

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

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

RATING DRIVERS

Increased franchise scope and scale, including a more diverse funding mix and increased sources of revenues, 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

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.

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 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 with ongoing reviews from the FRBNY.

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. However, the NIM has been declining in recent periods, reflecting the low-rate environment. FACEBANK's loan portfolio has performed well during the Company's operating history, including the most recent period, with low levels of non-accrual loans and charge-offs. However, the 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 investment-grade corporate bonds. DBRS Morningstar notes that this portfolio is investment grade and adequately diversified by issuer and industry. Additionally, the Company maintains about 23% of its balance sheet in liquid assets including available-for-sale securities that includes a large percentage in low credit risk U.S. government securities.

Franchise Combined Building Block (BB) Assessment: Very Weak

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.

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

The Company's earnings are supported by a low-cost deposit base, along with a higher than average yield on its residential mortgage portfolio, which 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.

Risk Combined Building Block (BB) Assessment: Moderate

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. To date, the portfolio has performed extremely well, but has not been tested by a significant downturn in housing prices.

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 low-cost deposit base. The Company has also established alternative sources of funding, in addition to its on balance sheet liquidity sources.

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

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 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/386253>.

ESG CONSIDERATIONS

The Governance factor is viewed as a Significant factor affecting the 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 ratings would be higher.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/373262>.

Notes:

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

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (July 19, 2021): <https://>

www.dbrsmorningstar.com/research/381742/global-methodology-for-rating-banks-and-banking-organisations. Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (February 3, 2021): <https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>.

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.

DBRS, Inc.
140 Broadway, 43rd Floor
New York, NY 10005 USA
Tel. +1 212 806-3277

Ratings

FACEBANK International Corporation

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

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Contacts

John Mackerey

Senior Vice President, North American Financial Institutions – Global FIG

+1 212 806 3236

john.mackerey@dbrsmorningstar.com

Michael Driscoll

Managing Director, Head of NA FIG

+1 212 806 3243

michael.driscoll@dbrsmorningstar.com

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