

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 although growing niche franchise, strong 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 customer base, as well as the Company's 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 the ratings.

RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: 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 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

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: Good/Moderate

FACEBANK's loan portfolio has performed well during the Company's operating history with low levels of non-accrual loans and charge-offs. 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. DBRS Morningstar notes that this portfolio is investment grade and adequately diversified by issuer and industry.

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.

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. Of note, the Company maintains about 36% 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/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/404182>

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Governance (G) Factors

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/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>. (May 17, 2022)

Notes:

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

The principal methodology is Global Methodology for Rating Banks and Banking Organizations (June 23, 2022): <https://www.dbrsmorningstar.com/research/398693/dbrs-morningstar-publishes-updated-global-methodology-for-rating-banks-and-banking-organisations>. In addition DBRS Morningstar uses the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings, <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings> (May 17, 2022) in its consideration of ESG factors

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.

The conditions that lead to the assignment of a Negative or Positive trend are generally 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	Attributes
18-Oct-22	Long-Term Issuer Rating	Confirmed	BB	Stb	US
18-Oct-22	Short-Term Issuer Rating	Confirmed	R-4	Stb	US
18-Oct-22	Long-Term Deposits	Confirmed	BB	Stb	US
18-Oct-22	Long-Term Senior Debt	Confirmed	BB	Stb	US
18-Oct-22	Short-Term Instruments	Confirmed	R-4	Stb	US

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