



National Bankers Association – 2024 Conference: **The State of The MDI Sector: Insights on Credit, Housing, and Climate**

National Bankers
Association Foundation

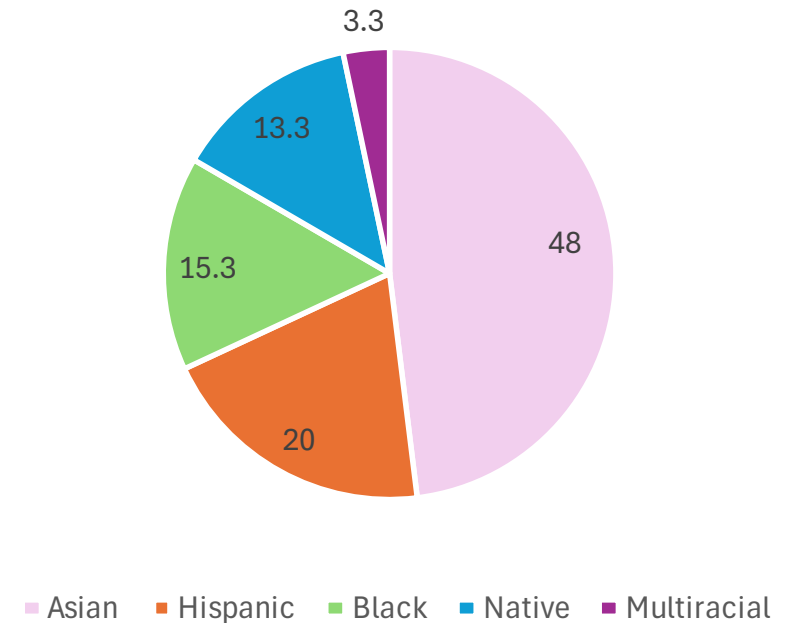


What is A Minority Depository Institution?

Mission-driven community banks that are predominately owned or operated by people of color and predominately serve majority-minority and typically low-income urban, rural, and suburban communities:

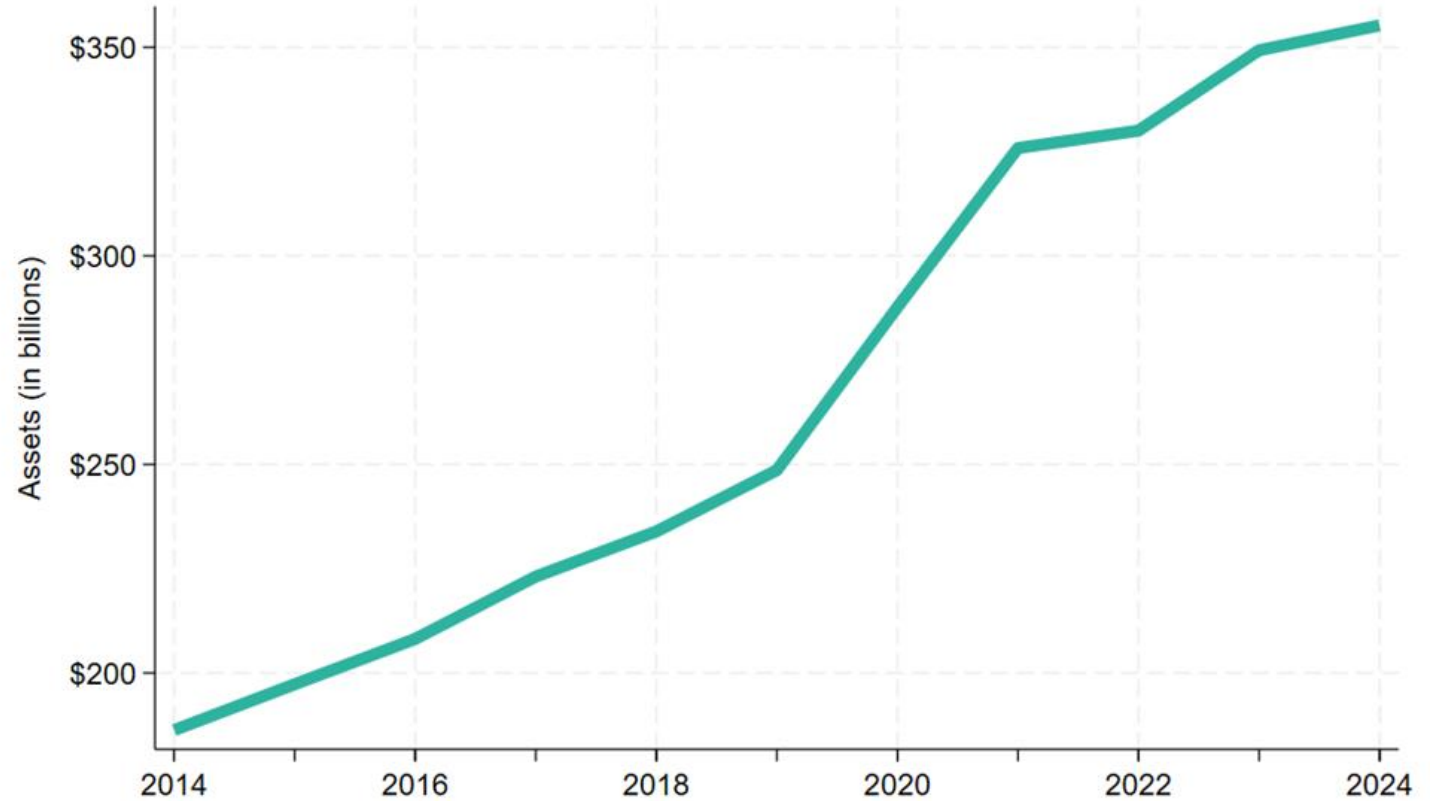
- MDIs are present in 43 states/territories and have more than 1,500 branches nationwide.
- The median asset size of an MDI is \$475M, and the total MDI sector holds \$355B in assets.

MDI Ownership Percentages



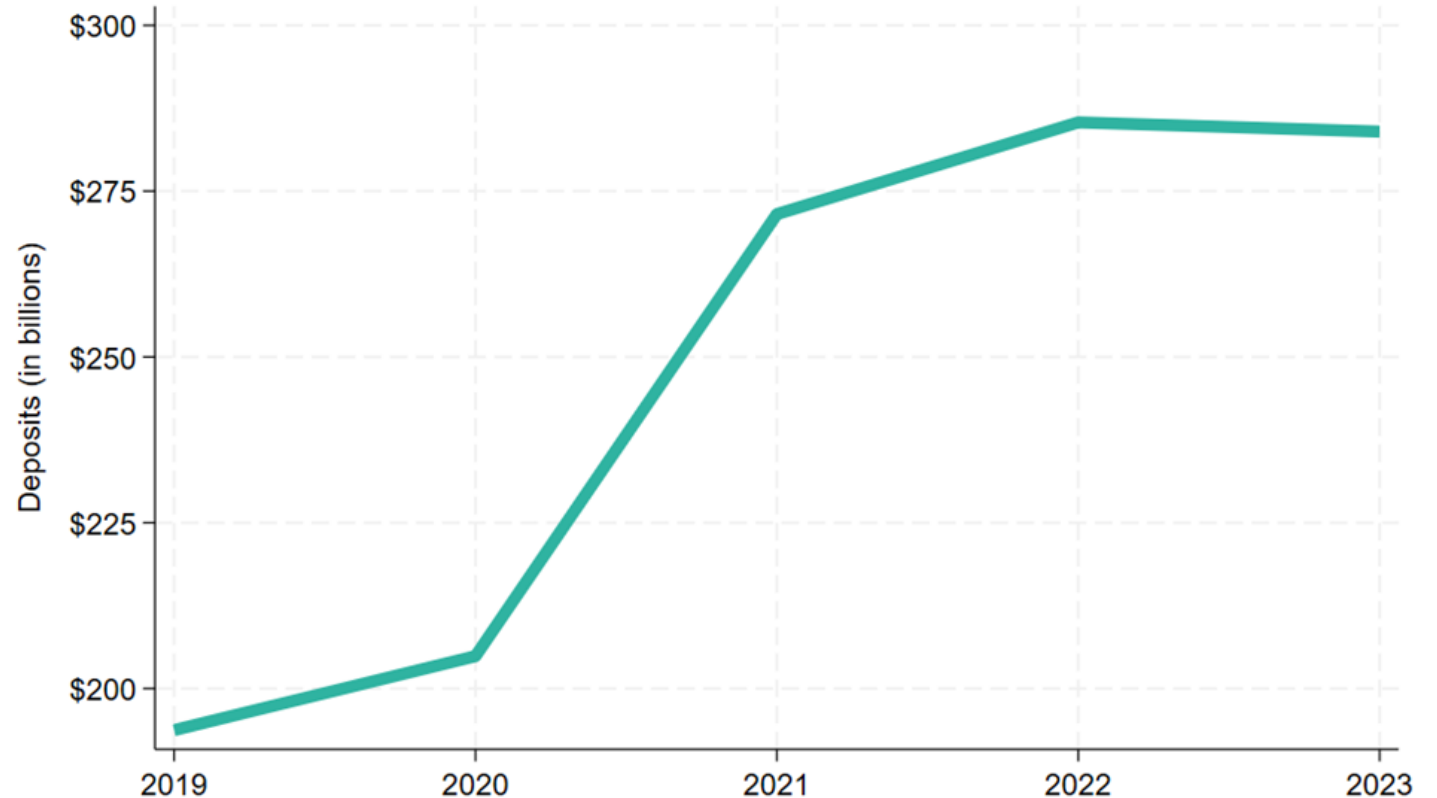
Total Assets in The Sector Have Risen Substantially

- **Total MDI assets have increased 90% from 2014 (ten years ago), 23% from 2020, and 1.7% since 2023.**
- **While MDIs represent 3.2% of all FDIC-insured banks, they collectively still only hold 1.5% of the total assets in the banking sector**



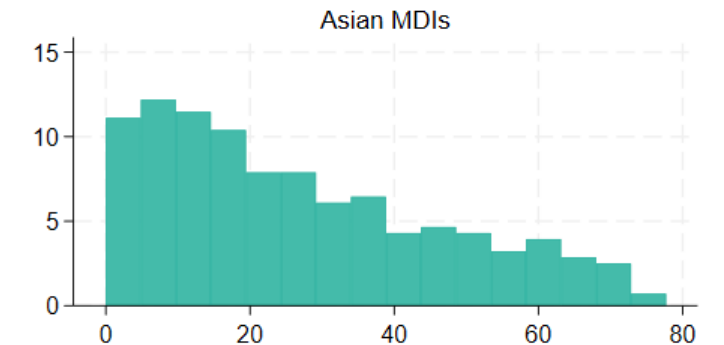
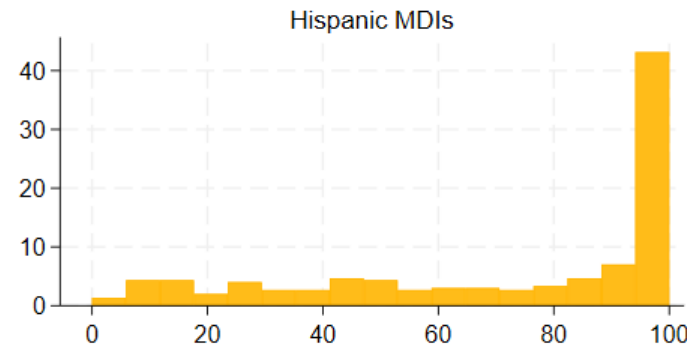
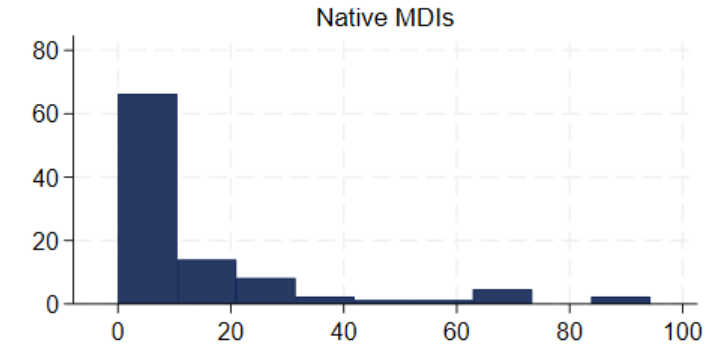
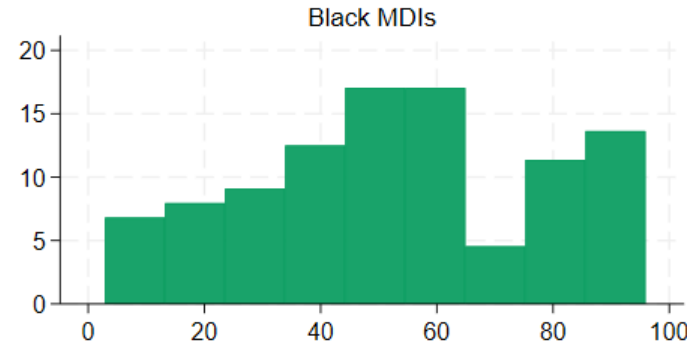
Total Deposits Have Also Grown

- The MDI sector holds nearly \$284 billion in deposits, with the median MDI holding \$349 million.
- Deposits decreased (- 0.49%) from 2022, but are higher relative to 2021 (4.36%) and 2020 (27.86%).
- The MDI share of deposits – which represents 1.6% of total deposits in the banking sector – remains below proportionality and would need to double to be in line with the numerical share,



MDI Branch Characteristics

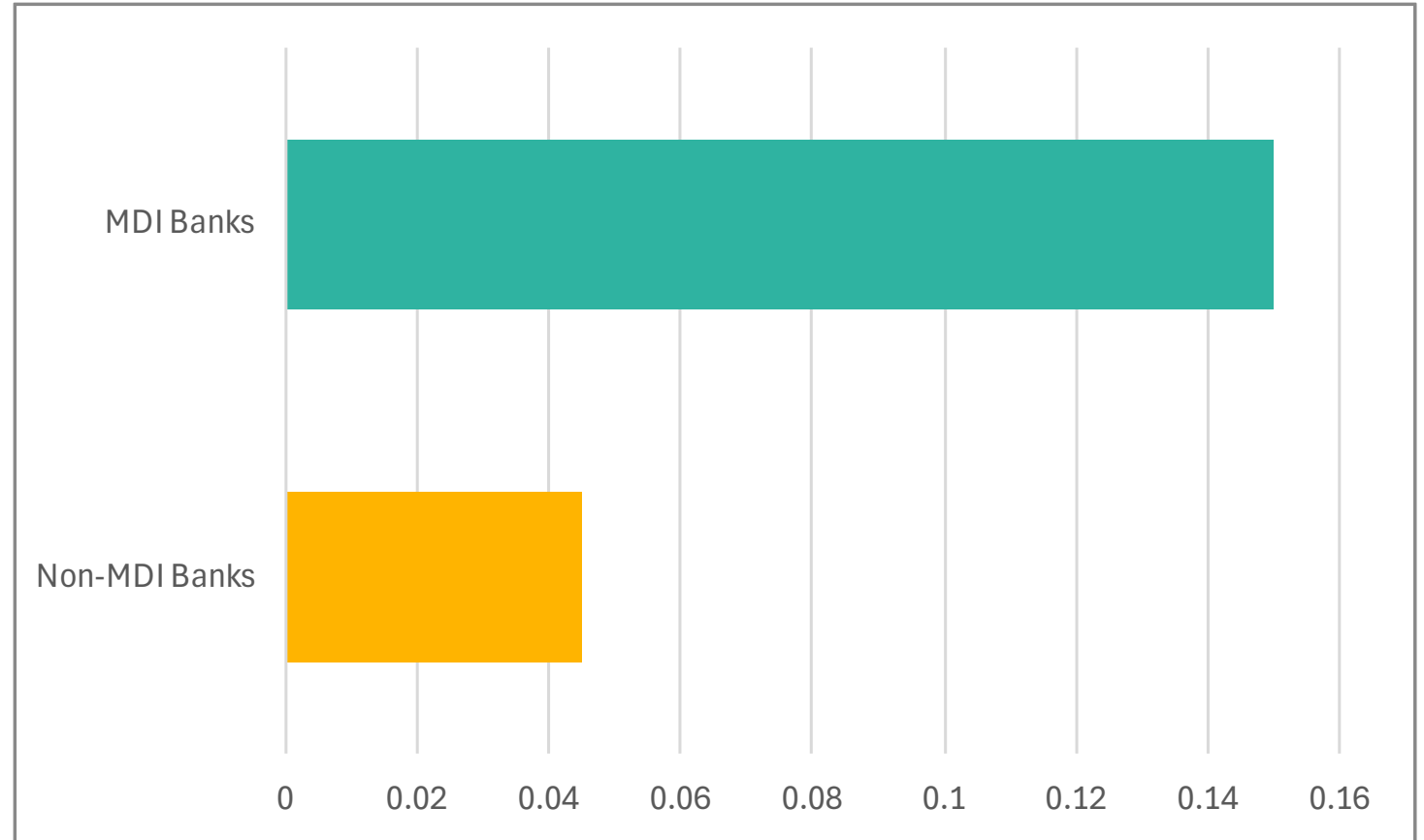
- **58.6million people live in the zip codes with MDI presence, representing roughly 17% of the U.S. population.**
- **Across all zip codes with an MDI branch, on average, 69.8% of people are a minority, compared to the total U.S. population, of which 41.7% are a minority**
- **Black and Hispanic MDIs are particularly likely to be located in places with sizeable corresponding shares of Black and Hispanic individuals.**



Note: The y-axis is the percentage of MDIs – the scales are different in each graph. The x-axis is the percentage of people in each zip code that identify as the corresponding race/ethnicity.

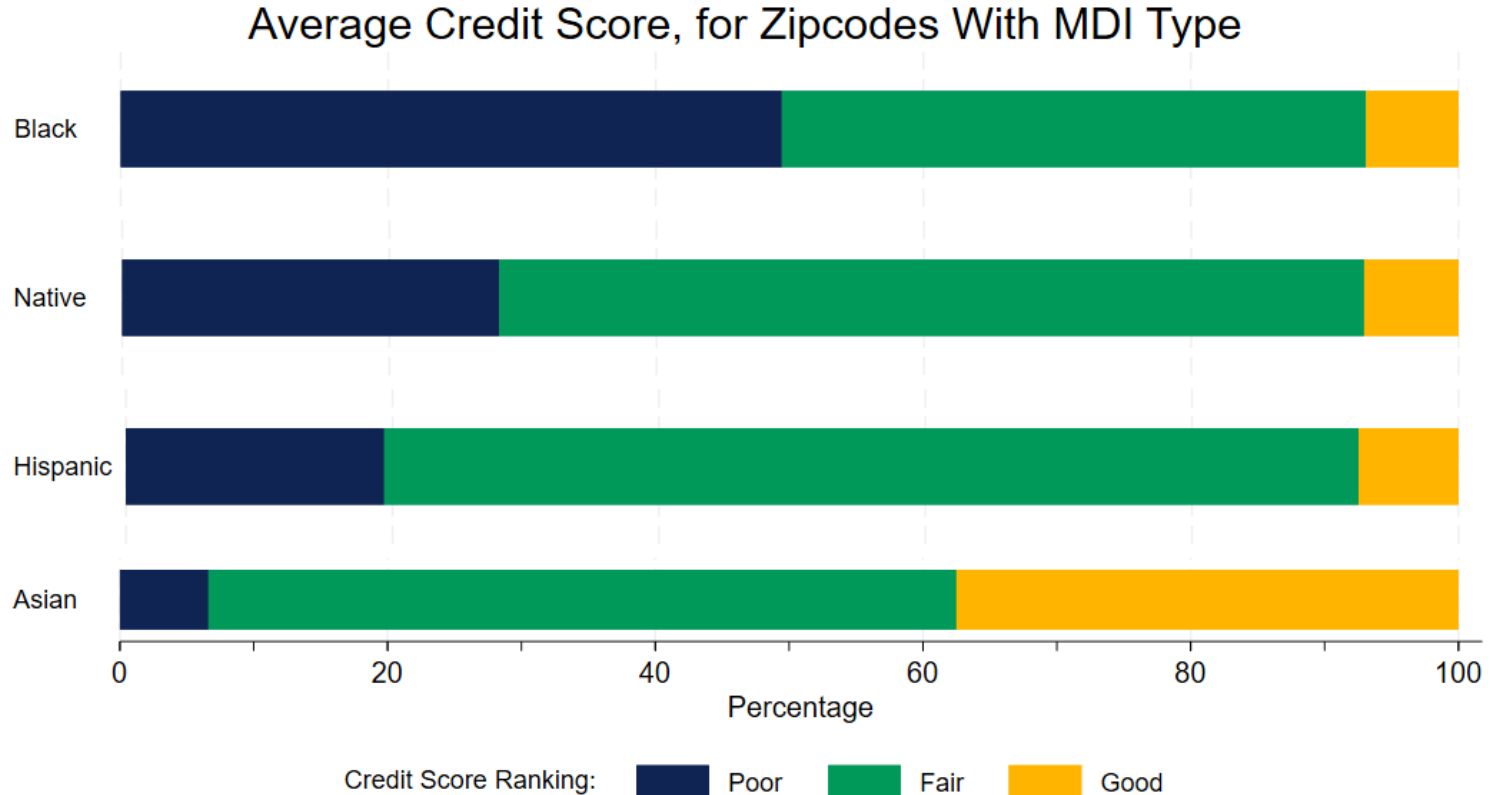
MDI Branch Characteristics – Persistent Poverty

- In 2023, the median MDI branch was located in a zip code with a poverty rate of 16%, which was nearly five percentage points higher than the national poverty rate of 11.5%.
- 15% of MDI branches are located in a persistent poverty county – defined as a county that has experienced extreme poverty rates across three or more decades – compared to only 4.5% of non-MDI bank branches.



MDI Branch Characteristics – Credit Outcomes

- Zip codes with at least one MDI present have slightly better Vantage 3.0 credit scores on average than demographically similar zip codes without an MDI present: an average of 689 versus 680.
- In terms of distribution, zip codes with MDI presence have the lowest percentage of “Poor” rankings as compared to other zip code types.



Note: Zipcode categories are not mutually exclusive.

Credit data provided by TransUnion

MDI Branch Characteristics – Credit Outcomes

Variable	Average, Zipcodes without MDIs	Average, Zipcodes with 1+ MDIs	Delta
Total credit line of open trades verified in past 12 months	99,077.88	133,092.90	34,015.02
Utilization for open trades verified in past 12 months	53.57	50.91	-2.66
Utilization for open trades verified in past 12 months, ex mortgage/home equity	47.51	43.66	-3.85
Total credit line of open bank installment trades verified in past 12 months	35,628.18	38,787.87	3,159.69
Total balance of open bank installment trades verified in past 12 months	28,237.44	30,971.33	2,733.89
Total credit line of open bank revolving trades verified in past 12 months	25,414.26	31,419.25	6,004.99
Percentage of trades ever delinquent	16.76	14.81	-1.96
Total balance of third party collections verified in past 12 months	559.76	458.42	-101.34

Credit data provided by TransUnion

1): The average amount of credit (including bank loans and bank lines of credit) is higher in zip codes with MDI presence.

2): the average utilization rate of available credit (both inclusive and exclusive of mortgage/home equity) is lower in zip codes with MDI presence – which is likely a contributing factor to the better credit scores.

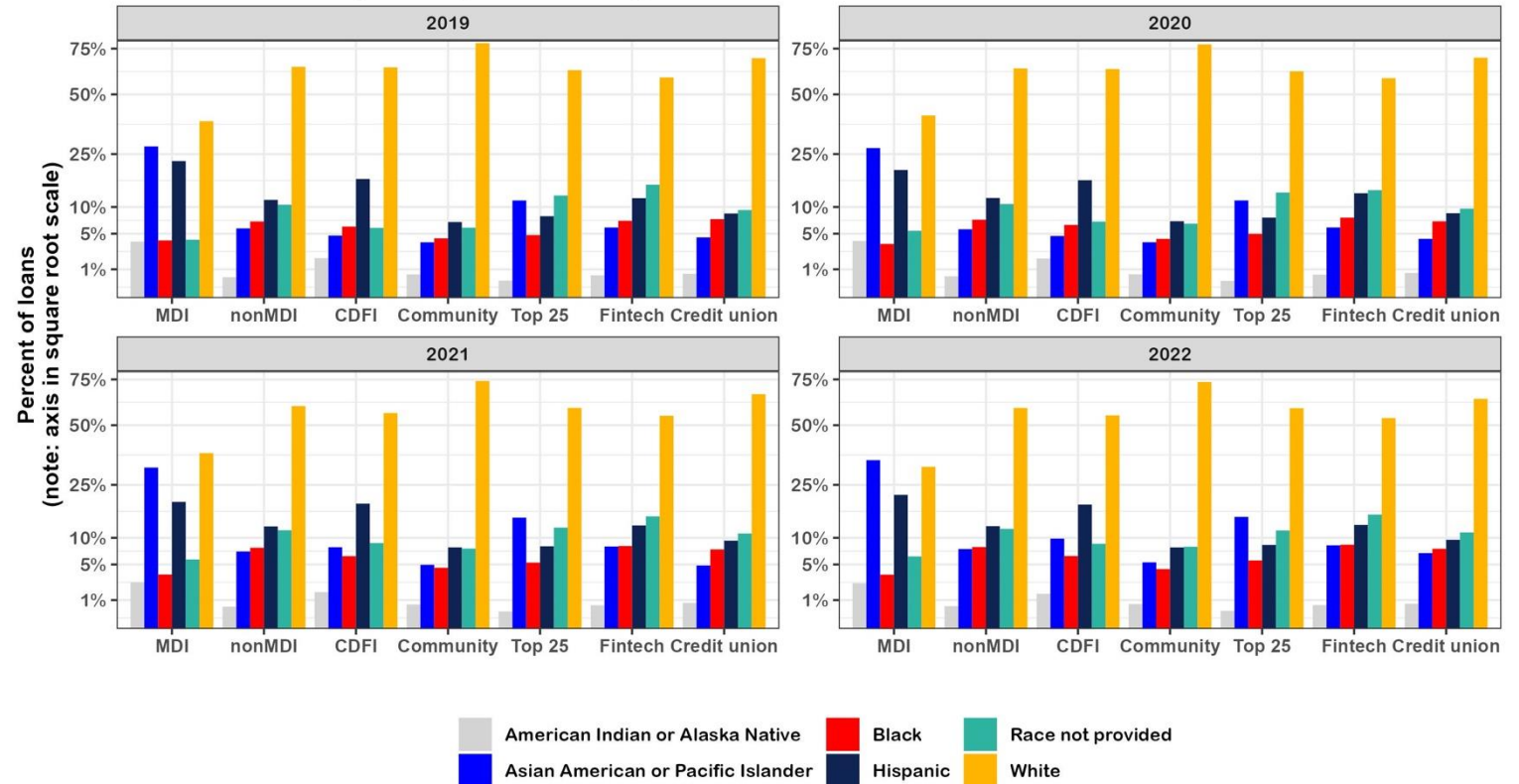
3): both the average percentage of accounts ever delinquent and the average balance sent to third party collections is lower in zip codes with MDI presence – again a likely contributor to better credit scores.

MDI Mortgage Lending - Key Findings

- 65 MDIs issued mortgages in the 2019-2022 pandemic period, representing lending from nearly half (43%) of all MDIs.
- Collectively, MDIs originated 164,000 mortgages, for a total of nearly \$58B in originations.
- MDIs originated a higher share of mortgages to minority borrowers and to minority communities than did non-MDI lenders.
- MDIs had lower denial rates but higher interest rates.
- Communities that received MDI mortgage lending face disproportionate climate risk.

Higher % of Loans to Minority Borrowers

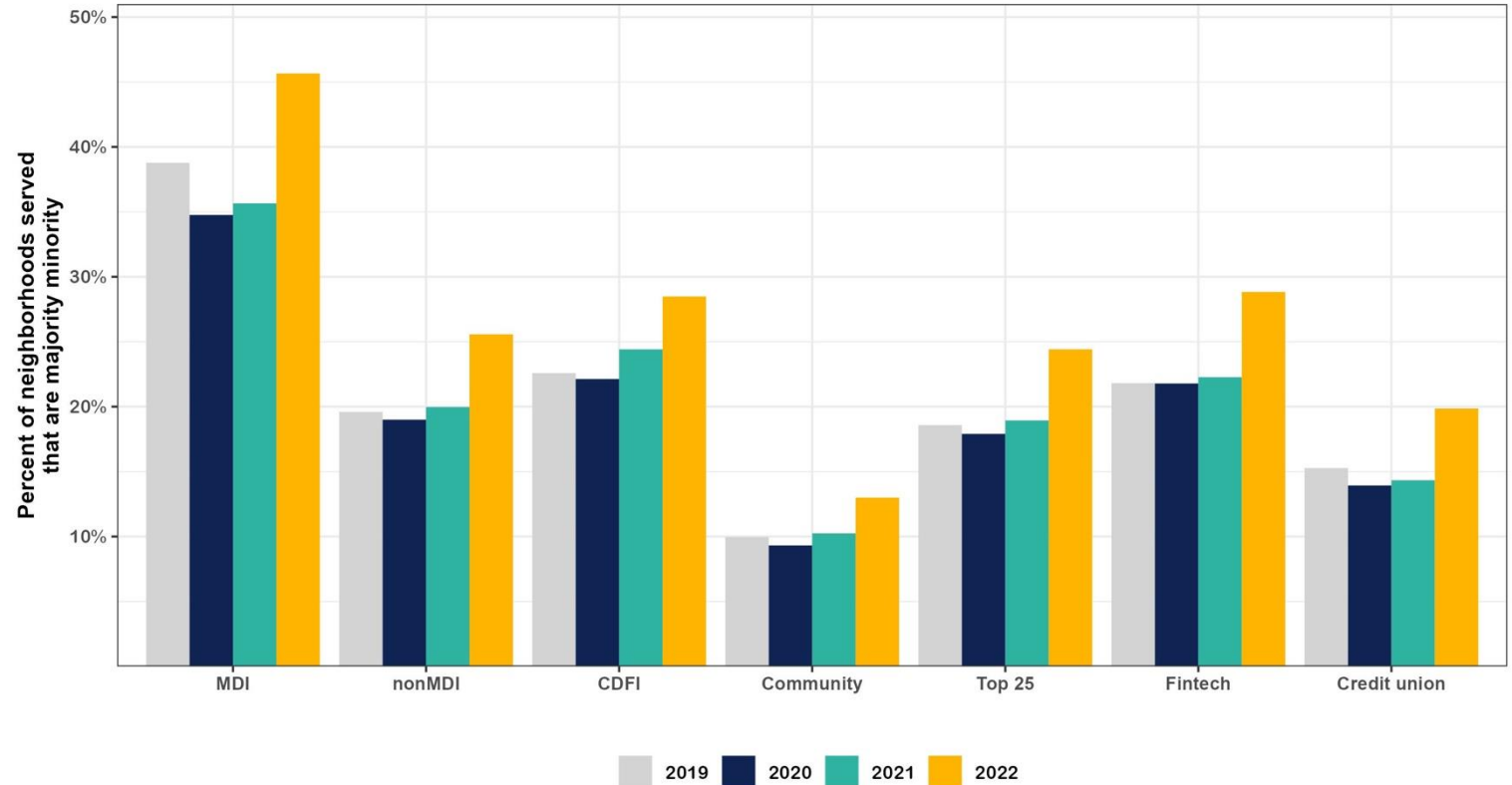
- 58% of MDI mortgages from this pandemic period were originated to minority borrowers, versus only 27% of non-MDI mortgages.
- MDIs outperformed all other financial institutions in originating mortgages to minorities in each of the four years – and specifically the share of loans to Asian, Hispanic, and Native American borrowers.



Source: National Bankers Association Foundation analysis of HMDA Data

Higher % of Loans to Minority Communities

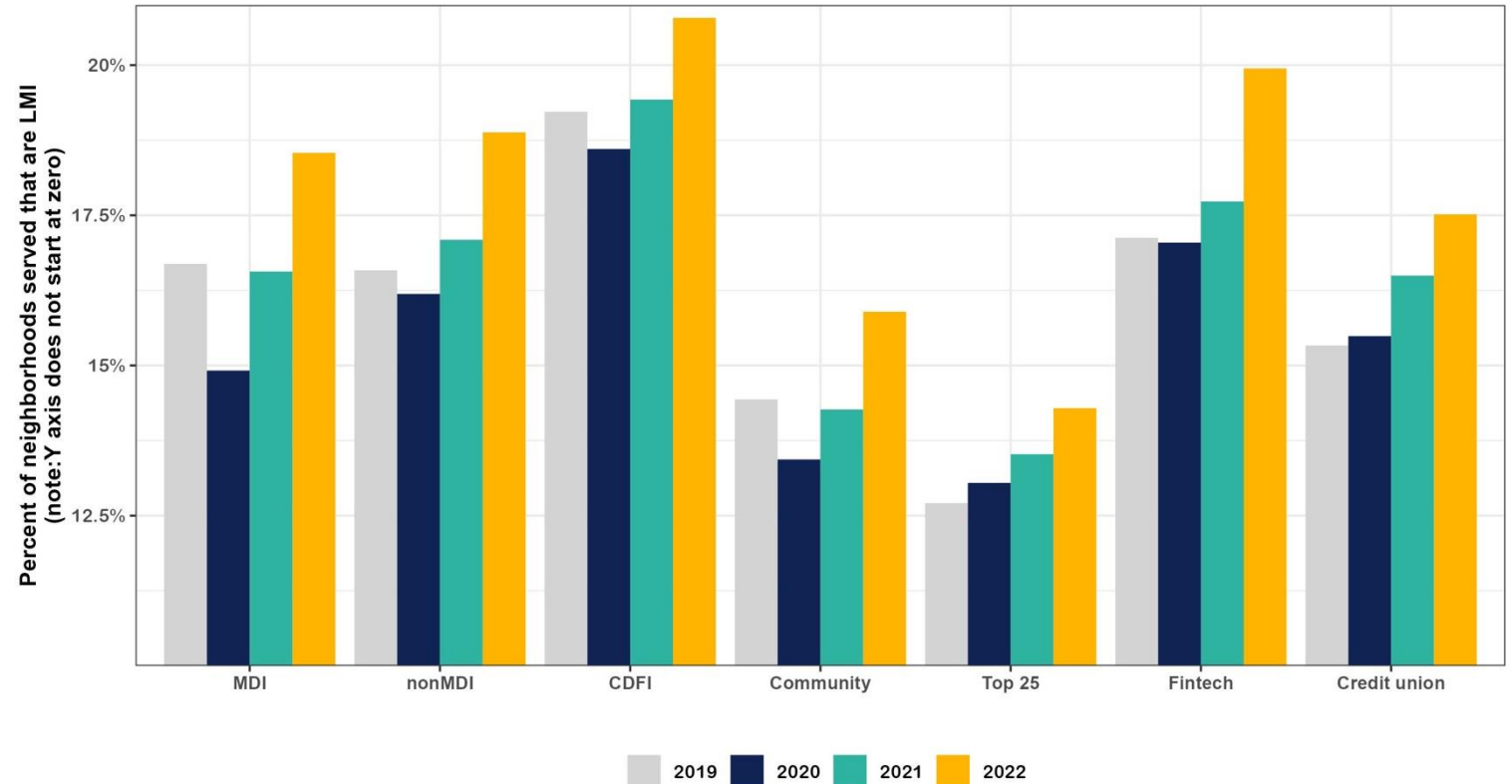
- MDIs issued a greater share of loans to minority census tracts than all other lender types.
- Over the four-year period as a whole, 39% of MDI loans went to minority-majority census tracts versus only 21% of non-MDI loans.



Source: National Bankers Association Foundation analysis of HMDA Data

Higher % of Loans to LMI Communities

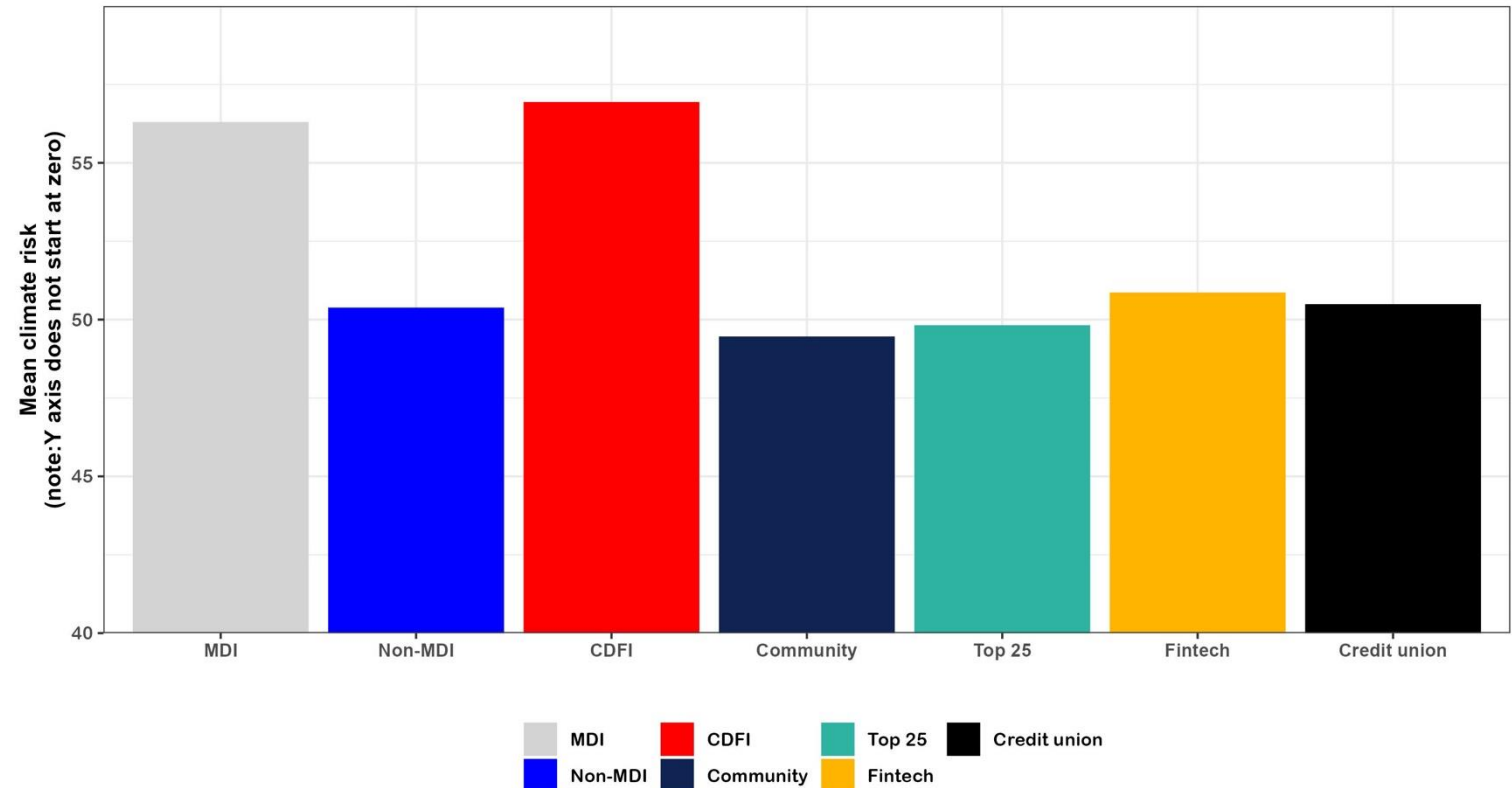
- MDI and CDFI loans outperformed community banks, credit unions, and the largest banks in their share of lending to LMI census tracts.
- MDIs and CDFIs also issued a higher share of loans to LMI borrowers relative to other lender types.



Source: National Bankers Association Foundation analysis of HMDA Data

Greater Climate Risk in MDI Lending Locations

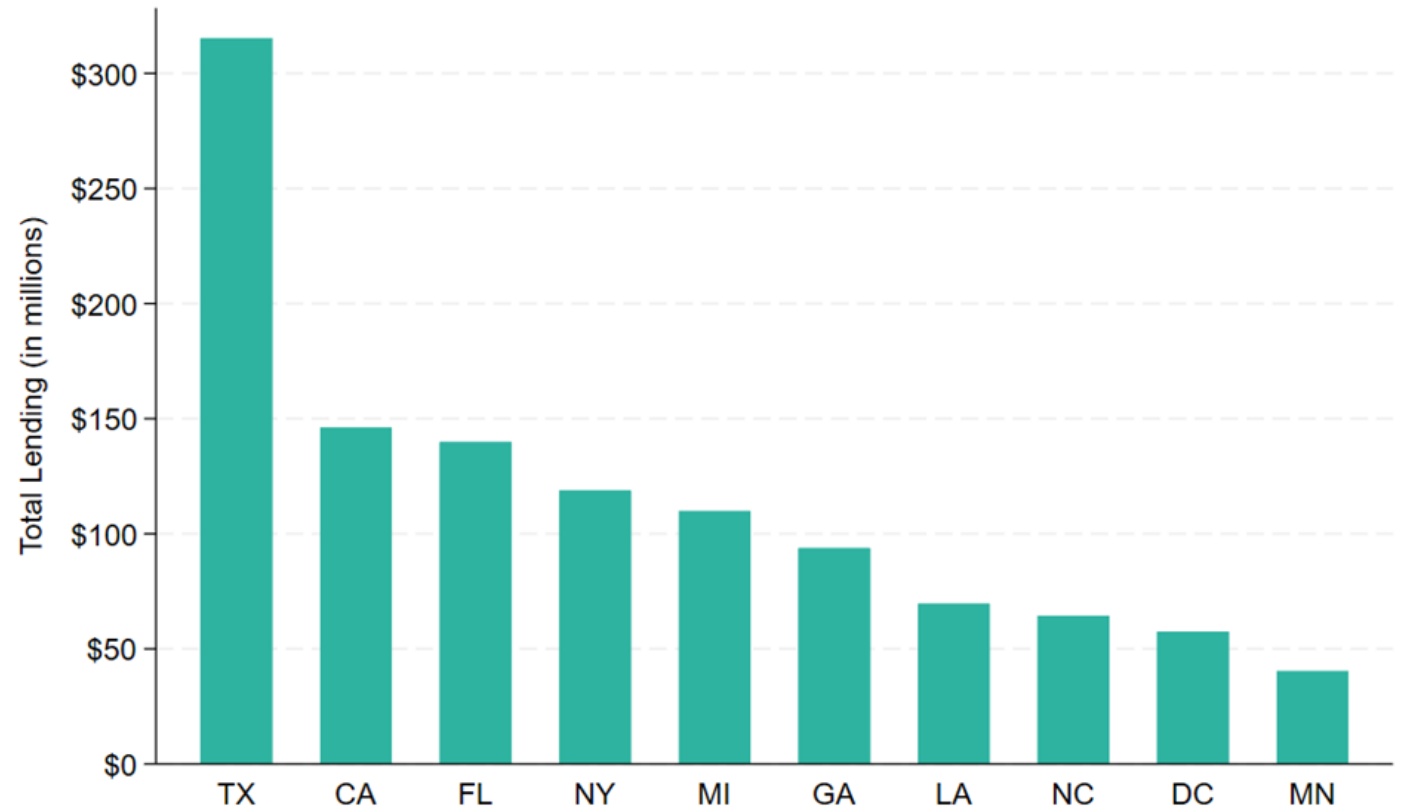
- The average climate risk score is higher in communities that received loans from MDIs and CDFIs.
- 17% of MDI loans went to high risk communities, compared to 14% of non-MDI loans.
- Loans from Hispanic, Black, and Native MDIs went to places with particularly high climate risk.



Source: National Bankers Association Foundation analysis of HMDA Data

2023 Lending Analysis

- Our 2023 lending sample is made up of 14 banks, or roughly 10% of the total number of MDIs in the sector.
- These MDIs issued 7,460 loans for \$1.5 billion in loan originations.
- Lending flowed to 2,783 zip codes. Nearly 89 million people live in the zip codes that received lending, reflecting 26.6% of the U.S. population



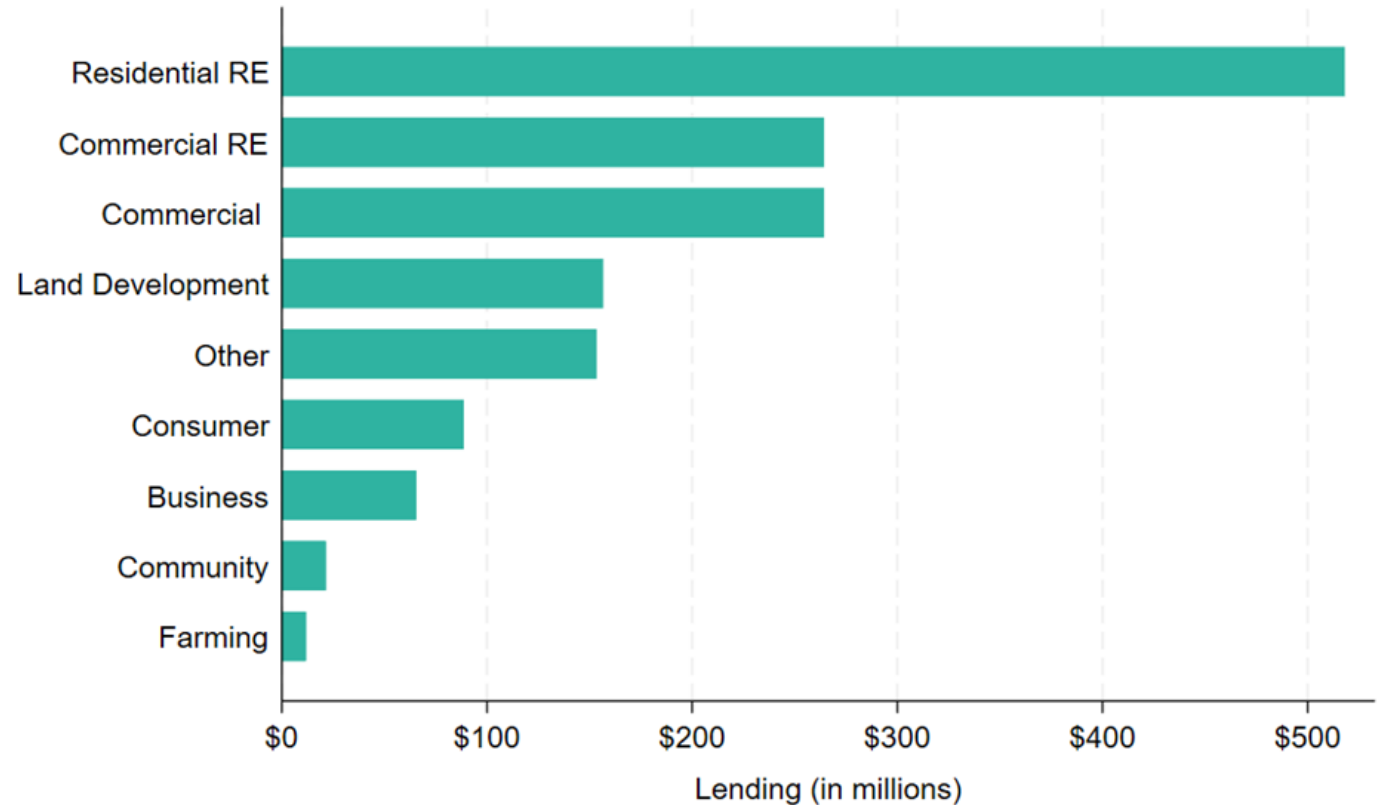
2023 Lending Analysis

- A majority (62.6%) of all loans from the sample went to minority-majority zip codes, and 70.7% of loans went to zip codes with a greater minority population than the national average.
- Zip codes that received lending from our sample have higher poverty rates relative to the nation.



2023 Lending Analysis

- **Consumer loans accounted for 67% of all loans but only 0.59% of loan dollars.**
- **The mmajority of loan dollars (53%) were real estate loans.**



Member Survey- Key Findings

The previous slides looked backward over past years to document MDI social impact, but we also want to assess how MDIs view current economic conditions and what their priorities and goals are looking forward.

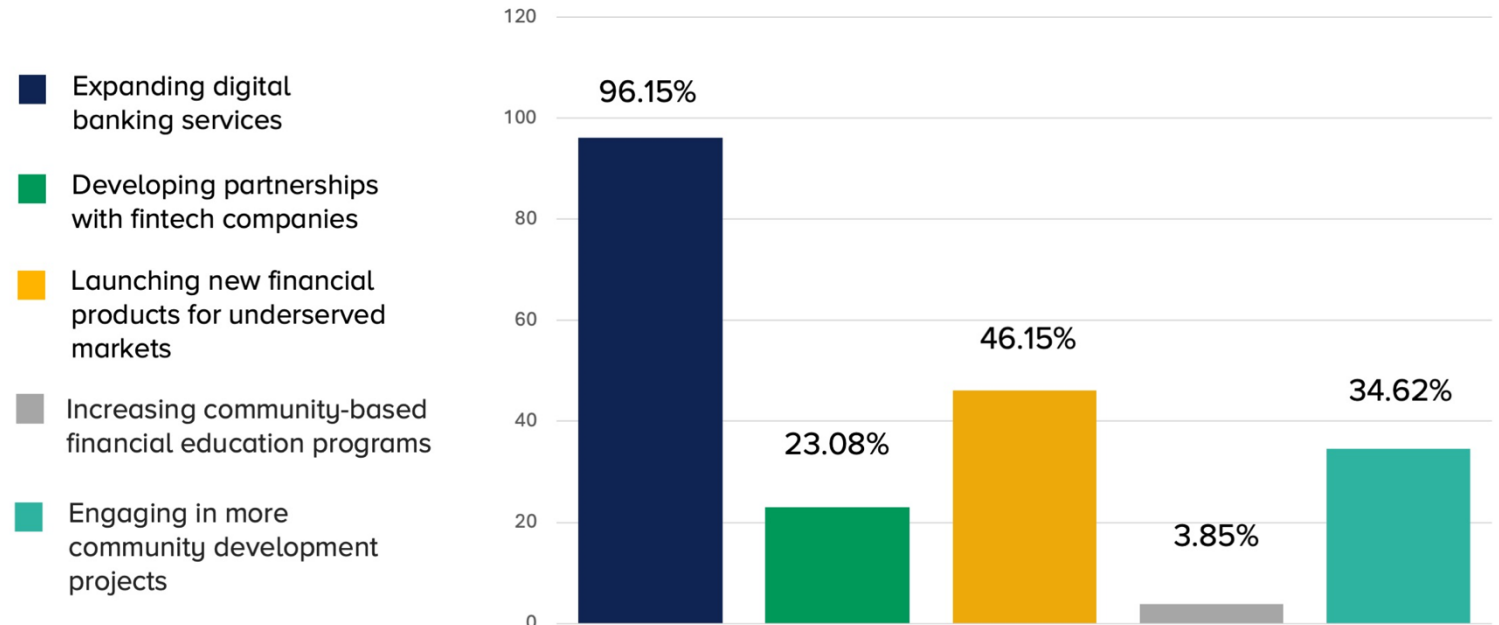
To explore this dimension of the sector, we hosted our first National Bankers Association member survey in July as part of our annual Strategic Planning Retreat. Overall, 19 MDIs participated in the survey.

We first asked our members to provide a confidence level for the overall economy, for their local economy, and for the bank's prospects for revenue growth. Most surveyed members are either very confident (25%) or somewhat confident (64.29%) in the overall economy and their local economy, while a smaller share (10.71%) are not confident at all. Similarly, most survey respondents are either very confident (32.14%) or somewhat confident (53.57%) in the prospects for revenue growth, while again a small sharer (14.29%) are not confident at all.

Member Survey: Growth Areas

- **Members are particularly focused on expanding digital banking services and investing in technology that enhances customer service.**
- **Members are also motivated to launch new financial products and services, to extend their mission and increase their revenue.**

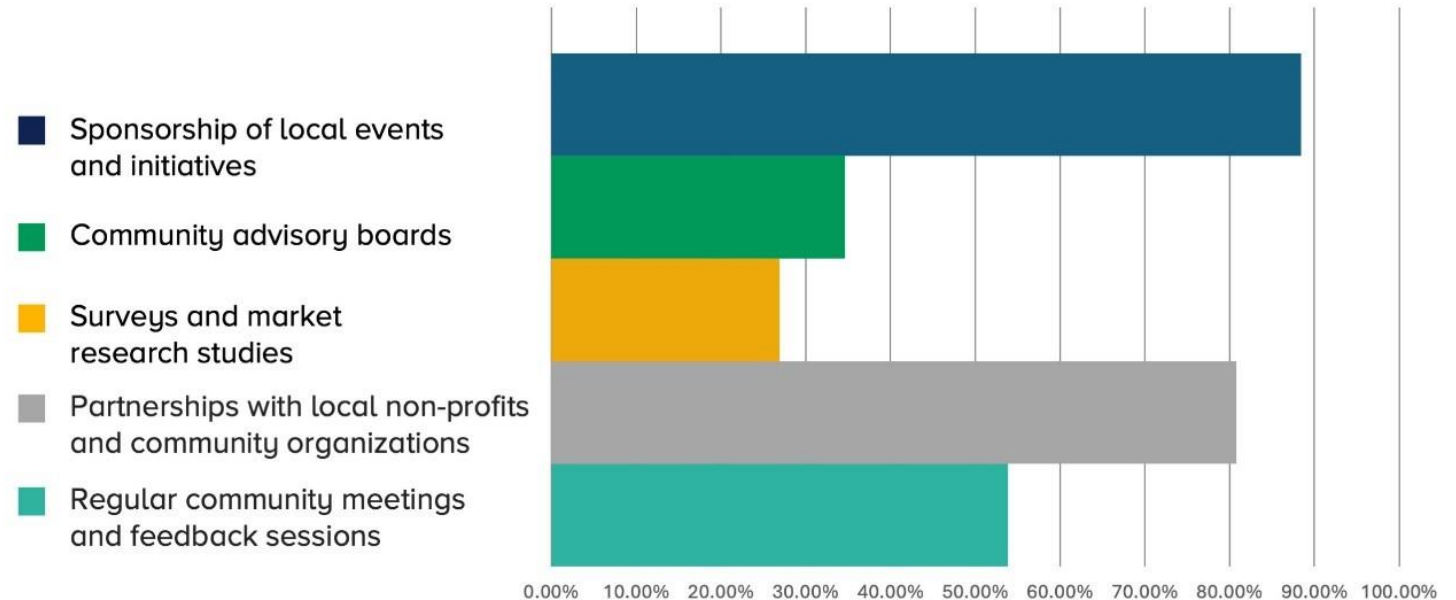
Prioritized Opportunity Areas for Growth



Member Survey: Engagement and Impact

- Our members highlighted several ways they engage their communities (see graph) to understand local needs, allowing them to design products/services that are responsive.
- Our members also highlighted ways they increasing social impact, including through solar loans, ITIN lending for immigrant borrowers, credit and debit card issuances, increased mortgage lending and development of affordable multifamily housing and affordable senior living housing.

Engaging with Communities



Conclusion: Strategies for Supporting the MDI Sector

- Place low-cost, sticky deposits in the sector to strengthen liquidity and help to increase total originations.
- Drive capital into the sector as part of broader social impact investing.
- Collaborate on consumer education and market-building to develop a pipeline of viable deals and offer loan participations to provide learning-by-doing opportunities, particularly on climate-related projects.
- Provide grant dollars towards down payment assistance for homebuyers and technical assistance for entrepreneurs.
- Create tax credits and other federal and state programs that reward investments into MDIs and that incentive development projects in underserved communities.