Office of the
Comptroller of the Currency

State of MDIs

Information as of December 31, 2023

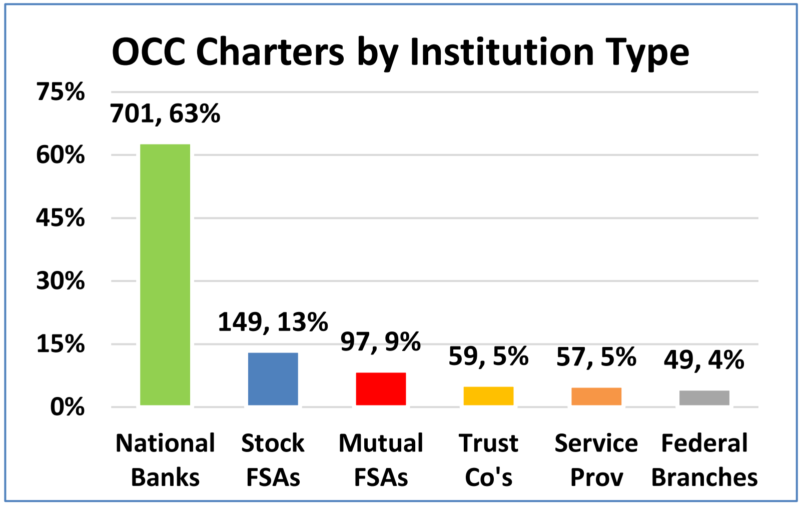
ERNIE KNOTT
April 16, 2024

Today's Agenda

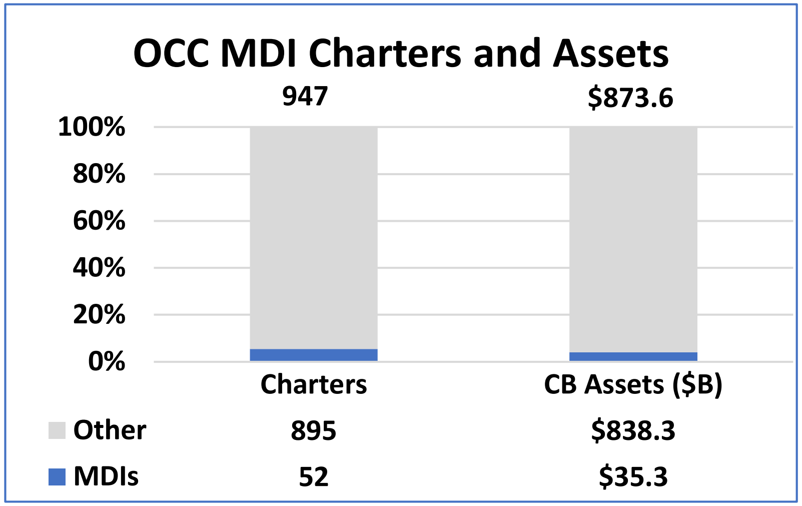
Preface: This presentation analyzes federally insured banks active as of December 31, 2023. The population is "held constant" for many of the performance metrics. Most charts use the median and others use weighted averages.

MDI Charters and Assets

OCC supervised 1,112 total institutions or 947 bank charters (first 3 columns) as of December 31, 2023.



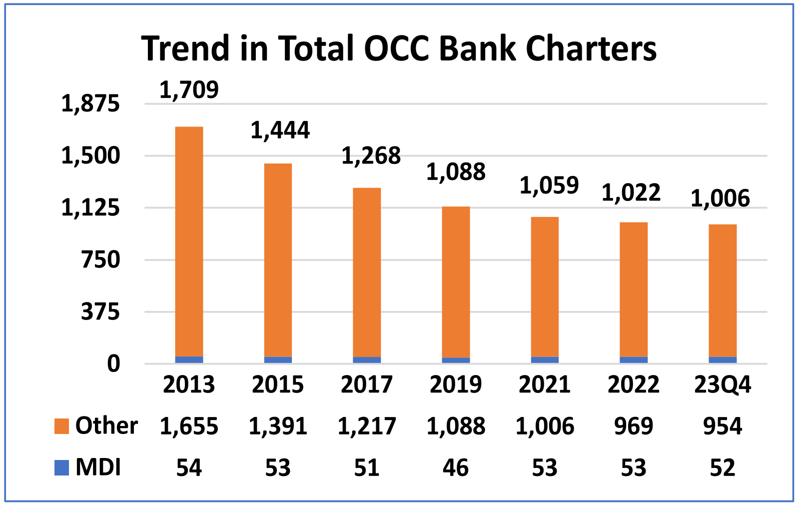
Minority Depository Institutions (MDIs) represent 52 or 5.5 percent of OCC non-trust bank charters and $35.3 billion or 4.0 percent of OCC-supervised community bank assets as of December 31, 2023.

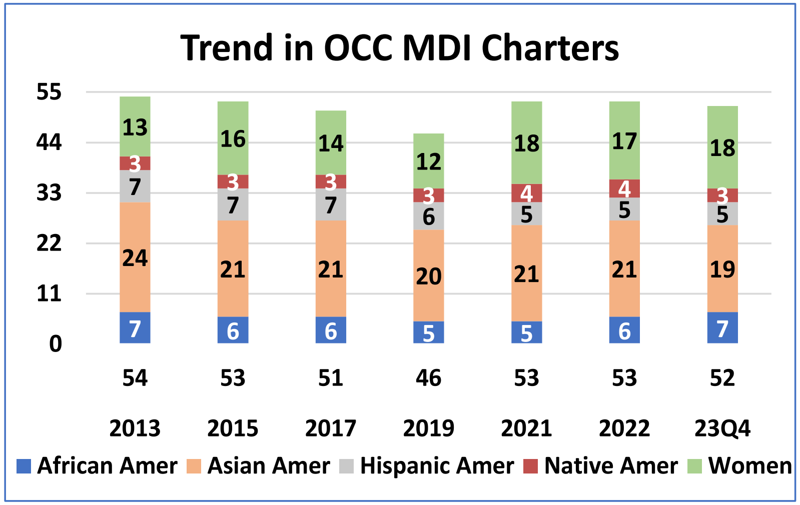


Office of the Comptroller of the Currency

OCC and MDI Charter Trends

The banking system continues to consolidate due to mergers and acquisitions. MDIs have increased as a share of total OCC charters. Since 2013, the net number of OCC charters decreased by 703 or 41 percent while the number of MDIs decreased by two.



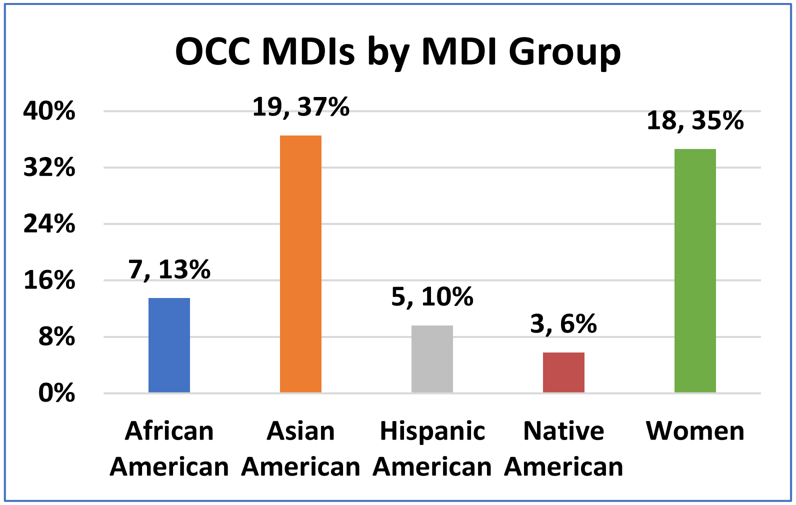


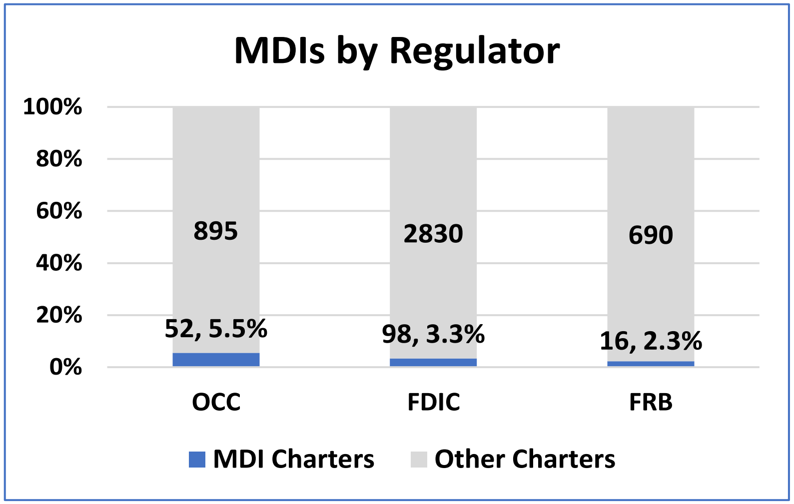
Office of the Comptroller of the Currency

MDIs by Group and Regulator

Most OCC-supervised MDIs or 37 percent are Asian or Pacific Islander American as of December 31, 2023.

There were 166 MDIs in the US banking system as of December 31, 2023. OCC supervises the largest share of MDIs to total insured banks.

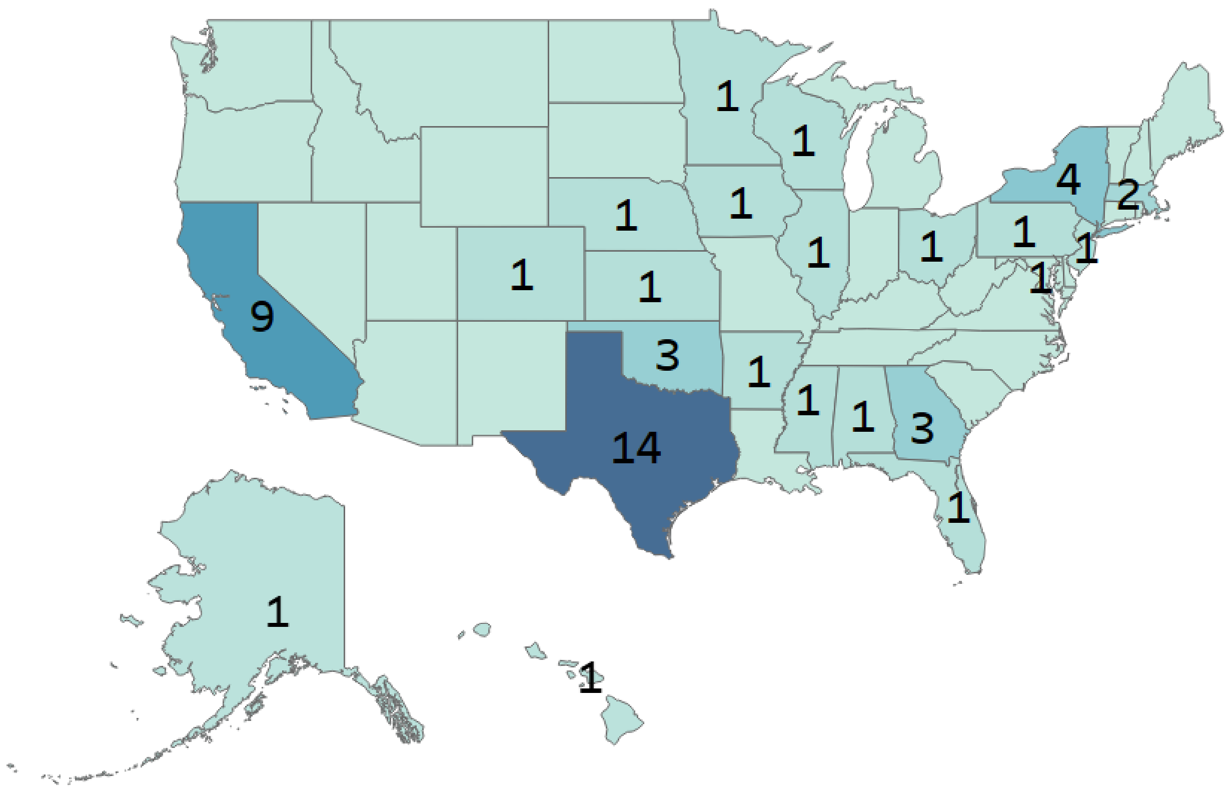




Office of the Comptroller of the Currency

MDIs by State

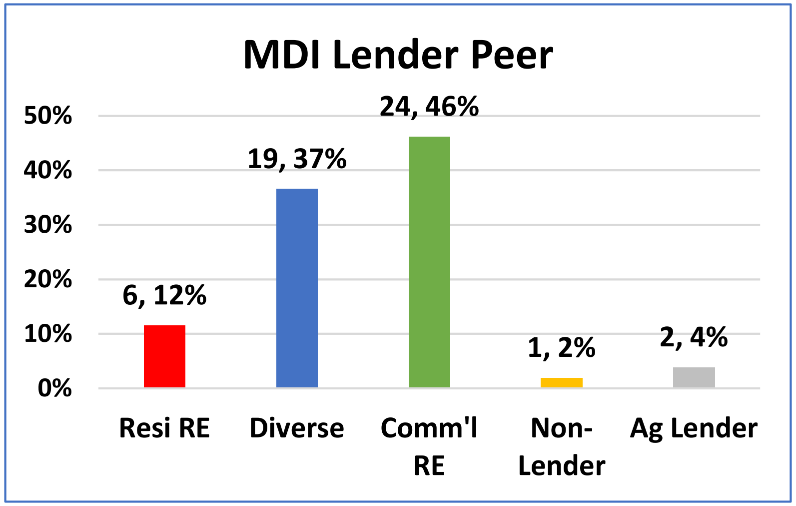
OCC-supervised MDIs are in 23 states as of December 31, 2023. MDIs are concentrated in Texas (14) and California (9). Four other states have multiple MDIs: New York (4), Georgia (3), Oklahoma (3), and Massachusetts (2).



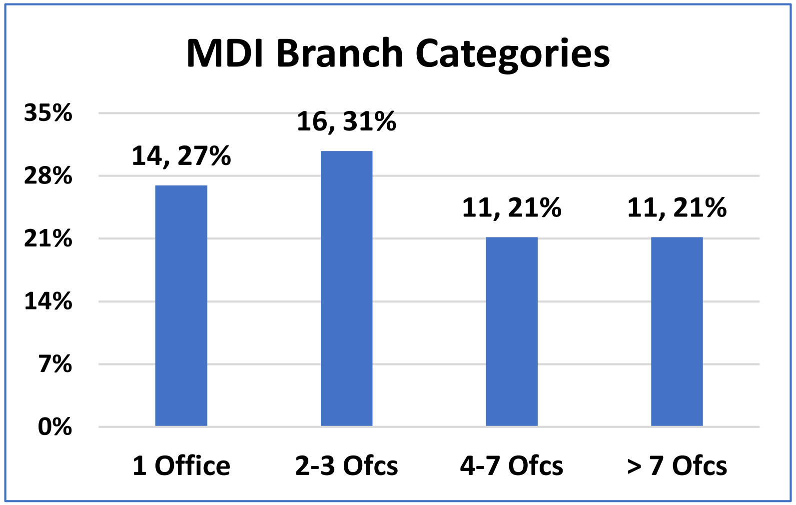
Office of the Comptroller of the Currency

MDI Lender Peer and Branch Network

The majority or 83 percent of MDIs are either commercial real estate lenders or diversified lenders.



Fifty-eight percent of MDIs operate from three locations or less.



Office of the Comptroller of the Currency

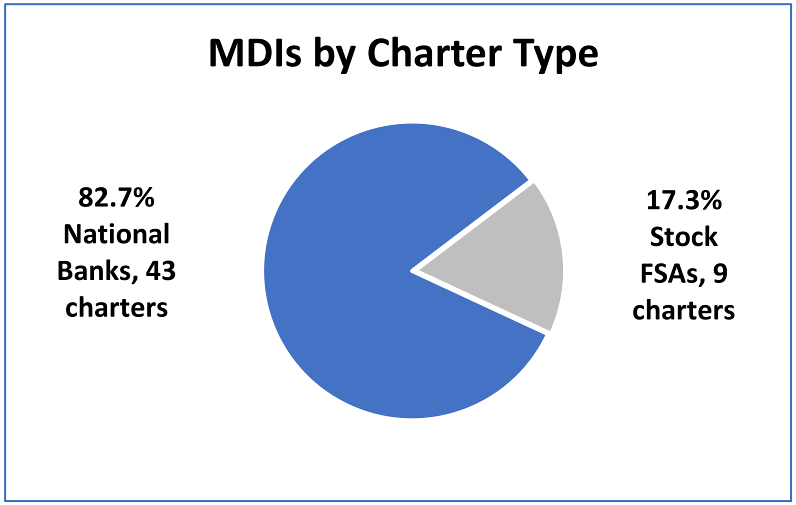
MDI Peer Groups in this Presentation

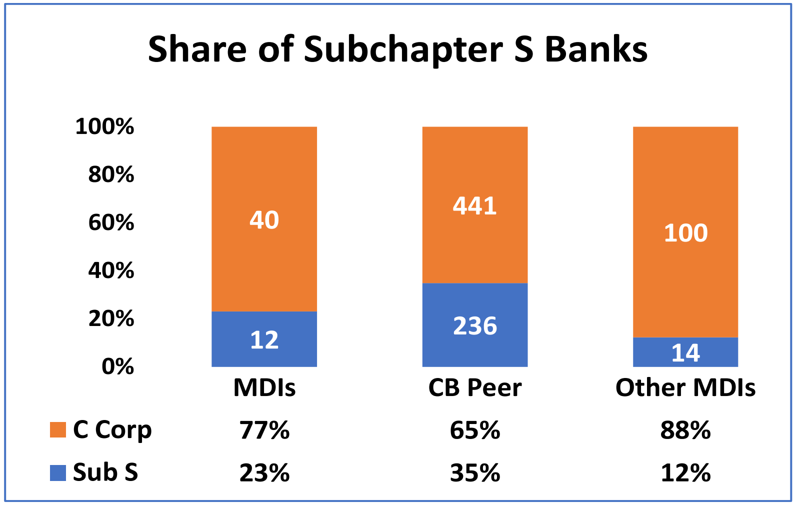
- As of December 31, 2023, the smallest MDI had $27.3 million in total assets and the largest MDI had $5.7 billion.
- MDIs fall into two institution type categories – national banks or stock FSAs. There are no mutual FSA MDIs or trust company MDIs.
- No MDI is supervised by Midsize or Large Bank Supervision.
- As such, the MDI peer group referenced throughout this presentation is community banks with total assets less than $6.0 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 or Other MDIs).

MDI Charter Type and Sub S Status

The majority or 83 percent of MDIs are national banks.

Twenty-three percent of MDIs have elected Subchapter S status. Sub S banks may pass income (along with other credits, deductions, and losses) directly to shareholders, without paying federal corporate taxes.

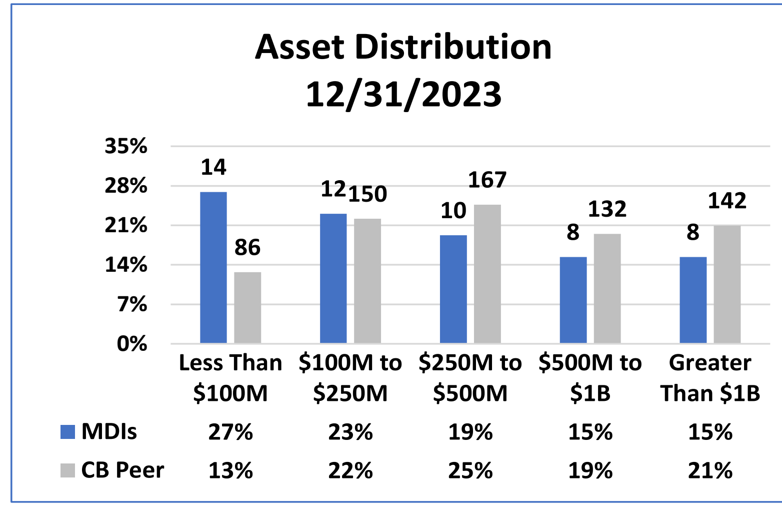


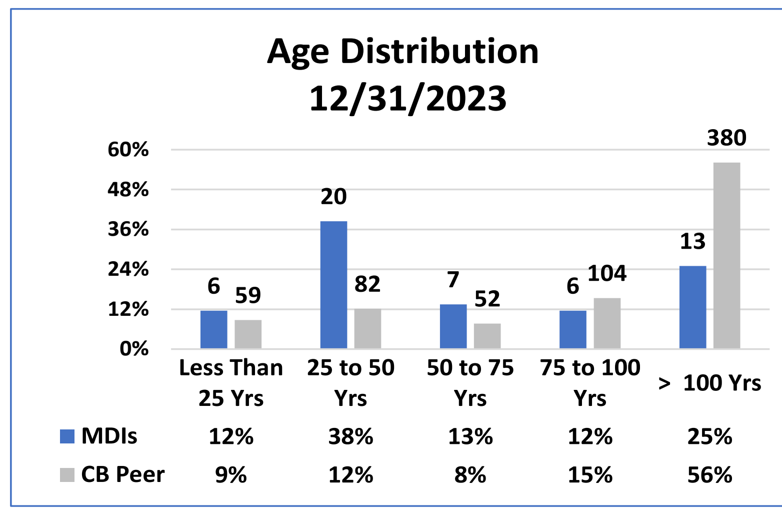


MDIs by Asset Size and Age

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

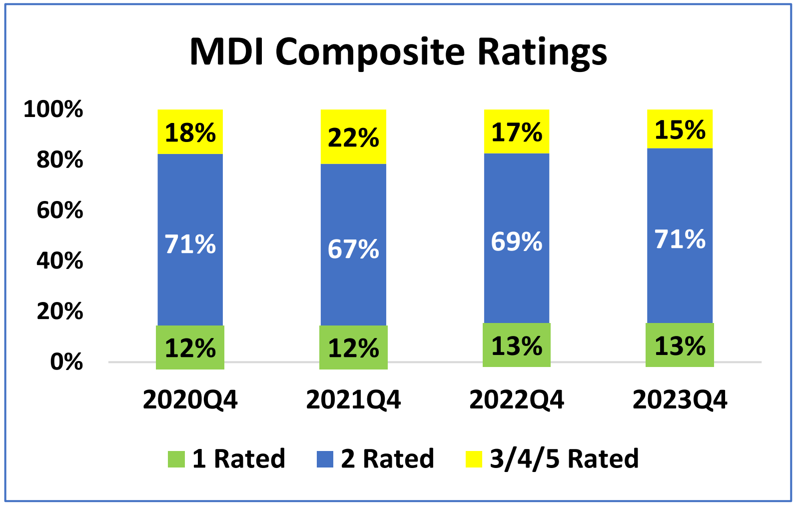
MDIs have been operating for fewer years than the community bank peer group. Only 25 percent of MDIs were formed more than 100 years ago compared to 56 percent for the community bank peer.



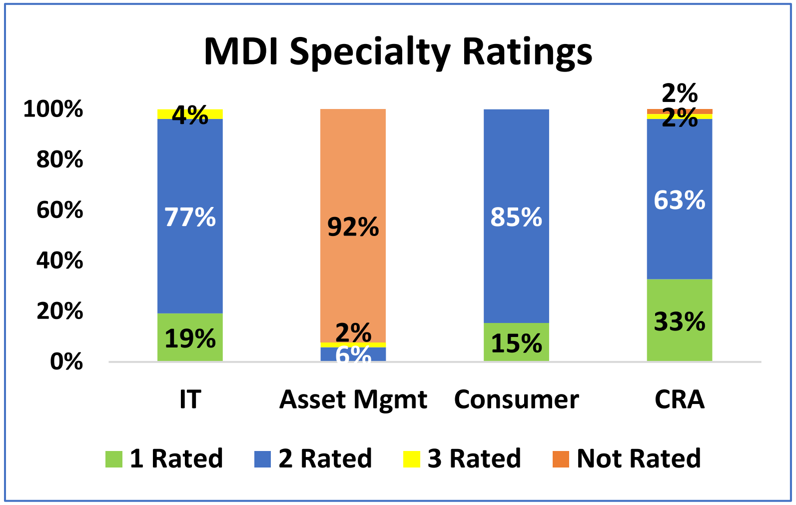


Supervisory Ratings

MDI composite ratings are satisfactory and improving. The share of MDIs rated composite 1 or 2 increased to 84 percent this year.



Specialty ratings are satisfactory. About 8 percent of MDIs have trust powers. For purposes of this chart, a CRA rating of outstanding is 1, satisfactory is 2, and needs to improve is 3.

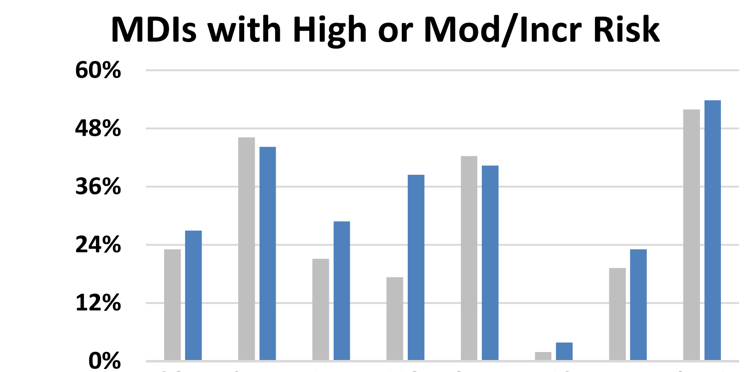


Office of the Comptroller of the Currency

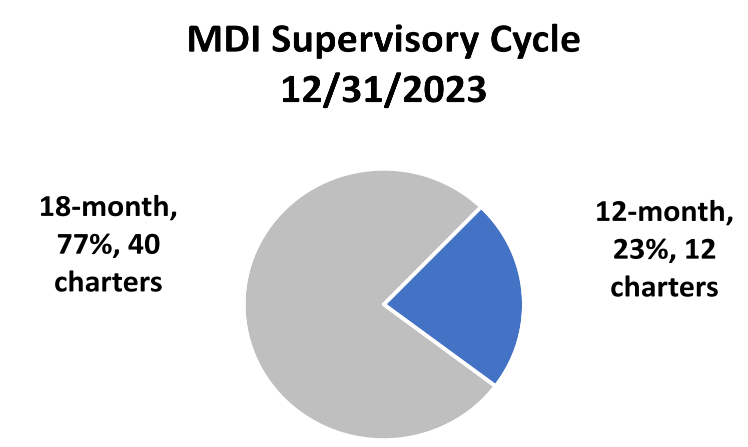
Risk Ratings and Exam Cycle

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-seven percent of MDIs are on the expanded cycle.



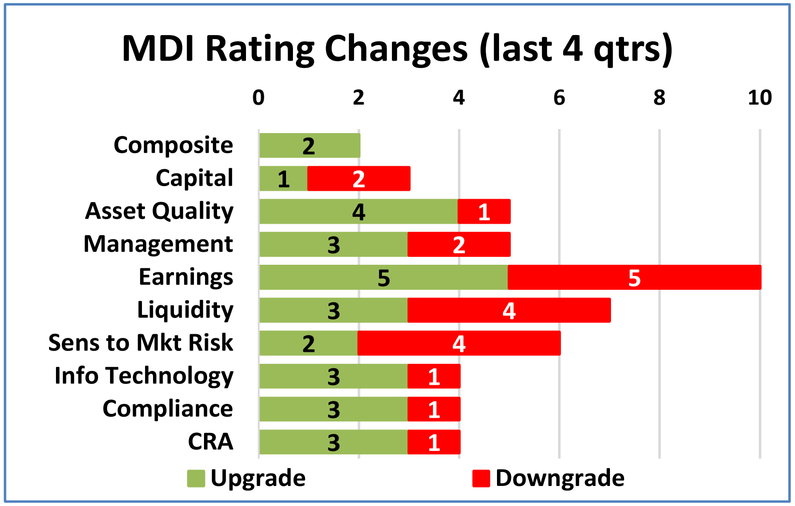
	COM	CRED	IRR	LIQ	OPER	PRICE	REP	STRA
2022Q4	23%	46%	21%	17%	42%	2%	19%	52%
2023Q4	27%	44%	29%	38%	40%	4%	23%	54%

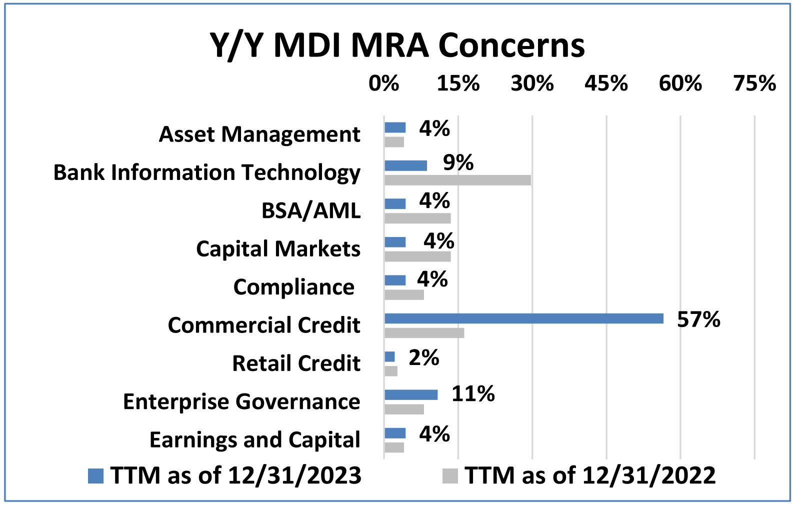


Rating Changes and MRAs

Over the last year, there were 29 upgrades and 21 downgrades, for a net rating upgrade of 8. Downgrades outpaced upgrades for capital, liquidity, and sensitivity to market risk.

MRA volume is down 38 percent for the trailing 12 months ending December 31, 2023. MRAs increased the most for Commercial Credit. MRAs decreased the most for Bank Information Technology.

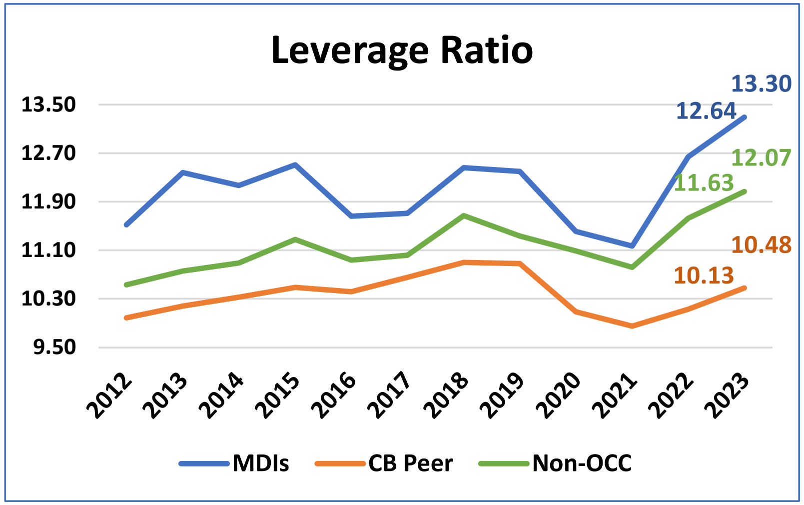


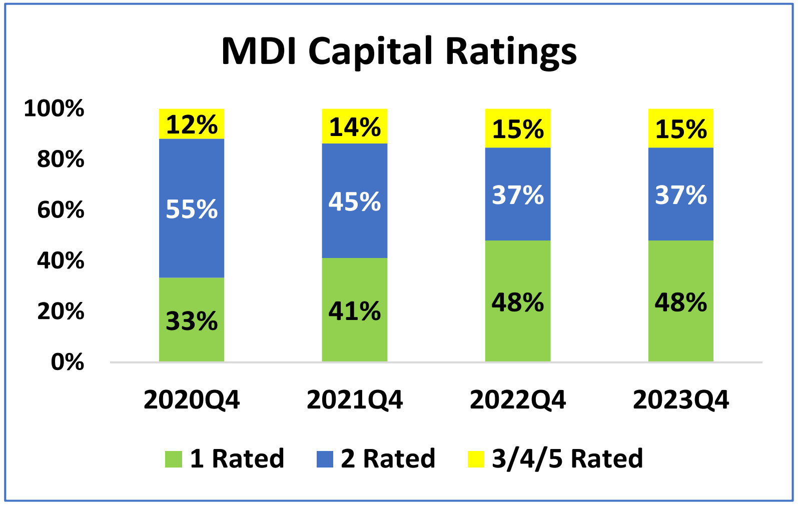


Office of the Comptroller of the Currency

Capital Levels Remain Solid

Capital ratings remain satisfactory. MDI capital ratios are at their highest levels since the financial crisis. In general, smaller banks hold higher levels of capital.





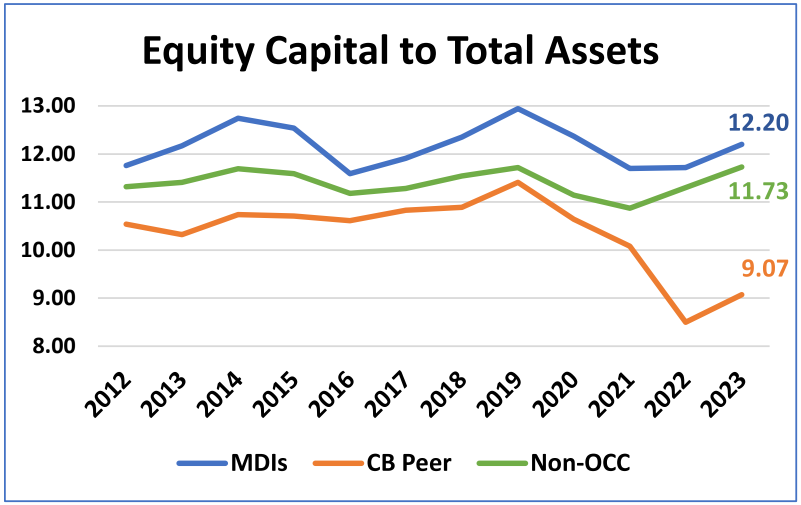
Leverage Ratio - Dec 31, 2023

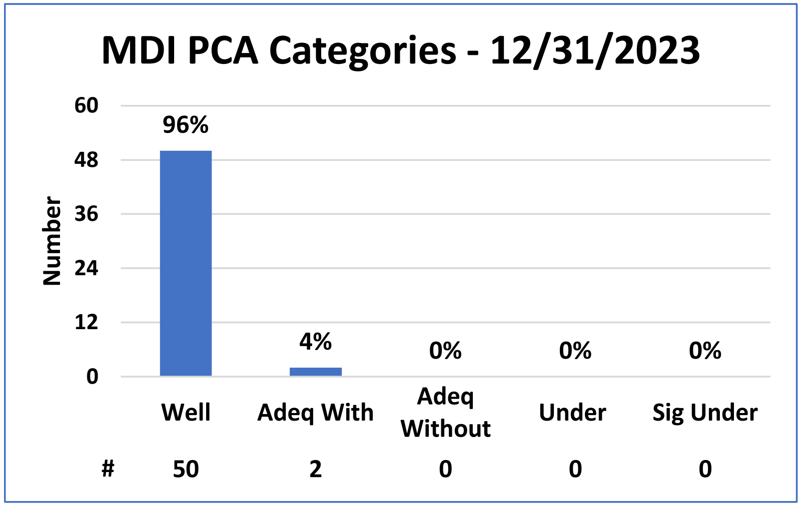
Asset Category	Peer	MDIs
Under $50MM	12.47	13.50
$50MM - $100MM	11.41	15.17
$100MM - $250MM	10.76	15.20
$250MM - $500MM	10.68	11.66
$500MM - $1B	9.97	10.25
Greater than $1B	9.79	12.59
Median	**10.48**	**13.30**

MDIs are Well Capitalized

Equity capital to total asset ratios declined for the industry in 2020 and 2021 due to pandemic-related asset growth and fell more sharply in 2022 for community banks due to AOCI-related adjustments.

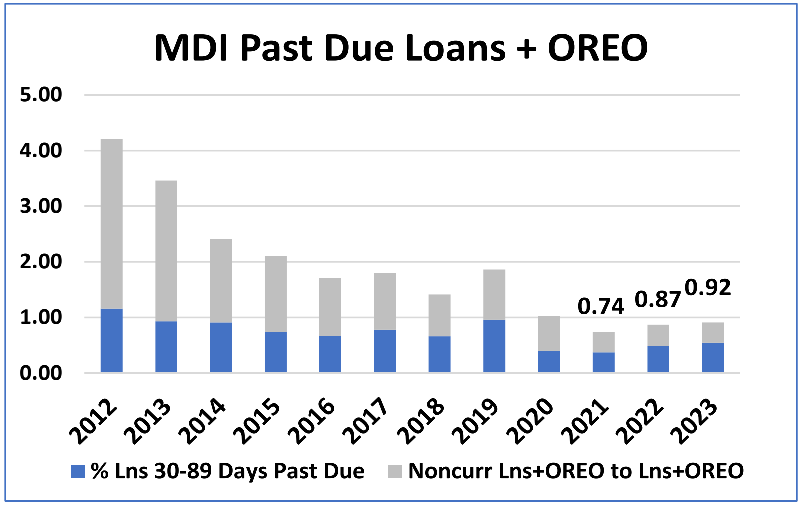
Ninety-six percent of MDIs are well capitalized per Prompt Corrective Action. Two MDIs – with formal actions requiring higher minimums – are adequately capitalized. Thirty-seven percent of MDIs opted into the CBLR framework.

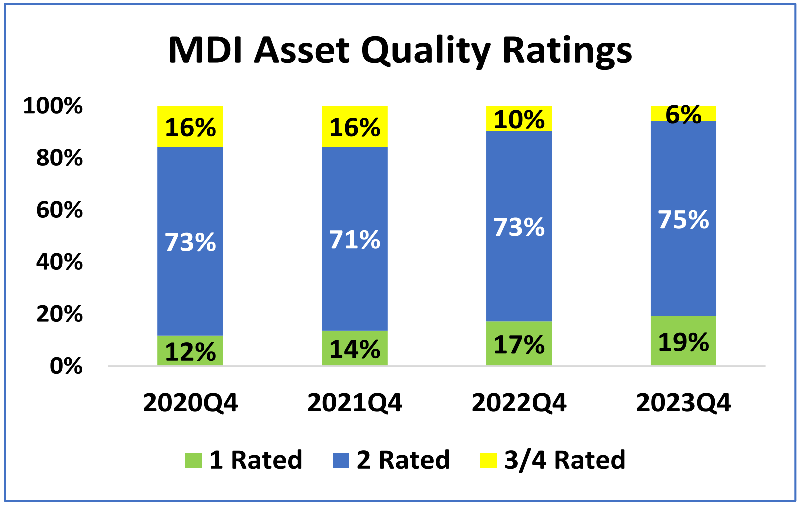


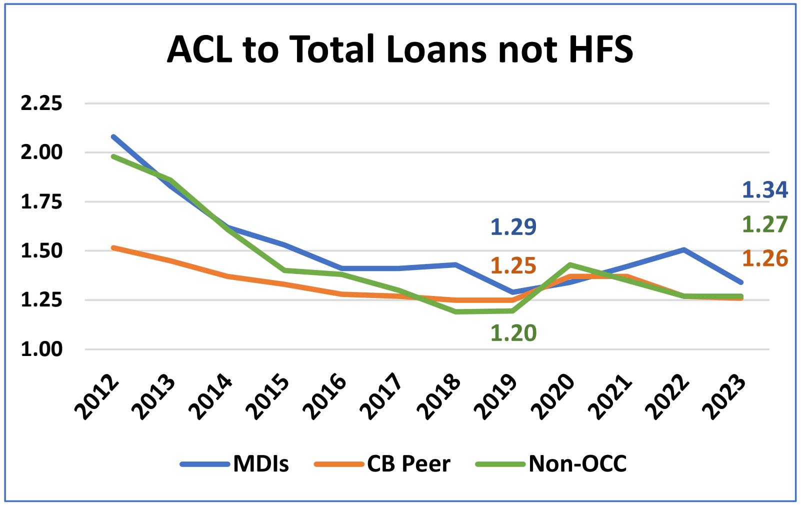


Asset Quality is Resilient

Asset quality ratings are good. Past due loans remain low, but early-stage delinquencies have edged higher. The ACL is higher versus pre-pandemic.



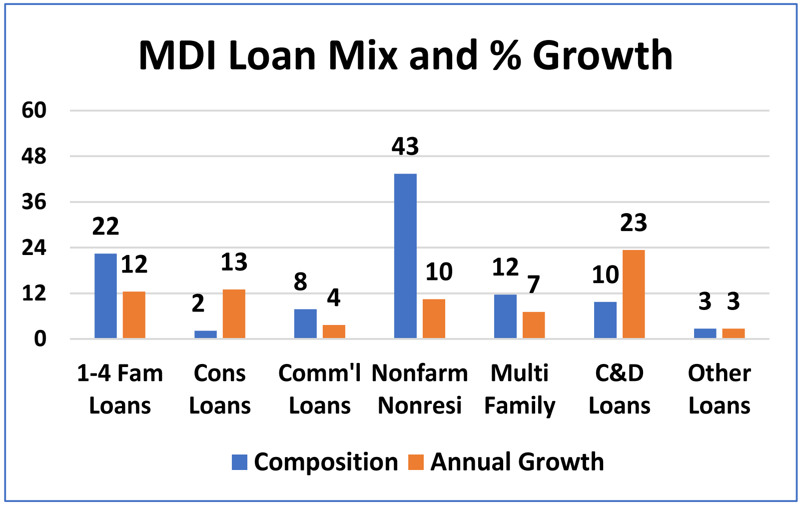


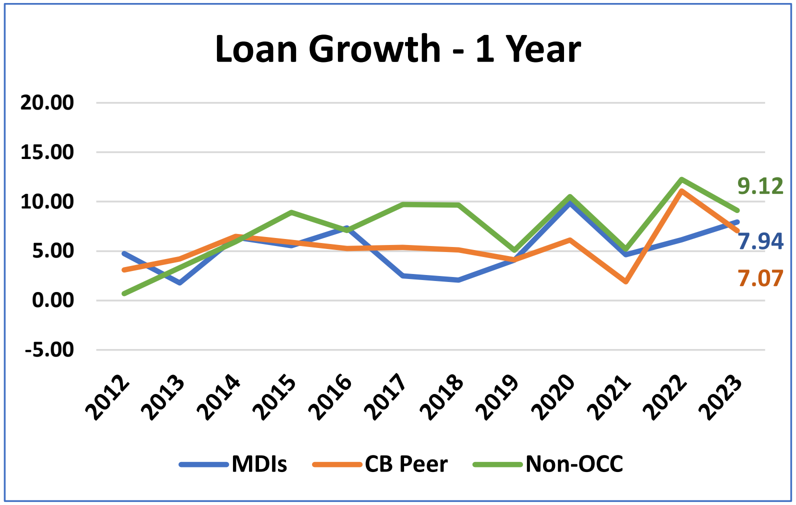


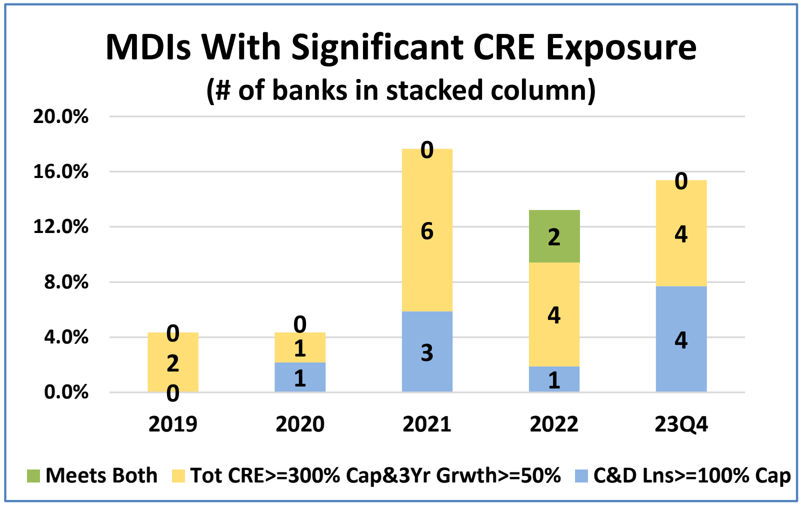
Office of the Comptroller of the Currency

Loan Growth Remains Moderate

MDI loan growth improved to 7.94 percent in 2023. Eight MDIs or about 15.4 percent exceeded the CRE concentration thresholds outlined in the Interagency CRE Guidance (December 2006).



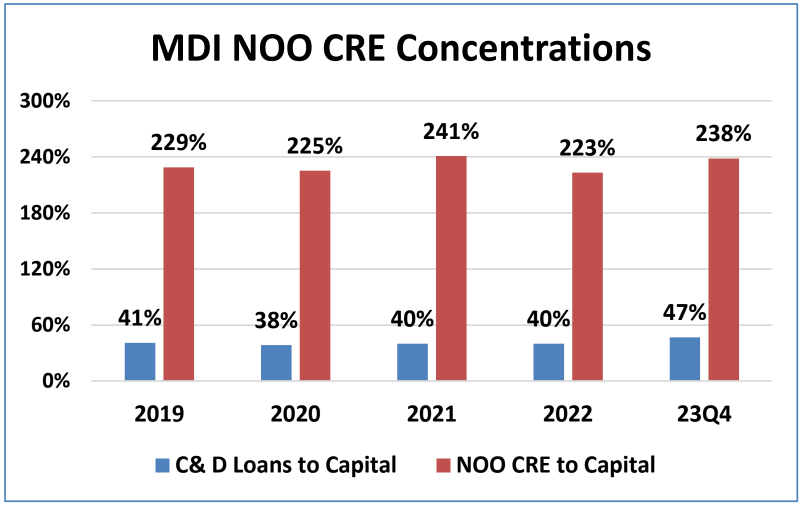




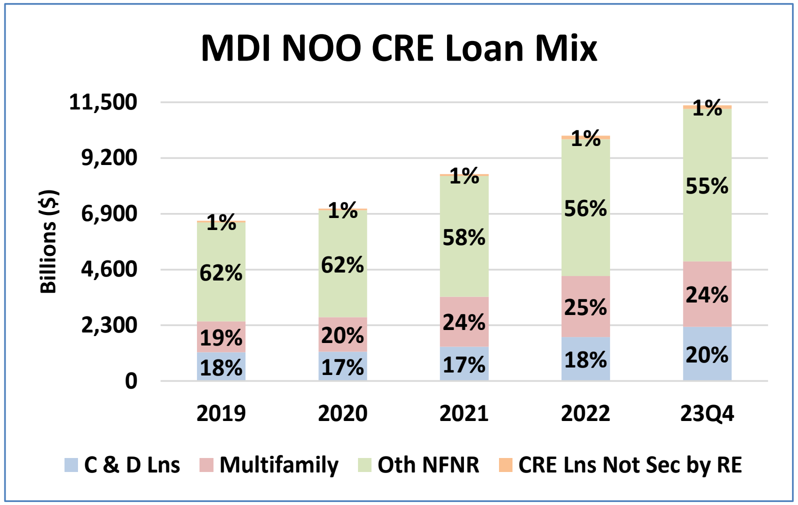
Office of the Comptroller of the Currency

CRE Concentrations Stable

MDI CRE loans to capital remain relatively stable.



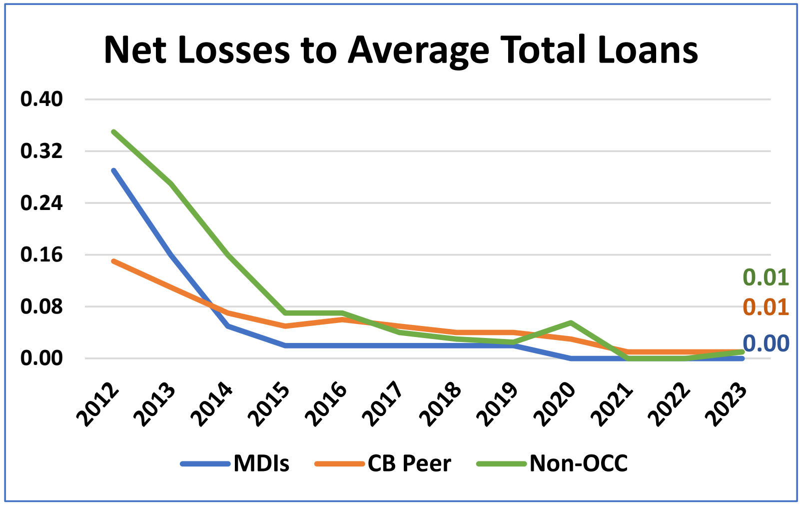
In recent years, MDI CRE exposure has been shifting from other nonfarm nonresidential to multifamily loans and construction and development loans.

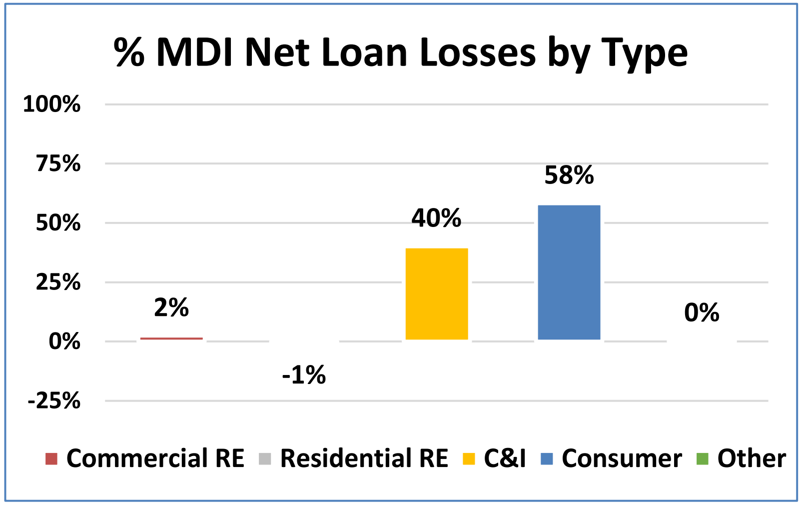


Loan Losses Remain Low

Loan losses remain low and increased six basis points to 0.10 percent of total loans on a weighted average basis in 2023.

Consumer loans account for 2 percent of loans and 58 percent of losses. On the other hand, 1 to 4 family real estate loans account for 22 percent of loans and have nominal recoveries.

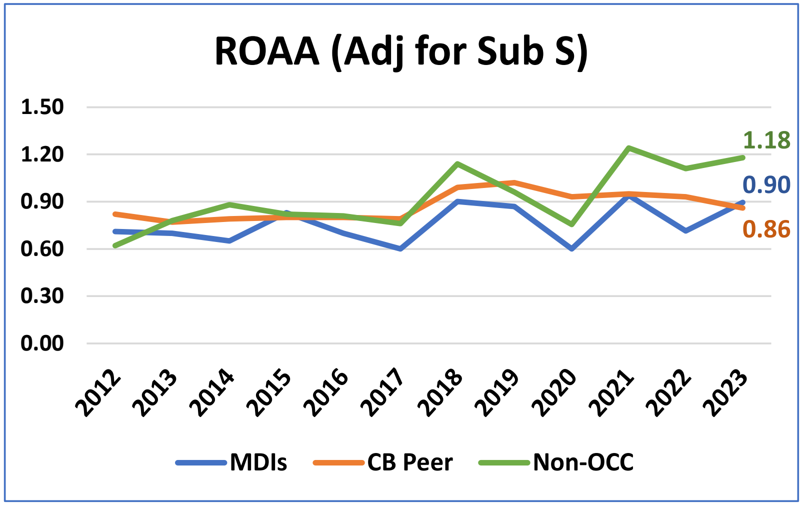


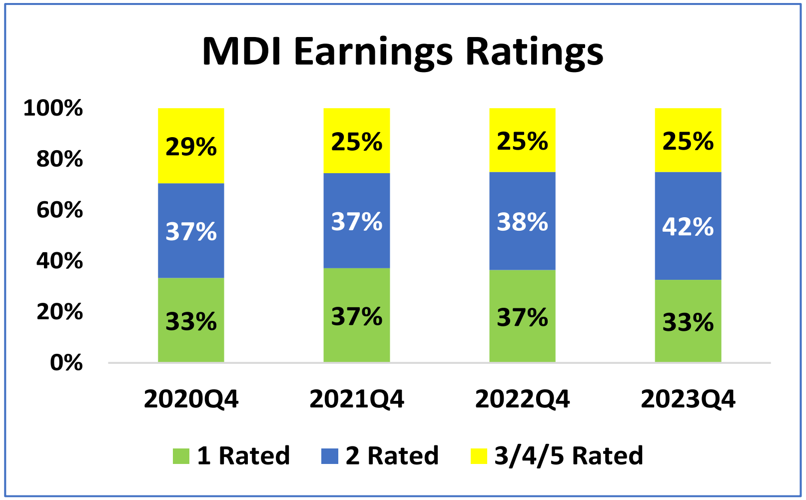


Office of the Comptroller of the Currency

MDI ROAA is Higher

Earnings ratings are stable and continue to lag ratings in other safety and soundness areas. Return on Average Assets (ROAA) for MDIs is satisfactory and improved in 2023.





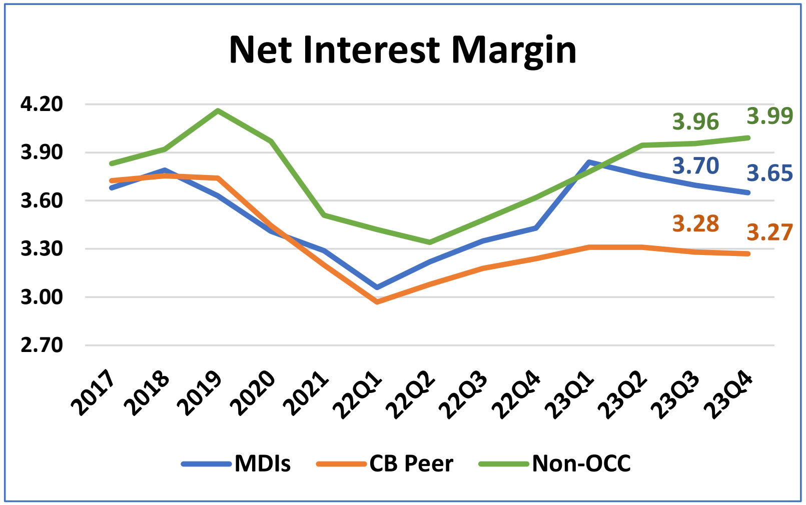
Return on Assets - Dec 31, 2023

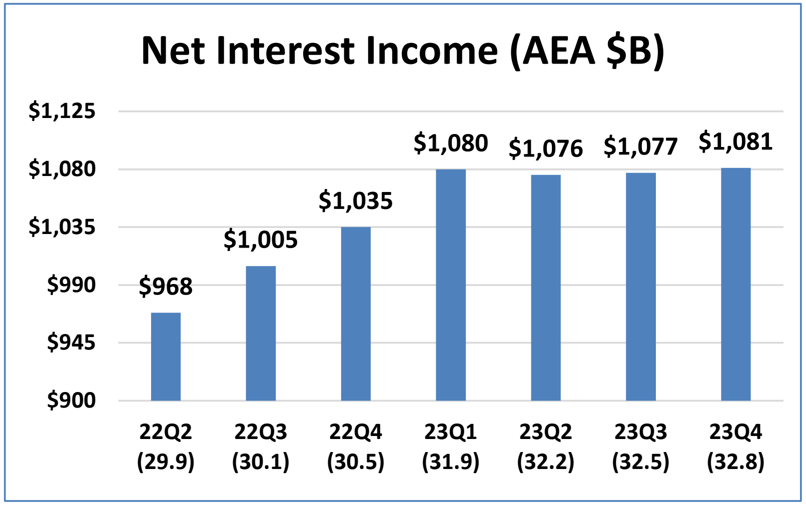
Asset Category	Peer	MDIs
Under $50MM	0.44	0.89
$50MM - $100MM	0.79	0.75
$100MM - $250MM	0.82	0.69
$250MM - $500MM	0.87	0.87
$500MM - $1B	0.85	1.21
Greater than $1B	0.96	0.95
Median	**0.86**	**0.90**

Net Interest Margin Contracts

After four quarters of expansion, MDI margins began to contract in second quarter 2023 due to the sharp rise in the cost of funds.

The weighted average net interest margin contracted two basis points since the prior quarter due to an increase of 0.36 percent in net interest income while average earning assets grew 0.92 percent to $32.8 billion.



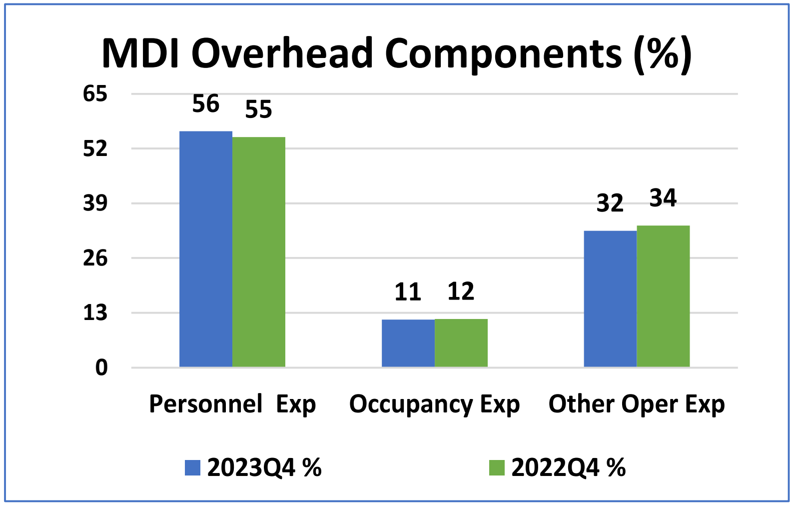


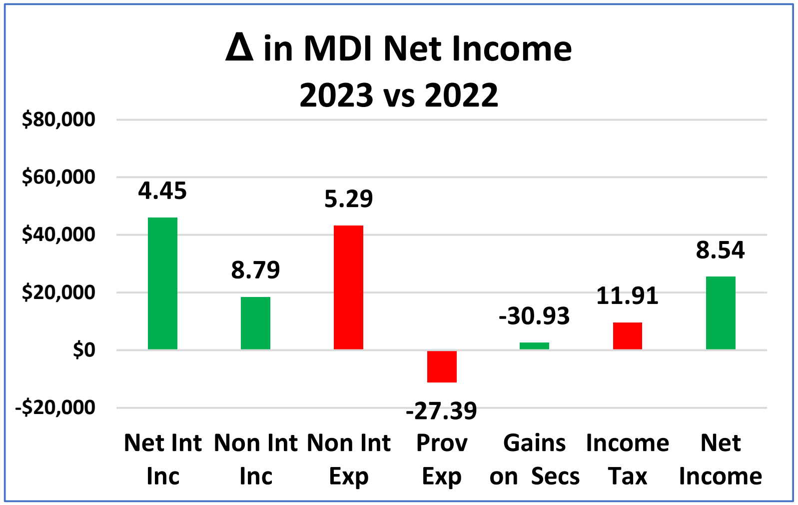
Net Income Up 9 Percent

Despite a sharp rise in the cost of funds, net income increased primarily due to higher operating revenue and a lower provision expense.

MDI Income Statement ($000's)

	2023Q4	2022Q4	Δ 1 Yr $	Δ 1 Yr %
Int Income	$1,680,495	$1,195,864	$484,631	40.53
Int Expense	$599,416	$160,862	$438,554	272.63
Net Int Inc	$1,081,079	$1,035,002	$46,077	4.45
Non Int Inc	$229,098	$210,584	$18,514	8.79
Non Int Exp	$860,971	$817,741	$43,230	5.29
Prov Exp	$29,382	$40,467	-$11,085	-27.39
Gains on Secs	-$5,793	-$8,387	$2,594	-30.93
Income Tax	$90,389	$80,769	$9,620	11.91
Net Income	$323,617	$298,151	$25,466	8.54

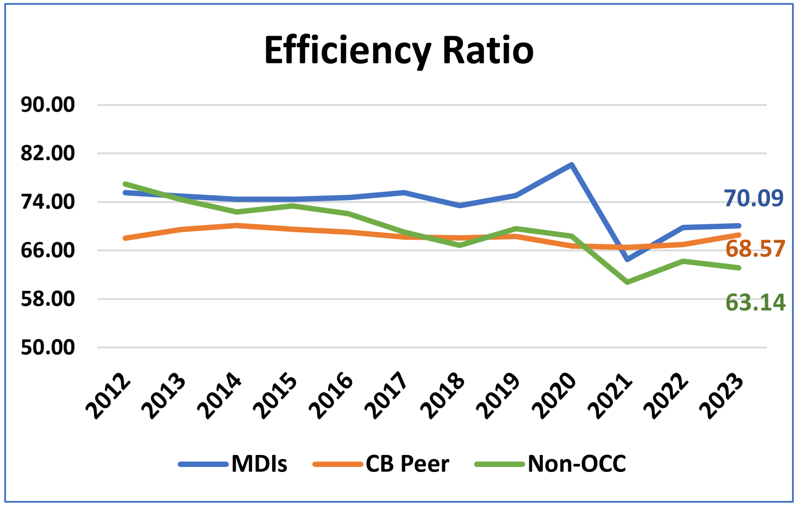




Efficiency Ratio Increased

The efficiency ratio edged higher in 2023. About 21 percent or 11 MDIs reported efficiency ratios over 90 percent.

If you stratify the efficiency ratio by asset size, you will generally find the larger the bank, the lower the efficiency ratio.

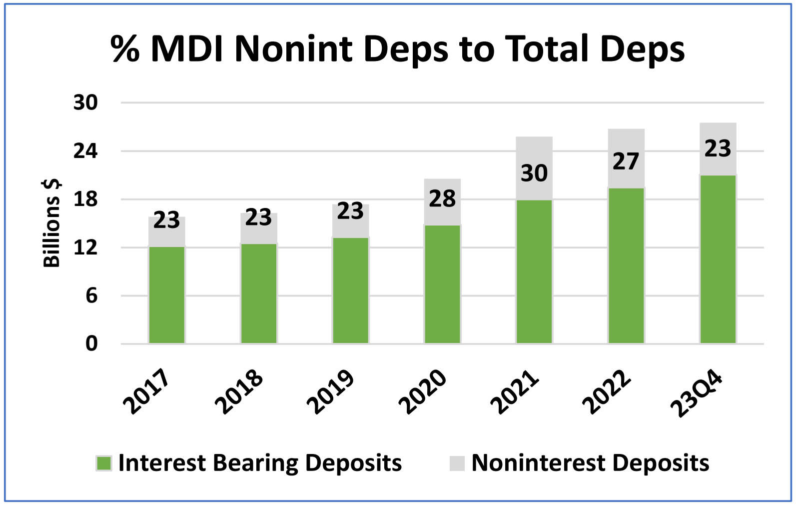


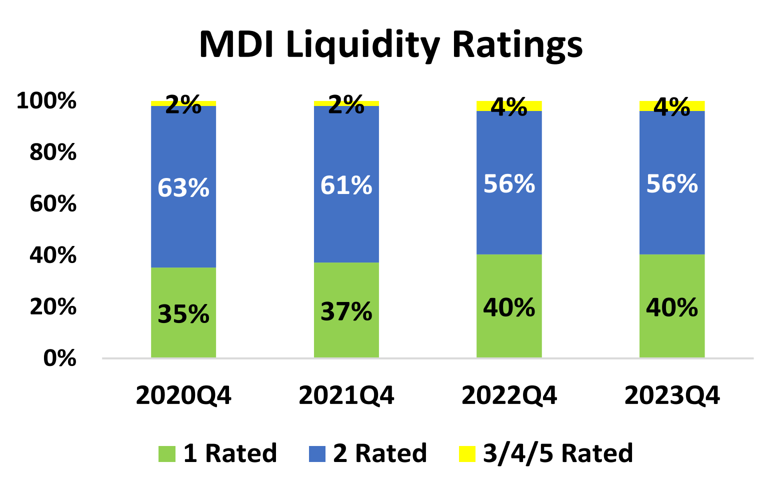
Efficiency Ratio - Dec 31, 2023

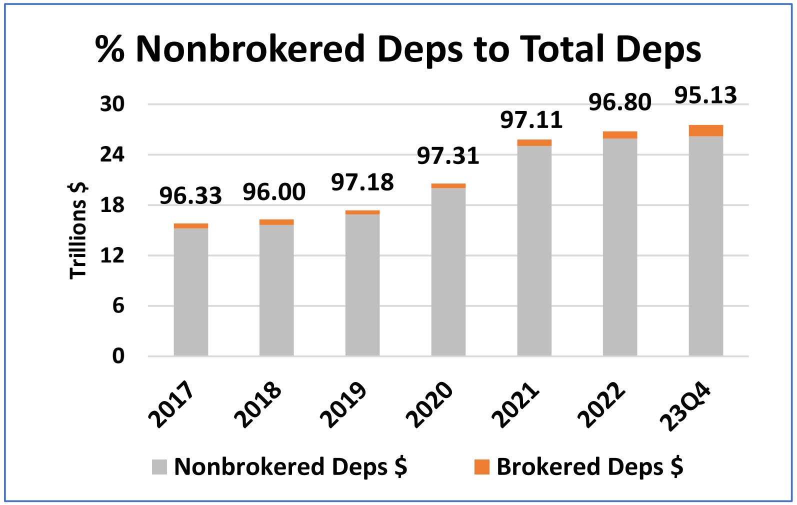
Asset Category	Peer	MDIs
Under $50MM	84.27	69.53
$50MM - $100MM	73.61	71.80
$100MM - $250MM	69.25	84.12
$250MM - $500MM	68.50	66.54
$500MM - $1B	69.29	60.70
Greater than $1B	64.72	67.88
Median	**68.57**	**70.09**

Liquidity Ratings are Satisfactory

Liquidity ratings remain satisfactory; 96 percent of MDIs are rated 1 or 2. Total MDI deposits remain solid and increased 1.96 percent for the quarter and 2.85 percent for the year.

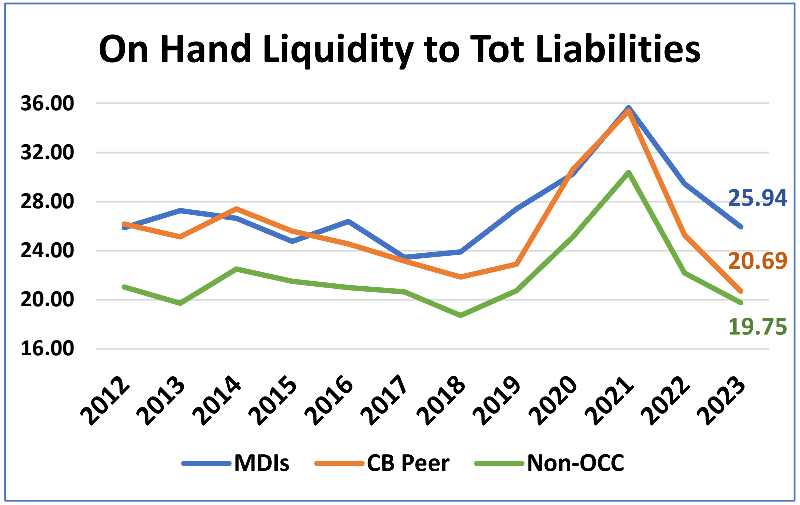


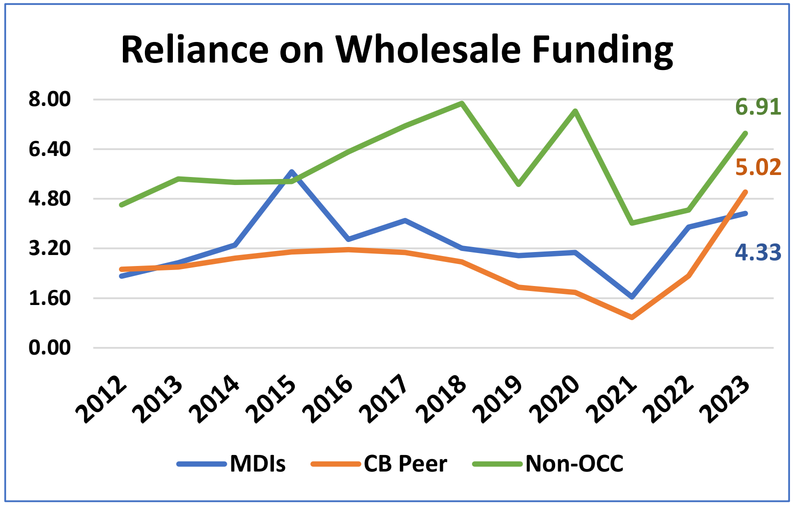




On-Hand Liquidity Plummets

After reaching a cyclical peak in 2021, on-hand liquidity ratios fell in 2022 and 2023 and are now below pre-pandemic levels. Because of declining balance sheet liquidity, community banks are relying more on wholesale funding sources.



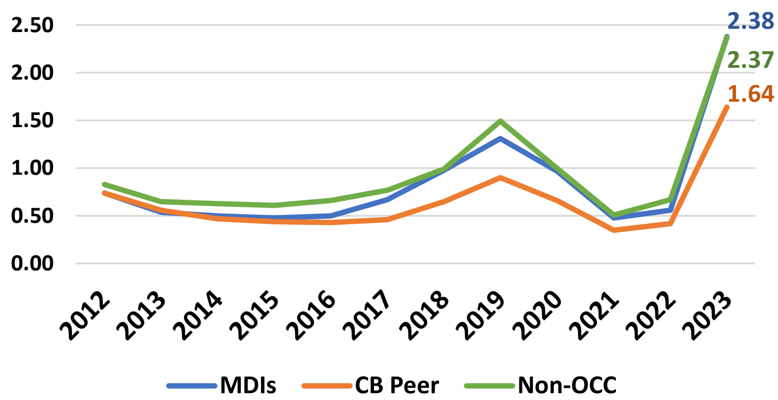


On-Hand Liquidity - Dec 31, 2023

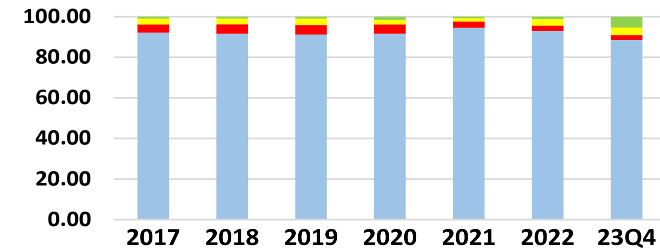
Asset Category	Peer	MDIs
Under $50MM	46.43	40.14
$50MM - $100MM	32.54	34.20
$100MM - $250MM	25.11	26.45
$250MM - $500MM	21.27	23.66
$500MM - $1B	18.75	17.41
Greater than $1B	14.22	15.74
Median	**20.69**	**25.94**

Cost of Deposits Jumps in 2023

Cost of Interest Bearing Deposits

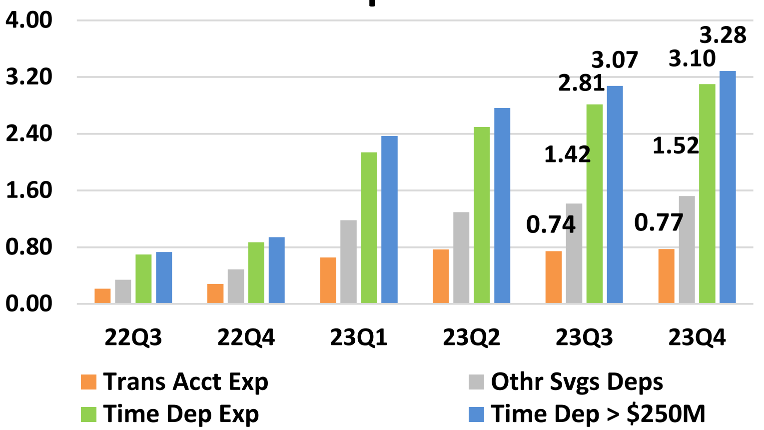


MDI Liabilities Detail (%)

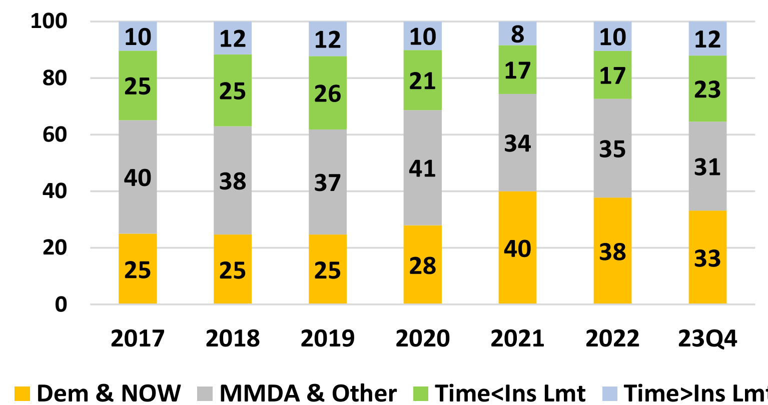


	2017	2018	2019	2020	2021	2022	23Q4
OTHER B/L	1.03	1.00	0.91	1.70	0.81	1.28	5.44
FHLB ADV	2.83	2.72	3.27	2.24	1.58	3.19	3.73
FFP & REPO	4.12	4.75	4.72	4.54	3.06	2.61	2.40
TOT DEPS	92.03	91.52	91.09	91.52	94.55	92.92	88.42

Cost of Deposits Detail

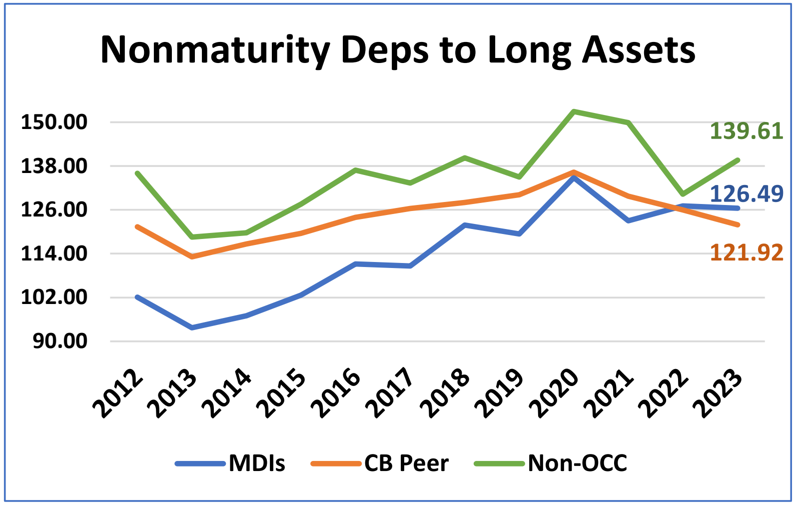


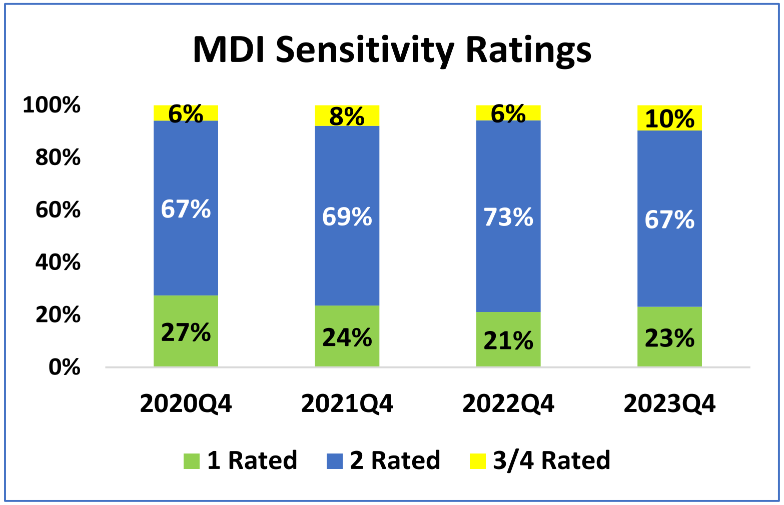
MDI Deposit Detail (%)

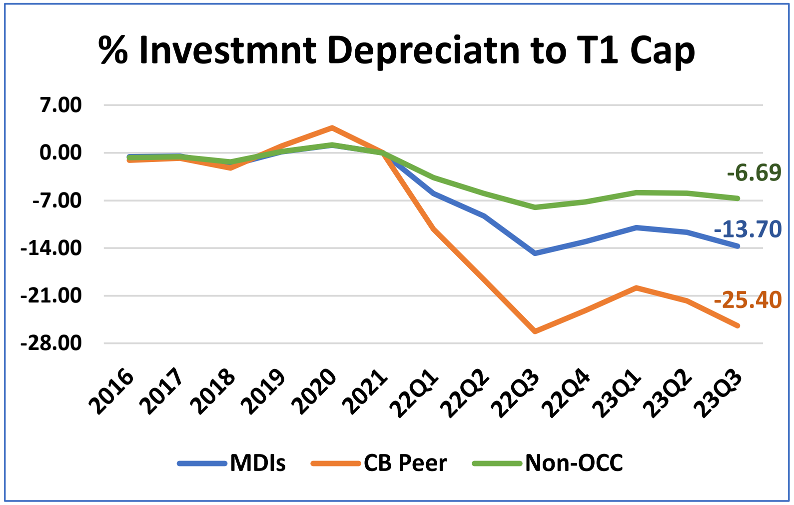


Sensitivity is Adequately Controlled

Sensitivity to market risk ratings are satisfactory. Nonmaturity deposits to long-term assets remained stable for OCC MDIs in 2023. Due to the rise in rates and quantitative tightening, investment portfolio depreciation remains considerable.







Summary of Economic Projections

The Fed's dot plot from the Mar 19–20, 2024 FOMC meeting shows 75 basis points of rate cuts in 2024 and achieving 2 percent inflation in 2026.

Percent

Variable	Median 2024	Median 2025	Median 2026	Median Longer run
Change in real GDP	2.1	2.0	2.0	1.8
December projection	1.4	1.8	1.9	1.8
Unemployment rate	4.0	4.1	4.0	4.1
December projection	4.1	4.1	4.1	4.1
PCE inflation	2.4	2.2	2.0	2.0
December projection	2.4	2.1	2.0	2.0
Core PCE inflation[4]	2.6	2.2	2.0	
December projection	2.4	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	4.6	3.9	3.1	2.6
December projection	4.6	3.6	2.9	2.5

4. Longer-run projections for core PCE inflation are not collected.

Federal Funds Policy Rate: 5.25-5.50%

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

FOMC Meetings 2023	FOMC Rate Decision
Feb 1	+25 bps
Mar 22	+25 bps
May 3	+25 bps
Jun 14	0
Jul 26	+25 bps
Sep 20	0
Nov 1	0
Dec 13	0

FOMC Meetings 2024	FOMC Rate Decision
Jan 31	0
Mar 20	0
May 1	**0**
Jun 12	**0**
Jul 31	**0**
Sep 18	**-25 bps**
Nov 7	**-25 bps**
Dec 18	**-25 bps**

Questions?