S&P Global

US minority depositories lead in loan, deposit growth but lag in profitability

By Alex Graf and Ayesha Shahbaz

Loan and deposit growth at US minority depository institutions exceeded the industry median in the fourth quarter of 2024, though other metrics trailed peers.

Minority depository institutions (MDIs) posted median year-over-year deposit growth of 5.9% and loan growth of 7.9% in the quarter, compared to 3.9% and 5.2% for US banks overall, according to S&P Global Market Intelligence data. The loan growth occurred as banks nationwide struggled to boost lending.

One factor driving loan and deposit growth at MDIs is their focus on specific communities, said Abacus Federal Savings Bank President and CEO Jill Sung. The New York-based bank serves low- to moderate-income Asian Americans in New York City.

"The key for us having a strong growth orientation is understanding who our market is and targeting our products and our services to that market," Sung said in an interview.

Rob Anderson, CFO of Doral, Florida-based U.S. Century Bank, said the MDI has gained market share by being smaller, quicker and offering more personalized service than bigger banks.

MDIs have also played a role in directing emergency funding to their communities during crises such as the 2008 financial crisis and the pandemic, said Mac McComas, senior project manager at Johns Hopkins University's 21st Century Cities Initiative, which published a 2023 report on MDIs.

"They had both greater relationships on the ground and they were more connected to populations at risk," McComas said. "They really pride themselves on being present in communities where they serve."

Pandemic-era aid programs, including the Emergency Capital Investment Program (ECIP) and the Paycheck Protection Program, have also supported growth at MDIs. Bronx, New York-based Ponce Bank, which reported year-over-year deposit growth of 24.6% and loan growth of 20.1%, benefited from ECIP funding, President and CEO Carlos Naudon said.

"ECIP recipient banks outperformed the rest of the minority banks," Naudon said in an interview. "You see a fairly significant fluctuation in terms of growth of deposits and growth of loans."

While MDIs outpaced US banks in loan and deposit growth, other performance metrics lagged. The median return on average assets for MDIs was 0.86% in the fourth quarter of 2024, below the 0.95% median for US banks. MDIs also had a higher median efficiency ratio at 68.88%, compared to 66.67% for US banks. A lower efficiency ratio indicates greater efficiency and is calculated by dividing noninterest expenses by net interest income and noninterest revenue. The median adjusted nonperforming assets as a percentage of total assets at MDIs was 0.51%, compared to 0.28% at US banks.

MDIs often operate with lower efficiency because they serve low- to moderate-income communities and prioritize mission-driven banking over profitability, Naudon said. Ponce Bank's efficiency ratio was above the MDI median at 72.81% during the quarter.

"If you're running some branches that are not very efficient, your efficiency ratio is not going to do well," Naudon said. "The bottom line is hampered by the cost of the mission that you're pursuing."

Serving underserved markets, including underbanked and previously unbanked clients, also requires more effort in educating customers about banking, which can affect efficiency, Abacus Bank's Sung said.

MDIs also tend to be younger, smaller institutions focused on lending to small businesses and community groups, which can add risk, said McComas.

"There's a higher failure rate among both smaller and younger businesses, so if you're lending to them there's possibly a higher risk," McComas said.