2021

Journal of Community Bank Case Studies

CSBS

vol. 6

Preface

Journal of Community Bank Case Studies

Volume 6

The Journal of Community Bank Case Studies is an independent, adjudicated journal of case studies authored by undergraduate college students. The goal of this journal is to showcase the work of the top undergraduate student teams that participate in the annual Community Bank Case Study Competition, a national competition facilitated by the Conference of State Bank Supervisors. The competition partners undergraduate student teams with community banks to conduct original case studies focused on various topics. This year's competition focused on how community banks have responded to major forces that impacted the nation last year: the Covid-19 pandemic and a renewed commitment to diversity and inclusion. This sixth volume of the Journal of Community Bank Case Studies includes the top three written submissions from the 2021 Community Bank Case Study Competition. The authors of the papers represent student teams from the University of Tennessee at Martin, University of Arkansas, and Southeastern Louisiana University.

About

Conference of State Bank Supervisors

The Conference of State Bank Supervisors (CSBS) is the nationwide organization of banking and financial regulators from all 50 states, the District of Columbia, American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands.

Established in 1902 as the National Association of Supervisors of State Banks, CSBS is uniquely positioned as the only national organization dedicated to protecting and advancing the nation's dual-banking system.

For more than a century, CSBS has given state supervisors a national forum to coordinate supervision and develop policy related to their regulated entities. CSBS also provides training to state banking and financial regulators.

CSBS

Letter

from John W. Ryan

President & CEO
Conference of State Bank Supervisors

One of my favorite responsibilities as President and CEO of the Conference of State Bank Supervisors is showcasing the excellent research produced by participants in our yearly Community Bank Case Study Competition.

Now in its seventh year, the case study competition provides students an opportunity to produce original research while making connections with bankers, academics and federal and state regulators. These case studies in turn provide policymakers with invaluable insight into operating conditions in communities across the country, informing future regulatory responses to the obstacles and opportunities facing the community banking industry.

The Journal of Community Bank Case Studies, Volume VI features the work of our top three student teams in the 2021 competition, representing the University of Tennessee at Martin, the University of Arkansas and Southeastern Louisiana University. Our winning case study students are a diverse group – they not only reflect the racial, ethnic and gender diversity of the future banking workforce, but also study a diverse range of majors in addition to finance and banking.

Despite the challenges of studying and collaborating remotely, 35 student teams representing 29 colleges and universities entered this year's competition. Each team examined how a partner community bank responded to two major forces that impacted the nation over the past year: the Covid-19 pandemic and renewed calls for financial institutions to promote diversity and inclusion.

Each and every year I am impressed with the depth of insight our participating teams produce in their case studies, and this year is no exception. I hope you will get as much enjoyment out of reading the *Journal of Community Bank Case Studies* as I did.

Sincerely,

John W. Ryan
President and CEO
Conference of State Bank Supervisors

Table of Contents

Journal of Community Bank Case Studies

Volume 6

Executive Summaries

The University of Tennessee at Martin

TriStar Bank ("TriStar" or "the Bank") has requested an assessment and evaluation of the company for purposes of reviewing the Bank's loan portfolio composition, service to the community during the pandemic, and managing diversity, inclusion and economic fairness. This case study was written after collecting information from the Bank officials, Websites, and industry-related journal articles.

The report includes, but is not limited to, the following topics:

- Financial Analysis of TriStar Bank's Loan Portfolio
- TriStar's Response to the COVID-19 Pandemic
- Diversity, Inclusion, and Economic Fairness at TriStar

Conclusions drawn from this case study are as follows: (1) TriStar's loan portfolio composition reflects its mission to diligently serve individuals and small businesses in its community; (2) TriStar worked swiftly in the early stages of the COVID-19 pandemic to provide assistance to community members who needed it most and to reopen the Bank's lobbies; (3) TriStar's community outreach initiatives and employee training programs demonstrate the Bank's desire to equitably provide financial services to its community.

TriStar's loan portfolio composition reflects its mission to diligently serve individuals and small businesses in its community

Southern Bancorp Bank (SBB) is a community bank designated as a community development financial institution (CDFI) focused on community development and service to customers that other banks overlook. The bank operates in relatively poor, rural markets with low incomes and high poverty. As a result, SBB, on average, originates smaller loans to its small business and mortgage customers, and the loan portfolio has a higher concentration of loans secured by farmland compared to peer banks.

SBB took immediate action to limit the negative effects of the pandemic to protect employees and customers.

COVID-19 caused widespread economic and social disruption all over the world, and the banking industry was no exception. SBB took immediate action to limit the negative effects of the pandemic to protect employees and customers. As a response to ensuring the safety of related parties, 46 branches closed their doors to the public and limited in-person transactions while the drive-thru service remained open. Online banking fees were waived to maintain a good relationship with all customers. The CARES Act was signed into law on March 27th, 2020, and the first stimulus check arrived in people's

accounts as early as mid-April. The stimulus programs, and especially the Paycheck Protection Program, resulted in a large increase in consumer and commercial deposits. SBB also reopened accounts that were previously closed due to bounced checks or personal choice to allow customers to deposit these funds. SBB was able to effectively limit the damage of the pandemic on the entire bank. All employees retained positions at the bank, and the bank reported strong financials at year-end 2020.

Outside of the pandemic, the year 2020 presented many other events that shook all areas of the United States. The killing of George Floyd sparked events across the country and led many businesses to place an emphasis on social justice in their operations. SBB, however, didn't need to change its focus because diversity, inclusion, and economic fairness have been integral parts of its mission since its founding in 1986. Indeed, the Southern Bancorp organization is a national leader in these areas. The board chairpersons of the three parts of the organization are Black, one of which is female. This diverse board membership goes against industry norms.

Southern Bancorp focuses on balancing mission and margin to remain a healthy organization for the long term. Its mission is to provide financial services such as financial education and tax preparation, which are free services provided to underserved communities to promote economic development and bring financial stability to the people and businesses in its market. Although diversity, inclusion, and economic fairness are already priorities, Darrin Williams, the CEO of the bank holding company, continues to push for further reforms. For example, leadership at Southern Bancorp decided to donate the first $1 million to the Little Rock Minority Business Empowerment Fund. The goal of this fund is to provide flexibility in loan approval requirements to Black and Brown owned business to allow for easier access to funds.

Southern Bancorp focuses on balancing mission and margin to remain a healthy organization for the long term.

Southeastern Louisiana University *Executive Summary*

2020 taught us how a series of events can dramatically impact the economy and our country's social fabric. The coronavirus pandemic shed light on how important banks are in the transmission of fiscal policy. Social injustices, ground into our psyche by the death of George Floyd, place emphasis on the black community's unrelenting struggles.

As a black, minority-owned bank that is wholly managed by African-Americans, Liberty Bank & Trust, a.k.a. Liberty, headquartered in New Orleans, LA, has a mission of "Financial freedom for all" and they work towards this mission by serving disadvantaged communities every day. Liberty has taught us how one small group of individuals with a dream can impact their community and beyond. Our team has put together the pieces of a puzzle that tell the story of how Liberty has been—and continues to be—a game changer for its community.

Liberty has taught us how one small group of individuals with a dream can impact their community and beyond.

Two weeks to flatten the curve, essential employees, asynchronous, synchronous, Zoom, PPE, N-95, curbside pickup, elder hours, quarantine, social distancing, no elder contact, no indoor contact, no Easter, no Thanksgiving, no Christmas, streets vacant, no contrails, clearest blue skies, whole world quiet, hospitals at capacity, no spring break, no graduations, elbow bump, ventilators, Ships Mercy and Comfort, RNA technology, George Floyd, Breonna Taylor, social unrest, Black Lives Matter, #BankBlack, cancel culture, CHAZ, CHOP, states-rights v. federalism, PPP, remote work

– Liberty in the Face of Challenge

- Liberty's 2020 asset growth increased beyond majority peers due to an influx of deposits related to PPP loans and the Black Lives Matter (BLM) movement.
- Beyond 2021, Liberty's asset growth is projected to be higher than majority peers due to recent non-voting, equity capital injections from large financial institutions wanting to support black-owned minority banks.
- Hurricane Katrina's lessons were a silver lining in Liberty's response to Covid-19.
- Liberty funded approximately $63.3 million Paycheck Protection Program (PPP) loans.
- Liberty's mission rises above formal programs to address diversity and inclusion.
- Liberty's economic impact transcends race. Liberty's small business lending created an estimated $685,626,887 of new sales, $206,928,107 in taxable wage earnings and 5,061 new jobs across eight states.

1ST PLACE

The University of Tennessee at Martin

Students:

Benjamin Beard

Seth Bishop

Refugio Palacios

Savannah Pham

McKenzie Reagor

Faculty Advisor:

Mr. John Clark

Dr. Lajuan Davis

Dr. Mark Farley

Analysis of TriStar Bank: Serving the Community During a Pandemic and Supporting Diversity, Inclusion, and Economic Fairness

Introduction

The year 2020 will be remembered in history as a year of chaos and uncertainty. The COVID-19 pandemic, economic successes and failures, and social unrest created uncertainty at a level this country has not experienced in years. While some businesses and industries escaped the COVID-19 pandemic relatively unchanged, other businesses and industries felt adverse effects of the pandemic. Fortunately, one of the industries that experienced relatively mild unemployment and financial effects during the pandemic was the banking industry (Famiglietti et al. 2). This case study will focus on TriStar Bank, a community bank, and how it traversed the recent pandemic, its loan portfolio composition, and its approach to diversity, inclusion, and economic fairness. The case study begins with a brief description of TriStar and its background.

Background Information on TriStar

TriStar was chartered in April 1999 and opened in Dickson County, Tennessee, on the first day of the new year in 2000 by founding organizers Ted Williams, Melissa Street, Noah Daniel, Phil Hall, Jerry Smith, and Tom Waychoff. Within approximately two months, the Bank's founding members had sold $7.5 million in stock, and TriStar's growth and progress has continued from that point. By the time of its 10th anniversary, TriStar had set a new net income achievement of $1.4 million and grown to $150.0 million in total assets ("About TriStar Bank").

By 2012, TriStar owned six branches in three counties after purchasing two offices from Community South Bank in Columbia and Spring Hill, Tennessee. Also in 2012, TriStar's total assets grew to over $220.0 million, earning over $1.6 million in net income. In 2015, TriStar's loans had grown to over $158.0 million and it opened a new office in Columbia to replace a leased building. TriStar operates with 86 employees, six branches, and $390.0 million in total assets (T. Williams, Meeting, April 14, 2021).

TriStar attempted to be flexible to meet the needs of small businesses in its communities during the pandemic by being active in the Paycheck Protection Program (PPP). Even with obstacles faced during the pandemic, TriStar continued to communicate effectively and build relationships with customers in the Dickson, Williamson, and Maury Counties located in middle Tennessee. TriStar has been resilient and persistent in carrying out its mission to deliver superior service in meeting the needs of and finding solutions for its clients, shareholders, and communities ("About TriStar," *Mission Statement*).

Since the Bank's inception in 1999, organizers have made conscious efforts to address matters such as diversity, inclusion, and economic fairness in the community. TriStar recognizes the importance of training that focuses on utilizing fair hiring practices, expanding customer demographics, and investing resources in underserved populations. The Bank continues to take positive steps toward these ends by hiring personnel who are bilingual, meeting with minority members of TriStar's communities, and fostering an ongoing awareness of issues that the Bank needs to address. These topics will be discussed in more detail throughout this case study.

Since the Bank's inception in 1999, organizers have made conscious efforts to address matters such as diversity, inclusion, and economic fairness in the community.

Figure 1. Average Loan Portfolio Composition

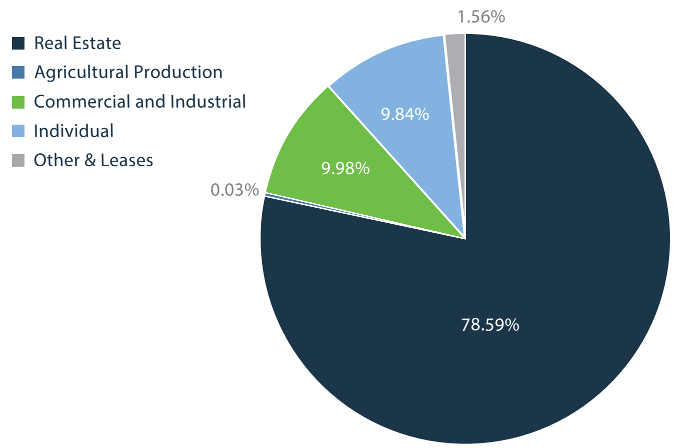
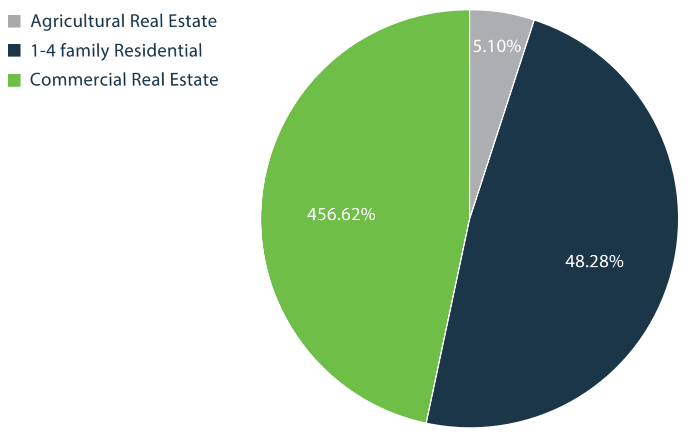


Figure 2. Composition of Loans Secured by Real Estate



Part I: Financial Analysis of TriStar Bank

Loan Portfolio Composition

As of December 31, 2020, TriStar Bank's total loan portfolio was $254.7 million and consisted primarily of real estate and commercial loans. From 2015–2020, real estate loans comprised the largest portion averaging 78.6% of the total loan portfolio, and commercial loans averaged 10.0% of the total loan portfolio. Loans secured by residential real estate comprised 48.3%, and commercial properties comprised 46.6% of real estate loans, respectively. The remaining 5.1% were loans secured by farmland. TriStar maintained a similar loan portfolio composition for both real estate and commercial loans over the same five-year period (see Figures 1. and 2).

Analysis performed from 2015–2018 found that Nashville, Tennessee, experienced a 5.6% increase in population, "the 10th largest net population growth among affordable large metropolitan areas in the U. S." (Sullivan). Growth in the Nashville metropolitan area created more opportunities for TriStar to finance 1–4 family residential construction and other construction projects as Nashville's growth also spilled into adjacent markets (B. Ragan, Meeting, April 14, 2021). In 2017, TriStar experienced 111.0% growth in 1–4 family residential construction loans. TriStar also grew its other construction loans 84.0% in 2017 and 57.3% in 2018 (Institutional Reports, *FFIEC*).

For the five-year period ending in 2020, TriStar focused on financing small business growth, investing time and attention in commercial real estate loans and commercial and industrial loans. TriStar's commercial real estate loans grew at a rate of 7.3% because of its willingness to work with small businesses. Commercial and industrial loans grew 15.6% on average from 2016–2019; however, in 2020 commercial and industrial loans grew by $24.0 million, an increase of 138.0% in a single year (Institutional Reports, *FFIEC*). Commercial and industrial loans increased from 7.3% of the total loan portfolio in 2019 to 16.1% in 2020. This growth was due primarily to Paycheck Protection Program (PPP) loans, which will be discussed in Part II: Serving the Community in a Pandemic (p. 8).

The growth in commercial loans during 2016–2019 provides evidence that TriStar achieved its objective of focusing on small businesses and demonstrates how management decisions influence bank growth as the Bank serves the community. TriStar realized its ambition to "be a good community corporate citizen by investing in [its] communities" ("About TriStar," *Statement of Values*).

As stated in the Loan Portfolio Analysis, TriStar lent approximately $24.0 million in commercial and industrial loans, most of which were PPP loans.

(D. Sanders and C. Goatz, Zoom, February 25, 2021)

TriStar's total loan portfolio growth increased its interest income from loans, which grew 11.7% from 2015–2020. The most significant growth occurred in the year 2018 at 24.8%. Income growth resulted from total loan portfolio growth of 14.0% during 2018. The two loan categories that earned the most interest income during the five-year period were real estate and other consumer loans. Consumer loans grew 21.3%. Real estate loans grew 11.0% except for 1–4 family residential loans, which grew 6.1%. From 2015–2020, TriStar served its communities and achieved growth.

Part II: Serving the Community in a Pandemic

The COVID-19 pandemic of 2020 changed the way many businesses conducted operations. TriStar's business was no exception. The following section of the paper explains and analyzes how TriStar reacted to changes the pandemic presented as it worked "to provide quality banking products for . . . clients with superior service in a secure environment" ("About TriStar," *Mission Statement*).

TriStar's Participation in the Paycheck Protection Program (PPP)

As stated in the Loan Portfolio Analysis, TriStar lent approximately $24.0 million in commercial and industrial loans, most of which were PPP loans (D. Sanders and C. Goatz, Zoom, February 25, 2021). PPP was created in early 2020 by the United States Treasury and the Small Business Association (SBA) with the purpose of providing relief to small businesses across the U. S.

From TriStar Chief Executive Officer (CEO) Ted Williams' perspective, many local business owners were struggling, and TriStar had the solution.

during the COVID-19 pandemic, allowing these businesses to continue paying employees during the economic hardship. Existing SBA lenders, which includes many community banks, funded PPP loans. Because community banks are often utilized by small businesses, community bank participation was essential for the government program to work, and TriStar fulfilled its vital role in the community by participating (Bowman, *Federalreserve.gov*).

Once the program was announced to the public, TriStar enlisted without hesitation. Despite initial challenges registering for PPP and bank employees beginning to work from home, TriStar knew this program was going to be a huge help for businesses struggling during the pandemic (D. Sanders and C. Goatz, Zoom, February 25, 2021). From TriStar Chief Executive Officer (CEO) Ted Williams' perspective, many local business owners were struggling, and TriStar had the solution. Williams believed that TriStar needed to waste no time deliberating the benefits and costs of PPP if that time could be spent saving businesses instead (T. Williams, E-mail, March 10, 2021).

The process to gain approval for PPP loans began when the SBA's portal to apply for the loans opened on April 10, 2020 (D. Sanders and C. Goatz, Zoom, February 25, 2021). During 2020, TriStar processed 238 PPP loans totaling $23.5 million (mostly during the month of April) and ended the year with approximately $20.0 million in PPP loans remaining on the balance sheet. To help put that number into perspective, the typical monthly loan volume for TriStar's loan operations department is between 50–60 loans for approximately $7.0 million (D. Sanders, E-mail, March 19, 2021).

Reflecting on the year, Williams saw TriStar's potential to serve its local communities and act as an economic first responder to be the driving force throughout 2020 that allowed the Bank to invest the hard work and dedication needed to assist the community. Much of TriStar's success with PPP was due to relentless efforts of the TriStar team. Long and unusual hours worked by TriStar's staff processing loans demonstrated the staff's dedication.

The U. S. Treasury initially allocated $349.0 billion in forgivable PPP loans. Banks depleted that amount by Thursday, April 16, 2020 (*PPP FAQ & Announcements Timeline*). An example of the TriStar employees' diligence occurred the week when the initial funds were depleted.

On Wednesday of that week, several TriStar employees stayed at the branch until 11:30 p.m. completing applications to obtain loan numbers for customers before the program's funds were exhausted. Another day, members of TriStar's loan staff arrived at 5:00 a.m. to process loans and avoid SBA system crashes. As PPP continued and more funds were released, TriStar learned that the best times to work on processing the loans were early morning and late evening hours when SBA system usage was down. This challenging situation was one of many in which TriStar's devotion to its community was most evident.

While many employees played a role in processing PPP loans, TriStar assembled a team of 10 people who focused on understanding the frequently changing guidelines for the program. This team also communicated changes to business owners via e-mail and TriStar's Website (D. Sanders and C. Goatz, Zoom, February 25, 2021). TriStar's PPP team sent information about how to apply for loans directly to existing customers; however, TriStar's actual service extended beyond this group. For the first draw of PPP funds, TriStar decided to give priority to customers who already had accounts with TriStar rather than to new customers, but this decision had little effect on the outcome of TriStar's work. Even though some applications were initially rejected due to the depletion of the $349.0 billion, all businesses that TriStar assisted with a first-draw PPP loan were eventually approved ("Paycheck Protection Program: Timeline of Important Regulatory Announcements").

TriStar's Story of Providing a Lifeline to a Community Business

One exemplary story about how TriStar served its local customers was its decision to assist a new customer with a PPP loan. In one of TriStar's markets, a manufacturing firm had requested a $1.8 million PPP loan from a larger bank. This firm was not TriStar's customer but contacted the Bank on Tuesday, April 14, 2020, (the week when the $349.0 billion would be depleted) and asked TriStar to help the manufacturer secure this loan. The firm had requested a PPP loan but had yet to hear from its lender concerning the loan's status. The firm's managers were concerned that the initial request with the larger bank would not be processed, especially since funds from the program were dwindling.

Even though some applications were initially rejected due to the depletion of the $349.0 billion, all businesses that TriStar assisted with a first-draw PPP loan were eventually approved.

("Paycheck Protection Program: Timeline of Important Regulatory Announcements").

TriStar knew the firm was a major, local employer and that layoffs from such a firm closing would harm the local economy. According to the Dickson County Economic Development Authority, the firm is one of Dickson County's top 10 largest manufacturers and distributors, employing approximately 200 local residents (n. p.). Despite that week's chaos and the need to serve its existing clients, TriStar agreed to assist the firm. As proof of TriStar's flexibility and swiftness, the firm's PPP application was approved by the following Tuesday, and funds from the loan were deposited in the firm's account by Wednesday (T. Williams, Zoom, November 4, 2020). As a true community bank, TriStar was able to move quickly and make a positive impact for many community citizens. This story is one of many in which TriStar has served its customers to provide them with a satisfactory outcome.

Impact of the Pandemic on the Balance Sheet

The actions taken by TriStar reflect the Bank's eagerness to keep its communities thriving, and examining the changes in TriStar's balance sheet as a result of the pandemic verify this fact. Between March and May of 2020, TriStar's commercial loans, which included $20.0 million of PPP loans, increased by 138.0% (Institutional Reports, *FFIEC*). To ensure its customers received PPP funding, TriStar required its PPP borrowers to deposit their funds with the Bank. TriStar increased investment securities in 2020 because it had increased deposits (D. Sanders, E-mail, March 4, 2021).

Because some of TriStar's clients have yet to use all their PPP funding, and because individuals held more cash due to economic uncertainty, TriStar's deposits increased by approximately 16.0% in 2020 (T. Williams, E-mail, March 10, 2021). Furthermore, stimulus checks approved by Congress in late March 2020 contributed to higher deposit balances (J. Barber, Zoom, February 26, 2021). To guarantee that TriStar had plenty of liquidity during the pandemic, the Bank also borrowed more funds than usual from the Federal Home Loan Bank (T. Williams, E-mail, March 10, 2021). TriStar demonstrated competency during the pandemic while effectively and carefully taking necessary precautions to safeguard its employees and its balance sheet against uncertainty.

As a true community bank, TriStar was able to move quickly and make a positive impact for many community citizens

Actions Taken to Protect Employees and Customers During the Pandemic

As the pandemic spread across the U. S., institutions and businesses needed to establish policies to protect employees as well as customers. When many businesses and institutions were ordered to shut down on March 23, 2020, TriStar was formulating strategies to open to the public as soon as possible. TriStar already had a well designed pandemic policy in place, so no specific changes were needed. Although its pandemic policy did not change, specific measures were taken to address the COVID-19 virus specifically as information about the pandemic evolved. TriStar wanted to set an example in the community by keeping its lobbies open to provide quality service to its customers during these times of confusion and "to maintain safety, soundness, and integrity" in its daily business actions ("About TriStar," *Statement of Values*).

After closing its lobbies because of the pandemic, TriStar activated its Pandemic Response Team, which is made up of five members. This team remains updated about the COVID-19 pandemic, creates guidelines to protect employees and customers, and disseminates pertinent COVID-19 information to staff. The team created a flowchart for employees to follow so they would know what to do if they had been exposed to the COVID-19 virus or exhibited any symptoms of the virus. The team uses a contact tracing system to determine what actions to take and to decide whether employees need to get tested or quarantine at home. The response team ensured that TriStar personnel followed all recommended Center for Disease Control (CDC) guidelines during this time.

To keep employees safe, Harvey Church, President of TriStar, proposed all five TriStar branches divide employees into two teams to lessen the amount of close contact between employees. This decision was prompted by the unknown aspect of the spread and severity of COVID-19 in the early months of the pandemic (A. Murphy and B. Ragan, Zoom, March 22, 2021). The employees were split into two teams who each worked three 10-hour days expanding the Bank's work week for customers. The Pandemic Response Team structured the hours worked, and then CEO Williams approved an extra 10 hours' worth of pay as a reward for all employees to make certain that employees were receiving a complete 40-hour work-week wage (A. Murphy & B. Ragan, E-mail, March 22, 2021). This employee work arrangement was an executive decision, and TriStar's Board of Directors was updated on all actions.

TriStar complied with the Families First Coronavirus Response Act (FFCRA)

TriStar wanted to set an example in the community by keeping its lobbies open to provide quality service to its customers during these times of confusion and "to maintain safety, soundness, and integrity" in its daily business actions.

("About TriStar," Statement of Values).

Considering past actions taken by TriStar to meet the needs of its customers and employees, the Bank continues to focus on providing quality services to communities.

issued by the U. S. Department of Labor to provide up to 80 hours of paid sick leave for quarantined employees and continued providing the same amount of paid sick leave mandated by the FFCRA beyond the required effective date of December 31, 2020. TriStar set priorities to keep its employees and customers safe, which in turn kept the Bank's lobbies operating after it reopened its doors on May 4, 2020, when the pandemic lockdown ended.

New Programs and Products Help Meet Customers' Needs

TriStar faced problems, but fortunately its small, adaptable nature allowed it to change rapidly. When the Bank did not have a complete staff each day and lobbies were closed, phone calls were more abundant than before as customers continued to need assistance provided by a bank staff member. The few staff working in a branch had to focus almost all attention to drive-through service; therefore, in-person staff could not adequately attend to phones. In the summer of 2020, TriStar set up a call center named the Client Care Center (CCC) in response to the high volume of calls coming to each branch. The creation of this center was accomplished by one call from Bank President Harvey Church to the IT department. Moreover, with the creation of the CCC, TriStar was able to expand its business hours, giving customers improved access to the Bank (H. Church, Zoom, February 24, 2021).

To further increase accessibility to bank services, TriStar currently has plans to install interactive teller machines (ITMs) in the fourth quarter of 2021. ITMs are similar to Automatic Teller Machines (ATMs) but involve video web conferencing with a bank employee. These machines will increase the hours TriStar can serve its customers without increasing employees' work hours. The Bank will have one employee service several ITMs in different areas. ITMs also have the benefit of added safety during the pandemic while preserving a more personable experience. The customer can still see and interact with a TriStar employee, but that customer does not risk exposure to illness from contact with another person or high contact surfaces when using an ITM (H. Church, Zoom, February 24, 2021).

Considering past actions taken by TriStar to meet the needs of its customers and employees, the Bank continues to focus on providing quality services to communities. The next section of this paper will focus on describing several communities that TriStar serves and the challenges it has overcome to reach and serve those clients.

Part III: Diversity, Inclusion, and Economic Fairness

In addition to the pandemic, the U. S. experienced a substantial disturbance in 2020 with several highly publicized deaths of African Americans. These incidents invited attention and discussion about social justice, diversity, and inclusion. Many people across the country expressed their outrage by protesting for changes to be made regarding systemic racism. Many businesses, including banks and financial institutions, reevaluated their cultures and practices. According to the U. S. House Committee on Financial Services, many banks maintain that diverse and inclusive organizations are usually more profitable and productive (3). In the following section, TriStar officials explained how the Bank has addressed diversity, inclusion, and economic fairness among its staff and customers.

TriStar's Leadership in Its Communities

TriStar has been a clear leader in the communities that it serves regarding the Community Reinvestment Act (CRA). The Bank has consistently maintained a "Satisfactory" CRA rating since its first publicly recorded CRA exam in 2002. In 2021, TriStar's recorded CRA rating rose to the highest rating of "Outstanding" (Federal Financial Institutions Examination Council). This "Outstanding" rating reflects TriStar's focus on continually improving its community outreach in 2019, and these efforts were acknowledged during its most recent CRA exam in September 2020 (A. Petty, Zoom, April 7, 2021).

TriStar worked effectively through its outreach program to meet the needs of minorities as well as unbanked individuals in its communities. The Bank's participation in the PPP enabled it to assist many small businesses, and consequently saved many jobs in its communities during the COVID-19 pandemic. TriStar also participated in the U. S. Department of Agriculture Rural Development, Tennessee Housing Development Agency, and Federal Housing Administration loan programs to support low-income and moderate-income first-time home buyers (T. Williams, Zoom, February 24, 2021). Although it is a small bank, TriStar's efforts have proven it to be a leader in its communities by promoting economic development as well as supporting diversity and inclusion.

Diversity and Inclusion Addressed at TriStar

All TriStar employees forgo a holiday, such as President's Day, to attend bank-wide training during the first quarter of the year. This training

The Bank's participation in the PPP enabled it to assist many small businesses, and consequently saved many jobs in its communities during the COVID-19 pandemic.

includes a diversity and inclusion course, as well as courses that focus on topics of team building, bank security, and harassment (B. Ragan, Zoom, February 24, 2021). All TriStar employees are required to take a Regulatory University course titled "Diversity in the Workplace." This course gives each employee an overview of workplace diversity concepts and a better understanding of the meaning and benefits of diversity (A. Murphy and B. Ragan, E-mail, March 22, 2021). This training course is designed to address prejudice, stereotypes, and discrimination while also encouraging employees to work effectively with all members of society. The training promotes striving for diversity in the hiring of managers and employees in an effort "to provide a work environment, which provides job satisfaction and opportunity for personal development that will attract, develop, and reward the best bankers" ("About TriStar," *Statement of Values*).

TriStar has always operated on this notion of acceptance of everyone by hiring employees who have a welcoming and accepting attitude.

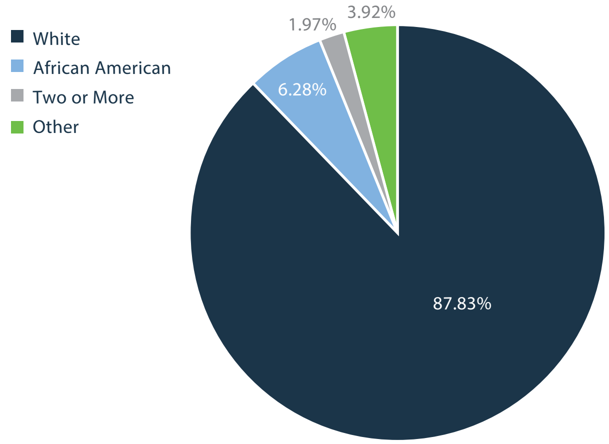
According to Becky Ragan, Executive Vice President and Chief Information Officer at TriStar, diversity is comprised of traits and characteristics that make people unique, and inclusion means making all people feel welcome. TriStar has always operated on this notion of acceptance of everyone by hiring employees who have a welcoming and accepting attitude. TriStar's personnel policy covers various topics related to diversity and inclusion throughout its Statement of Values, Staffing Goals section, and Code of Conduct (A. Murphy and B. Ragan, E-mail, March 22, 2021). Bank officers explained that TriStar would quickly address any issues that occurred involving an employee and that this past year has brought more awareness in relation to diversity and inclusion at TriStar.

As a step toward positive inclusion, TriStar has hired several Spanish-speaking employees in the past and recently hired a manager who is fluent in Spanish. These hires have allowed TriStar to communicate more effectively with its Spanish-speaking customers. As demographics and markets have changed through population growth in the counties in which the Bank operates, TriStar seeks to hire diverse and talented individuals who can assist in reaching and interacting with people in the community.

Demographics for TriStar's Market

Throughout the last decade, TriStar's market has experienced population and geographic growth through branch acquisitions. In 2012, TriStar acquired two new branch locations and expanded into Maury and Williamson Counties.

Figure 3. 2019 Market Population by Race for Dickson, Maury, and Williamson Counties



According to the U. S. Census Bureau, the 2019 market population consisted of 388,747 people in Dickson, Maury, and Williamson Counties with 51.09% being female. Composition by age is 74.61%, 18 years and older and 14.64%, 65 years and older. Composition by race is 87.83% white, 6.28% African American, 3.50% Asian, 2.39% other (See Figure 3). Composition by race, age, and gender has remained relatively unchanged throughout the last ten years. The Bank's CRA ratings reflect how well TriStar has been able to reach and serve individuals of varying demographics within its communities during its years of operation.

TriStar Programs Supporting Diversity and Inclusion

TriStar has actively created and sponsored programs to support minorities as well as low- and moderate-income borrowers. TriStar has a Community Council, for which the Bank identifies diverse individuals, including minorities, females, and younger professionals, to provide feedback to the Bank and make decisions on effective ways to reach under-served populations (T. Williams, Zoom, February 24, 2021). The Community Council is comprised of 10 members in the Dickson market, and TriStar plans to expand to include a group of individuals from Maury County, which neighbors Dickson County, as well (A. Petty, E-mail, March 26, 2021). The main goal of the Community Council is to assist TriStar in addressing the needs of its populations and local businesses. According to Ann Petty, CRA Officer of TriStar, council members bring opinions and insights based on their different lines of work. For instance, one of the members of this council is a minority minister who has assisted TriStar in developing a more positive relationship with the black community in the Dickson market. This minister and other minority leaders within TriStar's markets communicate information about the Bank's financial education opportunities and events to their friends, family, and others in the community with the goal of making the banking industry less confusing for or daunting to these individuals.

Every year, TriStar creates community involvement opportunities through sponsorships or events for Black History Month in February. According to CRA Officer Petty, these events range from live choir performances by minority church choirs to the sponsorship of the Trailblazer Dinner, which focuses on the successes of black and minority members of

TriStar understands the positive impacts that incentivizing good work ethic in local youth will have on the community, as well as teaching the basic importance of finance at an early age.

TriStar's community. TriStar also took part in sponsoring the Promise Land Community Foundation fundraising event. Promise Land is located in one of TriStar's main markets, Dickson County, and three of the churches located in the area are important historical and community institutions for the African-American population (Martin and Moore). TriStar strives to support diversity, inclusion, and the minority population of its area by participating in these events.

Holding community meetings has allowed TriStar to engage more diverse markets. TriStar officers explained that stigma or fear can surround banking for some minority groups; therefore, meetings were created to contact and specifically assist these groups with financial issues. Bank President Church explained that the most effective approach TriStar has discovered to provide services to these minority groups is to have one-on-one meetings and small group meetings of 5 to 10 people. Community meetings are conducted in two of the markets in which TriStar owns branches. The gathering points for these meetings are usually local churches, and TriStar works with many identifiable minority leaders in the community to help reach individuals who need assistance or guidance. The main purpose of the community meetings is for TriStar to reach members of its market and to help educate and advise attendees so they will have a better understanding of the mortgage and home-buying process (A. Petty, Zoom, March 26, 2021).

TriStar's Programs Promote Economic Development

Community banks are more flexible in supporting local projects that promote economic development. TriStar has been proactive in this area by implementing a unique approach for promoting economic development in middle Tennessee communities housing the Bank's branches. For example, marketing funds are used to create and support impactful projects in the community. Bank officers search for partnership or sponsor opportunities with local towns in Dickson, Maury, and Williamson Counties.

One program created by TriStar that has been influential in middle Tennessee education systems is the Star Student program. Many low-income families may be unable to reward their children for good attendance and grades in school. TriStar understands the positive impacts that incentivizing good work ethic in local youth will have on the community, as well as teaching the basic importance of finance at an early age. The Star Student program creates a dialogue between TriStar bankers and students enrolled in local education systems. The goal of this program is to introduce young students to banking and learn how to save their money.

Students bring their report cards to bank tellers at local TriStar branches and open a TriStar Youth Savings Account to deposit the funds received each time a report card is reviewed. Students earn $1.00 for every A grade and $10.00 for perfect attendance. Students have the option to withdraw funds received during the school year or continue saving in June of each year. In the academic year 2017–2018, TriStar awarded more than $10,000 to students through the Star Student program. The Tennessee Education Association found the Star Student program benefited the middle Tennessee students immensely and commended TriStar by awarding it a "Friend of Education" distinction in 2018.

Due to the pandemic, school systems taught remotely in 2020. TriStar believed the incentive program was needed more than ever during the 2020 quarantine. The Bank worked to ensure that all students would have the opportunity to participate in the program, no matter what form of schooling they were undergoing; therefore, the program's eligibility was opened to public, private, homeschool, and remote learners. TriStar markets this program through social media and also sends flyers to every student in the Dickson, Maury, and Williamson County school districts prior to the end of the first grading period (A. Petty, E-mail, March 26, 2021). The Star Student program has allowed TriStar to proactively invest in the youth of its communities.

Serving Underbanked Populations via Financial Literacy Education

Bank CEO Williams explained that regulators and policy makers could support community banks efforts to address diversity, inclusion, and economic fairness by promoting financial literacy to lower socio-economic groups. He explained that the market is working, and that banks and other financial institutions are ready and motivated to help minorities, low-income households, and special groups with financial products including loans and deposits. Williams also described that when having meetings with minorities in TriStar's markets, he found that

Bank CEO Williams explained that regulators and policy makers could support community banks efforts to address diversity, inclusion, and economic fairness by promoting financial literacy to lower socio-economic groups.

these individuals were not knowledgeable about how they could become qualified for a loan or how to work with a bank to improve their credit scores or opportunities to access banking products. He believes that encouraging financial literacy for minorities would help the Bank provide assistance to and reach out to these individuals, as all banking agencies and associations have financial literacy programs that can be used to educate (T. Williams, Zoom, March 10, 2021). Participating in financial literacy programs would provide large dividends for all involved stakeholders.

Conclusion

TriStar is a true community bank, and its two largest general loan categories, real estate and commercial loans, make up an average of 88.6% of its total loan portfolio composition. Two types of construction loans grew during 2016–2018 because TriStar supported the growth of the communities it serves. TriStar's loan portfolio composition experienced overall growth during the past five years because of TriStar's continued support of small businesses.

TriStar's participation in the Paycheck Protection Program (PPP) resulted in approximately four times its monthly loan volume for April 2020. When a larger bank could not fulfill a $1.8 million PPP loan for a local manufacturing firm, TriStar approved the loan for the firm and the sustainability of the community. Immediately after the Bank had to close its lobbies due to COVID-19 concerns, TriStar made plans and took precautions to reopen for business as quickly and safely as possible. Once TriStar reopened its lobbies with full staff, the Bank established a call center to help concerned customers as its staff continued to work to serve individuals in its community.

TriStar prioritizes workplace diversity by offering employee training and diversified hiring. TriStar seeks the opinions and viewpoints of community members through a diverse community council, community meetings, events, and programs. TriStar also recognizes the importance of supporting local counties through education and created an innovative program that rewards children for academic success. Bank CEO Williams believes that encouraging financial education for minorities would improve TriStar's ability to promote diversity, inclusion, and economic fairness.

The findings of this case study clearly demonstrate that TriStar Bank is a success story on its own in many ways. Its caring and committed staff and its dedicated, hands-on officers and Board of Directors, as well as its ability to maintain integrity, flexibility, and community awareness in business has given TriStar the distinction of being a leader in a time when true leaders are needed.

Works Cited

"About TriStar Bank." *TriStar Bank*, 2021, www.tristar.bank/about-us/about-tristar-bank.html.

Bowman, Michelle W. Speech "Community Banks Rise to the Challenge." *Federalreserve.gov*, 30 September 2020, www.federalreserve.gov/newsevents/speech/bowman20200 930a.htm.

Famiglietti, Matthew, et al. "The Decline of Employment During COVID-19: The Role of Contact-Intensive Industries." *Economic Research - Federal Reserve Bank of St. Louis*, Federal Reserve Bank of St. Louis, 10 Sept. 2020, research.stlouisfed.org/publications/economic-synopses/2020/09/10/the-decline-of-employment-during-covid-19-the-role-of-contact-intensive-industries.

Federal Financial Institutions Examination Council. "CRA Ratings." *FFIEC Interagency CRA Rating Search*, Federal Financial Institutions Examination Council, 10 Nov. 2020, www.ffiec.gov/craratings/.

Institutional Reports. *Federal Financial Institutions Examination Council Central Data Repository's Public Data Distribution*, cdr.ffiec.gov/public/ManageFacsimiles.aspx. Accessed 4 April 2021.

"Major Industrial Manufacturers & Distributors (75+ Employees)." Dickson County Economic Development Authority. *choosedickson.com*. 2021. https://www.choosedickson.com/major-employers.php.

Martin, Rachel, and Elizabeth H. Moore. "Promise Land." *Tennessee Encyclopedia*, Tennessee Historical Society, 1 Mar. 2018, tennesseeencyclopedia.net/entries/promise-land/.

"Paycheck Protection Program: Timeline of Important Regulatory Announcements." *Hunton Andrews Kurth*, https://www.huntonak.com/en/insights/ppp-timeline-of-important-regulatory-announcements.html.

"PPP FAQ & Announcements Timeline." *First Oklahoma Bank*, https://www.firstoklahomabank.com/ppp-faq-details-and-timeline.

Sullivan, Brian. "Report: Nashville 10th Fastest-Growing Metro in the U. S.," 31 July 2020, https://outandaboutnashville.com/report-nashville-10th-fastest-growing-metro-in-the-united-states/.

United States Census Bureau. "County Population by Characteristics: 2010–2019." *The United States Census Bureau*, United States Census Bureau, 20 Apr. 2021, www.census.gov/data/tables/time-series/demo/popest/2010s-counties-detail.html.

United States House Committee on Financial Services. "*Diversity and Inclusion: Holding America's Large Banks Accountable." Diversity and Inclusion: Holding America's Large Banks Accountable | Financial Services Committee*, U. S. House Committee on Financial Services, Feb. 2020, financialservices.house.gov/issues/diversity-and-inclusion-holding-america-s-large-banks-accountable.htm.

2ND PLACE

The University of Arkansas

Students:
Austin Greek
Grant King
Eric Larsen

Faculty Advisor:
Dr. Tim Yeager

Co-Advisors:
Dr. Kuan Liu
Cao Fang
(Ph.D. candidate)

Southern Bancorp Bank: Serving the Underserved Since 1986

Introduction

Southern Bancorp Bank (SBB) is part of a dynamic organization that operates throughout the Mississippi Delta in Arkansas and Mississippi. "From their mission to their markets, Southern Bancorp is a different kind of bank. Focusing on underserved communities, Southern combines traditional banking and lending services with financial development tools and public policy advocacy to help families and communities grow stronger."[1]

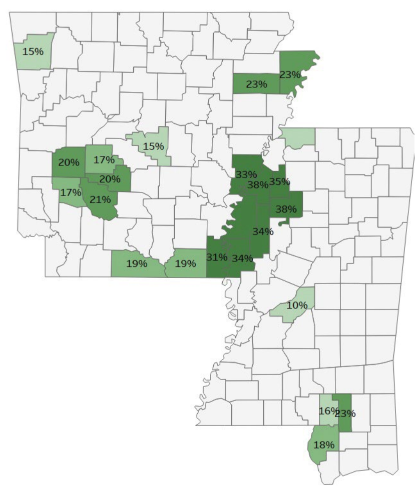
Southern Bancorp is an organization that has been rooted in diversity, inclusion, and economic fairness since its inception in 1986. Bill Clinton, who was then governor of Arkansas, partnered with the Winthrop Rockefeller Foundation, Rob Walton, Mack McLarty, and others to create Southern Development Bank Corporation, now known as Southern Bancorp, with a mission to provide economic fairness to some of rural America's most underserved and distressed communities in Arkansas and Mississippi.

Southern Bancorp consists of three pieces– Southern Bancorp Bank (SBB), Southern Bancorp Inc. (SBI), and Southern Bancorp Community Partners (SBCP). SBI is the bank holding company of SBB. SBCP is a 501(c)(3) loan fund designated by the U.S. Department of Treasury as a Community Development Financial Institution (CDFI). It is a shareholder and equal partner to SBB and SBI, which are also CDFIs.

These three partners align their focus to balance mission and margin. They have adopted a strategy to achieve their so-called Big, Hairy, Audacious goals. These represent the 10-year goals that maximize the footprint of Southern Bancorp across the current target market and beyond in three categories: "supporting homeownership and housing by assisting individuals with capital and capacity, supporting jobs by facilitating entrepreneurship with capital and capacity, and supporting savings and asset accumulation by helping individuals earn, keep and grow their assets."[2]

Southern Bancorp Inc. is a certified B-Corporation and is the only B-Corporation located in Arkansas. "Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose. B Corps are accelerating a global culture shift to redefine success in business and build a more inclusive and sustainable economy. B Corps use profits and growth as a means to a greater end: positive impact for their employees, communities, and the environment."[3]

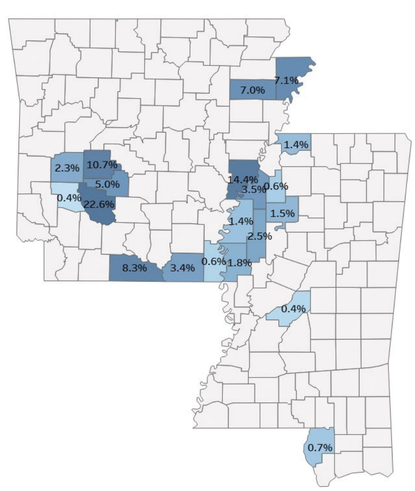
Figure 1. County Poverty Rate by Quartile



Notes: Shaded regions show counties in Arkansas and Mississippi where SBB has operations. Darker shades represent counties with higher poverty rates. Map created with Tableau software.

Source: Southern Bancorp website.

Figure 2. SBB Deposit Share by County



Notes: Shaded regions show counties in Arkansas and Mississippi where SBB has deposits. Darker shades represent counties with larger deposit shares. Map created with Tableau software.

Source: FDIC Summary of Deposits, 2020.

SBB lends intensively in underserved communities, and a disproportionate number of loans are for small dollar amounts.

Since its creation, SBB has expanded to 49 branches across the Mid-South, but the mission remains the same, "to create economic opportunity in rural and underserved communities by providing responsible and responsive financial products and services that balance profits with purpose." As shown in Figure 1, Southern Bancorp Bank operates in areas with high poverty. According to the United States Census Bureau, the United States poverty rate was 12.3 percent in 2019, and the Arkansas and Mississippi poverty rates in the same year were 16.2 percent and 19.6 percent, respectively.[4] The poverty rate in the 21 counties where SBB has deposits (Figure 2) is 24.8%.

SBB lends intensively in underserved communities, and a disproportionate number of loans are for small dollar amounts. Roughly 90% of the $1.7B in loans it originated in 2020 were to borrowers in CDFI tracts, 42% of the loans had principal amounts under $10,000, and 12% had principal amounts less than $1,000.[5]

Part I: Loan Portfolio Concentration

Southern Bancorp Bank is a community bank headquartered in Arkadelphia, Arkansas. It is included in the peer group consisting of banks with $1 billion to $3 billion in assets. This section discusses SBBs loan portfolio and how it differs from peer banks. Panel A of Table 1 lists SBBs loan portfolio between 2016 and 2020. Real estate loans comprise the largest share of loans, representing 73.2 percent of the loan portfolio at year-end 2020 which is 1.4 percentage points above the peer ratio. During the previous five years, the real estate loan share increased steadily from 72.4 percent at year-end 2016 to a peak of 76.3 percent at year-end 2019. The drop in the real estate loan share between 2019 and 2020 was due primarily to a 2-percentage point decrease in 1-4 family residential loans.

The commercial and industrial (C&I) loan share was stable through 2019 at about 13 percent of loans. SBB, however, reported a 4.49 percentage point increase in C&I loans in 2020 due to the Paycheck Protection Program (PPP). In contrast, the agricultural loan share has trended downward from 7.29 percent of loans in 2016 to 4.73 percent in 2020. The loan share, however, is 3.34 percentage points above the peer ratio. Consumer loans, which include credit card and auto loans, has also trended downward over the years and it accounts for 3.3 percent of loans in 2020.

Within the real estate loan portfolio as shown in Panel B of Table 1, loans secured by farmland comprise 13.28 percent of total loans, 8.19 percentage points higher than peers, and their loan share has increased consistently between 2016 and 2020. In contrast, loans secured by 1-4 family residential property have decreased over time to 25.11 percent of loans. Non-farm non-residential loans have been relatively stable during the five-year period at around 24 percent of loans, roughly 8 percentage points below the peer ratio.

SBB's unique mission to promote community development in underserved communities means that many of its borrowers are small businesses and consumers with modest income. Consequently, Southern Bancorp Bank's loan portfolio is comprised of smaller dollar loans compared to state and national averages. Call Reports define a small business loan as one with an original amount of $1 million or less.

According to Call Report data for year-end 2020, 2,294 C&I loans in the loan portfolio at SBB meet this criterion (see Table 2). 81% of current C&I small business loans at Southern Bancorp Bank have original balances of $100,000 or less compared to 79% in Arkansas peer banks and 68% in all peer banks in the United States. Nonfarm nonresidential (NFNR) small business loans at Southern Bancorp Bank differ widely compared to Arkansas and US peers. SBB has 808 NFNR loans outstanding with an average origination amount of $155,000 with 43% of the portfolio under $100,000. This compares to an average NFN loan size of $185,000 in Arkansas peer banks and $279,000 in US peers, with a share of 32% and 16% under $100,000, respectively.

Table 1. SBB Loan Mix 2016-2020

Panel A. Loan Mix, % Average Gross LN&LS						
Loan Category	**2020**	**2019**	**2018**	**2017**	**2016**	**Peers 2020**
Real Estate	73.17%	76.34%	75.23%	73.38%	72.37%	71.77%
Agricultural	4.73%	5.35%	5.83%	6.38%	7.29%	1.40%
C&I	17.59%	13.10%	13.08%	13.68%	13.83%	19.49%
Consumer Loans	3.30%	3.74%	3.98%	4.35%	4.83%	2.72%
Consumer Loans	3.30%	3.74%	3.98%	4.35%	4.83%	2.72%

Panel B. Breakdown of Real Estate Loans						
Loan Category	**2020**	**2019**	**2018**	**2017**	**2016**	**Peers 2020**
Construction & Dev.	6.84%	7.43%	7.33%	6.97%	5.94%	7.62%
Secured by Farmland	13.28%	13.12%	12.18%	11.14%	9.48%	2.80%
1-4 Family Res.	25.11%	27.09%	27.55%	28.39%	28.75%	19.97%
Multi-family	3.74%	4.23%	4.64%	3.74%	3.77%	4.54%
Non-Farm Non-Res.	24.20%	24.47%	23.54%	23.15%	24.44%	32.39%

Source: FFIEC Call Reports

Table 2. Small Business Loans FYE 2020

C&I Loans	SBB	AR Peers	U.S. Peers
Total Number	2,294	1,938	3,783
Share less than $100,000 (%)	81%	79%	68%
Avg Loan Size ($000s)	$56	$58	$85

NFNR Loans	SBB	AR Peers	U.S. Peers
Total Number	808	472	425
Share less than $100,000(%)	43%	32%	16%
Avg Loan Size ($000s)	$155	$185	$279

Source: FFIEC Call Reports

Notes: Arkansas peer banks include the six banks with headquarters in Arkansas and assets within $20 million of SBB, and U.S. peer banks include U.S. banks between $1 billion and $10 billion in assets.

Southern Bancorp Bank contributes to mortgage lending in Arkansas and Mississippi. On average, these loans are $64,829 less than the Arkansas and Mississippi average. According to the Home Mortgage Disclosure Act data published by the Consumer Finance Protection Bureau, a total of 234,303 residential mortgage applications were processed during 2019 by all financial institutions. From those applications, 116,114 (49.6%) mortgage loans were originated with an average original loan amount of $160,219. At Southern Bancorp Bank, 517 residential mortgage applications were processed, and 359 (69.4%) loans were originated. The average original loan amount was $95,390.

Part II: Serving the Community in a Pandemic

SBB's Response to the Pandemic

The COVID-19 pandemic has left a path of destruction within the financial world, but community banks have responded to limit the damage. With the onset of the pandemic, SBB took immediate actions to protect its employees and customers. The bank's first response was to close its 46 branch locations. For many banks, this would be a simple process since many people now bank online; however, most of SBB's customers still use physical locations for their banking needs. Because the client base was accustomed to transacting face-to-face, the bank created online products that resembled personal interactions as much as possible to make the transition easier. In addition, services that normally required a fee for online use such as online banking and remote deposit capture were waived to maintain a relationship with the customers since physical transactions could not take place.

Even though the bank's branches were closed, the drive-thrus remained open, and SBB prepared accordingly for the incoming stimulus package funds. Branches were double cashed and check-cashing fees were waived to accommodate the influx of customers cashing their stimulus checks.

The bank further extended its services to the community by reopening closed customer accounts so they could collect their stimulus checks. Two to four days before the stimulus payments arrived at the bank, the government sent a pre-note to each customer account which displayed the incoming deposit. SBB reopened nearly 400 accounts that had been closed due to bounced checks or personal choice so that those most in need could receive the stimulus money. Not only were those account holders allowed to collect their stimulus payments, but the bank also waived any fees due from prior charges when the accounts were reopened. During our conversations with the bank's leadership, they stated that those with closed accounts were the most in need of aid during the pandemic. They have taken this action with each round of the stimulus payments.

Participation in the Payroll Protection Program

Community banks have played an outsized role in the Payroll Protection Program relative to their share of industry assets (Hanrahan and Hinton). SBB was highly active in the program, and it primarily served smaller businesses who were neglected by bigger banks. As Table 3 shows, during the first round of the PPP from April 4 to August 8, 2020, the bank issued 1,285 loans which summed to $112 million for an average loan amount of $87,159. In contrast, the average loan amount for all institutions was $101,000. While 69% of the number of PPP loans overall had principal amounts of $50,000 or less, nearly 85% of SBB's PPP loans fell under this threshold. SBB chose to manually process loan applications even though it is an intense process that requires considerably more work hours than automatic filing. Manual processing better ensured that these small businesses received funding because the automated systems were unreliable during the first several weeks of the program.

The second round of PPP loans began on January 15, 2021. According to the SBB 2021 Q1 Shareholder Report and interviews with the bankers, the bank originated $147M in total PPP loans through the first quarter of 2021, 87% of which were $50,000 or less in loan size. The average loan size was $47,000, similar to the average for all institutions of $45,487.

SBB unexpectedly had the opportunity to significantly influence national policy toward helping steer PPP funds through CDFIs toward

Table 3. Loan Characteristics

	SBB		All Institutions	
PPP Loan Characteristics	2020	2021 thru March 31	2020	2021 thru May 10
Number originated	1,285	745	5,212,128	5,716,350
Loan amount ($mil)	$112	$35	$525,012	$260,021
Share from Comm Fin Institutions	100%	100%	4%	13%
Share to businesses <10 employees	78%	n.a	n.a.	91%
Share less than $50,000	85%	87%	69%	85%

Source: Southern Bancorp Shareholder Reports 2020, 2021 Q1. SBA PPP Loan Reports: August 8, 2020, May 9, 2021.

small businesses in low-and moderate-income markets. Invited onto a call with President Trump, Treasury Secretary Mnuchin and CEOs of the largest U.S. banks after the first PPP loan round faltered, CEO Darrin Williams heard major institutions' CEOs speaking ahead of him acknowledge that rural and small borrowers were not actually their customer base, and CDFIs should be considered as a better channel. As the only CDFI representative and the only Black CEO on the call, Darrin was able to provide evidence of impact Southern and other CDFIs were already having reaching communities and consumers outside the focus and beyond the reach of the larger institutions. He explained how small loans were lifelines for small businesses, and CDFIs were better equipped to deliver capital to underserved communities that were disproportionately affected by the pandemic. This new policy shift was announced in May 2020, which designated

SBB unexpectedly had the opportunity to significantly influence national policy toward helping steer PPP funds through CDFIs toward small businesses in low-and moderate-income markets.

$10B of PPP funds to be allocated to financial institutions. This amount included $3.2B for loans already approved by CDFIs in April 2020. An additional $6.8B was granted to help the small businesses in low-income areas maintain their payroll to preserve jobs for those most in need. On an April call, the White House and Treasury convened with business leaders and CEO Williams stated:

> *Mr. President, this paycheck protection program is a bold and aggressive program. It's been exactly what's intended. It's putting Americans back to work. The place that we serve, that is desperately needed. We appreciate it very, very much. As a CDFI, 60% of our leading activity must take place in low- and moderate-income communities. These communities are hurting. People are laid off and they all lack sufficient savings. Typically, in an economic downturn, cuts in lower wealth communities are deeper and last longer than in wealthier communities. My bank and other CDFIs across America have been working day and night since the program opened on Friday processing applications for both customers and non-customers.*

Less than a month after this meeting, the new policy for additional CDFI funds was approved by the Treasury Department, and the role of CDFIs has continued to grow over time. In February 2021, President Biden implemented a reform to the PPP for these businesses (White House). The administration stated that 98% of small businesses have less than 20 employees, and this new policy focused relief to those companies. The reform created a period where only businesses with fewer than 20 employees could apply for PPP funding. It also set aside $1 billion for businesses without employees located in low- and moderate-income areas, and it relaxed qualifying restrictions such as previous felony convictions and delinquencies on student loan payments. Table 3 shows that the number of PPP loans from community financial institutions rose from 4% in 2020 to 13% through May 10, 2021. The influence of Mr. Williams combined with the hard work by SBB and other CDFIs saved numerous small businesses and jobs during the pandemic.

True to the mission of Southern Bancorp, 80% of grant recipients were women or people of color, and 100% of the recipients were rural businesses.

Programs During the Pandemic

Due to the closed branches and prioritization of processing PPP loans, SBB had limited manpower to seek out new customers; however, bank personnel used their remaining energy to enhance their online presence and simultaneously prepare for the next generation of customers. The bank has been developing an app called Wealthable, which is an app targeting customers between 18 and 25 designed to encourage savings by utilizing incentives derived from behavioral economics. The app brushes aside traditional banking accounts and replaces them with a variety of compartmentalized accounts called vaults. If someone wants to save for college tuition, for example, they can place the funds in a vault under that title, and the app utilizes a series of algorithms that manages the funds according to the set guidelines. Another app, which the bank is most proud of, assigns a Financial Wellness Score to the user. Rather than a credit score, the Financial Wellness Score monitors account owners' app usage and spending habits such as bills paid, amounts deposited versus spent to result in a score that rewards healthy financial habits.

After implementation of the PPP, Southern Bancorp quickly recognized that the smallest businesses in its market were being neglected by the program. In response, a grant program was created through Southern Bancorp Community Partners that raised $128,000, resulting in 128 Business Continuity Grants of $1,000 distributed to these very small businesses that could not obtain PPP loans. True to the mission of Southern Bancorp, 80% of grant recipients were women or people of color, and 100% of the recipients were rural businesses. It took the federal government until February 2021 to address the PPP's lack of lending to the smallest businesses. Southern Bancorp had been focusing on these small businesses since April 2020, so they were well ahead of the curve. Through Business Continuity Grants and similar programs, SBB has been able to extend its assistance to those in need.

Today, Southern Bancorp continues to be a progressive leader both in Arkansas and in the financial institution sector as a whole.

Impact on the Balance Sheet

Over the course of the pandemic, SBB's assets grew from $1.5 billion at the end of 2019 to $1.68 billion at the end of 2020. This increase of 12 percent in total assets over the course of the year compares with a growth rate of 7.9 percent in 2019. The primary reason for the increase in total assets was an increase in net loans and leases of 14.6 percent. PPP loans made up 17.8 percent of total loans at year-end 2020, and most of these loans were C&I loans, which increased by 59.1 percent from end of 2019 to end of 2020. Liabilities increased 12.6 percent in 2020, led by an increase in total deposits of 11.6 percent. Bank equity increased 10.7 percent to $187.6 million.

The PPP and funds from the stimulus program resulted in a flow of cash onto the bank's balance sheet. Despite the increase in lending due to the paycheck protection program, SBB had a five percent increase in loan growth outside of the program. The increase in commercial lending through the paycheck protection program was partially funded by the increase in deposits from the stimulus program. Additionally, the bank experienced an increase in deposits from commercial DDAs through the paycheck protection program.

Given the economic uncertainty from the pandemic, SBB immediately granted requests from its borrowers of loan deferrals up to three months. The bank also granted loan deferrals for specific industries, and some were granted an interest-only repayment period of up to six months. SBB added an additional $6 million to loan loss reserves to prepare for a slowing economy and upcoming losses on assets. However, the net chargeoff rate decreased from 0.30% in 2019 to 0.18% in 2020. The nonperforming loan ratio decreased from 1.11% in 2019 to 0.68% in year 2020, showing that the loans have performed well during the pandemic and credit risk decreased.

The bank's net income also grew during the pandemic. Profits increased from $13.8 million in 2019 to $14.0 million in 2020. The leading cause for this growth was an increase in net interest income, which rose by $5.7 million. Total interest income rose by $2.7 million while total interest expense decreased by $3.0 million. Despite the challenges from the pandemic, SBB's robust profitability allowed them to continue their mission to aid the community.

A Story During the Pandemic

One great story from SBB that exemplifies a community bank serving its community during the pandemic comes from April 3, 2020, when a small Black-owned radio station requested a PPP loan of a mere $8,000. It was the first day of PPP lending, and as many large banks were unprepared to move forward and waiting for more details on this new federal stimulus, SBB was doing what it does best—making capital available to the people who need it most. In the first 24 hours that PPP lending was available, SBB processed $16 million worth of applications. SBB was able to process the application quickly and keep the radio station afloat during the pandemic. Though this loan may seem insignificant, given that the average PPP loan in April 2020 was roughly $206,000[6], it was stories like these that got Darrin Williams, CEO of SBB, front and center in the national spotlight and a seat at the table with President Trump. Along with SBB's actions to help protect the community during the pandemic, the bank continues to extend assistance to those in need by prioritizing equality and diversity within its organization.

Part III: Diversity, Inclusion, and Economic Fairness

Diversity, inclusion, and economic fairness have been an integral part of Southern Bancorp's mission since its founding in 1986. Over the past decade, as shown in Table 4, SBB has been operating in several regions in Arkansas and Mississippi where Blacks comprise a majority of the population and chronic poverty is prevalent. According to Mr. Williams, SBB serves 16 markets where SBB is one of two banks in town. In six markets, they are the only bank in town.

There are countless stories of the bank serving people in their community. Vernetha Jackson, a Black woman in her early sixties from Helena-West Helena, Arkansas is a prime example. Mrs. Jackson had been renting a home for her entire adult life while working two jobs, one in the local school district as a bus driver and the other as a nurse, to be able to afford her rent. Ms. Jackson walked into her local Southern Bancorp Bank branch hoping to get a home loan, but she nearly left discouraged

Table 4. Demographic Information within SBB's Target Market

Region	White Population	Black Population	Median Household Income	Persons in Poverty
State of Arkansas	**72.0%**	**15.7%**	**$47,597.00**	**16.2%**
Blytheville	28.8%	62.4%	$38,765.00	27.1%
Helena-West Helena	21.5%	77.2%	$22,177.00	45.2%
State of Mississippi	**56.4%**	**37.8%**	**$45,081.00**	**19.6%**
Greenville	16.0%	81.7%	$27,025.00	37.3%
Clarksdale	16.6%	81.8%	$30,223.00	35.7%

Source: United States Census Bureau

Note: Median household income is the average from 2015 to 2019 expressed in 2019 dollars.

because she could not afford the loan given her financial situation and credit score. Rather than letting Ms. Jackson leave empty handed, the personnel at SBB began working with her to improve her financial situation. Through one-on-one financial education and counseling, a Matched Savings Account (IDA), and free tax preparation through the Volunteer Income Tax Assistance (VITA) program, SBB helped Ms. Jackson improve her finances enough to afford a $23,000 home loan from the bank. The IDA or Individual Development Account used was a type of saving account designed to help income eligible individuals (those having an adjusted gross household income equal to or less than 200 percent of the federal poverty line) build assets, learn financial skills, which results in empowering participants to start on the path of financial stability. When Mrs. Jackson put funds in this account, the funds were matched at a ratio of 1: 1. After nearly two years of working with SBB and following their advice, Ms. Jackson became a first-time homeowner – a reality that she attributes entirely to the people at SBB.

Today, Southern Bancorp continues to be a progressive leader both in Arkansas and in the financial institution sector as a whole.

In the past five years, SBB has started developing a strategy to move into more urban locations such as Little Rock, Memphis, and St. Louis. Although this move could appear at first to be a move away from SBB's mission, this strategy falls perfectly in line with their mission because SBB's aim is to open branches where there are large communities of underserved people. For example, rather than moving into the wealthy, predominately white, bank-saturated parts of Little Rock, SBB wants to open a branch in a predominately Black area that is "south of I-630 and east of I-30" where there are only four FDIC banks operating in the zip code. This decision to start moving into more urban areas allows SBB to not only expand the reach of its mission, it also allows the bank to grow and take advantage of scale economies while diversifying its portfolio.

Today, Southern Bancorp continues to be a progressive leader both in Arkansas and in the financial institution sector as a whole in three ways: its executive make up, its legal structure, and its products targeted towards underserved communities and marginalized people. Within its executive team, each Board Chairperson of its three legs of the organization (Southern Bancorp Inc., Southern Bancorp Bank, and Southern Bancorp Community Partners) is Black, one of which is female. Of the 12 board members of the bank, half are Black, half are white, and three are women. Additionally, Darrin Williams is one of few Black CEOs of a bank that is not a Minority Depository Institution. The heavy minority representation goes against the historical norm within the finance industry and is setting the standard for companies across the United States.

The second way Southern acts as a leader revolutionizing its industry is through its unique legal structure. In addition to being a CDFI, in 2017, SBI became the only Certified Benefit Corporation (B-Corp) in Arkansas. The B-Corp status legally requires Southern Bancorp to consider the impact of their decisions, not only on their employees, customers and shareholders, but also on the broader community and environment. According to Mr. Williams, the move to become a B-Corp allows the bank to balance its mission and margin more effectively and better serve its community by protecting SBI from being sued by investors for not maximizing profits, a more likely scenario if it had remained a C-Corp. Mr. Williams envisions Southern Bancorp as a bicycle. B-Corp status legally allows the front wheel of the bike to be the "mission wheel" that directs the organization, and the back wheel of the bike is the "margin wheel" that propels the organization towards its mission. According to the Certified B Corporations website, Certified B Corporations are "leaders of a global movement of people using business as a force for good," they "meet the highest standards of verified social and environmental performance, public transparency and legal accountability" and aspire to use the power of business to solve "Society's most challenging problems [that] cannot be solved by government and nonprofits alone."[7]

In addition to being a CDFI, in 2017, SBI became the only Certified Benefit Corporation (B-Corp) in Arkansas.

The third way Southern Bancorp is a leader in its communities is through innovative products and services. Southern Bancorp Community Partners offers a "Learning Center" and an "Opportunity Center" free of charge to members in their community. The goal of these centers is to help customers improve their financial education and combat generational poverty. A good example of a service offered by each of these centers is the "ABC's Financial Success Brochure" and the "eHome Money Homebuyer Education Online Course." The Financial Success Brochure, which is free to anyone, not just the bank's customers, provides tools and knowledge for readers to assess their own financial situation and build a financial plan to help them reach their goals. It also offers continuing education resources for those who want to improve their financial health. The Homebuyer Education Course aims to help customers build wealth and "creates knowledgeable and default-resilient buyers ready for a lifetime of homeownership." The other services provide a plethora of resources that range from teaching financial literacy, to providing savings plans, to assisting in tax

Southern Bancorp has two policy recommendations that it believes can support community banks in their efforts to address diversity, inclusion, and economic fairness.

preparation. These services have historically been utilized disproportionally by women and minorities within Southern's target area.

Though Southern Bancorp Bank is already a proactive leader in the banking industry with respect to diversity, inclusion, and economic fairness, the recent protests related to social justice following the death of George Floyd have inspired SBB to do even more. Following the death of George Floyd, Mr. Williams released the following internal message to his team:

> *The same pervasive systemic racism that has allowed many police departments and criminal justice systems across America to ignore the pleas of Black families who have long suffered from police brutality is also the root cause of many of the disparities we see among races in many facets of life, from education, to healthcare, to wages and wealth, and access to financial services. It is in these last areas, wages, wealth and access to financial services, where we can make the most difference in the lives of our customers and communities.*[8]

This statement went hand in hand with the views of the leaders of the Black Lives Matter movement in Little Rock who expressed that the minorities in the area did not feel comfortable going into the existing banks or could not access capital at those banks. In response to this barrier, Mr. Williams and the other leaders of SBB decided to support the creation of the Little Rock Minority Business Empowerment Fund by making the first $1 million donation. The goal of this fund will be to make loans to Black and Brown businesses in Little Rock in a way where collateral and credit history requirements for the business may be flexible, so that business owners who would not be able to receive a loan from a traditional institution can pursue their entrepreneurial dreams.

Southern Bancorp has two policy recommendations that it believes can support community banks in their efforts to address diversity, inclusion, and economic fairness. The first is that Arkansas should raise or ban asset limits on Temporary Assistance for Needy Families (TANF) food subsidies. The current policy in Arkansas is that a family that accumulates $2,250 or more in savings becomes ineligible to receive TANF food subsidies. For families who are receiving this subsidy, saving to that point is a disincentive because they lose their food subsidies. The argument against banning the asset limits is that there would be wealthy people who would abuse the subsidy when they do not need it and raise the cost of the program. SBB believes, however, that if the asset limits were banned, the families who rely on TANF food subsidies would be able to save, build wealth, and escape poverty.

The second policy recommendation is that store-front pay day lenders should be banned in Mississippi. They are already banned in Arkansas as of 2008 for violating usury laws. In the state of Mississippi, where roughly a third of SBB's branches are located, there are more store-front pay-day lenders than there are McDonald's, Burger Kings, and Starbucks combined. Loans from pay-day lenders can carry triple digit annual percentage rates and are easily accessible. SBB believes that if store-front pay-day lenders were banned in Mississippi, it would give community banks and CDFIs, who offer small dollar loans at a reasonable interest rates and amortization periods, the ability to protect distressed citizens in this market from predatory lending and promote economic fairness.

Summary

Southern Bancorp is a unique organization that places a strong emphasis on diversity, inclusion, and economic fairness in underserved communities throughout Arkansas and the Mississippi Delta. Southern Bancorp consists of three components. Southern Bancorp, Inc. is a certified B Corporation that exercises control over bank management and policy. Southern Bancorp Community Partners is a Community Development Financial Institution, 501 (c)(3) fund. Southern Bancorp Bank engages in consumer and business lending while also providing financial services to the community. These three partners align their focus to balance mission and margin to achieve their Big, Hairy, Audacious goals.

Southern Bancorp Bank operates in areas with modest income; therefore, it makes smaller dollar loans compared to state and national averages. Mortgage loans at SBB are over $60,000 less than the Arkansas and Mississippi average. Although the lending area of SBB is more impoverished than the surrounding areas, a higher percentage of mortgage applications are accepted compared to the Arkansas and Mississippi state averages. Small business loans have a lower average loan size than peers.

The COVID-19 pandemic shook the financial world to its core, and SBB took immediate actions to help its customers and local community. Branches were closed, employees operated remotely, services were moved online, and many of the fees associated with transactions were waived to help ease the

The COVID-19 pandemic shook the financial world to its core, and SBB took immediate actions to help its customers and local community.

financial strain. Following defensive measures to help their customer base, SBB went on the offensive by increasing cash reserves and reopening closed accounts for the oncoming stimulus checks issued by the federal government. The reopened accounts, mostly closed due to bounced checks, gave those most in need a chance to collect the stimulus. During a time of uncertainty and financial unrest, SBB stepped in and helped customers, non-customers, and a community who were most in need.

SBB strengthened its reputation as a bank helping disenfranchised groups by heavily participating in the Payroll Protection Program. The primary focus was to lend PPP funds to small businesses who had been stepped over by larger corporations. The bank's small loan share was well above the national average for smaller loan sizes, and nearly all their PPP loans were in CDFI target markets for low-income communities. Southern CEO Darrin Williams regarded the call with President Trump to which he was invited as a transformational moment. With backing of larger institutions acknowledging their inability to reach rural, poor communities and smaller borrowers, he was able to convince the Administration to allocate additional funding to CDFIs in successive rounds. Treasury's substantial increase in PPP funding to CDFIs -- giving many communities and businesses the financial backing they needed to survive -- can be credited to the evidence and eloquence CEO Williams contributed during that call.

Although the bank was occupied with closing branches and handling PPP loans, they still managed to create some programs for the future after the pandemic. They created two apps which focused primarily on savings and financial wellness for younger customers in the digital age. These apps utilize algorithms that can track financial behavior to help customers make better decisions when saving money for the future. SBB takes great pride in a loan fund program they created which resulted in 128 grants to small businesses, all of which were rural, that could not secure a PPP loan.

On the first day of PPP lending, a small Africa American owned radio station was passed over by the rush of big banks trying to secure funding. They only needed $8,000 to stay afloat, but when the day had ended, they returned empty handed. Within a twenty-four-hour period, SBB had processed $16M worth of loans, including the radio station who needed support. Actions like this are what led the bank to earn a seat at the table with the Trump Administration, which then allowed Darrin Williams to tell the story of SBB and how so many small businesses in rural America needed help.

Diversity, inclusion, economic fairness has been core values of SBB since its creation. SBB's dedication to serve in underserved communities where minorities and poverty are prevalent, even before the social justice issues that are facing America today, have set the organization apart. SBB continues to be leaders in the finance and banking industry through its executive make up, legal structure, and financial products today, and it is striving to further improve equality with respect to diversity inclusion and economic fairness through its policy recommendations.

Endnotes

1. Southern Bancorp website. Accessed April 18, 2021 at https://banksouthern.com/about/
2. Southern Bancorp website. Accessed April 23, 2021 at https://banksouthern.com/about/
3. Certified B Corporation website. Accessed April 18, 2021 at https://bcorporation.net/about-b-corps
4. United States Census Bureau website. Accessed May 1, 2021 at https://www.census.gov
5. Southern Bancorp Q4 2020 Shareholder Report. Accessed May 1, 2021 at https://banksouthern.com/investors/
6. SBA PPP Report, April 16, 2020. Accessed April 23, 2021 at https://www.sba.gov
7. Certified B Corporation Website. Accessed April 18, 2021 at https://bcorporation.net/about-b-corps
8. Southern Bancorp Website. Accessed April 18, 2021 at https://banksouthern.com/news

Acknowledgments

We are grateful to the leaders at Southern Bancorp who generously gave their time and resources to make this case study possible. We especially wish to thank Southern Bancorp, Inc. CEO Darrin Williams, Southern Bancorp Bank CEO John Olaimey, Southern Bancorp Bank CFO Chris Wewers, and Southern Bancorp Bank Senior Vice President of Policy and Communications Nathan Pittman. We would also like to express our appreciation to Tableau for providing the software to create the maps included in this report.

References

Abello, Oscar Perry. "How to Be an Anti-Racist Bank." 2 July 2020. *Next City*. nextcity.org/daily/entry/how-to-be-an-anti-racist-bank. 29 3 2021.

B Lab. *About B Corps | Certified B Corporation*. n.d. https://bcorporation.net/about-b-corps. 22 March 2021.

Colby, Clifford and Karisa Langlo. "How Much Was the First Stimulus Check? Your Tax Return May Need That Total." 11 April 2021. *CNET*. www.cnet.com/personal-finance/how-much-was-the-first-stimulus-check-your-tax-return-2020-may-need-that-total. 14 April 2021.

Cortese, Amy. "How Community Banks and Local Lenders Are Bridging Racial Gaps in COVID Recovery." April 9 2020. *Impact Alpha*. impactalpha.com/how-community-banks-and-local-lenders-are-bridging-racial-gaps-in-covid-recovery. 7 April 2021.

Federal Deposit Insurance Corporation. "Deposit Market Share Reports - Summary of Deposits." 30 June 2020. *FDIC*. https://www7.fdic.gov/sod/sodMarketBank.asp?barItem=2.

Federal Financial Institutions Examination Council. "Uniform Bank Performance Report." 31 December 2020. *FFIEC.* https://cdr.ffiec.gov/public/ManageFacsimiles.aspx.

Hanrahan, Margaret and Angela Hinton. "The Importance of Community Banks in Paycheck Protection Program Lending." *FDIC Quarterly* (2020): 14(4) 31-36.

Small Business Administration. "PPP Data." Various dates. *U.S. Small Business Administration*. https://www.sba.gov/funding-programs/loans/covid-19-relief-options/paycheck-protection-program/ppp-data#section-header-2.

Southern Bancorp. About Southern. n.d. banksouthern.com/about. 17 2 2020.

United States Census Bureau. *2019 Poverty Rate in the United States.* 17 September 2020. www.census.gov/library/visualizations/interactive/2019-poverty-rate.html. 5 April 2021.

White House, The. "FACT SHEET: Biden-Harris Administration Increases Lending to Small Businesses in Need, Announces Changes to PPP to Further Promote Equitable Access to Relief." 22 February 2020. *The White House*. https://www.whitehouse.gov/briefing-room/statements-releases/2021/02/22/fact-sheet-biden-harris-administration-increases-lending-to-small-businesses-in-need-announces-changes-to-ppp-to-further-promote-equitable-access-to-relief/. 16 April 2021.

Williams, Darin. "George Floyd, Black Lives Matter, Systemic Racism and Where Southern Bancorp Goes from Here..." 17 June 2020. *Southern Bancorp*. banksouthern.com/news/george-floyd-black-lives-matter-systemic-racism-and-where-southern-bancorp-goes-from-here. 3 May 2021.

3RD PLACE

Southeastern Louisiana University

Students:

Lonica Wallace

Sage Mulkey

Greyson Labasse

Guy Lecompte

Hannah Henderson

Faculty Advisor:

Dr. Danielle Lewis,
Joyce Junghans
Professor of Finance

Liberty: Financial Freedom for All

Liberty for All

Liberty invests where their heart lives to pursue economic freedom for all. From the beginning, service, integrity, and a sincere interest in community drives Liberty ("There's Freedom Here"). The development of underserved, majority minority communities with low-to-moderate income is the concern.

In 1972, Liberty established the first multi-racially owned bank in New Orleans, LA, with the support of both black and white shareholders. Because it was particularly difficult for minorities to obtain financing, Liberty's intent was to offer fair lending to all people. Liberty has been led by CEO Alden J. McDonald; then and now. He is the longest tenured African-American financial executive in the United States. Under his leadership, Liberty's assets have grown from a mere $2 million in 1972 to $766 million in 2020.

Liberty is a Minority Depository Institution (MDI), where not only 51% or more of its voting stock is held by minorities, but that the institution also serves predominantly minority communities. Liberty is also a designated Community Development Financial Institution (CDFI),

> *"Liberty Bank's mission is to serve as a catalyst for economic and community development, while generating a fair return to shareholders and being an excellent corporate citizen. Liberty wants to preserve the culture, to preserve the heritage, and afford the African-American community an opportunity to participate in the development of this city and its neighborhoods" ("History of Black Entrepreneurship").*
>
> —Liberty Preserves

which is a private institution whose focus is on personal lending and business development in poor communities.

The mission is the mainstay, but through resilience and consistent leadership, Liberty's acquisitions of challenged black-owned minority banks is projected to grow assets upward of $1 billion within the next two years. Their mission, focusing on minority community development, transcends race and attracts public and private partnerships; most recently, large corporate partners that wish to support Liberty's mission. Recent social justice issues have put Liberty in the spotlight and has allowed society to see them as a conduit to stamp out racial economic disparity.

Liberty brought their mission to eight states beginning in the 1990's when they acquired a series of struggling financial institutions, including Corpus Christi Federal Credit Union, the first and only merger of a commercial bank and a credit union in U.S. history. This merger began the outreach of Liberty, but it was a merger done during one of the only unprofitable periods known to Liberty; the Savings and Loan crisis whose epicenter included the oil-dependent State of Louisiana. In 1994, Liberty established its presence in Baton Rouge, LA, by acquiring Life Federal Savings Bank. They expanded into Mississippi in 2003 by acquiring First American Bank in Jackson.

By 2005, Liberty had 15 branches across the Gulf Cost when Hurricane Katrina devastated the communities in their market area. Katrina flooded six of the 15 branches, while the other branches were looted. Buildings were severely damaged and all of their customer's loan files were destroyed (McDonald et al.). However, Liberty's response to Katrina foreshadowed their COVID-19 reactions. Their physical branches may have been destroyed, but they continued to serve their clients from Baton Rouge. In the chaos, they developed an initiative called "Rebuild New Orleans" that provided financial assistance for families to come home and reconstruct their homes (McDonald, et al.). Their successful restart came through improved efficiencies. Following Katrina, Liberty had the most profitable year in their history and their ROE ranked as the 25th best in the country. When tragedy struck New Orleans as one of the first hotspots of the COVID-19 pandemic, Liberty's experience with challenging times helped them persevere for their clients in the urban settings.

Shortly after, in 2008, Liberty expanded into the Greater Kansas City market by acquiring Douglass Bank straddling the Kansas-Missouri boarder. In 2009, they grew further across Greater New Orleans with the acquisition of United Bank and Trust Company. Acquisitions of Home Federal Savings in Detroit, MI, and Chicago-based Covenant Bank of Illinois in 2013 brought Liberty to more urban core areas with large minority communities. With their most recent acquisition in 2015, Liberty spread to Montgomery and Tuskegee, AL, with the purchase of First Tuskegee Bank.

Team Southeastern uses Tableau© to visually show zip codes where the African-American populations are concentrated in Figure 1. The circle sizes are proportional to the location's deposit size. Liberty branches in Vicksburg and Houston are loan production offices and do not collect deposits. Liberty's asset growth is the result of acquisitions, successful private and public partnerships, aggressive marketing, and most importantly, experienced and consistent management.

Liberty's Role as a Community Bank and a Conduit for Other Banks

Liberty's mission is to help underserved communities in minority areas. Although these communities have seen progress, according to

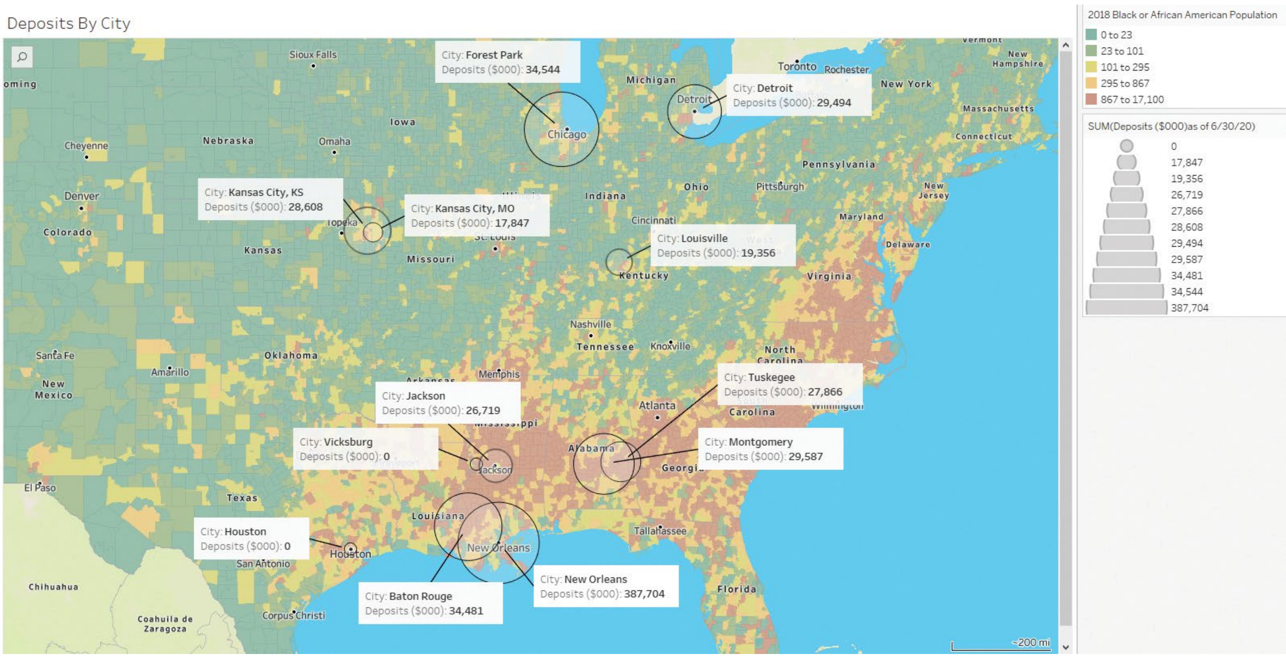


Figure 1: Map of African-American population density and Liberty's deposits in urban core areas

the Economic Policy Institute, they still face higher rates of poverty and have the lowest real median household income relative to all races (Wilson). As a mission-based community bank serving in minority areas, this often means taking greater credit risks and enduring higher expenses—Liberty has been embracing these challenges since 1972.

Liberty faces challenges, starting with servicing many, but small deposits, the number of "unbanked" community members, the geographic dispersion of their branches, and their customers' continued need for costly physical branches as their peers save money by using technology to downsize footprints. There are burdens on non-interest expenses from having dispersed branches across numerous states where there are steep learning curves to understand the economic drivers, a challenge most community banks don't face. Additionally, there is no market for fee-generating trust departments within their minority communities to manage wealth. These challenges are just part of the deal Liberty committed to in 1972.

Liberty spearheads some of these problems by conducting free financial literacy programs and educating those in the minority community about financial well-being and personal wealth-building. Liberty has help to offset the challenges in their public-private partners and funding reserved for MDIs and CDFIs. Equity investments in the form of common stock and preferred share purchases from JPMorgan Chase, Wells Fargo, CitiBank, Bank of America, and federal funds help Liberty promote and preserve their mission (Cloy). Liberty also maintains partnerships with organizations who desire to extend Liberty's mission for financial equity, including Black Chambers of Commerce in Liberty's local market areas, the National Banker's Association (NBA), FinTech lending platforms, such as Upgrade and Prosper, Tulane University, and a mentoring collaboration with JPMorgan Chase. Together with these partners, Liberty's vision of financial freedom for all continues to grow.

Part One: Financial Analyisis

A Global Outcry: BLM and #BankBlack Generate Wall Street Equity Investments and Influx of Deposits to Drive Asset Growth

Team Southeastern uses a free version of Qaravan®, a web-based application, to access call report data. Southeastern focuses on the drivers of Liberty's asset growth. For a cross-sectional and time-series analysis, we construct two peer groups for Liberty from 2016 to 2020. The bank peer groups consist of banks with asset sizes between $200 million and $800 million, have similar allocations in their loan portfolio, and serve customers near urban communities. "Minority Peers" consists of black-owned banks.[1] The "Majority Peers" include banks not minority-owned.[2] Table 1 provides the summary statistics for Liberty along with the two peer groups in 2020.

Figure 2 shows from 2016 to 2019, Liberty's asset growth lagged behind both peer groups; particularly in 2018. Liberty's 2018 negative asset growth is attributed to a repayment of Troubled Asset Relief Program (TARP) funds received eight years earlier. As part of the program, the U.S. Treasury Department also created the Community Development Capital Initiative (CDCI) in 2010, which gave aid to institutions lending to underserved communities ("Community Development"). As one of these institutions, Liberty participated by issuing 11,334 shares of preferred stock in exchange for $1,000 per share. As part of the agreement, the stock received a quarterly dividend with a 2% annual rate from 2010 to 2018. After 2018, the dividend rate rose to 9%. Liberty executed a buy-back of these funds in response to the increase to a higher dividend rate, decreasing their asset growth in 2018.

Also impacting Liberty's lower than peer asset growth, but to a lesser degree, was Liberty's net loan loss. Liberty's net loan loss averaged 0.35% of average total assets, while the Majority Peers and Minority Peers averaged 0.23% and 0.16%, respectively. Staying well within regulator's guidelines on loan losses, Liberty's main focus is helping underserved communities, which inherently comes with higher risks. Liberty's Senior Vice President in charge of Risk Management and Regulatory Compliance, Howard Cloy, explained Liberty's focus on helping undeserved communities comes in a form of helping "small African-American owned businesses" and taking on an endeavor that some banks simply are not willing to pursue.

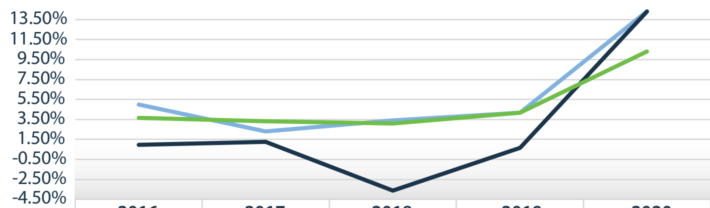
In 2020, Liberty and both peer groups experienced a material increase in average total assets due to an influx of Paycheck Protection Program (PPP) Loans for COVID relief. The BLM movement gave Liberty a competitive advantage in surpassing their Majority Peers' asset growth. As Liberty's mission revolves around economic equity, they attracted approximately $50 million in deposits from the BLM movement alone. Along with the large banks' equity investments and Liberty's shift from securities to loans, Liberty has capital to lend. They sought out lending opportunities through participation loan investments. They

Table 1: Asset and Loan Profile for Liberty, Minority Peers, and Majority Peers in 2020

Panel A. Loan Mix, % Average Gross LN&LS

Loan Category	Liberty Bank & Trust	"Minority Peers" Min	"Majority Peers" Min	"Minority Peers" Max	"Majority Peers" Max	"Minority Peers" Mean	"Majority Peers" Mean
Real Estate Loans as % of Net Loans and Leases	78.4%	63.91%	67.72%	86.28%	88.46%	72.98%	79.56%
Commercial Loans as % of Net Loans and Leases	16.58%	14.79%	11.66%	28.64%	22.35%	22.96%	15.96%
Net Loans and Leases as % of Average Total Assets	60.74%	56.54%	36.85%	68.86%	77.89%	61.10%	63.43%
Average Total Assets (in $ thousands)	$705,410	$284,882	$278,512	$567,437	801,900	$414,602	$515,378

Figure 2: % Change in Average Total Assets



	2016	2017	2018	2019	2020
Minority Banks	4.98%	2.30%	3.38%	4.19%	14.33%
Liberty Bank	0.96%	1.24%	-3.63%	0.68%	14.31%
Majority Banks	3.65%	3.31%	3.09%	4.17%	10.31%

bought pieces of loans made by other banks, increasing their interest income. Liberty expects to surpass $1 billion in assets within the next two years.

Part Two: Serving the Community in a Pandemic

Katrina's Silver-lining: Liberty Knew How to Protect its Lifeblood

COVID-19 has exacerbated racial inequalities, inevitably placing stress on families' upward mobility and impeding economic growth. Minority Americans are disproportionately represented among essential workers that often struggle financially and lack health care coverage. Essential workers are inherently at higher risk of being exposed to COVID-19 due to the nature of their work. These essential workers are Liberty's lifeblood—both their bank employees and their bank customers. These workers ensured the continuity of critical functions while keeping us all safe by ensuring food is available, nursing the sick, and keeping the money moving. Liberty wanted to reciprocate the sentiment.

The 2020 Mardi Gras celebrations placed New Orleans and Liberty at one of the early hotspots of the COVID-19 crisis. Although bank employees were considered essential and many area banks worked over-time, on premise and in close quarters, Liberty shifted to a 100 percent online work environment to protect its employees and the bank's customers.

After Liberty lost all of their bank facilities to Hurricane Katrina in 2005, the bank learned how to execute all the basic bank functions remotely for months. Learning from Liberty's response to Katrina, the bank could perform every function remotely; taking deposits and dispensing cash through ATMs, underwriting loans online, loan review, and even the collection process could be done with no contact. Lessons learned from Katrina proved to be a silver lining.

PPP Execution, New Customers, SBA Loans not Approved

PPP Participation: Liberty enthusiastically participated in the Paycheck Protection Program (PPP) with approximately $63.3 million of these loans in 2020-21, which went predominantly to black-owned businesses. The decision to participate was easy because the program serves their mission.

The first round of PPP was challenging because large banks had PPP applications waiting and the technology to allow them to input thousands of applications at a time. Liberty employees worked overtime, and sometimes through the night to get their customer loans booked in a timely manner. Although SBA corrected that inequity, other concerns regarding compliance with the Small Business Association's (SBA) requirements were often not clear. Again, larger banks have an advantage with in-house employees that can adapt to policies quicker than a community bank. The larger banks can get their programs in compliance, often before the policies are formally released. These disparities pushed customers away from smaller banks and toward the larger since they were able to process loans faster.

New Customers: Over the course of the pandemic, Liberty has been flooded with more deposits and qualified borrowers for two reasons: PPP and the Black Lives Matter movement. Large banks focused on serving their larger clients amidst the pandemic and neglected smaller companies. This drove small business PPP loans to Liberty, particularly after the SBA leveled the playing field with regard to access on their platform. Liberty required every PPP loan to be deposited into a small business deposit account introducing new customers to Liberty. Furthermore, as funds in round two have run out for majority banks, the funding reserved for MDIs still remains, again driving PPP business toward Liberty.

SBA Not Approved: Although a vast majority of Liberty's PPP loans were booked, it is a challenge to get the small businesses in Liberty's communities to qualify for PPP. The qualifications were created with larger companies in mind. Some of these small businesses that Liberty rejected could not provide the proper payroll documents; specifically form 941.

No New Programs but Expanded Online Services During COVID-19

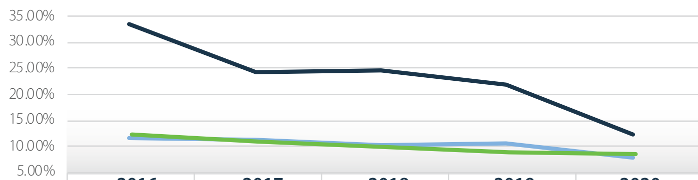
COVID-19 has impacted the black community more than other races or ethnic groups. Ensuring continuity of services has been important to Liberty. During the pandemic, Liberty did not create any new programs but the bank expanded its online platform to meet the needs of its clients. Customers are able to apply for loans, open accounts, and deposit checks all online, downplaying the need for brick-and-mortar branches.

Balance sheet Impacts: Marketable Securities Volume, Loan volume, Deposit Volume, and Capital Levels

At the beginning of 2020, forecasting the series of unexpected events that would unfold in our economy and our country's social fabric would

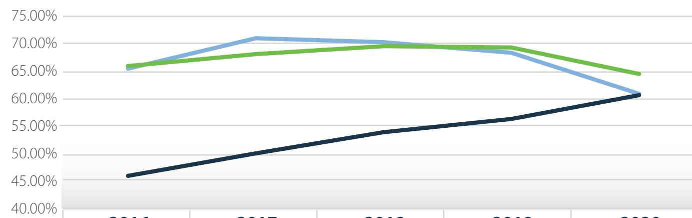
During the pandemic, Liberty did not create any new programs but the bank expanded its online platform to meet the needs of its clients.

Figure 3: US Treasury and Agency Securities as % of Average Total Assets



	2016	2017	2018	2019	2020
Minority Banks	11.72%	11.10%	10.19%	10.44%	7.92%
Liberty Bank	33.47%	24.15%	24.45%	21.92%	12.26%
Majority Banks	12.35%	10.75%	10.03%	8.98%	8.35%

Figure 4: Net Loans and Leases as % of Average Total Assets



	2016	2017	2018	2019	2020
Minority Banks	65.43%	71.03%	70.30%	68.33%	60.84%
Liberty Bank	45.97%	50.13%	53.89%	56.25%	60.74%
Majority Banks	66.08%	68.08%	69.51%	69.33%	64.53%

have been difficult. The onset and persistence of the COVID-19 pandemic, and the events that followed George Floyd's death, triggered a number of counter-intuitive outcomes.

Marketable Securities and Investments: The influx of cash left in the wake of 2020's multifaceted challenges pushed Liberty to find lucrative investment opportunities while treasury rates were nearly zero. In 2020, Liberty's US Treasury Securities portfolio, as a percent of average total assets, decreased a staggering 44.06%. In comparison, their Minority Peers' decreased 24.14%, while their Majority Peers' only decreased 6.09%. Figure 3 illustrates that, like their peers, Liberty shrank their US Securities portfolio from 2016 to 2020, however, Liberty far more aggressively.

Loan Volume: Banks are the conduit for the large amount of loans being issued through the PPP. Liberty dispersed $51,690,000 in PPP loans during the first round of lending. As they continue to lend, Liberty has distributed $11,580,000 in the second round of PPP loans to date. Figure 4 below shows that, unlike their peers, Liberty's net loans and leases increased in 2020. With the exception of PPP loans, 2020 saw a decrease in traditional loan demand due to the pandemic. Majority and Minority Peers had a decrease in net loans and leases in 2020, leading to an increase in their tier 1 capital levels, as shown in Figure 6 below. Liberty took a different approach than their peers, using capital from their US Treasury Securities portfolio to seek out loan opportunities and partner with other financial institutions in participation loan investments. Liberty's keen response to their recent cash abundance increased their interest income 5.13% more than their Majority Peers' and 13.66% higher than their Minority Peers' in 2020.

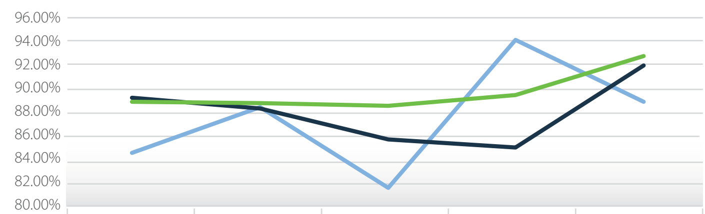
Deposit Volume: Liberty gained $100 million in deposits over a six-month period during COVID-19; far more than just PPP deposits and likely more permanent. Approximately half of this influx in deposits came from Round #1 of PPP loans, but the BLM and #BankBlack movements also contributed to the deposit growth in 2020. Deposits from the Dallas/Fort Worth area where Liberty Bank has no branches are an example. Liberty not only attracted minority customers, but also those who support the movements that empower minorities, leading to an 8.20% increase in deposits in 2020, seen in Figure 5 below. According to Mr. Cloy, the BLM movement also attracted deposits from major corporations who were attempting to correct the uneven playing field for African-Americans.

Impact on Capital Levels: As mentioned before, like many banks, Liberty required PPP loans to be deposited into an account at Liberty. This affected Liberty's balance sheet by increasing leverage and reducing Tier 1 capital ratios. The equity investments from some of the largest banks in the country, helped to offset the pressure for Liberty. Additionally, the FDIC responded by easing capital requirements for all banks, allowing banks to have more cash to lend (Smialek). In 2020 alone, Liberty saw a 27.38% increase in total capital but a 4.56% decrease in tier 1 capital to fuel asset growth, as seen in Figure 6. Also giving relief to this unanticipated change in capital structure was the Main Street Lending Program in which the Federal Reserve Bank purchased PPP loans from participating banks ("Federal Reserve"). This gave Liberty the option of removing some of these assets from their balance sheet and converting them to more liquid assets.

Story Telling on Liberty: How Liberty Bank Serves its Community

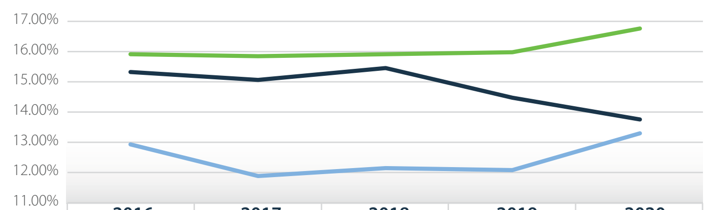
During hurricane Katrina, every Liberty branch in New Orleans was destroyed. Their customers' loan files were also destroyed, making it extremely difficult to service clients, many of which had moved to Houston, TX. Liberty knew that people would need assistance to return back to the city, so the bank developed an initiative called "Rebuild New Orleans" that provided financial assistance for families to reconstruct their homes. Rebuilding New Orleans after Katrina was a long, hard endeavor impeded by the lack of financing. Liberty not only provided financial assistance to rebuild homes, encouraging the community's return home, they also helped to repair and renovate

Figure 5: Total Deposits as % of Average Total Assets



	2016	2017	2018	2019	2020
Minority Banks	84.76%	88.58%	81.81%	94.18%	89.02%
Liberty Bank	89.37%	88.43%	85.82%	85.14%	92.12%
Majority Banks	89.04%	88.92%	88.67%	89.63%	92.83%

Figure 6: Tier 1 Capital Ratio



	2016	2017	2018	2019	2020
Minority Banks	12.92%	11.84%	12.14%	12.09%	13.32%
Liberty Bank	15.37%	15.05%	15.46%	14.48%	13.81%
Majority Banks	15.90%	15.83%	15.92%	16.00%	16.76%

the 1927 Saenger Theater, a crown jewel on the National Register of Historic Places on the edge of the famous Vieux Carre ("Restoration"). The Saenger Theater had been under renovation at the time of Katrina, but it had significant water damage, flooding the orchestra pit ("Saenger Theatre (New Orleans)"). Liberty Bank participated in financing a $53 million authentic redevelopment project of the historic venue that Alden McDonald was denied access to as a child during segregation ("Alden J. McDonald, Jr."). Liberty's partnership in this effort to revitalize a community venue transcends race in so many ways.

Part Three: Diversity, Inclusion and Economic Fairness

Diversity within Liberty's Staff, Executives and Board of Directors

Like many community banks, Liberty's talent pool is limited because many highly qualified minority prospects migrate to larger institutions where pay is higher, and the perception of greater opportunities is offered. Liberty uses its mission to convince qualified minority candidates to pursue the empowerment of their own communities. It's a powerful story and a powerful tool to attract minority talent.

Considering past actions taken by TriStar to meet the needs of its customers and employees, the Bank continues to focus on providing quality services to communities.

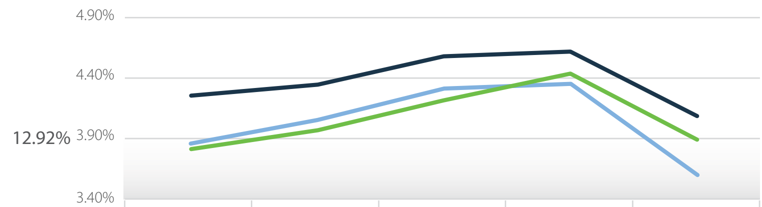
It is particularly difficult for Liberty to find and hire minority employees for middle and upper-level management positions. Despite this challenge, Liberty's executive team, including the board, is made entirely of African-Americans. Two have been with the bank since its inception in 1972—Dr. Norman Francis, Chairman of the Board, and Mr. Alden J. McDonald Jr., President and CEO. Dr. Norman Francis has been the President of Xavier University in New Orleans since 1968, naturally positioning Liberty with a bridge to young black college graduates.

Liberty has no choice but to protect its black, minority-owned status by actively seeking qualified black employees and mentoring them into mid-level and upper-level management. The onboarding and mentoring of qualified young employees includes promises of better compensation with growth and experience.

Special Programs and Products to Support Diversity and Inclusion

Liberty's mission is greater than any formalized program or product; it is a culture. As evidence, Liberty enabled more than one thousand first time homebuyers with mortgages that have low interest rates. They promote flexible underwriting, low down payments, and personal financial counseling for their

Figure 7: Interest Income as % of Average Total Assets



	2016	2017	2018	2019	2020
Minority Banks	3.86%	4.05%	4.31%	4.34%	3.59%
Liberty Bank	4.25%	4.34%	4.57%	4.60%	4.08%
Majority Banks	3.81%	3.97%	4.21%	4.43%	3.88%

customers. They consistently seek to convert high rate payday loans to lower rate bank loans that are more manageable. The African-American community has been plagued historically with predatory loans. Seen in figure 7, the average interest rate Liberty charges may be higher than peers to offset higher credit risks, but when a customer converts payday loans into a Liberty loan, they save vast amounts of interest. Mr. McDonald spoke passionately about Liberty's goal of saving customers from predatory loans saying, "When they (customers) borrow money at a reasonable interest rate, their availability and their discretionary income increases without getting another job. What we see is different ways of taking the banking system and converting it to helping people on a grand scale.". These savings can be reallocated to better the customer's standard of living. It's a daily push to fulfill their mission—Not a program—Not a single product—A mission.

In Gentilly, LA, Liberty intervened with the financing of a nine-mile Katrina-flooded community. Liberty led the origination of dozens of mortgages originally projected for 10-years or less. Now, they are being converted into 30-year traditional mortgages, so homeownership can be sustained in what would otherwise be abandoned neighborhoods. This initiative was so successful that it was also expanded to other communities in New Orleans.

In 2019, Liberty and JPMorgan Chase partnered to expand the BuildNOLA Mobilization Fund, a program that provides capital to entrepreneurs of color and women pursuing public infrastructure projects with the goal of creating more jobs to grow the New Orleans economy. The New Corp CDFI and the City of New Orleans, with support from The Kresge Foundation and the Greater New Orleans Foundation, co-created The BuildNOLA Mobilization Fund.

Liberty participated in the now paid-off TARP funds during the financial crises, which directed capital towards the New Orleans community that had recently been hit by Katrina. "This additional capital will benefit all communities that Liberty serves and enhance our capacity to support the revitalization of the area we cover that has been struck by four destructive hurricanes in the last three years" McDonald said. But again, Liberty's mission is a culture—not a program.

Liberty also has partnering efforts from NewCorp, a non-profit organization, in the Build New Orleans program whereby loans are provided to minority owned contractors for working capital needs used in the participation of New Orleans construction projects (Cloy). In Detroit, Liberty, the W.K. Kellogg Foundation, and JPMorgan Chase have also funded the Entrepreneurs of Color Fund which helps provide capital to small minority owned businesses (Cloy). By serving their communities, Liberty and its affiliates promote the economic well-being of all who inhabit it.

Market Demographic Changes Over the Past Decade

Liberty's primary depositors and borrowers have always been from the underserved African-American communities, like Montgomery and Tuskegee, AL. Liberty's market areas are economically depressed and underserved. Tuskegee had only two banks, Regions and Liberty, but does not have the demographics to support two banks—Liberty remains.

Liberty's primary depositors and borrowers have always been from underserved African-American communities, like Montgomery and Tuskegee, AL.

Liberty has added major partnerships with municipalities, such as the city of Montgomery and Kansas City, where they have arranged for municipalities to deposit their resources with Liberty, supporting their mission. Although Liberty's deposit base is still predominately black, the BLM and #BankBlack movement have directed deposits to Liberty from outside the urban cores. The BLM movement has pushed down the physical market boundaries for deposits and non-voting equity investments. Liberty has allies outside of the urban cores.

Liberty's Support of Local Projects to Serve Underserved Areas and Promote Economic Development

Local Projects: Liberty empowers young people in the impoverished market areas they serve by providing financial aid and interaction to rebuild the educational system. Like many community banks, Liberty sustains a high level of presence by sponsoring local school sports teams and raising funds for school programs. Liberty partners with non-profit organizations and local churches to provide free financial literacy seminars on financial products, the importance of credit, and budgeting. Liberty makes it part of their mission to help build financial wealth in African-American communities and holds a strong belief that it begins with financial education. To help with these relationships, Liberty acquired a bank whose portfolio largely consisted of loans to churches, providing a bridge for outreach.

Liberty sees a clear obligation to serve young Americans and to address long-standing economic disparities by providing online and in person seminars to educate individuals about credit, investing, and other financial literacy topics. To help create attendance to these events, Liberty also uses customer relationships with local churches to inform the congregation about educational opportunities. Liberty understands what causes the disparity of minority communities and has become skilled at unlocking the untapped potential in what other banks see as depressed markets.

Liberty entered the Detroit market in 2009 by purchasing Home Federal Savings Bank when they discovered local banks were not lending for housing in the depressed areas (Henderson). The area had seen a severe lack of housing purchases for over a year, creating a gap for accurate housing appraisals, something local banks required in order to meet lending policies (McDonald et al.). The lack of recent market activity comparisons, which helps to derive a property's value, made it difficult for residents to meet local banks' increasing collateral requirements (McDonald et al.). To solve this problem, JPMorgan Chase provided Liberty Bank with a $5 million loan loss reserve to offset the risk of lending in these depressed areas (Henderson). Liberty was then able to provide local residents with the ability to purchase properties at tax auctions, restore the homes, and insert them back into the market. This gradually created more recent purchase comparisons for the area and a path to recovery. Other banks followed Liberty's lead. These deteriorating sectors of Detroit are now being revitalized, thanks to Liberty's innovation.

"We promote financial literacy, healthy asset building and sustainable banking practices that lead to stronger individuals, families, businesses, communities and cities. We create opportunities for those who can least afford them–shifting the burden, leveling the playing field–and we proudly fulfill our responsibility as a responsive, dedicated and steadfast community advocate."

—Liberty Bank and Trust Company

Impact Made by Liberty's Small Business Lending Transcends Race to promote economic development

Liberty directly influences the opportunities for those who can least afford them; shifting the burden. They directly level the playing field for African-American communities. But Liberty's impact reaches even farther into all communities.

Liberty provided Team Southeastern with information from their Louisiana loan portfolio

The multiplier tables quantify how Liberty's direct loan investments into a minority-owned business within a sector indirectly ripples throughout entire communities.

to execute an economic impact study which quantifies an estimate of how Liberty's efforts have created sales, employment, and wage income throughout their market areas and beyond. Information obtained includes the borrowers' North American Industry Classification (NAIC) codes, revenues, total assets, and loan origination amount. The loan's NAICs code is converted into a Regional Input-Output Modeling System (RIMS) code allowing Team Southeastern to use multiplier tables for the State of Louisiana provided by the Bureau of Economic Analysis (BEA).

The multiplier tables quantify how Liberty's direct loan investments into a minority-owned business within a sector indirectly ripples throughout entire communities. Within the tables are multiplier values that show how lending to one industry can impact not only that industry, but also other industries indirectly. For example, capital lent to a business in the construction industry would have a direct impact on the spending within that industry, but that same lent capital spurs an indirect effect of spending in other industries, represented by a multiplier value. Aggregated loans sorted by RIMS industry codes are used as an input in the multiplier tables.

Liberty's Louisiana loan originations in 2019 represents 32.26% of their $345 million loan portfolio, before allowances, that spans eight states. The business loans represent approximately 56.4% of the Louisiana originations, or 18.2%, of their entire loan portfolio. Since mortgage and consumer-related borrowers' spending does not fit into a RIMS code, we drop them from Liberty's economic impact. These dropped loans have a clear and important influence, but they cannot be quantified in this model.

To account for Liberty's full loan portfolio that crosses eight states, it is assumed the other Liberty states' multipliers are similar to Louisiana's. Based on this assumption, the impact is scaled up by a factor of 5.42 to represent the full business loan portfolio across Liberty's market areas.[3] Despite dropping a large portion of Liberty's portfolio, their impact on economic development is vast. Table 2 illustrates Liberty's impact on generated sales, taxable earnings, and jobs created.

New Sales Generated: We learned that Liberty is responsible for creating a total indirect estimated impact of $685,626,888 of new sales throughout the states they operate in. In absolute dollar terms, Liberty's efforts had the most impact on the construction industry, where loan investments of approximately $11,662,416 in Louisiana, scaled up, creates estimated sales of $132,350,904. The real estate sector where a $9,971,606 loan investment in Louisiana, scaled up, creates estimated sales of $75,270,611. On a per dollar invested basis, Liberty's lending impacted the construction industry and the real estate sector with a multiplier effect of $11.35 and $7.55, respectively.

Taxable Wage Earnings: In addition to sales created, it is also important to consider the impact Liberty's loan investments had on creating taxable wage earnings. Liberty created an estimated total of $206,928,107 in wages from their lending across eight states. As with sales created, the construction industry was the highest, creating estimated taxable wage earnings of $45,005,730 and a multiplier effect of $3.86 for every $1 directly lent into the industry. Liberty's large impact on the construction industry is due to their considerable concentration of loans. In 2019, New Orleans suffered damage of more than $600 million from Hurricane Barry and it was also a "key year for the completion of several multimillion-dollar construction projects in the New Orleans area" ("Hurricane Barry (2019); Traweek). Liberty's lending had the second highest impact on earnings created in the professional, scientific, and technical services sector. An investment of $5,520,529 created an estimated $21,986,149 in earned wages, with a multiplier effect of $3.98 per dollar invested.

Employment Created: With a more potential long-term effect than earnings or sales, Liberty's small business lending created an approximate 5,061 jobs in the areas they serve, likely aiding in the financial upliftment of those with an inherent lack of opportunity and wealth. Again, the construction industry was the highest, with approximately 926 jobs created, followed by the securities, commodity contracts, and investments industry.

Liberty's direct impact on the underserved, minority communities they focus on is inspirational, but the whole of their influence is overwhelming—Liberty transcends race.

Protests Related to Social Justice Support Liberty's Mission of Diversity and Inclusion

Liberty is mission driven and now their mission is being highlighted by the protests for racial justice, the BLM movement and #BankBlack.

With a more potential long-term effect than earnings or sales, Liberty's small business lending created an approximate 5,061 jobs in the areas they serve, likely aiding in the financial upliftment of those with an inherent lack of opportunity and wealth.

Table 2: Economic Impact of Liberty's Louisiana Small Business Loans on Sales, Earnings, and Employment Created

	Amount Invested (In $)	Sales Created (In $)	Taxable Earned Wages Created (In $)	Employment Created (in jobs)
Construction	$11,662,416	$132,350,904	$45,005,730	926
Food, Beverage, and Tobacco Product Manufacturing	$5,140,638	$60,275,796	$12,657,824	288
Computer and Electronic Product Manufacturing	$892,382	$7,856,330	$2,676,636	49
Motion Picture and Sounds Recording	$19,265	$177,258	$47,519	1
Machinery Manufacturing	$1,564,864	$15,594,263	$4,239,934	72
Funds, Trust, and Other Financial Vehicles	$1,275,000	$10,281,807	$2,013,720	74
Educational Services	$2,954,000	$30,750,797	$11,943,967	337
Plastics, and Rubber Products Manufacturing	$255,290	$2,813,965	$607,986	11
Wholesale Trade	$750,066	$7,129,703	$2,181,878	40
Retail Trade	$173,500	$1,665,938	$536,105	16
Hospitals	$313,000	$3,266,949	$1,133,914	23
Transit and Ground Passenger Transportation	$200,000	$2,088,158	$797,282	24
Other Transportation and Support Activities	$32,144	$334,459	$124,359	2
Federal Reserve Banks, Credit Intermediation, and Related Service	$1,000,000	$8,963,193	$2,009,736	44
Securities, Commodity Contracts, Investments	$4,558,000	$47,104,710	$14,024,665	499
Social Assistance	$217,657	$2,280,184	$889,023	36
Real Estate	$9,971,606	$75,270,611	$8,231,222	387
Professional, Scientific, and Technical Services	$5,520,529	$55,414,571	$21,986,149	408
Accommodation	$4,826,433	$48,583,382	$13,574,044	351
Administrative and Support Services	$142,250	$1,468,927	$552,803	18
Ambulatory Health Care Service	$2,791,336	$29,272,416	$11,968,587	225
Amusements, Gambling, Recreation	$20,000	$194,685	$61,875	2
Food Services and Drinking Places	$1,334,819	$13,518,219	$4,010,205	151
Other Services	$11,913,794	$128,969,662	$45,652,945	1077
Totals:	**$67,528,991**	**$685,626,888**	**$206,928,107**	**5061**

The protests have helped to increase the bank's deposits by as much as 33% in just eight months. Liberty will capitalize on the partnerships and deposits that have been fueled by the BLM movement.

Howard Cloy explained that Liberty's mission of serving disadvantaged and underserved African-American communities attracts support from large corporations and government entities. In addition, Liberty's success as the largest minority black-owned bank also makes them a leader of the #BankBlack movement where Liberty is seen as an opportunity for majorities to support the economic growth of African-Americans (Cloy). Cloy explained that many of the recent protests due to social injustice have not only increased the bank's focus on their own mission but has also attracted many other financial institutions to join in the fight.

Since many banks, even the largest, do not usually have operations in urban core areas, they found a unique way to help minorities. For instance, JPMorgan Chase developed a relationship with Liberty under the U.S. Treasury's Bank Mentor Protégé Program ("Liberty Bank Receives").

In Summer 2020, the Advancing Black Pathways Summer Apprenticeship program allowed 75 college students to partner with Liberty executives to identify areas of growth and expansion ("Liberty Bank Receives"). JPMorgan provides Liberty with access to their Asset Management's money market funds through a new Empower share class allowing institutional investors to invest in MDIs and CDFIs ("Liberty Bank Receives"). They also committed to donate 12.5% of revenue for management of Empower share class assets to organizations like Liberty that support community development ("Liberty Bank Receives").

In Summer 2020, the Advancing Black Pathways Summer Apprenticeship program allowed 75 college students to partner with Liberty executives to identify areas of growth and expansion ("Liberty Bank Receives").

The return to these large conglomerates is not just a "feel-good" moment, but it is mutually beneficial. The equity investments in Liberty credit toward the investor's Community Reinvestment Act (CRA) performance. Recently, JPMorgan Chase invested $10 million in Liberty through a non-voting equity stake ("Liberty Bank Receives"). CEO, Alden J. McDonald Jr., said this increase in capital will go towards stronger efforts to support small business, expanding lending for mortgages, and helping to "refinance predatory lending products.". Similar investments have been made by all the largest banks.

Liberty Bank Uses Their Mission to Promote Diversity, Inclusion, and Social Justice in Fair Lending Practices

Diversity, inclusion, and financial equality are woven into the fabric of Liberty's existence. Although the Equal Credit Opportunity Act (ECOA) exists to avert discrimination in the lending practices of all banks, Liberty plays a special role in "targeting minorities in its lending activities" (Cloy). Liberty's practices directly coincide with the significance of the ECOA. Also assisting in the emphasis of Liberty's far-reaching mission are the Community Development Financial Institutions (CDFI) Program, and the Minority Depository Institution (MDI) Program. As part of the economic relief administered in 2021, programs such as the Emergency Capital Investment Program and the U.S. Treasury's CDFI Rapid Response Program (RRP) placed an even greater emphasis on goals all too familiar with that of Liberty's: administering financial help for low to moderate income communities during their greatest time of need, the pandemic (Cloy).

> *"Do not let our hearts be any longer discouraged … but let us promote ourselves and improve our own talents."*
>
> \- Maria W. Stewart, 1832
> (qtd. in Todd, George, I)

Coupled with their fair lending practices, Liberty can be seen as a beacon of light and hope for underserved communities and can serve as example for other community banks to follow suit in leveling the playing field.

Liberty Bank's Lack of Trust Department Shows Wealth Gap Across Demographics

As a community bank serving the underserved minority demographic, Liberty is faced with the challenge of wealth deficiency among their customer base. Although part of their name, Liberty lacks a trust department because the wealth of African-Americans' is limited, relative to the majority population. Since Liberty's primary customer base does not have as much wealth to be managed as their majority counterparts, they are unable to earn additional fee income through wealth management services like larger institutions.

Continuing the Mission Set by Their Forefathers with the Help of Policy Makers

Since 1972, Liberty has found a strategy to be prosperous in a market that most would imagine to be unprofitable and too risky. In more recent times, policy makers have acknowledged that MDIs need assistance, mentoring, and a focus on issues that are unique to these types of institutions.

The FDIC states that they are "committed to promoting and sustaining the vibrant role these banks (MDIs) play in their communities" (Rudolph 9). To address these needs, the FDIC "appointed additional minority bankers to the FDIC Board's Advisory Committee on

Community Banking" in 2018 (Rudolph 2). The FDIC has also taken initiative in the form of an outreach program that provides MDIs with education, technical assistance, and training "to provide MDIs with the tools and resources to be profitable and serve their communities" (Rudolph 5). In 2019, The FDIC promoted a collaboration between large banks and MDIs to "focus on building capacity" in minority financial institutions, something Liberty has recently benefited from (Rudolph 5). Liberty's service to uplift those who are at a disadvantage has made them an example of what can be achieved when, like Maggie Lena Walker said, "we put our moneys together" (qtd. in Todd and George, description). Liberty's keen judgement, bold endeavors, and passionate mission has put them at the forefront of recent economic and social development aimed at making a better world for future generations. It is with this tenacity that Todd McDonald, CEO McDonald's son, hopes to continue his father's, and Liberty's legacy for another 50 years. Financial freedom and fairness are a way of life for those at Liberty, and one we can all gain insight, understanding, and courage from.

Endnotes

1. Industrial Bank-Washington, DC; Citizens Trust Bank-Atlanta, GA; The Harbor Bank of Maryland-Baltimore, MD; First Independence Bank-Detroit, MI
2. Cottonport Bank-Cottonport, LA; Bank of Zachary-Zachary, LA; Metairie Bank & Trust Co.-Metairie, LA; Citizen's Bank & Trust Co-Plaquemine, LA; American Bank and Trust Co. National Assn-Davenport, IA; Resource Bank National Assn-Dekalb, IL; Home State Bank National Assn-Crystal Lake, IL; FNBC Bank & Trust-LaGrange, IL; Bank of Pontiac-Pontiac, IL; Grundy Bank-Morris, IL; First Bank-McComb, MS; FSNB, National Assn-Lawton, OK; PriorityOne Bank-Magee, MS; Riverhills Bank-Vicksburg, MS; The New Washington State Bank-New Washington, IN; The Paducah Bank & Trust Co.-Paducah, KY; Wilson & Muir Bank & Trust Co.-Bardstown, KY; First Community Bank of Central Alabama-Wetumpka, AL; Central Bank-Houston, TX; Texas Gulf Bank, National Assn-Houston, TX; The First Liberty National Bank-Liberty, TX
3. This scale factor was found by dividing Liberty's entire loan portfolio by the total business loans from their Louisiana portfolio. Liberty's loans fit into twenty-four RIMS categories in Louisiana.

Works Cited

"Alden J. McDonald, Jr., President and CEO, Liberty Bank and Trust Company." *YouTube*, uploaded by SaengerNOLA, 19 Nov. 2012, www.youtube.com/watch?v=qjWYM9Ocn8o.

Rudolph, Betty J. "An Examination of Regulators' Efforts to Preserve and Promote Minority Depository Institutions." *U.S. House Committee on Financial Services*, 20 Nov. 2019. Print.

Cloy, Howard. Personal Interview. 18 and 25 Mar. 2021.

"Community Development Capital Initiative (CDCI)." *U.S. Department of the Treasury*, home.treasury.gov/data/troubled-assets-relief-program/bank-investment-programs/cdci.

"Federal Reserve takes additional actions to provide up to $2.3 trillion in loans to support the economy [Press release]." *Board of Governors of the Federal Reserve System*, Federal Reserve, 09 Apr. 2020, https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm.

Henderson, Tom. "Chase Teams with Liberty Bank to Fund Loans for Detroit Auction Homes." *Crains Detroit*, 10 July 2014, https://www.crainsdetroit.com/article/20140710/NEWS/140719992/chase-teams-with-liberty-bank-to-fund-loans-for-detroit-auction.

"History of Black Entrepreneurship Very Important." *Liberty Bank*, https://www.libertybank.net/about/news_article/history.cfm.

"Hurricane Barry (2019)." *Wikipedia*, Wikimedia Foundation, 16 Mar. 2021, en.wikipedia.org/wiki/Hurricane Barry_ (2019).

"Liberty Bank Receives A Major Investment From JPMorgan Chase." *Liberty Bank*, https://www.libertybank.net/about/news_article/chase-liberty.cfm.

McDonald, A., Jr., Cloy, H., & McDonald, T. Liberty Bank Interview [Personal interview]. 06 May 2021.

"Restoration." *Saenger Theatre*, www.saengernola.com/info/restoration.

"Saenger Theatre (New Orleans)." *Wikipedia*, Wikimedia Foundation, 30 Mar. 2021, en.wikipedia.org/wiki/Saenger_Theatre_(New_Orleans).

Smialek, Jeanna. The Fed Simplifies Capital Rules, a Change Sought by Big Banks." *New York Times*, 04 Mar. 2020, https://www.nytimes.com/2020/03/04/business/economy/federal-reserve-bank-capital.html.

"There's Freedom Here." *Liberty Bank*, 2019, https://libertybank.mymortgage-online.com/AboutUs.html.

Todd, Tim, and Esther L. George. L*et Us Put Our Money Together: The Founding of America's First Black Banks*. Kansas City, MO: Public Affairs Department of the Federal Reserve Bank of Kansas City, 2019. Print.

Traweek, Lance. "Top Construction Projects 2019." *New Orleans CityBusiness*, 28 Jan. 2020, neworleanscitybusiness.com/blog/2019/02/14/top-construction-projects-2019/.

Wilson, Valerie. "Racial Disparities in Income and Poverty Remain Largely Unchanged amid Strong Income Growth in 2019." *Economic Policy Institute*, 16 Sep. 2020, www.epi.org/blog/racial-disparities-in-income-and-poverty-remain-largely-unchanged-amid-strong-income-growth-in-2019/.


iStock
by Getty Images™

1129 20th Street, N.W., 9th Floor
Washington, D.C. 20036
202.296.2840
www.csbs.org