Office of the
Comptroller of the Currency

MDIAC Meeting

April 26, 2022

State of MDIs

Financial Information as of December 31, 2021

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Agenda

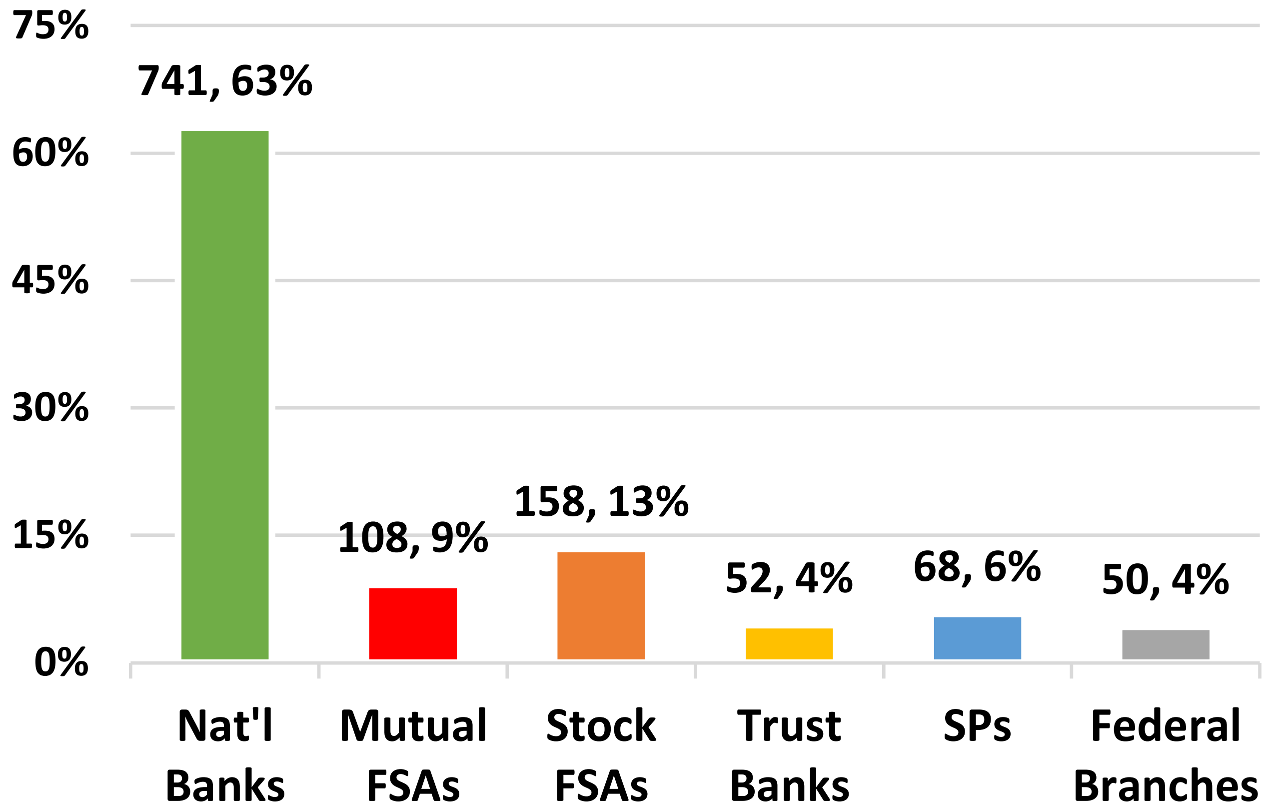
This presentation will focus on:

- **Portfolio Demographics**
- **Supervisory Information**
- **Financial Performance and Component Ratings**

Preface: The current bank population as of December 31, 2021, is "held constant" for financial analysis. Financial trend charts start in 2007. All federal savings associations (FSAs) have filed the commercial bank call report since 2012. Some charts use the median; others use weighted averages.

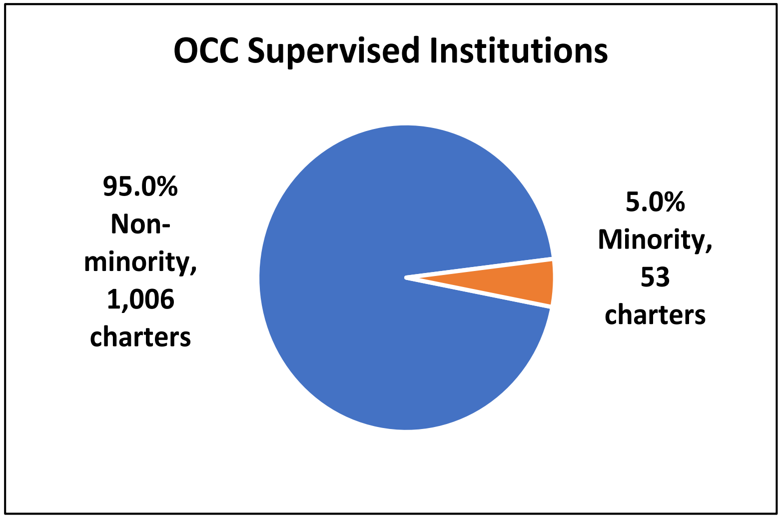
OCC Charters by Institution Type

OCC supervised 1,177 total institutions or 1,059 bank charters as of December 31, 2021.

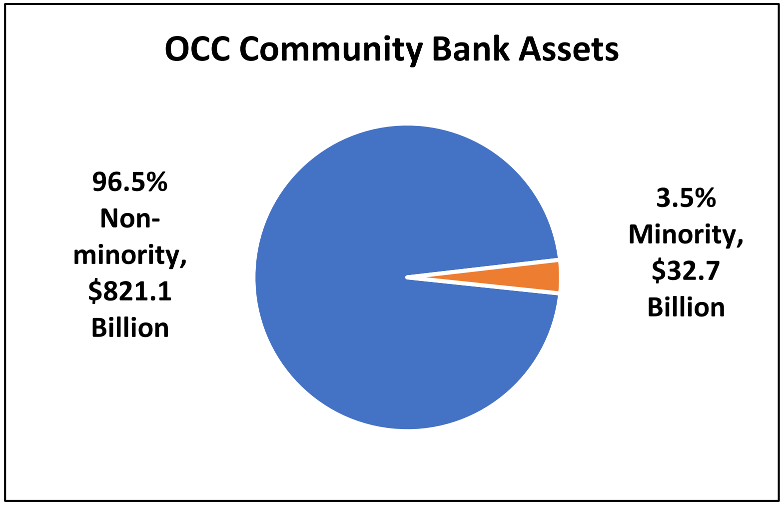


Minority Charters and Total Assets

- Minority Depository Institutions (MDIs) represent 53 or 5.0 percent of total OCC bank charters as of December 31, 2021.

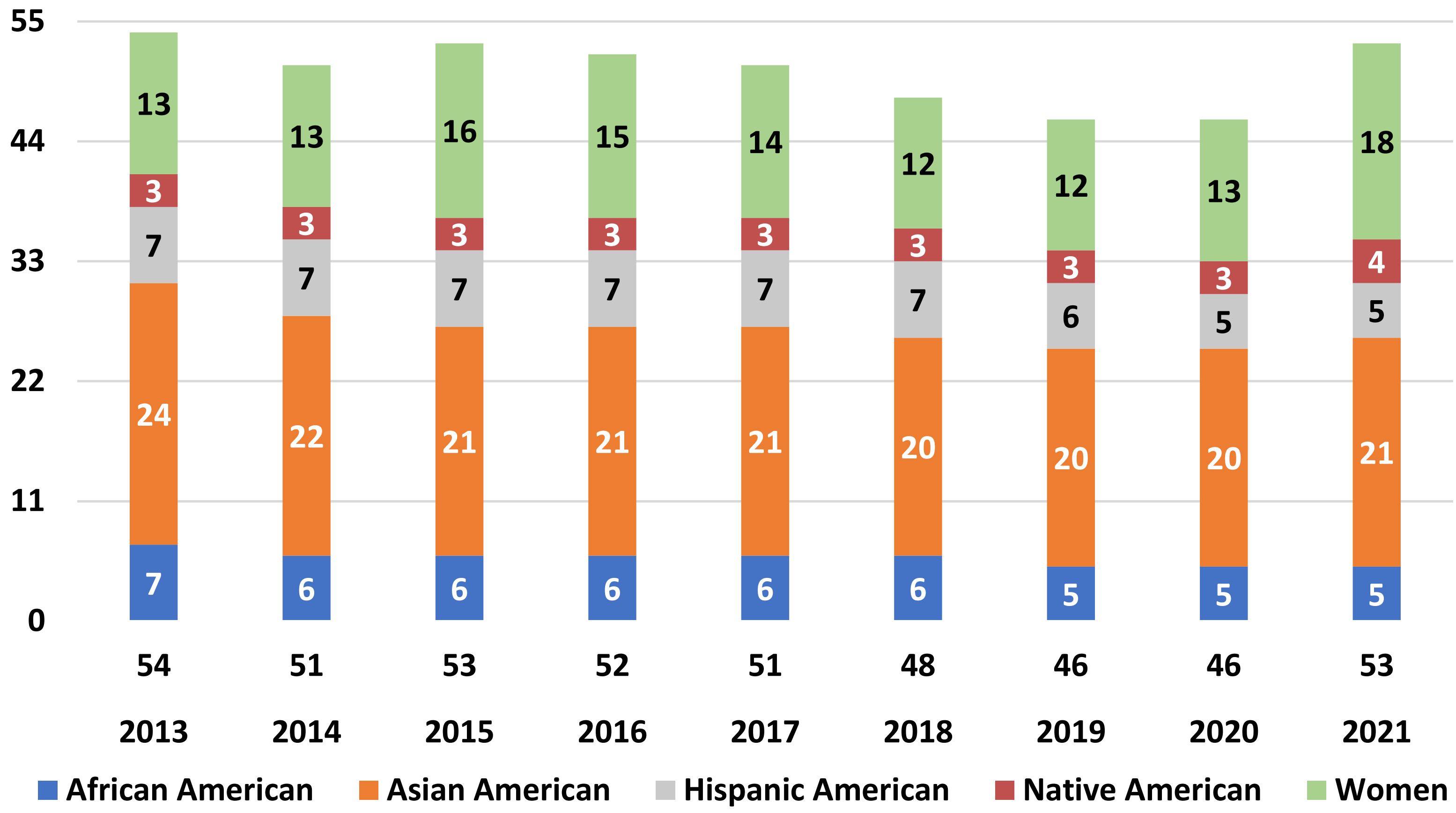


- MDIs represent $32.7 billion or 3.5 percent of total OCC supervised community bank assets as of December 31, 2021. (This chart does not include Trust, Midsize, or Large Bank charters.)



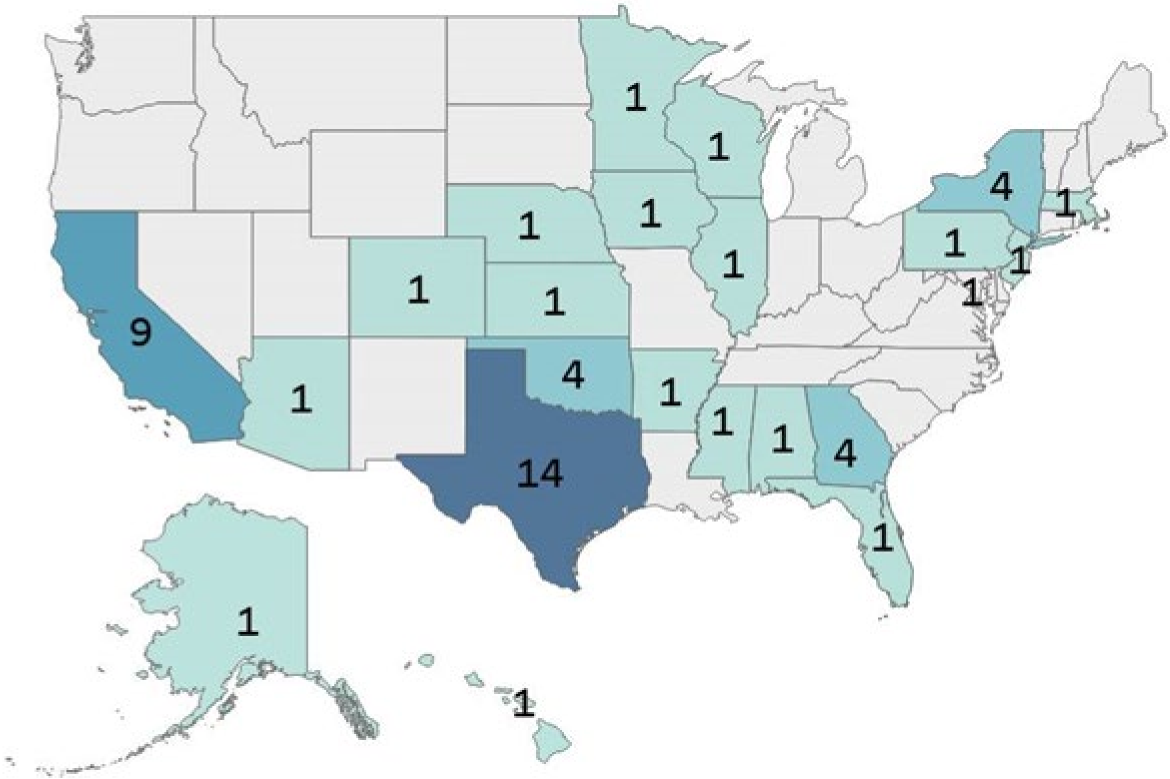
Trends in MDI Charters by Group

The net number of MDI charters decreased by one or 1.9 percent since 2013. This MDI departure rate compares favorably to the overall OCC departure rate of 38 percent for the same period.



MDIs by State

OCC supervised 53 MDIs in 23 states as of December 31, 2021. MDIs are concentrated in Texas (14) and California (9). Three other states have multiple MDIs: Georgia (4), New York (4), and Oklahoma (4).



MDI Peer Groups

- As of December 31, 2021, the smallest MDI had $29.4 million in total assets and the largest MDI had $5.6 billion.

- MDIs fall into two institution type categories – national banks or stock FSAs. There are no mutual FSA MDIs or trust company MDIs.

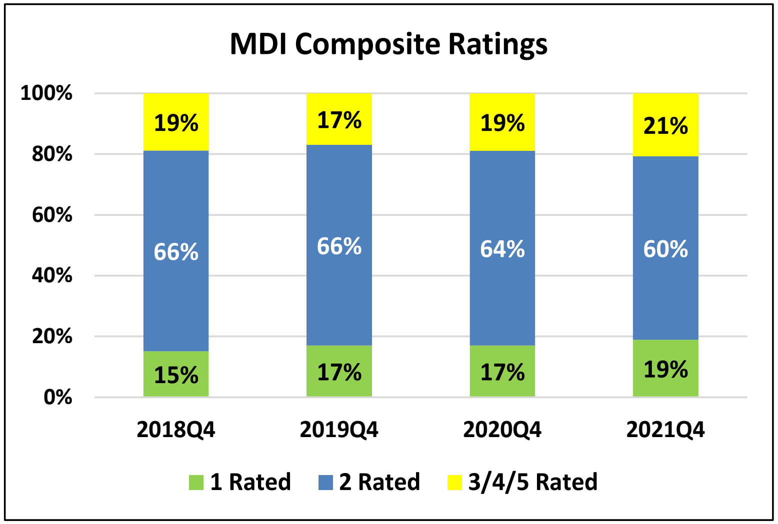
- No MDI is supervised by Midsize or Large Bank Supervision.

- 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).

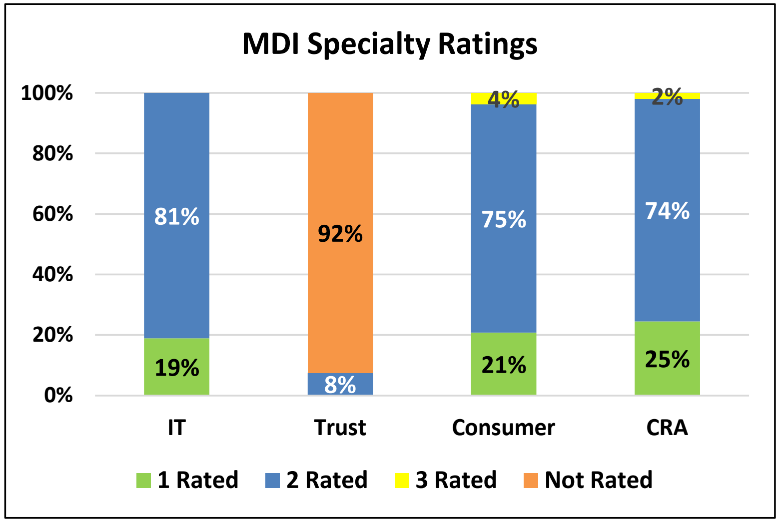
- We will also compare OCC-supervised MDIs to MDIs supervised by the FDIC and Federal Reserve.

Composite and Specialty Ratings

- Seventy-nine percent of MDIs have composite ratings of 1 or 2. The number of 1-rated charters continues to increase. No MDI is rated composite 5.

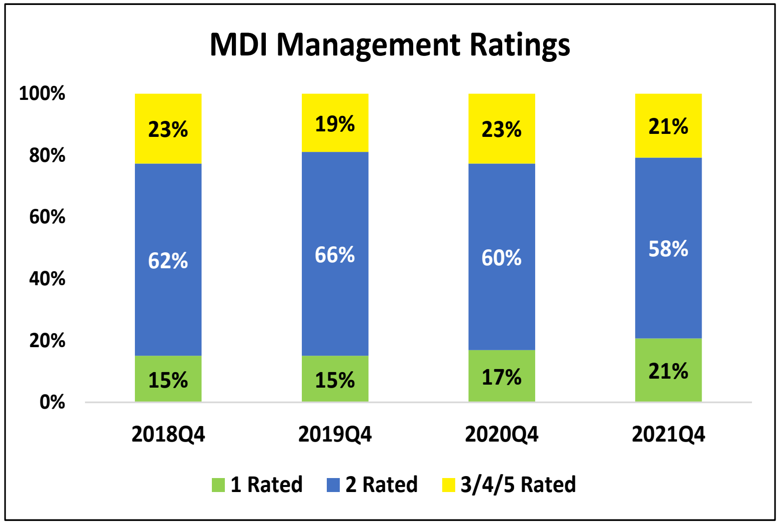


- Specialty ratings are satisfactory. No IT rating is worse than 2. Only four MDIs have trust powers. Two MDIs are rated 3 for consumer compliance. Only one MDI has a CRA rating worse than satisfactory.

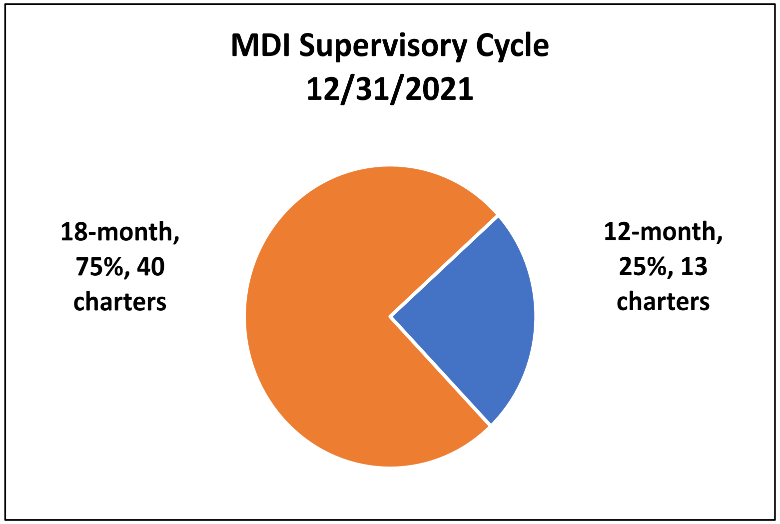


Management and Supervisory Cycle

- Management ratings are fair and improving. Seventy-nine percent of MDIs are rated 1 or 2 for management.

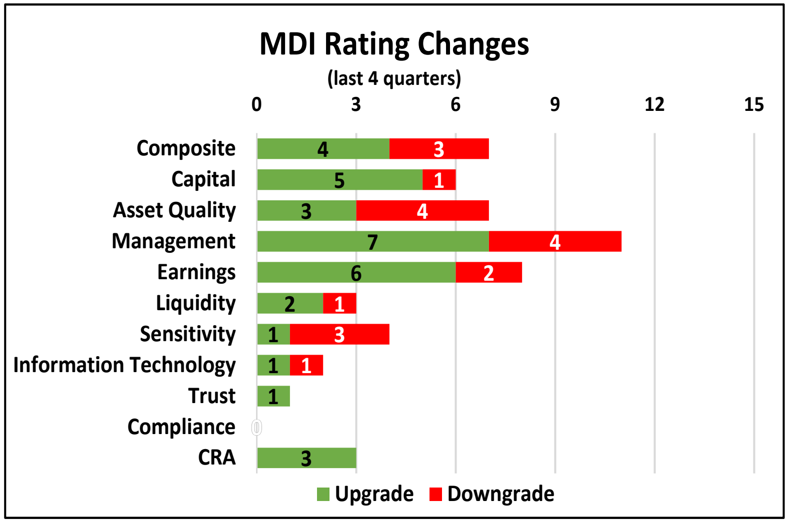


- Qualifying banks with less than $3 billion in total assets are eligible for an 18-month examination cycle. Seventy-five percent of MDIs are on the 18-month cycle.

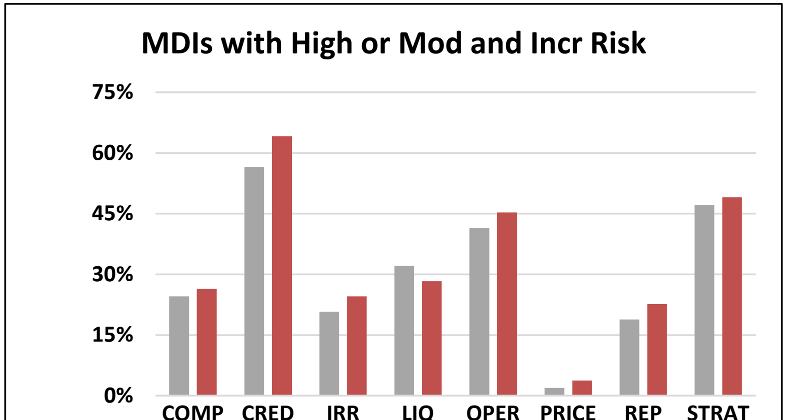


Rating Changes and Risk Assessments

- Over the last year, there were 33 upgrades and 19 downgrades, for a net upgrade of 14. Most upgrades were for management and earnings. Most downgrades were for management and asset quality.



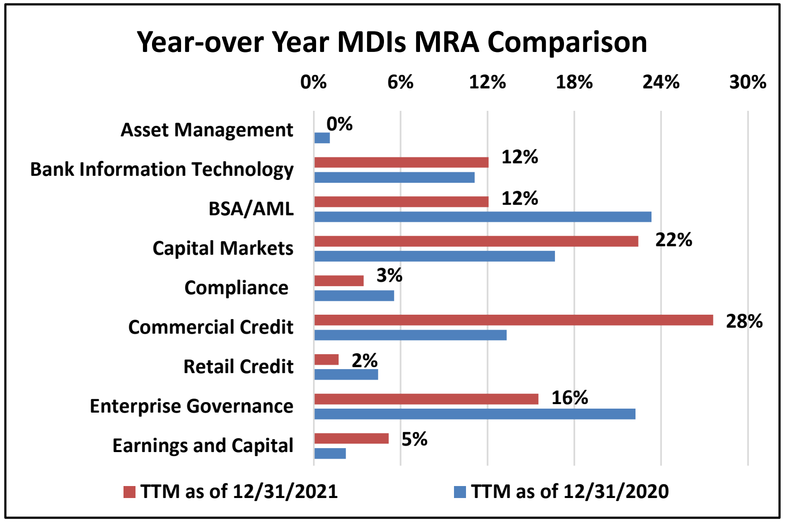
- The top three risks for MDIs are credit, strategic, and operational. The level of high or moderate and increasing risk is higher this quarter compared to one year ago for every category except liquidity.



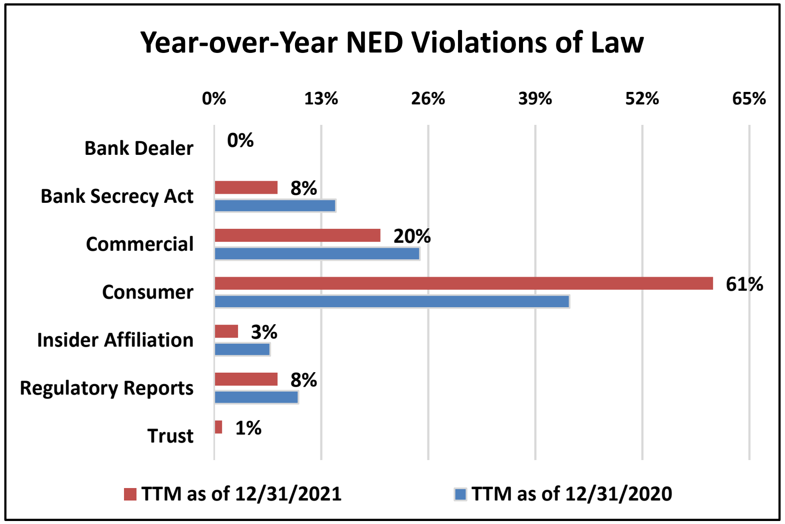
	COMP	CRED	IRR	LIQ	OPER	PRICE	REP	STRAT
4Q2020	25%	57%	21%	32%	42%	2%	19%	47%
4Q2021	26%	64%	25%	28%	45%	4%	23%	49%

MRAs and VOLs

- MRA volume is down 36 percent for the trailing twelve months ending December 31, 2021. MRAs are centered in Commercial Credit and Capital Markets. MRAs increased the most for Commercial Credit and decreased the most for BSA/AML.



- VOL volume is down 32 percent for the same period. VOLs are concentrated in the consumer category. The top two VOLs are Availability of Funds Act (12 CFR Part 229) and Loans in Areas Having Special Flood Hazards (12 CFR Part 22).



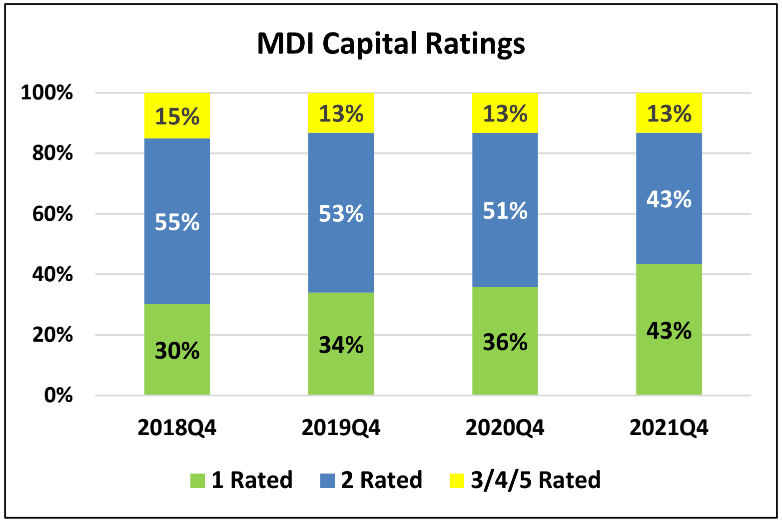
CBLR Framework-Completely Phased In

The Community Bank Leverage Ratio (CBLR) is an optional simple leverage capital measure that became effective January 1, 2020. The CARES Act provided temporary relief and a gradual phase-in through 2021 due to the pandemic.

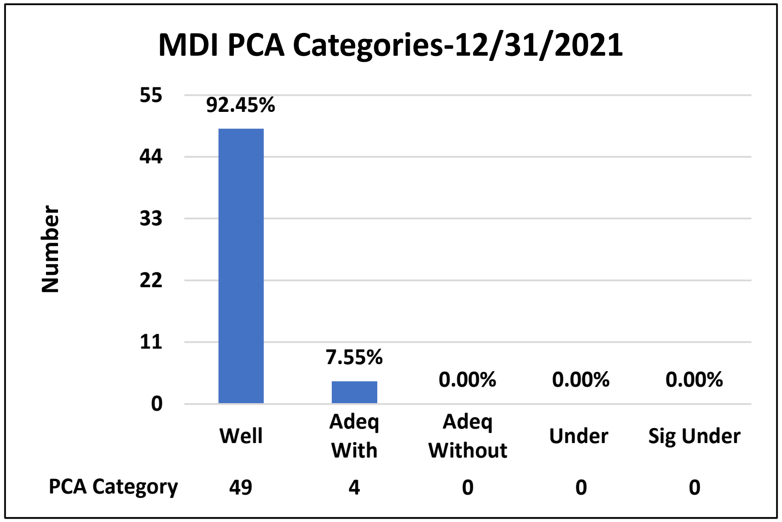
- Cannot be an advanced approaches banking organization
- Leverage ratio greater than 8.5 percent (2021) and 9 percent (2022)
- Total consolidated assets of less than $10 billion
- Total trading assets plus liabilities of 5 percent or less of consolidated assets
- Total off-balance sheet (OBS) exposures of 25 percent or less of consolidated assets

MDIs are Well-Capitalized

- MDI capital ratings improved this year. Eighty-six percent of MDIs are rated 1 or 2 for capital with more MDIs rated 1 this year. No MDI is rated 5 for capital.

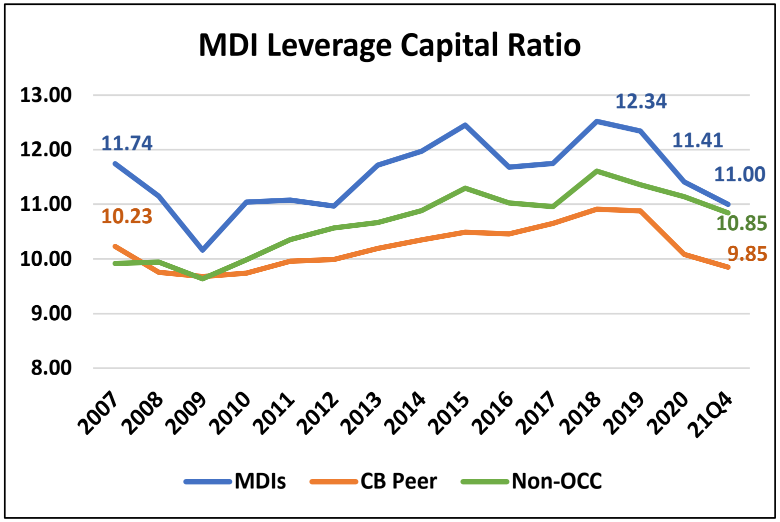


- Ninety-two percent of MDIs met the "well-capitalized" definition contained in Prompt Corrective Action as of December 31, 2021. Four MDIs – with formal actions requiring higher minimums – are "adequately-capitalized."

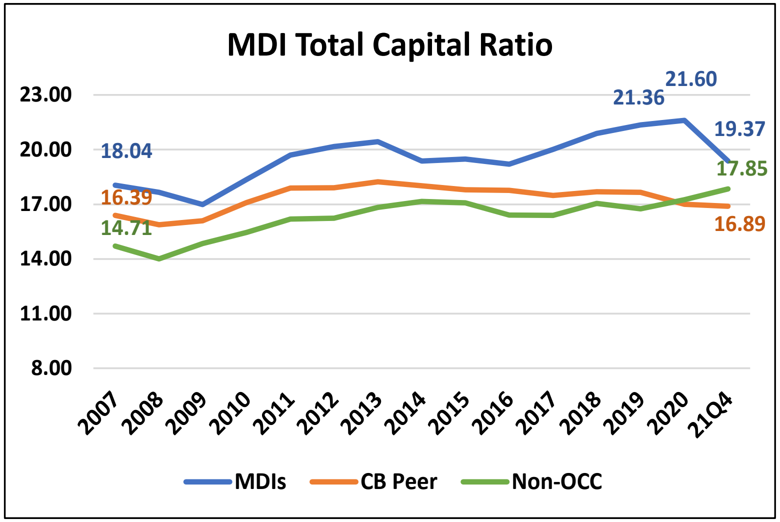


Capital Levels are Satisfactory but Lower

- The median MDI leverage ratio declined 134 basis points since 2019 but remains above peer.



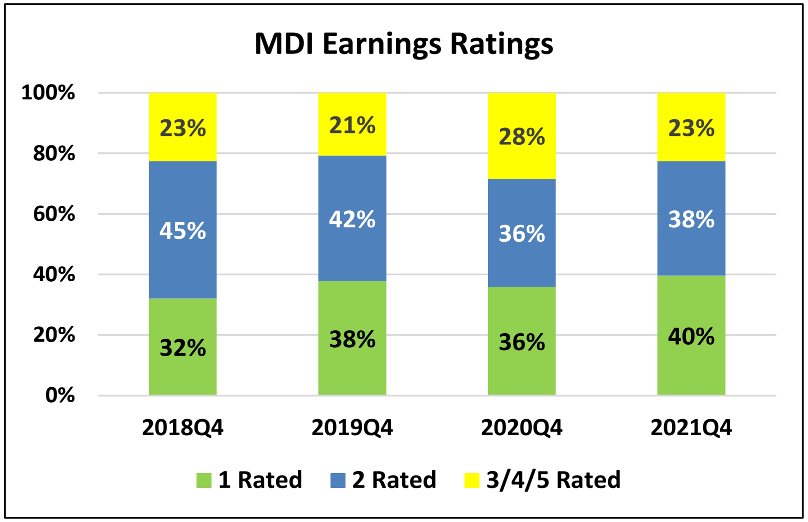
- The MDI total capital ratio fell 223 basis points to 19.37 percent. The gap between OCC MDIs and non-OCC MDIs narrowed in 2021. Nineteen or 36 percent of MDIs opted into the CBLR framework.

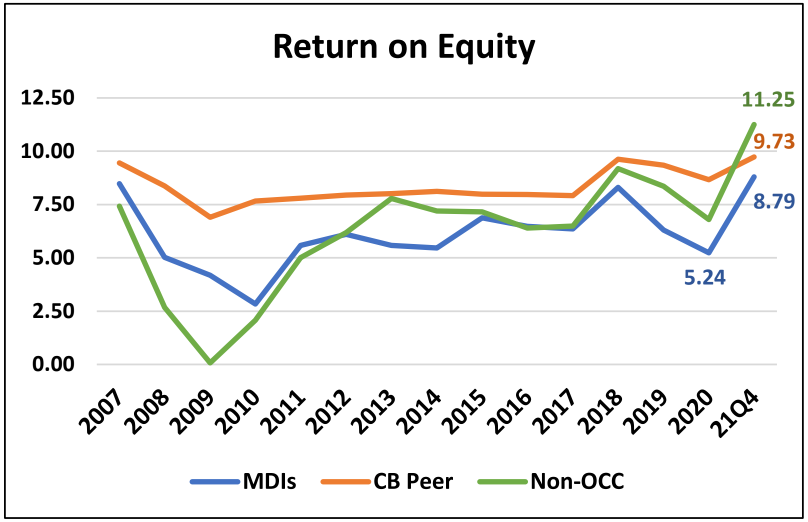


Earnings Ratings Better in 2021

- Earnings ratings are better in 2021 but lag ratings in other safety and soundness areas. Seventy-eight percent of MDIs are rated 1 or 2 for earnings. Two MDIs are rated 5 for earnings.

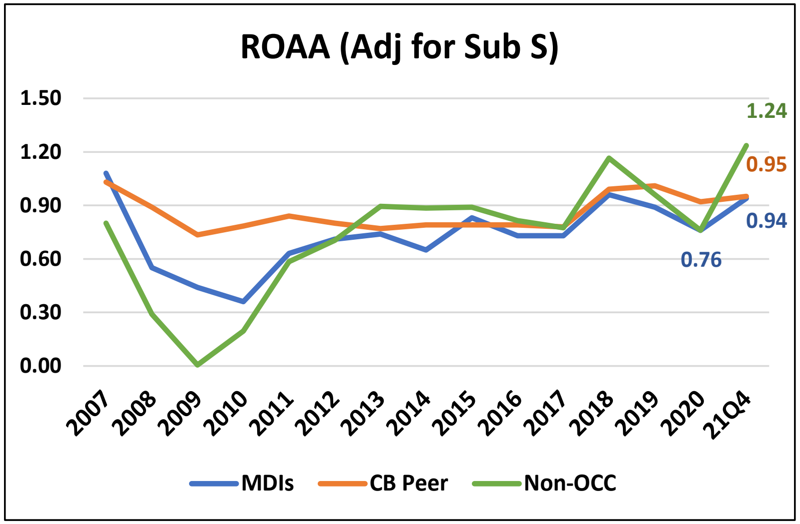
- MDI return on equity increased 355 basis points in 2021 but lags the other peer groups.





ROAA Increased This Year

- MDI ROAA increased 18 basis points to 0.94 percent in 2021 and is in line with peer.



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

Return on Assets - Dec 31, 2021

Asset Category	Peer	MDIs
Under $50MM	0.36	0.26
$50MM - $100MM	0.69	0.59
$100MM - $250MM	0.85	0.95
$250MM - $500MM	0.96	0.85
$500MM - $1B	1.05	1.20
Greater than $1B	1.18	1.67
Median	**0.95**	**0.94**

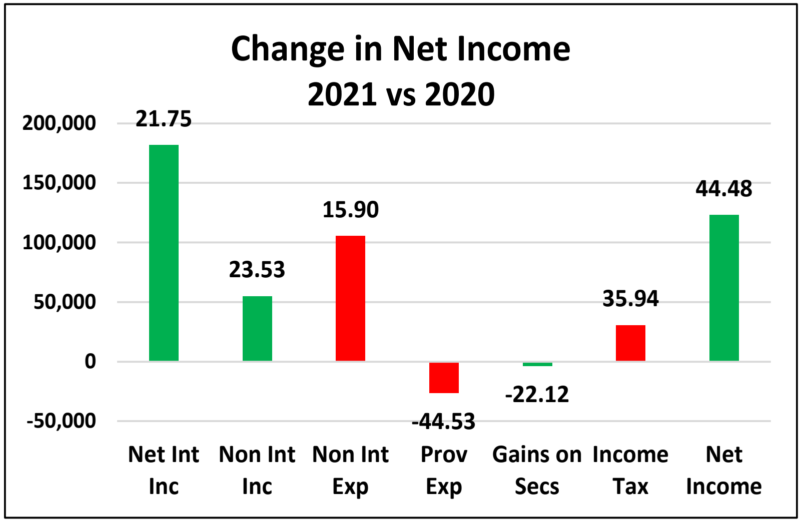
Net Income Up 44.5 Percent in 2021

- Despite margin compression, MDI net income rose sharply in 2021 due to higher net interest income, strong growth in fee income, and lower provision expenses.

- This chart graphs the change in net income from the last column of the income statement above.

MDI Income Statement ($000's)

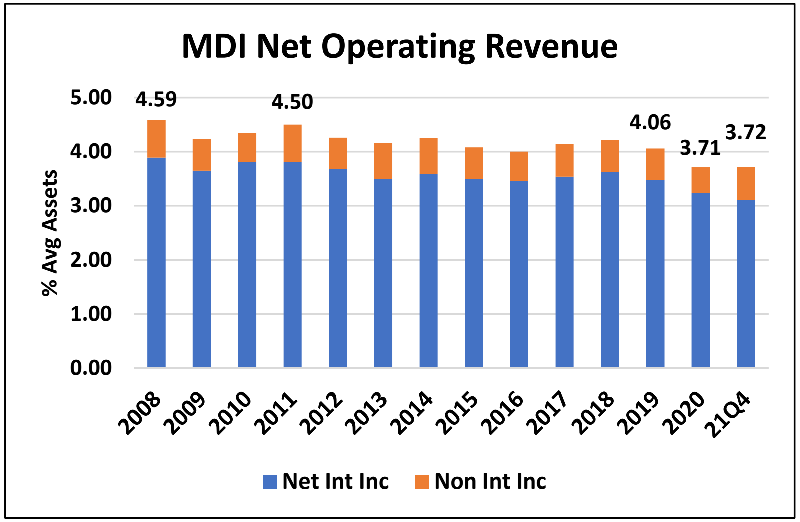
	2021	2020	Δ 1 Yr $	Δ 1 Yr %
Int Income	1,111,443	991,902	119,541	12.05
Int Expense	94,759	156,819	-62,060	-39.57
Net Int Inc	1,016,684	835,083	181,601	21.75
Non Int Inc	288,639	233,663	54,976	23.53
Non Int Exp	769,802	664,195	105,607	15.90
Prov Exp	32,652	58,861	-26,209	-44.53
Gains on Secs	12,540	16,101	-3,561	-22.12
Income Tax	116,296	85,549	30,747	35.94
Net Income	399,012	276,155	122,871	44.48

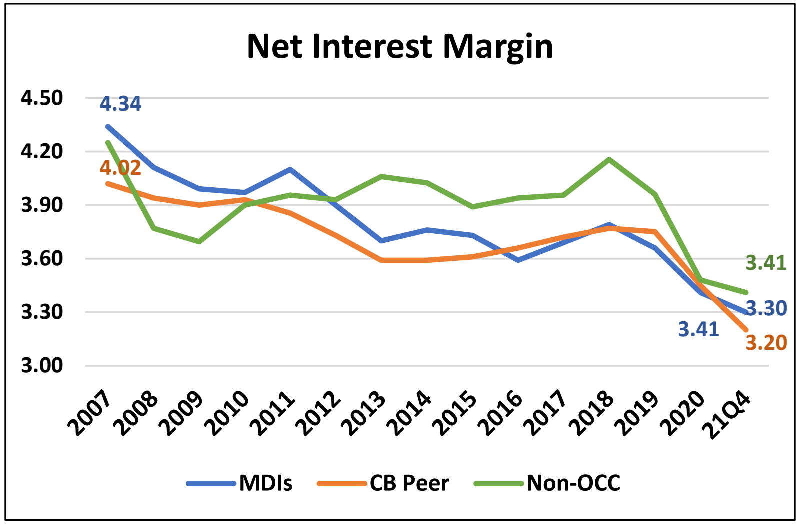


Net Interest Margin Lower

- MDI net operating revenue fell 34 basis points since 2019. Net interest income fell 38 basis points to 3.10 percent. Fee income rose four basis points to 0.62 percent. Higher fee income remains a key distinction between smaller and larger banks.

- Net interest margins (NIM) continue to compress but should soon stabilize. MDI NIMs fell 11 basis points since year-end 2020 and five basis points since last quarter.

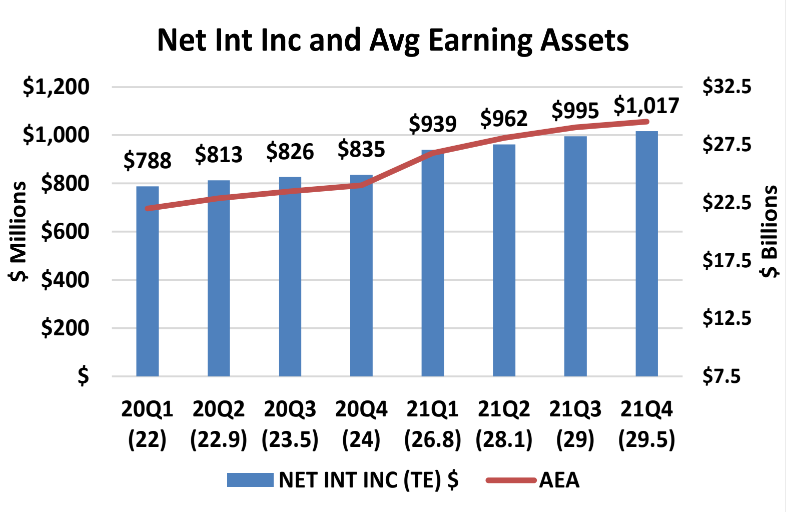


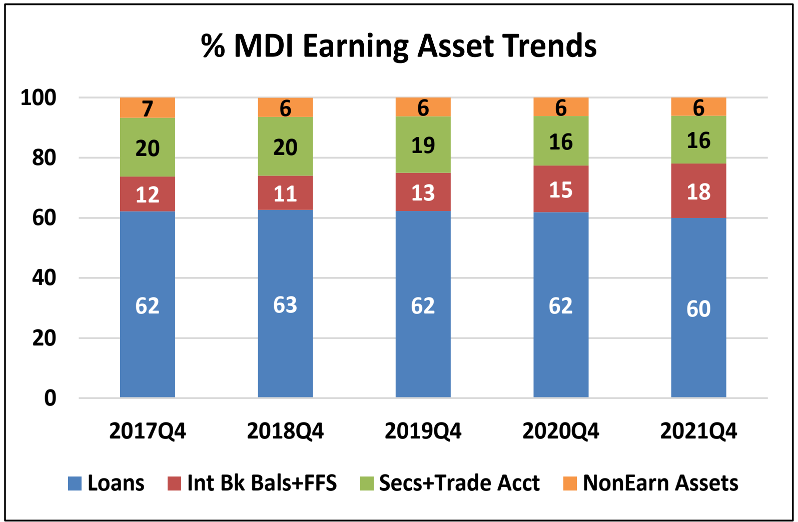


Net Interest Margin Analysis

- The weighted average NIM narrowed 13 basis points from first quarter 2020 to 3.45 percent due to average earning asset growth of $7.5 billion or 34.1 percent outpacing net interest income growth of $229 million or 29.1 percent.

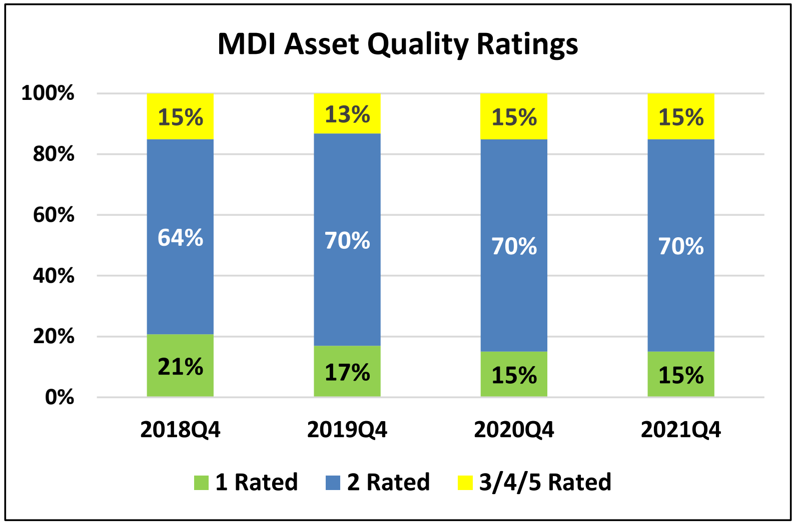
- The shift in the earning asset mix from loans and securities to interest-bearing bank balances has adversely impacted the margin.



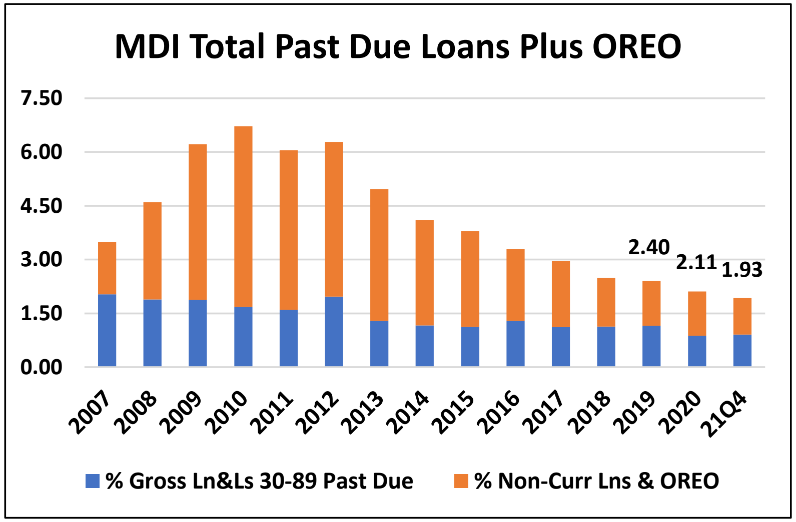


Asset Quality Ratings Stable

- Asset quality ratings remained satisfactory and stable in 2021. Eighty-five percent of MDIs are rated 1 or 2 for asset quality. No MDI is rated 5.

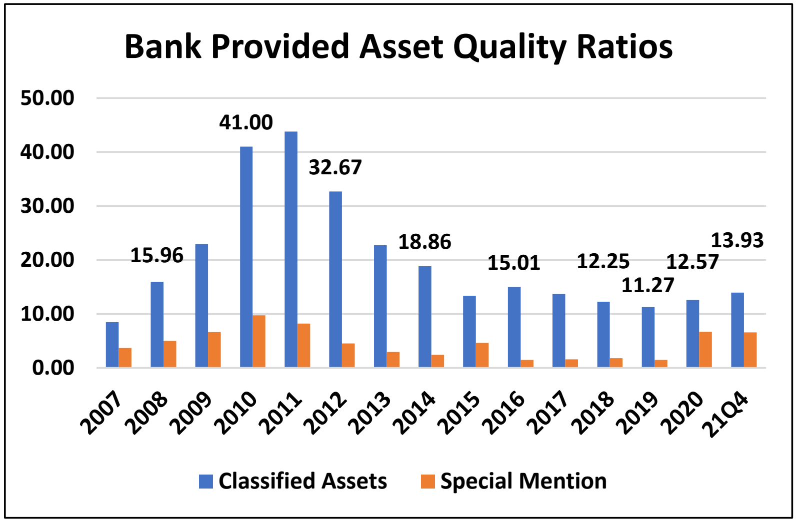


- Past due loans plus OREO fell to a decade low of 1.93 percent. While past dues remain low, modification programs in the CARES Act might be masking delinquencies for some credits. Fortunately, that pool of loans is declining.

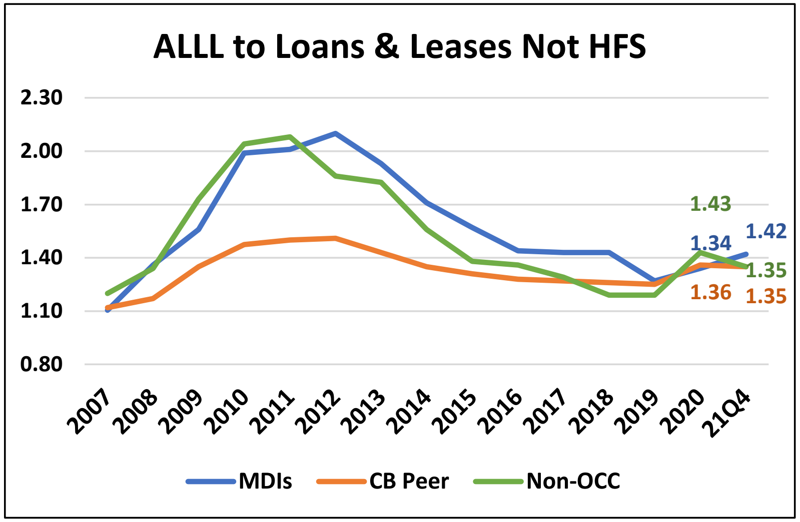


Classified Assets Edge Higher

- MDI bank provided classified assets to tier 1 capital plus the ALLL ratios reached a cyclical low in 2019 and rose to 13.93 percent this year.



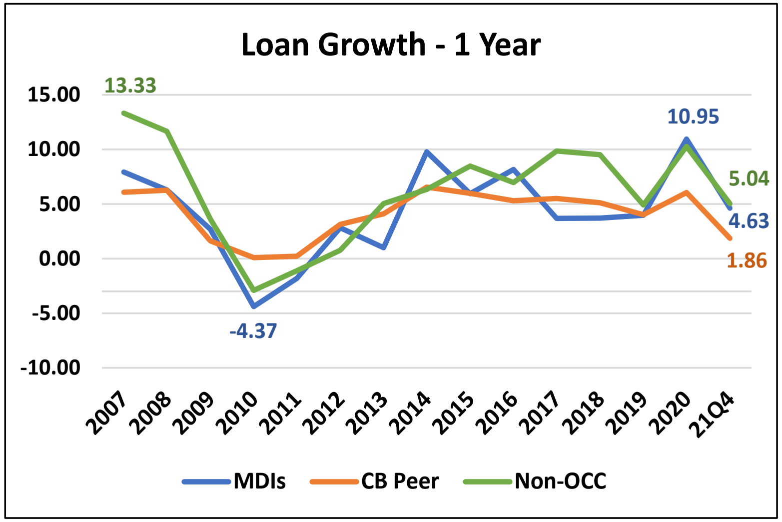
- The MDI ALLL is directionally consistent with the increasing level of bank provided classified assets.



Loan Growth is Good

- After removing PPP loans, the adjusted MDI loan growth increased to 7.24 percent for 2021.

- Loan growth is normally highest for banks with total assets over $1 billion and lowest for banks with total assets under $100 million.

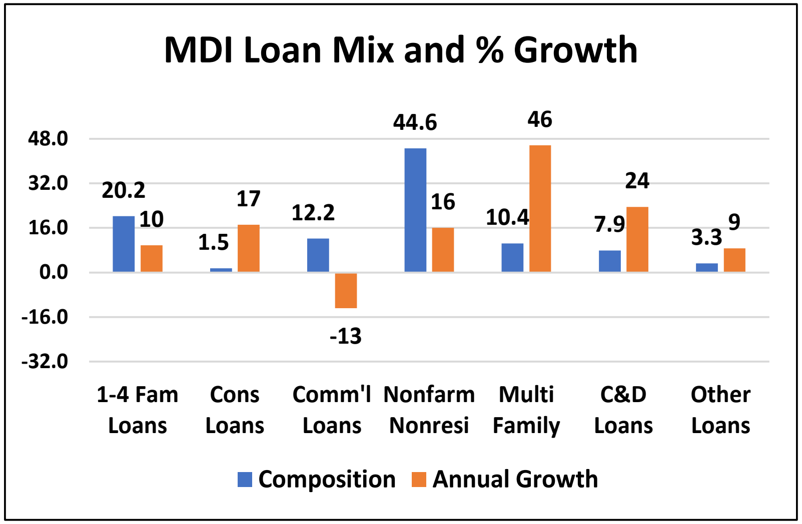


Loan Growth Ratio - Dec 31, 2021

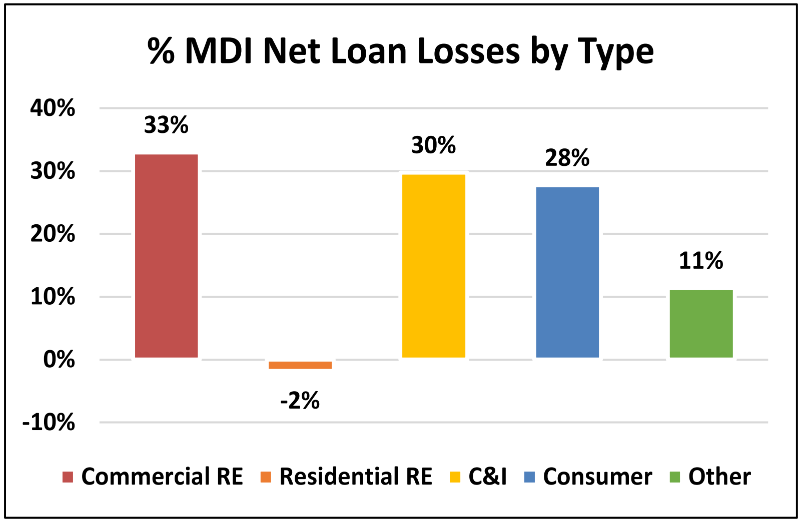
Asset Category	Peer	MDIs
Under $50MM	-0.56	0.31
$50MM - $100MM	2.52	1.37
$100MM - $250MM	1.86	-3.01
$250MM - $500MM	1.71	6.28
$500MM - $1B	1.65	9.29
Greater than $1B	2.54	12.54
Median	**1.86**	**4.63**

Loan Mix CRE-Heavy and Losses Low

- CRE at 62.9 percent is the largest MDI loan category. Loan growth for MDIs was highest for multifamily loans. Loan balances increased for all categories from last year except Commercial Loans.

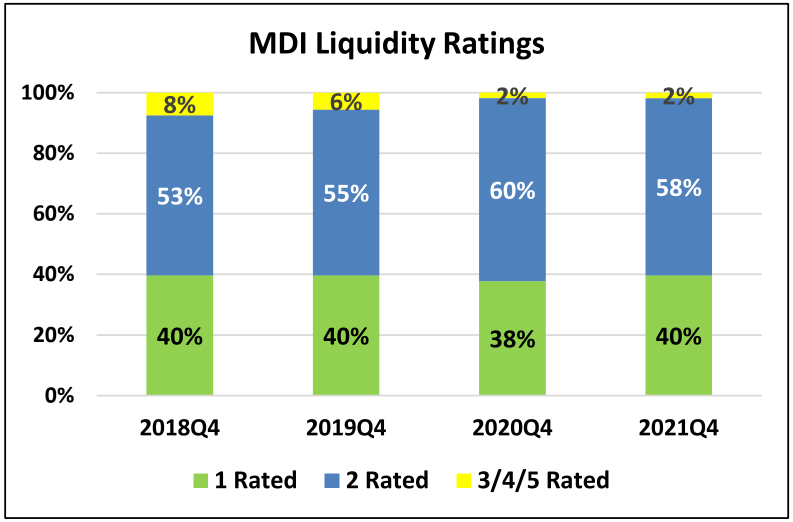


- MDI loan losses are at historically low levels or 0.05 percent in 2021. Most losses emanate from CRE and commercial loans. Consumer loans account for 1.5 percent of loans but 28 percent of net losses (auto-8 percent).

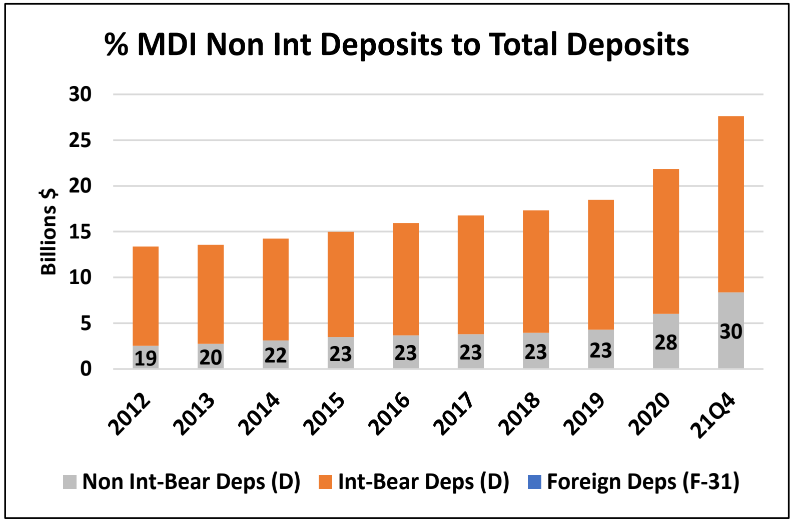


Liquidity is Strong

- MDI liquidity ratings are strong and improving. Ninety-eight percent of MDIs are rated 1 or 2.

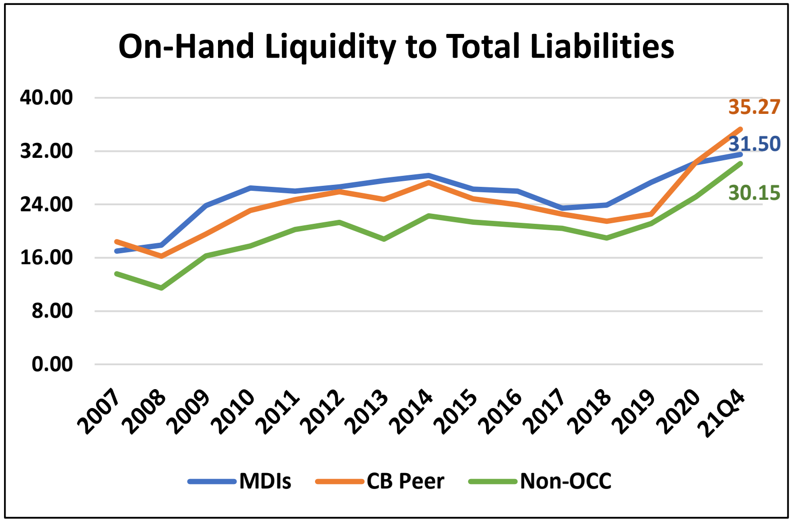


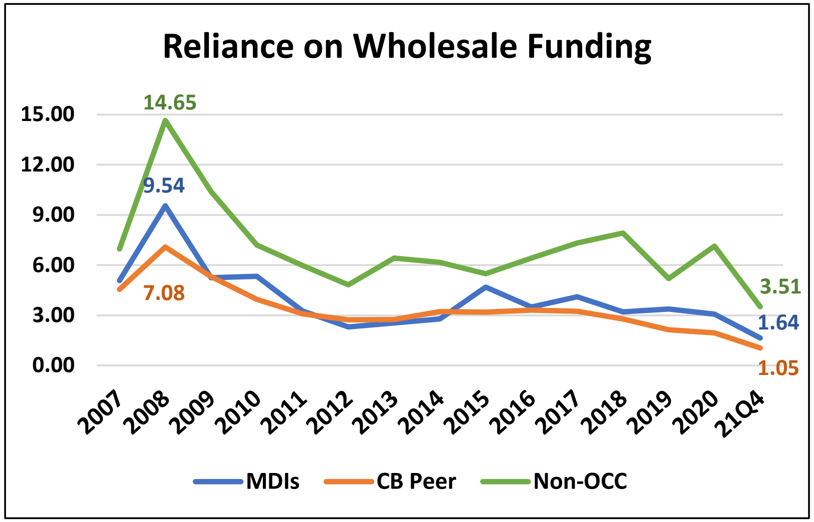
- MDI deposits grew 26.4 percent year-over-year due to pandemic-related deposits (stimulus checks, PPP funds) and a higher consumer saving rate.



On-Hand Liquidity Sharply Higher

- MDI on-hand liquidity ratios are sharply higher and above pre-crisis and pre-pandemic levels. Smaller banks have the highest levels of on-balance sheet liquidity. Because of the excess liquidity, MDIs are relying less on wholesale funding sources.



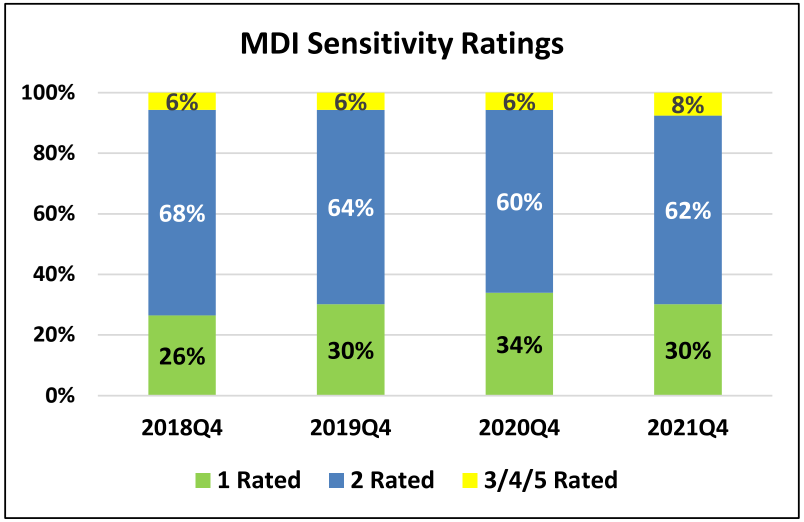


On-Hand Liquidity - Dec 31, 2021

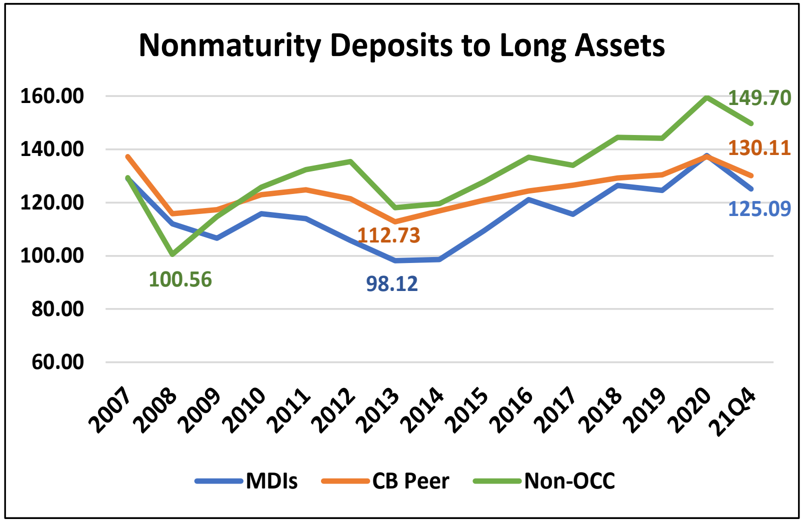
Asset Category	Peer	MDIs
Under $50MM	61.03	55.27
$50MM - $100MM	41.90	44.41
$100MM - $250MM	39.08	44.92
$250MM - $500MM	35.40	33.16
$500MM - $1B	32.84	21.52
Greater than $1B	29.80	24.20
Median	35.27	31.50

Sensitivity is Adequately Controlled

- MDI sensitivity to market risk ratings remain satisfactory; 92 percent are rated 1 or 2.



- Nonmaturity deposits to long-term assets have decreased in 2021. However, they are up from their lows of 2013.



Key Observations – December 31, 2021

- The number of MDIs and their share of total bank charters has increased this year.
- MDI composite ratings remain satisfactory but lower this year. Seventy-nine percent of MDIs are rated composite 1 or 2.
- **Capital remains satisfactory.** MDI capital levels are lower this year but remain above peer. The MDI leverage ratio fell to 11.00 percent. The MDI total capital ratio fell to 19.37 percent but remains above pre-crisis levels. More MDIs are rated 1 for capital this year.
- **Asset quality is satisfactory**. Total past due loans plus OREO fell to a decade low of 1.93 percent. Loan growth is good. The ALLL is adequate and directionally consistent with the increasing levels of bank provided classified assets.
- **Earnings are adequate**. Despite NIM compression, MDI net income rose sharply this year due to higher net interest income, strong growth in fee income, and lower provision expenses. More MDIs are adversely rated for earnings than any other rating category.
- **Liquidity is strong**. MDIs are flush with liquidity due to pandemic related deposits and a higher consumer savings rate. Ninety-eight percent of MDIs are rated 1 or 2 for liquidity.
- **Sensitivity to market risk remains adequately controlled**. MDIs are holding high levels of nonmaturity deposits relative to long-term assets making them less vulnerable to increases in interest rates.

Questions