<u>2025 Community Bank Case Study Competition</u>

United Bank:
A Community Bank Building Customer Relationships

Student Team: Bryson Austin, Jack Green, Aubrey Kapales, Emma Moyer, Ian Popp

Faculty Advisor: Dr. Timothy Yeager

University of Arkansas

We thank United Bank President and CEO Nathan Gairhan, CFO Paige Mulhollan, and Senior Vice President Lauren Johnson for partnering with our team. They generously gave their time to meet with us several times to answer our questions. Their kindness and patience reflects the community bank values they espouse.

Executive Summary

United Bank was established in 1978 as a savings & loan in Springdale Arkansas, a city of roughly 90,000 people in the Northwest Arkansas MSA. In 2014, the bank converted to a state member bank, and since then, under the leadership of President and CEO Nathan Gairhan, it has continued to provide the rapidly growing community with excellent service while offering a complete suite of banking products and services. Historically, savings & loans were heavy on savings deposits and light on transaction deposits, which has implications for earnings, liquidity, and interest rate risk. Consequently, United Bank has aimed to "right size" its deposits and liquidity in 2025 to become more akin to its commercial bank competitors (Federal Financial Institutions Examination Council, 2017; Gairhan et al. 2025).

Due to the area's growth, United Bank's assets have increased by 33% between 2020 and 2024 to $289.4 million. Earnings have fluctuated, dropping in 2022 and 2023 before improving in 2024. The earnings decline was due in large part to secondary market activity, change in the bank's Net Interest Margin, and the expense from opening a new branch in Bentonville, home of Walmart's headquarters. Loan growth has been the primary driver of balance sheet expansion, with total loans comprising 84% of total assets. The loan portfolio is heavily weighted toward real estate lending, due to the strong real estate market in Northwest Arkansas and the bank's cautionary approach to commercial and industrial loans. As of 2024, United Bank's capital ratios are considered well-capitalized by the Prompt Corrective Action thresholds (UBPR, 2024).

United Bank carefully monitors and manages its liquidity and interest rate risks. It has monthly ALCO committee meetings and receives quarterly stress test reports conducted by ALX Consulting. Stress testing under rising and falling rate scenarios indicated low interest-rate risk and moderate gaps in short-term liquidity coverage. To improve liquidity, the bank is in the process of increasing its investment in securities with a target of $12 million in securities by the year end 2025 (Gairhan et al., Feb. 2025).

Operationally, United Bank perceives its branches as places to engage with existing customers and attract new customers. Consequently, it opened a new branch in Bentonville in 2022. It also has adapted to the world of online banking by modernizing its other locations to replace unused lobby space with sitting areas and offices. Renovations have improved efficiency, while new layouts and service models support the bank's relationship-based approach of interacting with its customers.

United Bank views technology as a way to build customer relationships. The bank works with roughly 100 carefully vetted vendors to deliver the necessary technology and services. To date, the bank has not adopted AI technology, but it may do so as AI improves, and it adds value to the bank's interaction with customers.

Regulatory compliance is an important focus of United Bank with dedicated staff and routine audit oversight. Management believes, however, that certain regulations appropriate for large banks are not always ideal for community banks. For example, the collapse of Silicon Valley Bank prompted requirements that United Bank develop systems for monitoring FDIC insured and noninsured deposits. The bank, however, believes that monitoring provides little information because their noninsured deposits are minimal.

In sum, United Bank is a quintessential community bank that knows its customers, provides excellent service to the community, adapts to a changing environment, makes high quality loans, and carefully manages technology and risk.

Part 1: Financial Analysis

Part 1.1: Earnings Performance

United Bank's earnings have been volatile over the past five years. Net income ranged from a high of $3.26 million in 2021 to a low of $0.3 million in 2023 before steadily increasing to $1.4 million in 2024. Between 2022 and 2024, United Bank earnings underperformed peer banks' (UBPR peer group) earnings (UBPR, 2024).

United Bank's ROA (net income scaled by average assets) also declined sharply after 2021. **Figure 1** displays the bank's ROA between 2020 and 2024 from the Uniform Bank Performance Report (UBPR, 2024). The decrease in ROA was due to a large increase in net noninterest expense and a modest decrease in net interest income. Net noninterest expense increased from 2.13% in 2020 to 2.81% in 2024 (UBPR, 2024). The bank's strategic plan calls for a pre-tax ROA of 1.10% (United Bank, 2025).

In addition to rising expenses, net interest income, which was 3.68% in 2021, declined to 2.8% in 2023 because interest expense rose much faster than interest income (UBPR, 2024). Given the transition from a thrift to a commercial bank, United Bank has fewer demand deposits than its peers, resulting in relatively low core deposits. Consequently, interest expense on interest-bearing deposits increased more than peer banks when interest rates increased. The focus of 2025 is to increase core deposits and improve profitability of the bank overall, according to Chief Financial Officer, Paige Mulhollan. (Gairhan et al., Feb. 2025) Therefore, going forward, earnings should improve as the new branch operates more efficiently, and core deposits increase.

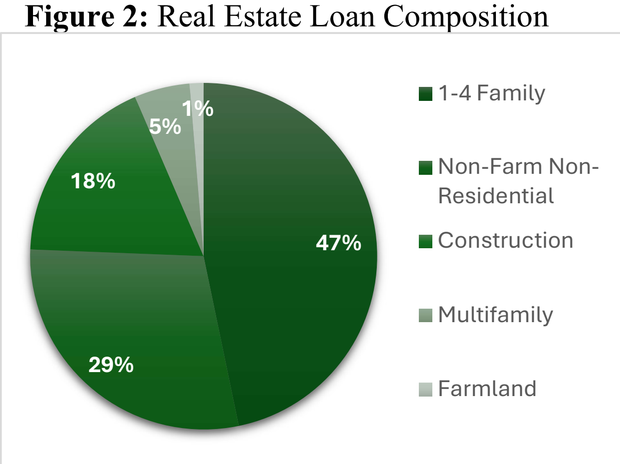
Figure 1: Income Statement as a Percent of Average Assets (UBPR)

Components	2020	2021	2022	2023	2024	PG6 2024
Net Interest Income	3.54	3.68	3.49	2.80	3.39	3.5
Net Non-Interest Expense	3.56	3.62	3.21	2.89	3.01	2.34
Provisions Expense	0.11	0.13	0.13	0	0.08	0.06
Securities Gains	0	0	0	0	0	0
Taxes	0	0	0	0	0	0
Net Income:	1.3	1.38	0.53	0.10	0.50	0.95

Part 1.2: Loan Portfolio Composition

Northwest Arkansas has experienced substantial economic and population growth over the last five years, making real estate a key driver of financial expansion in the region. The area's strategic location, strong job market, and cultural investments have contributed to its rapid development. Major corporations such as Walmart, Tyson Foods, and J.B. Hunt continue to attract talent, while cultural institutions like Crystal Bridges Museum of American Art and the Walton Arts Center enhance the region's appeal. Additionally, large-scale infrastructure projects and mixed-use developments, the rapid growth of the University of Arkansas student population, and the expansion of the Northwest Arkansas National Airport, further contribute to the region's growth and real estate demand. (Gairhan et al., Feb. 2025)

Figure 2: Real Estate Loan Composition

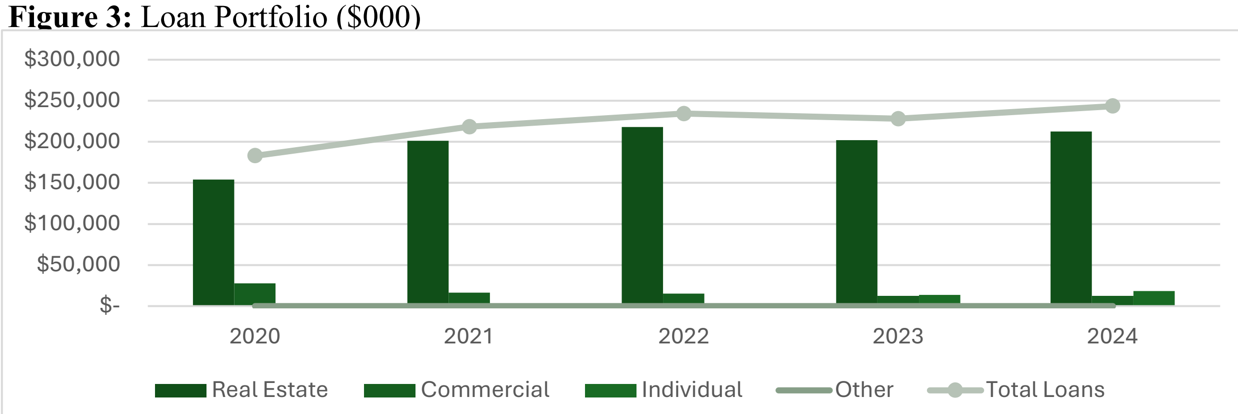


Consistent with the local economy, the loan portfolio is concentrated in real estate. United Bank's real estate portfolio, as shown in **Figure 2**, is diversified across five major sectors to mitigate risk. 1-4 Family Residential loans comprise 47% of all real estate loans, followed by Non-Farm Non-Residential loans at 29%, and Construction loans at 18%. Multifamily and Farmland loan shares are 5.2% and 1.3%, respectively (UBPR, 2024).

At year-end 2024, United Bank's total loan portfolio reached $243.6 million, accounting for 84% of total assets. Real estate loans of $212.7 million account for 87.3% of the loan portfolio, which puts the bank in the 70th percentile relative to peers. Commercial and Industrial loans and Individual loans account for 5.1% and 7.6% of the loan portfolio, respectively. Relative to peers, the bank holds a lower share of C&I loans, but a higher share of individual loans (UBPR 2024).

United Bank's loan portfolio grew between 2020 and 2024 by $60.4 million. Perhaps the most notable shift in the portfolio, as shown in **Figure 3**, is in individual loans, which have risen from $1.5 million to $18.5 million from 2020 to 2024 (UBPR, 2024). The bank has increased its consumer loan portfolio by purchasing existing consumer loans from a national lender, BHG Financial. BHG Financial has a reputation for making high-quality loans as their personal loan customers have an average annual income of $241,000 with a FICO score of 744 (BHG Financial, 2025). These metrics underscore BHG Financial's commitment to serving a financially robust clientele, thereby ensuring the quality of its loan portfolio. In 2023, United Bank expanded its concentration limits for these loans to $20 million, and it conducts its own underwriting pre- and post-acquisition to ensure quality. Many of these loans are unsecured, but the bank mitigates risk through a selective acquisition process.

Figure 3: Loan Portfolio ($000)

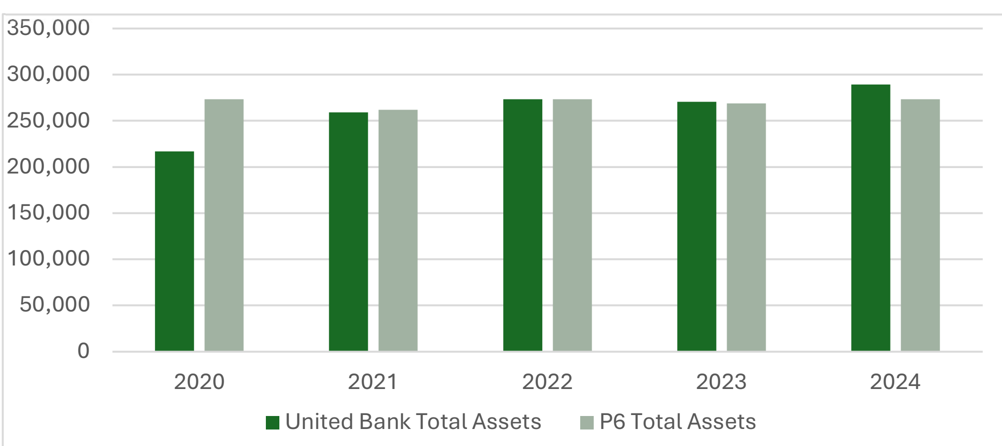


Despite loan growth in other areas, the bank has maintained a cautious approach toward Commercial & Industrial (C&I) loans. Due to the complexity and higher risk associated with these loans, as well as a lack of specialized lenders within the bank, United Bank has opted not to expand its C&I loan portfolio aggressively. Instead, it continues to prioritize real estate and consumer lending, where it has stronger expertise. Asset quality remains a key priority as United Bank reinforces its focus on credit quality by being more selective with lending decisions and placing a strong emphasis on minimizing default risk and maintaining a well-performing loan portfolio (Gairhan et al. Feb. 2025).

Part 1.3: Asset Growth

United Bank had total assets of $289.4 million at year-end 2024, reflecting robust growth of 33.4% (compound annual growth rate of 5.93%) since 2020. The growth is driven primarily by the loan portfolio. **Figure 4** compares United Bank's assets to its peer group. Because loans make up a large share of United Bank's assets (84%) (UBPR, 2024), the bank's board and management have made a strategic decision to "right-size" the institution in 2025, aligning its asset and liability compositions with peer banks. A key objective is to reduce the loan-to-deposit ratio from 102% to around 90% over the next few years. This will be achieved by focusing on

Figure 4: United Bank and Peer Total Assets ($000s)



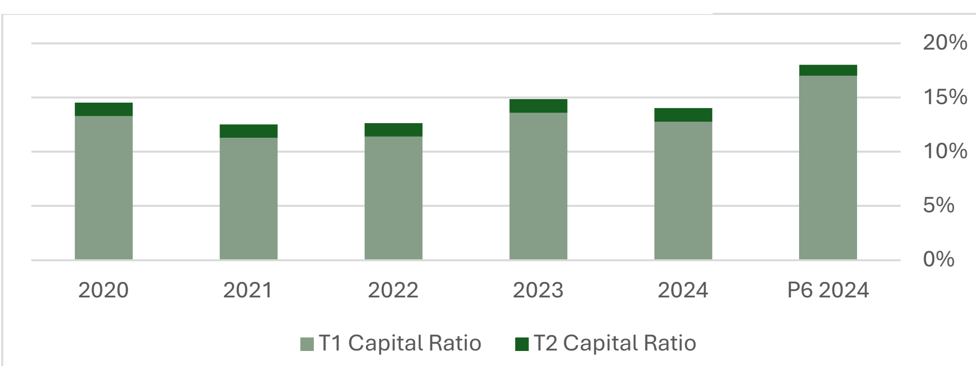
core deposit growth while slowing loan expansion. For 2025, the bank aims to limit loan growth and deposit growth to align with its focus on relationship banking (Gairhan et al. Feb. 2025).

Rather than prioritizing retail development, United Bank is shifting its focus toward sustainable and strategically aligned lending practices. A significant part of the bank's asset growth strategy includes fostering stronger internal and external relationships. United Bank has emphasized collaboration among lenders, branch managers, the business development team, and customers. By positioning itself as a unified team, the bank aims to provide more comprehensive service experience to clients. This approach is designed to strengthen customer relationships and reinforce long-term loyalty (Gairhan et al. Feb. 2025).

Part 1.4: Capital Levels

United Bank falls into the highest Prompt Corrective Action classification of well-capitalized, which requires total risk-based capital of at least_10%, tier 1 risk-based capital of at least 8%, common equity tier 1 capital of 6.5%, and a tier 1 leverage ratio of at least 5%. As shown in **Figure 5**, United Bank surpasses these standards comfortably, with ratios of 14.0%, 12.7%, 12.7%, and 10.3% (UBPR, 2024). The high capital ratios give the bank the ability to grow without compromising their status as a well-capitalized bank.

Figure 5: United Bank and Peer Capital Ratios (%)



Despite the high capital, United's capital ratios have been between 3 and 5 percentage points below their peer group over the past five years (UBPR, 2024). Discussions with CEO Gairhan and CFO Paige Mulhollan revealed that because the bank is an S corporation, it historically passes a percentage of the profits to the holding company, which keeps capital ratios lower (Gairhan et al. Feb. 2025).

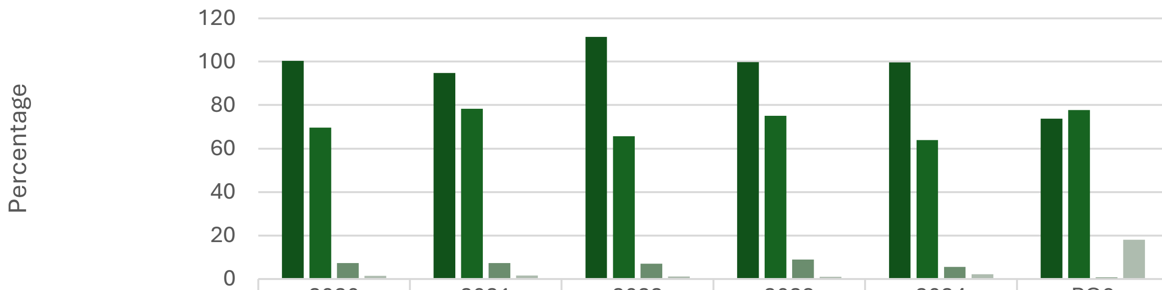
United Bank's capital base has consistently grown over the last five years. Total equity of $28.9 million in 2024 increased $5.2 million from 2020, and tier 1 capital of $29.1 million increased by $5.5 million (UBPR, 2024). United Bank's capital ratios increased even in years with relatively low earnings. For example, in 2023, the bank reduced dividends and received a $3 million equity injection from the holding company, which had a surplus of capital on hand. While the injection was not a necessity for bank health, it allowed them to stay within comfortable capital margins, which allowed them to pursue additional commercial lending opportunities that year (Gairhan et al. Feb. 2025).

Part 1.5: Liquidity Analysis

A liquid bank has access to cash to meet short-term financial obligations because it maintains stable and reliable funding sources. Cash can come from selling liquid assets such as securities, or by borrowing from established lines of credit such as the Federal Home Loan Bank or the Federal Reserve discount window.

Banks have several ways to measure their liquidity risk. One way is to conduct a ratio analysis. **Figure 6** shows United Bank's liquidity position using key industry measures. The Loans-to-Deposits (LDR) ratio is the bank's loans to deposits, expressed as a percentage. Higher ratios signal less liquidity. Between 2020 and 2024, United Bank's LDR hovered around 100%,

Figure 6: United Bank and Peer Liquidity Ratios (%)



	2020	2021	2022	2023	2024	PG6
Loans-to-Deposits	100.42	94.75	111.37	99.7	99.6	73.69
Core Deposits	69.64	78.34	65.72	75.06	63.86	77.75
Brokered Deposits	7.25	7.25	6.94	8.93	5.48	0.74
Securities-to-Assets	1.43	1.57	1.07	0.93	2.12	18.00

Loans-to-Deposits Core Deposits Brokered Deposits Securities-to-Assets

peaking at 113.37% in 2022 (UBPR, 2024). Compared to peers, United Bank's ratio ranged between the 91st and 98th percentile (UBPR, 2024).

The Core Deposits ratio is the proportion of total deposits that come from regulatory – defined stable deposits, such as checking and savings accounts. Higher ratios mean that a bank has a more stable deposit base, with reduced reliance on more volatile sources. United Bank's core deposit ratios range between 64% and 78% (UBPR, 2024). Compared to peers, United Bank's ratio as of 2024 is in the 5th percentile (UBPR, 2024). One reason for relatively low core deposits is that the bank was originally a saving and loan association. Historically, thrift deposits were concentrated in certificates of deposit and savings accounts instead of demand deposit accounts. United Bank has been actively working to boost their non-interest carrying deposits to 20% from the present ratio of 14% (UBPR, 2024).

United Bank also relies more than its peers on brokered deposits, which are prone to rapid withdrawals if the bank does not continue to pay the going market rate. However, its Brokered Deposits ratio, brokered deposits to average assets, was just 6.44% in 2024, down from

7.25% in 2023 (UBPR, 2024). CFO Mulhollan is keenly aware that regulators and analysts often flag high brokered deposit reliance as a potential risk factor and noted that overreliance on brokered deposits is counter to the bank's strategy (Gairhan et al., Feb. 2025).

United Bank has a relatively small securities portfolio with a securities-to-assets ratio of 2.1 percent in 2024. All securities are mortgage-backed securities, and they are available for sale UBPR, 2024). The bank plans to double its securities holdings from $6 million to $12 million by the end of 2025 (Gairhan et al., Feb. 2025).

Assessing a bank's liquidity under stress is a more accurate way to measure liquidity risk. If a bank's financial condition deteriorates, noncore funding may be withdrawn quickly. United Bank receives a quarterly report from ALX that runs a liquidity stress scenario. The one-year stress test of the bank's Net Short-Term Liquidity measures the balance sheet's ability to cover short-term liabilities with short-term core liquidity. The two tests assigned were for rising and declining interest rate environments. Although United Bank fares better in a declining interest rate environment, the bank's cash inflows are less than its outflows in both situations by about $30 million. The simulated stress tests are guided by the "Liquidity Coverage Ratio" (LCR) and subject the bank's financial state to four simultaneous stressors: "a partial loss of deposits, partial or whole loss of unsecured wholesale funding, larger securities haircuts used in secured funding, and potential loss of other funding sources" (ALX CONSULTING, 2025). The assessment tests how the bank would manage a severe cash outflow.

ALX also estimates United Bank's "High Quality Liquid Assets" (HQLA), which are utilized to hedge against cash outflows. The test itself is conducted by subtracting the potential cash outflows from the HQLA. A positive number indicates that the bank could reasonably handle the circumstances. The three-month net cash flow stress test results for 2024 showed negative numbers for the moderate scenario (-$3 million) and high stress scenarios (-$28 million) (ALX CONSULTING, 2025).

The last stress test consists of the Non-Core Funding Risk consisting of the Net Non-Core Funding Dependency Ratio. Here the ALX team "measures the volume of reliance on non-core liabilities for funding the assets of the bank" and does not necessarily indicate a success or failure (ALX CONSULTING, 2025). Bank's set their own positive limits for the non-core ratio and credit a portion of jumbo deposits as core. United's non-core dependency was 22.02% in 2024, demonstrating a seemingly healthy relationship with those resources (ALX CONSULTING, 2025).

Part 2: Interest Rate Environment and Inflation

During the COVID-19 pandemic, the Federal Reserve reduced the federal funds rate to near zero to grow the economy. However, as inflation surged, the Fed began increasing interest rates in March 2022, raising them from 0.25% to a range of 5.25%–5.50% by July 2023 (Federal Reserve Bank of St. Louis, 2025). The pandemic-era inflation was driven by several factors, such as supply chain disruptions (Shambaugh 2022) and a shift in consumer demand from services to goods (Bernanke and Blanchard 2022). In Northwest Arkansas, CEO Gairhan observed that rising costs have impacted the markets for starter home loans and small business loans the most (Gairhan et al. Feb. 2025).

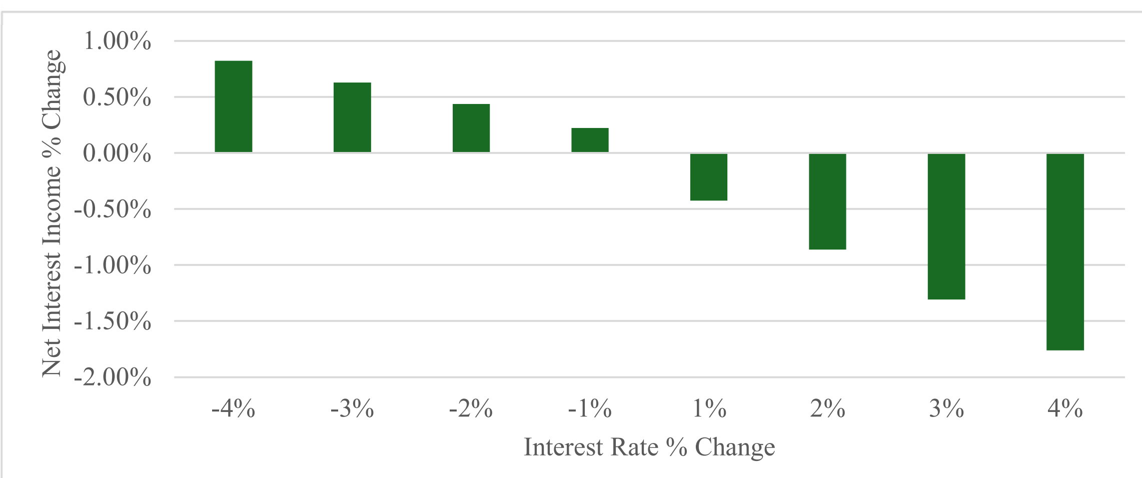
Part 2.1 United Bank Asset-Liability Management

United Bank uses an ALCO committee to monitor its liquidity and interest rate risks. The committee consists of an outside director, the CEO, CFO, and primary managers of the retail and lending groups. The ALCO meets monthly, and its reports are sent directly to the bank's board. Its board is made up of local stakeholders from a variety of backgrounds such as construction owners, attorneys, a CPA, a real estate advisor, and the former CEO of the bank, who currently runs a local tractor business. The board members refer business to the bank, strengthening its role in the community (Gairhan et al., Feb. 2025).

United Bank contracts with ALX Consulting in Texas to model their interest rate risk (IRR) quarterly. The ALCO Management Report from the 4th quarter, 2024 is a 42-page report written in language that is easily communicable to the bank board. The ALX reports provide interest rate risk (IRR) projections for the base rate and rate changes between plus/minus 1 percent and 4 percent. The Earnings at Risk model is a repricing (gap) model that projects changes in net interest income for 12- and 24-months for each of the nine interest rates scenarios (ALX CONSULTING, 2025).

Results of the 12-month earnings at risk model are presented in **Figure 7** (ALX CONSULTING, 2025), and they show that the bank's earnings are modestly sensitive to interest rate changes. Even with a rise in interest rates of 2%, net interest income would fall by only 0.86%. The bank is negatively gapped because net interest income declines as interest rates increase. Interestingly, the effect on net interest income is asymmetric because the bank

Figure 7: One-Year Earnings at Risk Stress Test Results



experiences greater net income losses when rates rise by a certain percentage relative to when the gains when rates decline by the same amount.

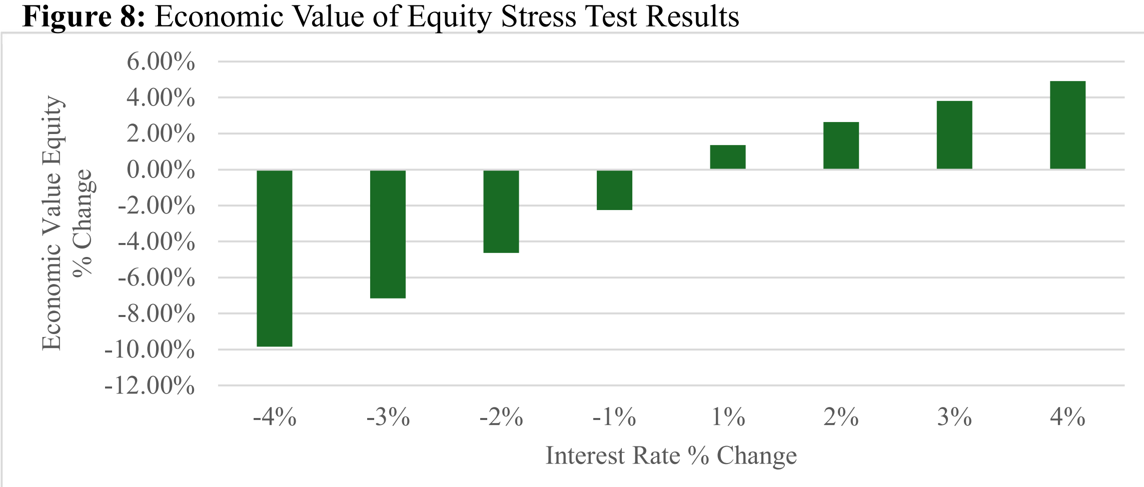
The second interest rate report from ALX is the economic value of equity projection, which gives the ALCO committee a long-term assessment of changes in the market value of equity beyond the book value. **Figure 8** presents the results. Equity increases with rising interest rates, which indicates that over the long term, asset values decline less than liabilities as interest rates increase. Again, the impact is modest. If interest rates increase by 2%, the market value of the bank would increase by 2.6% (ALX CONSULTING, 2025).

ALX Consulting's interest rate projections are generally applicable to United Bank, but there are certain scenarios where they have failed to accurately predict actual changes. For example, in 2022, when interest rates increased, a number of United Bank's depositors turned to other banks in search of higher interest rates at a pace much higher than projected by the deposit beta in the model (Gairhan et al. Feb. 2025).

Part 2.2 Institution's Plan for interest rate risk

United Bank is in the long-term process of transitioning its deposits from a high reliance on savings accounts and CDs that is typical in a savings and loan, to demand deposits and other

Figure 8: Economic Value of Equity Stress Test Results



low-cost savings accounts common to commercial banks. The bank's interest rate risk is more liability sensitive because depositors are more rate conscious, leading to an outflow of depositors who seek higher interest rates elsewhere. Outflows of deposits have especially gone to local competitors or online banks that offer higher annual percentage yield. United Bank net interest margins initially decreased overall on a short-term basis due to low-priced loans because of the rate changes. To combat this trend, United Bank is advertising and using its new branch to attract more low-rate deposits to achieve a net interest margin of at least 3.5%. United Bank is planning to reach this more neutral position by the end of 2025 (Gairhan et al. Feb. 2025).

Part 2.3 United Bank's Investment Strategy

United Bank's investment strategy aims to use new deposits to invest in securities to improve liquidity for the bank and become more like its peer group. United Bank prefers investments exclusively in mortgage-backed securities. The bank had $2 million in securities in 2023, well below its competitors. Since 2023, United Bank has increased its securities to $6 million, and it plans to reach $12 million in mortgage-backed securities by year-end 2025. United Bank exclusively invests in securities with estimated maturities less than 7 years to limit the interest rate risk (Gairhan et al. Feb. 2025).

Part 2.4 Inflation's impact on United Bank and the Community

Inflation has caused United Bank's costs to increase more than the bank had projected. United Bank generally projects costs to increase 3% annually, but costs increased 5% for the year 2024. United Bank has also noticed a change in the community it serves. Housing prices have increased rapidly, leading to a lack of entry-level homes, resulting in fewer loans to young people. United Bank has also noticed that small businesses have struggled due to the recent rises in costs. In general, borrowers have also become more apprehensive about rates (Gairhan et al. Feb. 2025).

United Bank models its analysis for the impact that increases in costs could have on borrowers' ability to pay their loans on time. To ensure a balanced loan portfolio, the bank monitors loans for certain industries. For example, United Bank has monitored its loans to new coffee franchises to assess the overall risk of the industry. Overall, United Bank has been tightening their underwriting standards and removing exceptions to those standards (Gairhan et al. Feb. 2025).

Part 3: Branch Strategy

Although the number of nationwide branches has been declining since 2010, the FDIC Summary of Deposits shows that branches in the Northwest Arkansas MSA have been increasing. In 2020, there were 35 unique banks with 197 branches in the metropolitan area. In 2024, the number of unique banks increased to 41 with a total of 207 branches. United Bank controls 1.29% of the deposits in the area. (Federal Deposit Insurance Corporation, 2024)

Part 3.1: Branches, Expansions, and Renovations

United Bank has five branches in the Northwest Arkansas MSA as seen in **Figure 9**, including their main office in Springdale, AR, that remains the hub of operations. The bank opened a new branch in Bentonville, AR in December of 2022, and there have been no closures of other branches. The bank designed the new Bentonville branch with

Figure 9: Branch Locations

features to promote community engagement and is in the process of renovating its other branches. (Gairhan et al. Mar. 2025).

Part 3.2: Branches Role in Institutional Strategy

United Bank's branches are central to its institutional strategy. The bank uses branches to simultaneously build its deposit base and improve services to existing customers. United Bank's branches are geographically concentrated in Northwest Arkansas. As a community bank, United Bank offers many of the same products that larger institutions offer, but through personalized services and strong customer relationships, United Bank differentiates itself from competitors (Gairhan et al. Mar. 2025).

Part 3.3: Branch Design

United Bank is updating its older branches to align with its strategy to maintain a strong personal relationship with customers. Many of the older branch buildings have undergone renovations to modernize facilities and optimize space, such as redesigning to create community rooms to boost local engagement. These renovations reflect a shift to move away from large, underutilized lobbies, towards more efficient spaces that prioritize professional services over customer waiting areas. Employee offices were built to maximize professional workspace in several branches such as the Rogers branch (Gairhan et al. Feb. 2025)..

Technological updates have also been implemented. These updates include upgraded security systems for enhanced protection, improved interior operational systems, relocated cash service areas to optimize workflow, and added power outlets and electronic facilities for employee efficiency (Gairhan et al. Feb. 2025).

In addition to adding a new branch and updating existing branches, part of United Bank's strategic plan is to "Make Our Relationships Effective & Engaging." This initiative is under the supervision of Senior Vice President Lauren Johnson, Director of Sales & Marketing. Key objectives are to foster an atmosphere that encourages engaging and effective relationship building with customers and community members. Because all employees contribute to positive customer experiences, every employee is being trained to recognize and acknowledge customers upon entry and provide assistance as needed. Employees are encouraged to learn customer names, which in turn fosters a welcoming and familiar environment. This approach enables employees to also identify cross-selling opportunities, offering additional services tailored to customer needs (Gairhan et al. Feb. 2025). Indeed, our case-study team during our first interview was politely greeted and guided to our appointment by the bank's tellers.

Part 3.4 Branch Demographics

As United Bank has grown and developed their five branches, they have put effort into understanding the needs of the communities that use each specific branch to adapt to local needs. By targeting their hiring around the branches in which there is demand for certain services, the bank can keep personnel expenses low while meeting the needs of their customers. United Bank is working on hiring a lending officer for their Rogers and Bentonville branches to better serve the business community. Its Bentonville location has many residential neighborhoods in proximity, leading to a greater need than other branches for services such as safe deposit boxes (Gairhan et al. Feb. 2025).

In general, the bank's demographics lean to an older population, which CFO Mulhollan attributes to United Bank's history as a savings and loan. The bank boasts an account type exclusive to individuals over the age of fifty called the UB Grand account, which gives customers access to certain events hosted by United Bank to bolster a sense of community. While this older population has more equity than a younger demographic, they tend to go 'rateshopping.' As CFO Mulhollan stated, they'll come into the branch over a five-basis point difference." With the bank having an older population, there is a focus on securing more demand deposits and growing core deposits by attracting a younger average customer base (Gairhan et al. Feb. 2025).

Part 3.5 Personal Interaction Dominates Interactive Technology

United Bank is currently innovating a new format at their newest branch in which personalization is optimized. With the understanding that quick and easy is done best online, the branch has pioneered a replacement of the teller line with desks where customers can sit and discuss financial topics with the bank tellers while going through their ordinary course of business. CEO Gairhan pointed out, "[T]hat gives it more of a business approach, more of a formal approach to... talking to the customer, getting to know the customer." United Bank's branches serve as centers to enhance personal experiences while online banking handles many of the quick, one-off interactions. Large banks have highly competitive rates and access to capital for more advanced technology, so United Bank intends to greatly outperform in terms of openness and direct, personalized service (Gairhan et al. Feb. 2025).

United Bank has not yet used any interactive teller machines (ITM). Management considered them for their new branch but eventually decided against it. The bank acknowledges that it could save some personnel costs with ITMs, but CEO Gairhan goes on to say, "I don't see the advantage for our bank of losing more of that personal contact when they come up and talk to the same person each day." With United Bank's focus on customer service in the branch, the cost of an ITM outweighs the benefit. Although ITM's could improve the rate at which United branches assist customers, speed is not the issue given that the bank's drive-through lines are typically shorter than competitors, and the focus is on the person (Gairhan et al. Feb. 2025).

Part 4: Technology

Part 4.1: United Bank's Use of Partnerships

Community banks, due to their limited human resources, often rely on technological partners to manage operations efficiently. United Bank collaborates with roughly 100 technological and service partners (vendors), each serving a different role for the bank by providing either essential services or services for convenience. For example, one of United Bank's partners supports the technological and reporting needs required for CECL (Current Expected Credit Losses) compliance. CECL is an accounting standard that banks were required to adopt by January 2023. It changed how loan loss provisions are calculated, which requires more sophisticated data analysis (Gairhan et al. Feb. 2025).

Part 4.2: United Bank's Selection of Core Service Provider

The core software is the most important technology of any bank. United Bank selected Jack Henry as their core service provider due to its exclusive focus on banks and credit unions. This specialization ensured that Jack Henry had the necessary technology and security measures to meet the bank's standards. Before committing, the bank evaluated Jack Henry's capabilities, industry reputation, security infrastructure, and compliance with banking regulations. The bank recently needed to upgrade its core processor. Instead of switching providers, they opted to upgrade with Jack Henry, indicating a strong trust in the provider's ability to meet evolving needs (Gairhan et al. Feb. 2025).

Part 4.3: United Bank's Strategy for Evaluating Vendors

When evaluating a particular vendor, United Bank considers various factors such as prior banking experience, security measures, data-sharing protocols, and technological sophistication. Security is a top priority when forming and maintaining technological partnerships. United Bank recognizes that technology poses potential liability issues, particularly concerning cybersecurity threats. In order to mitigate risk, the bank employs a rigorous third-party risk management approach that includes continuously monitoring technological systems, conducting annual risk assessments, covering potential threats with cybersecurity insurance, and regularly updating and improving security systems to counteract emerging cyber risks (Gairhan et al. Feb. 2025).

Part 4.4: United Bank's Pros and Cons to Partnerships

There are many benefits and challenges to technology partnerships. The primary advantages include access to specialized expertise to meet banking security standards, increased operational efficiency, and availability of expert support to resolve issues. The challenges include the dependence on vendor response time, constraints imposed by the third-party products and services, and the potential security vulnerabilities associated with external technology providers (Gairhan et al. Feb. 2025).

Part 4.5: Generative AI & United Bank

United Bank is currently exploring the use of generative Artificial Intelligence (AI); however, they have not made definitive plans for its implementation. The bank recognizes that while community banks will not be leading the industry in AI adoption, they will eventually integrate proven and stable AI services. Uncertainty remains regarding the timeline and the extent of the adoption of AI (Gairhan et al. Feb. 2025).

Part 4.6: New Innovations impacting United Bank

One of the emerging trends in technology that is shaping the future of banking is Smart Eye technology, which enhances data security by preventing unauthorized access to sensitive information. United Bank looks forward to adopting the use of Smart Eye Technology in 2025 where information is only shown to authorized users. It is optimistic about new security technologies in the industry that safeguard customer data from potential breachers and onlookers. This focus on security-driven innovation highlights the bank's commitment to maintaining high standards of data protection and technological advancement (Gairhan et al. Feb. 2025).

Part 5: Regulatory Burden

Part 5.1 United Bank's Approach to Compliance

United Bank employs two individuals whose sole dedication is to track and facilitate the bank's compliance measures. Specifically, their roles entail internal compliance reviews and management of external processes. The bank is conducting as much of their internal reviews in house as possible, but they also rely on outside vendors for specialized tasks such as IT exams and systems checks. Compliance is partially decentralized in that each of the bank's departmental operators are responsible for being aware and maintaining compliance in their sections. The compliance officers are responsible for general bank regulations, and individuals are held to account for their work (Gairhan et al. Feb. 2025)..

United Bank begins each board meeting with a detailed compliance agenda headed by the Senior Vice President, Compliance Manager who reports directly to the United Bank board of directors. The Compliance Manager also directs the quarterly audit committee, which deals with all internal and external audit reports and expectations. The board receives all audit and exam reports with key items such as the bank's adherence to the Bank Secrecy Act (Gairhan et al. Feb. 2025).

Compliance needs to keep up with regulatory changes. However, CFO Mulhollan remarked that regulatory changes rarely affect the bank's compliance office; instead, most changes directly impact banking operations, which are monitored by compliance. United Bank first ensures that the proper operational adjustments are made, and the next step is compliance approval to ensure that they are aware of the shift and can check for proper orientation. The final phase is to disseminate the changes to need-to-know regulatory positions so that everyone who carries specific compliance responsibilities understands how to meet the moment (Gairhan et al. Feb. 2025).

Part 5.2 United Bank's Relationship with Regulators and Examination Preparation

United Bank aims to "treat regulators as partners." Bank regulators conduct several exams such as IT, Safety and Soundness, and CRA exams. United Bank emphasizes that there should be constant ongoing internal compliance audits to avoid surprises. After receiving notice of an examination, the senior executive team works with the impacted team to make sure the bank is ready when regulators arrive. Departments are assigned to prepare for the aspects of the examination that affect them (Gairhan et al. Feb. 2025).

CEO Gairhan has a scheduled call with a Federal Reserve Bank office every quarter following their quarterly Call Report submission. The bank has historically communicated with Federal Reserve offices in Little Rock or St. Louis. At these meetings, CEO Gairhan answers questions regarding quarterly call report entries such as unexpected changes in income, regardless of whether it is higher or lower than expected. CEO Gairhan also receives materials to prepare for upcoming examinations in the months preceding the start date. Those materials are given to the assigned departments. Recently, he received a call from the St. Louis Federal Reserve about the use of generative AI. The regulators were pleased that United Bank and most other community banks were not relying on AI. Technology is still in its infancy, and the larger banks are experimenting with it (Gairhan et al. Feb. 2025).

Part 5.3 United Bank's Challenges with Regulations

Regulators can react extensively to problems that have great publicity, such as the failure of Silicon Valley Bank. Regulators have proposed new liquidity regulations for all banks, including banks that are less susceptible of having a similar problem. This disproportionately impacts community banks like United Bank because their resources are limited. United Bank now must prepare and estimate liquidity events that it does not believe is possible for their bank. The challenges United Bank faces could suggest a disconnect between the value of the regulation and the size of the bank. CFO Mulhollan provided the changes to CECL analysis to be in direct contrast to theoretical regulations, as it is easy to adjust to formulaic changes as opposed to policy directions (Gairhan et al. Feb. 2025).

Part 5.4 Regulations' impact on bank's strategic planning

Since the COVID-19 pandemic, regulators believe that commercial real estate (CRE) concentrations are too high because in some metropolitan areas, office vacancies surged as people transitioned to remote work. However, the types of CRE loans that United Bank makes are vastly different from the large buildings that are struggling with default. The bank has a current lending limit of $5 million, so it never lends, for example, in $50 million high-rises. However, the bank still has a higher concentration limit than preferred by bank regulators, which creates challenges. United Bank must explain their concentrations, which can affect its CAMELS score, potentially preventing the bank from opening new branches or ATMs, or pursuing mergers and acquisitions (Gairhan et al. Feb. 2025).

As a result, United Bank provides local economic information to examiners who are not often familiar with the economic background of Northwest Arkansas. The bank prepares a 60–

70-page report with additional data, usually acquired from multiple sources, including the University of Arkansas, to justify their concentrations (Gairhan et al. Feb. 2025).

Part 5.5 Institution monitoring Regulatory Changes

United Bank monitors regulations closely. Although the bank closely follows regulatory discussions, CEO Gairhan and CFO Mulhollan are frequently surprised at the direction of proposed regulations. Individual managers of departments are also tasked to remain current. United Bank has a conservative approach to new forms of banking. For example, they avoid marijuana banking, going so far as to avoid customers with relationships with the marijuana business. Additionally, United Bank currently avoids cryptocurrency (Gairhan et al. Feb. 2025).

Part 5.6 United Bank's message to regulators

Consistency in examinations is a necessity for stable business operations. The FDIC, OCC, FED, and state regulators all hold slightly different views on stress depending upon bank size. Regulators should not expect that compliance expectations at large banks such as Wells Fargo or Citibank are appropriate at community banks. An example would be FDIC insurance. United Bank spent significant time setting up systems for monitoring FDIC insured and noninsured deposits. However, the bank believes that monitoring provides little information because their noninsured deposits are minimal. Additionally, due to the emphasis on customer relations, CFO Mulhollan believes that he would not have a large deposit leave the bank without notice (Gairhan et al. Feb. 2025).

CEO Gairhan would like the examination process to be adjusted to the size of the bank. Currently, United Bank faces an 18-month rotation between state and federal examinations. He believes there is redundancy in examinations because the federal and state regulators are already monitoring the bank quarterly. United Bank may already be in contact with regulators about issues but would still need to accommodate regulators with in-person examinations (Gairhan et al. Feb. 2025).

References

1. *ALX Consulting. ALCO Manager Report Enclosed 31 December 2024*. PDF report, 31 Dec. 2024. Unpublished internal document.
2. Bernanke, Ben, and Olivier Blanchard. "What Caused the U.S. Pandemic-Era Inflation?" *Brookings Institution*, 24 Mar. 2023, https://www.brookings.edu/articles/what-caused-the-u-s-pandemic-era-inflation/.
3. BHG Financial. *Personal Loans*. 2025, https://bhgfinancial.com/personal-loans.
4. Federal Financial Institutions Examination Council. United Bank RSSD ID: 539377. 18 May 2017, https://www.ffiec.gov/npw/Institution/Profile/539377?dt=20170518
5. Federal Deposit Insurance Corporation. *Summary of Deposits*. 30 June 2024, https://banks.data.fdic.gov/bankfind-suite/SOD/marketShare.
6. Federal Financial Institutions Examination Council. *Uniform Bank Performance Report: United Bank, Q4 2024*. 31 Dec. 2024, https://www.ffiec.gov/npw/Institution/Profile/539377?dt=20170518.
7. Gairhan, Nathan, Paige Mulhollan, and Lauren Johnson. *Personal interview*. 13 Feb. 2025.
8. Gairhan, Nathan, Paige Mulhollan, and Lauren Johnson. *Personal interview*. 10 Mar. 2025.
9. Federal Reserve Bank of St. Louis. *Federal Funds Effective Rate (FEDFUNDS)*. FRED, https://fred.stlouisfed.org/series/FEDFUNDS. Accessed 8 May 2025.
10. Shambaugh, Jay. "COVID-19 Inflation Was a Supply Shock." *Brookings Institution*, 25 Aug. 2022, https://www.brookings.edu/articles/covid-19-inflation-was-a-supply-shock/.
11. *United Bank. United Bank Strategic Plan 2025.* 14 Jan. 2025. Internal report.