

Morningstar DBRS Confirms FACEBANK International Corporation at BB; Stable Trend

BANKING ORGANIZATIONS

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

KEY CREDIT RATING CONSIDERATIONS

The credit ratings confirmation and Stable trend reflect FACEBANK's small niche franchise, strong and consistent earnings and solid asset quality. Additionally, the credit ratings are underpinned by FACEBANK's liquid balance sheet and conservative loan underwriting. Constraining the credit ratings are the Company's limited operating history, heightened operational risk surrounding BSA/AML compliance given its customer base, as well as the Company's limited scale and diversity.

CREDIT RATING DRIVERS

Continued strong execution on strategic initiatives resulting in increased franchise scale, including a more diverse funding mix, would result in a credit ratings upgrade. Conversely, an increased risk appetite, sustained asset quality deterioration or BSA/AML compliance issues would result in a downgrade of the credit ratings.

CREDIT RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Weak/Very Weak

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 to foreign nationals primarily in South Florida. We note that FACEBANK has no lending or securities exposure to Puerto Rico.

A key component of its franchise is an online connection with the Federal Reserve Bank of New York (FRBNY), which allows it to efficiently clear deposits for its customers, saving both time and expense. We view this connectivity as a competitive advantage for FACEBANK, which is contingent on the Company maintaining strong BSA/AML and corporate governance practices and ongoing reviews from the FRBNY.

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 both digitally and through an arrangement with Customer Service Representatives (CSR). These CSRs, 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.

Earnings Combined Building Block (BB) Assessment: Good/Moderate

FACEBANK has shown solid profitability metrics driven by an above average net interest margin (NIM), supported by low funding

costs and an above average yield on its residential mortgage loan portfolio, its primary loan category. Additionally, the NIM has been increasing in recent periods, reflecting higher interest rates. Profitability is also aided by wire transfer fees, as well as the IBE charter, which allows the Company to operate essentially tax exempt.

Risk Combined Building Block (BB) Assessment: Moderate/Weak

FACEBANK's loan portfolio has performed well during the Company's operating history with low levels of non-accrual loans and no charge-offs over its operating history. However, the mortgage portfolio has grown during a period of strong Florida real estate prices and has not been tested in a downturn. The Company takes on some additional credit risk through its investment portfolio, which includes a portion held in corporate bonds, although this portfolio is predominately investment grade and adequately diversified by issuer and industry. Morningstar DBRS notes that the Company has emphasized reinvesting proceeds in more liquid and higher credit quality investment securities.

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. Over its operating history, the bank has not repossessed a single property or recorded any charge-offs in the mortgage portfolio.

Funding and Liquidity Combined Building Block (BB) Assessment: Moderate/Weak

In addition to its core deposit product, the Company also 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 granular low-cost deposit base. The Company has also established alternative sources of funding, in addition to its on balance sheet liquidity sources. Of note, the Company maintains over one-third of its balance sheet in liquid assets and investment securities, including a large percentage in low credit risk U.S. government securities.

Capitalization Combined Building Block (BB) Assessment: Moderate

Morningstar DBRS views FACEBANK's capitalization as solid, given its capital generation, well-secured loan portfolio and risk management practices. In recent periods, capital levels have been increasing reflecting a reduction in risk-weighted assets as well as earnings retention. As of June 30, 2024, the Company-calculated CET1 ratio was a very healthy 20.57%. 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. Over the last ten years, internal capital generation has been more than sufficient to fund balance sheet growth.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/441062>.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

ESG Considerations had a significant effect on the credit analysis.

Governance (G) Factors

The following Governance factor(s) had a significant effect on the credit analysis: The Governance factor is viewed as a Significant factor affecting the credit ratings assigned to FACEBANK. The Company's unique franchise exposes it to significant BSA/AML risks. While FACEBANK has managed these risks well to date, any failure may jeopardize its important clearing relationship with the FRBNY, potentially leading to a significant reputational or financial impact. If these risks were absent, the credit ratings would be higher.

There were no Environmental/Social factor(s) that had a significant or relevant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (13 August 2024) <https://dbrs.morningstar.com/research/437781>.

Notes:

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

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (04 June 2024) <https://dbrs.morningstar.com/research/433881>. In addition Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (13 August 2024) <https://dbrs.morningstar.com/research/437781> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/methodologies>.

The primary sources of information used for these credit ratings include Morningstar Inc. and company documents. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings was of satisfactory quality.

The credit rating was initiated at the request of the rated entity.

The rated entity or its related entities did participate in the credit rating process for this credit rating action.

Morningstar DBRS had access to the accounts, management and other relevant internal documents of the rated entity or its related entities in connection with this credit rating action.

This is a solicited credit rating.



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

For more information on this credit or on this industry, visit dbrs.morningstar.com.

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Ratings

FACEBANK International Corporation

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
10-Oct-24	Long-Term Issuer Rating	Confirmed	BB	Stb	
10-Oct-24	Short-Term Issuer Rating	Confirmed	R-4	Stb	

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
10-Oct-24	Long-Term Deposits	Confirmed	BB	Stb	US
10-Oct-24	Long-Term Senior Debt	Confirmed	BB	Stb	US
10-Oct-24	Short-Term Instruments	Confirmed	R-4	Stb	US

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