

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 (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 for training, technical assistance, and educational programs for MDIs.

Pursuant to Section 367 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, this report provides a summary profile of MDIs as of the end of 2020; a description of the FDIC's MDI program; and detailed information on the FDIC's 2020 initiatives supporting MDIs.

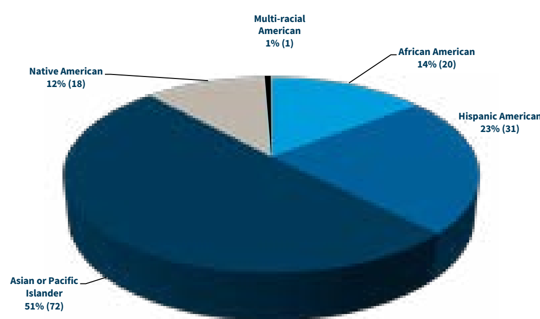
The FDIC defines an MDI as any federally insured depository institution for which: (1) 51 percent or more of the voting stock is owned by minority individuals; or (2) a majority of the Board of Directors is minority and the community that the institution serves is predominantly minority. Ownership must be by U.S. citizens or permanent legal U.S. residents to be counted in determining minority ownership. *The FDIC's Statement of Policy 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, as well as MDIs that are supervised by the Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve (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

FDIC-insured MDIs by Type as of 12/31/2020



Source: FDIC

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

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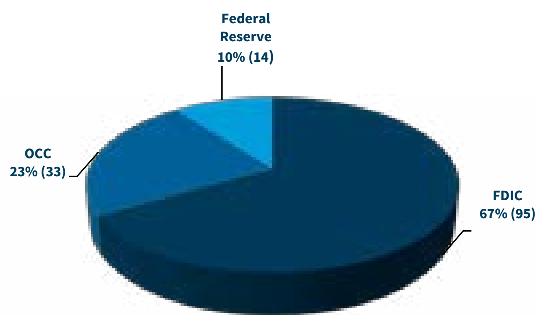
As of December 31, 2020, FDIC-insured MDIs totaled 142 institutions with combined total assets of over $287 billion and 35,509 employees (see Attachment 2, *List of Minority Depository Institutions*). The FDIC supervised 95 of the 142 MDIs as their primary Federal regulator.

At the beginning of 2020, there were 144 FDIC-insured MDIs with combined total assets of nearly $249 billion. During the year, two newly designated MDIs were added to the list, one Asian American and one Native American. In addition, due to a change in control, one Hispanic American MDI was added to the list. One Asian American MDI changed its minority status to Multi-racial American. Five MDIs were removed from the list during the year, including four that lost MDI status due to merger or acquisition (two Hispanic American, one African American, and one Asian American MDI). One Hispanic American MDI had a change in control that changed its status to non-MDI.

Of the four MDI mergers or acquisitions that took place, three of the four were with other MDIs. Of the $6.7 billion in assets involved in MDI mergers and acquisitions, $6.2 billion or 92 percent remained in MDIs after the transaction, preserving the minority character.

FDIC-insured MDIs by Primary Federal Regulator as of 12/31/2020



Source: FDIC.

Performance

As of December 31, 2020, the overall financial performance of FDIC-insured MDIs remains sound; however, there were nominal declines in key performance ratios. The proportion of profitable firms remained relatively stable over the year at about 85 percent of all MDIs. 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 4.41 and 4.58 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 and the pandemic, as well as smaller rural markets with economic challenges exacerbated by the pandemic.

MDI full-year 2020 net income was $2.8 billion, a decline of $350.3 million (11.3 percent) compared to full-year 2019. The reduction in net income was primarily due to a decrease in interest income of $748.5 million (7.0 percent) and an increase in provisions for credit losses of $694.7 million (129.0 percent).

The increase in provisions for credit losses was due to economic slowdowns and business shutdowns associated with the global pandemic. Additionally, 12 MDIs adopted the new accounting standard, current expected credit losses methodology (CECL) for estimating allowances for credit losses. Given the size of many of these banks, provisions played a meaningful role in increasing overall provisions for MDIs as a whole.

MDIs reported relatively stable net interest income and higher noninterest income while net interest margins declined. Net interest income improved slightly by $1 million due to the decline in interest expense of $749 million (34.1 percent) being greater than the $748 million (7.0 percent) decline in interest income. The net interest margin dropped 52 basis points to 3.43 percent from 3.95 percent at year-end 2019– because earning assets rose over $44 billion. Further, the increase in noninterest income from one year prior was due to net gains on loan sales of $110.7 million (177.0 percent) and net gains on sales of other assets of $20.6 million (1081 percent).

Noninterest expense increased $257 million (4.4 percent) compared to year-end 2019. This increase was due to increases in salaries and employee benefits, and premises and fixed asset expenses. During the same period, the MDI efficiency ratio (noninterest expense divided by net operating revenue) increased to 56.71 percent from 55.98 percent, compared to a ratio of 62.32 percent for all community banks. This means that MDIs spent 57 cents to bring in a dollar of revenue, while community banks overall spent 62 cents to bring in a dollar of revenue.

Despite the increase in noninterest income, the increase in provisions for credit losses coupled with the negligible increase in net interest income were the primary drivers of the decline in the pretax return on assets of 45 basis points to 1.28 percent from year-end 2019, 3 basis points lower than community banks' ratio of 1.31 percent.

Total earning assets increased $44.2 billion (19.6 percent) from the year prior as loan balances rose $18.9 billion (11.0 percent), cash and due increased $17.7 billion (101.1 percent), and securities increased $8.6 billion (22.1 percent).

The 11.0 percent loan growth rate at MDIs exceeded the loan growth rate for all community banks by 70 basis points. Paycheck Protection Program (PPP) lending activity continues to contribute significantly to this growth. The number of PPP loans held by MDIs at the end of 2020 was 102,787, representing $8.6 billion or 4.5 percent of total loans. Commercial and industrial (C&I) loan balances reported growth of $7.5 billion and 1-4 family loan balances increased $3.3 billion from 2019. Commercial real estate (CRE) categories accounted for $6.1 billion of total loan growth, which was mostly from nonfarm, nonresidential lending ($4.6 billion), and multifamily loans ($1.4 billion). Funding the asset growth was an almost equal growth in total deposits, which increased by $42.1 billion (21.0 percent).

Since year-end 2019, total 30-89 day past due balances decreased while noncurrent balances and net charge-off balances increased. The 30-89 day past due loan balance decreased by $87 million (6.8 percent) from year-end 2019, and the 30-89 day past due rate decreased 13 basis points to 0.62 percent from year-end 2019. This decrease in past due loan balances can be partly attributed to the modification or deferral programs provided under section 4013 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

Noncurrent balances increased by $850 million (31.4 percent). The noncurrent rate was 1.86 percent, up 29 basis points, and higher than community banks' noncurrent rate of 0.77 percent. The percentage of noncurrent 1-4 family residential balances increased from 3.69 to 5.11 percent of total assets.

The net charge-off rate decreased 3 basis points from year-end 2019 to 0.28 percent. Real estate secured by farmland, total consumer, and auto

portfolios had the highest declines in net charge-off rates. The coverage ratio (allowance for loan and lease losses to noncurrent loans and leases) increased to 99.06 percent, up from 77.66 percent a year ago, due to the large provisions for credit losses that led to an increase in the allowance for loan and lease losses. The MDI coverage ratio trails the rate of all community banks (171.44 percent).

Total equity capital increased from the previous year by $1.4 billion (4.6 percent) to $32.2 billion. Over 83 percent of MDIs reported an increase in equity capital from a year ago. 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 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. Further, the economic strain caused by the pandemic disproportionately affected these communities.

FDIC National Minority Depository Institutions Program

The FDIC's *Statement of Policy Regarding Minority Depository Institutions* (see Attachment 1) provides the framework for the agency's MDI program. The FDIC has a National Director of Minority and Community Development Banking in the Washington, D.C. office, two national staff, 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.

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 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.The National Director also regularly meets with Federal banking agency colleagues to discuss outreach and training efforts, to share ideas, and to identify opportunities where the agencies can work together to support MDIs. In addition, the FDIC coordinates with other Federal agencies that provide programs that can assist MDIs.

In the FDIC continuing series #FDIC explains, Betty J. Rudolph, National Director, Minority and Community Development Banking, explains what MDIs are and why they are so important.