



## **Analysis of Carroll Bank and Trust:**

### **A Case Study in Financial Analysis, Interest Rates, Branch Strategy, Technology, and Regulatory Burden**



Prepared for:

2025 CSBS Community Bank Case Study Competition

Prepared by:

Aaron Bartholomew

Anna Batte

Makenzi Bouras

Blair James

Hayden Weber

Faculty Advisors:

Mr. John Clark, Dr. Brittany Cole, Dr. Nell Gullett

## Table of Contents

Executive Summary .....	1
Introduction.....	2
<b>Part I: Financial Analysis</b> .....	2
Earnings Performance .....	2
Loan Portfolio Composition .....	5
Asset Growth .....	6
Capital Levels .....	7
Liquidity.....	8
<b>Part II: Interest Rate and Inflation</b> .....	9
Impact on Operations .....	9
Managing Interest Rates .....	10
Investments .....	12
<b>Part III: Branch Strategy</b> .....	12
Location .....	12
Strategic Plans.....	13
Design and Demographics .....	14
Emphasis on Branch Shifting and Technology .....	15
<b>Part IV: Technology</b> .....	16
Selecting and Managing Technology Partners .....	16
Core Provider Selection & Due Diligence.....	17
Managing Third-Party Risk .....	18
The Role of Artificial Intelligence and Future Technology.....	18
Evaluating and Ensuring Compliance.....	19
<b>Part V: Regulatory Burden</b> .....	20
An Approach to Compliance .....	20
Specific Regulations .....	21
The Future of Regulations .....	23
Conclusion .....	23
Works Cited .....	25
Figure 1.....	4
Figure 2.....	5
Figure 3.....	5
Figure 4.....	7
Figure 5.....	7
Figure 6.....	7

## **Executive Summary**

Carroll Bank & Trust (CB&T or the bank) is a community bank founded on pursuit of excellence in three key areas: customer and community service, employee development, and financial performance. The employees live by these principles, and it shows in the bank's growth over the last five years. The CB&T logo includes two separate trees connected. These two trees represent the bank and the community. With a community first mindset, CB&T aims to improve the quality of life in the communities it serves. Data for this report was gathered from communicating with CB&T leadership, learning from experienced community bankers and supporting personnel, and reviewing online articles and reports. The case study reports information regarding: (1) financial analysis of CB&T, (2) interest rate environment and inflation, (3) branch strategy, (4) technology, and (5) regulatory burden at CB&T.

Based on cooperation between the student team and CB&T executives, the case study team concludes: (1) CB&T experienced significant financial success during rapidly rising interest rate periods, (2) CB&T managed the 2020-2024 interest rate environment to continue growth, (3) CB&T's branch strategy not only provided financial prosperity, but also gave the organization a chance to successfully invest in rural communities, (4) CB&T ensures its technology is continuously meeting the needs of its customers while staying compliant with regulatory requirements, and (5) CB&T remains diligent in pursuing its goal of regulatory compliance.

## **Introduction**

Carroll Bank & Trust was established on September 12, 1907, as The Bank of McMoresville. The Bank of McMoresville persevered through the Great Depression, when many banks failed. The bank changed ownership to Billy M. Cary and Billy B. Tines in 1972, and nearly 15 years after the new leadership took over, the bank's name changed to Carroll Bank & Trust (CB&T). Customers placed their trust in CB&T because the bank has proved that it provides excellence in all areas during difficult times. The bank's track record allows Carroll Bank & Trust to prosperously serve new communities. Although CB&T started in the small town of McMoresville with a population of 288 (U.S. Census Bureau, 2020), it has since expanded to eight locations. The bank is headquartered in Huntingdon, Tennessee (Carroll County), and the remaining branches are located in counties contiguous to Carroll County.

Carroll Bank & Trust heavily prioritizes growth. CB&T has grown over the past five years by successfully managing the interest rate environment and staying up to date with technological advancements. CB&T has proven time after time it is a resilient bank that strives to provide quality services to rural communities. Carroll Bank & Trust has proudly served the communities of West Tennessee for 118 years, and the bank plans to continue serving those communities for many years to come.

## **Part 1: Financial Analysis**

### *Earnings Performance*

Carroll Bank & Trust has experienced tremendous growth in earnings from year-end 2020-2024. Overall net income of CB&T increased 37% over the past five years, despite a sharp decline from 2023 to 2024. The decline in 2024 net income was expected, given that 2023 was the most profitable year in the bank's history. Since CB&T is a Community Development

Financial Institution (CDFI), the bank received a \$5.2 million award from a government spending bill that appropriated funds for the Equitable Recovery Program (ERP). The bank had a net increase in income of \$3.3 million in 2023 from this one-time program.

To fund loan growth, CB&T was aggressive in the certificates of deposit (CD) market to attract new deposits. Phil Fry, CB&T's Executive Vice President and CFO, states, "We utilized various strategies, but we mainly focused on pricing short-term CDs at a higher rate along with creating a high-yielding money market account" (Fry, personal interview, 2025). Both efforts were successful as the bank increased deposits by 16% in 2023 and 12% in 2024. Most of CB&T's CD growth is in the "CDs less than \$250,000" category.

Net loans and leases increased by 72.92% from 2020 to 2024. The growth produced a 102.68% increase in interest income on loans. Despite nearly doubling its interest expense on domestic deposits from 2023 to 2024, CB&T increased its net interest income by 12.21% over the same period. The increase in interest expense on domestic deposits is attributed to the Federal Reserve's decision to increase interest rates to combat inflation. To keep up with rising interest rates, CB&T offered higher CD rates, which allowed the bank to fund more loans and investments as well as maintain an adequate liquidity position.

CB&T's current peer group, based on the Uniform Bank Performance Report (UBPR), is insured commercial banks with assets between \$300 million and \$1 billion. CB&T utilizes the peer group established in the UBPR to complete corporate analyses. The bank also has a small peer group selected internally from banks in the marketing area with similar asset sizes. CB&T uses the peer group to compare how it performs relative to the banks in the surrounding area, especially those experiencing similar circumstances within the community. Using smaller peer

groups enables the bank to achieve a better comparison with local peers as compared to banks in other areas that are experiencing different trends.

Another income producing function of Carroll Bank & Trust is its investment management affiliation through Raymond James. CB&T reached an agreement with Raymond James to extend its customer services into the financial planning sector in 1997. The affiliation with Raymond James is a significant part of CB&T's overall operations, and it is the primary reason CB&T's non-interest income is greater than other banks. Figure 1 shows CB&T's non-interest income as a percentage of average assets from 2020 to 2024. The dramatic increase in 2023 is attributed to the ERP award which was booked as non-interest income.

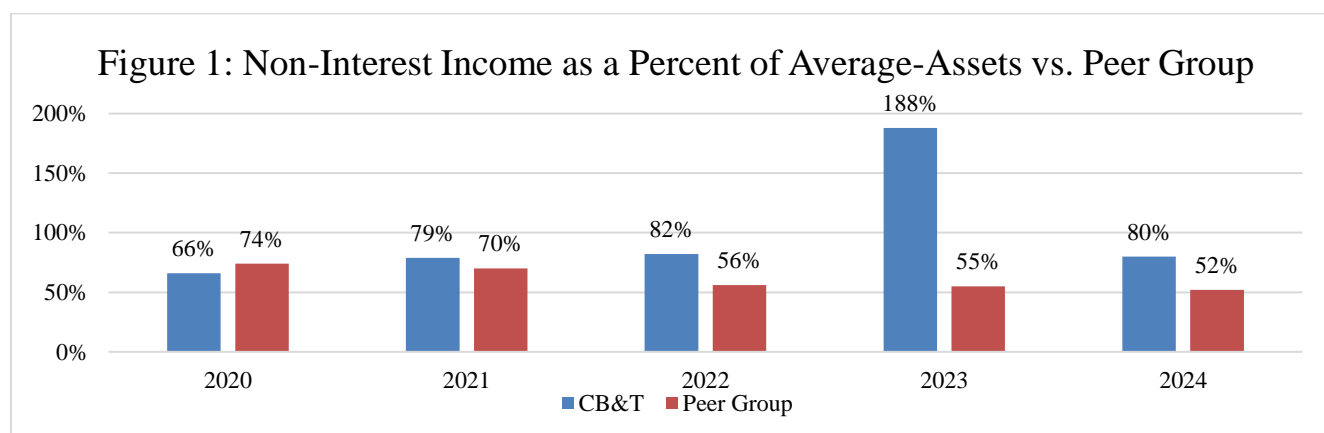
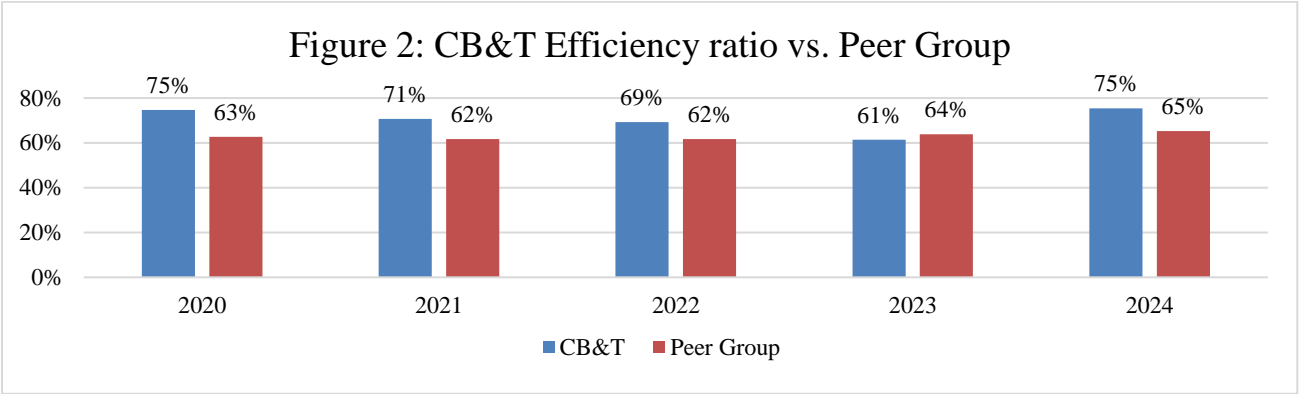


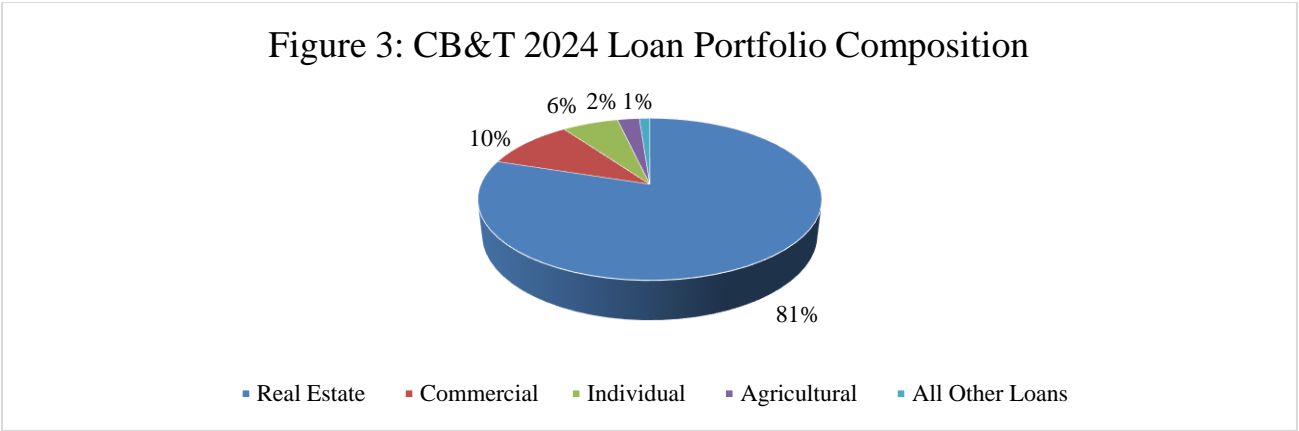
Figure 2 details CB&T's efficiency ratio in comparison to the UBPR assigned peer group. CB&T operates at a higher efficiency percentage than other banks in its peer group. The bank is tasked with explaining why its efficiency percentage is higher than its peers during every examination. "Although the bank's efficiency ratio is above peer, our mission statement explains the discrepancy" (Fry, personal interview, 2025). CB&T has more employees, higher overhead expenses, and a larger branch footprint than other banks of similar size. The bank's updated facilities and benefits package for employees, which includes fully paid health insurance and other benefits, pushes its efficiency ratio higher. The decision to have a higher efficiency ratio

than its peers is intentional. CB&T concedes higher profit margins in certain areas to retain excellent staff and provide attractive facilities. The bank believes these additional expenses will put the firm in a better position for long-term growth.



*Loan Portfolio Composition*

CB&T’s loan portfolio grew 72.92% since 2020. The composition of the loan portfolio is presented below in Figure 3.



The most significant portion of Carroll Bank & Trust’s loan portfolio is real estate loans. “Our real estate loan portfolio has increased as our communities have seen tremendous growth from people moving into our markets” (Fry, personal interview, 2025). Real estate loans have increased 13.07% in year-to-date growth for 2024. Real estate loans were reported at \$326,562 million in 2024, whereas 2020 showed only \$182,748 million. Within the real estate loan

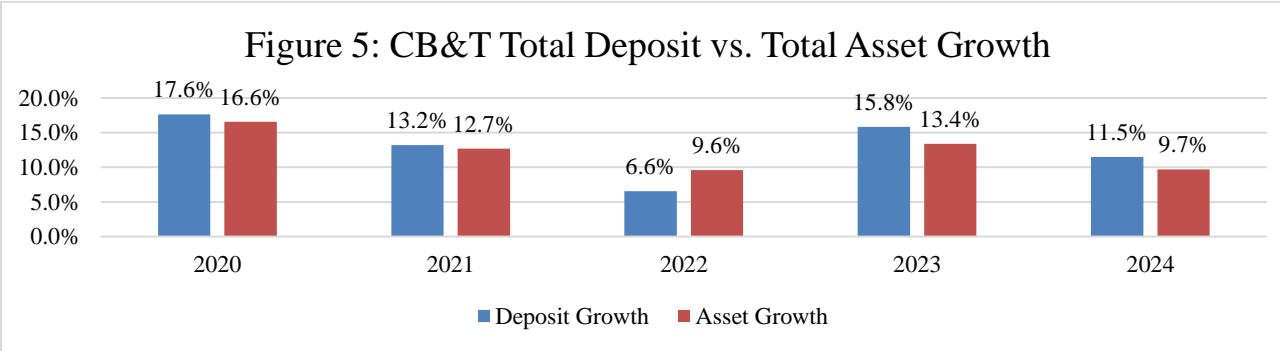
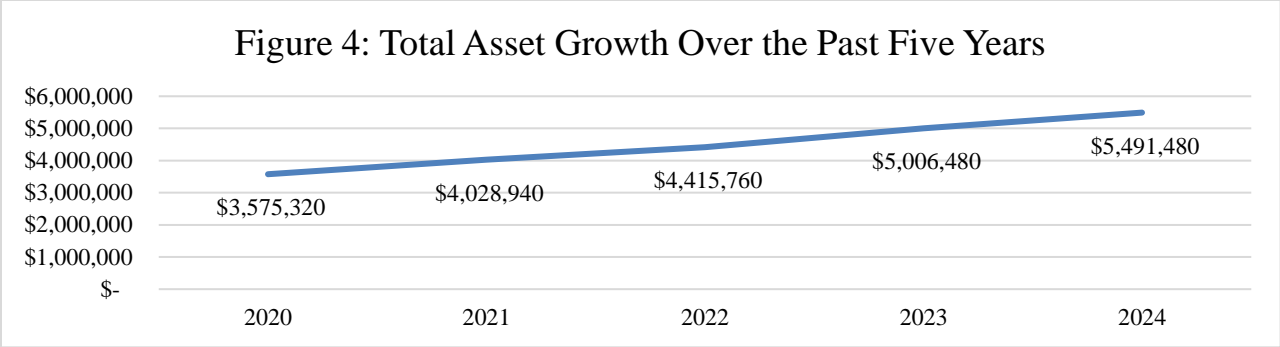
category, construction and development loans experienced the most significant jump. The largest individual asset that Carroll Bank & Trust has on its books is its 1-4 Family Residential loan portfolio. Accounting for roughly 32% of their total assets in 2024, 1-4 Family Residential loans are a key reason for Carroll Bank & Trust's asset growth. Commercial loans make up the second-largest portion of the portfolio at 10% for 2024. Individual and agricultural loans comprised 6% and 2% of the portfolio, respectively, during the same period.

### *Asset Growth*

As presented in Figure 4, CB&T shows tremendous asset growth from 2020 to 2024. During this time, total assets grew from \$357 million to \$549 million. The growth is attributed to many factors. "Carroll Bank & Trust has experienced tremendous growth by almost doubling in size from 2019 to 2024, and the bank's loan portfolio is a major attribute to this growth" (Fry, personal interview, 2025). Carroll Bank & Trust feels its brand is well accepted within the communities it serves. The bank offers competitive rates on loans and deposits to keep its existing customer base while also promoting incentives at various times during the year to attract and retain customers. Offering specials to customers is one of many ways CB&T implements its growth strategies to achieve the bank's goal of managing \$1 billion in assets by 2030.

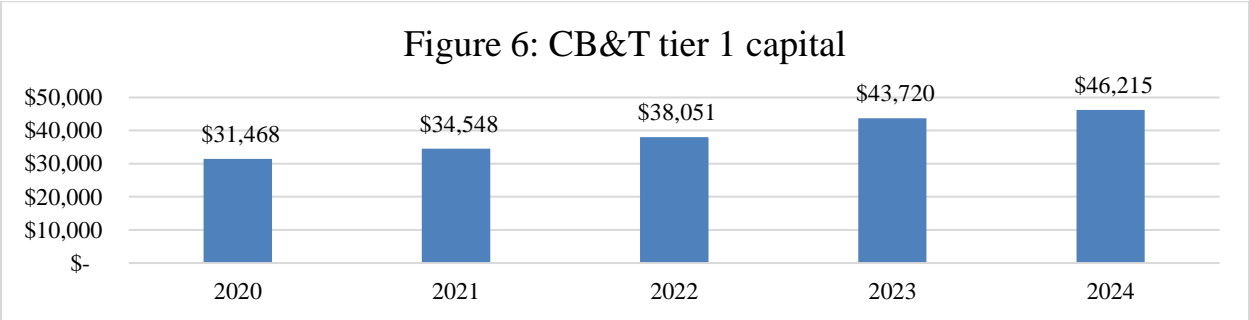
Considering the increase in U.S. prime interest rates from 4% in May 2022 to 8.5% by the end of 2023, it is impressive CB&T still managed to excel financially. Figure 5 reports total deposit and total asset growth for CB&T. CB&T sets itself apart from other banks in the area by providing great customer service that larger banks struggle to offer under increased regulatory scrutiny. CB&T provides quick, local decision making on its loans, which helps the bank not only create new customer relationships but also keep these relationships long-term. Because of these attributes, CB&T expects loan and asset growth to continue.





### Capital Levels

CB&T monitors its leverage and tier 1 capital ratios closely. CB&T has kept its tier 1 capital ratio above 11% over the last five years. Over that span, tier 1 capital has increased 46.86%, as shown in Figure 6. The tier 1 leverage ratio has declined and remained at an average of 8.8% from 2020-2024. The decline is a direct result of the previously mentioned asset growth. “Although our capital ratio has regressed slowly over the last five years since we have extreme asset growth, we are still in a strong capital position to continue to look for growth opportunities” (Fry, personal interview, 2025).



CB&T pays close attention to two separate calculations that measure the bank's allowance for credit losses on loans and leases in comparison to the total amount of loans and leases. Currently, the bank's loan loss reserves to total loans is 0.79%, slightly below its target of 1%. The second allowance for credit loss calculation using the Current Expected Credit Loss (CECL) method shows CB&T as overfunded by \$45,000. The decision to distribute or save capital is based on the current needs of CB&T as well as its holding company, Carroll Financial Services, Inc. The holding company's primary needs revolve around paying an adequate dividend to its stockholders, providing operating cash to pay limited expenses, and to service a small annual principal and quarterly interest payment on debt.

### *Liquidity*

Carroll Bank & Trust monitors its liquidity closely. The bank uses two main methods to measure liquidity. First, the bank completes a monthly liquidity calculation of its balance sheet, operating, total, and investment portfolio liquidity. Balance sheet liquidity includes cash and unpledged investment securities. Operating liquidity accounts for all the assets used in balance sheet liquidity plus their borrowing capacity. The borrowing capacity is established through the Federal Home Loan Bank of Cincinnati and the Federal Reserve. The total liquidity computation adds back the borrowing capacity that the bank's internal policies do not allow for in the operating liquidity calculation. The bank uses a report from its bond accounting provider to calculate a two-year cash flow from its security investments in all shock rate scenarios.

Second, the bank runs a liquidity model quarterly. The model is based on CB&T's interest rate risk model which is run through a software called Compass. Although CB&T is relatively new to the software, Compass is a major piece of its interest rate planning. Compass allows the bank to project balances for a four-year period by tracking maturities on the loan and

deposit side. By utilizing assumptions that CB&T inputs into the system, the bank can project a 12-month period of inflows and outflows. The model allows CB&T to project liquidity ratios at any point in the next year. The bank has policy limits for each liquidity ratio, and any ratios outside of policy are reported to the CB&T Board of Directors.

CB&T's loan-to-deposit ratio increased from 72.5% in 2020 to 80.4% in 2024. While the bank experienced overall growth, there was a 3% decrease from 2020 to 2021. "CB&T is satisfied with our current liquidity position. We are well positioned for future growth with our current liquidity position" (Fry, personal interview, 2025). The bank's ideal range for loan-to-deposit ratio is between 82% and 89%. CB&T's profitability increases when this ratio is higher, but liquidity concerns also increase with a higher loan-to-deposit ratio. Because the bank operates in a rural community heavily reliant on agriculture, it experiences some seasonal fluctuations in both loans and deposits. The bank also has several city and county deposit accounts, which fluctuate around the collection of property taxes.

## **Part 2: Interest Rate Environment and Inflation**

### *Impact on Operations*

Many macroeconomic factors influence a bank's operations. Inflation and interest rates are macro risks that banks must account for in the strategic planning process. Since the pandemic, inflation and interest rates have increased for many financial institutions. COVID-19 shut down large parts of the country while there was a record amount of money circulating (Federal Reserve Bank of St. Louis, 2020). The combination of a shutdown with large levels of cash circulation resulted in a tremendous inflationary problem for the economy.

Inflation is a major driver of the bank's increased operating expenses. The increase in expenses has put an emphasis on CB&T to find ways to become more efficient. Despite the

negative effects, CB&T is both growing and thriving during this interest rate period. One reason the bank continues to increase profitability is because Carroll Bank & Trust prioritizes growth. The bank plans for interest rate risk in its branch strategy, and this helps the bank achieve success with its growth plans. CB&T manages interest rate risk well. The bank has not had to alter its branch strategy to combat rising interest rates, which is a testament to the effectiveness of its strategies. Phil Fry shares, “They always make sure to manage the spread. Carroll Bank & Trust must take what they can get and ride it out” (Fry, personal interview, 2025).

Carroll Bank & Trust relies heavily on the communities in which it provides services. When the communities face stressful financial circumstances, these situations negatively influence the bank through reductions in business, lending, and depository activity. Many rural communities are facing a cost-of-living crisis as expenses are on the rise since the COVID-19 pandemic (Federal Reserve Bank of St. Louis, 2020). Rising cost struggles are not limited to individuals; many businesses are also dealing with increases in expenses. Unfortunately, businesses sometimes must pass cost increases on to the customer through higher prices. The inflation crisis has resulted in some borrowers entering default on their loans. When income does not increase at the same rate as inflation, it decreases one’s ability to repay a loan. Bryan Rainey, Carroll Bank & Trust City President, states, “It is in the best interest of CB&T to help their customers through this time as best as possible. It is always important to make decisions in the best interest of the bank, but a lot of the time making the best decision for the bank means making the best decision for the customer” (Rainey, personal interview, 2025).

### *Managing Interest Rates*

Carroll Bank & Trust has not made any changes to its long-term plan as a result of inflation risk. One reason for not changing its plan is because of how the bank manages

macroeconomic risks with its Asset-Liability Committee (ALCO). It is important for CB&T's profitability to reduce (or manage) the risk associated with its balance sheet, but fluctuating interest rates can cause assets and liabilities to not align. Jordan Allen, Assistant Vice President, shares, "CB&T prioritizes asset liability management to be able to support our core goals of effectively serving our customers and communities. Our asset liability management positions us to manage our balance sheet during sharp interest rate shifts while providing traction to reach our strategic growth goals. As a long-standing community bank that has seen many highs and lows in the banking industry, strong asset liability management has and continues to allow us to be an integral part of the communities we serve" (Allen, personal interview, 2025).

Carroll Bank & Trust is a liability-sensitive institution. As interest rates are on the rise, CB&T's deposits are repriced faster than its loans and securities. CB&T has to adjust quickly when interest rates go up because the change will have a greater impact on the banks' liabilities than it does the bank's assets. CB&T's success at managing rising interest rates is evident because the bank is still performing well. The ALCO committee makes decisions for the bank based on reports created from the bank's interest rate risk model. Phil Fry and Jordan Allen are the officers responsible for the interest rate model and the reports. CB&T uses Compass to measure interest rate scenarios the bank could face in the market. The bank tracks the different interest rate shock scenarios and determines how the inputs will influence earnings and capital.

When Fry and Allen analyze different interest rate scenarios using Compass, they can focus on the bank's rate-sensitive assets and liabilities. Fry and Allen input balance sheet projections, and Compass uses the data to map loan and deposit payments and maturities. Using a 400 basis-point rate shock interval in the up and down rate scenarios, the bank inputs key

interest rate assumptions – such as prepayment speeds, betas, and decay terms – in the model. The reports that are generated by the model show the changes in net interest income.

### *Investments*

Carroll Bank & Trust invests in safe securities. The bank's portfolio includes Treasury bonds, agency bonds, municipal bonds, and mortgage-backed securities. These types of securities are low risk to the bank. CB&T invests in securities to help manage the net interest margin and reduce interest rate risk for the bank. Carroll Bank & Trust's ALCO determines what the bank's net spread is and whether the bank should make profit targets. The committee decides how much money should be held in cash and how much should be invested in securities.

CB&T notes the rising interest rate market has negatively influenced their securities portfolio over the past five years. Unrealized losses in the bank's portfolio have increased significantly. CB&T invests heavily in bonds. While bonds are considered a safe investment for the bank, investing heavily in the bond market exposes the bank to interest rate risk more so than if the bank invested in other types of securities. The inverse relationship between bond prices and interest rates and the risk this relationship represents is the leading driver behind the investment portfolio's unrealized losses. These losses potentially could influence CB&T in the long run, so it is imperative the bank manages its investment portfolio with a perspective that mitigates losses when possible.

## **Part 3: Branch Strategy**

### *Location*

Carroll Bank & Trust is located in eight towns across West Tennessee. The bank is headquartered in Huntingdon, Tennessee. The other branches are in Bradford, Camden, Lexington, McKenzie, McLemoresville, Milan, and Paris (Tennessee). The five counties that

house a CB&T branch include Benton, Carroll, Gibson, Henderson, and Henry. Geographically, the counties touch Carroll County, the county where the bank is headquartered. The bank's goal was to strategically place branches so customers could reach another CB&T location in less than an hour. CB&T is in the midst of identifying future target areas as growth continues, and the bank has ambitious growth goals for future expansion.

Since 2006, CB&T has opened three new branches. CB&T also purchased a bank and moved into a vacated Regions Bank building. Its most recent expansion is into the Lexington market. The Lexington branch began providing banking services in January 2023. Brick-and-mortar banks are becoming increasingly less common, but CB&T sees it as a chance for new opportunities. Many banks are evolving with the common assumption that a physical bank branch is unnecessary, but CB&T leans on the fact that community involvement and presence often result in financial prosperity.

### *Strategic Plans*

The growth of footprint, leverage of costs, and diversification of operations are key to maintaining the bank's franchise value. Branching is a cost-effective way to achieve those key objectives. CB&T has a progressive growth plan for the next five to ten years. Identification of the right market and personnel is significant to the bank's strategic plan. When assembling a team, the bank officers look for individuals who can manage multiple facets of banking and deliver exceptional customer service. Employees at CB&T are often lifelong residents in the local communities they serve. Employees are provided with training, products, and services that offer competitive advantages. The goal is to invest in employee education and development, inspiring them to become reliable, capable, and significant resources for financial services in their communities.

Branch efficiency is not only driven by the employees but also by good cost management. An example of CB&T's use of cost effectiveness is their Lexington branch. The Lexington market is the most recent market that CB&T has entered. Successfully analyzing costs makes the Lexington branch one of the least expensive markets to enter. CB&T leases the building it is currently using as opposed to purchasing the property.

The bank is in a consulting relationship with one of the nation's leading branch strategists, Dr. Ken Thomas, from K.H. Thomas Associates, LLC. CB&T's profile is typically rural but sufficiently populated to warrant the services it plans to offer. Dr. Thomas advises the bank to build branches on the right side of the road, the side people will be using when they are driving home from work. A strong sense of community identification is also important. Several times a lesser populated area has been "abandoned" by larger banks which provides an opportunity for a true community bank to fill that role with a higher level of localized services. "Yes, banking is a money business, but it is first and foremost a people business. People, whether at the retail or business level, want and deserve to personally interact with other people when it involves their finances" (Thomas, 2016).

CB&T implements several planning strategies, which determine when it is appropriate to expand into a new area. Other factors consist of planning for expenditures and regulatory approval. Dr. Thomas states, "CB&T is an exceptional bank. It is emblematic of what a true community bank is. They live and work in the community, they understand it, and they know it" (Thomas, personal interview, 2025).

### *Design and Demographics*

CB&T has a unique and thoughtful approach to branch design. There are several facility characteristics specific to CB&T and to the community the bank serves. CB&T works with a



designer to develop a footprint based on the services the bank offers. The designer creates something aesthetically pleasing, functional, and welcoming to the community. Certain distinctive elements are seen at different locations while embracing local elements in the design process. Paintings and artwork are location-specific and embody a sense of community pride. For example, some branches display a wall collage of local sports photos. It is evident that CB&T is supportive of local teams and strives to create a team-like atmosphere in the workplace. Every location features a fireplace, which is meant to create a hospitable environment. The bank's trademark symbol – two oak trees intertwined – is found on the front of all CB&T locations. This emblem represents the community and the bank working together. CEO Mike Cary states, “Here at Carroll Bank & Trust we are passionate about the customers we serve and making their lives and our communities better. You see we live here, go to school here, go to church here, and understand how important it is to give back” (Cary, personal interview, 2025).

Staff members at CB&T greet customers in the lobbies and at the drive-through windows. A friendly atmosphere communicates to customers that staff members are capable and happy to help them manage their financial needs. CB&T provides training to recognize financial service needs and on how best to match team-member expertise with those needs. The walk-in teller/customer service traffic is mostly from the opening of new accounts, more complex transactions, and routine checking deposit services. Individuals who are busier during the day often prefer online or digital channels for most services.

#### *Emphasis on Branch Shifting and Technology*

CB&T is considering interactive teller machines and currently has target markets for implementing these machines at various locations. The team overseeing this advancement must learn about its uses before providing it as a service to customers. The addition of this technology

would provide a cost-effective way to serve segments of the bank's markets. CB&T finds it important to serve the technological needs of customers while remaining a strong supporter of face-to-face interaction. CB&T's app-based services enable the bank to extend beyond geographical confinements. The notion that you must change banks when you relocate is not valid with CB&T's online and mobile-app presence. The bank continues to believe that one-on-one conversations are necessary for certain situations, but not all, and it is important to provide options for all customers.

A bank branch is the face of the organization in the community it serves. Milan City President Bryan Rainey states, "A branch is a billboard your community drives by often, reminding them of your presence for their needs" (Rainey, personal interview, 2025). CB&T wants customers to know the bank is in the market to serve customers first. There are times when a situation still dictates face-to-face communication. While these occasions might be infrequent, CB&T wants customers to know that if they have a complex transaction, there is someone who can talk them through their needs. Dr. Thomas states, "People may not always go to a branch every day, they may not go in there for a year, but people want to see that it's there" (Thomas, personal interview, 2025).

## **Part 4: Technology**

### *Selecting and Managing Technology Partners*

Selecting the right technology partners is essential for the bank's ability to offer top-tier services to its customers. A smaller community bank depends on third-party partners to provide services that larger institutions could easily develop in-house. Banking conferences, referrals from other banking professionals, and direct outreach from the technology providers are the main ways in which the bank finds its partners. The bank's core provider is critical to the bank's

operations. The service provider does not have all the tools the bank needs, which causes the bank to pursue additional services in partners.

One of CB&T's main technology partners is Fiserv, which has been the bank's core provider since 1993. The bank continues to rely on Fiserv's Premier core banking system which supports essential banking operations. Fiserv not only provides the bank's core banking platform, but it also offers several ancillary services, such as mobile banking and debit card processing. An additional technology partner, Jack Henry, supplies the bank with remote deposit capture services. New cybersecurity is another area where CB&T partners with highly specialized firms. Gladiator provides 24/7 firewall monitoring, ensuring that the bank's network is protected from cyber threats. CrowdStrike is responsible for endpoint protection, safeguarding the bank's systems from security risks. CB&T also utilizes Verafin, a leading BSA/AML software, which helps the bank stay compliant with regulatory requirements by identifying risk trends among customers. Other specialized partners include Sawyers & Jacobs, a technology consulting firm. Sawyers & Jacobs helps the bank manage vendors by conducting vendor management, reviewing cybersecurity protocols, and performing annual updates to the bank's business continuity plan (BCP) and information security policy.

#### *Core Provider Selection & Due Diligence*

When choosing its core provider, CB&T evaluates whether the provider can fulfill the bank's long-term technology requirements. The bank has a well-established history with Fiserv, having been on the Premier core system since its inception. This long-standing relationship provides the bank with a stable and reliable system that supports its daily operations. The bank regularly assesses the quality of services offered by Fiserv, and CB&T recently added eight new products and services in 2024. The bank's efforts towards continuous evaluation ensures that the

core system adapts to the bank's changing technological and operational needs. For key partners like Fiserv, CB&T consistently evaluates performance and offerings to ensure the partnership is both smart and profitable. The bank's due diligence efforts include reviewing partner contracts, system and organization control (SOC) reports, and insurance coverage to ensure there are no risks before formalizing a partnership. CB&T tailors its due diligence process based on the perceived risk of each service or product provided by the partner.

### *Managing Third-Party Risk*

Given the critical role that technology partners play in the bank's operations, managing third-party risk is a top priority. The bank partners with Sawyers & Jacobs, which helps the bank complete an annual vendor management review. In the vendor review, CB&T assesses the risks posed by its vendors, ranking them based on potential impact on the bank's operations. Vendors are categorized as low, below average, average, above average, or high risk. Higher-risk vendors undergo more in-depth analysis. By managing vendor relationships in this way, the bank can minimize the impact of any potential issues with vendors before their contracts are renewed.

Despite the benefits that technology partners provide, there are also significant risks. One of the main concerns in managing third-party risk is data security. Given that many of CB&T's technology partners have access to sensitive customer data, it is vital for these partners to maintain strong security protocols. Since the bank has limited control over the products and services provided by larger partners, it must be cautious when working with vendors. Larger partners may be slow to respond to issues which can further complicate the situation.

### *The Role of Artificial Intelligence and Future Technology*

While CB&T has not yet fully embraced generative artificial intelligence (AI), the bank sees its potential. Fiserv, for instance, has plans to release generative AI products, and the bank

plans to access these services when available. Currently, the bank uses Verafin's BSA software, which incorporates AI tools to help detect trends and risks among customers. The bank is careful about adopting AI technology too quickly, primarily because of concerns around privacy and data security. While CB&T recognizes the potential benefits of AI – such as automating repetitive tasks, enhancing fraud detection, and offering more personalized services – the bank remains cautious. As pointed out in the RedTorch Academy video, technologies bring risks such as data privacy issues and cybersecurity threats, which are significant factors CB&T must consider before adopting AI fully (RedTorch Academy).

AI has the potential to improve the customer service experience and streamline bank operations. Other new technologies, like Fintech Services, AI scams, and the FedNow real-time payment system, are also changing the banking industry. CB&T is aware of these trends and is watching how they could affect the future of banking. New payment methods like “Buy Now, Pay Later” and apps such as Venmo and PayPal are creating competition for banks. As a result, CB&T is staying informed and considering how these technologies could help or challenge the bank going forward.

### *Evaluating and Ensuring Compliance*

Ensuring compliance with regulatory standards is critical for any bank. CB&T takes a proactive approach to determine that both the core provider and technology partners remain in full compliance with regulatory and legal requirements. One way the bank monitors compliance is through its Vendor Management Program (VMP). The program involves an annual vendor review where the bank assesses the performance and compliance of its technology partners. These reviews help the bank identify any potential risks or non-compliance issues related to its partners' services. Sawyers & Jacobs helps CB&T perform annual vendor management reviews.

## **Part 5: Regulatory Burden**

Every bank faces strict regulations to which it must adhere to continue business. Chief Compliance Officer Gerald Taylor and two assistants comprise the compliance department for CB&T. They have a dedicated framework for implementing regulatory changes and informing the board of these changes.

First, the department is responsible for tracking regulatory updates and changes through a software called Compliance Alliance. Compliance Alliance explains its service as, “Providing its members with an all-inclusive set of bank compliance tools and services that help them stay up-to-date with consumer and regulatory requirements” (Compliance Alliance, 2025). The Federal Reserve website also is reviewed routinely to identify regulatory enforcement trends. Next, the department assesses how regulations influence the different business units, products, bank processes, and then an action plan is developed. The action plan ranks regulatory changes in order of importance and provides assignments to the affected departments. The compliance department informs the board about pending regulatory changes. Training is provided for the affected business units and employees so they will understand the changes.

### *An Approach to Compliance*

Mr. Taylor highlights key areas on which CB&T focuses to achieve full regulatory compliance, and the bank establishes a robust compliance framework. This framework includes enacting well-defined policies within the bank along with a compliance department. CB&T properly defines employees’ roles in adherence to regulations at all levels. CB&T fosters a culture of compliance through regular training and awareness programs for all employees. The bank promotes accountability and ethical behavior for all members throughout the organization. CB&T leverages technology to its advantage in implementing solutions to regulatory

requirements. The bank uses risk assessment tools, continuous monitoring, and reporting as tools for compliance. Lastly, the bank implements continuous monitoring and assessment. The bank contracts with external auditors to perform regular external audits and compliance control tests. The department also performs comprehensive risk assessments across all the various business units.

Another important part of regulatory compliance is the bank's collaboration with regulators. The Tennessee Department of Financial Institutions (TDFI) and the Federal Reserve alternate every 18 months with a Safety and Soundness examination. The Federal Reserve also has a more in-depth exam that is conducted every five years. CB&T has some key approaches that allow the bank to pass these regulatory examinations. The compliance department also focuses on reviewing past examination results. Past examination results are used to see where the bank is doing well and where it needs improvements. The bank uses previous reports to ensure no unresolved issues persist following a regulatory visit. The compliance department also implements appropriate controls. The bank contracts with external parties to conduct internal audits. These internal audits compare the bank's current operations to a bank in full compliance. Any gaps that the audit identifies can then be addressed by the bank. The compliance department prepares documentation to address the issues identified in the audit, and this documentation includes policies, procedures, and evidence of compliance activity. The documentation is a tool for the board of directors and future regulatory examiners to see where the bank is addressing regulatory concerns.

### *Specific Regulations*

Regulations play a role in capital allocation, risk management, product offerings, and operational policies. CB&T incorporates the impact of regulations in the bank's strategic plan.

Some regulatory policies are more challenging to comply with than others. For example, the Anti-Money Laundering (AML) and Know Your Customer (KYC) regulations are particularly labor- and cost-intensive. The bank must screen its customers to comply with these regulations and verify the client's (legal) income sources to prevent money laundering. AML regulations are enforceable because of the Bank Secrecy Act. According to the Office of the Comptroller of the Currency, "Under the Bank Secrecy Act (BSA) and related anti-money laundering laws, banks must establish effective BSA compliance programs and establish effective consumer due diligence systems and monitoring programs" (Office of the Comptroller of the Currency, 2025). For the KYC regulation, the bank also needs to employ thorough screening procedures to prevent identity theft. The regulations are beneficial for customers, but they are costly for the bank. In today's technology-driven world, financial crimes are ongoing and growing in complexity. It is sometimes challenging for the bank to stay ahead of those changes and comply with regulations.

The Community Reinvestment Act (CRA) is one regulation on the forefront of all of CB&T's decision-making processes regarding branching. The CRA includes many mandates when banks are opening a new location. The bank must establish an assessment area – usually the county in which the bank will be located. Banks opened in new areas are evaluated based on lending, investment, and service tests. Service tests assess the geographic distribution of branches in low-and-moderate-income (LMI) neighborhoods. CB&T must consider how opening a new bank will impact its CRA assessment performance. The CRA is designed to encourage banks to maintain a business presence in LMI areas. These LMI areas still need access to the services the bank provides. A bank cannot intentionally avoid these areas based on the possibility of low earnings. Before Carroll Bank & Trust opens a new branch, it analyzes the needs of the community and strategically places new banks to maximize its CRA impact. CB&T also must



adhere to state and federal laws regarding branch establishment. The opening of a new bank branch must be approved by their regulators. The new branch and the bank as a whole must adhere to capital adequacy standards. These requirements are all designed to promote financial stability, competition, and service to the community during branch expansion.

### *The Future of Regulations*

The current regulatory environment is challenging for CB&T. It is difficult due to the complexity and volume of regulations. There are frequent changes in regulatory requirements to which the bank must adhere, and some regulations also disproportionately affect smaller financial institutions. All regulations have associated costs. These costs add up and make serving the bank's customers more difficult in some cases. If regulations were streamlined, the bank would have an easier time managing new regulations and better serving customers.

### **Conclusion**

Carroll Bank & Trust continues to exceed standards in the banking industry. Mike Cary has built an effective management team that puts the community at the forefront of all business decisions. The bank is a contributor to local schools, churches, and development activities. The communities CB&T serves are faithful to the organization, and their commitment to CB&T is due to the opportunities, security, and service the bank provides. CB&T invests not only in its employees but also in its customers. The bank has ambitious growth goals, both financially and geographically, that offer a favorable future for the bank. The bank's strategic branching strategy has enabled it to increase in size and successfully attract new customers. CB&T maintained strong profitability despite a challenging interest rate environment. The bank must commit to successfully managing its investment portfolio moving forward, though, to avoid unnecessary losses on investments.

CB&T has a rich history of providing stability to its customers. Many banks have evolved into different service platforms while CB&T continues to thrive on the philosophy that a community will always need a community bank. The bank branches are accessible and designed to facilitate a family feel that larger banks cannot replicate in the rural areas CB&T serves. The management team has instilled a tremendous sense of pride in their employees and continues to emphasize the importance of giving back to the communities that have given the organization so much. The bank has had many prosperous years and has a propitious future ahead. For CB&T, it all starts with successfully serving customers, communities, and families today.

## Works Cited

- “About CB&T” Carroll Bank and Trust, 2023. “Community Bank Compliance, Banking Solutions, Compliance Alliance.” *Compliance Alliance*. 8 November 2024.  
<https://www.carrollbank.com/about-us/>
- Allen, Jordan. Personal interview. 5 March 2025.
- Allen, Jordan. Personal interview. 17 March 2025.
- Federal Financial Institutions Examination Council. “Uniform Bank Performance Report: 2020-2024.” FFIEC. 2024. <https://www.ffiec.gov/data/ubpr>
- Federal Reserve Bank of St. Louis. “COVID-19’s Effects in the Economy and the Fed’s Response.” 2020. <https://www.stlouisfed.org/publications/>
- Fry, Phil. Personal interview. 4 February 2025.
- Fry, Phil. Personal interview. 17 March 2025.
- J.P. Morgan. “Historical Prime Rate.” <https://www.jpmorganchase.com/historical-prime-rate>
- Office of the Comptroller of the Currency. “Bank Secrecy Act (BSA) OCC.” *Treas.gov*. 2013.  
[www.occ.treas.gov/topics/supervision-and-examination/bsa/index-bsa.html](http://www.occ.treas.gov/topics/supervision-and-examination/bsa/index-bsa.html).
- Rainey, Bryan. Personal interview. 4 February 2025.
- Rainey, Bryan. Personal interview. 7 February 2025.
- Sawyers, Jimmy. Personal interview. 14 March 2025.
- Thomas, Ken. “Bank Branches Don’t Die, They Evolve.” *American Banker* Vol. 181 No.149. 4 August 2016.
- Thomas, Ken. Personal interview. 7 March 2025.
- U.S. Census Bureau. “Populations and People.” 2020 Decennial Census.  
[https://data.census.gov/profile/McLemoresville\\_town,\\_Tennessee](https://data.census.gov/profile/McLemoresville_town,_Tennessee)