Office of the
Comptroller of the Currency

MDIAC Meeting

September 12, 2023

State of MDIs

Financial Information as of June 30, 2023

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Agenda

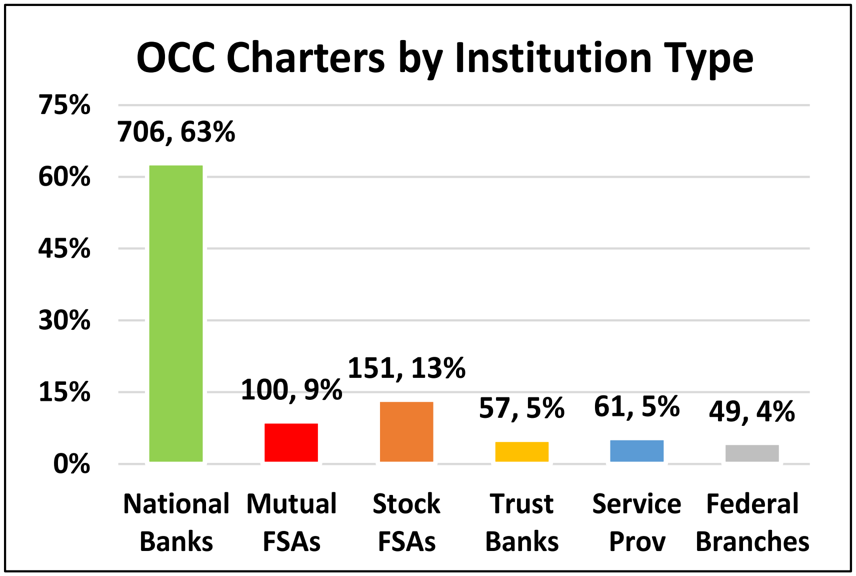
This presentation will focus on:

- **Portfolio Demographics**
- **Supervisory Information**
- **Financial Performance**
- **Economic Challenges**

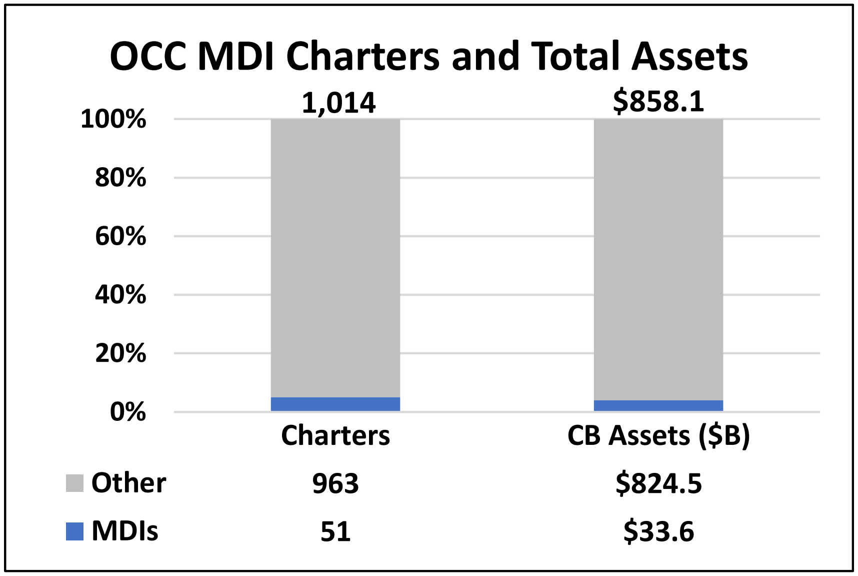
Preface: The current bank population as of June 30, 2023, is “held constant” for financial analysis. All federal savings associations (FSAs) have filed the commercial bank call report since 2012. Some charts use the median and others weighted averages. The OCC created “unified” calculations for certain ratios which allows us to provide trend data back to 2007 for FSAs when the former Thrift Financial Report contained the necessary elements.

MDI Charters and Total Assets

- OCC supervised 1,124 total institutions or 1,014 bank charters (first 4 columns) as of June 30, 2023.

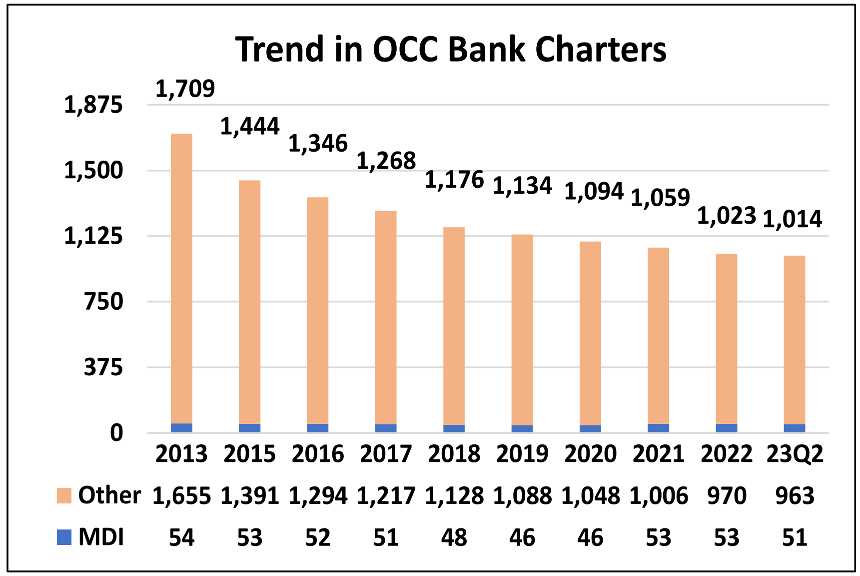


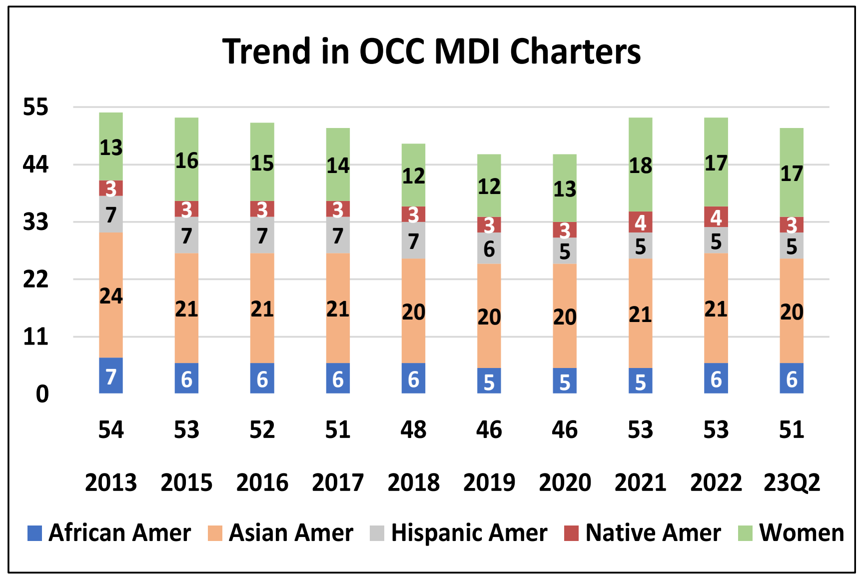
- Minority Depository Institutions (MDIs) represent 51 or 5.0 percent of OCC-supervised bank charters and $33.6 billion or 3.9 percent of OCC-supervised community bank assets as of June 30, 2023.



Trends in OCC and MDI Charters

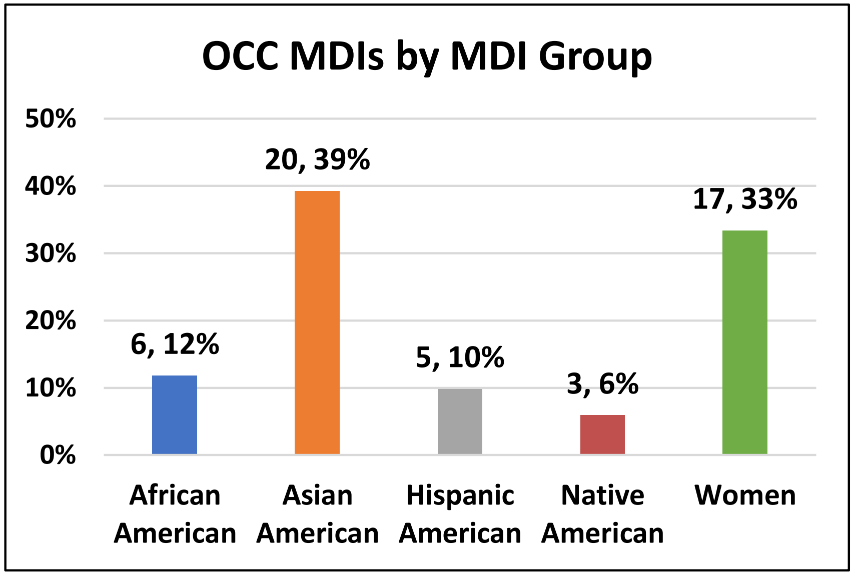
- The banking system continues to consolidate. MDIs have increased as a share of total OCC charters. The number of MDIs decreased by three since 2013 but the net number of total OCC charters decreased by 695 or 41 percent due primarily to mergers and acquisitions.



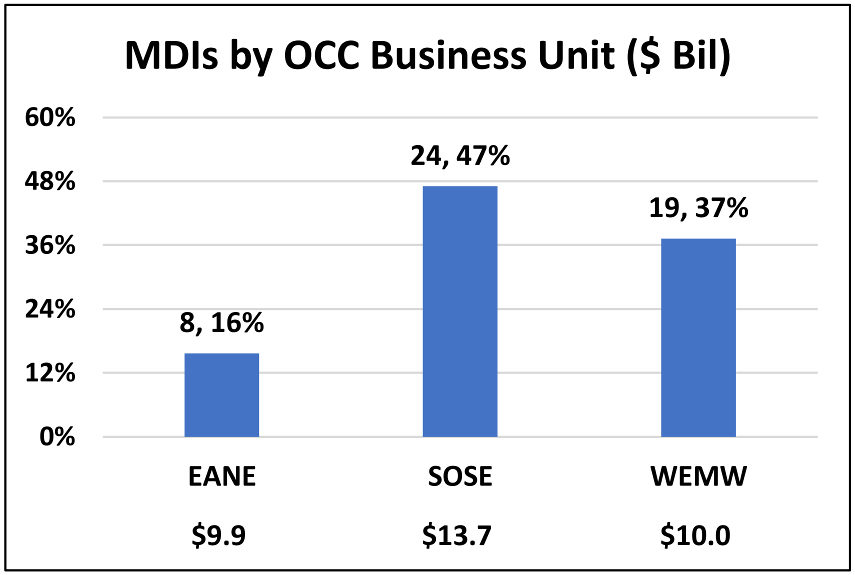


MDIs by Group and OCC Business Unit

- Most OCC-supervised MDIs or 39 percent are Asian or Pacific Islander American as of June 30, 2023.

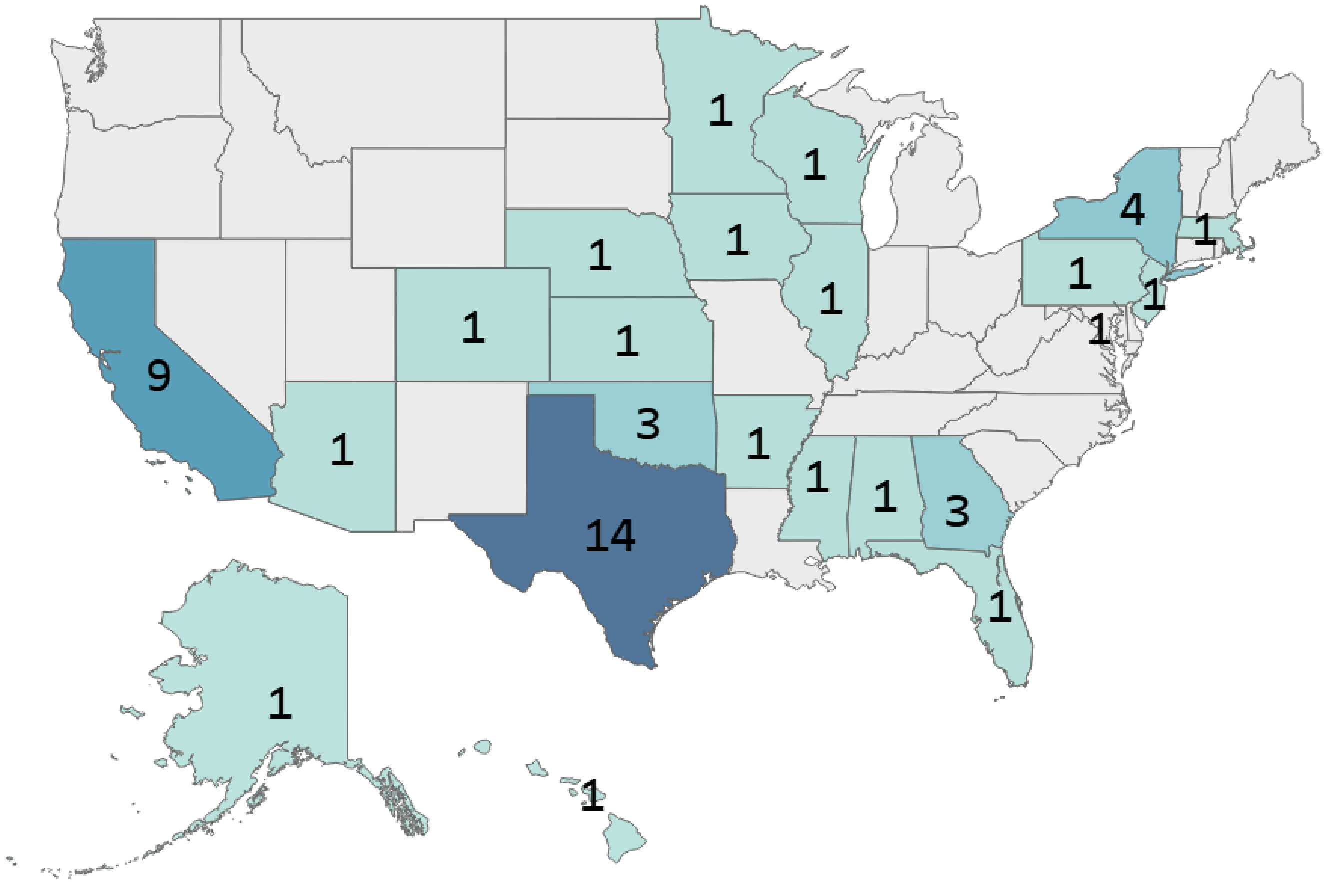


- Most OCC-supervised MDIs or 47 percent are in the South/Southeast community bank portfolio.



MDIs by State

The OCC-supervised MDIs are in 23 states as of June 30, 2023. MDIs are concentrated in Texas (14) and California (9). Three other states have multiple MDIs: New York (4), Georgia (3), and Oklahoma (3).

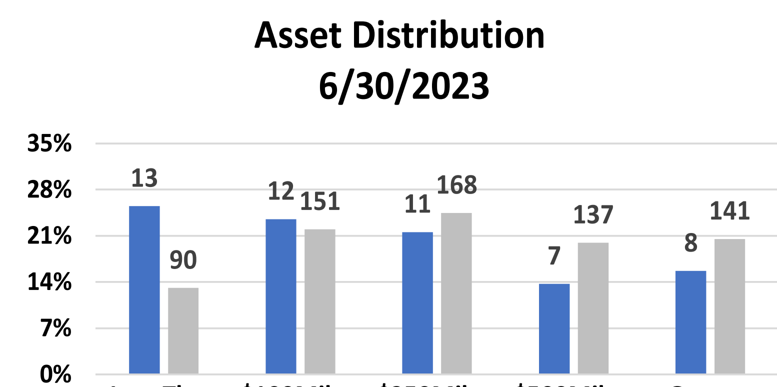


MDI Peer Groups

- As of June 30, 2023, the smallest MDI had $28.0 million in total assets and the largest MDI had $5.5 billion.
- MDIs fall into two institution type categories – national banks or stock FSAs. There are no mutual FSA MDIs or trust company MDIs.
- No MDI is supervised by Midsize or Large Bank Supervision.
- As such, the MDI peer group referenced throughout this presentation is community banks with total assets less than $5.6 billion and not mutually-owned (CB Peer).
- We will also compare OCC-supervised MDIs to MDIs supervised by the FDIC and Federal Reserve (Non-OCC).

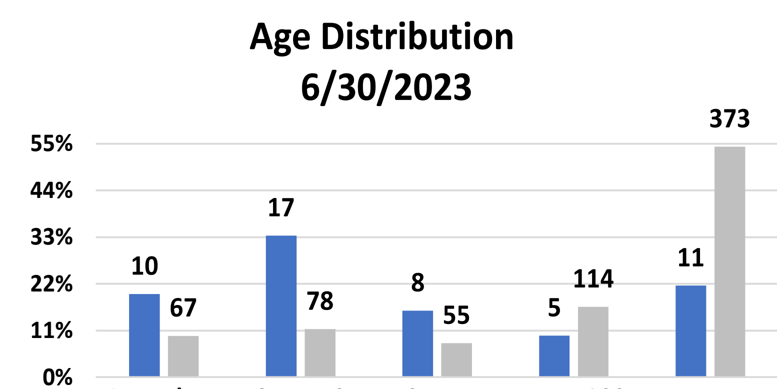
MDIs by Asset Size and Age

- MDIs are generally smaller in size than the community bank peer group. Forty-nine percent of MDIs have total assets less than $250 million versus 35 percent for the community bank peer.



	Less Than $100Mil	$100Mil to $250Mil	$250Mil to $500Mil	$500Mil to $1Bil	Greater Than $1Bil
MDIs	25%	24%	22%	14%	16%
Peer	13%	22%	24%	20%	21%

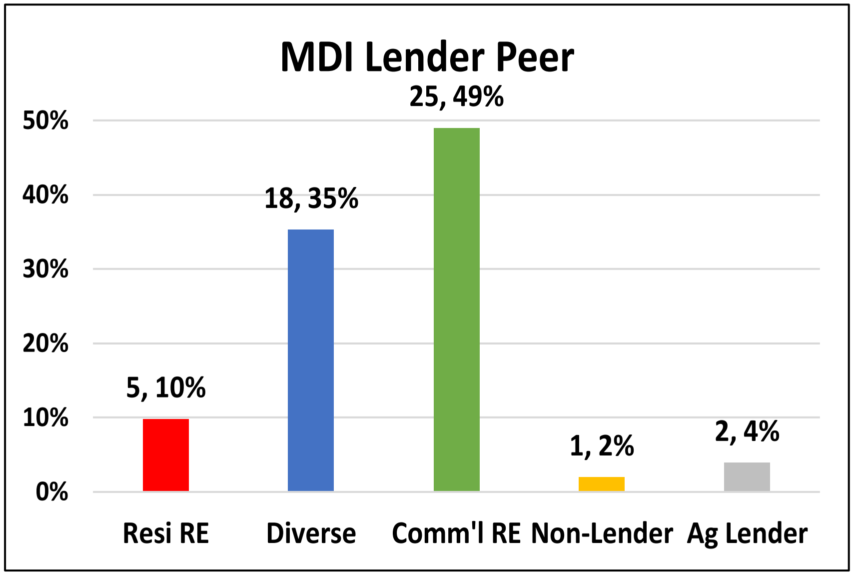
- MDIs have been operating for fewer years than the community bank peer group. Only 22 percent of MDIs were formed more than 100 years ago compared to 54 percent for the community bank peer.



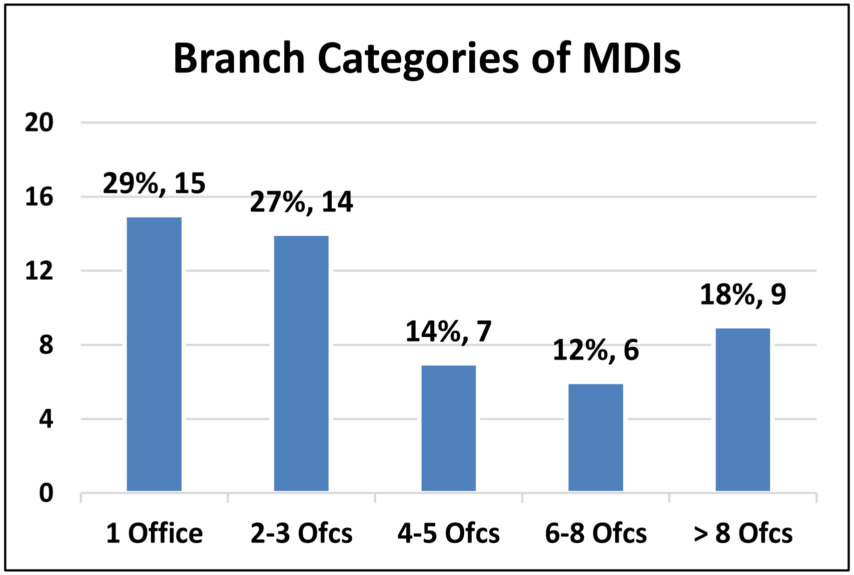
	Less Than 25 Yrs	25 to 50 Yrs	50 to 75 Yrs	75 to 100 Yrs	> 100 Yrs
MDIs	20%	33%	16%	10%	22%
Peer	10%	11%	8%	17%	54%

MDIs by Lender Peer and Branch Network

- The majority or 84 percent of MDIs are either commercial real estate lenders or diversified lenders.

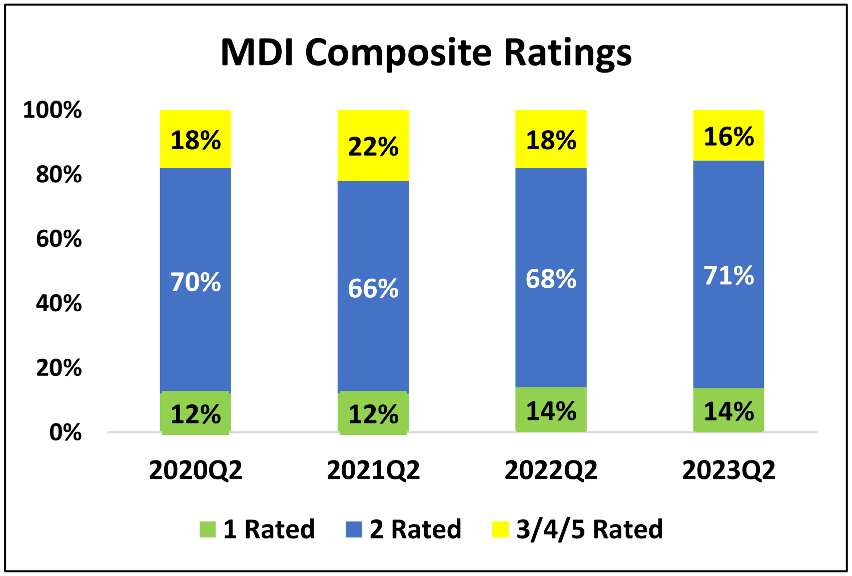


- Twenty-nine percent of MDIs operate from one location. Twenty-two MDIs or 43 percent have changed their branch configuration since 2015. Twelve MDIs increased their branch network. Ten MDIs reduced their branch network.

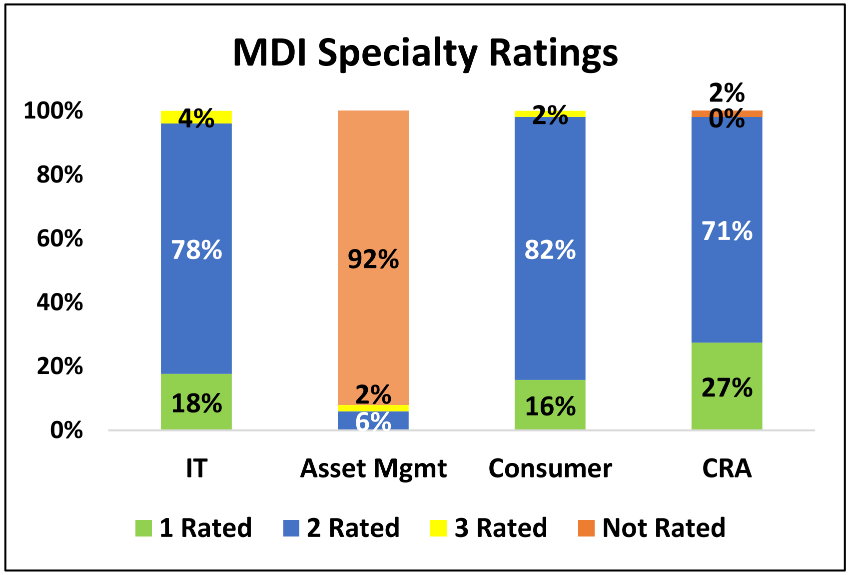


Composite and Specialty Ratings

- The overall condition of MDIs is satisfactory and improving. The share of MDIs rated composite 1 or 2 increased to 85 percent this year.

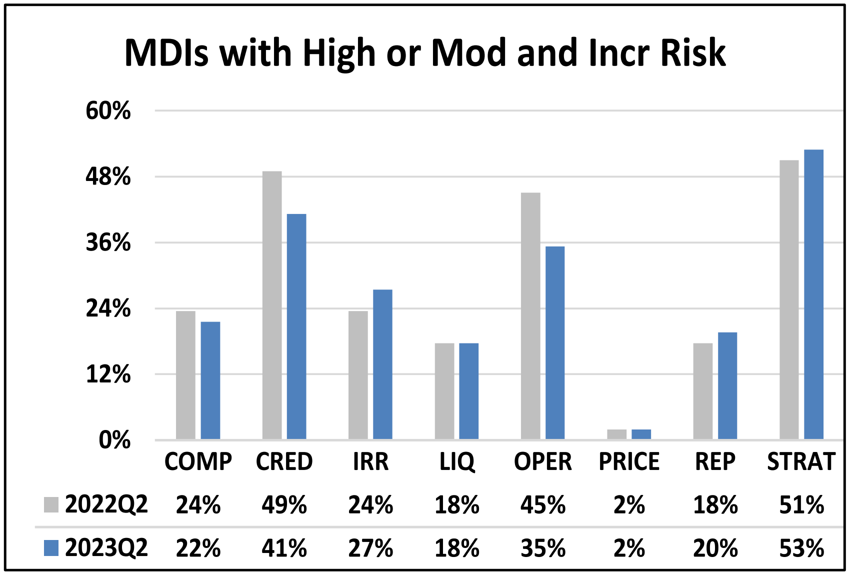


- Specialty ratings are satisfactory. Two MDIs are rated 3 for IT. Four MDIs have trust powers. One is rated 3. One MDI is rated 3 for consumer compliance. No MDI is rated less than satisfactory for CRA.

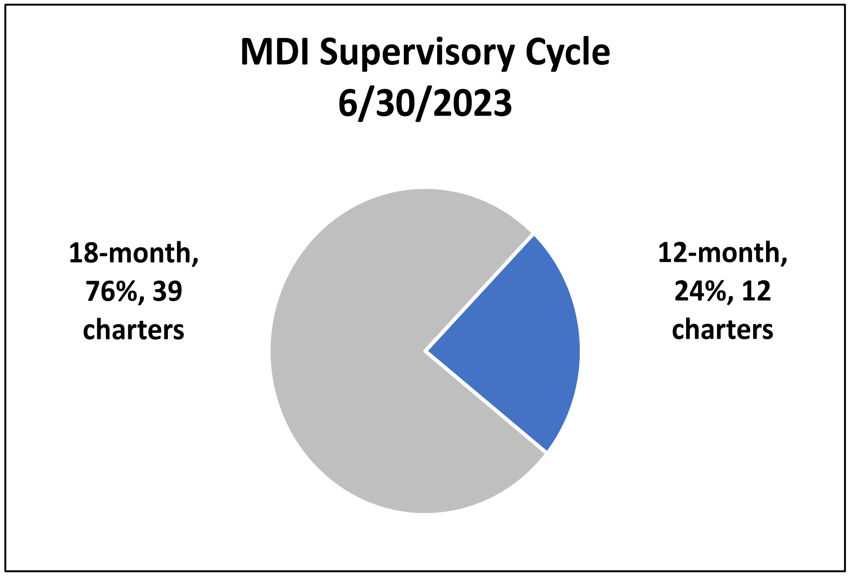


Risk Assessments and Supervisory Cycle

- The top three risks for MDIs are strategic (increasing), credit (decreasing), and operational (decreasing).

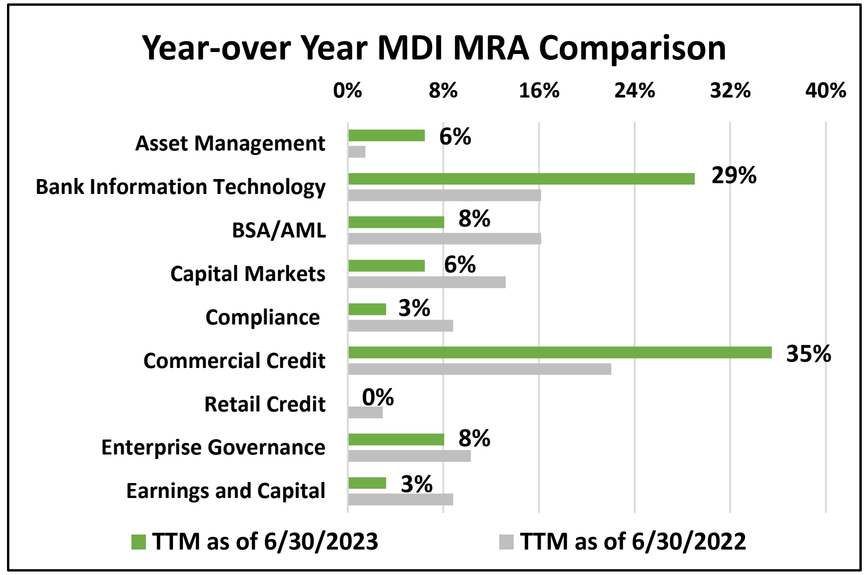


- Qualifying banks with less than $3 billion in total assets are eligible for an 18-month examination cycle. Seventy-six percent of MDIs are on the 18-month cycle.

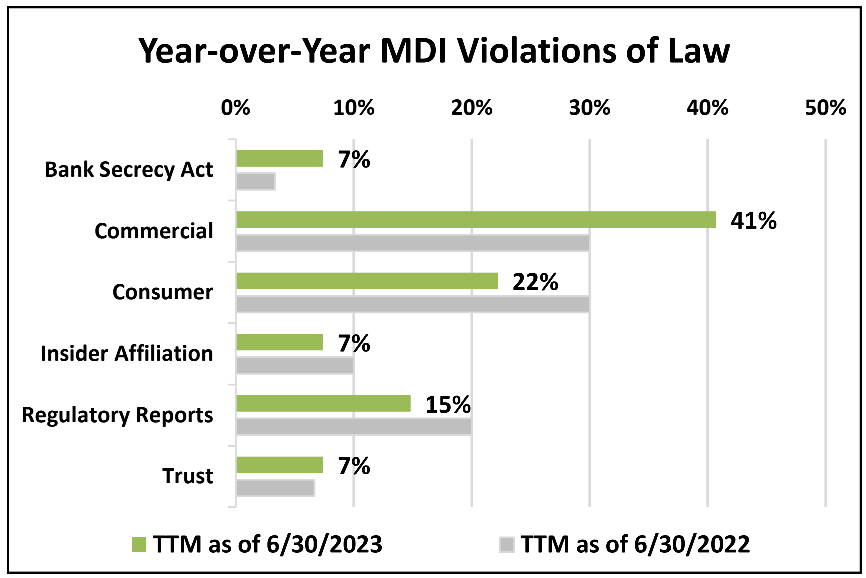


MRAs and VOLs

- MRA volume is down 9 percent for the trailing 12 months ending June 30, 2023. MRAs increased the most for Bank Information Technology and Commercial Credit. MRAs decreased the most for BSA/AML.

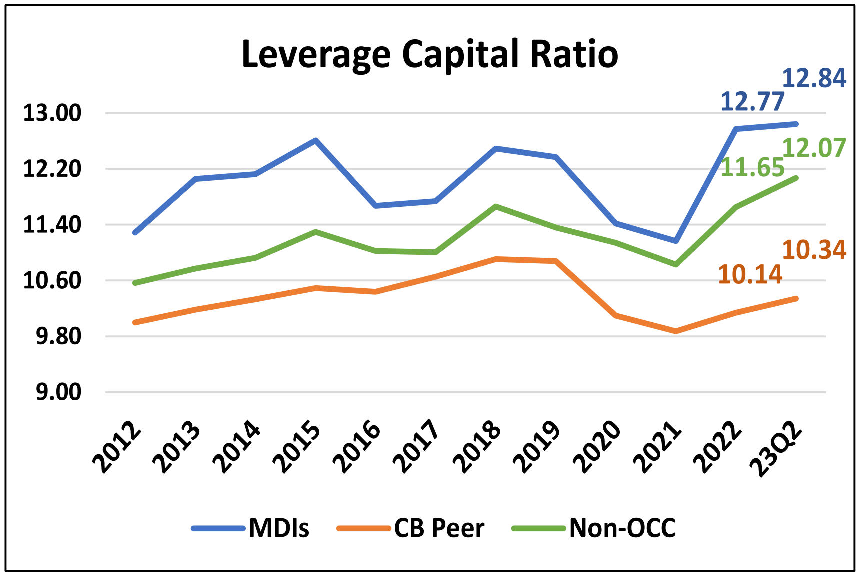


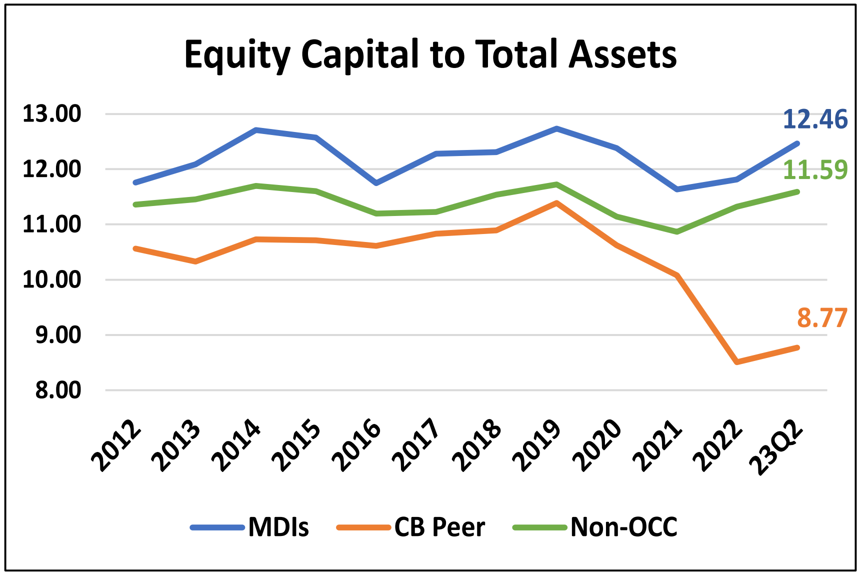
- VOL volume is down 3 percent for the trailing 12 months ending June 30, 2023. The top three VOLs are Real Estate Lending and Appraisals (12 CFR 34), Reports to the Comptroller of the Currency (12 USC 161), and Loans in Areas Having Special Flood Hazards (12 CFR 22).



Capital Levels are Strong

- OCC-supervised MDI capital ratios increased this year and remain well above peer. Without ECIP funds, the median OCC MDI equity capital ratio would be 11.98 percent and the weighted average OCC MDI equity capital ratio would fall 163 basis points from 11.71 to 10.08 percent.



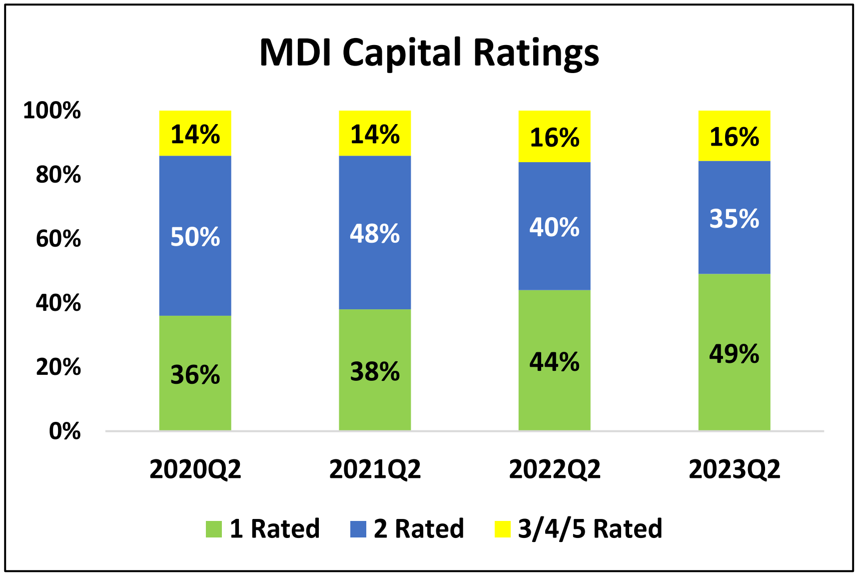


Leverage Ratio - June 30, 2023

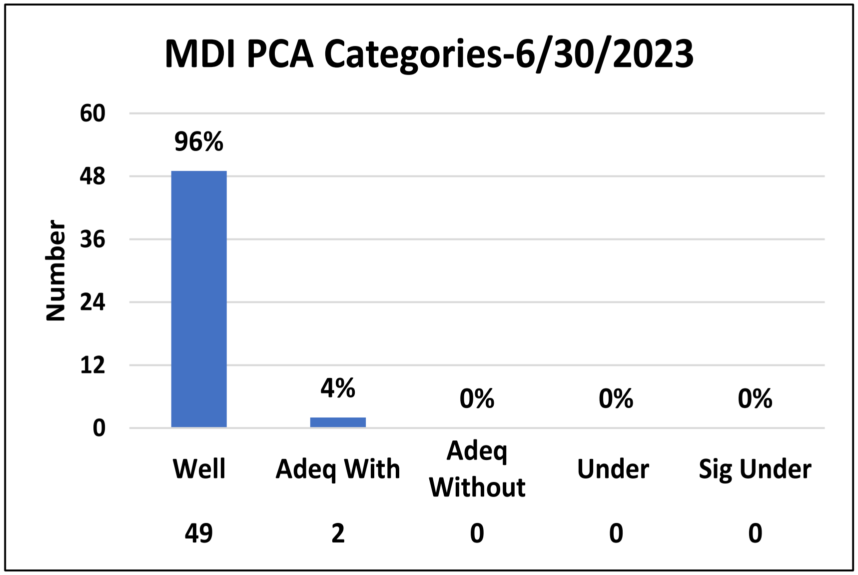
Asset Category	Peer	MDIs
Under $50MM	12.44	12.36
$50MM - $100MM	11.03	14.56
$100MM - $250MM	10.66	14.74
$250MM - $500MM	10.59	12.68
$500MM - $1B	10.12	10.22
Greater than $1B	9.69	12.48
Median	**10.34**	**12.84**

MDIs are Well Capitalized

- Capital ratings improved this year. Eighty-four percent of MDIs are rated 1 or 2 for capital with more MDIs rated 1.

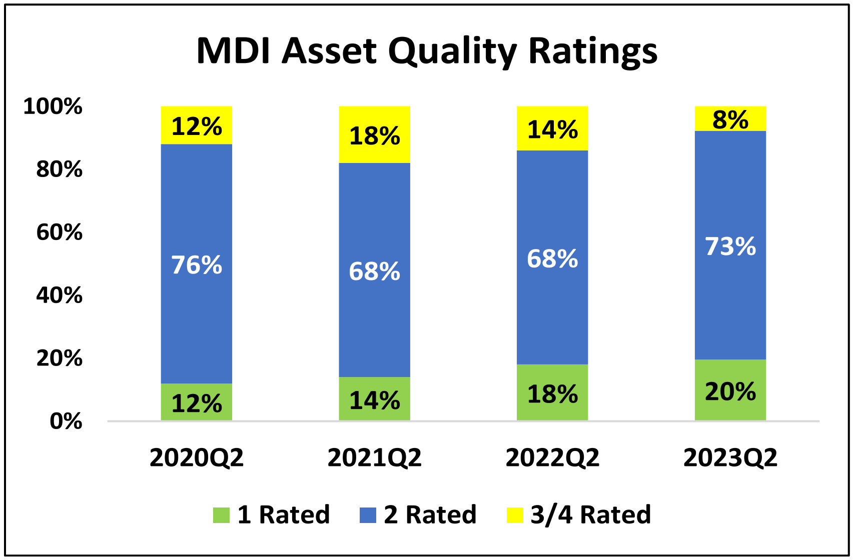


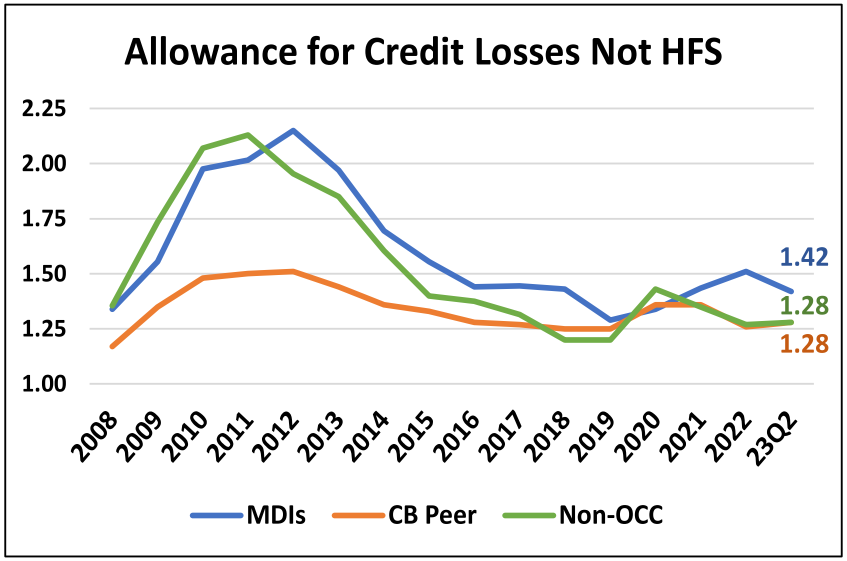
- Ninety-six percent of MDIs met the well capitalized definition in Prompt Corrective Action as of June 30, 2023. Two MDIs – with formal actions requiring higher minimums – are adequately capitalized.

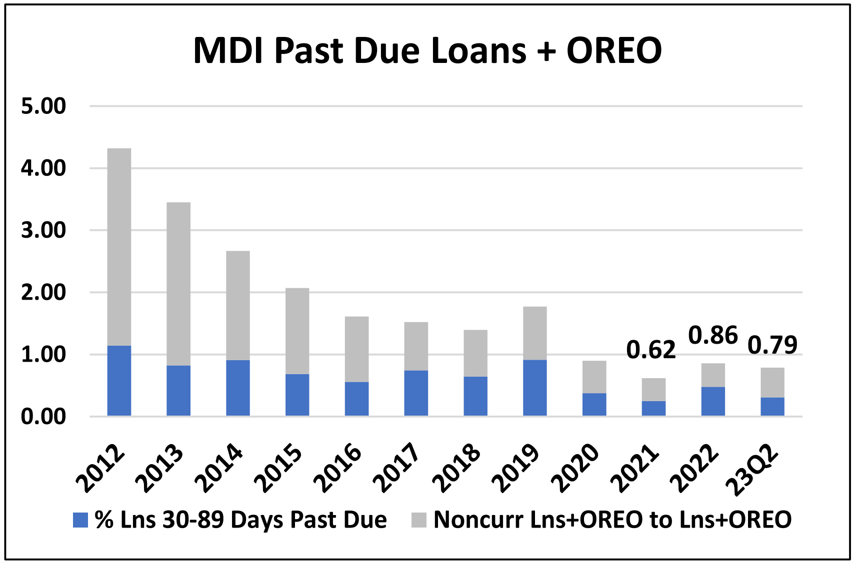


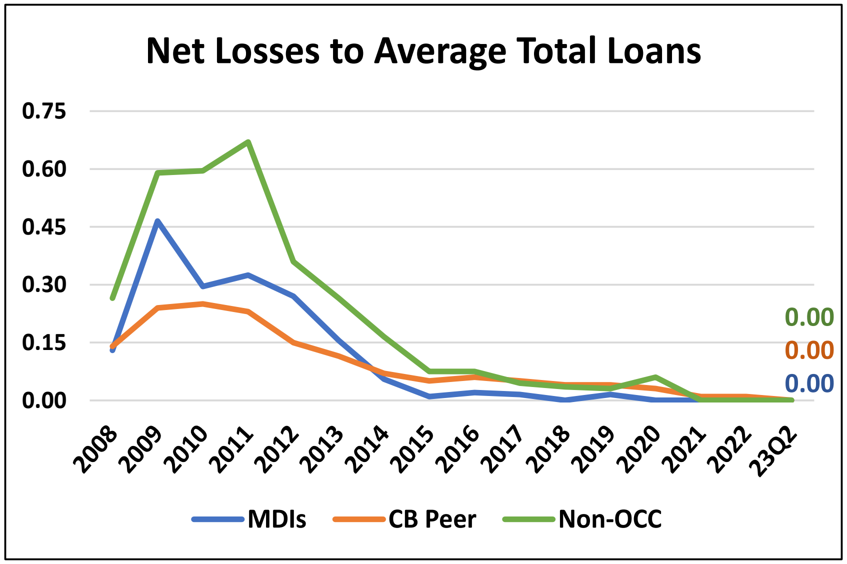
Asset Quality is Resilient

Asset quality ratings continue to improve. Delinquencies are low. The ACL is adequate. Loan losses are low. The weighted average loss ratio is 0.08 percent.



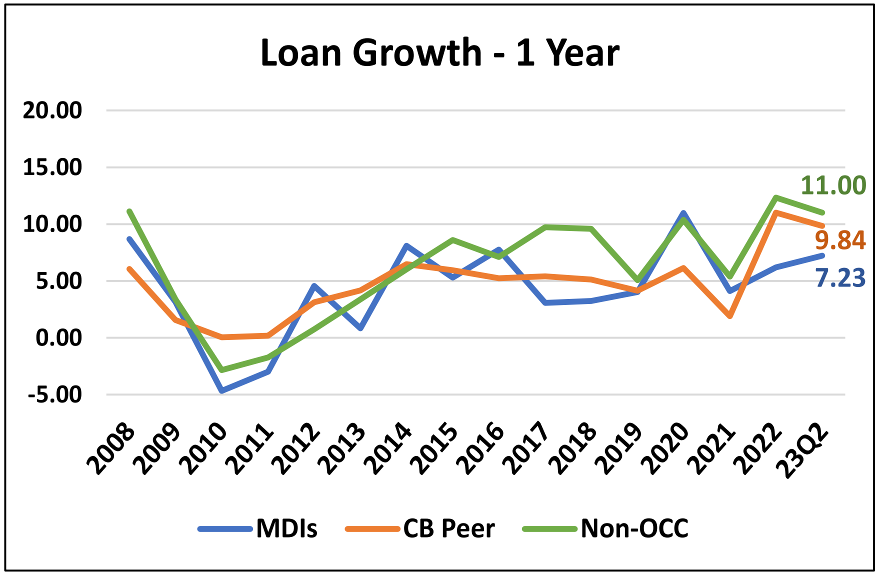




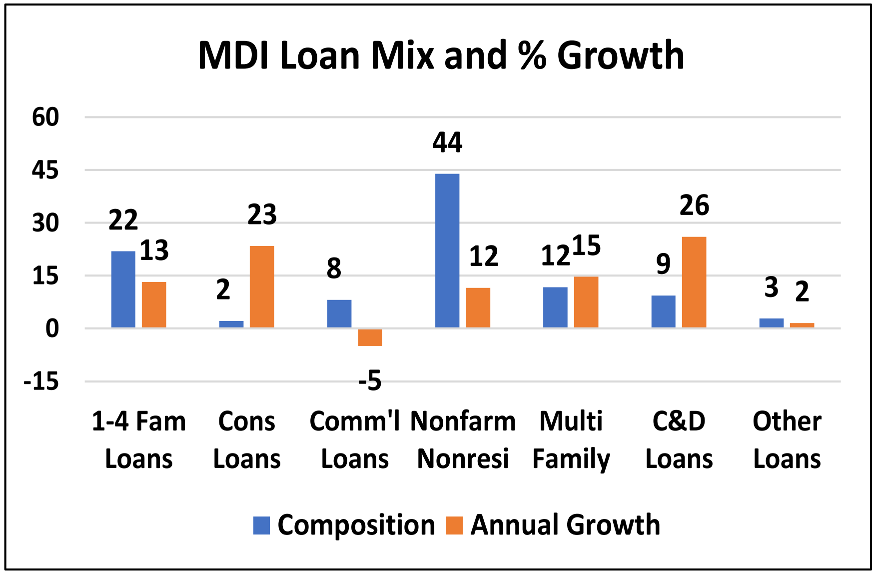


Loan Growth is Good

- After removing PPP loans, the adjusted MDI loan growth rate improved to 8.61 percent in 2023.

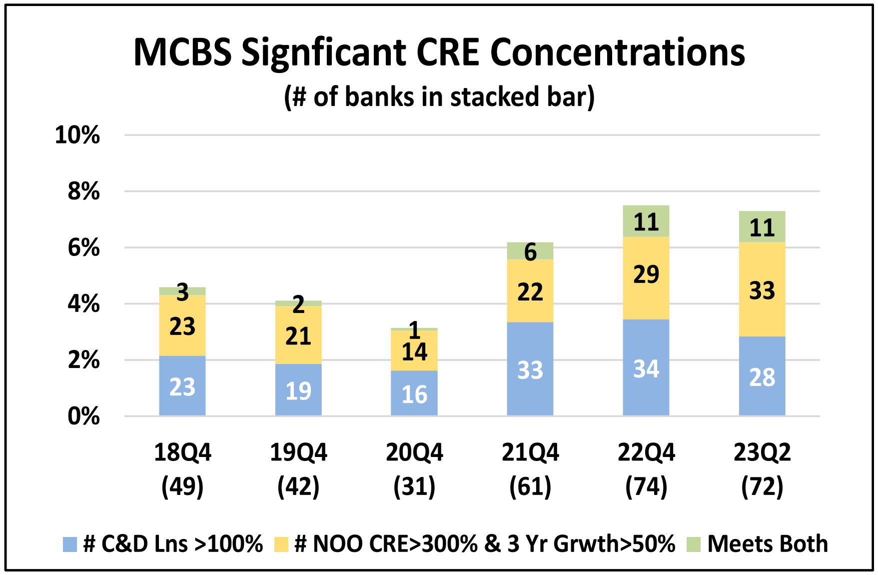


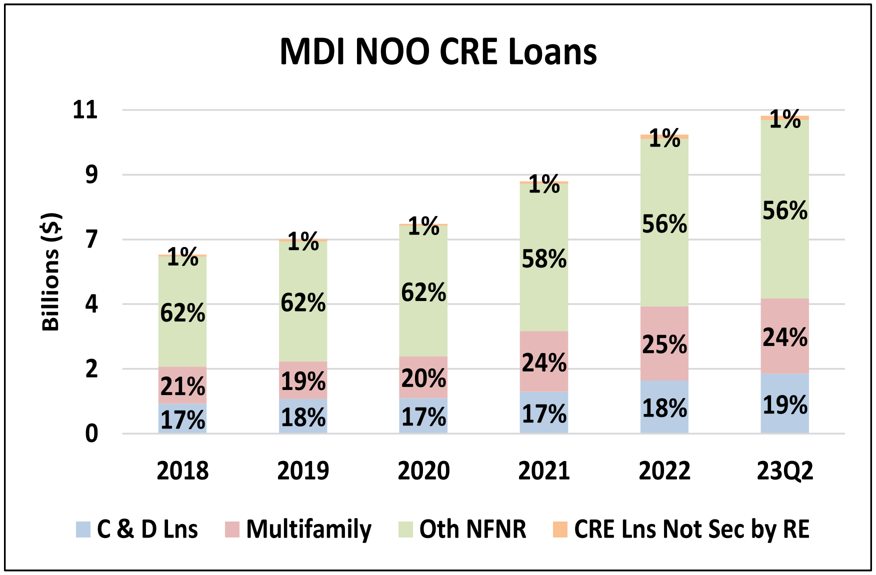
- CRE at 65.0 percent is the largest MDI loan category. MDI loan growth was highest for C&D, consumer, and multifamily loans.



CRE Concentrations

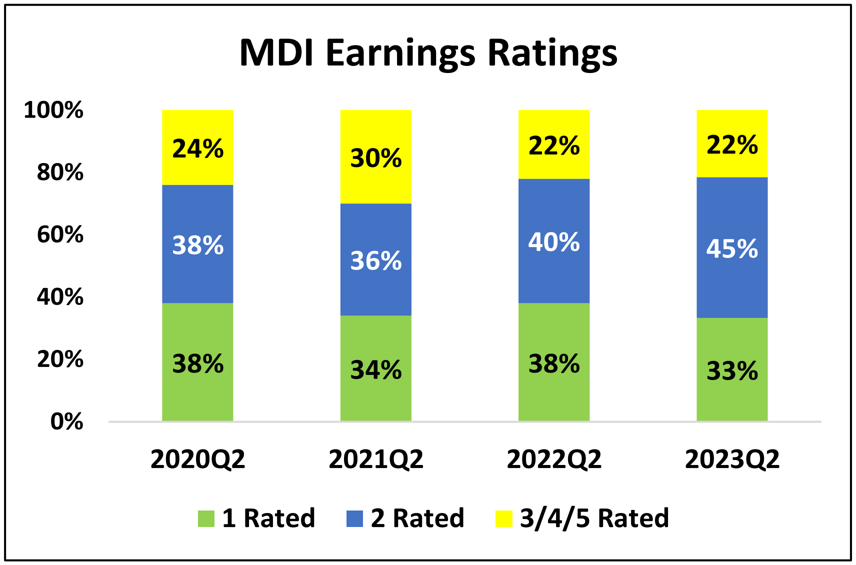
- Eight MDIs or 16 percent compared to 7 percent of MCBS banks exceed the supervisory thresholds in the CRE Interagency Guidance (Dec 2006). Banks have a **significant** CRE concentration if C&D loans > 100 percent of capital or NOO CRE > 300 percent of capital **and** CRE loans grew more than 50 percent in the prior three years.

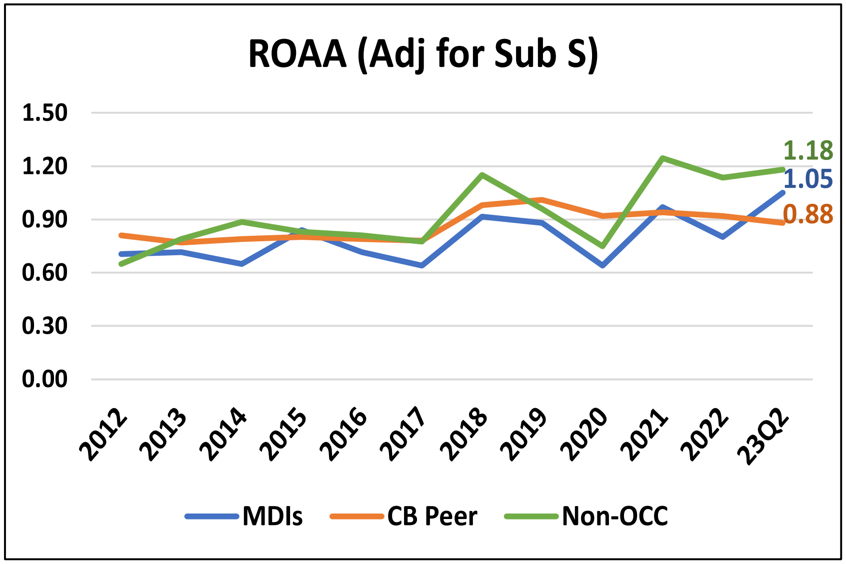


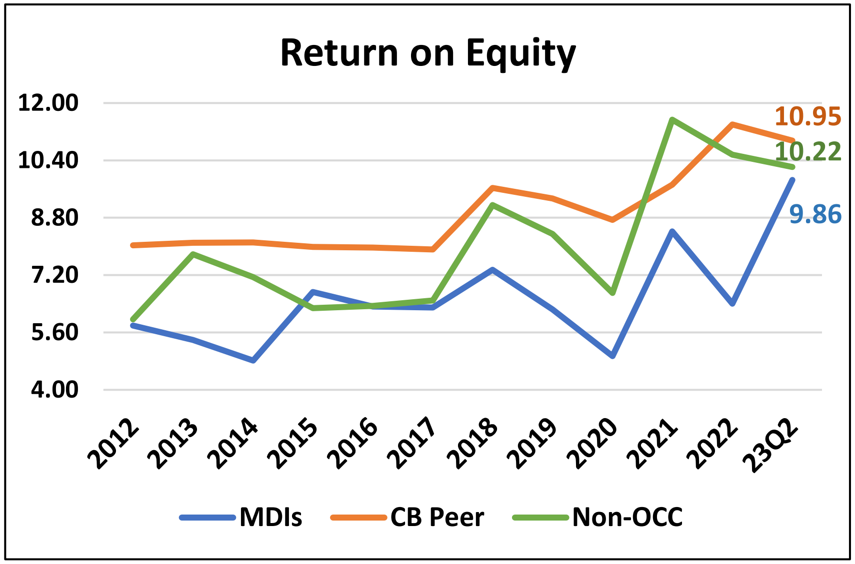


Earnings are Stable

Earnings ratings are stable but lag ratings in other safety and soundness areas. MDI ROAA increased 25 basis points to 1.05 percent and is now above CB peer.







Return on Assets - June 30, 2023

Asset Category	Peer	MDIs
Under $50MM	0.53	0.98
$50MM - $100MM	0.81	1.21
$100MM - $250MM	0.91	1.02
$250MM - $500MM	0.92	1.15
$500MM - $1B	0.80	0.98
Greater than $1B	0.96	0.94
Median	**0.88**	**1.05**

Net Income Up 7 Percent in 2023

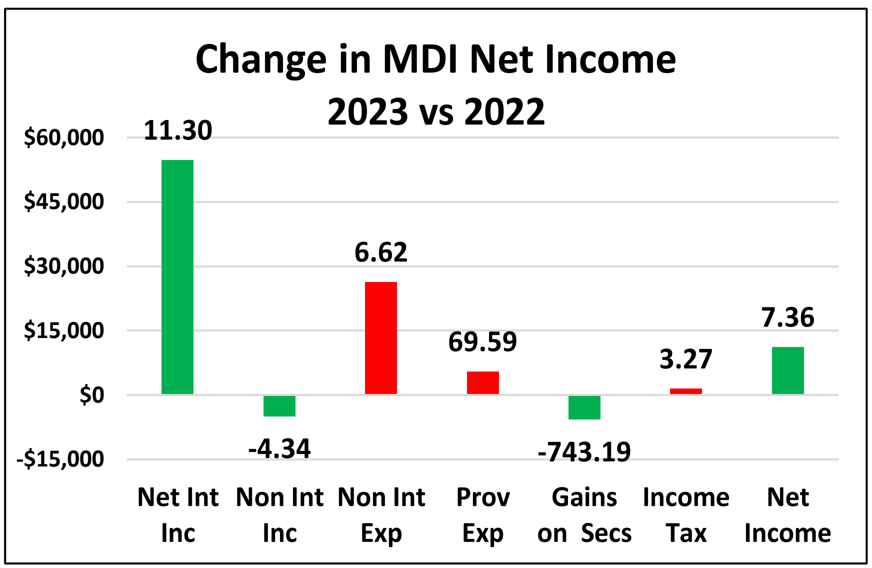
ROAA increased due to strong growth in net interest income.

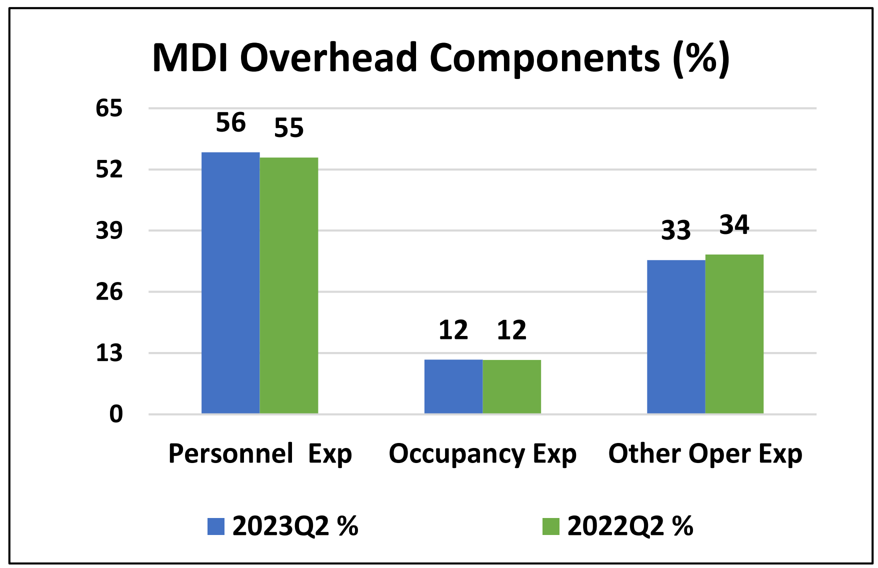
MDI Income Statement ($000's)

	2023Q2	2022Q2	Δ 1 Yr $	Δ 1 Yr %
Int Income	$787,098	$526,283	$260,815	49.56
Int Expense	$248,334	$42,230	$206,104	488.05
Net Int Inc	$538,764	$484,053	$54,711	11.30
Non Int Inc	$107,952	$112,848	-$4,896	-4.34
Non Int Exp	$423,408	$397,124	$26,284	6.62
Prov Exp	$13,121	$7,737	$5,384	69.59
Gains on Secs	-$4,914	$764	-$5,678	-743.19
Income Tax	$43,477	$42,100	$1,377	3.27
Net Income	$161,771	$150,681	$11,092	7.36

MDI ROAA Decomposition (%)

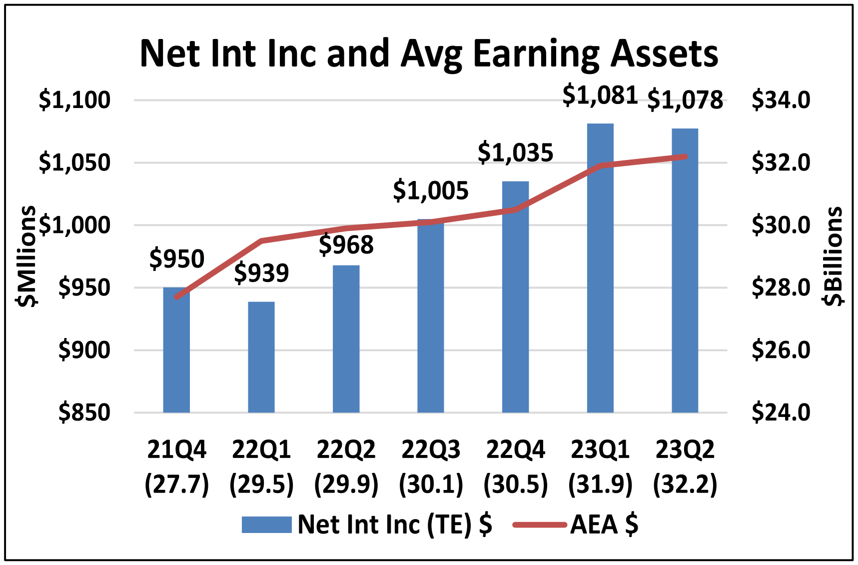
	2023Q2	2022Q2	Δ 1 Yr
Int Income	4.69	3.26	
Int Expense	1.48	0.26	
Net Int Inc	3.21	3.00	0.21
Non Int Inc	0.64	0.70	-0.06
Non Int Exp	2.52	2.46	0.06
Prov Exp	0.08	0.05	0.03
Gns on Secs	-0.03	0.00	-0.03
Income Tax	0.26	0.26	0.00
ROAA	0.96	0.93	0.03

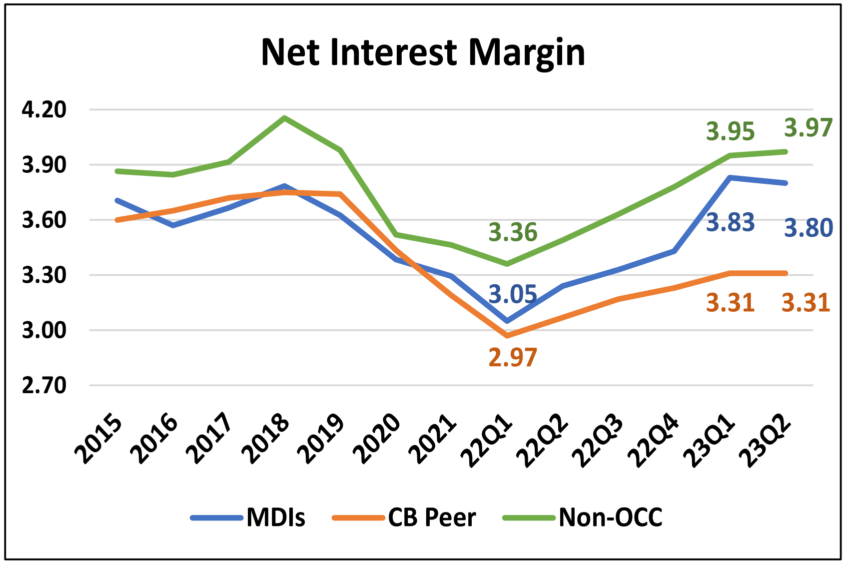


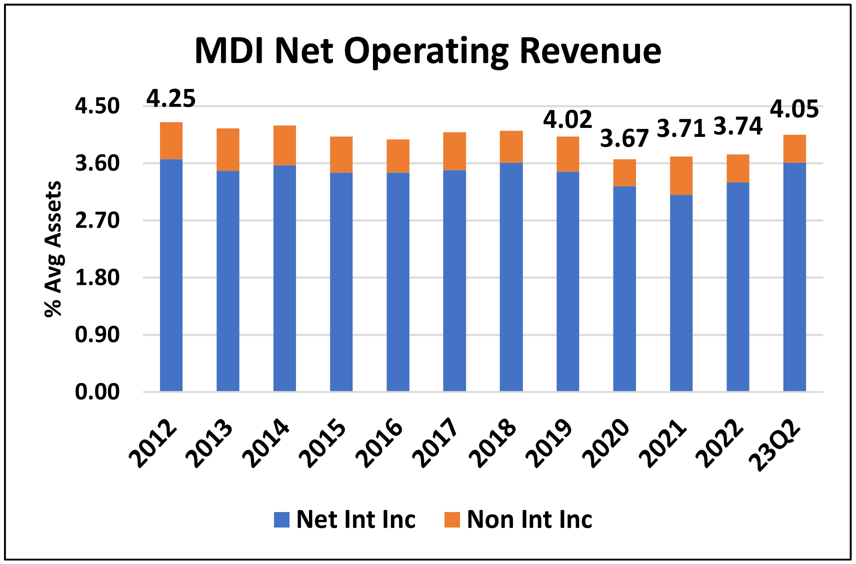


Net Interest Margin Contracts

After four quarters of expansion, NIMs contracted this quarter due to the sharp rise in the cost of funds. The NIM represents 89 percent of MDI operating revenue.





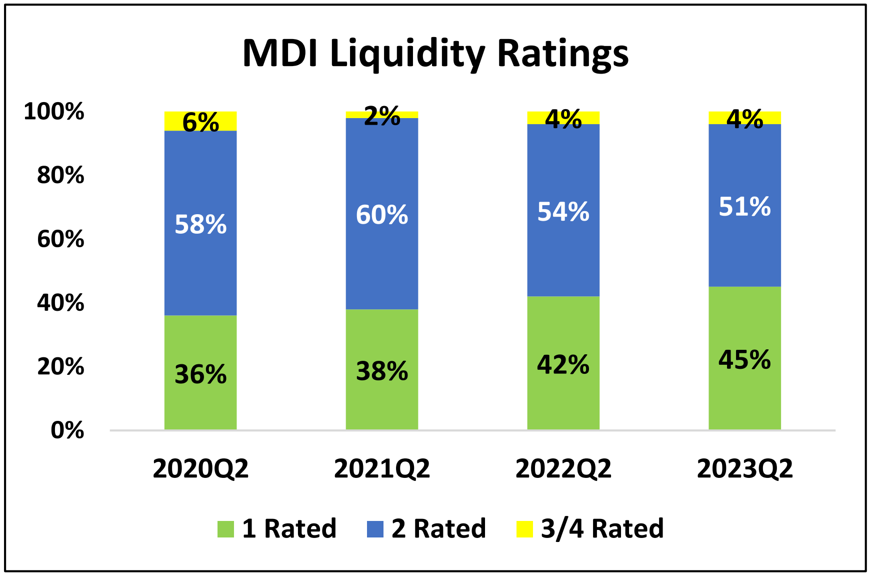


Net Interest Margin - June 30, 2023

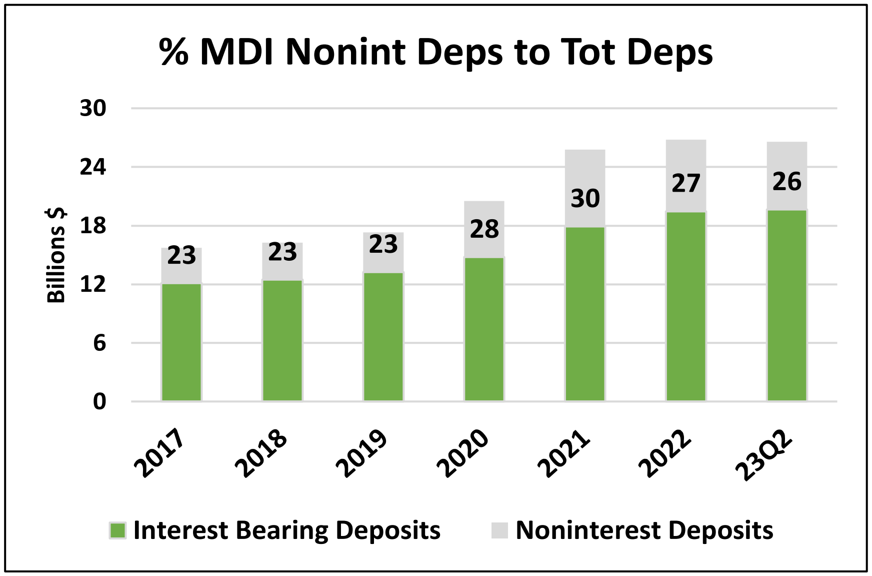
Asset Category	Peer	MDIs
Under $50MM	3.34	3.72
$50MM - $100MM	3.36	3.84
$100MM - $250MM	3.40	3.70
$250MM - $500MM	3.33	3.83
$500MM - $1B	3.21	4.20
Greater than $1B	3.17	3.05
Median	**3.31**	**3.80**

Liquidity Remains Sufficient

- Liquidity ratings remain strong. Ninety-six percent of MDIs are rated 1 or 2 and the share of banks rated 1 increased to 45 percent in 2023.

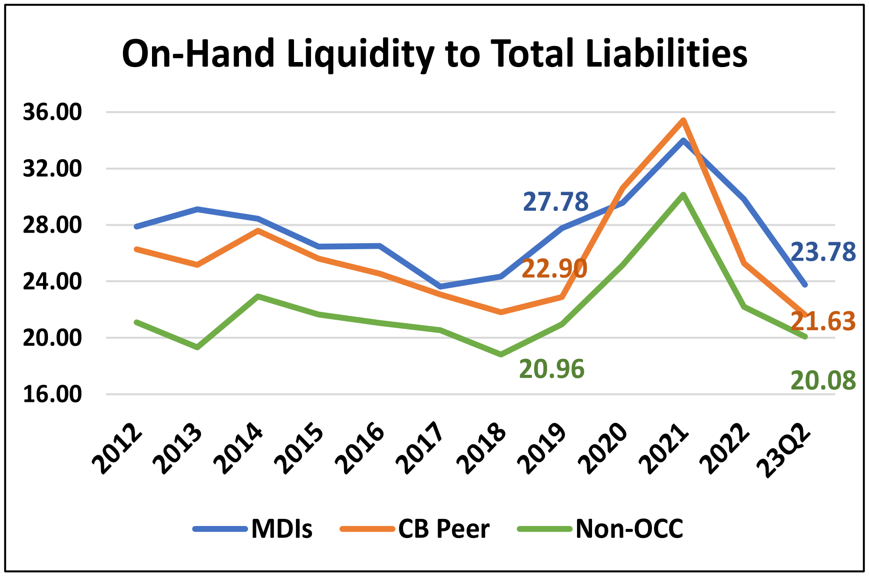


- Total MDI deposits remain solid but decreased 0.58 percent for the quarter, 0.78 percent year-to-date, and 0.81 percent for the year.

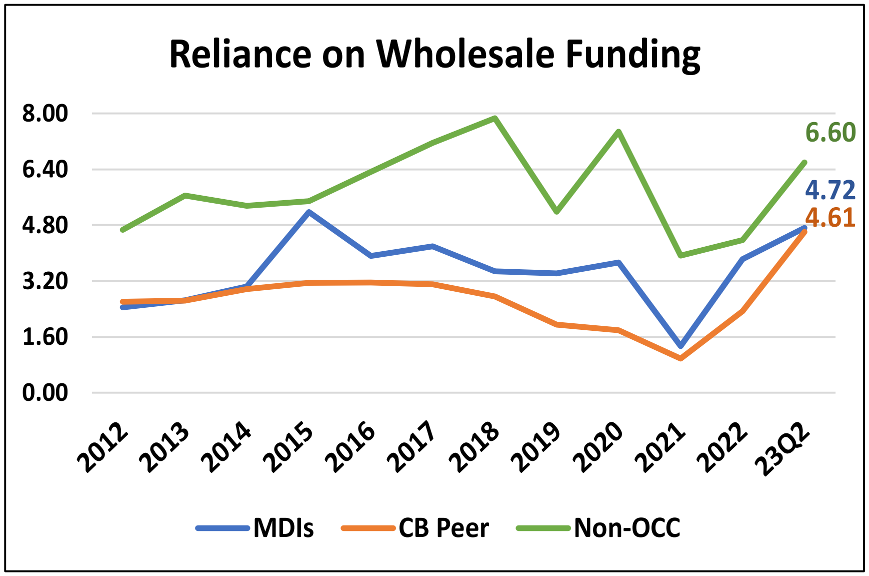


MDI On-Hand Liquidity Lower

- After reaching a cyclical peak in 2021 due to pandemic-related deposits, MDI on-hand liquidity ratios declined in 2022 and 2023 and are now below pre-pandemic levels.

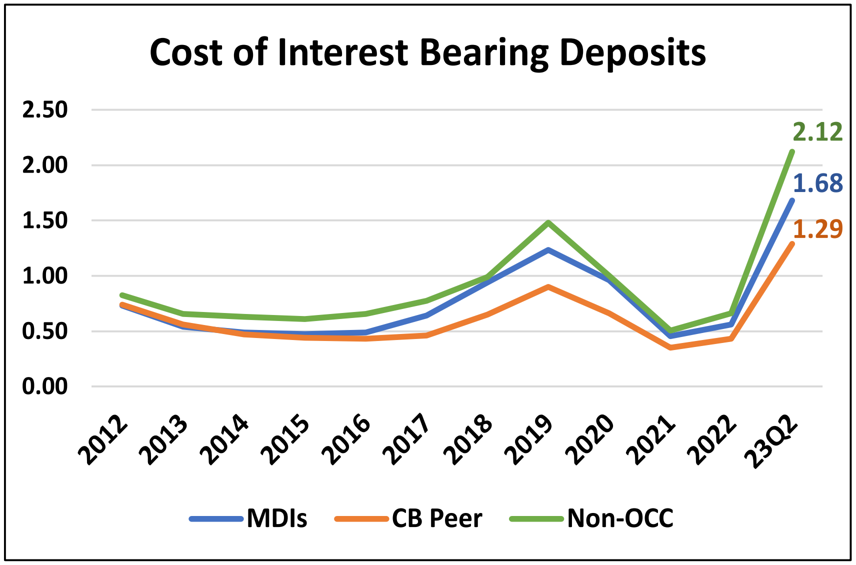


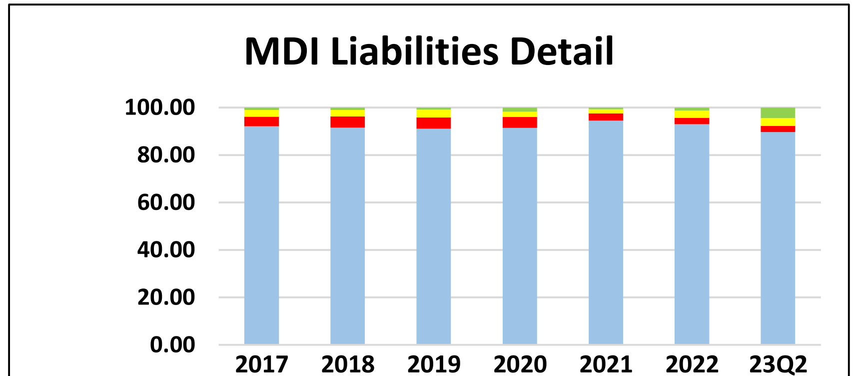
- Because of declining on-hand liquidity, MDIs are relying more on wholesale funding sources.



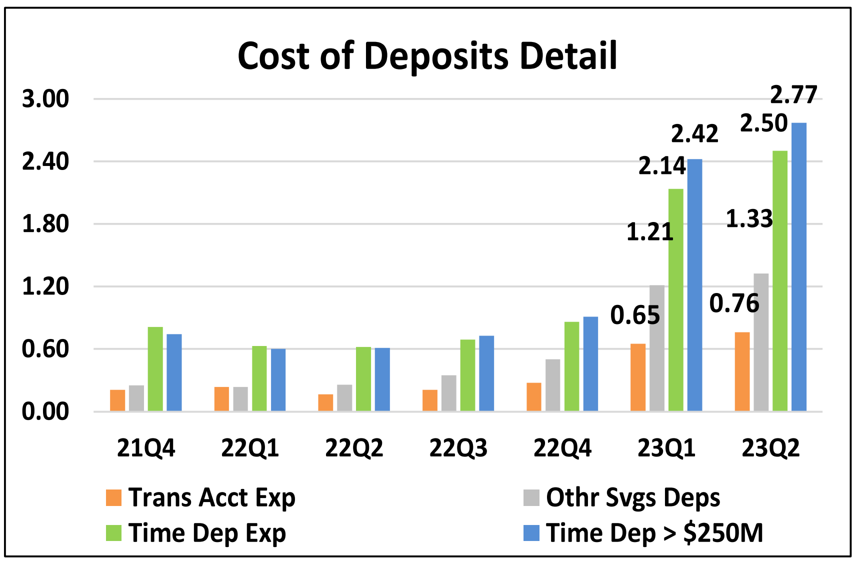
Cost of Deposits Jumps in 2023

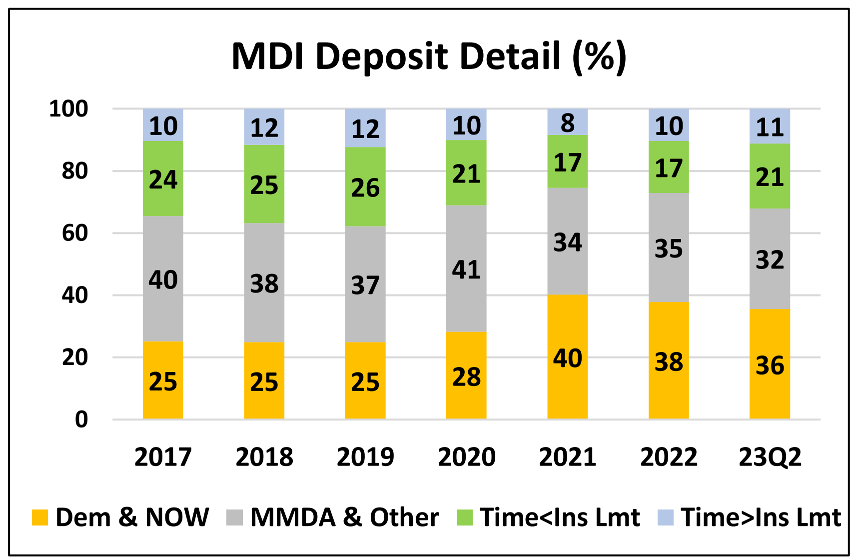
The cost of deposits rose sharply in 2023. Time deposits saw the largest increase in cost since last quarter.





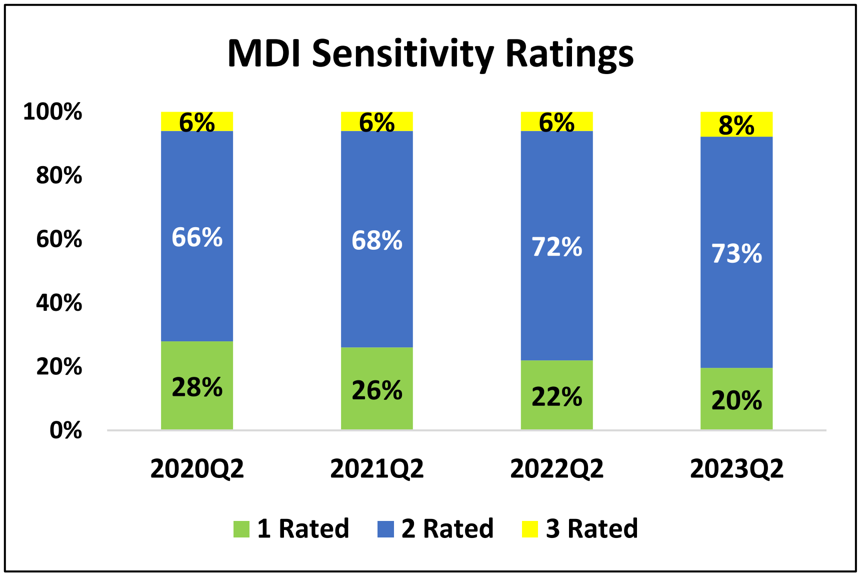
	2017	2018	2019	2020	2021	2022	23Q2
OTHER B/L	1.02	1.00	0.91	1.78	0.84	1.28	4.45
FHLB ADV	2.82	2.73	3.27	2.23	1.57	3.15	3.36
FFP & REPO	4.14	4.77	4.75	4.55	3.06	2.61	2.53
TOT DEPS	92.01	91.50	91.06	91.45	94.53	92.96	89.66

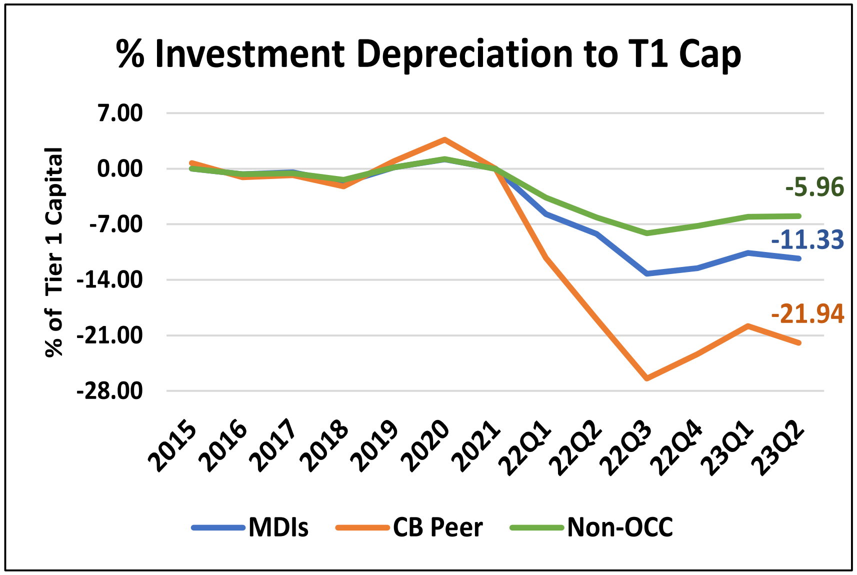


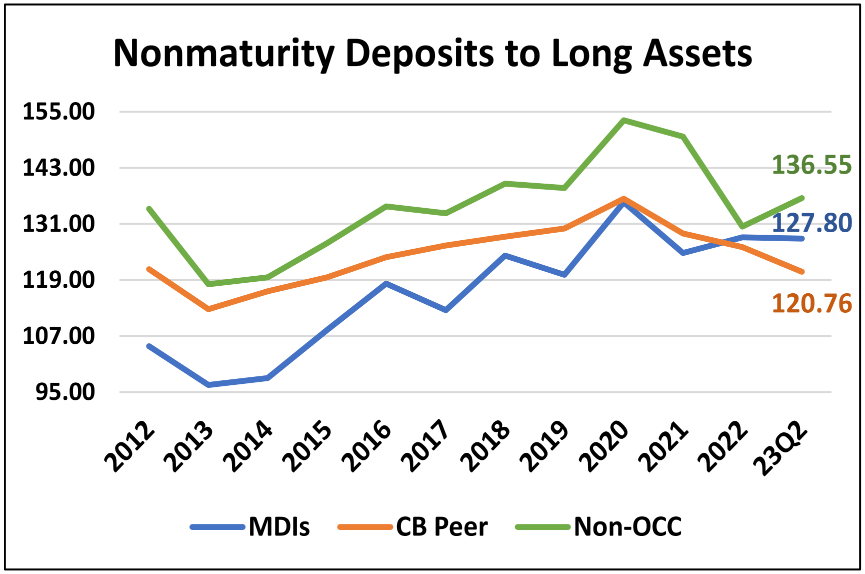


Sensitivity is Adequately Controlled

- Sensitivity to market risk ratings remain satisfactory. Nonmaturity deposits to long-term assets are flat for MDIs in 2023. Due to the rise in rates and extended maturities, investment portfolio depreciation to tier 1 capital remains significant.







Executive Summary - June 30, 2023

- MDIs have increased as a share of OCC charters since 2013. MDIs represent 51 or 5.0 percent of OCC bank charters and $33.6 billion or 3.9 percent of community bank assets.

- MDI composite ratings improved this year; 85 percent are rated composite 1 or 2.

- **Capital remains strong.** The MDI leverage capital ratio improved to 12.84 percent this year and remains well above peer. More MDIs are rated 1 for capital.

- **Asset Quality remains resilient.** Total past due loans plus OREO remain low and decreased to 0.79 percent this year. Loan growth is good. The ACL is adequate.

- **Earnings are satisfactory.** ROAA increased to 1.05 percent due to strong growth in net interest income.

- **Liquidity is sufficient.** Deposits and on-hand liquidity declined this year. The cost of deposits has sharply increased in 2023.

- **Sensitivity to Market Risk is adequately controlled.** Investment portfolio depreciation remains significant but off the lows of third quarter 2022.

FOMC Rate Hikes

The Fed raised the federal funds target rate 25 basis points to 5.25-5.50 percent at its Jul 25-26 meeting and the latest dot plot forecasts a 5.6 percent federal funds rate by year-end 2023. **Rates will be higher for longer.**

FOMC Meetings 2022	Rate Decision
Jan 25-26	0
Mar 15-16	+25 bps
May 3-4	+50 bps
Jun 14-15	+75 bps
Jul 26-27	+75 bps
Sep 20-21	+75 bps
Nov 1-2	+75 bps
Dec 13-14	+50 bps

FOMC Meetings 2023	Rate Decision
Jan/Feb 31-1	+25 bps
Mar 21-22	+25 bps
May 2-3	+25 bps
Jun 13-14	0
Jul 25-26	+25 bps
Sep 19-20	**0**
Oct/Nov 31-1	**+25 bps**
Dec 12-13	**0**

[The Fed - Meeting calendars and information (federalreserve.gov)]

Summary of Economic Projections

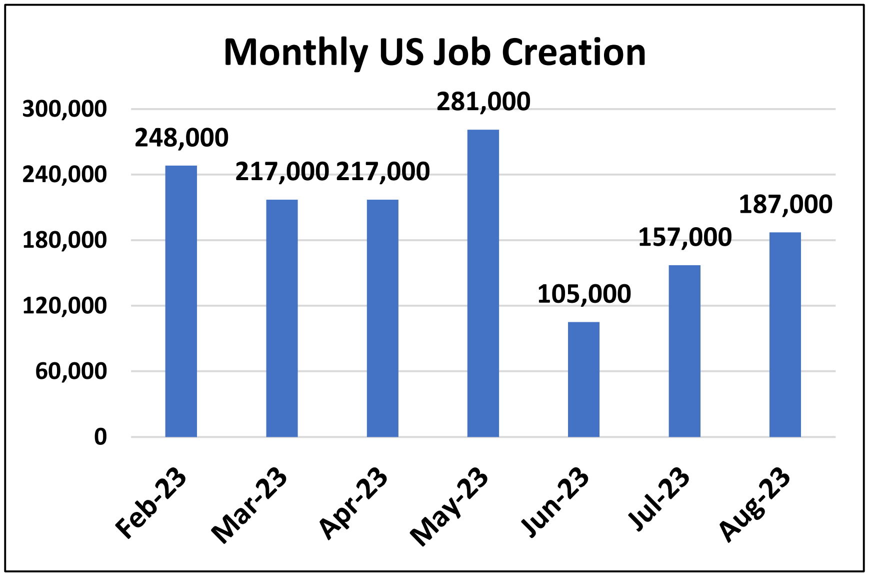
In conjunction with the FOMC meeting held on Jun 13–14, 2023, meeting participants submitted their projections of the most likely outcomes for real gross domestic product (GDP) growth, the unemployment rate, and inflation for each year from 2023 to 2025 and over the longer run.

Percent

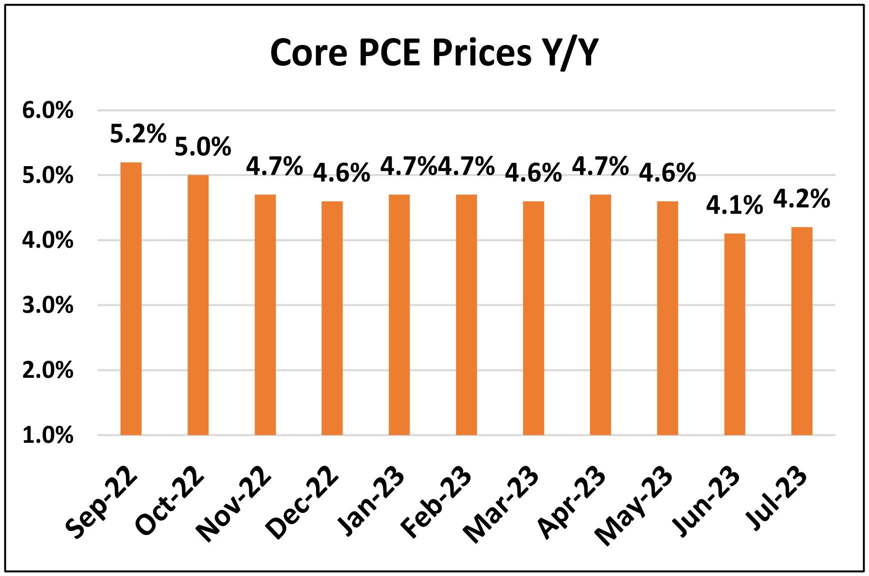
Variable	Median			
	2023	2024	2025	Longer run
Change in real GDP	1.0	1.1	1.8	1.8
March projection	0.4	1.2	1.9	1.8
Unemployment rate	4.1	4.5	4.5	4.0
March projection	4.5	4.6	4.6	4.0
PCE inflation	3.2	2.5	2.1	2.0
March projection	3.3	2.5	2.1	2.0
Core PCE inflation[4]	3.9	2.6	2.2	
March projection	3.6	2.6	2.1	
Memo: Projected appropriate policy path				
Federal funds rate	5.6	4.6	3.4	2.5
March projection	5.1	4.3	3.1	2.5

Fighting Inflation is the Fed's Top Priority

- The US labor market is beginning to cool. The next Employment Situation Report will be released on Oct 6, 2023.



- US inflation is declining. We should approach the Fed's 2% target in 2025. The Fed views the PCE Price Index-the core rate in particular-as the most accurate measure of US inflation. The next PCE report will be released on Sep 29, 2023.



Questions?