

PRESS RELEASE

AUGUST 21, 2020

DBRS Morningstar Confirms FACEBANK International Corporation at BB; Stable Trend

BANKING ORGANIZATIONS

DBRS, Inc. (DBRS Morningstar) confirmed the ratings of FACEBANK International Corporation (FACEBANK or the Company), including the Company's Long-Term Issuer Rating of BB. The trend for all ratings is Stable. The Intrinsic Assessment (IA) for the Company is BB and the Support Assessment is SA3.

KEY RATING CONSIDERATIONS

Established in 2006, FACEBANK operates as an International Bank Entity (IBE) under the laws of the Commonwealth of Puerto Rico. The IBE charter offers a tax-efficient platform for the bank to provide U.S. dollar deposit and payment services to foreign customers. Through its Florida-based mortgage subsidiary, Florida Home Trust, the Company provides residential mortgage loans in select Florida counties largely to foreign nationals. We note that FACEBANK has no lending or securities exposure to Puerto Rico.

Importantly, the Company maintains an online connection with the Federal Reserve Bank of New York, which allows it to efficiently clear deposits for its customers, saving both time and expense. We view this as a competitive advantage for FACEBANK, as it is the only IBE with this connectivity, which is contingent on the Company maintaining strong BSA/AML and corporate governance practices.

FACEBANK has shown improving and strong profitability metrics driven by a high net interest margin (NIM), supported by low funding costs and an above average return on its residential mortgage loan portfolio, its primary loan category. This portfolio has performed well during the Company's operating history, with low levels of non-accrual loans and charge-offs. However, the portfolio has grown during a period of sound Florida real estate fundamentals and has not been tested in a downturn.

Additionally, the Company maintains about 29% of its balance sheet in liquid assets including a large percentage in low credit risk U.S. government securities. The ratings are underpinned by FACEBANK's liquid balance sheet, profitable operating niche and conservative loan underwriting. Constraining the ratings are the Company's short operating history, heightened operational risk surrounding BSA/AML compliance given its customer base, as well as limited scale and diversity.

RATING DRIVERS

Increased franchise scale and a greater diversity of earnings would result in a ratings upgrade. Conversely, an increased risk appetite, sustained asset quality deterioration or BSA/AML compliance issues would result in a downgrade of ratings.

RATING RATIONALE

Over its limited operating history, FACEBANK has built a profitable banking franchise, helping its international customers transact business in the U.S. Instead of branches, the Company facilitates its deposit gathering through an arrangement with Business Development Facilitators (BDF). These BDFs, professionals located primarily in South America, partner with the Company by referring customers with a need for a U.S. dollar account to FACEBANK, sharing in the profits from this customer relationship. This arrangement, using BDFs that are vetted and largely well known to FACEBANK's board of directors, helps keep operating costs low.

Additionally, the Company gathers deposits from its lending business, requiring a deposit account for its loan customers, as well as the maintenance of escrow deposits. These sources result in a relatively stable and low-cost deposit base. The Company's cost of funds in 1H20 was just 21 basis points. This, along with a higher than average yield on its residential mortgage portfolio, helps to support the Company's solid NIM and overall earnings. Profitability is also aided by wire transfer fees, as well as the IBE charter, which allows the Company to operate essentially tax exempt.

FACEBANK's primary loan product is residential mortgages in Florida to foreign nationals. While this poses additional risks, the Company mitigates these risks with full underwriting and conservative loan-to-value (LTV) ratios, including a maximum LTV of 70% dependent on the type of property and borrower. Given the current environment, the Company has enacted a temporary forbearance program, which has been adopted by about 10% of its mortgage customers. However, a stable Florida housing market and low LTV ratio on these properties should provide the Company with ample downside protection.

The Company is not subject to regulatory capital requirements, although risk-based capital levels are calculated by management. DBRS Morningstar views FACEBANK's capital levels as adequate given its capital generation, well-secured loan portfolio and risk management practices. As a privately-held institution, FACEBANK's sources of additional capital are limited, although management has indicated that the Company's ownership does have the wherewithal to inject additional capital, if needed. Since 2012, internal capital generation has been growing and is sufficient to fund balance sheet growth.

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: <https://www.dbrsmorningstar.com/research/357792>.

The Grid Summary Grades for FACEBANK International Corporation are as follows: Franchise Strength – Weak; Earnings Power – Moderate; Risk Profile – Moderate/Weak; Funding & Liquidity – Moderate/Weak; Capitalisation – Moderate/Weak.

Notes:

All figures are in U.S. dollars unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (June 8, 2020): <https://www.dbrsmorningstar.com/research/346375/global-methodology-for-rating-banks-and-banking-organisations>.

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>.

The primary sources of information used for this rating include Company Documents. DBRS Morningstar considers the information available to it for the purposes of providing this rating was of satisfactory quality.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

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Ratings

FACEBANK International Corporation

Date Issued	Debt Rated	Action	Rating	Trend	Issued
21-Aug-20	Long-Term Issuer Rating	Confirmed	BB	Stb	US
21-Aug-20	Short-Term Issuer Rating	Confirmed	R-4	Stb	US
21-Aug-20	Long-Term Deposits	Confirmed	BB	Stb	US
21-Aug-20	Long-Term Senior Debt	Confirmed	BB	Stb	US
21-Aug-20	Short-Term Instruments	Confirmed	R-4	Stb	US

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