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A Comparative Analysis of Southern Bancorp and B Corp Community Development Banks

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By

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INTRODUCTION

This thesis is a case study of Southern Bancorp and a comparative analysis of Southern Bancorp and other CDFIs that are also certified B Corporations.. Southern Bancorp is set apart from the vast majority of banks due to being a certified B Corporation as well its structure as a CDFI (Community Development Financial Institution).

Southern Bancorp, Beneficial State Bank, and Sunrise Banks are also members of the Global Alliance for Banking on Values (GABV) which is made up of 65 financial institutions and 16 strategic partners. These members are spread out across the world. These financial institutions operate by the Principles of Sustainable Banking which, according to their website (GABV.org) are:

1. Social and environmental impact and sustainability are at the heart of the business model
2. Grounded in communities, serving the real economy and enabling new business models to meet the needs of people
3. Long-term relationships with clients and a direct understanding of their economic activities and the risks involved
4. Long-term, self sustaining, and resilient to outside disruptions
5. Transparent and inclusive governance

Southern Bancorp's mission, as a Community Development Bank, is to create economic opportunity in rural America through increased access to capital as well as responsible and responsive financial services that empower individuals, families and communities (GABV.org). This mission falls under the scope of the missions of GABV, CDFIs and Certified B Corporations, and it is similar to all the missions of these organizations in the aspect of positively impacting its community and environment through business practices, however, it may differ from the missions of organizations that are included in the GABV or are Certified B Corporations because the institutions may have a different focus on how they are impacting their community and environment. For this reason, this thesis will focus primarily on the comparative analysis of CDFIs, and more specifically Community Development Banks, which may include, but not be limited to, Certified B Corporations or organizations in the GABV. It is also important to note that CDFIs have six different structures: Community Development Bank, Community Development Credit Union, Community Development Loan Fund, Community Development Venture Capital Fund, Microenterprise Development Loan Fund, and Community Development Corporations.

Legal Structures for Organizations

There are many types of legal structures for organizations that can obtain a B Corp certification. It is important to understand the similarities and differences of these structures to understand how Bancorp, and similar institutions, choose their structure to pursue their mission. Taking a look at the different eligible structures for a Certified B Corporation, the most common for small businesses is the unincorporated structure according to (sba.gov). This includes sole proprietorships and partnerships. A sole proprietor is the simplest type of organization owned by one person or a marriage. Business activity is viewed by the IRS as the owner's personal activity and business income and taxes are viewed as personal income and taxes. This structure also allows for managerial decisions to be made solely by the owners of the company without the necessity of addressing a third party. Additionally, the owner is personally liable for business activity and accidents that may happen within the business. A partnership is categorized as a general partnership or a limited partnership. A general partnership is viewed by the IRS essentially as two or more sole proprietors equally liable for the activities of the business. A limited partnership consists of one or more general partners and one or more limited partners. While general partners are equally responsible for business activities, limited partners are responsible only to the extent of their investment.

Another business structure is a corporation. This consists of C Corporations, S Corporations, and B corporations. Unlike unincorporated businesses, corporations are viewed by the IRS as their own legal entity apart from the individuals that own them. They can either be for-profit or nonprofit business. This structure allows for the owners to be shielded from personal liabilities of the company and allows them to sell stock of the business. In contrast with unincorporated businesses, a corporation adheres to a corporate

Board of Directors that oversees corporate policy and strategy. This structure also allows for the company to exist after the death of the owners.

C Corps are considered the standard structure for corporate companies. They are taxed as an entity and then pay dividends to investors which are personally taxed on their income from these dividends. This is often referred to as "double taxation." The main objective of a C Corp is to maximize the wealth of the shareholders. An S Corp is an entity that was incorporated under Sub-Chapter S of the Tax-code. It is much like a C Corp in that its objective is to maximize the wealth of shareholders, however, while C Corp can have an unlimited number of shareholders, an S Corp is limited to only 100 shareholders. In an S Corp, ownership is limited to U.S. citizens or resident aliens while ownership of a C Corp is not. A key difference between these structures is the tax structure. While C Corps undergo double taxation, S Corps are not taxed on their profits before paying out dividends. A key difference between a B Corp and a C Corp is that a B Corp must prepare and distribute to its shareholders an Annual Benefit Report which describes its efforts to create public benefit during the previous year. This report must be filed with the Department of State which then publishes it to public domain. The biggest benefit of the B Corp structure is that its mission is dedicated to its stakeholders instead of its shareholders. While shareholders are part owners of a company, stakeholders include shareholders, employees, and creditors. This means that the Board of Directors for a B Corp are allowed to make decisions that benefit the employees or creditors and do not maximize shareholder wealth. This structure is available in 31 states in the U.S.

Since C Corps and S Corps are focused on maximizing the wealth of the shareholders and not the stakeholders, a common problem is aligning employee motives with shareholder motives. Many corporations have turned to an ESOP (Employee Stock Ownership Plan) to resolve this issue. This is an employee benefit plan that gives workers ownership interest in the company. This allows the employee to view the company in the eyes of the shareholders and they have personal incentive to maximize shareholder wealth. Adopting this plan also provides the company with tax benefits because dividends paid to the ESOP trust is tax deductible, thus incentivising the owners to do so. Creation of an ESOP C

Corporation is accomplished through the purchase of company stock by the ESOP from selling shareholders. Since C Corps undergo double taxation, these shares still get taxed in a C Corp, however, they are . In contrast, shares of a S Corp get taxed only as dividends are paid out. This presents an opportunity for these dividends to be reinvested into the S Corp by the ESOP as retained earnings while deferring tax. When a company adopts this structure, a S Corp company acquires more tax benefits than a C Corp does, however they both have financial incentive. Some companies may still, however, prefer to establish themselves as ESOP C Corp companies to offer different classes of stock and offer stock to more than 100 shareholders. In a B Corp structure, an ESOP offers accountability to mission, community, and stakeholders beyond shareholders as they are more included in the decisions. It also ensures that the company will be owned by individuals who are personally invested in its values for the long run.

Another common structure is a Limited Liability Company (LLC). An LLC is a relatively new type of business structure that combines the advantages of a corporation with the advantages of unincorporated companies. Like a corporation, it has minimum personal liability to the owners, the ability to sell stock, and is its own entity. In addition to this, it is similar to sole proprietorships and partnerships in management decisions and profit.

Although it is ineligible for B Corp Certifications, the nonprofit structure is common among entities that pursue a mission. A big advantage of this structure is the ability to file taxes under the IRS code 501(c) which excuses the nonprofit from federal tax liability. Because of this exemption, many for profit companies that want to pursue a mission will elect to extend their social impact through a nonprofit arm. This typically gives the nonprofit side the responsibility for owning intellectual property, receiving donations, distributing technology to low-income communities, and serving as the face for education and promotion of the cause. The for profit arm then takes the role of managing capital intensive work and building the business infrastructure. Nonprofits must give an annual report to continue qualifying for tax exempt status and any business transactions that are unrelated to the community investment of the company are subject to taxation.

Types of Organizations and Their Attributes

	Personal Liability	**Managerial Decisions**	**Profits**	**Maximum Number of Shareholders**	**Tax Structure**
Sole Proprietorship	Personally Liable	Unmonitored	Distributed to owner	1	Owner pays taxes on profits
Partnership	Personally Liable	Unmonitored	Distributed to Owners	100	Owners pay taxes on profits
LLC	Limited Liability	Unmonitored	Distributed to Owners	Unlimited	Owners pay taxes on profits
C Corporation	Limited Liability	Monitored by Board of Directors	Maximizes Shareholder Wealth	Unlimited	Taxed on profits as it own entity and owners pay taxes on dividends received
S Corporation	Limited Liability	Monitored by Board of Directors	Maximizes Shareholder Wealth	100	Owners pay taxes on dividends received
B Corporation	Limited Liability	Monitored by Board of Directors	Maximizes **Stakeholder** Wealth	Unlimited	Taxed on profits as it own entity and owners pay taxes on dividends received
Nonprofits	Limited Liability	Monitored by Board of Directors	Furthers its purpose and programs	0	Tax exempt but is subject to UBIT

Structures for Community Impact

The most popular structures that social entrepreneurs have turned to when developing a for-profit company with a social initiative are B Corps and low profit limited liability companies (L3C). A L3C is much like a LLC with the main difference being it is focused on social innovation as well as pursuing profits. This structure is intended to present the opportunity for it to attract program related investments (PRI). These are considered charitable donations which allow institutions to keep their tax-exempt status because the IRS mandates institutions to direct 5% of their assets to charitable purposes to keep their tax-exempt status. This can be done through grants, which offer no return on investment for the institution, or through PRI, which offers potential return on investment. However, this structure can only be formed in 10 U.S. states: Illinois, Kansas, Louisiana, Maine, Michigan, North Dakota, Rhode Island, Utah, Wyoming, and Vermont. This limitation presents a disadvantage to L3Cs. Another huge disadvantage is the associated uncertainty whether or not L3Cs qualify for PRI. This qualification requires a private IRS ruling. This uncertainty deters investors from choosing some L3Cs. One example of an L3C company is Trellis Capital L3C. This company drives profits through consulting with social enterprises, small businesses and impact investors. It was established by Kevin Egolf in 2017 to fund, promote, support, evaluate, and manage for-profit and nonprofit businesses creating a sustainable, responsible, regenerative, impact economy. (https://www.trelliscapitall3c.com/)

Another common method of combining profits with community impact is through developing a nonprofit with a for-profit subsidiary. A classic example of this is the nonprofit Mozilla Foundation that formed a for-profit subsidiary, Mozilla Corporation, to handle the explosive growth of the Firefox Web browser. Since a nonprofit can only earn revenue through activities that clearly further its mission, creating a for-profit subsidiary will allow it to expand its revenue generating activities that may not clearly further its mission. A nonprofit can already derive significant income from these unrelated business activities and pay relative taxes under UBIT (Unrelated Business Income Tax) incurred, however, if these activities become too substantial, the nonprofit may forfeit its tax exempt status.

Owning this subsidiary also gives the nonprofit a way to attract investors through offering equity in its business. This strategy can also offer protection for its assets through limited liability if the nonprofit chooses to conduct business activities that may put its assets at risk. The benefits of this approach include a greater opportunity to generate revenue and scale the business beyond what might have otherwise been possible, the ability to sell equity of the subsidiary to investors, and shielding the nonprofit from liabilities or tax consequences of conducting unrelated business activity. One of the drawbacks to this structure is that the nonprofit could steer its managerial focus away from its mission and to the subsidiary that is conducting unrelated business activities. Another difficulty to this approach is funding the subsidiary. To make the investment of starting this company, the nonprofit must determine whether the investment is either a prudent investment that does not violate and state fiduciary requirements or prudent investor laws or the investment must be a program related investment that is being made primarily to further a charitable purpose.(www.americanbar.org)

Certified B Corporations

Certified B Corporations are for profit businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.(bcorporation.net) There are currently over 3500 certified B Corporations in the world in over 70 countries, and most of them are made up of small businesses. Southern Bancorp is one of few banks that are listed as Certified by B Lab. This list also includes: Aspiration, City First Bank, Amalgamated Bank, Beneficial State Bank, Spring Bank, Mascoma Bank, and Sunrise Banks among others.

The B Corp Certification is administered by the non-profit B Labs and is commonly confused with the benefit corporation which is a legal structure for a business. (https://bcorporation.net/about-b-lab) As previously stated, this certification can be obtained by any for-profit business structure including the B Corp Structure. For example, a company can be a C Corporation, or any other for profit structure, and receive a B Corp Certification. This means they have met the requirements outlined B Labs, and are evaluated yearly by this non-profit on their performance to community development. A corporation that is structured as a B Corporation does not mean that company has received a B Corp Certification from B Labs. They can receive a B-Corp Certification and adhere to the same evaluations as other companies with the certification as well as adhering to the private evaluation of their board of directors on how effectively they are pursuing their mission. They can also be uncertified by B Labs and maintain their structure as a Benefit Corporation, being evaluated only by their board of directors on how well they are pursuing community investment. As previously mentioned, this structure gives them the ability to maximize the value of stakeholders instead of shareholders and make decisions that other companies, which have been certified by B Labs, may not have the freedom to make in regards to community investment over profits. Whether they are certified by B Labs or not, a corporation with the B Corp structure must file an "Annual Benefit Report" describing how the company pursued a general public benefit.

Financial Institutions

Traditional financial institutions are encouraged to meet credit needs of the communities in which they do business by the Community Reinvestment Act (CRA). This act mandates all institutions that receive Federal Deposit Insurance Corporation (FDIC) insurance to be evaluated by federal banking agencies to determine whether or not the institutions are offering credit in all communities in which they are doing business. These institutions are then scored by the federal banking agencies. This record is considered when financial institutions seek to expand through merger, acquisition, or branching. Although non-compliance with this act will make it extremely difficult for institutions to expand, they will not be fined, shut down, or receive other penalties. Their primary focus is still then on making profits and these institutions may only invest minimally in their community when it is profitable to receive a CRA score and focus the majority of their efforts in maximizing shareholder wealth.

Community Development Financial Institutions are private financial institutions that are profitable but not profit-maximizing, putting the community first instead of the shareholder. There are currently over 950 CDFIs certified by the CDFI Fund. These institutions differ from traditional financial institutions by focusing primarily on community and development. Traditional financial institutions are encouraged to meet credit needs of the communities in which they do business by the Community Reinvestment Act (CRA). The CRA was passed when redlining, the refusal of banks to offer loans to minorities, was common practice. Its goal was to combat this practice to offer equal opportunity with less discrimination against minorities. This has allowed traditional financial institutions to take part in CSR (Corporate Social Responsibility) strategies through promoting healthy inclusion in the workplace. Many CDFIs go above and beyond this and offer non-conforming mortgages or loans and others offer specialized services to customers with limited or poor credit history. In doing so, CDFIs rebuild businesses, housing, voluntary organizations, and services central to revitalizing our nation's poor and working class neighborhoods. (cdfi.org)

Origin of Southern Bancorp

ShoreBank was created in the early 1970s during an era where redlining, banks refusing to make loans in minority communities, was common practice. ShoreBank was the first bank to combine commercial banking, real estate development, nonprofit loan funds, and international advisory services aimed at community development. Although it was mission focused, this institution historically matched or exceeded its peers financially until 2009 when it faced significant losses due to the recession. This success allowed it to expand from a neighborhood development bank for low-income African-American communities to an international establishment.

Southern Bancorp was founded in 1986 after Arkansas Governor Bill Clinton was inspired by Chicago's ShoreBank to help underserved communities obtain community support and access to capital. Joined by ShoreBank, Hillary Clinton, Rob Walton, Mack McLarty, the Winthrop Rockefeller Foundation, and others, Southern Bancorp received the funding needed to pursue its vision of creating an economic engine for Arkansas. In 1986, Bill Clinton also invited Muhammad Yunus, a Nobel Peace Prize winner for his work with microlending to the beggars of his native Bangladesh, to give Arkansas guidance about microfinancing and the poor. Yunus founded the Grameen Bank in Bangladesh which offered microloans as little as a dollar. The loans, which were offered with no collateral, are repaid in full 99 percent of the time, according to Yunus. With the guidance of Yunis, Bancorp took over the Southern

Good Faith Fund, a division of Southern Bancorp. This division helps families buy houses, start businesses, and go to college. Southern Bancorp has no minimum loan, unlike most other banks. A quote from the former president and CEO of Bancorp states, "We make hundreds of loans a month (of less than $1,000). To my knowledge, we're the largest microlending bank in the country. We have $30 million to $40 million in microloans. And all of that did start with Yunus coming to Arkansas in the 1980s." (www.banksouthern.com)

When Bill Clinton became the president, the industry of CDFIs was formed based in part on the experience of Southern Bancorp. In 1994, within the Riegle Community Development and Regulatory Improvement Act, CDFIs were charged by Congress and the U.S. Treasury to primarily serve financially underserved families and communities. After 26 years of investing in impact, this institution has become a vehicle for growth in communities with 43 locations across the United States. (banksouthern.com)

MEASURING IMPACT

Southern Bancorp's mission is to create economic opportunity in rural and underserved communities by providing responsible and responsive financial products and services that balance profits with purpose. With the belief that net worth drives economic opportunity for people and communities, Southern Bancorp seeks to create economic opportunity in the most chronically impoverished areas. According to Nathan Pittman, the CEO likes to say, "Southern Bancorp is like a bicycle. The back wheel is margin. It powers us forward, but the front wheel guides us to where we want to go. Neither can work without the other. No margin, no mission."

Among their services, they offer personal and business bank account services, loans with no minimum, and credit counseling to individuals regardless of whether or not they are customers. Southern Bancorp has given itself a requirement that the majority of their work must take place in a CDFI target market, a low income community. (banksouthern.com) In its 2019 annual report, Southern Bancorp states that lending to LMI tracts (low to moderate income communities) made up 72.7% of its loans in number and 66.8% in value. In addition to this, 22.8% of their loans were under $1,000 and 55.5% of total loans were under $10,000.

Southern Bancorp estimates its community impact with three key metrics in its 2019 annual report:

Housing- number of people assisted in attaining and/or sustaining affordable housing

Jobs - Number of jobs created or retained

Savings- Number of people empowered to save

In 2019 Bancorp reported:

Table 1

Bancorp Community Impact as Measured by Their Key Metrics

	Housing (Number of people assisted in attaining and/or sustaining affordable housing)	**Jobs (Number of jobs created or retained)**	**Savings (Number of people empowered to save)**
2017-2018	3,999	19,995	14,551
2019	1,739	10,783	9,039
Cumulative (2017-2019)	5,738	30,778	23,530

Table 1 indicates that Southern Bancorp's metrics in 2019 were higher than its previous two year averages in job metrics and savings metrics by 7.9% and 24.2% respectively and the number of people assisted in attaining and/or sustaining affordable housing was lower than its previous two year average by 13%. Despite the decrease in number of people assisted in attaining and/or sustaining affordable housing, this shows an overall growth in total people impacted for 2019 of 11.9% when compared to the average of the two previous years.

When comparing Southern Bancorp to similar banks it is important to choose banks with similar structure and mission, as stated previously. Below is a chart including the six known banks in the U.S. that are CDFIs and are either Certified B Corporations or organizations in the GABV. Because this list is made up of banks of various sizes, mightydeposits.com conducts a marginal analysis of Community Investments for every $100 deposited into the bank. Mighty deposits is an independent, women-owned bank comparison site that analyzes bank reports that have been reported to official government websites. Their mission is to make it easy for people to see what their bank does with their money and compare all of their banking options in one spot. This approach of marginal analysis Community Investments for every $100 deposited allows the impact of smaller banks to be compared to larger ones with size being less of a factor. They derive this calculation from dividing the sum of the following metrics by the bank's total assets:

Small Business Loans - Business loans for $1 million or less

Large Business Loans - Business loans for more than $1 million

Small Farm Loans - Farm loans for $500,000 or less

Large Farm Loans - Farm loans greater than $500,000

Housing Loans - Loans for residential housing

Construction Loans - Loans for construction, land development, and other land purposes

Household Loans - Loans for household, family, and other personal expenditures like automobile and personal loans, but not credit cards

Public Work Loans - Obligations of, and securities issued by, states and political subdivisions.

<u>Table 2</u>

Marginal Community Investment

(amounts taken from mightydeposits.com)

	Amount of Community Investments for every $100 deposited	Percent above/below average for CDFIs & B-Corps or GABV	Percent above/below National Bank Industry Average
VCC Bank	$76	15%	69%
Spring Bank	$75	14%	68%
Southern Bancorp	**$72**	**9%**	**60%**
Beneficial State Bank	$72	9%	60%
Sunrise Banks	$68	3%	53%
City First Bank of D.C.	$33	-50%	-26%
National Bank Industry Average	$45	-32%	0%

As seen in Table 2, Southern Bancorp and firms with similar mission and structure greatly exceed the average bank in the U.S. in community investment per dollar deposited with the exception of City First Bank. This makes it very clear that these banks value community development more than traditional institutions and greatly surpass traditional institutions that may only be motivated by the Community Reinvestment Act. According to the table, Bancorp finds itself near the average of these banks. Furthermore, the average of these select banks can be deceiving due to City First Bank being short by 50% and bringing the average down. When compared to the median of 73.5% of assets going to Community Development, Bancorp's 72% average falls short by 1.5%. This could be due to its assets being larger than the average of these banks by 83% since the only two banks in this list with similar asset values are Sunrise Banks and City First Bank of D.C. (Table 3)

<u>Table 3</u>

Bank Size

(as reported in the yearly income statements and balance sheets reported on Dec. 31 2020. Taken from cdr.ffiec.gov)

Numbers in thousands:

	Total Assets	Net Income
Southern Bancorp	**1,680,692**	**14,026**
Sunrise Banks	1,572,959	15,937
Beneficial State Bank	1,251,761	-4,276
City First Bank of D.C	436,194	688
Spring Bank	334,140	1,995
VCC Bank	220,073	4,331
CDFIs & B-Corps or GABV average	915,970	5,038
Percent above/below average of CDFIs & B-Corps or GABV for Bancorp	83%	178%

As shown in Table 3, the range of assets for these certified B Corp CDFIs varies from roughly $220,073,000 to around $1,680,692,000. This is a wide range that may suggest bank size is not an important factor when a bank is considering becoming certified as a B Corporation, however, this varying size may be misleading, and size could very well be a considerable factor in an institution's decision to become certified by B Labs. For example, a smaller institution may be more likely to opt for becoming a Certified B Corporation than a larger corporation because it is more agile in its structure and thus more able to incorporate a mission into its structure. On the contrary, a larger corporation may have a larger margin overall to devote to a mission and thus be more likely to incorporate a mission into its overall structure. It's interesting to note, however, the evidence from this study is unclear at whether size plays a substantial role in an institution's decision to become certified by B Labs. It is likely that smaller businesses are more inclined to become Certified B Corporations because the majority of the 3,500+ B Corps are small businesses according to bcorporation.net. However, further study could be conducted to assess the role that size plays into this decision to becoming certified by B Labs.

As Certified B Corporations, these institutions also receive an Impact Assessment Score which is the standardized benchmark in the industry to assess impact. (https://bimpactassessment.net/) There are over 50,000 businesses using this free, confidential tool. This is a composite score made up of 5 subgroups: Governance, Workers, Community, Environment, and Customers. This score takes into account the size of the organization and compares the company against other institutions with similar numbers of employees. Scores range from 0-200 with the average being 80. Any score above 0 is considered good as it indicates the company is doing something positive for society and the environment. To certify as a B Corp, a company must achieve a minimum verified score of 80 points on the B Impact Assessment. The B Impact Assessment asks questions about how the day-to-day operations of a company create a positive impact in each of the five areas assessed. Below is a table with the scores, verified by the non-profit B Lab, of each of the six CDFI companies that are either B-corps or GABV organizations.

<u>Table 4</u>

Impact Assessment Score

(Scores reported by bcorporation.net)

	Impact Score	Governance	Workers	Community	Environment	Customers
Beneficial State Bank	176	20.9	29.7	48.7	20.4	56.3
VCC Bank	149.3	23.9	21.3	44.3	5.4	54.2
City First Bank of D.C.	146.8	16.3	22.5	45.8	5.8	56.4
Sunrise Banks	144.2	23.1	29.7	26.1	7.5	57.4
Spring Bank	136.2	23.6	27.5	24.6	5.2	55.2
Southern Bancorp	**122.3**	**19.3**	**28.1**	**21.4**	**0.1**	**53.1**
Average Score for CDFI & B Corp or GABV	145.8	21.2	26.5	35.15	7.4	55.4
Percent above/below average of CDFIs & B-Corps or GABV for Bancorp	-16%	-9%	6%	-39%	-99%	-4%

Southern Bancorp also uses some qualitative measurements to estimate impact. The most prominent that are indicators of success but difficult to measure quantitatively are personal testimonials. They have a growing archive of testimonials that tell the stories of individuals whose lives have been deeply and positively impacted by Southern Bancorp. These stories help paint the picture of just how life changing a mission driven corporation can be. There are currently 19 testimonies that can be found on banksouthern.com/customer-stories/.

MAXIMIZING PROFITS

Banks drive revenue through interest income on loans. Table 5 gives a clearer explanation of where these banks focus to drive income. Each value is expressed as a percent derived by dividing the respective incomes by the total interest incomes taken from the yearly income statements reported on Dec. 31 2020. The highest percentages in each category are bolded to highlight which bank obtains the biggest portion of their income through that metric.

Table 5

2020 Sources of Income

(as reported in the yearly income statements and balance sheets on Dec. 31 2020. Taken from cdr.ffiec.gov)

	Southern Bancorp	VCC Bank	Spring Bank	Beneficial State Bank	Sunrise Banks	City First Bank of D.C
Residential Loan Income for families	**24%**	9%	13%	4%	14%	4%
Other Real Estate Income	42%	54%	**59%**	43%	41%	53%
Commercial and Industrial loan Income	16%	22%	20%	23%	**24%**	20%
Other Residential Loan Income	3%	0%	1%	**24%**	7%	0%
Other Interest Income	16%	15%	7%	5%	15%	**23%**
Total Interest Income (in thousands)	**$62,012**	$10,208	$12,069	$49,405	$52,123	$11,120

As shown in Table 5, these banks obtain the largest portion of their income from real estate loans and Southern Bancorp has the largest focus out of these banks on serving the community through loans for residential properties. "Other Residential Loan Income" in Table 5 includes revolving credit plans other than credit cards, automobile loans, and other consumer loans. As shown these make up the smallest portion of the revenue that these banks earn. This shows that these banks with the exception of Beneficial State Bank focus mostly on real estate loans, mostly made up of farm loans, to make an impact in the community. These farm loans are the main source of income for many of these institutions because farming is prevalent in low-income communities and low-income communities are the target market for CDFIs. Beneficial State Bank focuses more on "Commercial and Industrial Loans" and "Other Residential Loans." In 2020, this strategy did not work well for Beneficial State Bank as they were the only bank of the six to report a negative net income as seen in Table 5.

Another way of looking at the company strategy for driving profits is to understand where costs are incurred and what investments the company focuses on. Table 6 presents the non-interest costs of each company taken from the yearly income statements reported on Dec. 31 2020 by cdr.ffiec.gov. The values in table 6 are percentages derived from dividing the respective expense on the report by total noninterest expense on the report.

<u>Table 6</u>

2020 Expenditures (highest expenditures are bolded)

as reported in the yearly income statements and balance sheets on Dec. 31 2020. (cdr.ffiec.gov)

	Southern Bancorp	VCC Bank	Spring Bank	Beneficial State Bank	Sunrise Banks	City First Bank of D.C
Salary Expense	52%	**64%**	57%	47%	40% **(64%)**	58%
Expenses of Premises and Fixed Assets	**14%**	7%	8%	7%	4% (6%)	4%
Goodwill Impairment Losses	0%	0%	0%	**15%**	0%	0%
Other Noninterest Expense	34%	29%	35%	31%	**56%** (30%)	**38%**
Total Noninterest Expense (in thousands)	$40,343	$4,331	$6,728	**$56,483**	**$71,264** ($44,300)	$10,043

"Other Noninterest Expense" is calculated by the sum of data processing expenses, advertising and marketing expenses, directors' fees, printing, stationery, and supplies, postage, legal fees, FDIC deposit insurance assessments, Accounting and auditing expenses, Consulting and advisory expenses, ATM and interchange expenses, and telecommunications expenses. Table 6 shows that Bancorp had the least expenditure of the three companies of similar size in 2020. Sunrise had the largest expenditure due to a Prepaid Card program they established that drove their ROA (Return on Assets) higher than their counterparts (Table 6). The numbers in parentheses are adjusted for the unique program which accounted for 38% of their expenses and 32% of their net income for a total of $5.1 million in profit.

BALANCING MISSION AND MARGIN

When analyzing how having a mission and less shareholder commitment affects profitability of a bank, ROA is a key indicator as it adjusts profitability for the size of the companies. This is calculated by dividing net income by total assets. Net income is total revenue less expenses and this shows the profitability of the company, however, a bigger institution may have a higher net income than a smaller one and have lower margins. Tracking ROA gives a metric that allows these bigger companies to be compared to smaller companies based on profit by using size as a variable. Indicators such as total revenue, net profit/loss, and total cost may be valuable when comparing the same company year to year, however, when comparing companies of completely different sizes, it would not offer much value. Likewise, measurements such as ROI are useful when measuring and comparing the profitability of different ventures within a company, but make it difficult to compare different organizations because similar institutions may invest different percentages of total assets. So when comparing profits for this study, ROA is a valuable metric. Table 7 shows the ROA of these similar mission oriented companies as well as the industry average for banks in the U.S.

<u>Table 7</u>

Return on Assets

(as reported in the yearly income statements and balance sheets reported on Dec. 31 2020. Taken from cdr.ffiec.gov)

	Return on Assets
Sunrise Banks	1.013%
VCC Bank	0.844%
Southern Bancorp	**0.835%**
Spring Bank	0.597%
City First Bank of D.C.	0.158%
Beneficial State Bank	-0.342%
CDFIs & B-Corps or GABV median	0.716%
CDFIs & B-Corps or GABV average	0.55% (0.69%)
Percent above/below average of CDFIs & B-Corps or GABV for Bancorp	52%
National Bank Industry Average (report by csimarket.com)	0.77%

As shown in Table 7, banks with a mission to impact the community on average are less profitable than average banks. The average of the CDFIs & B-Corps or GABV organizations may be skewed due to the poor year of Beneficial State Bank, however, the adjusted average without Beneficial State Bank, in parentheses, is still lower than the national average. When compared to the median, the national average is still 10% higher. Half of these banks do present a higher ROA than the national average, but these are the top performers. Sunrise Banks, with the highest ROA of these banks, still falls short of the industry top performers as reported by bankregdata.com in 2020 by approximately 10% despite its added profits from its prepaid card program that can be calculated from the reports found on cdr.ffiec.gov.

When comparing marginal community impact (Table 2) to ROA (Table 7), it is easy to notice that Sunrise had the second lowest marginal community impact and the highest ROA of these banks, however it would be premature to conclude that there is a negative relationship between community impact and ROA since VCC bank had the highest marginal community impact and the second highest ROA of these banks, and Southern Bancorp had a ROA that is around 10% above the industry average for all banks while maintaining a marginal community impact that is 60% above the national bank industry average. It is however safe to conclude that these banks are not obtaining a higher ROA on average by incorporating a mission when compared to traditional institutions according to these metrics. This also shows that a bank can have a higher community investment while being more profitable than banks with less commitment to the same mission.

CONCLUSION

Southern Bancorp is the largest of the six banks in the U.S that are CDFIs and either Certified B Corporations or members of the GABV. These banks have a unique structure as CDFIs because unlike most banks, they are not obligated to maximize the wealth of shareholders. Instead they choose to pursue profits with their main focus being community investment. This causes these banks on average to be less profitable than the industry average in the United States. Despite this, Southern Bancorp has been able to excel in banking as well as in its niche, outperforming the average U.S. bank in Return on Assets by 8% as well as outperforming the average of its niche by 52%. Southern accomplishes this by driving income through real estate loans and maintaining a tight budget, keeping expenditures low. It has a high focus on residential real estate loans and uses these to promote social empowerment and economic resiliency.

In addition to excelling financially, Southern Bancorp devotes 72% of its deposited assets to community impact. This triumphs over the average for banks in the U.S. by 60%. Because of this, Southern has been able to positively impact over 60,000 people in its community in a span of three years through creating and sustaining jobs, empowering people to save, and making it possible for individuals to attain or sustain affordable living. In addition to this, when compared to similar banks, the ratio of deposited assets to assets Southern Bancorp devotes to community investments is above average and equal to the median. This shows that the size of Southern Bancorp does not hinder it from measuring up to other CDFIs in its mission.

Southern Bancorp uses three metrics to measure its individual company progress. These consist of assisting and supporting people in attaining affordable housing, creating and retaining jobs, and empowering people to save through public policy. In 2016, Southern developed a 10 year plan of assisting 10,000 people in attaining or sustaining affordable housing, supporting the creation or retention of 100,000 jobs, and empowering 1,000,000 people to save. In a matter of three years after these goals were established, Southern Bancorp achieved 57.4% of their housing goal, 30.8% of their goal to create and retain jobs, and 2.4% of their goal to empower people to save. This is tremendous progress in their housing metric, they are 3% behind being on pace to complete their goal in creating and sustaining jobs, and if they are to accomplish their goal of empowering 1,000,000 people to save, they will need to focus on drastically improving their numbers.

Southern Bancorp could potentially improve on their ROA if they adopted Sunrise Banks' prepaid card program and were as successful in implementing it as Sunrise Banks was. This program also allows for a more convenient way to manage and store funds and may offer a vehicle to accomplish their goal of empowering 1,000,000 people to save. They may also consider why their Expenses of Premises and Fixed Assets are relatively higher than their peers and minimize this expense to maximize profitability. While Southern Bancorp does an outstanding job with community impact, they may assess whether they should focus on metrics that drive their B impact score, namely in the community category. It is possible that their company community impact goals do not align with the B Impact Assessment and they are excelling above the other companies in that area, but it could also be that some areas in which the B Impact Assessment measures are being overlooked or undermined.

It will be interesting to witness how Southern Bancorp and these other industries impact the industry of banking and the economy as they pursue their goal. It is evident that they are putting forth tremendous effort to succeed in their endeavors and have found sustainable ways to do so. Historically it has been a struggle for these banks to attract equity investors. Due to the lack of liquidity, low confidence in the banks' profitability, and complex capital structure, investors avoided CDFIs like these six companies. However, in 2017, Southern Bancorp developed a plan to pave the way for a simpler model that provides more liquidity for investors. After doing so, Southern Bancorp had raised nearly $35 million from investors. Through 2019, they also paid 11 consecutive quarterly common dividends, with the common dividend increasing each quarter. If adopted, this new plan may pave the way for these banks to obtain the capital needed to become a more prevalent way of banking. This would in turn generate more funding to obtain future profits as well as to expand outreach in community investment, and thus, directly contributing to the mission of Bancorp as well as the other similar banks. (banksouthern.com)

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