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DBRS Assigns BB Long-Term Issuer Rating to FACEBANK International Corporation; Stable Trend

Industry: Fin.Svc.--Banks & Trusts

DBRS, Inc. (DBRS) has assigned ratings to FACEBANK International Corporation (FACEBANK or the Company), including a Long-Term Issuer Rating of BB. The trend for all ratings is Stable. The Intrinsic Assessment (IA) for the Company is assigned at BB, and Support Assessment is assigned at 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. DBRS notes that FACEBANK has no exposure to Puerto Rico, as all assets are entirely comprised of U.S.-based loans and securities.

Importantly, the Company has established 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. DBRS views 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 practices.

FACEBANK has shown improving profitability metrics driven by a strong net interest margin, supported by below-peer funding costs, which is a key strength of its franchise. While FACEBANK's primary mortgage customer is viewed as potentially riskier, the Company mitigates this risk with conservative underwriting. Additionally, the Company maintains about one-third of its balance sheet in liquid assets. 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 foreign customer base, as well as limited scale and diversity.

RATING DRIVERS

Increased franchise scale and a greater diversity of earnings could have positive rating implications. Conversely, an increased risk appetite, BSA/AML compliance issues or an inability to attract and

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maintain deposits could have negative rating implications.

RATING RATIONALE

Over its limited operating history, FACEBANK has built a profitable international banking franchise, helping its 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, will 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 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 2018 was just 41 basis points. This, along with a higher than average yield on its residential mortgage portfolio, helps to support the Company's solid net interest margin (NIM) and overall earnings. Profitability is also aided by its 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 can be a riskier mortgage customer, the Company mitigates this risk with full underwriting and conservative loan-to-value (LTV) ratios, including a maximum LTV of 75% dependent on the type of property and borrower. 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 improving real estate fundamentals and has not been tested in a downturn.

The Company is not subject to regulatory capital requirements, although risk-based capital levels are calculated by management. DBRS views FACEBANK's capital level as adequate given its 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.

The Grid Summary Grades for FACEBANK 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.

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The applicable methodology is Global Methodology for Rating Banks and Banking Organisations (June 2019), which can be found on our website under Methodologies.

The primary sources of information used for this rating include Company Documents. DBRS 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 had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

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

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
FACEBANK International Corporation	Long-Term Issuer Rating	New Rating	BB	Stb	Sep 4, 2019
FACEBANK International Corporation	Long-Term Senior Debt	New Rating	BB	Stb	Sep 4, 2019
FACEBANK International Corporation	Long-Term Deposits	New Rating	BB	Stb	Sep 4, 2019
FACEBANK International Corporation	Short-Term Issuer Rating	New Rating	R-4	Stb	Sep 4, 2019
FACEBANK International Corporation	Short-Term Instruments	New Rating	R-4	Stb	Sep 4, 2019

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