Office of the
Comptroller of the Currency

MDIAC Meeting

September 27, 2022

State of MDIs

Financial Information as of June 30, 2022

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Agenda

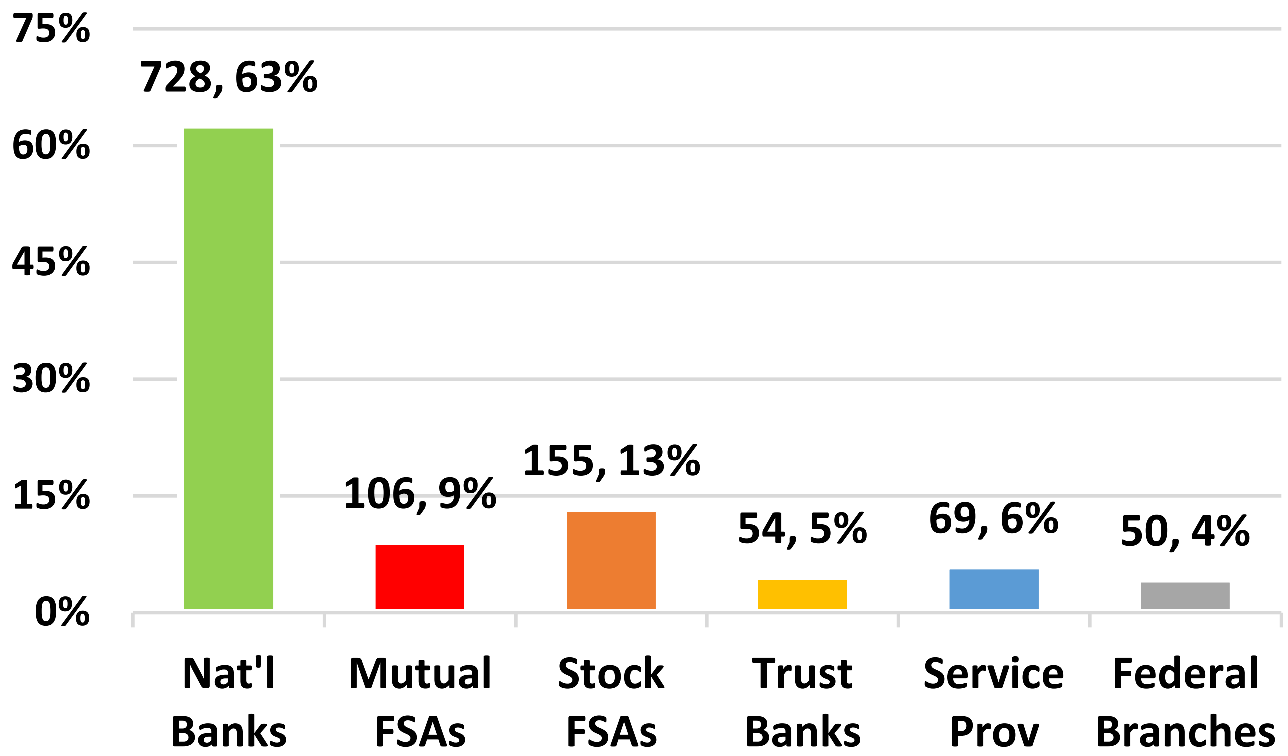
This presentation will focus on:

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

Preface: The current bank population as of June 30, 2022, is “held constant” for financial analysis. Financial trend charts start in 2008. All federal savings associations (FSAs) have filed the commercial bank call report since 2012. Some charts use the median; others use weighted averages.

OCC Charters by Institution Type

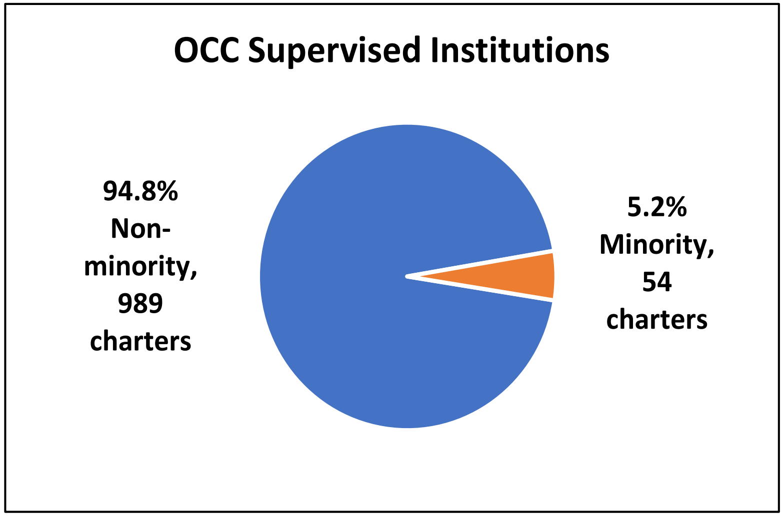
OCC supervised 1,162 total institutions or 1,043 bank charters as of June 30, 2022.

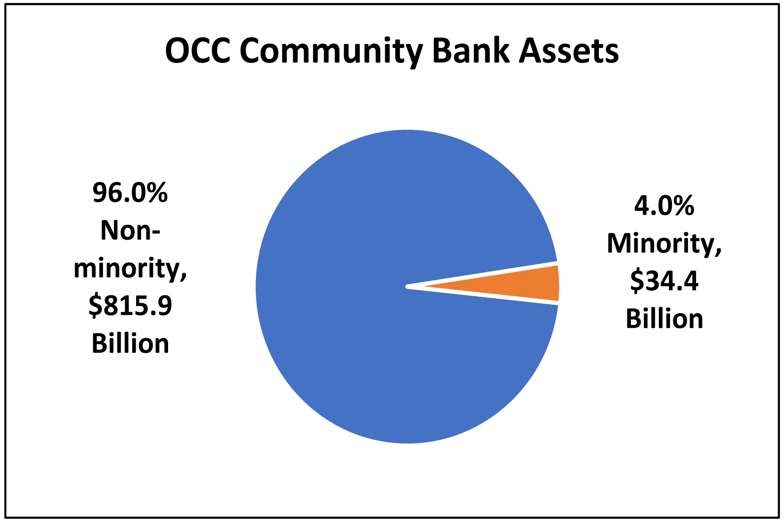


MDI Charters and Total Assets

- Minority Depository Institutions (MDIs) represent 54 or 5.2 percent of total OCC bank charters as of June 30, 2022.

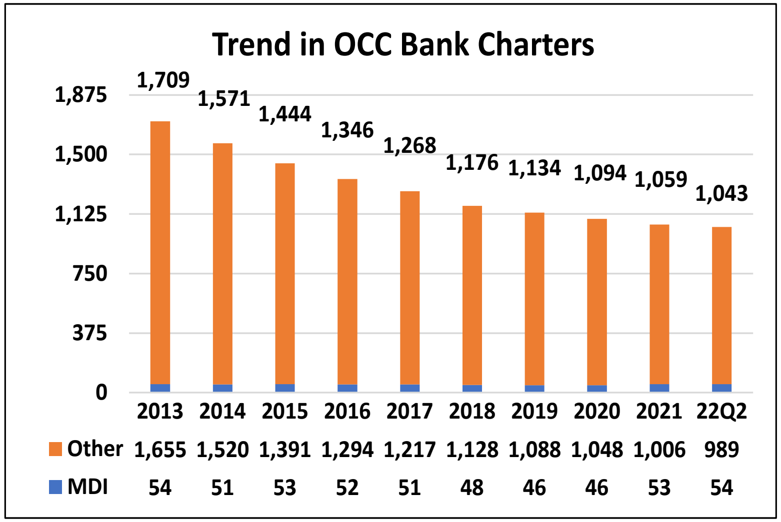
- MDIs represent $34.4 billion or 4.0 percent of OCC community bank assets as of June 30, 2022. (This chart does not include Trust, Midsize, or Large Bank charters.)

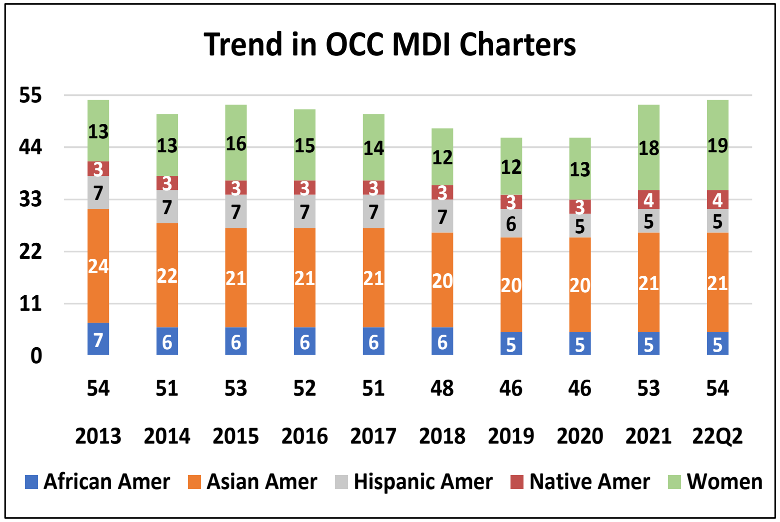




Trends in OCC and MDI Charters

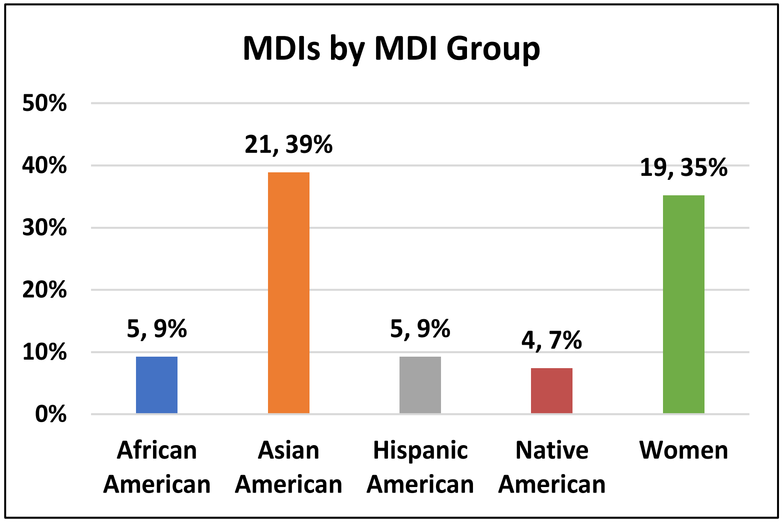
- The banking system continues to consolidate. MDIs are increasing as a share of total OCC charters. The number of MDIs remains unchanged since 2013 but the net number of total OCC charters decreased by 666 or 39 percent due primarily to mergers and acquisitions.



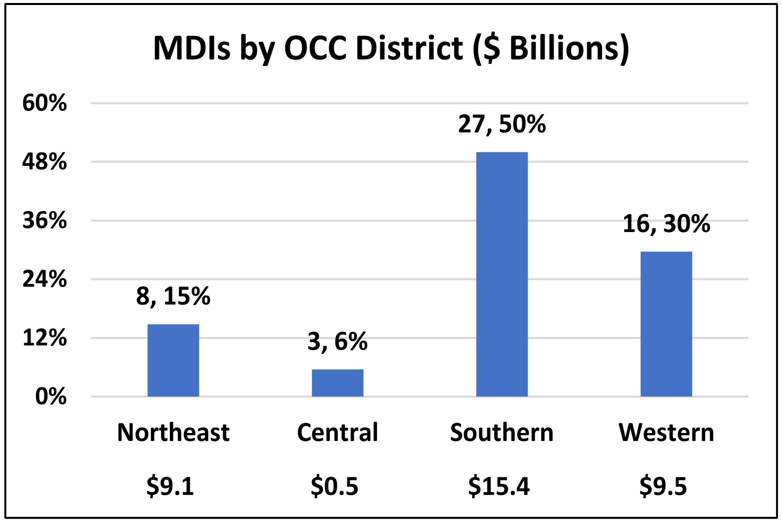


MDIs by Group and OCC District

- Most MDIs or 39 percent are Asian or Pacific Islander American as of June 30, 2022.

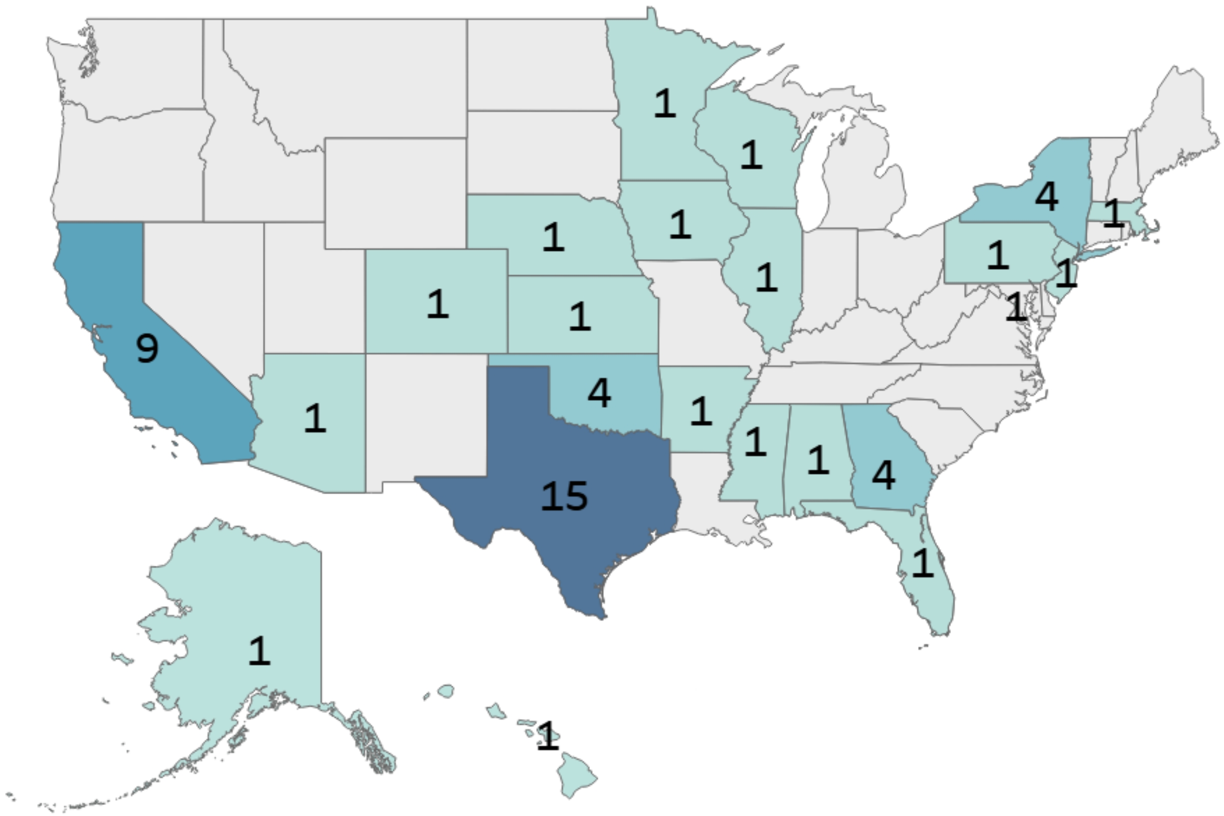


- Most MDIs or 50 percent are in the Southern district.



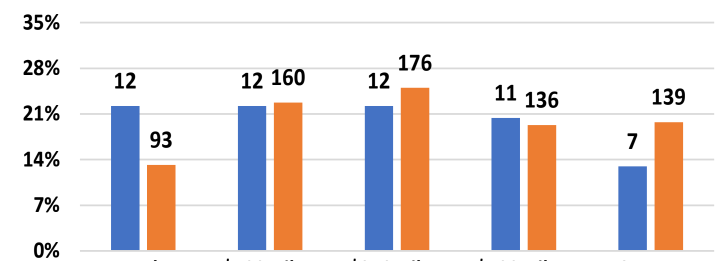
MDIs by State

OCC supervised 54 MDIs in 23 states as of June 30, 2022. MDIs are concentrated in Texas (15) and California (9). Three other states have multiple MDIs: Georgia (4), New York (4), and Oklahoma (4).



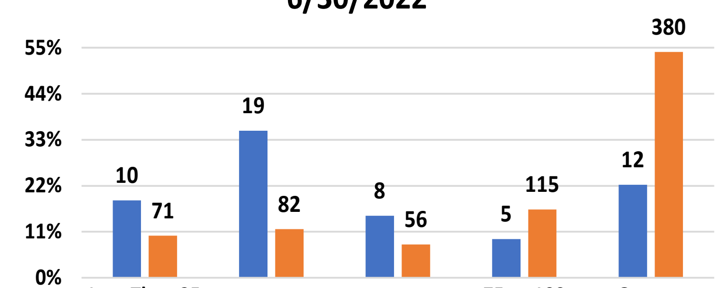
MDIs by Asset Size and Age

- MDIs are generally smaller in size than the community bank peer group. Forty-four percent of MDIs have total assets less than $250 million versus 36 percent of the community bank peer.



	Less Than $100Mil	$100Mil to $250Mil	$250Mil to $500Mil	$500Mil to $1Bil	Greater Than $1Bil
MDIs	22%	22%	22%	20%	13%
Peer	13%	23%	25%	19%	20%

- MDIs have been operating for fewer years than other community banks. Fifty-four percent of MDIs have operated for less than 50 years compared to 22 percent for the community bank peer. Only 22 percent of MDIs were formed more than 100 years ago.



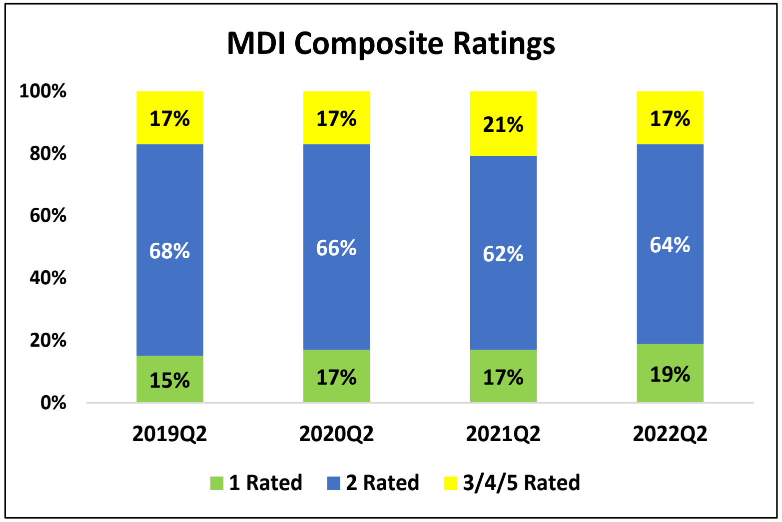
	Less Than 25 Yrs	25 to 50 Yrs	50 to 75 Yrs	75 to 100 Yrs	Greater Than 100 Yrs
MDIs	19%	35%	15%	9%	22%
Peer	10%	12%	8%	16%	54%

MDI Peer Groups

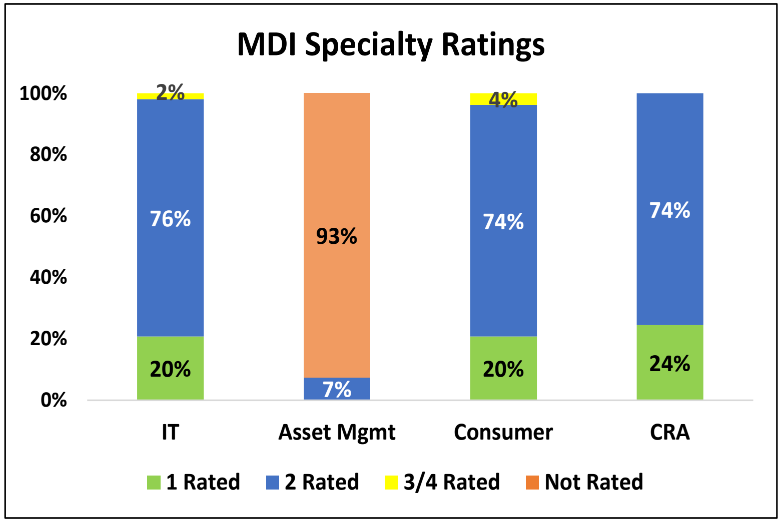
- As of June 30, 2022, the smallest MDI had $31.4 million in total assets and the largest MDI had $5.4 billion.
- MDIs fall into two institution type categories – national banks or stock FSAs. There are no mutual FSA MDIs or trust company MDIs.
- No MDI is supervised by Midsize or Large Bank Supervision.
- As such, the MDI peer group referenced throughout this presentation is community banks with total assets less than $5.4 billion and not mutually-owned (CB Peer).
- We will also compare OCC-supervised MDIs to MDIs supervised by the FDIC and Federal Reserve.

Composite and Specialty Ratings

- The overall condition of MDIs is satisfactory and improving. The share of MDIs rated composite 1 or 2 increased to 83 percent this year.

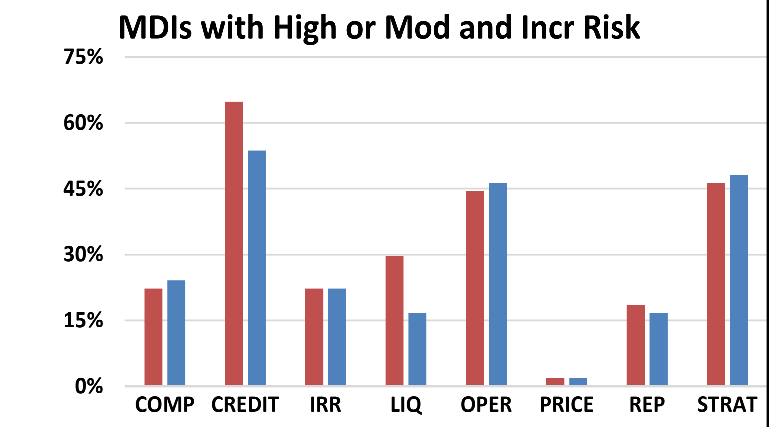


- Specialty ratings are satisfactory. One MDI is rated 3 for IT. Only four MDIs have trust powers. None are rated worse than 2. One MDI is rated 3 and one MDI is rated 4 for consumer compliance. No MDI is rated less than satisfactory for CRA.



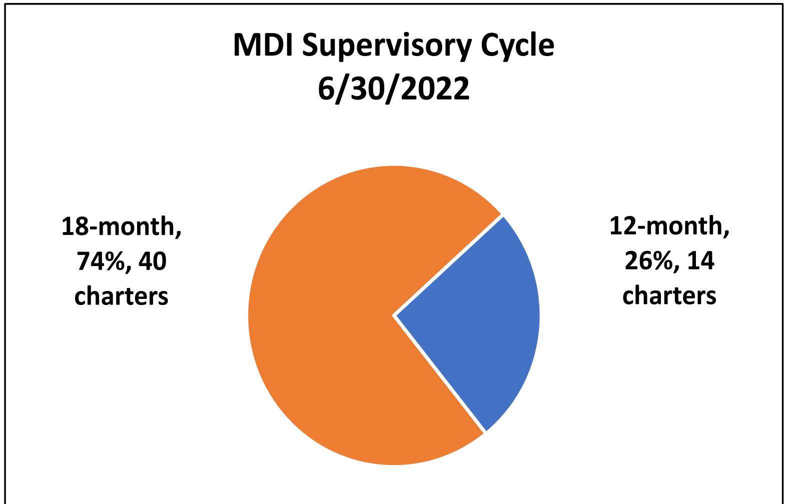
Risk Assessments and Supervisory Cycle

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



	COMP	CREDIT	IRR	LIQ	OPER	PRICE	REP	STRAT
2021Q2	22%	65%	22%	30%	44%	2%	19%	46%
2022Q2	24%	54%	22%	17%	46%	2%	17%	48%

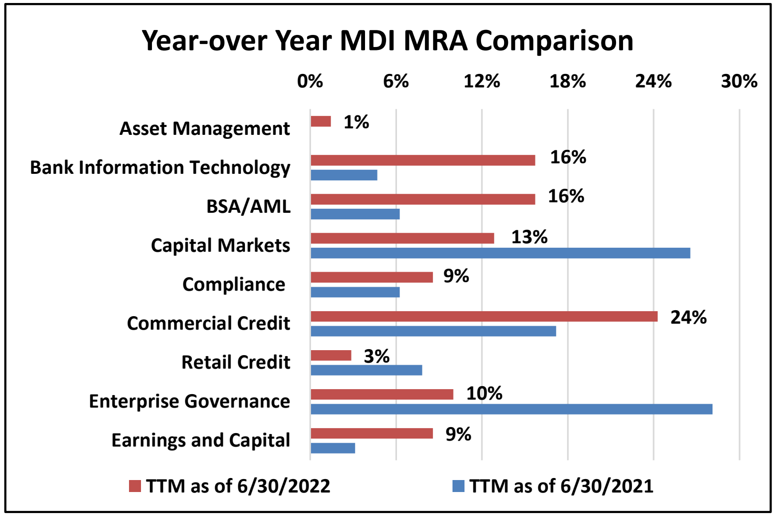
- Qualifying banks with less than $3 billion in total assets are eligible for an 18-month examination cycle. Seventy-four percent of MDIs are on the 18-month cycle.

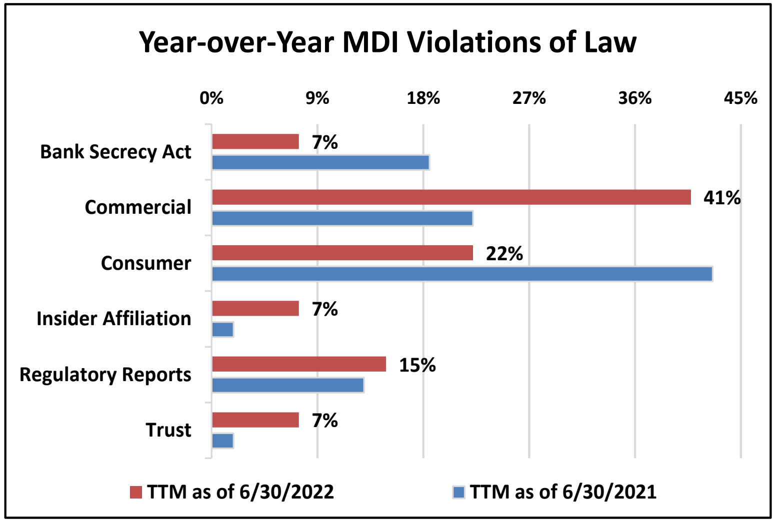


MRAs and VOLs

- MRA volume is up 9 percent for the trailing twelve months ending June 30, 2022. MRAs increased the most for Bank Information Technology and BSA/AML. They decreased the most for Enterprise Governance.

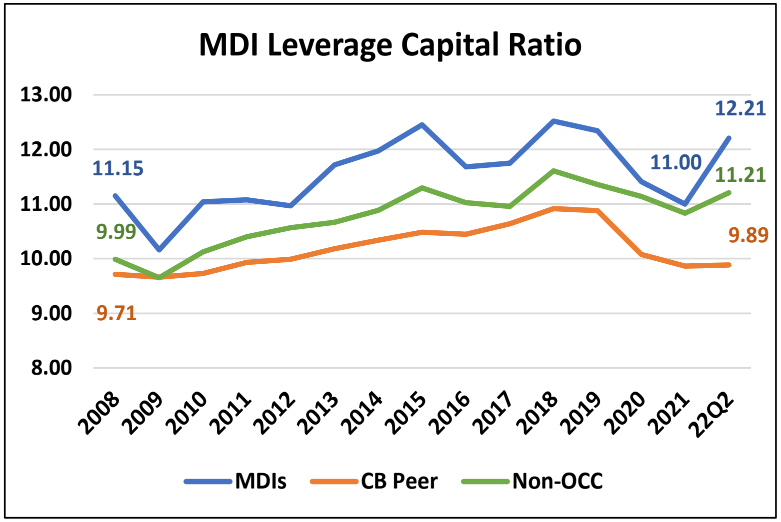
- VOL volume is down 50 percent for the same period. The top three VOLs are Real Estate Lending and Appraisals (12 CFR 34), Reports to the Comptroller of the Currency (12 USC 161), and Loans in Areas Having Special Flood Hazards (12 CFR 22).



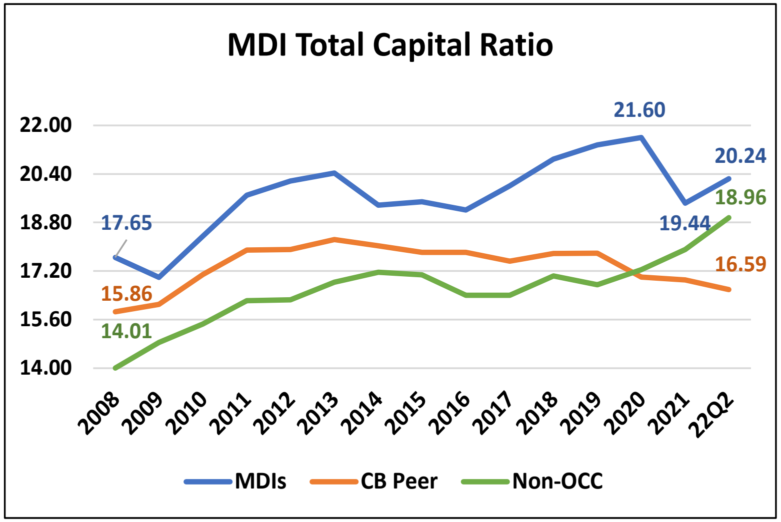


Capital Levels are Satisfactory

- The median MDI leverage ratio jumped 121 basis points this year and remains well above peer.

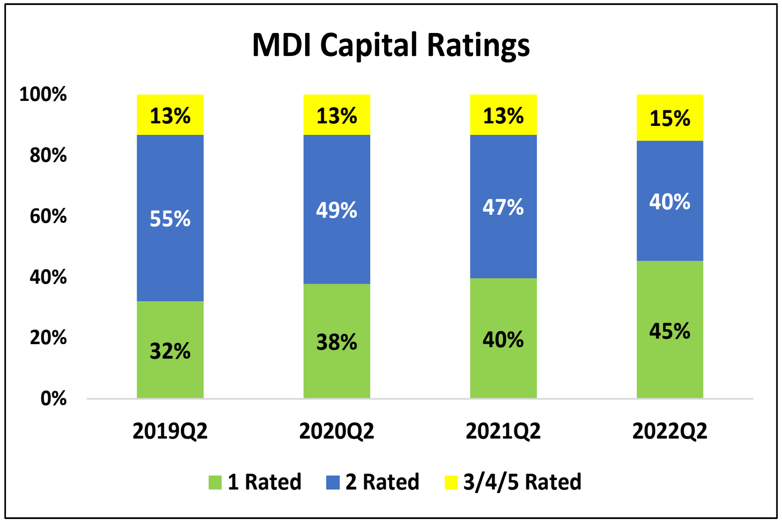


- The MDI total capital ratio increased 80 basis points this year to 20.24 percent. The gap between OCC MDIs and non-OCC MDIs remains wide but has narrowed in 2022. Seventeen or 31 percent of MDIs opted into the CBLR framework.

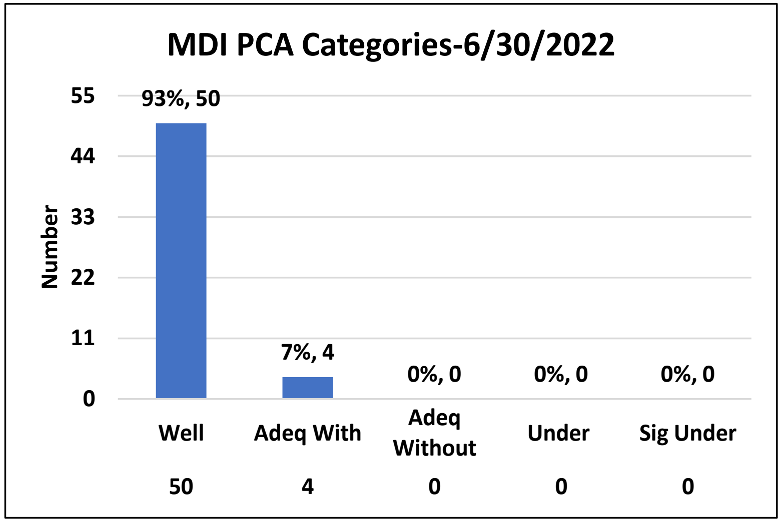


MDIs are Well Capitalized

- Capital ratings saw some slippage this year. Eighty-five percent of MDIs are rated 1 or 2 for capital but more MDIs are rated 1. One MDI is rated 5 for capital.



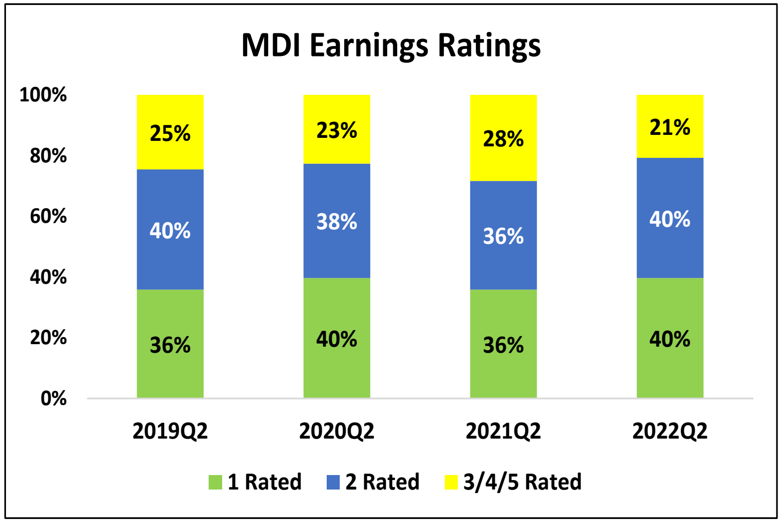
- Ninety-three percent of MDIs met the well-capitalized definition contained in Prompt Corrective Action as of June 30, 2022. Four MDIs – with formal actions requiring higher minimums – are adequately capitalized.

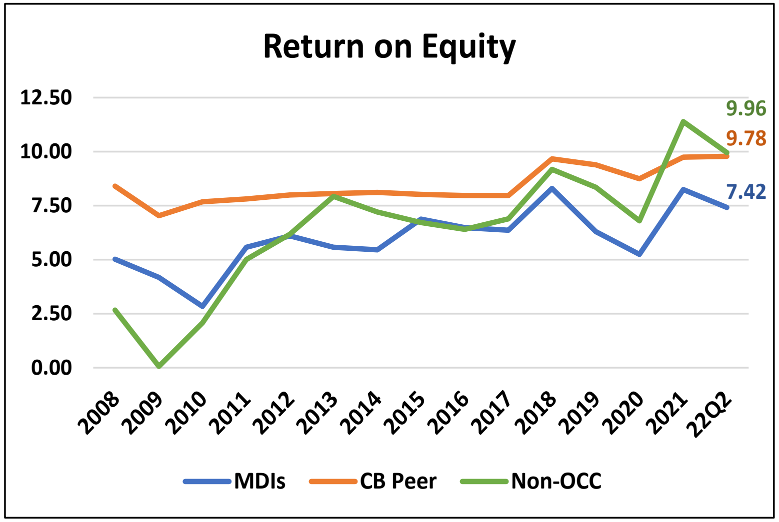


Earnings Ratings Better in 2022

- Earnings ratings improved in 2022 but lag ratings in other safety and soundness areas. Eighty percent of MDIs are rated 1 or 2 for earnings. Three MDIs are rated 5 for earnings.

- Return on equity is lower this year for MDIs and Non-OCC MDIs.

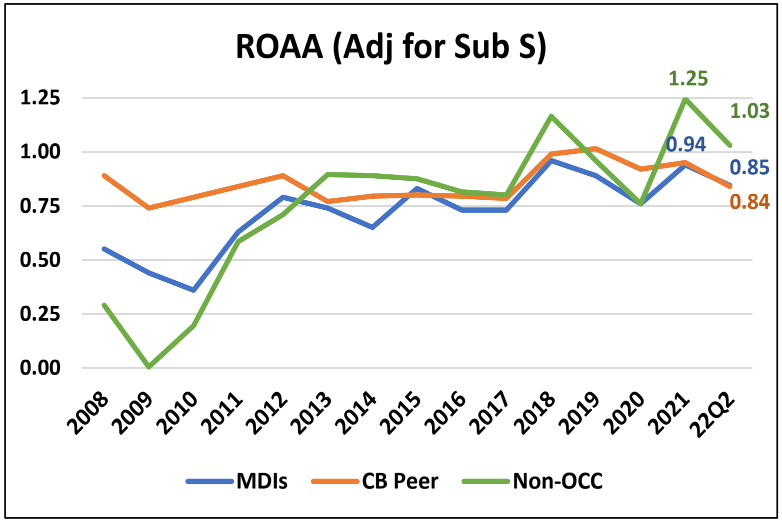




ROAA Lower This Year

- MDI ROAA decreased nine basis points to 0.85 percent and is now above the community bank peer.

- If you stratify ROAA by asset size, you will generally find the larger the bank, the better the ROAA.



Return on Assets - June 30, 2022

Asset Category	Peer	MDIs
Under $50MM	0.29	-0.08
$50MM - $100MM	0.64	0.47
$100MM - $250MM	0.71	0.55
$250MM - $500MM	0.85	0.85
$500MM - $1B	0.91	1.30
Greater than $1B	1.10	1.00
Median	**0.84**	**0.85**

Net Income Down 14 Percent in 2022

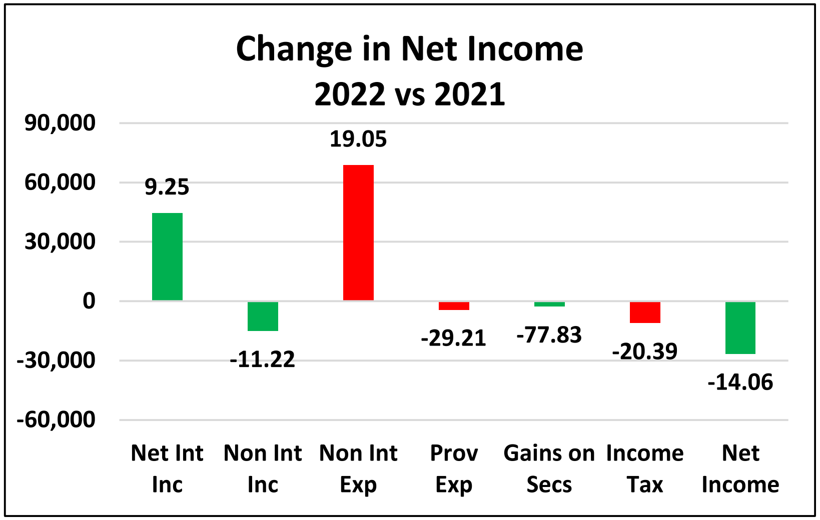
ROAA fell due to a contraction in fee income and much higher overhead.

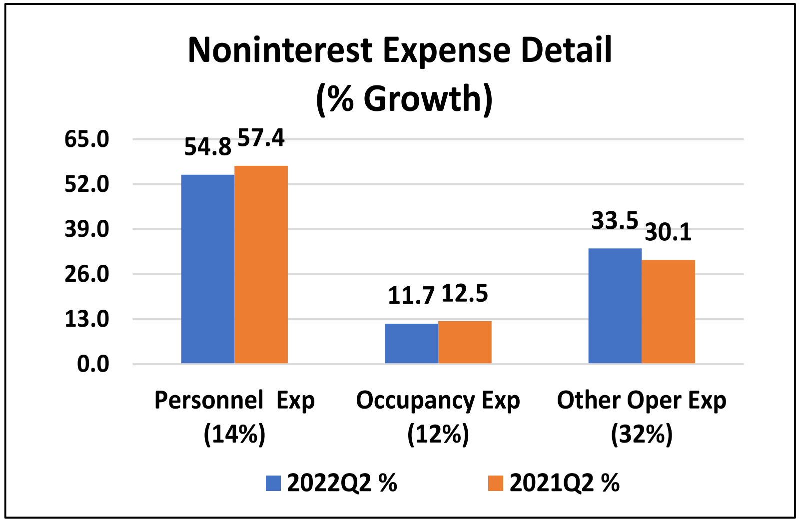
MDI Income Stmt ($000's) - as of June 30th

	2022	2021	Δ 1 Yr $	Δ 1 Yr %
Int Income	569,438	531,900	37,538	7.06
Int Expense	44,031	50,968	-6,937	-13.61
Net Int Inc	525,407	480,932	44,475	9.25
Non Int Inc	119,243	134,310	-15,067	-11.22
Non Int Exp	429,261	360,568	68,693	19.05
Prov Exp	10,455	14,768	-4,313	-29.21
Gains on Secs	763	3,442	-2,679	-77.83
Income Tax	43,317	54,409	-11,092	-20.39
Net Income	162,357	188,906	-26,559	-14.06

MDI ROAA Decomposition - as of June 30th

	2022	2021	Δ 1 Yr
Int Income	3.44	3.63	
Int Expense	0.27	0.35	
Net Int Inc	3.17	3.28	-0.11
Non Int Inc	0.72	0.92	-0.20
Non Int Exp	2.59	2.46	0.13
Prov Exp	0.06	0.10	-0.04
Gns on Secs	0.00	0.02	-0.02
Income Tax	0.26	0.37	-0.11
ROAA	0.98	1.29	-0.31

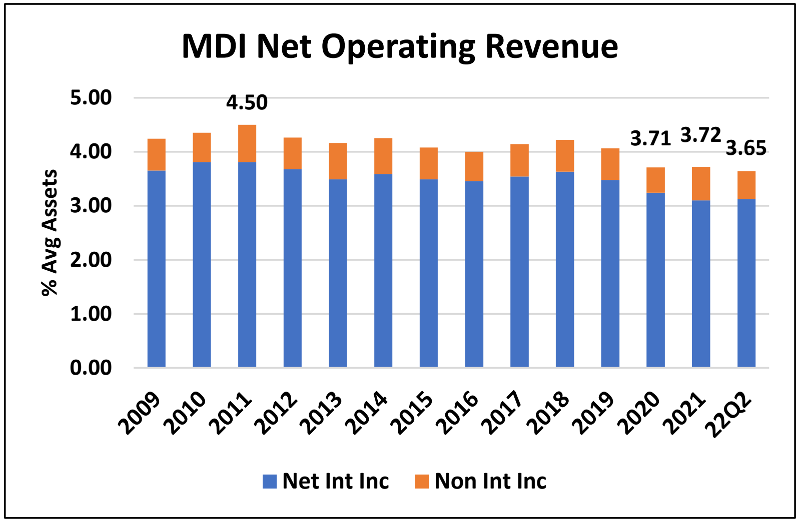


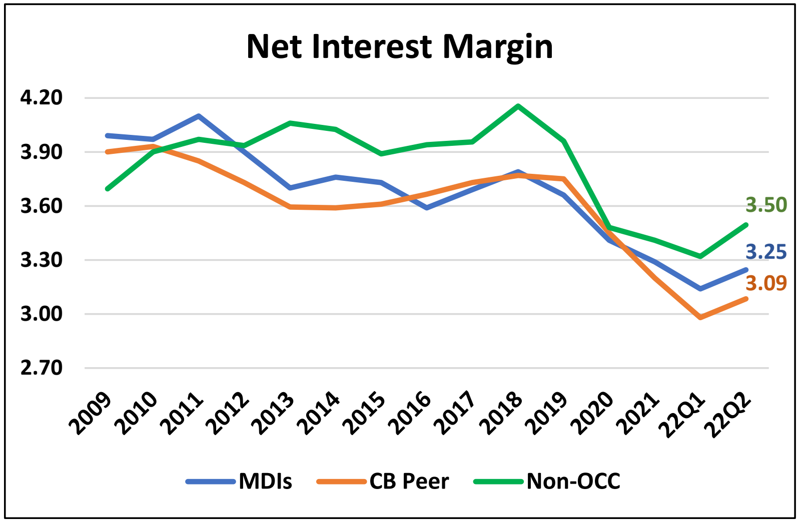


Net Interest Margin Rebounds

- MDI net operating revenue fell six basis points since 2020. Net interest income fell 11 basis points to 3.13 percent. Fee income rose five basis points to 0.52 percent. Higher fee income remains a key distinction between smaller and larger banks.

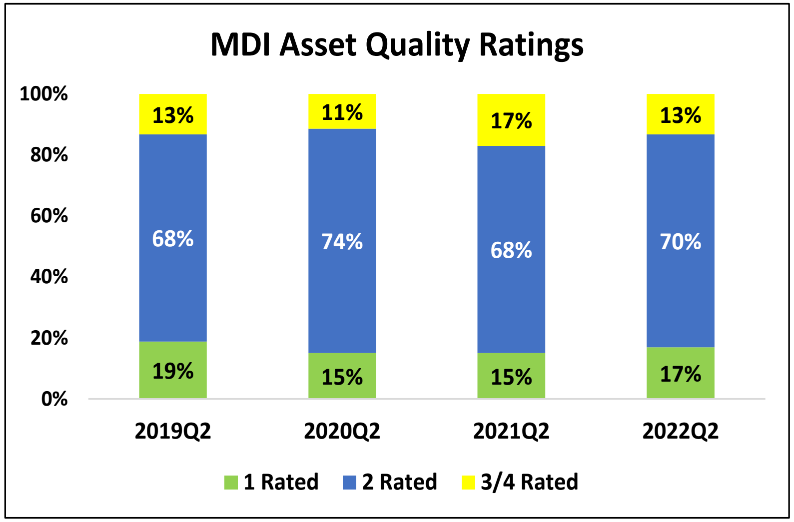
- NIM compression appears to have bottomed. Margins improved this quarter due to the rise in the federal funds target rate. Margin compression is felt the most by the smallest banks and usually leads to more industry consolidation and cost cutting by banks of all sizes.



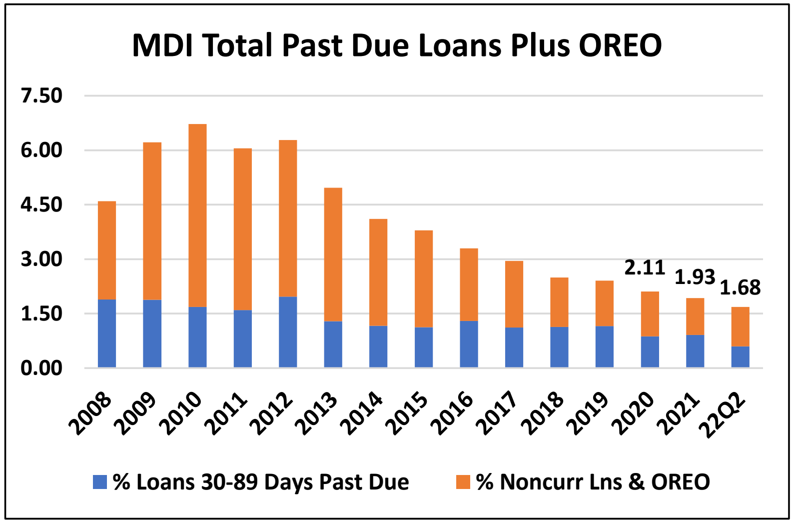


Asset Quality Ratings Better

- Asset quality ratings remained satisfactory and improved in 2022. Eighty-seven percent of MDIs are rated 1 or 2 for asset quality.

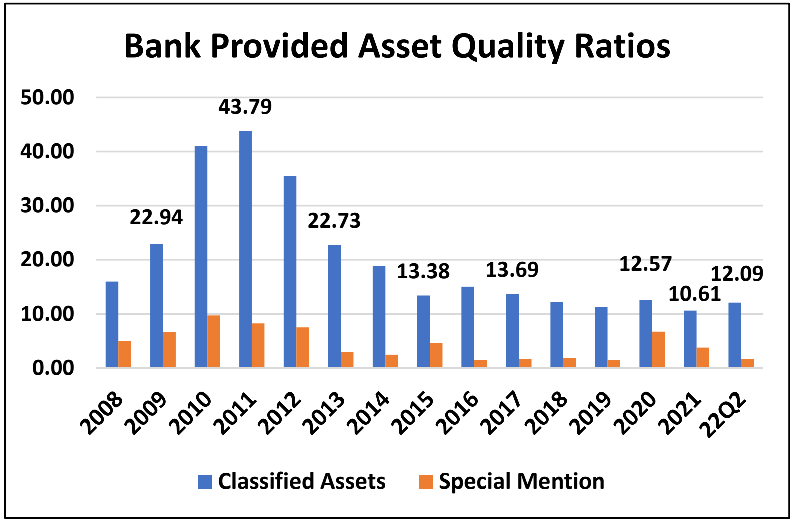


- Past due loans plus OREO continue to decline. While past dues remain low, modification programs in the CARES Act might be masking delinquencies for some credits. Fortunately, that pool of loans is declining.

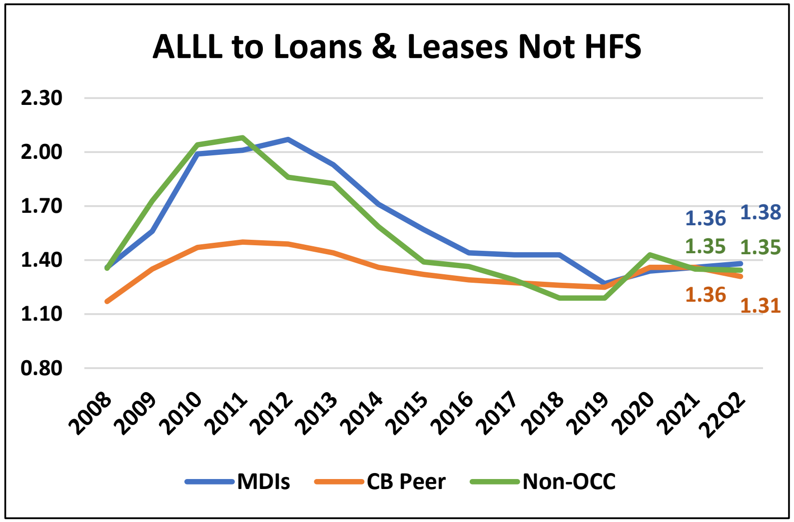


Classified Assets Edge Higher

- MDI bank provided classified assets to tier 1 capital plus the ALLL ratios reached a cyclical low in 2021 and rose to 12.09 percent this year.

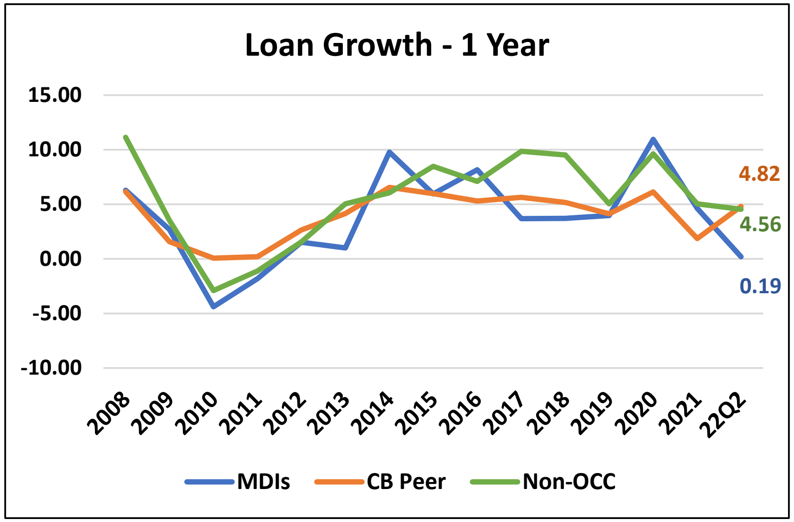


- The MDI ALLL is directionally consistent with the increasing level of bank provided classified assets.

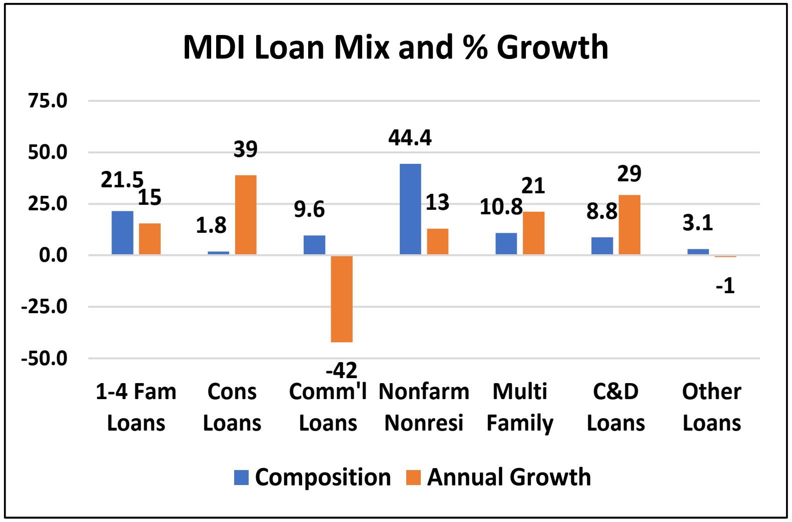


Loan Growth is Satisfactory

- After removing PPP loans, the adjusted MDI loan growth rate improved to 4.89 percent as of second quarter 2022.

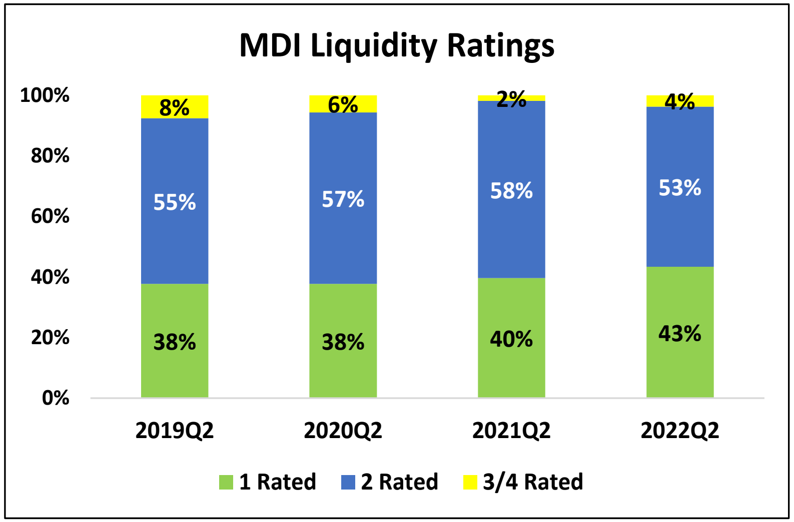


- CRE at 64.0 percent is the largest MDI loan category. MDI loan growth was highest for consumer, C&D, and multifamily loans. Loan balances increased for all categories except commercial loans and other loans.

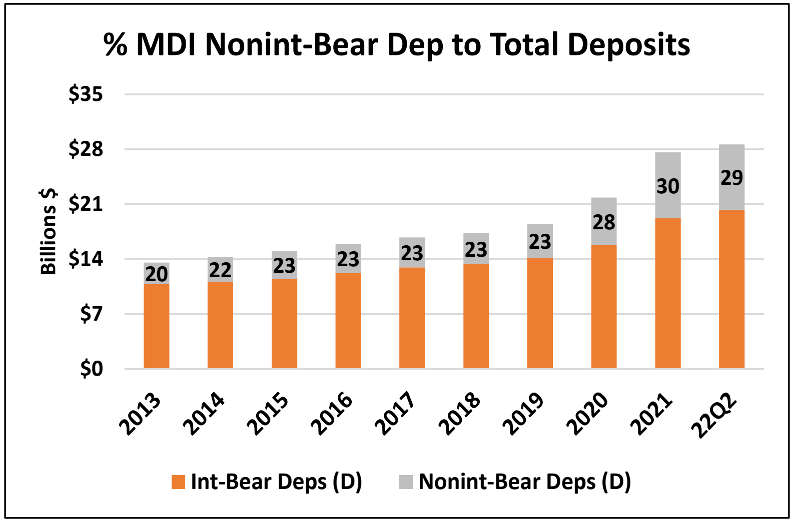


Liquidity is Strong

- Liquidity ratings remain strong. Ninety-six percent of MDIs are rated 1 or 2.

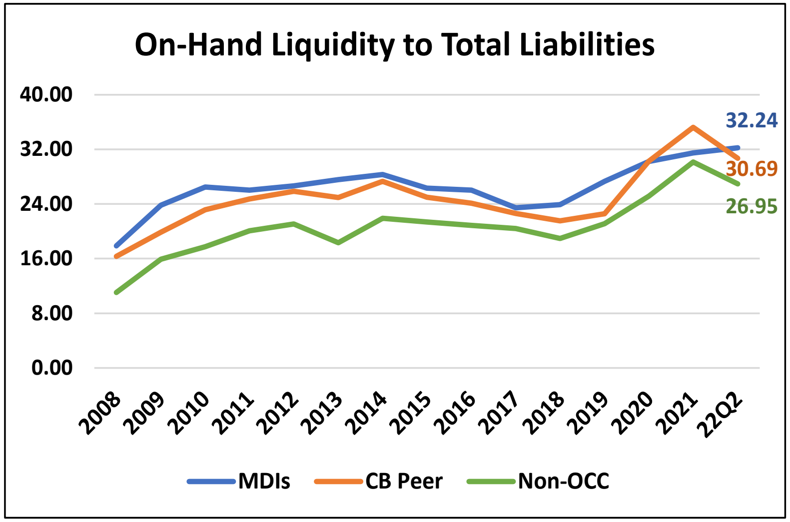


- MDI deposits grew 12.4 this year, down from the 16.5 percent rate reported last quarter. Consumers are saving less this year. The personal savings rate for July fell to 5.0 percent compared to 9.6 percent one year ago.

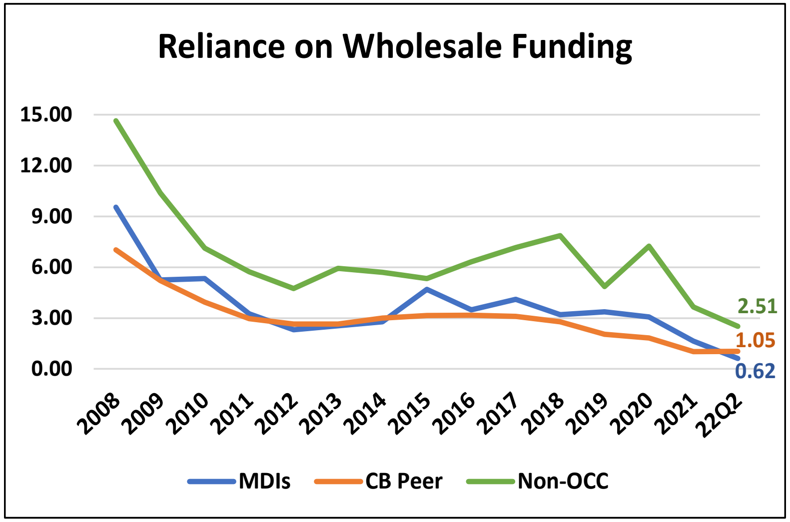


On-Hand Liquidity Higher for MDIs

- MDI on-hand liquidity ratios are higher this year and well above pre-pandemic levels.

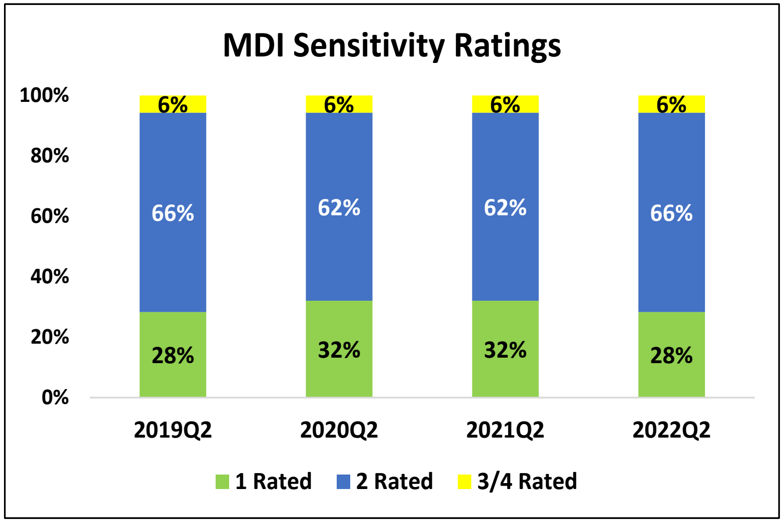


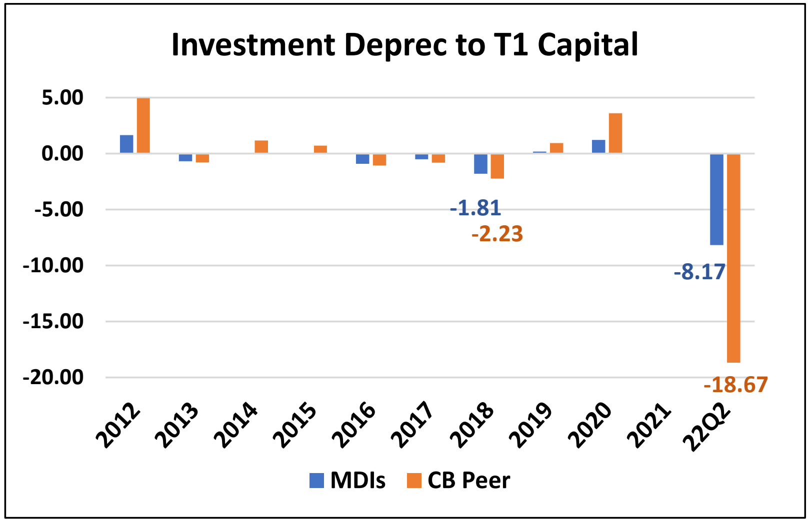
- Because of the excess liquidity, MDIs are relying less on wholesale funding sources.

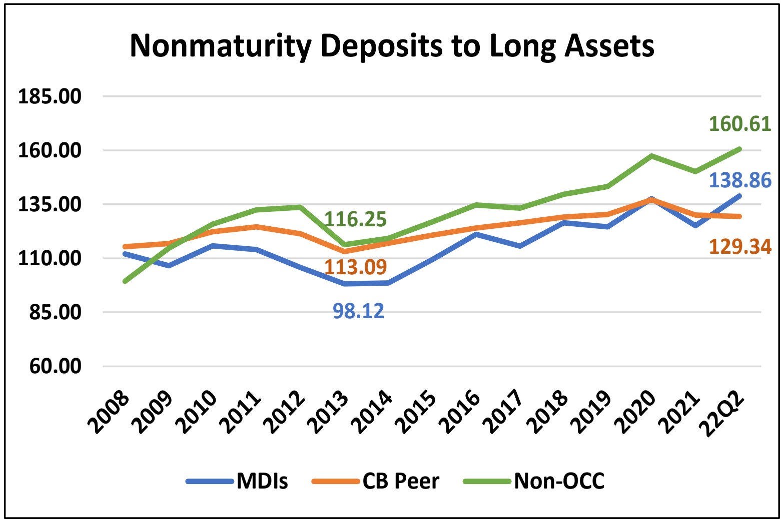


Sensitivity is Adequately Controlled

- Sensitivity to market risk ratings remain satisfactory. Nonmaturity deposits to long-term assets are up for MDIs in 2022. Investment portfolio depreciation has increased significantly this year due to the Fed raising interest rates and their announcement to begin “Quantitative Tightening.”







Key Observations – June 30, 2022

- MDIs are increasing as a share of total OCC charters. MDIs represent 54 or 5.2 percent of OCC bank charters and $34.4 billion or 4.0 percent of community bank assets as of June 30, 2022.
- MDI composite ratings improved this year; 83 percent of MDIs are rated composite 1 or 2.
- **Capital is satisfactory**. MDI capital levels are sharply higher this year and remain above peer. The MDI leverage ratio increased to 12.21 percent and more MDIs are rated 1 for capital this year.
- **Asset quality is satisfactory**. Total past due loans plus OREO remain low and declining at 1.68 percent. Loan growth is tepid but much higher after adjusting for PPP loans. The ALLL is adequate and directionally consistent with the uptick in classified assets.
- **Earnings are adequate**. ROAA decreased in 2022 due to a contraction in noninterest income and much higher noninterest expense.
- **Liquidity is abundant**. While MDIs remain flush with liquidity, the growth rate in deposits continues to slow. Ninety-six percent of MDIs are rated 1 or 2 for liquidity.
- **Sensitivity to market risk remains adequately controlled**. MDIs are holding higher levels of nonmaturity deposits relative to long-term assets making them less vulnerable to rising interest rates. Investment portfolio depreciation increased sharply this year.

Questions