MISSISSIPPI STATE UNIVERSITY

DEPARTMENT OF FINANCE AND ECONOMICS

Bank of Commerce

Always for you.

Bank of Commerce: An analysis of the past decade and expectations for the future

Prepared For: CSBS Community Bank Case Study Competition

Bank Partner: Bank of Commerce

Student Team:

Von Churchwell

Annabelle Peck

Peyton Randazzo

Eric Sudduth

Faculty Advisor:

Matthew Whitledge, Ph.D.

Table of Contents

Executive Summary:

A comprehensive financial analysis was conducted on the Bank of Commerce. Five areas of the Bank of Commerce's financial reports were examined. These five areas include earnings performance, asset growth, capital levels, loan portfolio composition, and liquidity. The Bank of Commerce's performance in these areas was compared to a peer group to measure the bank's performance. BoC was found to have strong financial performance over the past decade in all five of these areas. In the earnings performance, they compete by controlling costs like pre-tax, non-interest espenses observed in their efficiency ratio. Their strategy in liquidity is to rely more heavily on core deposits. Bank of Commerce's loan portfolio had growth from farm loans and commercial and industrial loans, and their liquidity strategy is to rely more on core deposits.

This report contains a summary of changes that have occurred within the Bank of Commerce over the last decade, such as the lower demand for loans following the recession from the Pandemic. This section of the report details the challenges faced by the BoC, like increased need for technological adaptation, and regional and demographic including the recent brain drain trend. Also included are the specific ways in which the bank's profile has changed, and a story provided by bank managers that exemplifies how the bank has served its community within the last decade.

Finally, this report details the changes that are expected to occur within the Bank of Commerce in the upcoming decade. Conditions discussed for this decade were discussed with senior bank managers. They revealed ways in which they expect the community banking environment to change, whom they see as up and coming competitors, and how the COVID pandemic changed the bank going into the future.

Community Bank Definition:

Community banks, like Bank of Commerce (BoC), generally possess a customer-oriented approach, and tailor their services more specifically to their customers. This style of banking is commonly referred to as relationship banking. Community banks seek to service all the banking needs of their customers and provide a higher level of personal attention. Larger banks, comparatively, use a more transactional approach. This transactional approach focuses more on generating a higher number of transactions to capitalize on transactional fees, rather than building relationships with customers.

A community bank derives funds from and lends to the community where it operates and is not affiliated with a multibank holding company. It is owned and operated locally. Because they derive funds from and lend to the community, they focus on the needs of the businesses and families where the bank holds branches and offices. The lenders, therefore, are ones who understand the local needs of families, businesses, and farmers.

The FDIC also has identified five steps in classifying a community bank, and BoC has been classified as a community bank by the FDIC. The first step includes aggregating the charter level data reported under each holding company into a single banking organization (Kelly). The next step is excluding banking organizations where more than 50% of total assets are held in certain specialty banking charters. The third step is including organizations with a total loans-to-assets ratio greater than 33%, and a ratio of core deposits to assets greater than 50% (FDIC). Next is limiting inclusion of organizations commonly within the boundaries of a single state. Finally, the last step is including organizations with under $10 billion in assets.

Bank of Commerce Background:

"Another Bank Opens Monday" was the statement in the local newspaper when the Bank of Commerce was founded by a group of shareholders in August 1904. The emerging bank began operations from a shared office of a local medical professional in the small town of Greenwood, MS. The Bank of Commerce rapidly became a pillar of the local community through dedicated service and reliability. This long-standing bank has witnessed and endured history-changing events such as the Great Depression, World War II, the Mortgage Crisis, and the COVID-19 pandemic.

Bank of Commerce has not only survived for over a century but thrived, through a customer-focused, conservative approach to banking. Bank of Commerce has since outgrown the days of sharing office space and expanded to nine different locations throughout Mississippi. They have opened six branches in the past 10 years, three were the result of acquisitions. These include BoC's acquisition of Tallahatchie Bank in March of 2018 and Peoples Bank & Trust Company in May of 2019. The bank has grown significantly since its inception in 1904, and today possesses total assets of $732,500,000. BoC has managed to remain relevant and prosperous in an era in which small community banks are becoming less common.

Part 1:

Earnings Analysis:

The earnings performance analysis of BoC was performed using data from the FDIC's Industry Analysis tools. Performance over the previous five years was measured against a comparable peer group's past five years of performance. Data for the income statement in 2021 was annualized for the Bank of Commerce and its peer group due to the final balances not being reported at the time this analysis began.

When creating a peer group for BoC, we chose a peer group composed of banks found in the FDIC's Dallas geographic region that possess \$500 million to \$1 billion in total assets. BoC was recently classified as an agricultural bank as of September 31st, 2021. BoC was given this classification because 25.2% of their loan portfolio is made up of Agricultural and Farmland loans. The FDIC defines an agricultural bank "as an insured institution with at least 25% of its loans concentrated in agricultural production or secured lending". It was determined that the Bank of Commerce would best be compared to the peer group stated above and not agricultural banks.

The earnings performance of the Bank of Commerce over the past decade has been strong, and more than sufficient to support operations. Despite impressive growth of earnings in recent years, the Bank of Commerce has trailed peers in overall net income. The primary reason behind Bank of Commerce's lower earning ability is that the institution is issuing fewer loans than its peer group. Over the previous 5 years the Bank of Commerce has carried, on average, \$63,000,000 fewer dollars in loans than the average bank in its peer group. Currently, BoC possesses \$375,467,000 in loans while the average peer group bank possesses \$428,286,000.

As of December 31st, 2021, Net Income (NI) income totals \$9,283,000, which is lower than the peer average of \$9,536,000. Although it is below peer average, their NI has grown 20% more than their peers in the past five years. One of the methods the Bank of Commerce has used to keep its net income in-line with peers, while having significantly fewer loans, is controlling costs. In 2021, the Bank of Commerce accumulated \$10,777,000 in pre-tax non-interest expenses, compared to the \$19,831,000 in expenses incurred by the average bank in the peer group. The earnings performance has greatly benefited from declining interest expenses over the last three years. Just three years ago the bank's interest expenses were $6,329,000 as of December 31st, 2021 they declined to only $3,413,000.

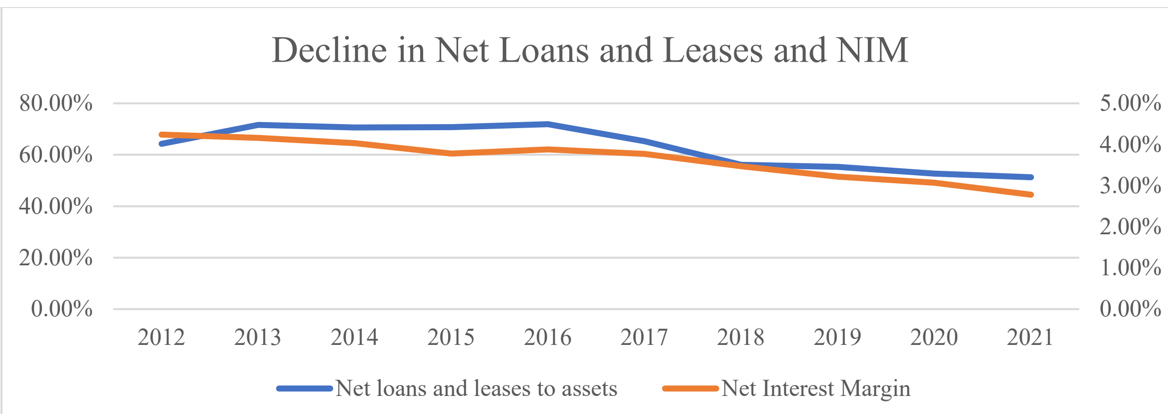
This cost-saving strategy can be further observed through comparing the efficiency ratio of Bank of Commerce and its peer group. The efficiency ratio compares expenses to revenues. The lower the ratio, the more efficient a bank has become at managing costs. BoC currently has a lower efficiency ratio than its peer group. In the last 5 years, the efficiency ratio has steadily declined, and currently sits at 46.56%. The peer group has seen a similar decline, and currently possesses an efficiency ratio of 59.96%. This demonstrates the Bank of Commerce is doing a better job of controlling costs than its peer group. When interviewing executives of the Bank of Commerce, the methods which they have employed to remain so efficient were revealed. CFO Zach Luke stated that each branch of Bank of Commerce, except for its headquarters, is staffed by a small team of employees. These employees are cross trained to serve different functions within the bank, leading to an increase in efficiency. Bank of Commerce is also heavily invested in technology, which assists in driving down costs.

Efficiency Ratios					
	2017	**2018**	**2019**	**2020**	**2021**
Avg. Peer Group	69.18%	67.34%	65.23%	62.96%	59.96%
Bank of Commerce	49.12%	50.74%	52.80%	52.74%	46.56%

Bank of Commerce also possesses a higher average return on equity (ROE) than the peer group with a 14.22% average over the last decade, and 13.42% ROE over the past five years. The peer group has averaged a 12.18% ROE over the past five years. This demonstrates that Bank of Commerce has generated strong earnings with a lower amount of funding from equity than its peers.

The bank's Return on Assets (ROA) has averaged 1.28% over the past five years. This is slightly below the peer average of 1.49% during this time. ROA for the Bank of Commerce has remained steady over the past five years, despite a rapid 89.57% increase in assets in this time. This demonstrated that the Bank of Commerce has managed to grow its profits along with its rapid increase in assets.

The Bank of Commerce is also trailing the peer group in net interest margin. The five-year average NIM for BoC was 3.26%. The peer group saw an average of 3.87%. The Bank of Commerce's Net Interest Margin (NIM) has been on a steady decline over the last 5 years, with an average annual decline of 7.32%. The peer group saw a much slower decrease in NIM of -1.79%. The primary reason for this decline is BoC's overall decline in the reliance on loans. The graph below demonstrates the direct correlation between the decrease in loans-to-assets, and the decrease in net interest margin.



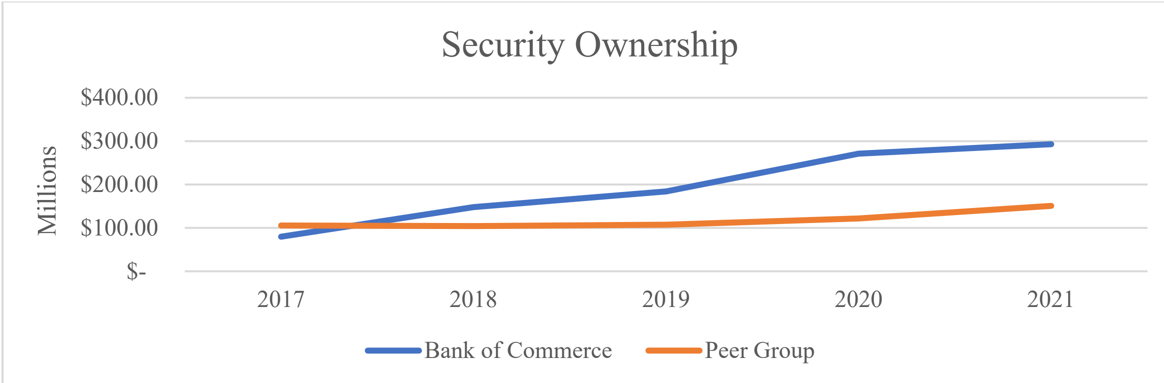
Asset Growth:

Total assets for the Bank of Commerce have increased significantly over the last decade and have been primarily funded by rapidly increasing deposits. In December of 2012, the bank possessed $271,686,000 in total assets. This amount has increased 269.59% to $732,436,000 today. Much of this growth has occurred in the last five years of operations, with an increase of 89.57%. Comparatively, the peer group's total assets have only grown 49.44% fin the last five years.

Many new assets obtained by the bank have been interest-earning assets, which are comprised of securities and net loans and leases. Interest earning assets increased by $335,320,000 from 2017-2021. Interest earning assets composed 89% of the Bank of Commerce's total assets on average. Comparatively, interest earning assets made up an average of 85% of the peer group's total assets from 2017-2021.

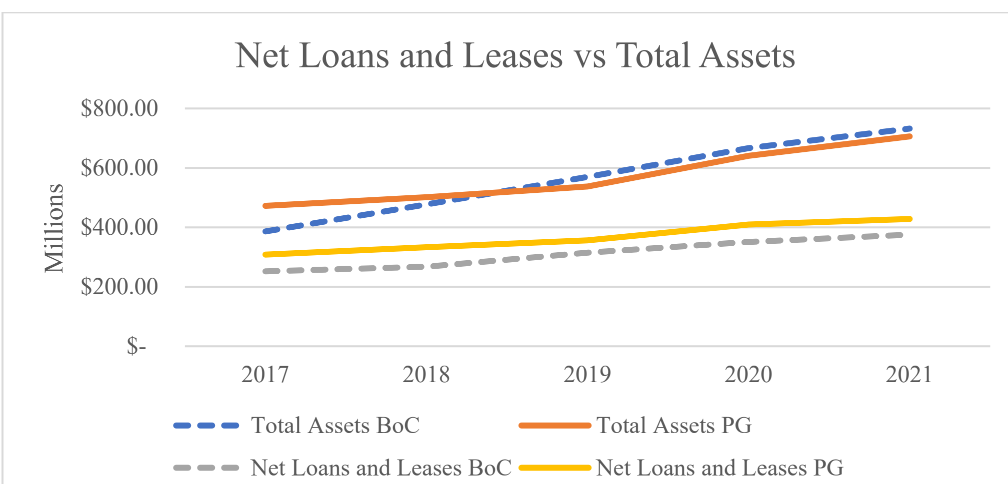
Much of the BoC's interest earning asset growth has arisen from the purchase of debt securities. BoC currently holds $292,932,000 (reported at fair market value) in different types of securities. Most of the securities held, 56%, are bonds issued by states and political subdivisions. Most of these bonds have maturity dates of over fifteen years into the future, which are much more sensitive to interest rate risk than short-term securities. This may pose an issue for BoC, as the Federal Reserve is expected to increase interest rates in the near future (Timiraos). CFO Zach Luke stated that BoC intends to negate this interest rate risk by holding onto securities until their maturity. BoC will use these securities purely to earn interest income for reinvestment. Interest income provides a stable method of earning interest revenues when loan demand is decreased, and banks need to invest new deposits.

In December of 2012 securities made up roughly 24% of BoC's assets. In total, the value of securities carried by the BoC over the past decade has increased by 350.86%. The trend of increasing securities purchases is also reflected in the peer group, but at a less significant level. The peer group's securities currently represent 21.35% of total assets, while they represent approximately 40% of BoC's assets. The graph below demonstrates the five-year securities growth of the BoC and the peer group.



As securities for BoC and its peer group have increased, their reliance on loans decreased. This is a phenomenon found nationwide. Following the COVID-19 outbreak, bank deposits skyrocketed due to the availability of government funds (Philips). The pandemic, and the recession that followed, led to a lower demand for loans in banks. The primary replacement for these loans has been securities.

This effect is reflected in the net loans and leases of the Bank of Commerce and the peer group. In 2017, net loans and leases represented 65.24% of the Bank of Commerce's total assets. Net loans and leases represented only 51.26% of assets in 2021. The balance sheet of the peer group tells a similar story. Net loans and leases represented 65.3% of assets in 2017, and 60.6% in 2021. The graph below demonstrates the significant increase in total assets over the past five years, while net loans have only increased slightly.

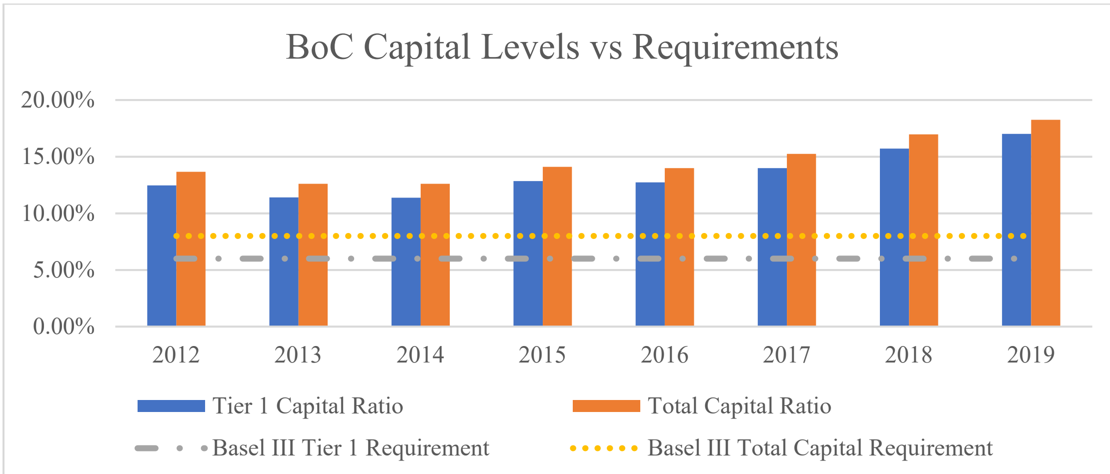


Capital Levels Analysis:

Bauer Financial, an independent bank review organization that assesses capital levels of banks nationwide, has assigned the Bank of Commerce a 5-star rating. This indicates strong capital levels, and that levels exceed capital requirements set forth by Basel III accords (Bauer). The Basel Committee on Banking Supervision requires that banks maintain a minimum common tier one equity ratio of 4.5%, a tier one capital ratio of 6%, a total capital ratio of 8%, and a leverage ratio of 3% (BIS).

Over the past two years the Bank of Commerce has not been required to report common tier 1 equity ratio, tier one capital ratio, or total capital ratio due to participating in the community banking leverage ratio framework set forth by the FDIC. This framework was set forth to reduce reporting burdens of qualifying community banks following the first quarter of 2022, community banks will return to normal standards for reporting capital levels (Board of Governors). By participating in this framework, the Bank of Commerce has been deemed well capitalized by the FDIC. Before the pandemic and participation in community banking leverage ratio framework, the Bank of Commerce was well-capitalized. In 2019 BoC possessed a tier one capital ratio and common equity tier one capital ratio of 17.01%. Comparatively, the peer group possessed a tier one capital ratio of 15.98% and a common equity tier one capital ratio of 15.97%. The Bank of Commerce saw an increase of tier one capital ratio of 21.6% from 2017 to 2019. BoC was able to surpass its peer group performance in this measure following 2017.

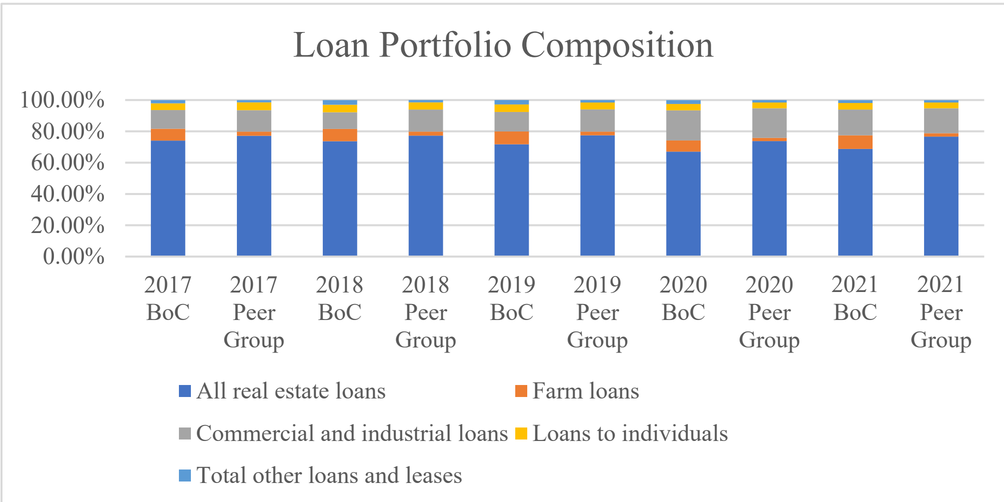
From the period of 2012 to 2019, the Bank of Commerce's average tier one capital ratio was 13.45%. This demonstrates that BoC is using core capital to fund operations. The Bank of Commerce was also able to exceed requirements pertaining to total capital with an average of 14.68% during the period of 2012-2019. The total capital ratio incorporates the sum of an institution's core capital (tier one capital) and its supplementary capital (tier two capital) and compares them to its risk weighted assets. The chart below compares the Bank of Commerce's capital ratios with Basel III requirements.



The Bank of Commerce far exceeds the Basel III standard of 3% in its leverage ratio. The leverage ratio is a measure that compares a bank's tier one capital and its total exposures. A higher leverage ratio indicates that an institution has a higher amount of core capital to exposures. Over the past five years BoC has maintained an average leverage ratio of 9.53%. BoC, however, has fallen slightly behind its peer group. The peer group has averaged a leverage ratio of 10.8% over the past five years.

Loan Portfolio Composition:

The Bank of Commerce's loan portfolio consists mainly of real estate loans, which are 68.24% of total loans and serve as the main source of loan income. Although they rely heavily on real estate loans, this reliance has decreased over the past 5 years. Their real estate loan portfolio consisted of about 74% of their total loan portfolio in 2017. The second largest category of loans that comprise the Bank of Commerce's loan portfolio is commercial and industrial loans, which make up 16.52% of the bank's total loan portfolio composition. The three other categories of loans that make up the bank's loan portfolio are farm loans, loans to individuals, and total other loans and leases. They comprise 8.60%, 4.13%, and 1.93% of the bank's loan portfolio respectively.

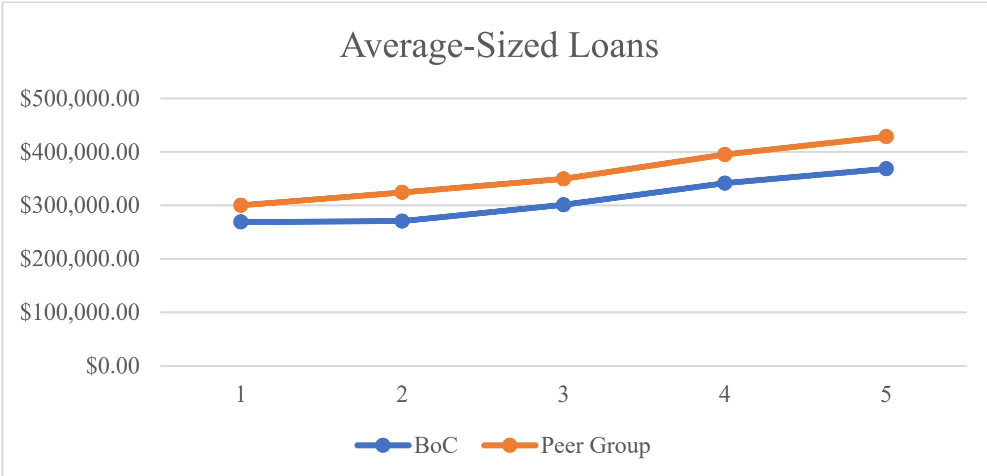


Farm loans and commercial and industrial loans are the two categories that Bank of Commerce has shown significant growth in their loan portfolio. Farm loans had an overall dollar value increase of 69.47% from 2017-2021. Commercial and industrial loans had an overall increase of 104.57% on a dollar increase basis during the same time. Year-over-year growth for the Bank of Commerce can be seen in the chart below.

YOY Growth Bank of Commerce				
	2018	2019	2020	2021
All real estate loans	5.44%	14.32%	4.14%	9.70%
Farm loans	11.61%	21.51%	-2.08%	27.60%
Commercial and industrial loans	-6.05%	37.69%	72.26%	-8.20%
Loans to individuals	22.03%	14.09%	-3.87%	7.87%
Total other loans and leases	48.07%	12.79%	-4.06%	-16.10%

BoC's average loan size is $368,440, which is much lower than its peer group average of $428,494. This number is important because it shows how much money banks make for every loan that they give out. Although their average-sized loan is much lower than its peer group

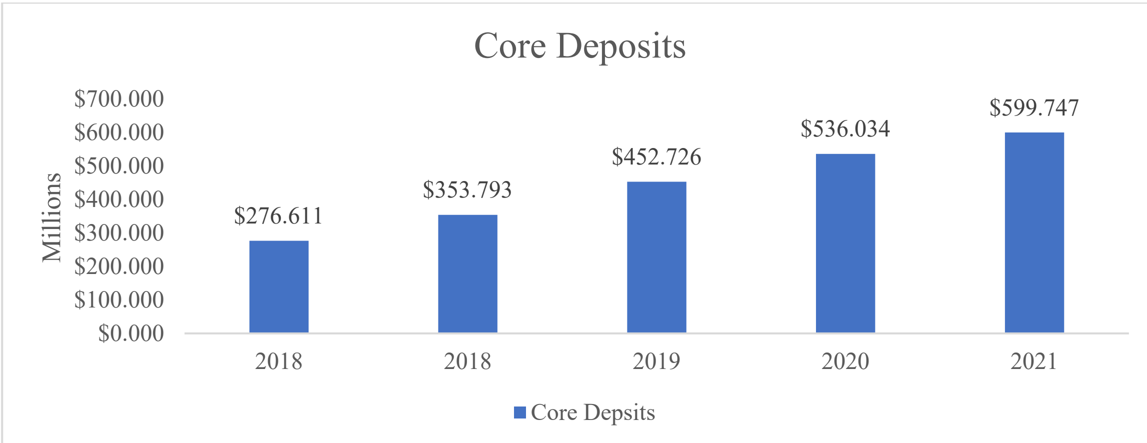
BoC's average loan has grown at a similar rate. BoC's average loan has grown 37.01% over the last 5 years, while its peer group has grown at 42.75%.



Liquidity:

The liquidity of a bank is determined by its ability to meet scheduled payments or demands for funds without incurring higher costs. Banks fund illiquid assets (loans) with liquid assets (deposits) (BPI Staff). Bank of Commerce's liquidity strategy includes federal home loans from the Federal Home Loan Bank in Dallas. According to Zach Luke at Bank of Commerce, this is a source of their funding and is one way they get liabilities. Federal home loans are beneficial to the bank but cost more than deposits. BoC's strategy is to limit these federal home loans and rely more on core deposits.

BoC is headquartered in Greenwood, MS, in the rural market, with a population of 19,043. Greenwood's population decreased by 10.77% between 2015 and 2019 ("Greenwood"). This trend is parallel to the 6.9% decrease in population between 2015 and 2019 of Leflore County, where Greenwood is located ("Greenwood"). According to BoC President Brian Thornhill, rural markets are losing population, which has increased difficulty of generating core deposits. Core deposits as a percentage of total assets are defined using deposit limits for time deposits. Zach Luke also stated that maintaining core deposits is impacted by relationships with clients because stronger relationships will grow the customer base and increase core deposits.



After reviewing the Bank of Commerce's liquidity, it is strong and more than sufficient to support operations. BoC's interest-bearing deposits have grown steadily every year. For example, only five years ago, these deposits were sitting at $276,611,000 and since this number has grown by 109% to $599,747,000. The peer group's interest-bearing deposits grew 42% to $434,000,000 in the past 5 years.

BoC loan and leases to deposit ratio (LDR) has gradually decreased every year in the past five years. Only five years ago BoC possessed an LDR of 91.13%. An elevated LDR means that the bank may not have enough funds to cover unforeseen expenses. They have since decreased LDR to 63.87%. This shows that BoC has greatly increased their liquidity and are taking a conservative strategy with their funds. Their peer group also managed to decrease their LDR ratio from 89.93% to 78.11% during this period.

Part II The Last Decade

1. Bank of Commerce Profile Changes

Over the past ten years, the Bank of Commerce has seen dynamic changes in different areas of its operations. This evolution has not only been contained to the financial metrics of the bank, but also to Bank of Commerce's business model. The Bank of Commerce has not only accepted the changing environment of banking but used these changes to its advantage.

One of the most observable changes to Bank of Commerce has been the institution's size. The Bank of Commerce has seen considerable growth over the past ten years in assets. BoC's asset size has increased from $271,690,000 in 2012 to $732,560,000 in 2021. A large contributing factor to this growth in assets has been the bank's geographic expansion in the last decade. The Bank of Commerce acquired Tallahatchie County Bank in March of 2018. This increased the Bank of Commerce's total assets by approximately $72,631,000. Just one year later the Bank of Commerce acquired People's Bank and Trust Company, which led to an increase of roughly $53,600,000 in total assets. These acquisitions lead to an increase of three branches.

The Bank of Commerce has also independently opened three of branches in the last decade. This amounts to an accumulation of six branches within the last decade, which has allowed the Bank of Commerce to spread its presence into the eastern part of Mississippi. Before opening these branches and making these acquisitions, the Bank of Commerce possessed only three branches. With an increase in branches, the Bank of Commerce has also seen a significant increase in employees. In 2012, the Bank of Commerce employed 42 individuals. This number has increased to 77 in 2021.

Since 2012, the Bank of Commerce has also made adaptations to their business model. The main change that the bank has implemented has been to provide customers with the tools to bank virtually. The primary driving force behind this recent adaptation, in conjunction with the already growing trend of online banking among millennials, was the emergence of the COVID-19 pandemic. The Bank of Commerce realized that it was necessary to provide customers with the ability to conduct banking tasks online. Since this time, the Bank of Commerce has provided customers with a host of online banking applications. Although this part of the Bank of Commerce's business model has changed to offer these new technologies to customers, their emphasis on building personal relationships with their customers has remained the same.

Another aspect of the Bank of Commerce's business model that has changed is its loan strategy. In 2021, the Bank of Commerce was classified as an agricultural bank. Bank of Commerce achieved this status by giving an increased focus to providing loans for agricultural uses. The BoC's agricultural loans increased from $29,600,000 in 2012 to $65,760,000 in 2021, an overall increase of $36,100,000. BoC has chosen to pursue a more agricultural style of banking due to the rising interest rate environment.

Agricultural loans give the Bank of Commerce the ability to reprice these loans with each passing year and counteract interest rate changes that may occur. According to CCO, Clifton Thach, BoC plans to do just this because of the current rising interest environment. Increasing ag loans that can be repriced every year will put BoC in a better position than if it were to increase loans that can only be repriced every three to five years, like an adjustable rate mortgage.

2. Problems Faced in the Past Decade

One of the largest problems that the Bank of Commerce has faced in recent years is the increasing need for technological adaptation. The number of customers that desire to conduct banking activities virtually has been rapidly increasing in the last decade, and larger sized banks have been able to fill these needs more rapidly than community banks. The Bank of Commerce has had to incorporate this contemporary style of banking into a banking model that has traditionally relied upon face-to-face transactions.

According to Zach Luke, CFO, the Bank of Commerce created a forward-looking plan to fully prepare the Bank of Commerce for the growing need to stay on the forefront of virtual banking. With a plan in place, the Bank of Commerce slowly began to add differing virtual banking services to its arsenal. However, when the COVID-19 pandemic struck in 2020, and the Bank of Commerce had to institute its 5–10-year plan in a matter of 18 months. The Bank of Commerce was able to successfully implement this plan in this abbreviated time. This allowed the Bank of Commerce to continue to serve its customers during a time when the bank was forced to close its physical locations in order to protect its customers and staff from the COVID-19 virus. Bank of Commerce offers a full line of virtual banking services to its customers today.

Another problem encountered by the Bank of Commerce in the last decade has been regional and demographic changes occurring in Mississippi. According to Bryan Thornhill, CEO, community banks around Mississippi have been struggling to find young talent to fill ranks within their banks. This issue has primarily risen due to the tendency of the millennial generation to move to urban areas following college graduation. Clifton Thach also revealed that he knew of two instances in which a community bank had to close its doors due to the fact a senior executive had retired, and there were no replacements to be found.

According to a report published by the Office of the State Auditor of Mississippi, the state has lost 60,000 millennials since the 2010 census. This figure represents 10% of the millennial population of the state. The report goes on to say that many of these millennials leaving the state are college educated, or skilled workers (Piazza). Demographic changes do not only affect talent pools, but customer bases as well. With a decreasing millennial population and an increasing aging population, demand for loans typically offered by community banks will decrease. To combat the demographic changes occurring in Mississippi, the Bank of Commerce has been establishing branches in growing markets around Mississippi.

3. Exemplifying Story of Community Commitment

One story that exemplifies the Bank of Commerce's commitment to serving their customers and community was the way in which the bank responded to the first round of Paycheck Protection Program loans during the onset of the COVID-19 pandemic. As reported by CFO Zach Luke, the Bank of Commerce established a "War Room" on the third floor of BoC headquarters. A team consisting of members from different branches within BoC were brought together with only a week to prepare for the first round of PPP lending.

This team exerted tremendous effort to be prepared to issue these loans to the small businesses in their community that so desperately needed them to survive the pandemic. The first step taken by the Bank of Commerce was to prepare materials that were sent out to communities throughout Mississippi to inform its customers about the PPP loan process. Once the PPP portal opened, everyone involved in the Bank of Commerce PPP loan team worked sixteen-hour days to ensure their customers received the PPP funding they needed. BoC provided $25,000,000-$30,000,000 in the first round to small businesses throughout Mississippi.

The Bank of Commerce did not only provide for its customers and local community, but customers of other community banks around Mississippi. Many other community banks around Mississippi sent customers to the Bank of Commerce to receive PPP lending due to the fact that BoC was one of the first to successfully navigate the PPP portal. Bank of Commerce provided these loans with little assistance from the Small Business Administration. In addition to the little direction given by the SBA, the administration frequently changed requirements and regulations regarding the distribution of PPP loans. BoC had to continuously adapt to these changing conditions throughout the process. Clifton Thach of BoC stated that PPP loans were getting approved very quickly, and the bank was unsure if the government would honor the loan agreement terms and provide guarantees for these loans. Despite this uncertainty, BoC continued obtaining loans for those in need.

Part III The Future

1. Business Model Changes in the Next Decade

The Bank of Commerce anticipates change in its business model in multiple ways over the next decade. The forecasted shift to more technological practices in banking will have the largest impact on a community bank, like BoC. Some changes that could impact the bank's business model are cryptocurrency and fintech companies. These factors, among others, will affect the way that all banks conduct business to suit the wants and needs of their customers.

The Bank of Commerce anticipates changing its business model over the next decade to accommodate the growth of cryptocurrency. BoC's President and CEO, Bryan Thornhill, says that cryptocurrency is a wildcard and that it will eventually be regulated in the future. According to Gordon Y. Liao and John Caramichael from the Federal Reserve System, Stablecoins have huge growth potential and the biggest potential to be regulated in the near future. Stablecoins are defined as digital currencies that are recorded on distributed ledger technologies and are pegged to a reference value, which is typically the U.S. dollar. Stablecoins have huge potential because they are still in their infancy, and they also allow users to have nearly instantaneous transactions at any point in time.

Another thing that the Bank of Commerce anticipates changing is its business model over the next decade are fintech companies. Fintech is defined as, "products and companies that employ newly developed digital and online technologies in the banking and financial services industries" by Merriam Webster. According to CFO, Zach Luke, the bank has explored partnering with fintech companies and he believes that a partnership between the bank and a fintech company will be in the future. The bank believes that a society with less cash is coming, and partnering with a fintech company will help the bank navigate through those evolving times.

2. Rising Competitors in the Upcoming Decade

Many community banks in Mississippi, including the Bank of Commerce, see credit unions as competitors. Credit unions lobby for differing principles than community banks and can do many things that banks are not permitted to do. This lack of regulation gives community banks a competitive disadvantage against credit unions. Credit unions can serve specific groups, corporations, and even all residents of a particular state. Credit unions are also not under the same pressure as banks to generate a return for shareholders, because they do not have shareholders. They need only cover operating costs and maintain the required regulatory capital base in addition to providing member services that are satisfactory (Meyer).

Credit unions have also started to purchase community banks around the nation. The St. Louis Federal Reserve published a study in 2019 on this phenomenon. The reason that a credit union may be motivated to acquire a bank is it is the "fastest way to expand into new business lines that are more closely associated with banks (Meyer)," like business lending. Credit unions acquiring community banks see the relationships of the banks as assets. Credit unions are also not subject to profit taxes, which gives them a willingness to pay elevated prices to acquire community banks. Credit Unions see community banks with fewer than 100 shareholders as favorable because they are Subchapter S corporations and are not taxed at the corporate level. Because of this treatment, credit unions are well suited to acquire community banks.

Community banks, therefore, are working to remain competitive by offering a more personalized experience to customers than large commercial banks and credit unions. Bank of Commerce does this by helping customers plan their financial futures and working closely with customers to ensure their needs are met. CCO, Clifton Thach trains relationship managers to educate themselves on each individual client's business. This practice has proven to be a great asset in the communities in which Bank of Commerce resides. Bryan Thornhill, CEO, stated that it is just as important to understand a client's business as the products being offered. Bank of Commerce is also working to compete with credit unions through acquisitions and opening new branches around Mississippi.

FinTech companies are similar to credit unions and community banks in that they provide a customer-focused, relationship strategy. Successful FinTech companies also strive to offer more financial services to customers, like large banks (Kuhl). BoC is working to compete in this area through their offering of mobile banking services, such as mobile check depositing and online money transfers through Zelle on their mobile app. BoC realizes offering a wide variety of services online helps to compete with larger banks and FinTech companies. Online banking continues to grow after the Covid-19 Pandemic. Bank of Commerce Vice President, Zach Luke, stated the millennial generation does not currently conduct banking tasks in brick-and-mortar locations. He predicts that this trend will further increase in 10 years. BoC does not currently collaborate with FinTech companies but plans to partner with them in the future. They primarily compete with FinTech companies in acquiring deposits. They compete with companies like Chime, who aim to take customers from the traditional bank setting.

In addition to credit unions and FinTech companies, BoC competes with other community banks and large regional banks around Mississippi. The main competition for business loans comes from other community banks, as Bank of Commerce and other community banks typically provide loans for small business owners that large banks will not serve. Large banks are the Bank of Commerce's main competitors in acquiring deposits.

Bank of Commerce remains competitive against these several types of financial institutions through a variety of different methods. The first and most important method is building strong relationships with customers. Bank of Commerce lenders make it a priority to know the businesses of loan customers so they may better serve these individuals. Through community involvement and building strong customer relationships, Bank of Commerce has been able to establish itself throughout Mississippi.

3. Maintaining Relationships in an Era of Changing Technology

Relationships are the biggest differentiator between community banks and large banks. There are a few ways that community banks can quantify their relationships with their customers. The best way to quantify the value of a relationship with community banks is to show the customer the things a community bank offers that a transactional style bank does not. When working with a community bank, a customer will see a level of care that someone would not see with a large transactional style bank.

There are many things that come with relationship-style banking. Community Banks offer services like goal setting, investments, transition planning, and wealth management. These are things that make community banks personal. In a community bank, customers can call the bank and get help right away rather than an automated message or being put on hold. Learning about the customers' business, giving solutions to problems, and setting their customers up for success is what makes community banks special.

Bank of Commerce is a bank that is prepared to face adversity. With technology changing more by the day community banks like BoC will continue to face challenges with their relationship-based model. BoC embraces change. According to Zach Luke, to maintain relationships with the younger generation, community banks such as the BoC will have to adjust and adapt to technology. BoC will continue to invest money in new technologies to meet the new generation where they are (online).

While also investing in modern technology to make transactions easier, BoC will also do things to keep their relationship-style banking alive within their bank. Zach Luke mentioned that they will continue to call, meet, and check on their customers. They will also be able to hold virtual meetings with their customers via video conference, which will be the new norm that comes with relationship-style banking. According to Renee Newman and "The Financial Brand" community banks can humanize digital experience, and truly magnify the moments that matter by providing their services (Newman). Putting a customer first, understanding their problems, and humanizing a digital experience will be how BoC adapts.

4. Serving Local Communities

Bank of Commerce supports the community of Greenwood, MS, and surrounding areas. They do this by researching the businesses they support before meeting with clients, to better understand their business. BoC is also committed to building trust and cultivating relationships with customers. In Greenwood, located in Leflore County, the largest portion of GDP produced was in the service industry. This is the same for each of the other six counties BoC is in (Leflore, Lowndes, Lafayette, Oktibbeha, Tallahatchie, Carroll, and Clay). The second highest GDP was in the goods industry for Leflore County. Based on the employment of the community BoC serves, it is important that BoC continues to educate themselves about their community and the customers they serve.

The strategy BoC currently uses to develop customer relationships will help them better serve their community in the next 10 years, as the area continues to change. Currently, they "strive to loan back to their community", according to CCO Clifton Thatch. They rely less on acquisitions, and more on keeping cost of funds low by increasing the amount of core cheap deposits. BoC has worked to do this by increasing services that can be conducted online. Their mobile app allows for most banking actions to take place, including depositing checks, making transfers, checking balances, paying bills, and finding nearby locations.

They have also introduced an ATM service through SUM ATM, which allows customers access to their funds without a surcharge. There are 5 locations in Greenwood, MS, and many in each area where BoC is located. BoC has spent a large amount of time and money implementing these technologies, to better deliver products and services to customers. One reason for this is that the number of customers coming into their physical bank location has changed, and their customers now expect an easier interface to conduct simple banking actions through.

BoC is also working to stay relevant in the next 10 years in competing with bigger banks by offering a unique experience. Their relationship-based approach brings in more customers looking for a personalized experience. Clifton Thatch, CCO, says they help people trying to start businesses. They are a smaller bank, willing to make smaller loans that larger banks will not. BoC has an advantage over larger banks for this reason.

BoC is currently facing new legislation for the SAFE Banking Act, which affects how they serve their community members who are involved in the sale of marijuana. The bill passed in the House of Representatives in Fall 2021, as part of the National Defense Authorization Act. Should this bill pass in the Senate, “the banks and financial institutions who choose to service cannabis-related business operating within their state’s legal and regulatory frameworks” are protected (Koski). Currently, banks that serve legitimate businesses in states that have legalized uses for cannabis “could face penalties from federal regulators” (Koski). Banks like BoC could then increase their client base, and better serve their community.

One concern BoC has is economies of scale. This is something a one-location bank will have trouble with in the next 10 years, because paying many people to do individual jobs is expensive. BoC has worked to become as efficient as possible in prior years and trains its employees to perform multiple tasks. In small rural towns, like Greenwood, MS, this concern is magnified through a struggle to keep talent and "draw intellectual property", according to Brian Thornhill, President of BoC.

Following regulations can also be a problem for smaller community banks. They do not always have the means to implement these regulations, and therefore have compliance issues. BoC experienced challenges because of the 2008 regulatory activity, but they view these regulations as part of the business. They have the resources currently to buy smaller banks and expand, and do not face the same regulatory issues that smaller community banks do.

In the last 10 years, BoC developed a timeline for underwriting loans which helps make them better, cleaner loans. This is one way in which BoC has improved documentation, and they no longer have the documentation issues they once did. As a result, the loan approval process for BoC is quicker, and 2008 regulations have made BoC a better bank. On the compliance side, BoC sells loans with TRID lending (TILA-RESPA integrated disclosures). Most of their TRID loans are made for self-employed people. BoC clearly outlines two rules for borrowers under TRID regulation. First, the ability to repay, and second, having a qualified mortgage. BoC gives credits for certain returns and tax dedications for self-employed persons.

5. Lesson Learned from the COVID-19 Pandemic

When the Covid 19 pandemic occurred in March of 2020 community banks had to find a way to adapt. Community Banks had to find a way to maintain the most important part of their business model, their relationships with customers. With the Covid-19 pandemic forcing most of the banking industry into a virtual working environment, community banks were at a disadvantage compared to their competitors. According to Bryan Thornhill, CEO of the Bank of Commerce, "the most important part of community banks is relationships. Customers whom we have relationships with used to come in just have a conversation with some of our employees which was a huge thing for our bank and all community banks relationship-wise." Community banks had to find a way to find a way to maintain these relationships with the new environment and had to do it quickly. That is exactly what happened.

One of the first things that community banks did when the pandemic started was give back to their communities. According to ABA Banking Journal over half of community banks launched initiatives such as waving late fees, allowing customers to restructure their loans, and even postponing scheduled loan payments all to help themselves and their communities (Knudson). By doing these things community banks were able to maintain their relationships even if they were not able to see their customers in person. Community banks were there for their customers when they were needed most.

A way that community banks changed their business model was by interacting with their customers and employees virtually. This affected community banks quite positively. Not only did it assist in keeping customers safe, but it also saved community banks money (Knudson). Conducting most of the business online allowed community banks to cut down on the number of branches and gave them an opportunity to save on overhead expenses.

Works Cited

"Bank of Commerce History." BankFind Suite, FDIC, https://banks.data.fdic.gov/bankfind-suite/bankfind/details/9359?bankfindLevelThreeView=History&branchOffices=true&pageNumber=1&resultLimit=25&sortField=ACTIVE&sortOrder=DESC.

"Bank of Commerce: About." Bank of Commerce, https://www.bankcom.com/about.

"Basel Framework." The Bank for International Settlements, https://www.bis.org/basel_framework/index.htm?m=3_14_697.

"Board of Governors of the Federal Reserve System." The Fed - SR 21-21: Interagency Statement on the Community Bank Leverage Ratio Framework, https://www.federalreserve.gov/supervisionreg/srletters/SR2121.htm.

BPI Staff. (2021, September 17). A Primer on bank liquidity. Bank Policy Institute. Retrieved March 11, 2022, from https://bpi.com/a-primer-on-bank-liquidity/

"Chapter 1 - Defining the Community Bank - Fdic.gov." FDIC Community Banking Study, FDIC, https://www.fdic.gov/resources/community-banking/report/2012/2012-cbi-study-1.pdf.

"Community & Regional Financial Institutions." Board of Governors of the Federal Reserve System, https://www.federalreserve.gov/supervisionreg/community-and-regional-financial-institutions.htm.

"Federal Deposit Insurance Corporation." FDIC, https://www.fdic.gov/regulations/examinations/supervisory/insights/siwin10/examiners.html.

"Fintech Definition & Meaning." Merriam-Webster, Merriam-Webster, https://www.merriam-webster.com/dictionary/fintech.

"Greenwood City in Leflore County, Mississippi." Greenwood - Place Explorer - Data Commons, Data Commons, 2020, https://datacommons.org/place/geoId/2829340?utm_medium=explore&mprop=count&popt=Person&hl=en.

Kelly, Charles, et al. "Equipment Lease Financing: The Role of Community Banks." 2015 Conference Papers - Community Banking, Community Banking, 2015, https://www.communitybanking.org/conferences/2015/papers.

Knudson, Julie. "How Community Banks Survived the Covid Pandemic." ABA Banking Journal, 18 Oct. 2021, https://bankingjournal.aba.com/2021/10/how-community-banks-survived-the-covid-pandemic/.

Koski, L. (2021, December 3). The Safe Banking Act: What is it and where does it stand? Forbes. Retrieved April 3, 2022, from https://www.forbes.com/sites/lewiskoski/2021/12/03/the-safe-banking-act-what-is-it-and-where-does-it-stand/?sh=2e898d522baf

Kuhl, S. (n.d.). Credit Unions, community banks and competing with fintechs. Western Union Business Solutions. Retrieved April 5, 2022, from https://business.westernunion.com/en-us/learning-center/articles/credit-unions-community-banks-and-competing-with-fintechs

Liao, Gordon Y. and John Caramichael (2022). “Stablecoins: Growth Potential and Impact on Banking,” International Finance Discussion Papers 1334. Washington: Board of Governors of the Federal Reserve System, https://doi.org/10.17016/IFDP.2022.1334.

McWilliams, Jelena, et al. “Quarterly Banking Profile Third Quarter 2021 - Fdic.gov.” Quarterly Banking Profile: Third Quarter 2021, FDIC, 2021, https://www.fdic.gov/analysis/quarterly-banking-profile/qbp/2021sep/qbp.pdf.

-.“FDIC Quarterly - Volume 16, Number 1, 4th Quarter 2021.” Quarterly Banking Profile: Fourth Quarter 2020, FDIC, https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2022-vol16-1/fdic-v16n1-4q2021.pdf.

Meyer, A. P. (2021, December 9). Why are more credit unions buying community banks?: St. Louis Fed. Saint Louis Fed Eagle. Retrieved April 5, 2022, from https://www.stlouisfed.org/publications/regional-economist/first-quarter-2019/credit-unions-buying-community-banks

Newman, Renee. “What Relationship Banking Should Look like in 2022.” The Financial Brand, 10 Apr. 2022, https://thefinancialbrand.com/125716/what-relationship-banking-should-look-like-in-2022-fintech-partner/.

Phillips, Matt. “Banks Are Bingeing on Bonds, but Not Because They Want To.” The New York Times, The New York Times, 25 Aug. 2021, https://www.nytimes.com/2021/08/25/business/banks-government-bonds.html.

Piazza, Michael, and Logan Reeves. “Money Down the Brain Drain: Are Taxpayers Getting Their Money’s Worth?” Mississippi Office of the State Auditor, https://www.osa.ms.gov/documents/Special_Reports/Brain%20Drain%20Report.pdf.

“Relationship Banking Transactions, Benefits and Beyond.” First Citizens Bank, https://www.firstcitizens.com/small-business/insights/banking/relationship-banking-what-do-we-know.

“Star Ratings.” Bauer Financial, https://www.bauerfinancial.com/star-ratings/.

Timiraos, Nick. “Fed Eyeing Potential for Faster Rate Increases to Ease Inflation.” The Wall Street Journal, Dow Jones & Company, 16 Feb. 2022, https://www.wsj.com/articles/fed-eyes-potential-for-faster-rate-increases-to-ease-inflation-11645038761.

“U.S. Census Bureau Quickfacts: Dallas City, Texas.” *Quickfacts Dallas City, Texas*, United States Census Bureau, 2021, https://www.census.gov/quickfacts/fact/table/dallascitytexas/PST045221.

"U.S. Census Bureau Quickfacts: Greenwood City, Mississippi." *Quickfacts Greenwood City, Mississippi*, 2020, https://www.census.gov/quickfacts/greenwoodcitymississippi.

US Department of Commerce, B. E. A. (n.d.). Bureau of Economic Analysis. BEA. Retrieved April 3, 2022, from https://apps.bea.gov/regional/bearfacts/action.cfm?geotype=4&fips=28083&areatype=28083