Section 2: Structural Change Among MDIs

Overview

Like other groups of depository institutions, the MDI banking segment experienced significant structural change during the 2001 to 2018 period of this study. The number of MDIs has fluctuated as MDIs were chartered, redesignated, acquired, or closed. Fifty-eight percent of MDIs underwent structural change during the study period, compared with 51 percent of community banks. Compared with the industry overall, the MDI population has experienced somewhat more volatility, with relatively fewer MDIs operating continuously as MDIs throughout the study period.

Structural Change Among Minority Depository Institutions

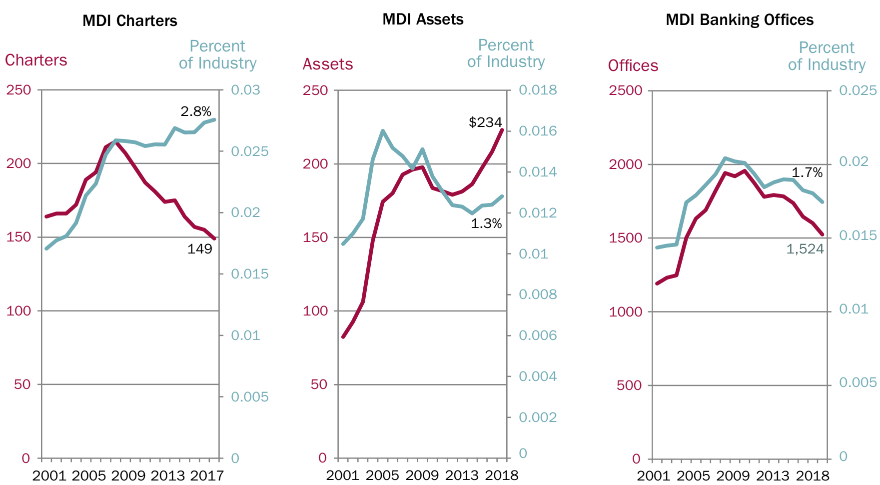
The financial services industry has changed significantly over the past two decades as a result of the last financial crisis, failures, mergers between banking organizations, and the consolidation of charters within existing organizations. During the 18-year study period covered by the report, the MDI sector also underwent significant structural change. Factors particular to the MDI sector caused somewhat greater structural change than that observed among community banks as a whole. This section details the nature of structural change in the MDI sector between 2001 and 2018.

Number of Charters

During the study period, MDIs initially grew from 164 charters in 2001 to 215 in 2008, an increase of 31 percent. Over the same time period, the number of community banks overall declined 14 percent, from 8,618 to 7,442. As of year-end 2018, failures, mergers, and closures had reduced the number of MDI charters by 31 percent from its peak of 215 in 2008 to 149. The rate of decline in MDIs post-recession is slightly lower than community banks overall, which declined 33 percent to 4,979 from 2008 to 2018.

Chart 2.1

The MDI Share of the Banking Industry Has Leveled Off After Pre-Crisis Growth



Source: FDIC

MDI assets nearly tripled from $82 billion to $234 billion between 2001 and 2018. As shown in Chart 2.1, page 17, the size of the MDI sector grew rapidly in the years preceding the recent financial crisis, dramatically contracted during the recent recession, and began recovering in 2013. By 2016, MDI assets had surpassed pre-recession highs, and they continue to grow in absolute terms. Although MDIs held only 1.3 percent of bank industry assets in 2018, compared with their peak of 1.6 percent in 2005, this represents an increase in the MDI share of industry assets from 1.0 percent in 2001.

The decline in the number of charters in the MDI sector is related to several factors, including bank failures. Over the study period, MDIs were about two and a half times as likely to fail as all other banks. Between year-end 2001 and year-end 2018, 40 MDIs failed (see Chart 2.2–d, page 20).

Most of the MDI failures occurred during the crisis or shortly thereafter. Among MDIs that failed, 42.5 percent had less than $100 million in total assets, while the median asset size of the surviving MDIs was $183 million. Many of these failures occurred in metro areas, where the recession hit already economically distressed communities.

The number of MDI charters has also declined because of voluntary mergers. During the study period, 41 MDIs were acquired by other MDIs, and an additional 39 MDIs were acquired by non-MDI financial institutions (see Chart 2.2–c, page 20). Overall, almost 3,200 banks were merged into other institutions during the same time period, 2002 to 2018.

While 14 MDIs reporting at year-end 2018 were chartered between 2005 and 2007 (see Chart 2.2–a, page 19), a sharp slowdown in the creation of new MDIs followed, paralleling the trend in de novo community bank formation. In January 2019, the FDIC approved a deposit insurance application for a new African American MDI in Washington, DC. The institution is currently raising capital and satisfying other conditions before its charter is granted. If granted, it will be the first de novo MDI in 10 years.[13]

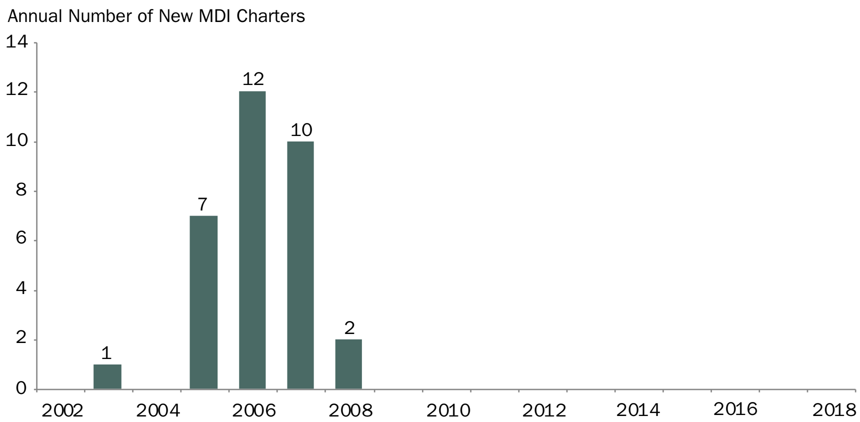
Over the past 18 years, many existing institutions were newly designated as MDIs, while far fewer institutions lost MDI status (see Chart 2.2–b, page 19). Redesignations were the most important source of growth for the MDI sector over much of the study period. The new designations can occur because of a change in control or the composition of the management structure, or because existing institutions that already qualified as MDIs request designation as MDIs.

[13]From 2011 through 2018, there were 19 newly chartered FDIC-insured institutions, representing 0.25 percent of the total number of institutions as of year-end 2010. The MDI de novo would represent 0.67 percent of total MDI institutions as of year-end 2018. Historically, the vast majority of new charters are de novo institutions.

Chart 2.2

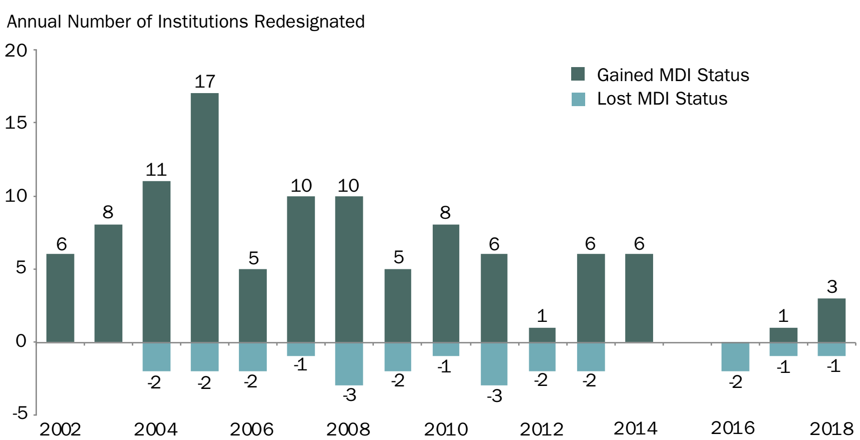
Sources of Structural Change Among FDIC-Insured MDIs, 2001 to 2018

Chart 2.2–a: 32 New MDIs Were Chartered



Source: FDIC

Chart 2.2–b: 103 Existing Institutions Gained MDI Status, 24 MDI Institutions Lost MDI Status

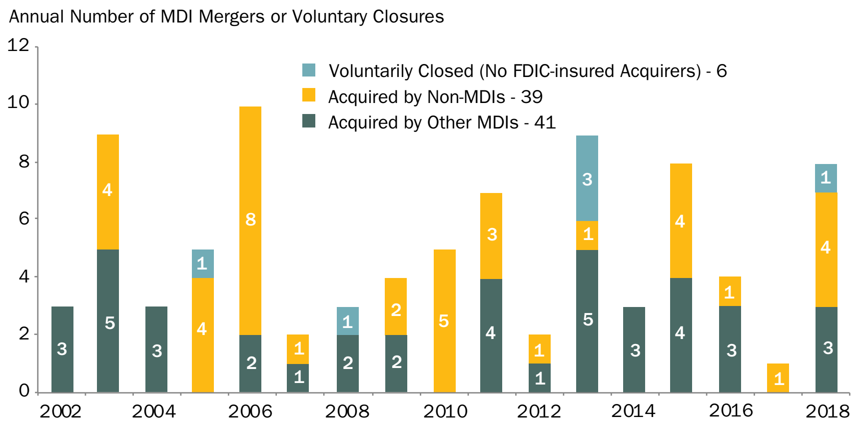


Source: FDIC

Chart 2.2 (continued)

Sources of Structural Change Among FDIC-Insured MDIs, 2001 to 2018

Chart 2.2–c: 80 MDIs Were Acquired in Voluntary Mergers, 6 MDIs Voluntarily Closed



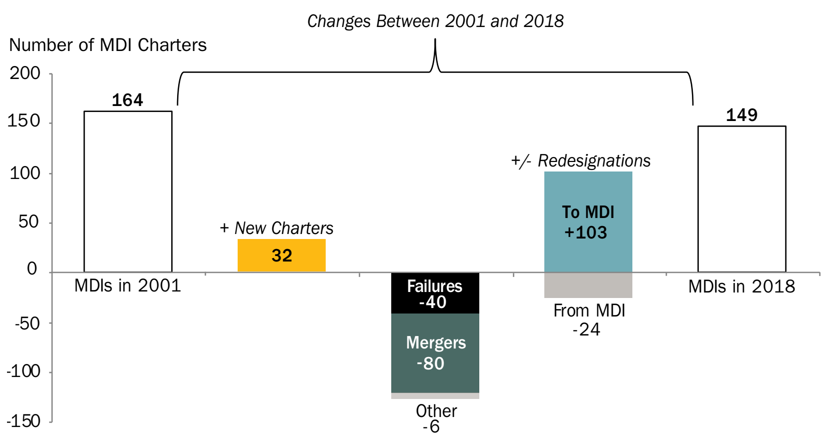
Source: FDIC

Chart 2.2–d: 40 MDIs Failed

Source: FDIC

Chart 2.3 depicts the net effect of new charters, mergers, failures, and redesignations during the study period. A total of 103 institutions were redesignated as MDIs, compared with 24 institutions that lost MDI status. Voluntary mergers were the greatest contributing factor to the consolidation of MDI charters, reflecting a trend among community banks during the study period. The number of community banks declined by 42.2 percent, from 8,618 in 2001 to 4,979 in 2018, owing to failures, voluntary mergers and other voluntary closings, and redesignations of institutions that met the community bank criteria outlined in Chapter 1 of the *FDIC Community Banking Study.* By comparison, the number of MDIs declined by 9.1 percent from 164 in 2001 to 149 in 2018.

Chart 2.3
Voluntary Mergers Are the Greatest Source of Consolidation Among MDIs



Source: FDIC

Impact of Structural Change on the Assets Controlled by MDIs

One of the stated goals of Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) is to preserve, "the minority character in cases involving mergers or acquisitions…."[14] As MDIs have failed or merged, questions have been raised as to whether these institutions are being acquired by entities that may not be focused on addressing the financial needs of minority communities.

Of the 80 MDIs acquired through voluntary mergers during the study period, slightly more than half (41 institutions) were acquired by other MDIs. In addition, of the 40 MDIs that failed during the study period, 15 (38 percent) were acquired by other MDIs. Although these percentages might seem low, a much larger share of the total assets of closed MDIs remained under the control of other MDIs after acquisition. For example, most of the assets of the 118 MDIs acquired through mergers or failures during the study period were acquired by other MDIs (see Chart 2.4, page 22).[15] In all, more than three-fourths of the assets of the merged institutions and 86 percent of the assets of the failed institutions remained with MDI institutions.

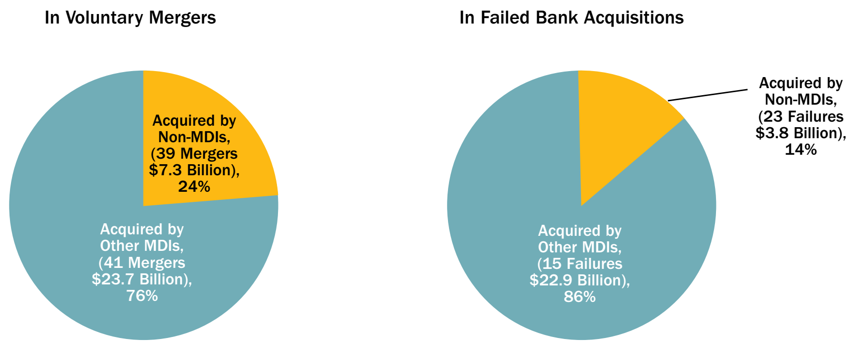
[14] 12 U.S.C. 1463(a)(2) Note.

[15] Two failed banks had no acquirers as they were resolved as payouts.

Chart 2.4

Most of the Assets of Merged and Failed MDIs Have Been Acquired by Other MDIs

Percent of Assets Acquired, 2002–2018



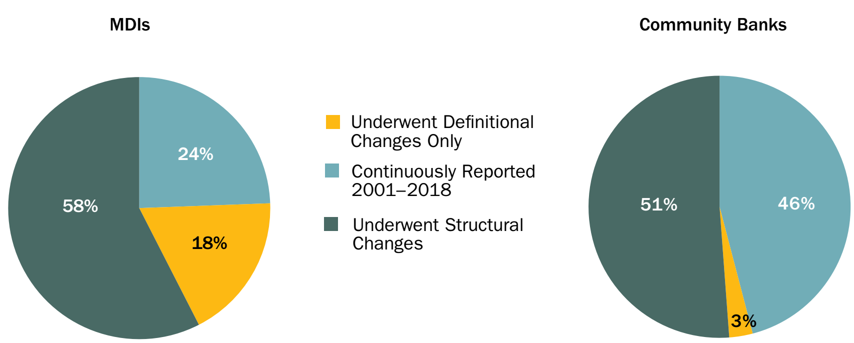
Source: FDIC
Note: The merged bank acquisition amount excludes the six voluntary closings. The failed bank acquisition amount excludes the two depositor payouts.

While every segment of the banking industry has undergone structural change in recent years, the MDI population has been somewhat more volatile compared with other types of institutions. For example, MDIs were about half as likely as community banks to operate continuously (that is, absent structural change or group redesignation) throughout the study period (see Chart 2.5). To help distinguish MDI financial performance over time from that of other institutions, Section 4 of this study compares MDI financial performance to the performance of non-MDI community banks that are headquartered in metro areas and devote less than 25 percent of their total loans to agriculture.

Chart 2.5

The MDI Population Has Been Somewhat More Volatile Over Time Than the Community Bank Population

Unique Banks Reporting in at Least One Year-End as:



Source: FDIC