# A Swiss Army Knife for Rural Development

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In thinking about this chapter on banking in rural America, ironically, my thoughts turned to Europe. Bern, Switzerland, was the site of the February 2020 annual conference of the Global Alliance for Banking on Values (GABV)—more about the GABV and its role in rural development later—which I attended. As it turned out, this would be the last flight I would take prior to the impact of the coronavirus on the world's economy. The one souvenir I bought was a Victorinox Swiss Army knife, the ultimate multi-functional pocketknife that includes about a dozen tools in one—a large and small blade, scissors, corkscrew, nail file, bottle opener, Phillips and flathead screwdrivers, tweezers, reamer and a wire stripper.

So, what does a Swiss Army knife have to do with rural development? Much like the knife, a rural banker must be multifunctional—a lender, economic developer, public policy advocate, small-business adviser, rural housing developer and financial counselor, not to mention serving in various community roles from elected official to unofficial ambassador.

The challenges of profitably providing traditional financial services in rural America are well-documented and mirror many of the issues facing rural economies: out-migration, persistent poverty, high unemployment, lack of access to quality jobs, low educational attainment rates, and the list goes on. To meet all of these needs, you need a banker—or bank—with multiple tools at the ready.

According to the National Community Reinvestment Coalition, between 2008 and 2020, 13,000 bank branches closed, with a disproportionate number of them being in rural and low-income communities. National banks long ago left many rural and low-wealth communities, opting for densely populated, more profitable urban and suburban markets. Now with the rise of regional bank mergers of equals, this trend of rural bank closures is only expected to continue.

Further, with increased customer adoption of online, mobile and a variety of fintech banking platforms, coupled with the social distancing lessons learned during the COVID-19 pandemic, the financial case for maintaining bank branches in thinly populated, low-wealth, rural towns has become difficult to make. But how can we revitalize rural economies if banks—the engines of economic development and the primary providers of capital—continue to abandon rural communities? It will undoubtedly be difficult, but Southern Bancorp and other community development financial institutions (CDFIs) appreciate how rural communities have contributed to the historical development of America's economy, and they are committed to being the Swiss Army knives needed to ensure that rural communities are key contributors to America's future prosperity.

## *A Unique Solution to a* Not So *Unique Problem*

CDFIs are financial institutions operating under a Department of the Treasury designation that identifies them as being focused on serving underserved populations. They are the result of some forward-thinking leaders who, several decades ago, recognized that there were many populations in this country being ignored by traditional financial institutions. Out of the era of redlining and other nefarious activities came CDFIs, and along with them the idea of "mission-focused" banking.

Southern Bancorp was one of the earliest CDFIs established, and in fact, one of our founders, then-Arkansas Governor Bill Clinton, would as president go on to successfully push Congress to recognize the entire industry through the creation of the CDFI Fund at Treasury. In early 2021, there were more than 1,100 banks, credit unions, loan funds and venture funds certified as CDFIs.

Having led Southern Bancorp's three certified CDFIs—a bank holding company, a $1.7 billion asset community bank, and a nonprofit financial development and loan fund organization—for nearly eight years, I have become deeply aware of the differences between our type of organization and the traditional bank. I see opportunities to share our approach in the hope that some of what makes us unique can be adopted by non-CDFIs to better serve struggling Americans and increase the support that is desperately needed in rural America and beyond.

So, what makes CDFIs unique? At their core, CDFIs are driven to ensure that underserved communities—be they African American or Latinx neighborhoods, Native American populations or rural communities across the country—have an array of tools at their disposal to help create economic opportunities. CDFIs do this by adopting an approach that broadens their motivating factors beyond profits and allows for greater inclusion of other stakeholder perspectives.

## CDFIs: The Ultimate Stakeholder Capitalist

Stakeholder capitalism is the idea that corporations should orient themselves to serve all of their shareholders, prioritizing both mission and margin. Though the origin of this approach to business dates back to the early 1930s, it gained significant traction in the corporate lexicon in 2020 as corporations sought to redefine their responsibilities in light of the increased attention on racial and economic inequities. Some have argued that it is nothing more than a public relations stunt meant to combat negative feelings toward corporate America. While that may be true for some, we have seen many companies begin to move past the spin and put their money on the line in pursuit of real change—more on that later. However, I argue that CDFIs and the global, values-focused banking movement are some of the best examples of successful stakeholder capitalism at work today. Our secret sauce is a long-term and expanded view of shareholder value, prioritizing the needs of all stakeholders and balancing profits and purpose. This is an approach that other financial institutions may embrace to help address the challenges facing rural America and other struggling populations.

Rethinking the meaning of shareholder value and other related concepts sounds great in theory, but a secret sauce doesn't do much good without the other ingredients that make up a successful recipe. For Southern Bancorp, that means putting our mission-driven approach to banking into practice throughout all aspects of our work, from our organizational structure to the various tools we use to create economic opportunities in the rural communities we serve.

We are organized as a public benefit corporation and are certified as a B Corp to make it clear to ourselves, to our investors and to other stakeholders that our purpose for existing is much broader than simply maximizing shareholder profit—it's also about positive societal returns. We also joined the GABV, a worldwide network of bank leaders committed to using finance to deliver sustainable economic, social and environmental development, with a focus on helping individuals fulfill their potential and build stronger communities. GABV leaders believe we can finance the change we want to see in the world, but we also believe we must take responsibility for the things we finance that may harm individuals and the environment. Our B Corp and GABV participations provide us with learned experiences from our colleagues that are beneficial in serving rural communities.

## Making Capitalism Work in Rural America—The Southern Bancorp Approach: One Southern, One Mission

Southern Bancorp has chosen building individual net worth as a proxy for creating economic opportunity. Poverty is often multigenerational. If your parents lived in poverty, you are more likely to live in poverty. However, poverty-strapped individuals that amass even small amounts of net worth—equity in a home, ownership of a small business—are statistically more likely to rise from generational poverty. That is why our work focuses on proven strategies to build net worth—supporting homeownership, entrepreneurship and job creation, and saving and accumulating assets. As I mentioned earlier, Southern Bancorp consists of three certified CDFIs working together to fulfill our mission to be wealth builders for everyone, and this multi-entity structure provides the type of flexibility needed to meet the unique needs of capital-starved rural communities.

For example, a budding entrepreneur seeking capital to purchase real estate and launch a business may lack in a traditional area of loan qualification, such as sufficient collateral, thus precluding him or her from qualifying for as large a loan as desired. However, because we are in the community and know that this person meets all the other loan qualifications, our bank often partners with our loan fund to make this loan. In this instance, the bank might provide financing to purchase the commercial real estate, while the loan fund, with greater lending flexibility, might provide a working capital loan. This type of collaborative lending allows for a structure that will promote success for the borrower, as well as help to de-risk both loans. Having multiple lenders has proven to be a useful tool for Southern Bancorp in serving our rural communities.

We also provide financial education and development services and products to further support our borrowers, such as credit counseling, homebuyer counseling, credit builder certificates of deposit and matched savings accounts. The "One Southern, One Mission" approach for our customers often means we do everything we can to tell a customer "Not yet" instead of "No."

Another way we put into practice our mission-driven approach to increasing access to capital is by broadening the definition of capital itself beyond the "financial" definition with which most of us are familiar.

Let's start with social capital. For many bankers, this will be the type that often comes to mind when thinking about relationship banking, though I'd argue that the declining number of bank branches in America is redefining this—and not in a good way. Banking in America was founded on relationships—local lenders living in a community, attending church in a community, joining civic clubs, and even coaching the local baseball team, all to build long-term relationships that better inform their lending decisions.

Yet as banks consolidate and leave smaller communities, so do those relationships. A large part of Southern Bancorp's commitment is simply being there, and it's not something easily replicated by a roaming lender hundreds of miles away. As banks leave rural communities, it's not just the relationships that disappear, it's also the bankers who play such important roles in the community. We call this the human capital.

Our team members are intimately involved in their communities, from serving on boards and commissions to volunteering countless hours. Recognizing that our company's and employees' fates are directly impacted by government decisions, we encourage our team members to advocate for issues that impact their customers and communities. Southern Bancorp also has a dedicated public policy team, an uncommon feature of many community banks that often rely on state banking associations for government relations support. We actively engage with our elected officials around policy initiatives that benefit rural America. We believe it is critically important for policymakers to hear firsthand from those most impacted by their decisions. Therefore, we deem it part of our duty as stakeholder capitalists to be vocal advocates for the changes we want to see.

Not only is this human capital lost when banks leave rural communities, but intellectual capital is as well. It is often the bankers, acting as economic developers, who have knowledge of government programs and resources that are frequently critical to putting a deal together in many rural communities. For example, the lack of safe, decent, affordable housing in rural America is rising to epidemic levels. Almost every affordable rural housing project that we have financed recently had some form of government support, such as low-income housing tax credits, and our bankers' knowledge of these programs was crucial to getting the deal done.

Another development strategy in which we have successfully participated has been to support downtown revitalization. This geographically concentrated development has given rebirth to restaurants, hotels, retail stores, loft condominiums and charter schools, attracting people back downtown to live, shop and spend money, while also building community pride. Often this downtown revitalization has been spurred by the injection of capital from state Historic Tax Credit programs, as well as mission-aligned philanthropic capital raised by our loan fund.

Most recently we have secured allocations of federal and state New Markets Tax Credits, and we are excited to have these job creation tools, along with government business loan guarantee programs, to support our rural revitalization work. Understanding and utilizing these programs can be key in turning a deal from a nonstarter into a game changer. It is the rural bank and banker that are often the driving forces behind the utilization of these programs.

And finally, another key element that is lost when banks leave rural communities is an understanding of natural capital and how it can be critical to the revitalization of rural America. Whether it is the millions of acres of farmland driving rural economies or the cultural and recreational opportunities transforming rural towns into vacation destinations for urban dwellers, rural community bankers know how to leverage these assets to support rural development.

At Southern Bancorp, we leverage the unique natural and cultural assets of a community through agricultural lending and financing tourism initiatives that build on the culture and history of a community, as well as by sponsoring events and festivals that attract visitors. These assets can be powerful economic draws, but yet again, an awareness of why they exist is key, and that all comes back to being there and being engaged.

## Being Intentional

Throughout this chapter, I have attempted to illustrate some of what makes CDFIs like Southern Bancorp different, and why our approach—along with the approach of many other mission-driven financial institutions—is so important to rural America's future. Yet, if I were asked to summarize it into one word, I would have to say "intentionality."

I can talk about CDFIs and stakeholder capitalism and balancing mission with margin all day long, but the reason our work is successful comes down to being intentional about helping a community. If we are going to build more-resilient rural communities in pursuit of a better America, it is going to take more than CDFIs' doing what we do. It is going to take intentional action on the part of financial institutions across this country—big and small—that are willing to step in and do the work, or support those who can.

I have been an avid proponent of CDFIs' and minority depository institutions' (MDIs') raising equity capital in past years, but 2020's attention on addressing structural racism cast these efforts into an intense spotlight, as several corporations began looking for ways to do more than offer public relations platitudes. This heightened attention around social and economic justice has launched an unprecedented effort by these companies to identify ways to support the economic first responders serving minority communities, including those in rural America, such as through technical assistance offerings and placing deposits with our institutions. However, equity investments hold the greatest potential for achieving large-scale impact.

Members of the Business Roundtable (BR), some of America's largest employers, have made commitments to addressing the opportunity gap, including racial disparities in accessing financial resources. Among the variety of tangible commitments that BR members have made is a pledge to make $600 million in equity investments and deposits into MDIs and Black-led CDFIs by 2025. Southern Bancorp itself is a recipient of an equity investment by Bank of America, which helped fuel our acquisition of a small bank in a rural, underserved community. Other BR member banks have made similar equity investments in other MDIs and Black-led CDFIs. These initiatives have created a road map for other corporations, philanthropic organizations and government entities to follow that will transition their efforts from platitudes to true partnerships.

I have been encouraged by the attention of so many, and more importantly the actions of a few, to begin investing in CDFIs and MDIs as a way of supporting underserved communities. I also know that for every underserved community that one of us serves, there are thousands that go without access to capital, which is why equity investments in our organizations are such an important way to make an impact. CDFIs, MDIs and the access to capital they provide are not the only answers to problems facing rural economies, but they are certainly key components of the answers. My hope is that through our approach, other institutions can learn, adopt or become part of our efforts to chart a brighter future for rural America.