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## M&F Bancorp, Inc. (MFBP – OTC)

**John A. (Buddy) Howard, CFA**  
**August 11, 2021**

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<b>Price:</b>	\$7.60	<b>EPS *</b>	<b>2019A:</b>	\$0.50	<b>P/E</b>	<b>2019A:</b>	15.2x
<b>52 Wk. Range:</b>	\$3.01 - \$8.05	(FY: DEC)	<b>2020A:</b>	\$0.51	<b>2020A:</b>		14.9x
<b>Div/Div Yld:</b>	\$0.08 / 1.1%		<b>2021E:</b>	\$0.92	<b>2021E:</b>		8.3x
<b>Shrs/Mkt Cap:</b>	2.0 mm / \$15.0 mm	<b>Tang. Book Value:</b>		\$12.10	<b>Price/Tang. Book Value:</b>		0.63x

\* EPS are diluted.

### Background

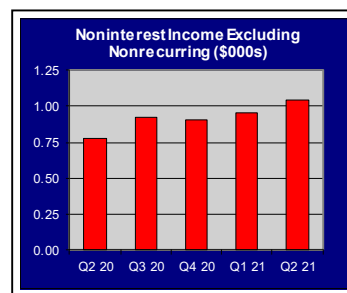
M&F Bancorp, Inc., headquartered in Durham, North Carolina, is a bank holding company whose subsidiary is Mechanics and Farmers Bank (“Bank”). With \$358 million in assets as of June 30, 2021, the Company conducts its operations through branch offices of M&F Bank, which are located in five major cities in North Carolina: Durham, Charlotte, Raleigh, Greensboro and Winston-Salem. In addition to M&F Bank’s branch offices, the Bank owns six ATMs. The Bank actively supports economic development in each of its markets, which can provide a competitive advantage in the marketplace. Trading in the stock is limited, although the Company’s common stock is quoted in the over-the-counter market through the OTC Pink under the symbol “MFBP.”

### Second Quarter Results Were Strong; EPS Beat Projections by \$0.18

M&F Bancorp reported excellent results in the second quarter of 2021. Earnings were quite strong and exceeded our projections, reflecting growth in core revenue, as well as a large drop in the provision for loan losses, the latter being the result of the Bank’s ongoing improvements in asset quality and strong reserve position. It was also a good quarter in that the Bank continued to actively participate in the second round of PPP, which has led to M&F Bancorp’s acquisition of many new accounts in numerous markets. That participation has also spurred balance sheet momentum, which was already showing organic growth. Not surprisingly, the Company’s stock price has been showing strength as well and has significantly outperformed the S&P U.S. BMI Bank Index, a broad-based index of domestic bank stocks.

	Stock Appreciation (%)		
	1 Yr	3 Yrs	5 Yrs
MFBP	134	153	138
S&P BMI Bank Index	62	13	74

In terms of specific results, net income (loss) available to common stockholders for the second quarter of 2021 was \$568,000, or \$0.29 per diluted share (after \$30,000 in preferred stock dividends), as compared to a net loss of \$59,000, or \$0.03 per diluted share, in the year-ago quarter. One of the primary drivers behind the strong earnings was net interest income, which increased 11% to \$2,538,000 in 2021’s second quarter from \$2,286,000 in the year-ago quarter. Net interest income benefitted from the accretion of \$167,000 in PPP net fee income in 2021’s second quarter, as well as 24% growth from higher average earning assets. (The net interest margin dropped to 3.21% from 3.59% in the year-ago quarter.) Earnings also increased due to a reversal in the provision for loan losses of \$140,000, versus a provision of \$622,000 in the year-ago quarter, a testament to the headway the Bank has made in controlling credit risks. Noninterest income, which we discuss in more detail later in this report, also had strong growth. Excluding year-ago net nonrecurring gains of roughly \$182,000, noninterest income was \$1,045,000 in the second quarter of 2021, up 78% from \$586,000 in the year-ago quarter. The largest contributor to



**SYMBOL: MFBP**

**ASSETS: \$358 MILLION**

**HQ: DURHAM, NC**

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**2<sup>ND</sup> QUARTER HIGHLIGHTS:**

**THE SECOND QUARTER WAS A SOLID QUARTER FOR THE COMPANY**

**EARNINGS WERE UP AND BALANCE SHEET GROWTH WAS GOOD**

**THE STOCK HAS BEEN MOVING UP AS WELL**

**EPS: \$0.29 vs. (\$0.03)**

**THERE WAS A REVERSAL FOR LOAN LOSSES COMPARED TO A PROVISION IN THE YEAR-AGO QUARTER, REFLECTING PROGRESS IN ASSET QUALITY AND RESERVE METRICS**

the growth was the Bank's money service business income, which increased to \$513,000, and was up 185% from \$180,000 in the year-ago quarter.

NONINTEREST INCOME EXCLUDING NONRECURRING (\$000s)			
	Q2 '20	Q2 '21	% Chg
Deposit Svc. Chrgs.	190	206	8.4
Other Svc. Chrgs./Comm./Fees	103	167	62.1
Money Svc. Bus. Income	180	513	185.0
Rental Income	2	2	0.0
Cash Surrender Life Ins.	65	68	4.6
Other Income	46	89	93.5
Total	586	1,045	78.3

Deposit service charges were up 8% and other service charges, commissions and fees grew 62%. We have been encouraged by the Company's increasing number of sources of fee income and also by the strength of that growth, as can be seen in the adjacent table. Finally, noninterest expense was \$2,915,000 for the second quarter of 2021, which was up 17%

from \$2,497,000 in the year-ago quarter. Even though some of the earnings growth was due to a reversal in the provision and PPP fees, we would note that the pretax income before the provision, PPP fees and net nonrecurring gains was still up roughly 69% to \$501,000 in 2021's second quarter from \$296,000 in the year-ago quarter.

### Six Month Results Were Also Quite Strong

Results for the first six months of 2021 were likewise strong and reflected higher revenues and a lower provision. Reported net income available to common stockholders was \$1,058,000, or \$0.54 per diluted share, in the first half of 2021, as compared to a net loss of \$21,000, or \$0.01 per diluted share, in the first half of 2020. Net interest income increased 8%, noninterest income (excluding the nonrecurring items) grew 68% and noninterest expense was up 10%. There was a reversal from loan loss of \$218,000 in 2021's first half, versus a provision of \$730,000 in the year-ago period. Pretax income before: 1) the accretion of PPP fees; 2) the provision; 3) a gain on sale of PPP loans, and 4) net loss on disposal of Bank premises/equipment totaled \$908,000, up from \$451,000 over this period.

### Balance Sheet Growth Has Been Solid As Well

As we mentioned earlier, balance sheet growth was been quite good and was spurred by PPP lending. Specifically, the Bank funded 638 PPP loans totaling \$34.4 million, with process fees of \$2.2 million during the first half of 2021. In total, net loans increased 20% from June 30, 2020 to June 30, 2021, while deposits were up 18% and total assets grew 23% over the same period. Core loan growth was solid also, as loans *net of PPP loans* were \$188 million at June 30, 2021, up 4% from December 31, 2021. The Company remains well capitalized and benefitted from the recent capital raise. Stockholders' equity was \$41.3 million, or 11.5% of total assets, at June 30, 2021, up from \$23.0 million, or 7.9% of assets, at June 30, 2020.

### Nonperforming Assets Declined 18% from the Year-Ago Date

At June 30, 2021, M&F Bancorp's nonperforming assets ("NPAs" which include nonaccruing loans, accruing loans more than 90 days past due and OREO but excludes performing TDRs) continued to decrease, and totaled \$833,000, or 0.23% of total assets, versus \$856,000, or 0.25% of total assets, at March 31, 2021, and \$1,020,000, or 0.35% of total assets, at the year-ago date. There were no loans on deferral status due to COVID as of June 30, 2021. The allowance for loan losses was \$2,439,000, or 1.09% of loans (1.30% excluding PPP loans) at June 30, 2021, versus \$2,705,000 (1.45% of loans) at the year-ago date.

### Projections

Based on the recent results, we are tentatively projecting 2021 earnings available to common of \$1.8 million, or \$0.92 per share, up from \$0.58 per share projected previously. Actual earnings could vary substantially from these projections given the uncertainties of the COVID-19 crisis.

### ADDITIONAL INFORMATION UPON REQUEST

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**NONINTEREST INCOME, EXCLUDING NONRECURRING ITEMS, WAS UP 78% FROM THE YEAR-AGO QUARTER**

**THE MAJORITY OF THE GROWTH WAS FROM THE BANK'S MONEY SERVICE BUSINESS, WHICH GREW 185%**

**ALL OTHER COMPONENTS HAD SOLID GROWTH AS WELL (OR REMAINED UNCHANGED)**

**FIRST HALF HIGHLIGHTS:**

**EPS: \$0.54 vs. (\$0.01)**

**PRETAX INCOME BEFORE THE PROVISION AND NONRECURRING ITEMS TOTALED \$0.9 MILLION VS. \$0.5 MILLION**

**BALANCE SHEET GROWTH WAS STRONG AND BENEFITTED FROM THE BANK'S PARTICIPATION IN THE SECOND ROUND OF PPP**

**EQUITY/ASSETS: 11.52%**

**NPAs/ASSETS: 0.23%**

**RESERVES/LOANS: 1.09%, OR 1.30% EXCLUDING PPP LOANS**

**EPS (LOSS):  
2019A: \$ 0.50  
2020A: \$ 0.51  
2021E: \$ 0.92**