Office of the Comptroller of the Currency

State of MDIs

Information as of June 30, 2024

ERNIE KNOTT

September 24, 2024

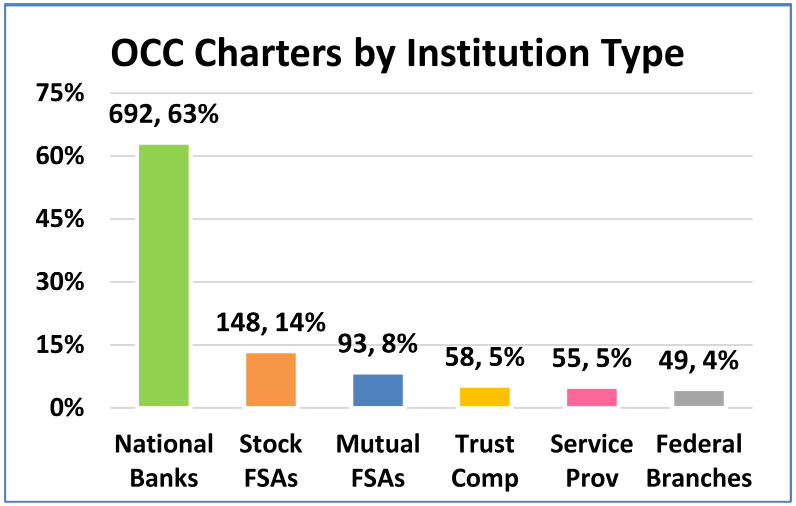
Today's Agenda

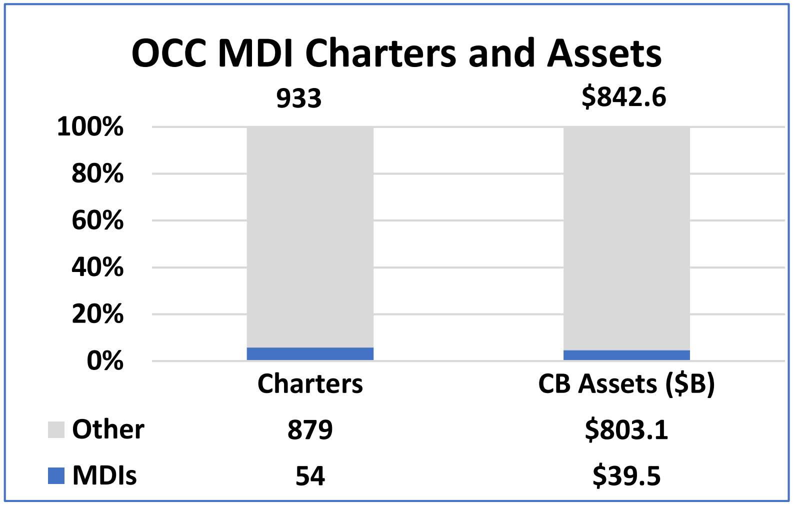
Preface: This presentation analyzes minority depository institutions active as of June 30, 2024. The population is "held constant" for many of the performance metrics. Most charts use the median and others use weighted averages.

MDI Charters and Assets

OCC supervised 1,095 total institutions or 933 non-trust bank charters (first 3 columns) as of June 30, 2024.

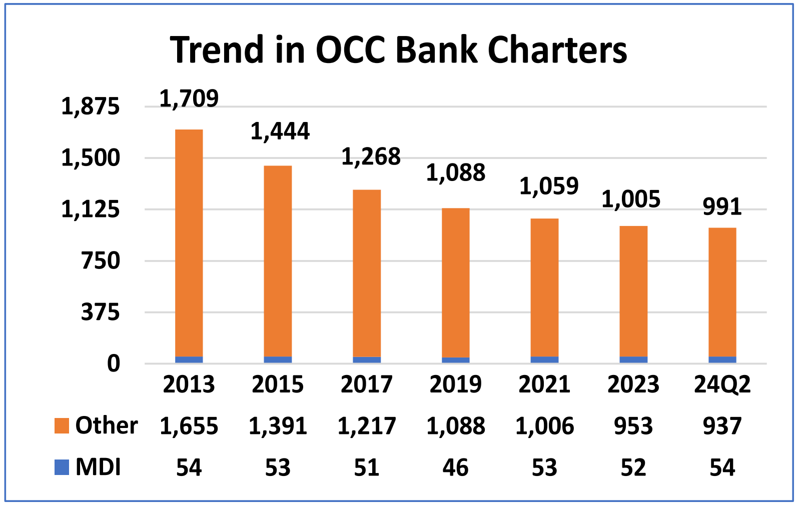
Minority Depository Institutions (MDIs) represent 54 or 5.8 percent of OCC non-trust bank charters and $39.5 billion or 4.7 percent of OCC-supervised community bank assets as of June 30, 2024.

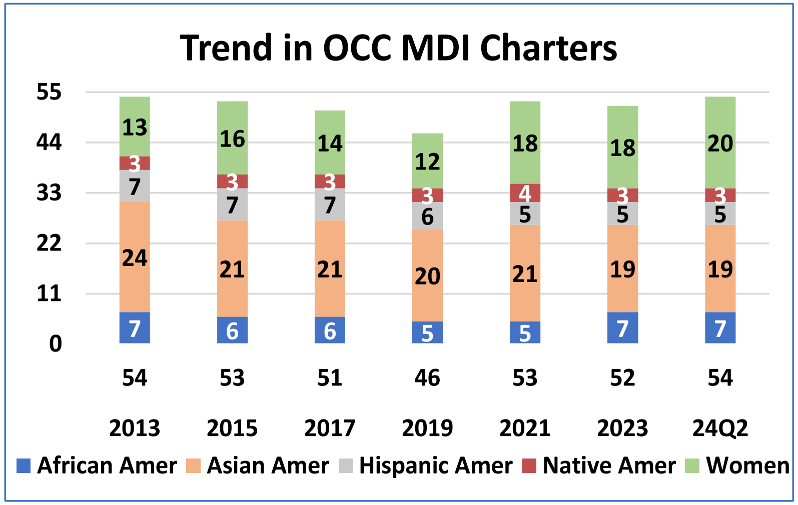




OCC and MDI Charter Trends

The banking system continues to consolidate due to mergers and acquisitions. MDIs have increased as a share of OCC bank charters. Since 2013, the net number of OCC charters decreased by 718 or 42 percent while the number of MDIs remains unchanged.





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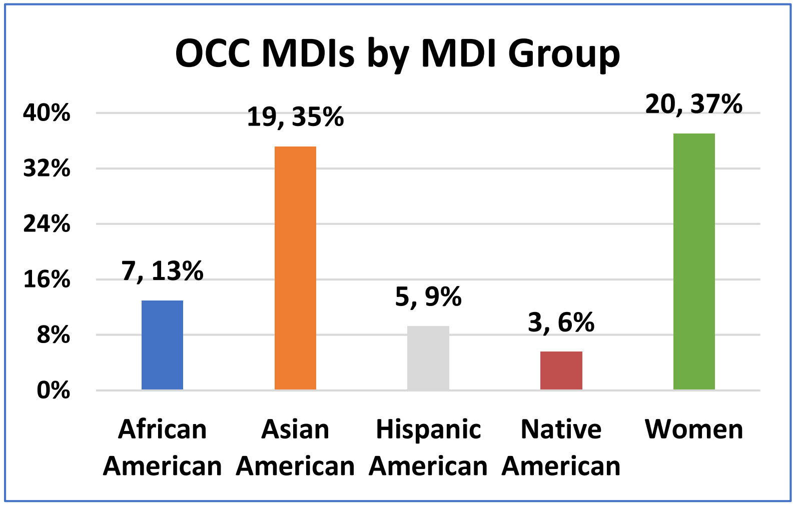
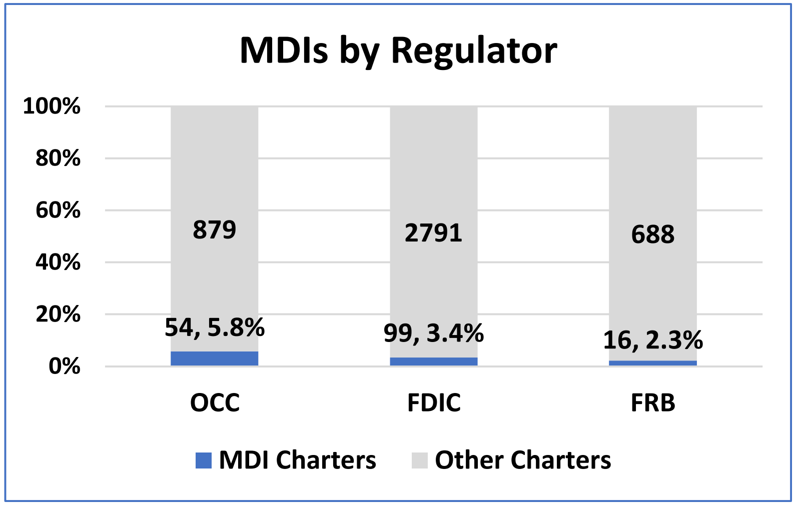
MDIs by Group and Regulator

Most OCC-supervised MDIs or 37 percent are Women as of June 30, 2024.

There were 169 MDIs in the US banking system as of June 30, 2024. OCC supervises the largest share of MDIs to total insured banks.





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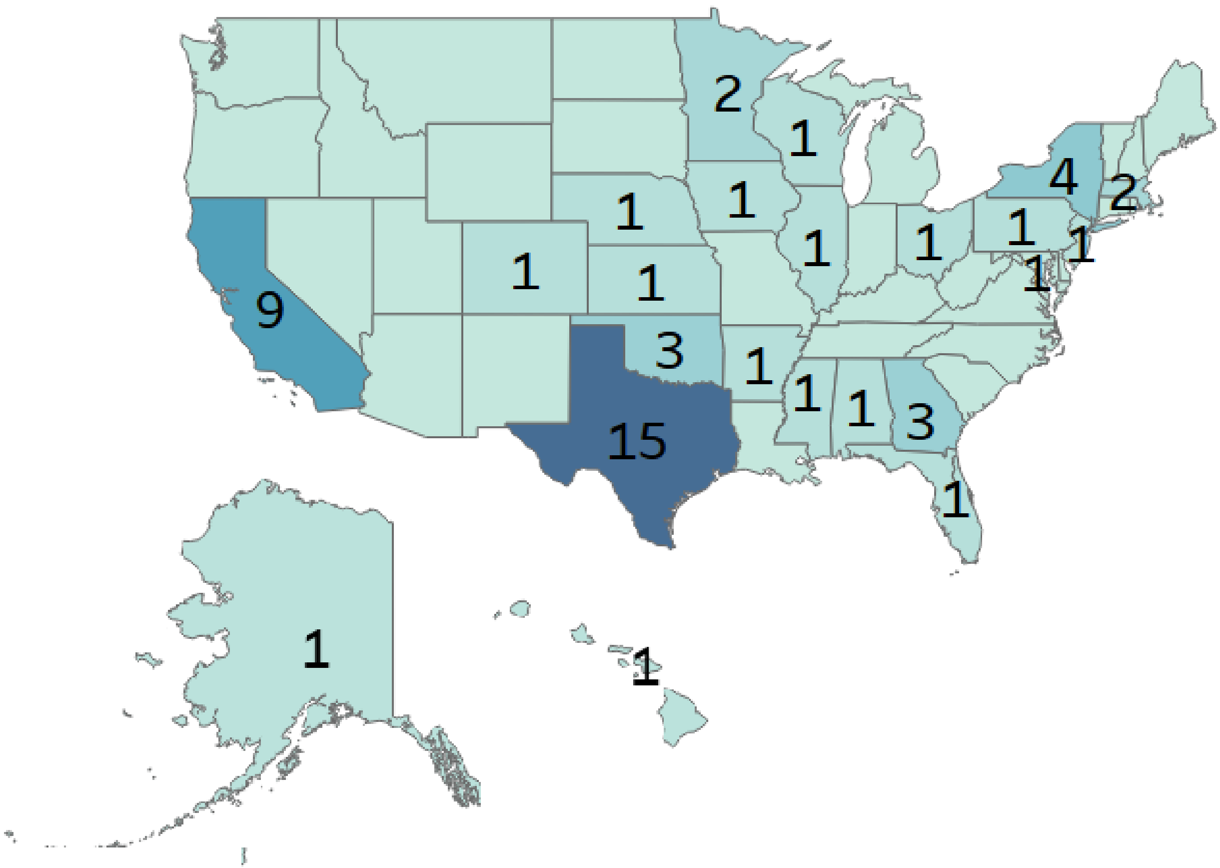
MDIs by State

OCC-supervised MDIs are in 23 states as of June 30, 2024. MDIs are concentrated in Texas (15) and California (9).



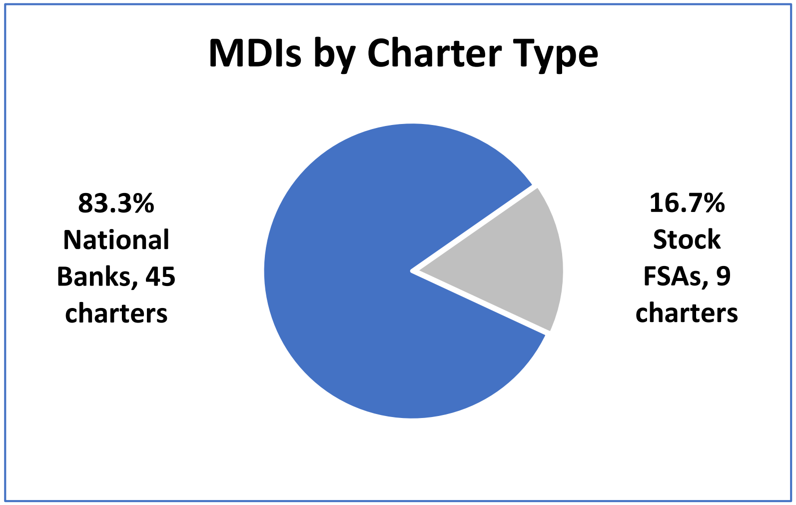
MDI Peer Groups in this Presentation

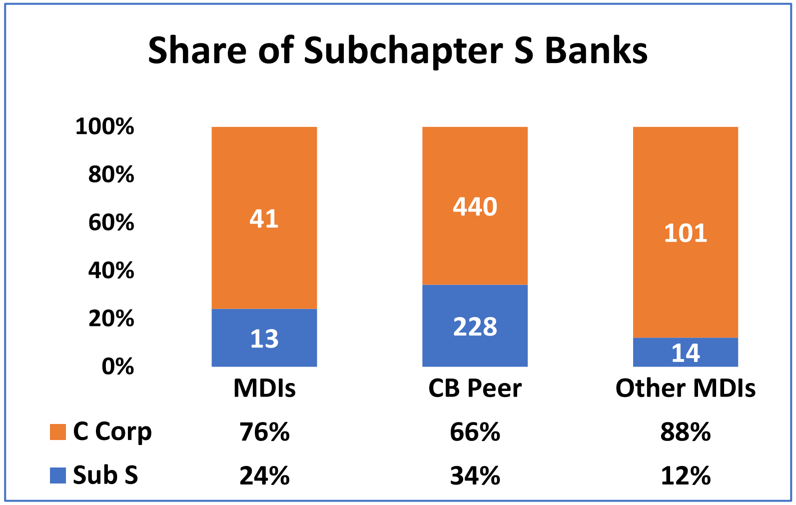
- As of June 30, 2024, the smallest MDI had $28.8 million in total assets and the largest MDI had $5.1 billion.
- MDIs fall into two institution type categories – national banks or stock FSAs. There are no mutual FSA MDIs or trust company MDIs.
- No MDI is supervised by OCC's Midsize or Large Bank Units.
- 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-four 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.





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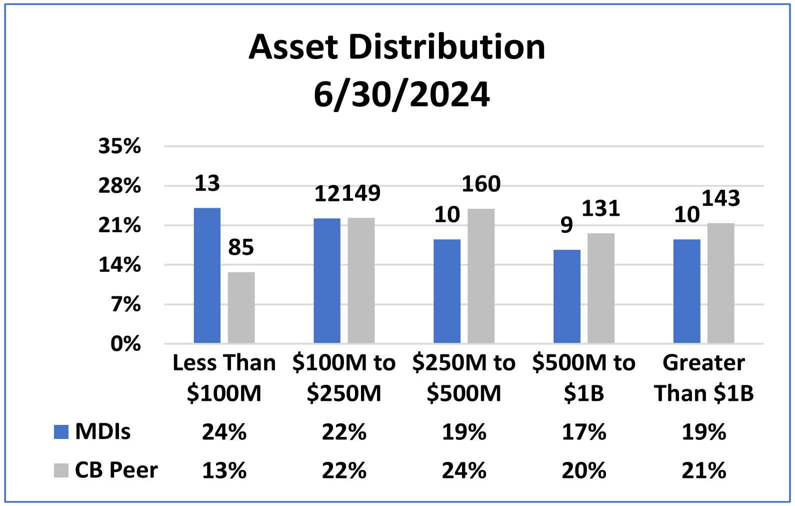
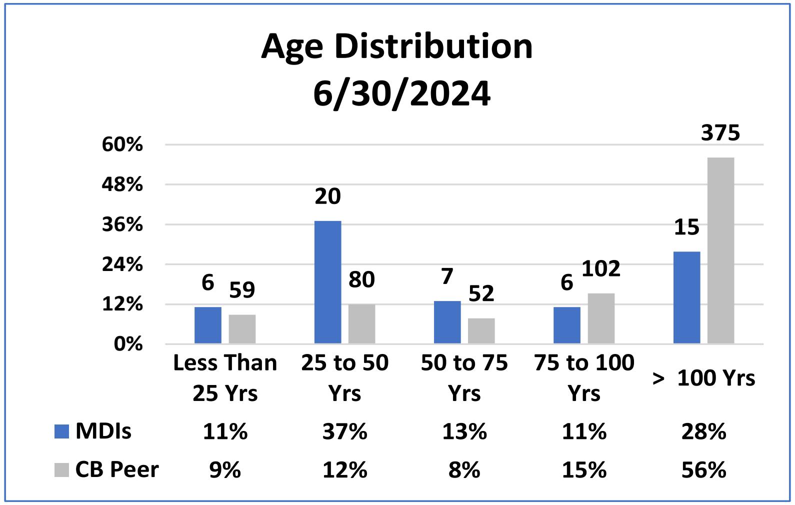
MDIs by Asset Size and Age

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

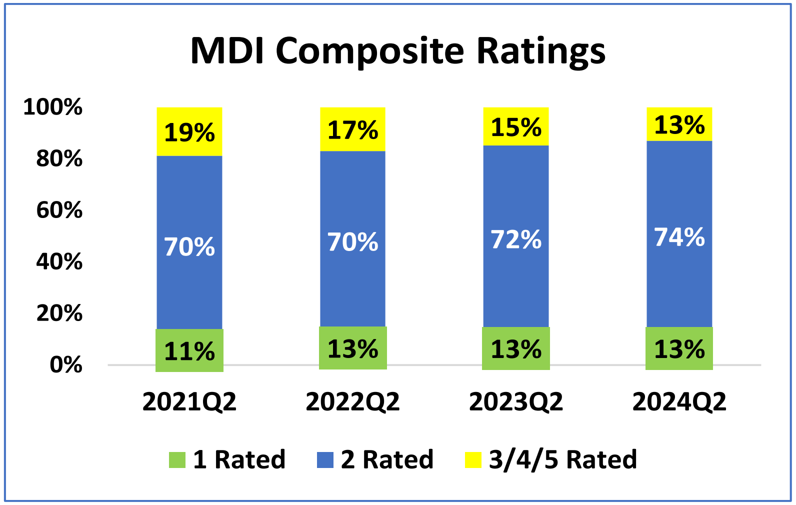
MDIs have been operating for fewer years than the community bank peer group. Only 28 percent of MDIs were formed more than 100 years ago compared to 56 percent for the community bank peer.



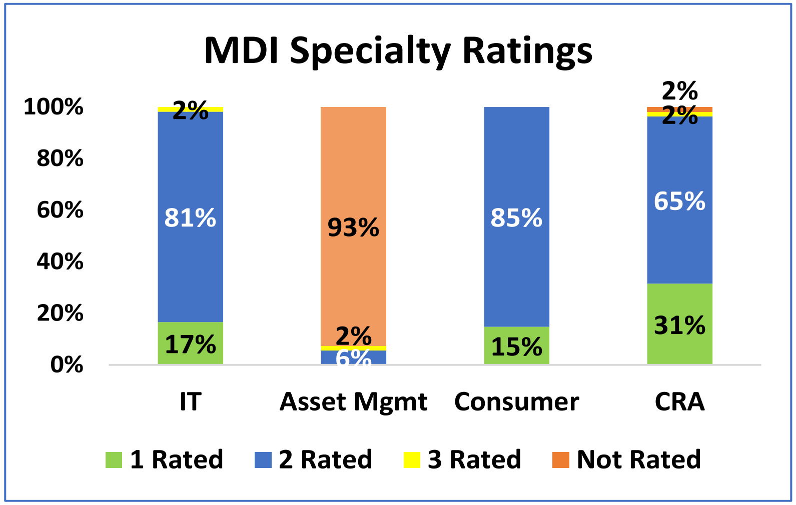


Supervisory Ratings

MDI composite ratings are satisfactory and improving. The share of MDIs rated composite 1 or 2 increased to 87 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.



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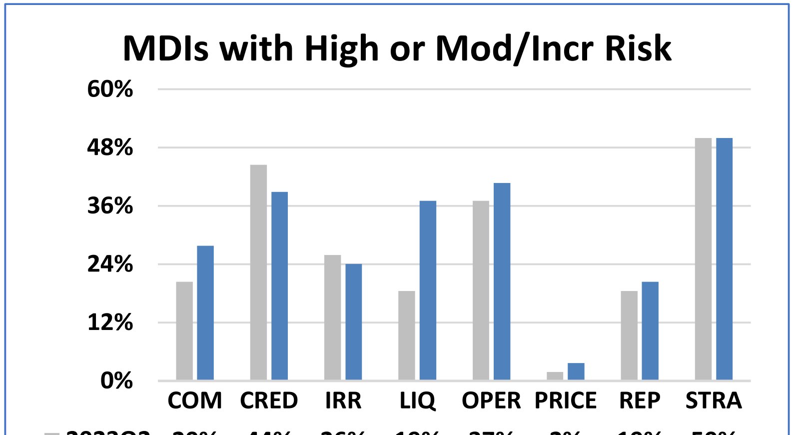
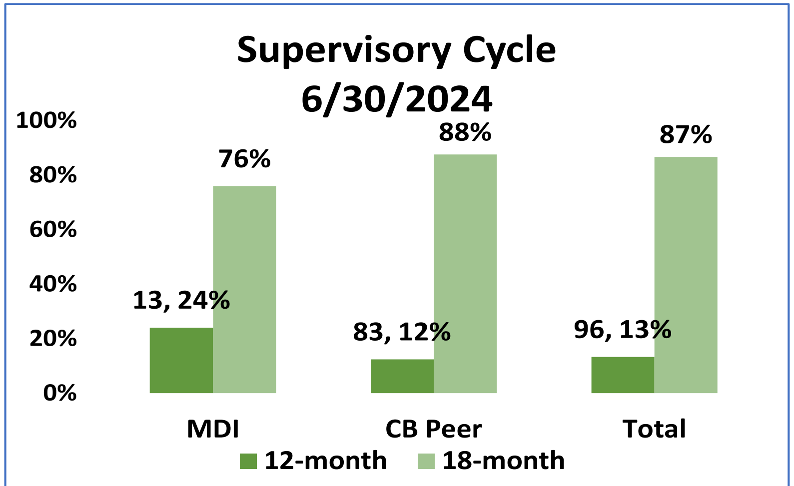
Risk Ratings and Exam Cycle

The top three risks for MDIs are strategic (stable), operational (increasing), and credit (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 expanded cycle.



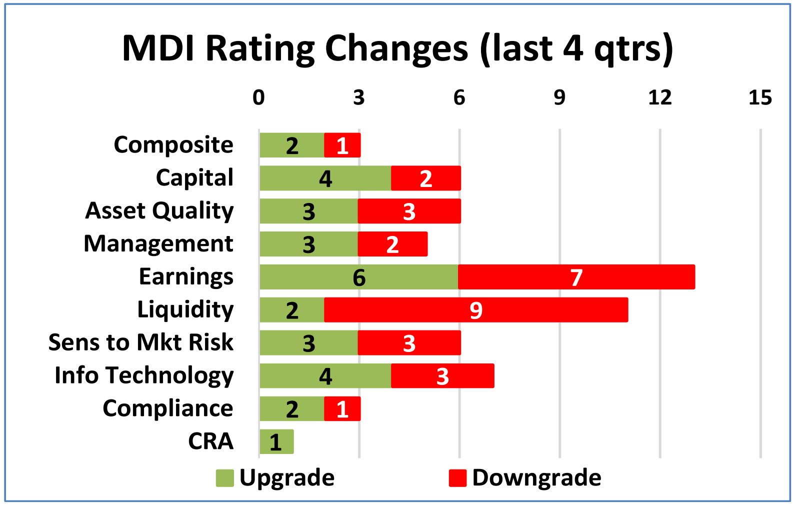
	COM	CRED	IRR	LIQ	OPER	PRICE	REP	STRA
2023Q2	20%	44%	26%	19%	37%	2%	19%	50%
2024Q2	28%	39%	24%	37%	41%	4%	20%	50%

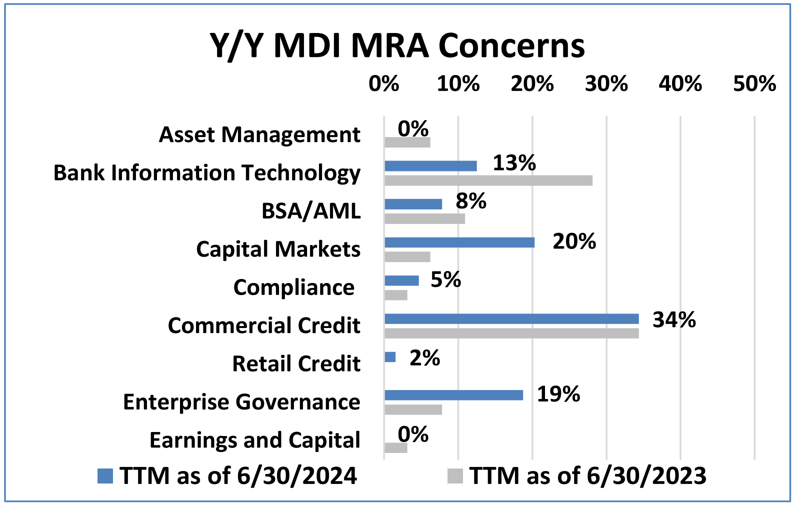


Rating Changes and MRAs

Over the last year, there were 30 upgrades and 31 downgrades, for a net rating downgrade of 1. Downgrades outpaced upgrades for earnings and liquidity.

MRA volume is flat for the trailing 12 months ending June 30, 2024. MRAs increased the most for Capital Markets. MRAs decreased the most for Bank Information Technology.

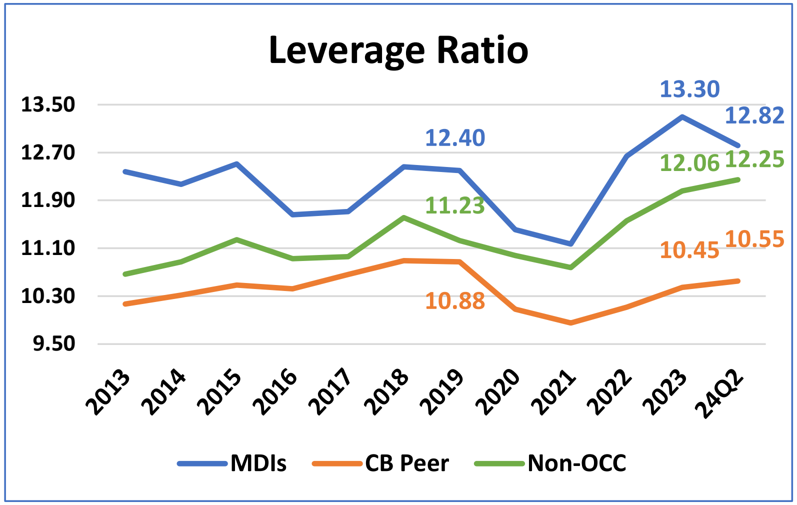


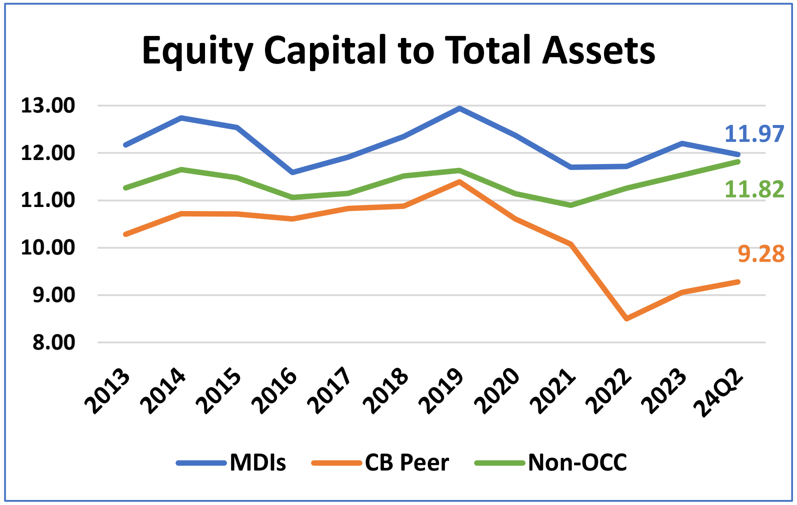


Capital Levels Remain Solid

MDI leverage ratios are above pre-pandemic levels but dipped lower this year.

Equity capital to total asset ratios which includes AOCI-related adjustments are much better for MDIs and Non-OCC MDIs.

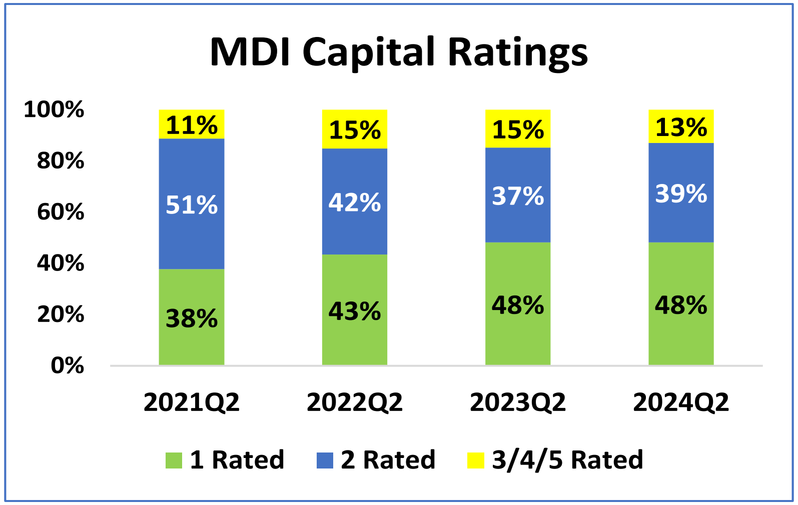


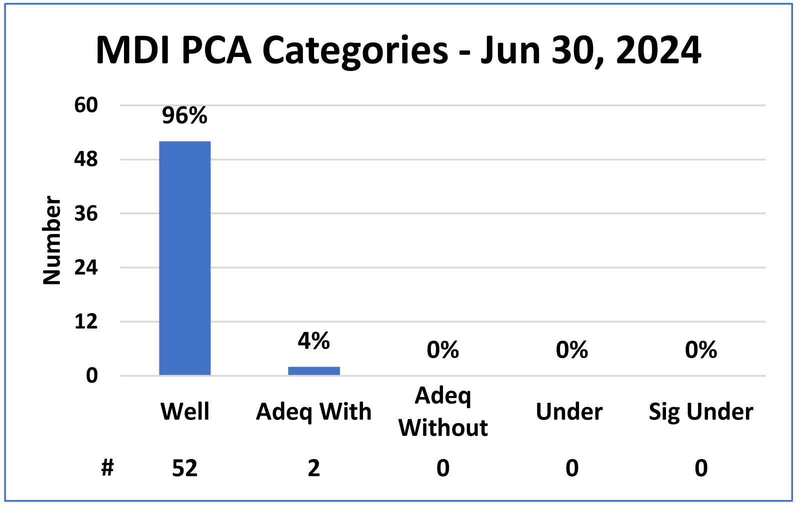


MDIs are Well Capitalized

Capital ratings remain satisfactory. More MDIs are rated 1 or 2 this year for capital.

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





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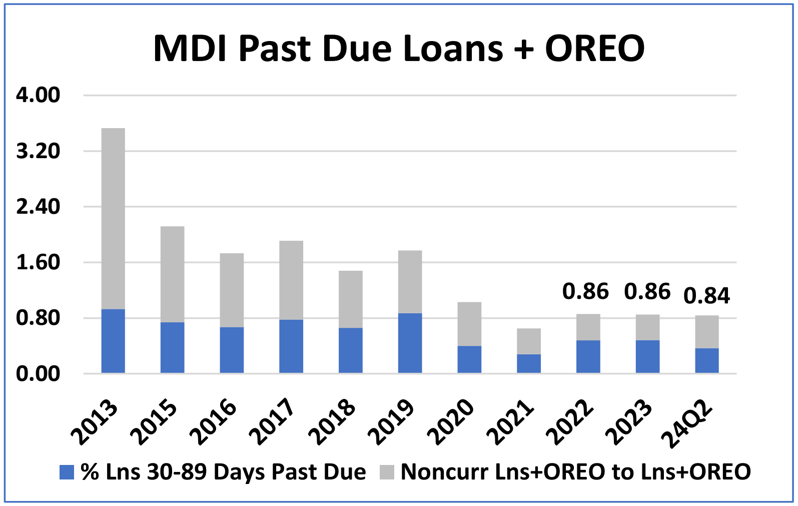
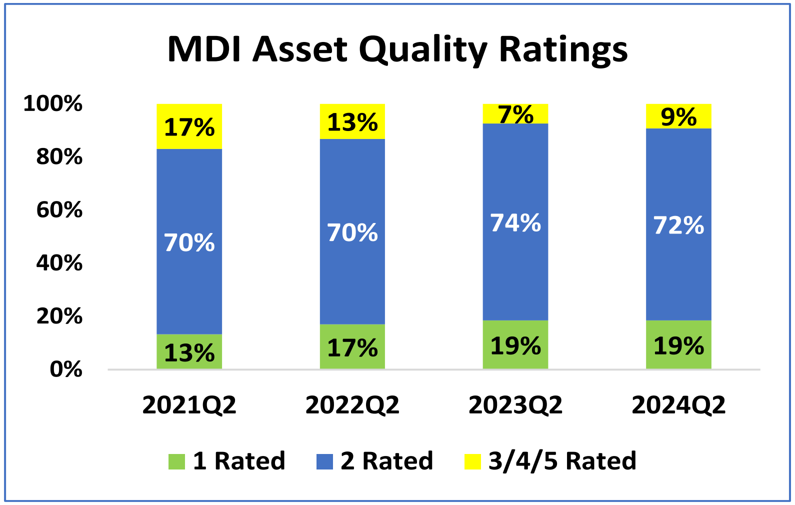
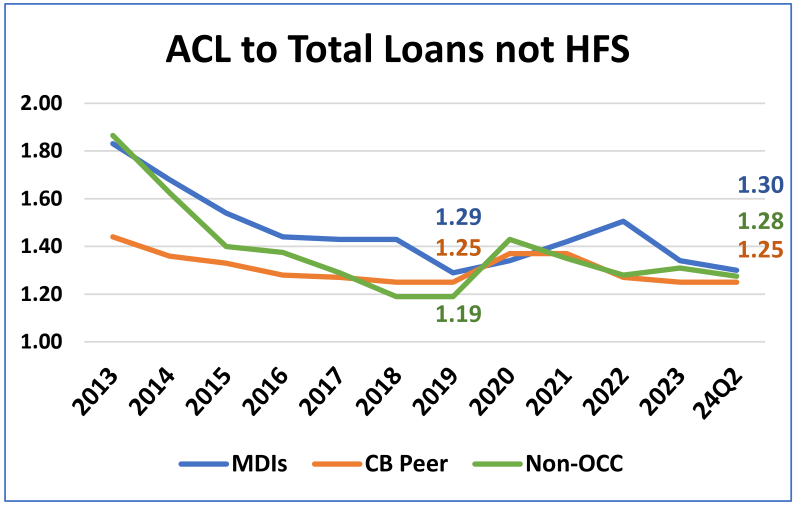
Asset Quality is Resilient

Past due loans are lower. Nonperforming assets rose slightly while early-stage delinquencies edged lower. The MDI ACL is higher compared to pre-pandemic levels.







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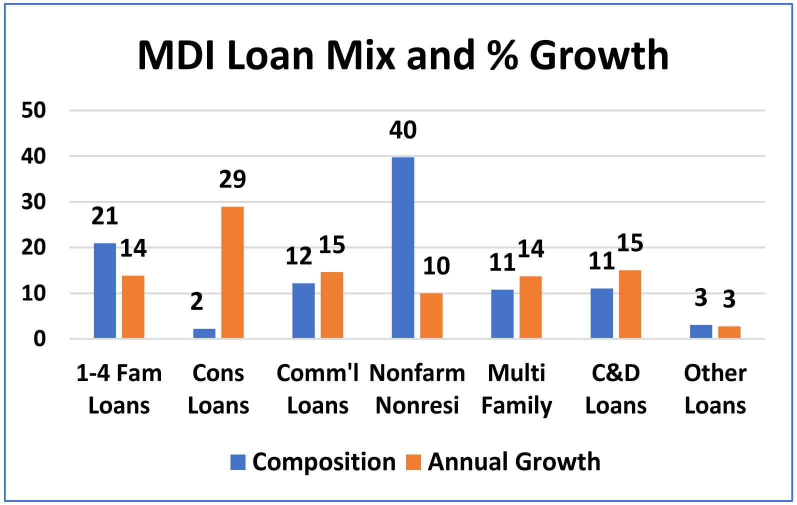
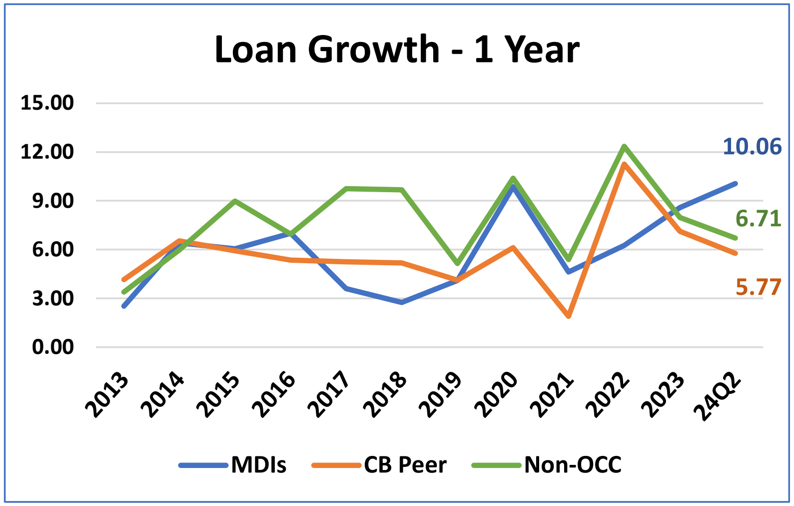
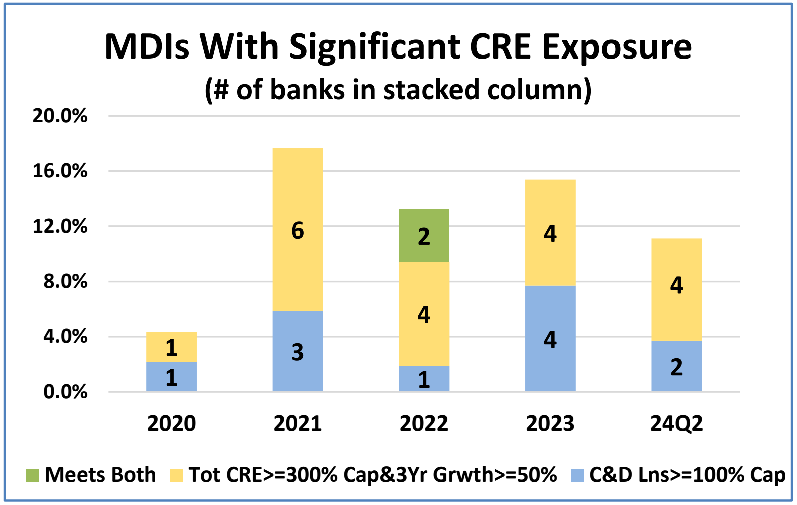
Loan Growth Remains Moderate

MDI loan growth improved to 10.06 percent in 2024. Six MDIs or 11.1 percent (down from 15.4 percent) exceeded the CRE concentration thresholds outlined in the Interagency CRE Guidance (December 2006).







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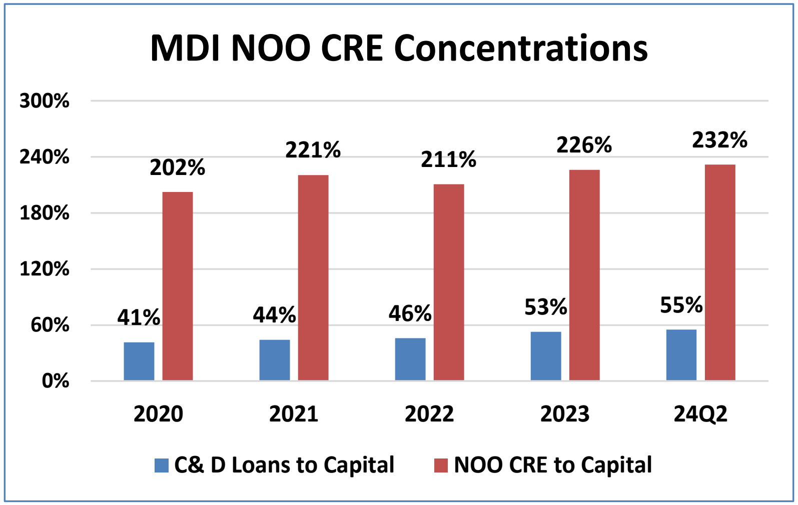
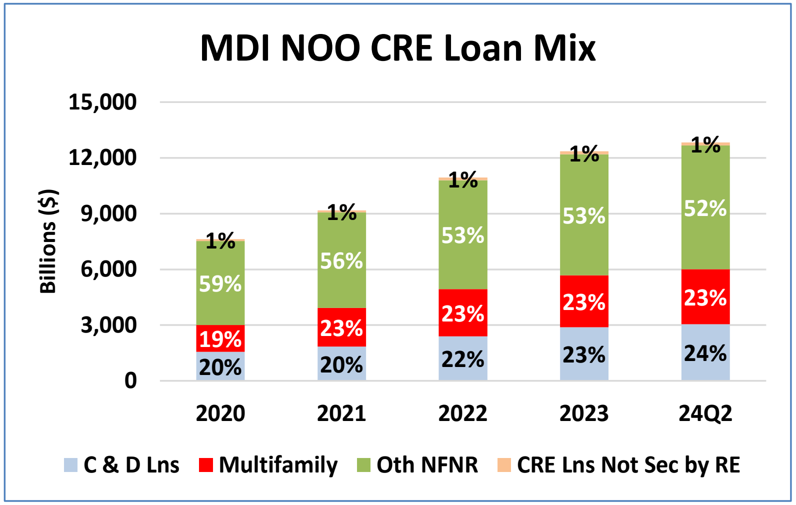
CRE Concentrations Increasing

MDI CRE loans to capital increased since 2021.



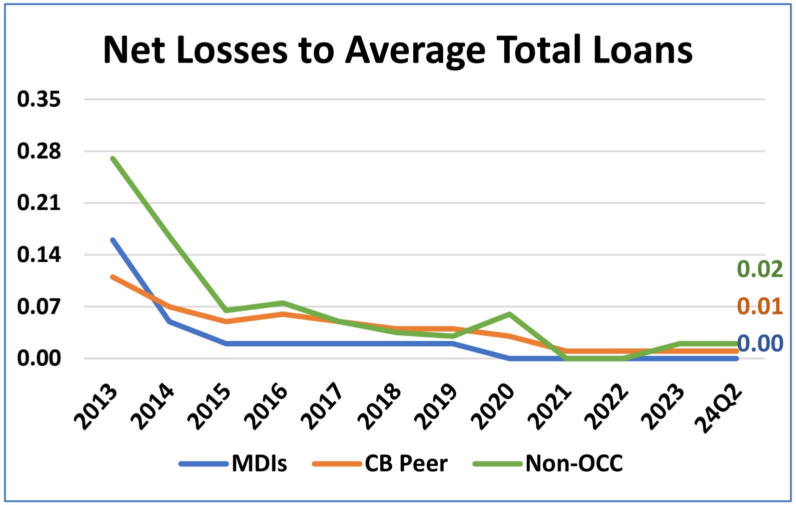
In recent years, MDI CRE exposure has been shifting from other nonfarm nonresidential to multifamily loans and construction and development loans.

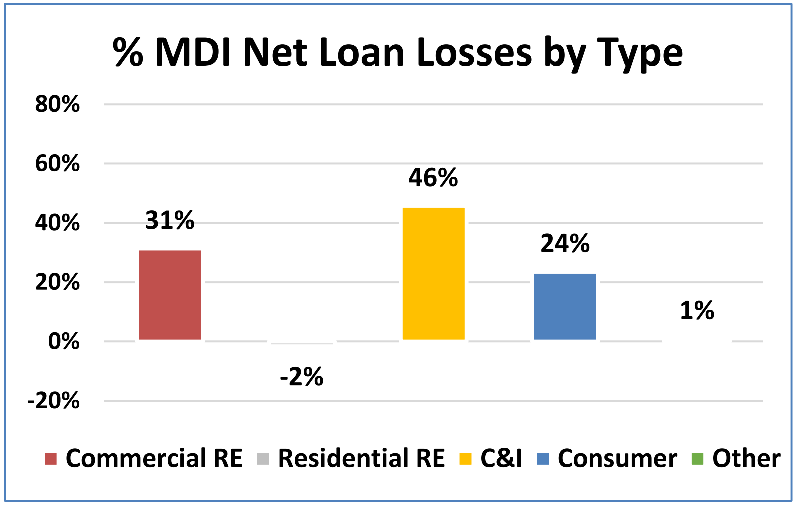


Loan Losses Remain Low

Loan losses remain low. While the median is near zero, the MDI weighted average net loss ratio decreased three basis points to 0.15 percent in 2024.

C&I loans account for 12 percent of loans and 46 percent of losses. Commercial real estate accounts for 31 percent of loan losses in 2024.





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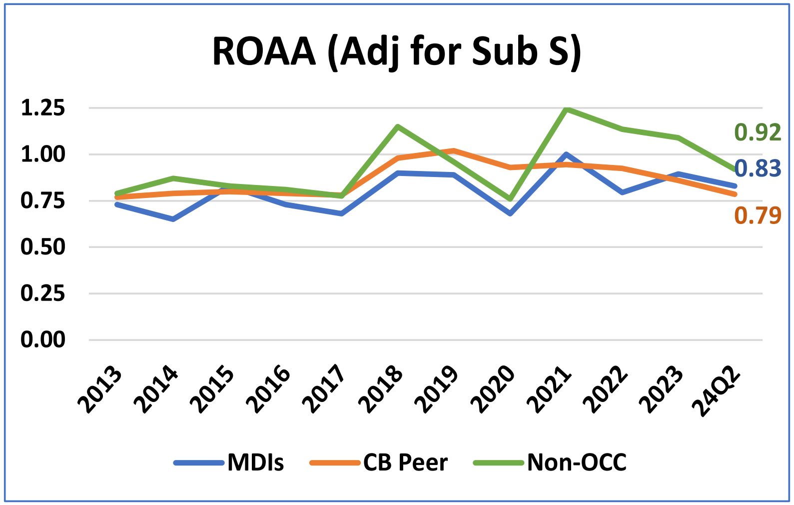
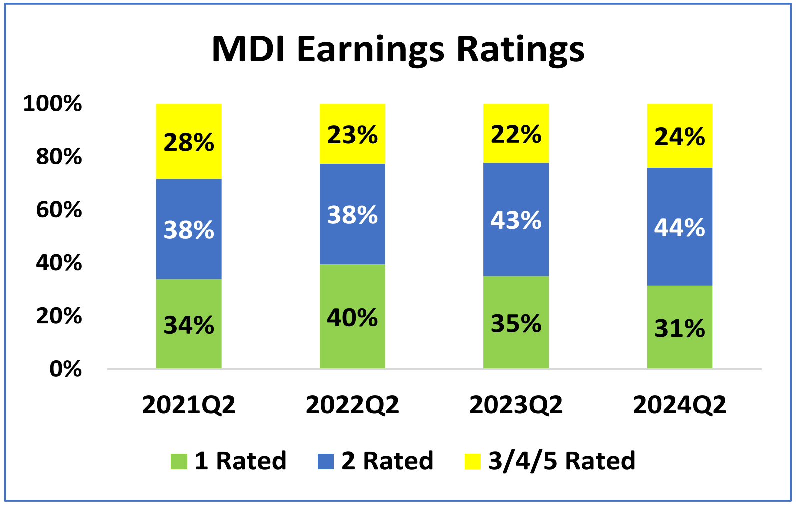
MDI ROAA is Lower

Earnings ratings saw slippage and continue to lag ratings in other safety and soundness areas. Return on Average Assets (ROAA) for MDIs is satisfactory but lower in 2024.





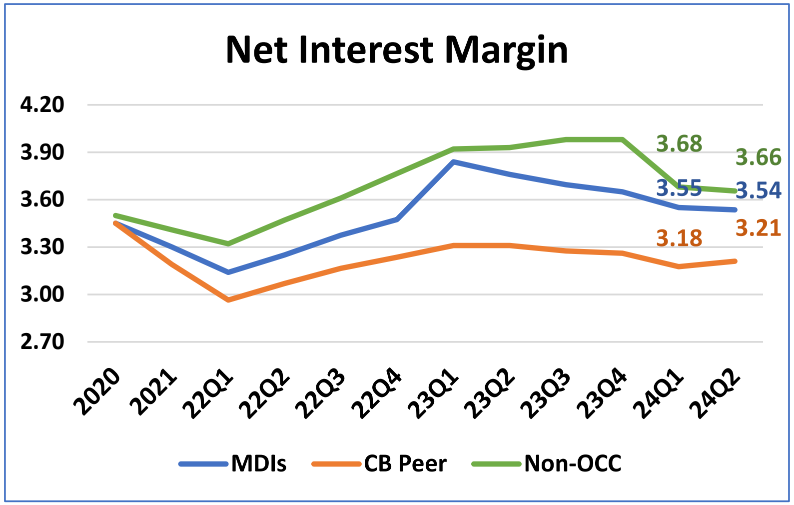
Return on Assets - Jun 30, 2024

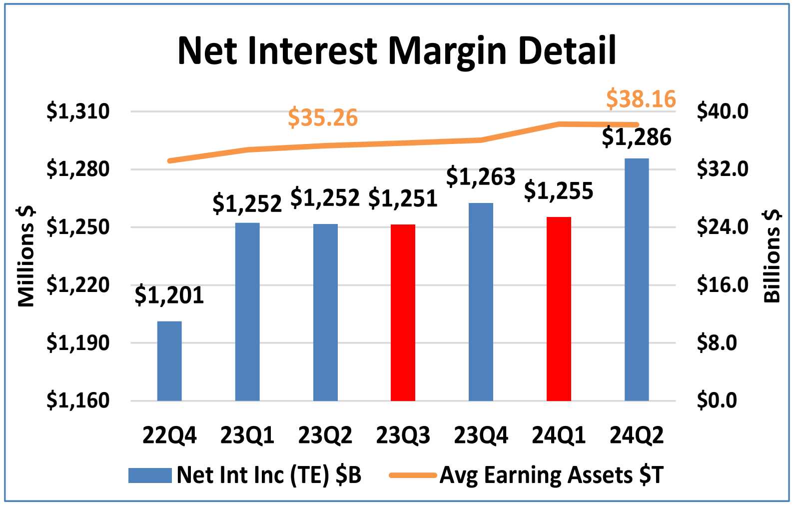
Asset Category	Peer	MDIs
Under $50MM	0.48	1.52
$50MM - $100MM	0.64	0.46
$100MM - $250MM	0.79	0.16
$250MM - $500MM	0.83	0.90
$500MM - $1B	0.73	0.82
Greater than $1B	0.85	1.03
Median	**0.79**	**0.83**

Y/Y Net Interest Margin Contracts

After contracting in 2023 and first quarter 2024 due to the sharp rise in the cost of funds, MDI margins began to stabilize and improve in second quarter 2024.

The weighted average NIM contracted 18 basis points since second quarter 2023 due to an increase of $34 million or 2.72 percent in net interest income while average earning assets grew 8.22 percent to $38.16 billion.



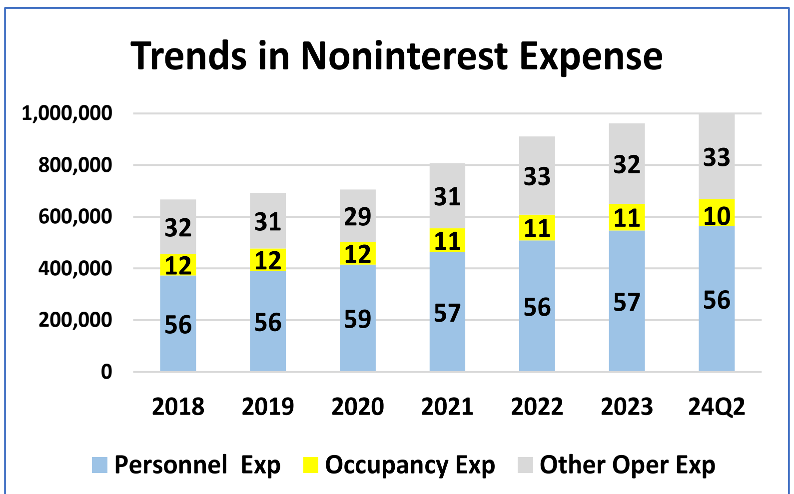


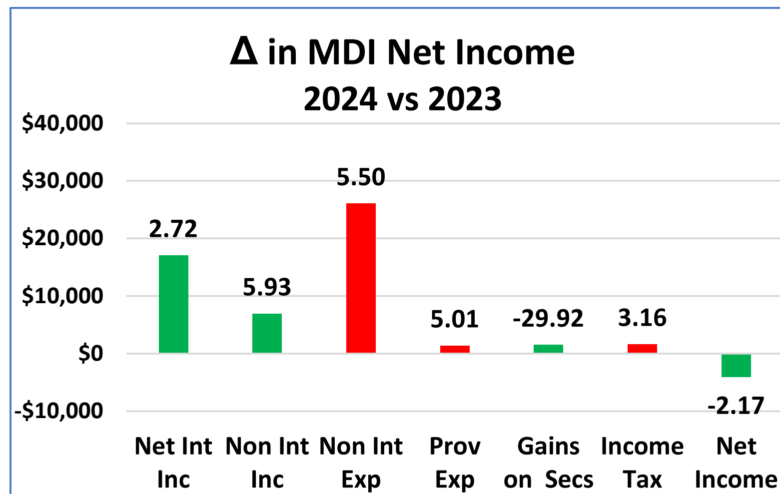
Net Income Down 2 Percent

MDI net income decreased this year due to margin compression from the sharp rise in the cost of funds.

MDI Income Statement ($000's)

	2024Q2	2023Q2	Δ 1 Yr $	Δ 1 Yr %
Int Income	$1,119,639	$908,660	$210,979	23.22
Int Expense	$476,783	$282,833	$193,950	68.57
Net Int Inc	$642,856	$625,827	$17,029	2.72
Non Int Inc	$123,331	$116,425	$6,906	5.93
Non Int Exp	$499,425	$473,395	$26,030	5.50
Prov Exp	$28,260	$26,912	$1,348	5.01
Gains on Secs	-$3,462	-$4,940	$1,478	-29.92
Income Tax	$52,207	$50,610	$1,597	3.16
Net Income	$182,328	$186,370	-$4,042	-2.17





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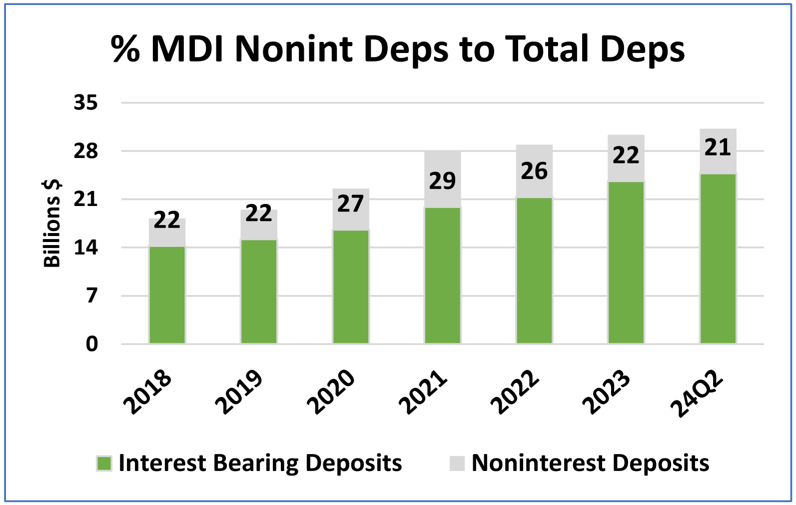
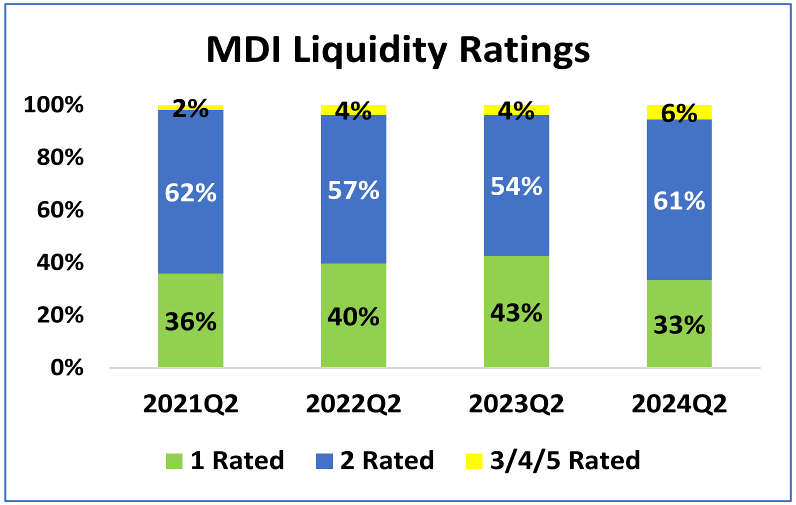
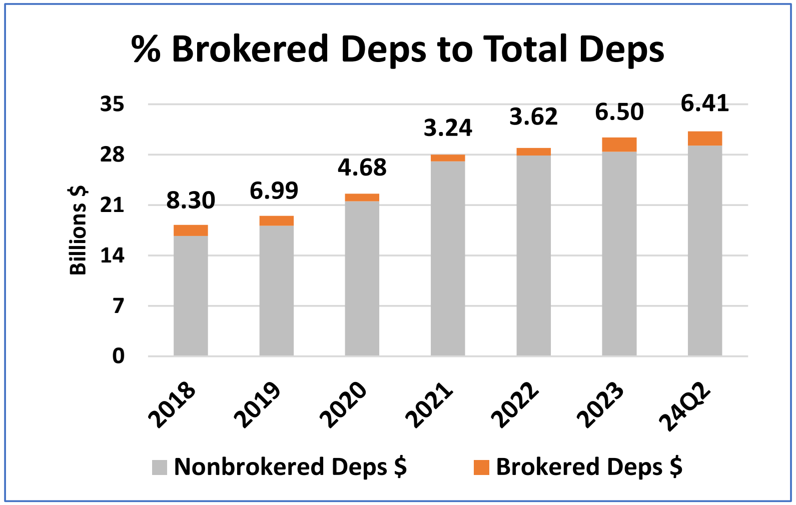
Liquidity Ratings are Satisfactory

Liquidity ratings remain satisfactory; 94 percent of MDIs are rated 1 or 2. Total MDI deposits remain solid and increased 1.46 percent for the quarter and 6.79 percent for the year.

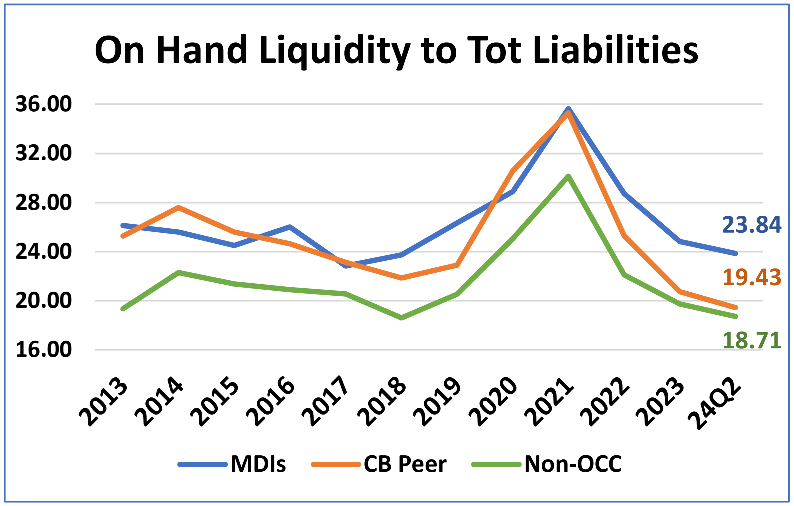


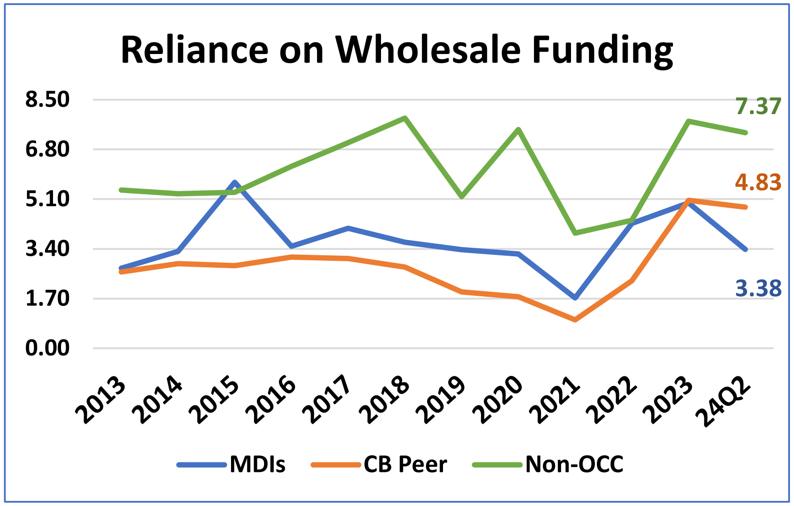




On-Hand Liquidity Plummets

After reaching a cyclical peak in 2021, on-hand liquidity ratios fell for three consecutive years and are now below pre-pandemic levels.



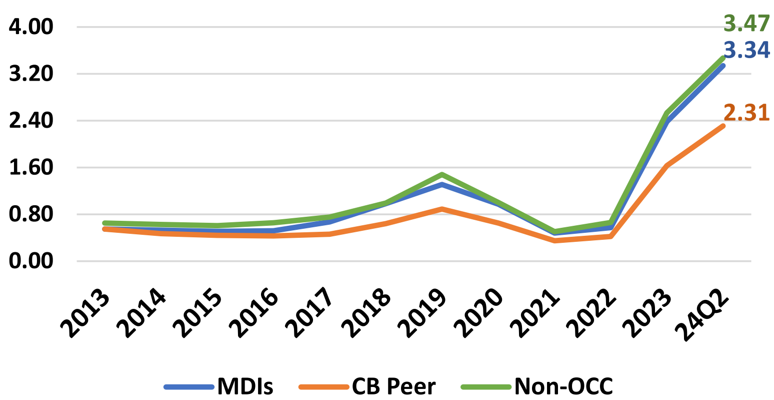


On-Hand Liquidity - Jun 30, 2024

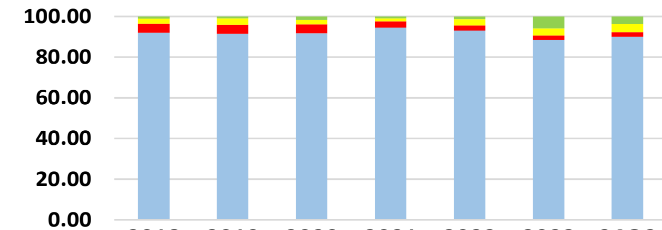
Asset Category	Peer	MDIs
Under $50MM	42.80	40.70
$50MM - $100MM	29.93	41.19
$100MM - $250MM	24.73	24.55
$250MM - $500MM	18.74	21.91
$500MM - $1B	18.27	15.38
Greater than $1B	14.11	16.09
Median	**19.43**	**23.84**

Cost of Deposits Jumps

Cost of Interest Bearing Deposits

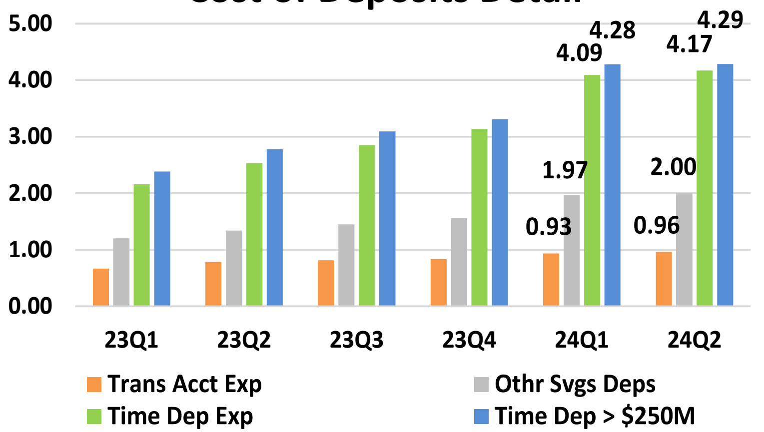


MDI Liabilities Detail (%)

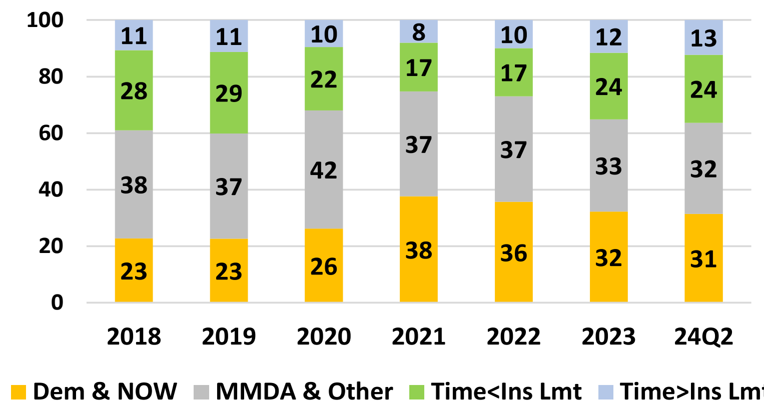


	2018	2019	2020	2021	2022	2023	24Q2
OTHER B/L	1.06	0.93	1.67	0.86	1.35	5.84	3.74
FHLB ADV	2.51	3.17	2.21	1.54	3.07	3.45	3.99
FFP & REPO	4.35	4.37	4.29	2.99	2.47	2.22	2.22
TOT DEPS	92.08	91.53	91.83	94.61	93.11	88.50	90.04

Cost of Deposits Detail

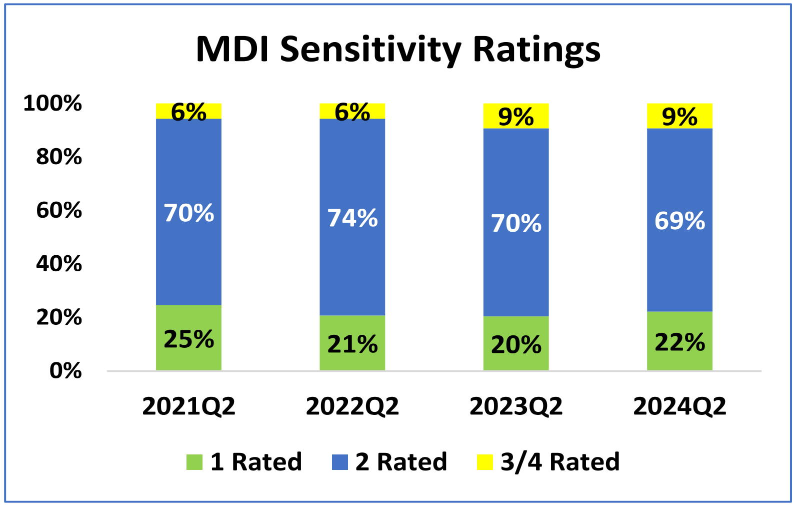


MDI Deposit Detail (%)

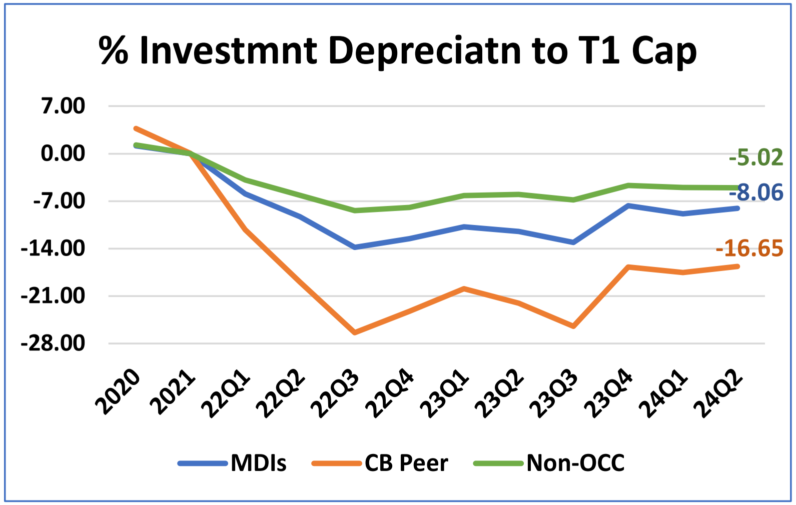


Sensitivity is Adequately Controlled

Sensitivity to market risk ratings are satisfactory.



Due to the rise in rates and quantitative tightening, investment portfolio depreciation remains elevated.



Summary of Economic Projections

The Fed's dot plot from the September 17–18, 2024 FOMC meeting shows 100 basis points of rate cuts in 2024 up from 25 basis points.

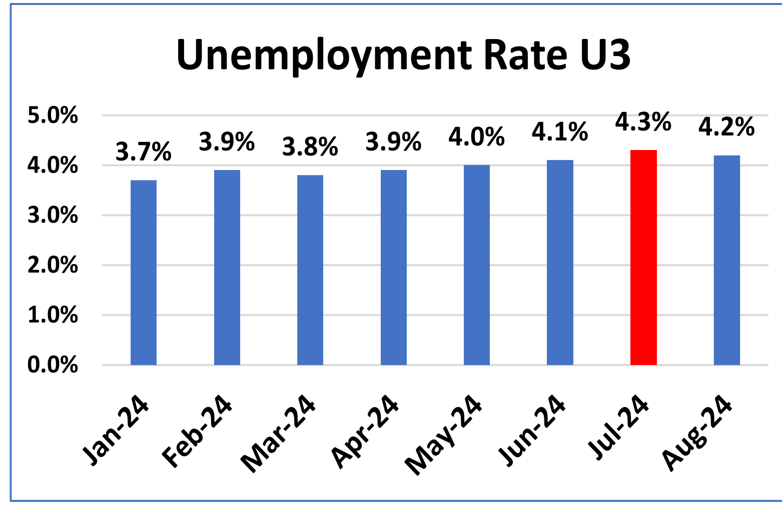
Percent

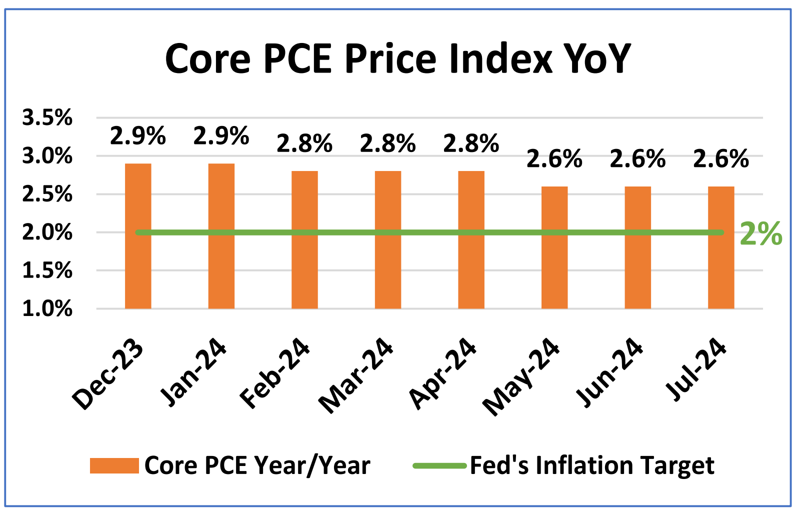
Variable	Median				
	2024	2025	2026	2027	Longer run
Change in real GDP	2.0	2.0	2.0	2.0	1.8
June projection	2.1	2.0	2.0		1.8
Unemployment rate	4.4	4.4	4.3	4.2	4.2
June projection	4.0	4.2	4.1		4.2
PCE inflation	2.3	2.1	2.0	2.0	2.0
June projection	2.6	2.3	2.0		2.0
Core PCE inflation[4]	2.6	2.2	2.0	2.0	
June projection	2.8	2.3	2.0		
Memo: Projected appropriate policy path					
Federal funds rate	4.4	3.4	2.9	2.9	2.9
June projection	5.1	4.1	3.1		2.8

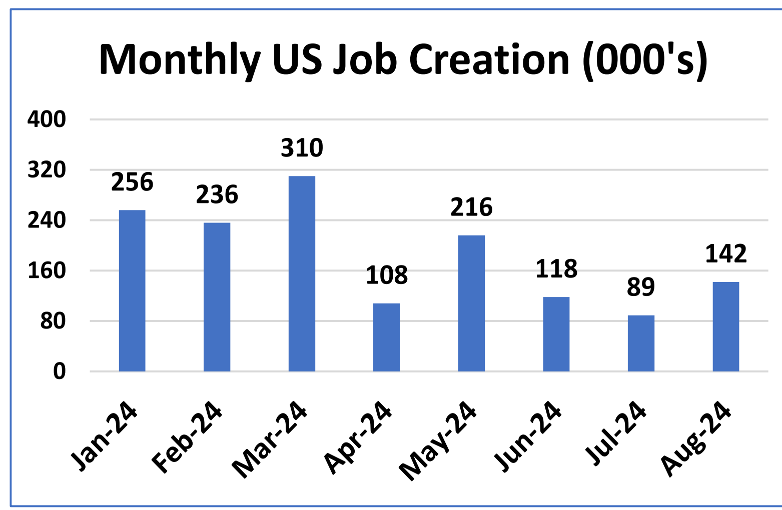
4. Longer-run projections for core PCE inflation are not collected.

Fed Focused on Jobs and Inflation

The US labor market slows but hiring remains firm. US inflation continues to reduce. The Fed views the Core PCE Price Index as the most accurate measure of US inflation.







Federal Funds Policy Rate: 4.75-5.00%

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	-50 bps
Nov 7	**-25 bps**
Dec 18	**-25 bps**

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

Questions?