Journal of Community Bank Case Studies

CONFERENCE OF STATE BANK SUPERVISORS

vol. 9

Journal of Community Bank Case Studies

Volume 9

The Journal of Community Bank Case Studies is an independent, adjudicated journal of case studies authored by undergraduate college students. The goal of this journal is to showcase the work of the top undergraduate student teams that participate in the annual Community Bank Case Study Competition, a national competition facilitated by the Conference of State Bank Supervisors. The competition partners undergraduate student teams with community banks to conduct original case studies focused on various topics. For this year's competition, students were asked to determine lessons learned from the Silicon Valley Bank, Signature Bank, and First Republic Bank closures, identify the banks' expectations for regulatory and supervisory changes, and evaluate how the banks are using social media. This ninth volume of the Journal of Community Bank Case Studies includes the top three written submissions from the 2024 Community Bank Case Study Competition. The authors of the papers represent student teams from the Commonwealth University of Pennsylvania, University of Illinois-Springfield, and Southeastern Louisiana University.

Conference of State Bank Supervisors

The Conference of State Bank Supervisors (CSBS) is the nationwide organization of financial regulators from all 50 states, the District of Columbia, American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands.

Established in 1902 as the National Association of Supervisors of State Banks, CSBS is uniquely positioned as the only national organization dedicated to protecting and advancing the nation's dual-banking system.

For more than a century, CSBS has given state supervisors a national forum to coordinate supervision and develop policy related to their regulated entities. CSBS also provides training to state financial regulators.

Letter from the President & CEO

Ten years ago, we launched the Conference of State Bank Supervisors (CSBS) Community Bank Case Study Competition to encourage undergraduate students to learn about the banking industry. As part of the competition, student teams partner with local community banks to explore an annual research topic set by CSBS. The teams then compete in three rounds of rigorous judging by state and federal regulators. The top three teams earn monetary scholarships.

The rewards have been immense for all involved. The CSBS Community Bank Case Study Competition has given hundreds of students an appreciation of the value of community banks and influenced many of them to work in banking or financial regulation. As a bonus, the research generated has provided useful information for policy makers on the impact of laws, regulations, and even new technologies on the operations of community banks and their impact on the communities they serve.

This year, 27 student teams representing 21 colleges and universities entered the competition. They were tasked with developing lessons learned from the Silicon Valley Bank, Signature Bank, and First Republic Bank closures, identifying their partner banks' expectations for regulatory and supervisory changes, and evaluating how the banks are using social media.

A team from the Commonwealth University of Pennsylvania earned first place for its submission and will present its work at the Community Banking Research Conference (www.communitybanking.org) in October. Teams from the University of Illinois-Springfield placed second, and Southeastern Louisiana University placed third.

All three of these teams provided excellent research, well-developed analysis, and solid recommendations. On behalf of the Conference of State Bank Supervisors, I am pleased to present their work in the 2024 Journal of Community Bank Case Studies.

Sincerely,

Brandon Milhorn
President and CEO
Conference of State Bank Supervisors

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Executive

Summaries

COMMONWEALTH UNIVERSITY OF PENNSYLVANIA

Commonwealth University of Pennsylvania Executive Summary

2023 was a tumultuous year for the banking industry due to the closures of Silicon Valley Bank (SVB), Signature Bank, and First Republic Bank. These large banks failed due to copious uninsured deposits and insufficient liquidity. Following the bank closures, regulators are increasingly concerned with the risks associated with liquidity planning, capital planning, and asset and liability management (ALM). In the aftermath of the closures, deposits at community banks remained more stable than at large banks. As the Federal Reserve System explains, community banks are highly resilient because they link deposits to customer relationships (Bowman 1). First Citizens Community Bank (FCCB) is a prime example of a bank that puts its customers first. FCCB is attentive to customer needs through social media, and the bank serves a wide variety of customers in the bank's demographic region. The bank specializes in agricultural lending and is considered a leading lender nationwide for loans to farmers. In times of instability, FCCB relies heavily on the relationships it forms with customers to ensure the institution's financial prosperity. The bank's management notes this relationship-centered business model as a key contributor to FCCB's success.

Part I of this case study analyzes the financial performance of FCCB using call reports from the Federal Financial Institution Examination Council (FFIEC) and SEC 10-K report data for its bank holding company (BHC), Citizens Financial Services, Inc (CZFS). Specifically, we examine FCCB's earnings performance, asset growth, loan portfolio composition, liquidity, and capital levels over the past five years. FCCB grew notably over the period by expanding into Delaware through the acquisitions of MidCoast and Huntington Valley Bancorp.

Part II of this case study analyzes the current state of the banking industry in the aftermath of the 2023 bank closures, contrasting FCCB

with the institutions that failed. This section also evaluates FCCB's ALM and regulatory risk planning procedures. In the Federal Reserve System's first 2023 issue of Community Banking Connections, Governor Bowman explores the cause of these bank failures and how regulatory institutions responded in the aftermath. In this section, we utilize Governor Bowman's message to explain the characteristics that defined the banks that closed in 2023 and how FCCB, as a relationship-based community bank, differs from troubled institutions.

As the Federal Reserve System explains, community banks are highly resilient because they link deposits to customer relationships.

Part III of this case study examines social media in banking. Specifically, we analyze its impact on the 2023 bank closures and how FCCB manages and mitigates reputational risk. To learn more about the bank's social media efforts and how they tie into its communication strategy, we interviewed Heather Sargent, FCCB's Director of Marketing, and LeeAnn Gephart, the Chief Consumer Banking Officer. We outline how FCCB's marketing department analyzes data from the bank's platforms to develop and maintain customer relationships.

UNIVERSITY OF ILLINOIS SPRINGFIELD

University of Illinois Springfield Executive Summary

The failures of Silicon Valley Bank and two other large regional banks were caused by poor management practices exposed by the rising interest rate environment. Chief among the causes were long-maturity assets on one side of the balance sheet and concentrations of deposits, especially uninsured deposits, on the other. In this case study, we will look at these failures through the lens of one community bank, INB (formerly Illinois National Bank). We conducted a series of interviews with members of the INB management team to find out how their practices are different from those of the banks that failed, and how they continue to ensure they do not become like those banks.

First, unlike SVB, which more than tripled its assets in three years, our financial analysis shows that INB has had consistent, controlled growth over the past five years. They have grown net operating income at a compound annual growth rate of 13.8% and assets at 17%, going from $1.1 billion to $2.1 billion in five years while maintaining a Tier 1 RBC level of 11.23%. INB has a loan to deposit ratio of 90.2% and maintains a conservative, disciplined approach to asset management by keeping asset maturities short. A loss of book value of long-dated assets due

INB has a loan to deposit ratio of 90.2% and maintains a conservative, disciplined approach to asset management by keeping asset maturities short.

to rising interest rates played a key role in the failures of SVB and First Republic Bank.

All three banks that failed over relied on uninsured deposits as a source of funds. To mitigate the risk of runoff associated with uninsured deposits, INB uses the IntraFi network to turn large deposits into fully insured reciprocal deposits. Their use of this service allowed INB to grow deposits in the uncertainty following the bank failures. In short, INB uses a combination of conservative and cutting-edge practices to mitigate risk across all areas of its business.

In short, INB uses a combination of conservative and cutting-edge practices to mitigate risk across all areas of its business.

Southeastern Louisiana University Executive Summary

b1Bank, was established in 2006 and has grown to become the second-largest bank based in Louisiana. b1Bank not only includes a broad deposit base, but also targets mid-sized businesses—a sector often overlooked by both smaller community banks and larger institutions. This allows the bank to offer tailored financial products and ensures personal engagement through direct communication.

In response to the banking sector's challenges in 2023, b1Bank revised its liquidity management strategies to strengthen financial resilience. This included participating in the Bank Term Funding Program (BTFP) and maintaining a substantial excess cash reserve. The bank conducts annual tests on its contingency funding plan and borrowing lines to ensure all liquidity sources are readily accessible during stress periods. Additionally, b1Bank also utilizes a variety of funding sources, each with its advantages and limitations. The bank maintains an interest rate risk (IRR) management strategy close to rate-neutral to swiftly adjust to rate changes. By matching the duration of assets and liabilities and closely managing deposits, b1Bank effectively balances its interest rate exposure and responding competitively to market conditions without significant balance sheet repositioning. b1Bank's IRR models are rigorously tested for rate shocks and cash flow variations. The bank uses both in-house Excel models and third-party systems for their IRR models. The securities portfolio is primarily composed of low-risk agency guaranteed mortgage-backed

The bank maintains an interest rate risk (IRR) management strategy close to rate-neutral to swiftly adjust to rate changes.

securities and A-grade municipal securities. These investments offer credit risk mitigation, steady income, and tax advantages. The bank employs a laddered investment approach to manage cash flow and mitigate market impact on earnings. This strategy provides liquidity flexibility and allows the bank to adapt its asset allocation in response to changing market conditions. Additionally, b1Bank also demonstrates acute awareness of regulatory landscapes, anticipating no new regulatory changes but preparing for heightened scrutiny, particularly in liquidity management. The bank is proactive in regulatory compliance, engaging in rigorous internal audits and maintaining open communication with regulators to navigate examination processes effectively. Additionally, it closely monitors emerging regulations, such as section 1071 of the Dodd-Frank Act.

b1Bank's marketing team leverages an advanced social media strategy, not only for controlling the narrative during crises, but also for maintaining ongoing communication with its customer base. By actively monitoring social media trends and feedback, b1Bank effectively counters misinformation and maintains transparency. The strategic use of celebrity endorsements, notably from Drew Brees, further amplifies b1Bank's outreach and enhances its community and brand image.

b1Bank has not only navigated current challenges with resilience, but also positions itself as a forward-thinking financial institution. b1Bank's marketing team leverages an advanced social media strategy, not only for controlling the narrative during crises but also for maintaining ongoing communication with its customer base. By actively monitoring social media trends and feedback, b1Bank effectively counters misinformation and maintains transparency. The strategic use of celebrity endorsements, notably from Drew Brees, further amplifies b1Bank's outreach and enhances its community and brand image.

FIRST PLACE

Commonwealth University of Pennsylvania

Students:
Hannah Caccia
Ariane Rouffignac
Eric Shaw

Faculty Advisors:
Dr. Atika Benaddi
Dr. Victoria Geyfman

An Analysis of FCCB: The Causes and Effects of the 2023 Bank Closures Relative to Liquidity, Regulatory, and Reputational Risk

Background

FCCB was originally established as Ross & Williams Bank in 1872 in Mansfield, PA. Fifty years later, the bank was sold to a group of local citizens, establishing a community bank charter under which it operates today. Since then, FCCB has acquired several other banks, allowing it to expand across Pennsylvania, New York, New Jersey, and most recently Delaware, through its acquisitions of MidCoast and Huntington Valley Bancorp. FCCB currently operates forty-two branch office locations in these four states.

The parent bank holding company of FCCB, Citizen's Financial Services Inc., is publicly traded on Nasdaq under the ticker "CZFS." FCCB is a state-chartered bank and a member of the Federal Reserve System. FCCB offers demand deposits, a variety of retirement savings accounts, online banking, and special features for both student and veteran customers. Additionally,

FCCB provides various lines of credit to individuals via credit cards, commercial loans, business loans, agricultural loans, and mortgage loans.

Part I: Financial Analysis

Part I.1: Overview & Peer Group Discussion

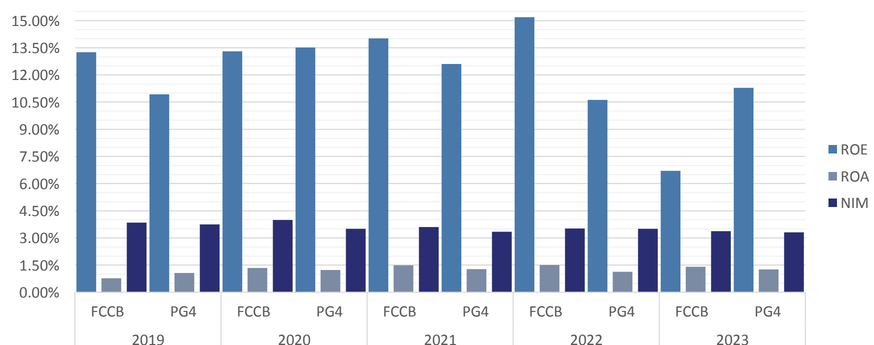
In conducting this financial analysis, we utilize CZFS's most recent 10-K reports and FFIEC Uniform Bank Performance Reports (UBPR). 10-K reports allow us to evaluate the BHC's overall financial performance. Alternatively, UBPRs allow us to evaluate the bank's financial performance relative to its peer group over the last five years. FCCB is a member of peer group 4 (PG4). PG4 consists of 519 commercial banks across the US with assets ranging from $1 to $3 billion (FFIEC). By comparing FCCB to PG4, we can assess FCCB against peer institutions of similar size. Furthermore, we utilize interviews with the bank's Chief Executive Officer (CEO), Randy Black; Chief Operating Officer (COO), Mick Jones; and Chief Financial Officer (CFO), Steve Guillaume, to confirm our findings and gain insights into the overall financial performance and strategy of the bank.

Part I.2: Earnings Performance

In recent years, FCCB has expanded into new markets, grown interest income, and outperformed peers in many profitability measures. To analyze FCCB's overall financial performance over the past five years, we look at three key ratios: the return on equity (ROE), the return on assets (ROA), and the net interest margin (NIM). Each of these ratios provides insight into the profitability of the bank in a different way. The ROE measures total capital over net income, while the ROA measures total assets over net income. The NIM, on the other hand, measures net interest income over total earning assets. This ratio is valuable for financial institutions with interest revenue received from loans as a primary source of income. Figure 1 displays FCCB's ROE, ROA, and NIM against its peer group over the past five years.

Notably, the bank's ROA remains consistent and has been greater than PG4 for four out of the five years. Similarly, the bank's NIM has exceeded its peers in all five years. The ROE, however, has fluctuated dramatically. From 2019 to 2022, it increased steadily, from 13.25% in 2019 to 15.19% in 2022. In 2023, however, the ratio decreased drastically, falling to just 6.21%, considerably lower than PG4. We find that the challenges the bank experienced with the interest rate cycle

Figure 1: Profitability Ratios FCCB vs PG4



Source: FFIEC UBPR Call Reports, FCCB. PGAR, PG4.

explain this decrease in ROE. According to Black, the inverted yield curve has caused pressure on all banks and compressed margins. When the bank acquired MidCoast in 2020, its loan portfolio grew significantly. However, the bank issued these loans at low interest rates as 5-year adjustable-rate loans. In the present high-interest rate environment, those loans now sit at a lower rate than the market, and it will be several years before the loans reprice (Black). In short, FCCB has experienced significant growth over the period despite current challenges with the inverted yield curve compressing margins.

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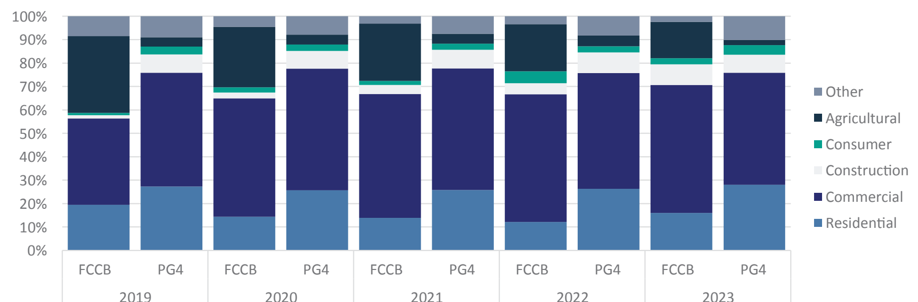
Part I.3: Loan Portfolio Composition

Examining a bank's loan portfolio is essential for understanding the types of communities the bank serves. Figure 2 displays the breakdown of FCCB's loan portfolio compared to PG4 over the past five years. Commercial loans consistently comprised the most significant portion of the overall portfolio throughout this period. Compared to PG4, FCCB stands out in that agricultural loans have been the second-largest portion of its loan portfolio for four of the past five years. For instance, in 2023, agricultural loans constituted 15.4% of FCCB's portfolio, compared to only 2.28% for the peer banks in PG4.

Regarding FCCB's portfolio, loan growth is the most significant factor. Table 1 on the following page displays FCCB's loan portfolio breakdown and year-over-year (YOY) growth over the past five years. From 2019 to 2020, the year the bank acquired MidCoast, FCCB's consumer loans more than doubled, and agricultural loans more than tripled. From 2022 to 2023, the year the bank acquired Huntington Valley Bancorp, the bank's consumer, residential, and construction loans increased by over $100 million. According to the bank's CEO, these acquisitions allowed FCCB to expand into Delaware markets, with most of the bank's growth occurring in the Wilmington, DE area following the mergers (Black).

Figure 2: Loan Portfolio Composition FCCB vs PG4



Source: FFIEC UBPR Call Reports, FCCB. PGAR, PG4; 2023 SEC 10-K report, CZFS.

Table 1 - FCCB's Loan Portfolio Breakdown & YOY Growth

	2019 ($ in 000s)		2020 ($ in 000s)		2021 ($ in 000s)		2022 ($ in 000s)		2023 ($ in 000s)	Total Growth
Residential	217,088	-6.99%	201,911	-0.40%	201,097	4.53%	210,213	71.25%	359,990	65.83%
Commercial	411,993	72.44%	710,424	7.25%	761,923	23.34%	939,791	30.78%	1,229,055	198.32%
Construction	366,576	-0.72%	363,937	-3.32%	351,863	-0.97%	348,446	-0.85%	345,475	-5.76%
Consumer	15,519	128.13%	35,404	55.45%	55,036	46.61%	80,691	142.69%	195,826	1161.85%
Agricultural	9,947	204.38%	30,277	-14.60%	25,858	235.10%	86,650	-29.24%	61,316	516.43%
Other	94,446	-32.95%	63,328	-27.75%	45,756	29.40%	59,208	-3.44%	57,174	-39.46%

Source: 2023 SEC 10-K report, CZFS.

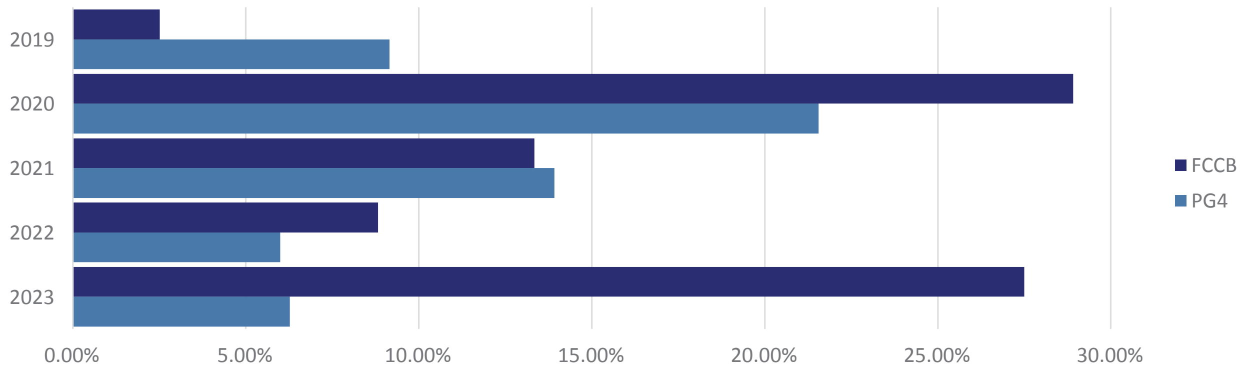
Part I.4: Asset Growth

Over the past five years, FCCB has experienced impressive asset growth. Total assets rose by $1.5 billion, or about 103% over the five years. In 2023, FCCB's total assets reached $2.97 billion, nearly surpassing the $3 billion upper limit of PG4, positioning FCCB close to entering a new peer group. If FCCB's assets continue to grow at its current rate, the bank will soon become a part of peer group 3 (PG3). PG3 comprises insured commercial banks with assets between $3 billion and $10 billion (FFIEC). Figure 3 on the following page displays the growth rate of FCCB's total assets. Asset growth remained low in 2019, then suddenly spiked from 2.51% to its highest point of 28.91% in 2020. FCCB's acquisition of MidCoast Bank and additional lending during COVID-19 from the Paycheck Protection Program (PPP) aid in explaining the institution's growth this year.

During COVID-19, the Small Business Administration launched the PPP to help small businesses during the pandemic (US Dept. of the Treasury). The program provided small businesses with loans for up to eight weeks of payroll costs. All over the nation, banks issued PPP loans to small businesses and experienced asset growth despite the economic hardships during the pandemic. However, FCCB's growth was still 7.35% higher than PG4 in 2020, suggesting that the influx of PPP loans cannot fully explain the bank's substantial growth during 2020. In April 2020, FCCB acquired MidCoast Bank, expanding its operations into Delaware (FCCB). Through this, FCCB acquired MidCoast's assets and a new market rich in opportunity (Black), explaining the growth during this year.

In 2021 and 2022, FCCB's asset growth returned to comparable levels to its peers. However, in 2023, asset growth once again increased dramatically, also primarily due to an acquisition. In June of 2023, FCCB finalized the acquisition of Huntington Valley Bancorp, a bank headquartered in Doylestown, PA, adding thirty-

Figure 3: Asset Growth FCCB vs PG4



Source: FFIEC UBPR Call Reports, FCCB. PGAR, PG4.

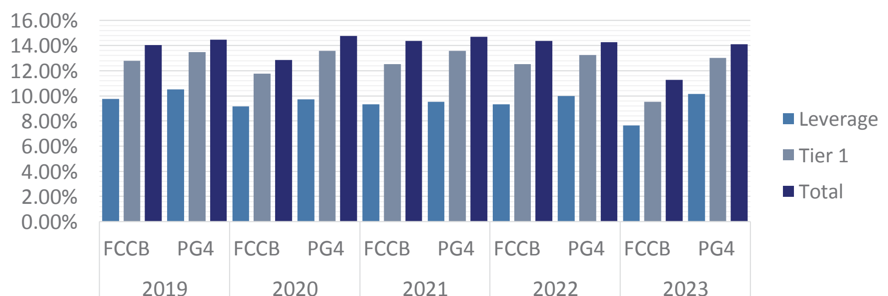
three branches across New York, Pennsylvania, and Delaware (FCCB). In summary, FCCB grew significantly over the period, outperforming its peers due to the acquisitions of two banks.

Part I.5: Capital Levels

FCCB operates under the capital framework outlined by Basel III. Through this framework, regulators mandate banks to maintain minimum capital ratios for total, tier 1, leverage, and common equity tier I capital to risk-weighted assets. The Federal Deposit Insurance Corporation Improvement Act introduced five capital classifications for banks: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically under-capitalized. Failure to meet the criteria for at least adequate capitalization subjects a bank to regulatory scrutiny.

Figure 4 displays FCCB's leverage, tier 1, and total capital ratios over the past five years compared to PG4. According to FCCB's BHC's most recent 10-K report, "an institution is deemed to be 'well-capitalized' if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater." According to Figure 4, FCCB exceeds the benchmarks and has been categorized as a well-capitalized bank for the past five years.

Figure 4: Capital Adequacy and Growth



Source: FFIEC UBPR Call Reports, FCCB. PGAR, PG4; 2023 SEC 10-K report, CZFS.

Part I.6: Liquidity

Liquidity measures a company's ability to fulfill short-term financial obligations. The banking industry is unique because a bank's assets are loans, and its liabilities are deposits. In accounting practices for typical institutions, this is backward. However, a bank makes money by lending customer deposits and earning interest on those loans. From the institution's perspective, this system converts depositors into creditors (whom the bank must eventually repay) and loans into assets. Relative to every other area of financial services, this arrangement seems unconventional. For this reason, a simple current ratio is of little use in determining a bank's liquidity; it is necessary to use a ratio that measures the bank's ability to repay its depositors to evaluate the liquidity of a bank.

The net loans and leases to deposits ratio (LDR) is the most common measure of liquidity used for banks. This ratio is calculated by dividing net loans and leases by deposits. The higher the value of this ratio, the lower the bank's liquidity. For example, shown in Figure 5, FCCB's LDR was 96.19% in 2023. In other words, for every dollar a consumer deposited, FCCB lent approximately ninety-six cents. The more deposits a bank lends out, the greater the risk that the bank may be unable to fulfill obligations to depositors in the future. Following the bank closures of 2023 (evaluated in Part II), liquidity management is a heightened concern for regulators.

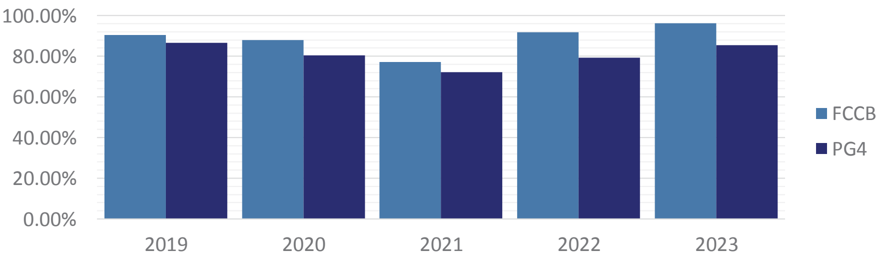
Compared to PG4, FCCB has consistently shown lower liquidity over the last five years. Based solely on this measure, one might conclude that FCCB is riskier than the average bank in this peer group. However, according to Nasdaq, the optimal LDR ratio is 80-90% (Trefis). Therefore, even though FCCB has maintained a ratio consistently higher than that of its peers, the bank is still within optimal ranges in most years.

Part II: Responding to the 2023 Bank Closures

Part II.1: FCCB vs SVB, Signature, and First Republic

As mentioned in the Executive Summary, to evaluate and explain the causes of the 2023 bank closures, we utilize the message from Governor Bowman found in the Federal Reserve System's first 2023 issue of Community Banking Connections. In the spring of 2023, SVB, Signature Bank, and First Republic Bank failed, revealing vulnerabilities within the banking industry concerning liquidity. The banks that failed experienced significant customer withdrawals within just

Figure 5: Net Loans & Leases to Deposits FCCB vs PG4



Source: FFIEC UBPR Call Reports, FCCB. PGAR, PG4; 2023 SEC 10-K report, CZFS.

a few days, resulting in insufficient liquidity to fulfill their obligations. At the time of failure, each of these banks held over $100 billion in assets, shocking and disrupting the banking industry. In addition to liquidity concerns, regulators are now increasingly focused on capital planning and risk management strategies. However, FCCB, like most community banks, employs a relationship-based business model that provides a source of strength when compared to larger banks, as its deposits are closely tied to the connections the bank forms with its customer base.

The collapse of these three banks resulted from several uninsured depositors withdrawing funds within a short span of time. In general, the Federal Deposit Insurance Corporation (FDIC) insures customer deposits up to $250,000 per account. Customers with deposits exceeding this limit are uninsured depositors. However, in March of 2023, regulators announced that the depositors of SVB and Signature Bank would be paid in full. Two months later, at the fall of First Republic, the FDIC entered into an agreement with JPMorgan Chase Bank to assume the third failed bank's deposits. In the aftermath, the Federal Reserve Board created the Bank Term Funding Program (BTFP) to provide support to banks. This program was implemented to prevent further bank failures, allowing banks to take out one-year loans that ensured sufficient cash to repay depositors.

At the time of failure, SVB held $218 billion in assets, Signature Bank held $110 billion, and First Republic Bank held $229 billion (Bowman 1). In contrast (as mentioned in Part I.4), FCCB

Even though FCCB has maintained a ratio consistently higher than that of its peers, the bank is still within optimal ranges in most years.

holds about $2.97 billion in assets. Given its smaller size, FCCB holds less uninsured deposits. According to Randy Black, FCCB's CEO, "FCCB is at 22% unpledged, uninsured deposits, versus Silicon Valley Bank, which had [roughly] 90%". According to CFO Steve Guillaume, FCCB also works with the Insured Cash Sweep network to provide depositors with additional insurance above and beyond the $250,000 FDIC limit. In the aftermath of the closures, FCCB reached out to depositors to inform and reassure them that their money was safe and insured (Black). As a community bank, FCCB values customer connections highly, and even in challenging times, the bank refers to core values when managing risk. In fact, FCCB's deposits are less likely to be withdrawn in high volumes, because they are tied to close relationships. According to Governor Bowman, "[a]fter the recent bank failures ... [c]ommunity bank deposits remained relatively stable because their deposit base is closely tied to established relationships in their communities" (Bowman 1). In short, FCCB is much different from the banks that failed in 2023: it's

smaller in size with less uninsured depositors, it offers supplemental insurance to the uninsured depositors it does have, and it operates under a relationship-focused business model.

Part II.2: FCCB's Specialty: Agricultural Lending

Although FCCB serves a wide range of communities across four states, the bank is headquartered in Mansfield, PA, a rural area in North Central PA that encompasses many farmlands. As a bank that values connections with its community, agricultural lending is naturally its specialty. Over the past five years, agricultural loans have consistently ranged from approximately 16 to 33% of the banks' portfolio (as discussed in Part I.3). For emphasis, in 2023, the average bank of FCCB's size had agricultural loans comprising only 2.28% of its portfolio. In 2017, the FFIEC ranked FCCB as the top lender for agriculture (FCCB). According to Black, FCCB currently ranks third in agricultural lending among PA banks and is within the top sixty nationally. The bank even has a specialized agricultural lending team, with fifteen members divided regionally by Northern, Central, Southcentral, and Delaware (FCCB). This specialty has proven to be a source of strength for FCCB, fostering strong connections with community members and even providing a source of security when loan growth is slow. During economic uncertainty, the bank had this specific niche to which they could go and lend (Black). Without a doubt, FCCB excels in "Putting Farmers First" (FCCB).

Part II.3: Interest Rate Risk Management

ALM is the process of managing the mismatch between a firm's assets and liabilities to mitigate resulting financial risks (Crouhy et al. 181). FCCB primarily uses ALM to reduce interest rate and liquidity risk, two of the bank's biggest financial risks. ALM is vital to FCCB because it is the primary driver of net interest income (NII), which represents over 87% of the bank's income in 2023 (CZFS 51). If assets and liabilities are not properly managed, a bank could see a significant decrease in earnings. The ALM process is overseen by the bank's ALCO committee, which, according to Guillaume, primarily consists of the bank's chief officers, including the CEO and CFO. The committee also includes leaders from different regional markets, which allows the committee to gain a better perspective on overall risk and performance.

FCCB is currently liability-sensitive in the short term and asset-sensitive in the long term

(CZFS 46). Liability sensitivity means the bank's liabilities reprice more rapidly than its assets. Being liability-sensitive poses challenges in a rising interest rate environment because it squeezes banks' margins, leading to lower NII and resultingly, lower NIM. However, when interest rates decline, liability sensitivity would benefit the bank. Of course, an asset-sensitive bank would have the opposite relationship, with assets repricing more quickly than liabilities, resulting in higher NII and NIM as rates increase. ALM is necessary for banks to navigate variable interest rate risks successfully.

The bank uses multiple methods to model and manage this interest rate risk, including maturity gap analysis and computer simulation models (CZFS 46). Maturity gap analysis is used to measure exposure to interest rate changes over different maturity buckets and their resulting impact on the bank's NIM (a summary of this analysis is provided in Table 2 above). The bank's modeling efforts are supported by the BASIS® modeling software from Darling Consulting Group (Guillaume). This software is used to gain a better understanding of the impact of interest rate changes on NII, and it is also used to test parallel interest rate shock scenarios of up to ± 400 basis point shifts (CZFS 47). Overall, FCCB's interest rate management strategy is less focused on trying to predict where interest rates are going and more focused on trying to adapt to fluctuations. Instead, as Guillaume explains, "[w]e want to make sure that whatever scenario happens, we're prepared to respond to it to have enough earnings to provide for a reasonable return for our shareholders." This proactive approach allows FCCB to adapt to interest rate changes in a way that ensures the bank's success.

Table 2 - FCCB's Maturity Gap Analysis ($ in 000s)

	≤ 3 Months	4 to 12 Months	1 to 2 Years ($ in 000s)	2 to 3 Years	3 to 5 Years ($ in 000s)	> 5 Years Growth
Total Interest-Earning Assets	$550,331	$378,506	$501,557	$417,262	$558,453	$315,225
Total Interest-Bearing Liabilities	$1,120,254	$188,547	$143,116	$53,343	$54,455	$560,018
Excess Interest-Earning Assets (Liabilities)	$(569,923)	$189,959	$358,441	$363,919	$503,998	$(244,793)
Cumulative Interest-Earning Assets	$550,331	$928,837	$1,430,394	$1,847,656	$2,406,109	$2,721,334
Cumulative Interest-Earning Liabilities	$1,120,254	$1,308,801	$1,451,917	$1,505,260	$1,559,715	$2,119,733
Cumulative Gap	$(569,923)	$(379,964)	$(21,523)	$342,396	$846,394	$601,601
Cumulative Interest Sensitivity Ratio (ISR)	0.49	0.71	0.99	1.23	1.54	1.28

Source: 2023 SEC 10-K report, CZFS, p. 46.

Part II.4: Liquidity Planning

In the aftermath of the 2023 bank closures, FCCB's two primary liquidity-related goals were ensuring it had enough liquidity to meet regulatory standards and maintaining its normal operations (Guillaume). According to Guillaume, one of the bank's first responses was to set up a line with the Federal Reserve's BTFP (as mentioned in Part II.1), not necessarily intending to use it but to show regulators that the bank had that liquidity capacity available. FCCB's management waited to see how the market would view the use of this line, and once it determined that the line was safe to use, it started using it in December of 2023. The bank chose to use the BTFP because it was a cheaper source of funds than others, such as the Federal Home Loan Bank (FHLB) lines (Guillaume). The bank pledged $54.5 million in securities available for sale to secure the BTFP line, and its outstanding balance on this line at the beginning of 2024 was $20 million (CZFS 44).

FCCB's primary source of liquidity, aside from customer core deposits, is its $1.07 billion line with the FHLB of Pittsburgh (Guillaume; CZFS 44). The bank also maintains several contingent borrowing lines with other institutions. These lines give the bank additional sources to draw from should problems arise with any of its regular funding sources and help to show regulators that the bank's liquidity plan is healthy and sustainable. Guillaume says that examples of contingent lines for the bank include the Borrower-in-Custody of Collateral program from the Federal Reserve, a general line of $24 million with Zions Bank in Utah, and a $10 million line with Atlantic Community Bankers Bank. These lines are tested a few times yearly by borrowing overnight to ensure the bank can borrow against those lines and that the bank's employees are familiar with how to access those contingent funds when needed (Guillaume).

Part II.5: Funding Sources and Investment Strategy

FCCB has many sources of funding. Each of these sources has pros and cons that influence how the bank chooses to use them. A general benefit of having multiple lines is the increased flexibility and reduced liquidity risk resulting from the diversification of funding sources. The FHLB line is used most frequently by FCCB because of its high limit and low cost. However, as Black explains, recent industry discussion suggests that the FHLB may be reluctant to act as a lender of last resort for banks, as it has been doing recently. This possibility may consequently lead to changes in FHLB lending in the future. In contrast, the BTFP line has the benefits of being flexible and cheaper than the FHLB line;

however, as of March 11, 2024, the program has ceased offering new loans (Bowman 1). Other contingent lines are more expensive or have lower limits, or both, but they still serve as important additional sources of liquidity should the need arise.

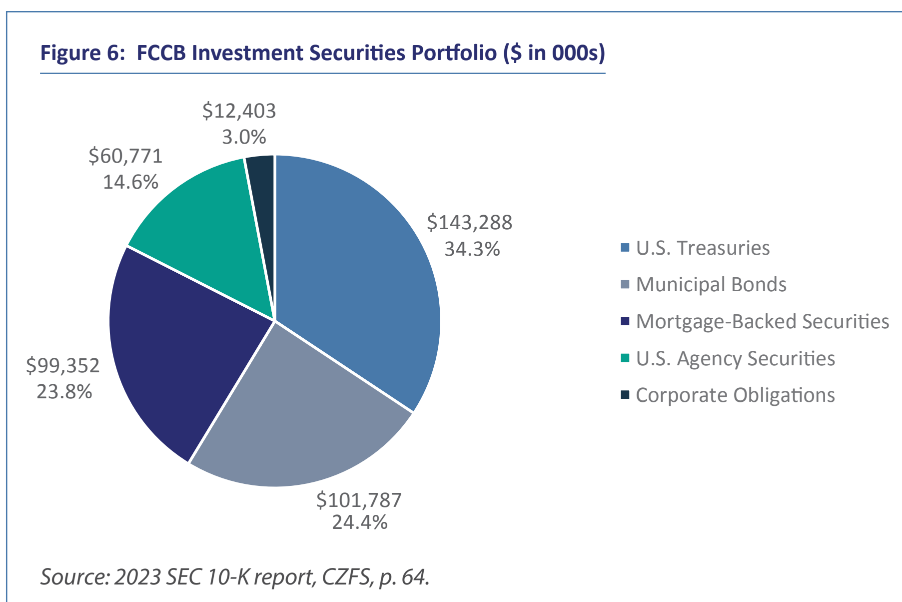
FCCB's security investment portfolio is primarily composed of government securities. According to FCCB's BHC's most recent 10-K report, the bank held over $417 million worth of investment securities by fair value (CZFS 64). A breakdown of FCCB's investment securities portfolio is shown in Figure 6 below.

Of the $417 million total investment securities, over 73.2% were invested in a mixture of US Treasuries, US Agencies securities, and municipal bonds, while another 23.8% was invested in government-sponsored mortgage-backed securities; only 3% were invested in corporate obligations. Guillaume explains that FCCB's investment strategy targets securities with low credit risk and some convexity to provide known cash flows, hence the heavy focus on government securities in its portfolio. Black elaborated on the bank's conservative strategy by stating, "We don't chase yield ... we're not an investment bank, we're a community bank."

Part II.6: Regulatory Changes, Challenges, and Risks

FCCB's management expects greater regulatory emphasis on specific areas of bank management following the 2023 bank closures. For example, Mick Jones, COO, expects regulators to focus more on capital planning, liquidity planning, and earnings management than in prior years. Jones predicts that regulators will "want to know that you have the infrastructure in place to be able to manage through these times," and they will ensure banks are testing liquidity and capital structure regularly to identify any developing issues. Moving forward, Black expects liquidity planning and the scrutiny of uninsured deposits to become major conversation topics. He also expects changes to the new Basel III proposal, which contains provisions seemingly intended to respond to the 2023 banking failures. Thus, the new proposal seeks to significantly increase capital requirements for large banks, which has faced fierce opposition from the banking industry (Schroeder). According to Black, both

Figure 6: FCCB Investment Securities Portfolio ($ in 000s)



Source: 2023 SEC 10-K report, CZFS, p. 64.

industry and Washington leaders oppose the new regulations, knowing regulators would end up pushing higher capital requirements for large banks onto all banks, regardless of their size.

If FCCB were to propose a regulatory modification, it would pertain to either the Bank Secrecy Act or the Consumer Financial Protection Bureau (CFPB), depending on the perspective. Jones would most like to see changes to the Bank Secrecy Act, which mandates banks to report suspicious activities related to potential money laundering, tax evasion, and similar crimes. (US Office of the Comptroller). The act also requires banks to maintain extensive monitoring and compliance programs. According to Jones, the Bank Secrecy Act is very demanding, requiring a skill set that is expensive and difficult for smaller community banks to develop and retain. Additionally, the high compliance costs must inevitably be passed onto customers, reducing the affordability of loans in the communities the bank serves.

On the other hand, Black would prefer to see regulatory oversight for the CFPB. According to Black, the CFPB is the agency causing the most controversy within the industry. An example of this controversy is the agency's proposed Section 1071 Small Business Rule changes, which would expand the number of required data points collected and reported in small business loan applications up to 81 data points, a large increase over the original 13 (Barloon, et al). Black explains that this creates a significant privacy issue for the bank's small business customers, as their information could potentially become public and be linked back to the original applicant. Black would like to see a slower, process-oriented approach to changes like these rather than the flood of rewrites the industry currently faces.

FCCB's management expects greater regulatory emphasis on specific areas of bank management following the 2023 bank closures.

Aside from Basel III and Section 1071 regulatory changes, there are several other proposals FCCB is tracking. According to Black, the bank is currently reviewing proposals relative to the new commercial real estate (CRE) rules, credit card fee overhauls, the Access to Credit for our Rural Economy Act of 2023, and the Secure and Fair Enforcement Regulation Banking Act. As an agricultural-focused lender, FCCB is also closely tracking the new Farm Bill. Black explains that the current bill proposal will allow the bank to further help its customers without shouldering additional credit risk, but it may also drive more customers toward the Farm Credit System, one of the FCCB's biggest competitors in agricultural lending.

FCCB has also faced past regulatory challenges. For example, due to its growth over the last decade, FCCB is now operating in many new

geographic areas with demographics different from those it has historically encountered. Due to this expansion, the bank has had to deal with much more severe Community Reinvestment Act and Fair Lending regulatory requirements. Recent years have been spent investing considerable time, energy, and resources into bolstering Community Reinvestment Act and Fair Lending efforts to reach demographics that the bank has never had to address before.

Regarding bank examinations, FCCB starts preparing for the next exam when it receives the suggested recommendations report from the previous exam. According to Black, management starts by addressing the received recommendations and preparing responses to regulators for each item, even when responses are not required. Jones adds that FCCB heavily relies on its robust internal controls, including routine internal audits and other regular testing, which he says are "all part of our compliance management system that we have in place to address the regulations as well as other parts of the operations." Looking ahead, Black expects examiners to scrutinize the bank's CRE portfolio in the upcoming exams due to its recent growth. To prepare for this, FCCB has developed a new CRE policy and scorecard and is stress-testing its CRE portfolio to ensure exam readiness. Jones also anticipates that, due to the recent bank closures, examiners will likely delve deeper into specific areas of operations than they usually would. Such areas include liquidity, capital levels, and internal processes. Despite all being areas FCCB has historically excelled in, regulators will still likely scrutinize each for any possible signs of weakness due to the recent bank closures.

Part III: Social Media

Part III.1: Social Media's Impact on the Bank Failures

In the dynamic environment we operate in today, technology and social platforms have become essential for banks for communication, advertising, and competitive purposes. Customers can now deposit and withdraw funds remotely and communicate concerns incredibly quickly. Risk management relative to social media communication has become more important than ever. Considering the fall of SVB, Signature, and First Republic, and the short duration between each of the bank failures, it is important to examine how social platforms contributed to these events.

As mentioned in Part II.1, these banks failed due to insufficient liquidity. This issue was fueled by social media and compounded by the rapid

Due to its growth over the last decade, FCCB is now operating in many new geographic areas with demographics different from those it has historically encountered.

withdrawals technology allows. According to Randy Black, FCCB's CEO, SVB, for example, started having issues on March 8, 2023, when it announced plans to restructure the bank's investment portfolio. The bank anticipated it would take $1.8 billion in losses with the expectation to receive roughly $2.25 billion in capital (Wack). As soon as that information hit social media, it spread rapidly. When depositors heard the news, they quickly fled (Black). Within just two days, the bank experienced over $40 billion in depositor withdrawals, technology and social media acting as a catalyst accelerating the bank run (Barr 7). In the past, depositors would need to go into the bank or write a check to withdraw funds. Electronic funds transfers (EFTs), ATMs, and mobile applications have streamlined this process, making it easier and faster than ever before. According to the FRS regarding SVB, "[t]his run on deposits ... appears to have been fueled by social media and SVB's concentrated network of venture capital investors and technology firms that withdrew their deposits in a coordinated manner with unprecedented speed" (Barr 24). Communication management quickly became an uncontrollable issue, news spread like wildfire, and due to poor liquidity and risk management practices, SVB went under.

Part III.2: Platforms Driving Profitability

FCCB's primary social media channel is Facebook. The bank uses Facebook for most of its online marketing and communications. As a marketing tool, Facebook is used to drive profitability through paid and organic advertising campaigns on the platform. Heather Sargent, FCCB's Director of Marketing, describes the bank's Facebook campaign advertising strategy as follows:

> "We focus on markets where we're brand new, and we often enter those markets with some kind of product special ... the beautiful thing about social media is that it allows us to define our target audience very closely. So, it's more than just persons within a geographical area, we're able to target them based on their interests and information that Google has collected on those individuals, helping to ensure the advertising is getting to the right people." (Sargent)

Each campaign also has a landing page on FCCB's website, which the bank uses to track the traffic and interactions of customers who arrive on the site from each campaign. This way, the bank can easily gauge the effectiveness of each campaign and marketing efforts based on this information. Tracking social media traffic and customer interactions, combined with the ability to target

narrowly defined markets, turns social media into a powerful tool for attracting new business and generating revenue.

However, Facebook is not just a marketing tool. FCCB primarily uses Facebook as a communication platform to connect and build customer relationships. According to LeeAnn Gephart, FCCB's Chief Consumer Banking Officer, the bank believes it is essential to use the platform to demonstrate its core values of community and relationships by highlighting actions, not words. For example, posts often focus on FCCB's community involvement, employee achievements, and financial literacy activities. These posts help to improve FCCB's brand and show how committed the bank is to its community, which leads to more positive relationships between the bank and its customers. The bank also has several employees who actively monitor and respond to customer comments on Facebook. When a customer comments about a problem, an employee will research the problem and call the customer directly or direct a branch location to do so (Sargent). In this way, FCCB uses Facebook as a two-way communication tool, making it one of the most important factors in the bank's customer communication plan.

FCCB also uses platforms other than Facebook. The bank uses a LinkedIn profile to connect with businesses, recruit new employees, and build camaraderie with its current employees (Sargent). The bank has also heavily used Core iQ, an automated email marketing platform tailored to the financial industry. According to Sargent, the bank uses Core iQ to advertise to

FCCB primarily uses Facebook as a communication platform to connect and build customer relationships.

specific target markets, promote cross-sales of different services to customers most likely to be interested in them, and onboard new customers to ensure every customer gets the same experience no matter where they open an account.

Although FCCB's current social media operations appear effective, we believe the bank should consider expanding into other social media platforms to broaden its reach. For example, Instagram is one of the most popular social media platforms, with 1.69 billion users as of April 2024 (Kepios). The platform is especially popular among younger audiences, whom FCCB could target to expand its market and cultivate lifelong customer relationships. Additionally, the platform's focus on photo and video sharing would align well with FCCB's marketing philosophy, enabling it to display community engagement through pictures and videos at various community events. Another option to consider is X (formerly Twitter), commonly utilized by businesses to make announcements, gather consumer feedback, and monitor

discussions about the business globally. Notably, according to Crosman, uncontrolled rumors on X were reported to be a significant factor in the 2023 bank failures. Thus, we believe it is important for FCCB to maintain an X account to effectively monitor and address such risks, as discussed further in the following section.

Part III.3: Reputational Risk and Communication Strategy

Social media can be a great advantage to modern banks' operations, but, as seen with the SVB collapse (discussed in Part III.1), it does not come without risks. According to Sargent, "There's a reputational risk with social media because you can't control what people will do online. Part of the way we mitigate that is by making sure we are monitoring the comments that we get, actively responding to them, researching any customer issues." FCCB also monitors developing trends in its social media communications to identify problems and resolve them through broader communication. These actions help to avoid a situation where individual customer concerns rapidly develop into a social wildfire, as seen with SVB.

Such reactive measures are important, but proactive measures are equally, if not more, important. For example, Sargent explains that FCCB runs all its advertising through its compliance department before posting to ensure it complies with regulatory requirements, thus avoiding potential trouble. The bank's marketing team members, along with the advertising agencies it collaborates with, are also trained in compliance. Moreover, FCCB has maintained a disaster recovery committee since before the 2023 closures, including members from all areas of the bank. Their responsibility is to simulate emergency scenarios, discuss response strategies, and prepare messaging in advance, ensuring the bank's readiness to act immediately should such scenarios arise.

Tied in with social media's reputational risk is general cybersecurity risk. In a world full of scams and fraud, FCCB takes every precaution to ensure that its data and communications are secure. FCCB's Information Security Officer, Wendy Southard, manages the bank's cybersecurity efforts (Gephart). This includes disaster recovery and employee training, thereby ensuring that everyone remains up to date on security threats present in the industry. The bank also uses the KnowBe4 platform to conduct additional employee compliance education and security awareness training. Sargent says that FCCB is careful to monitor and limit access to any accounts that could potentially be sensitive. For example, the bank requires multifactor authentication for employees to access its social

media pages, and it further limits administrative access to the accounts to only a few individuals. FCCB holds risk management to the utmost importance, and proactive planning allows the bank to be confident and fearless when chaos arises (Gephart).

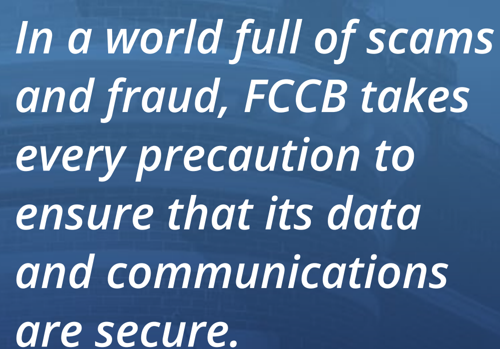
Conclusion

In this case study, we examined the causes and effects of the 2023 bank closures on community banks, focusing on liquidity, regulatory, and reputational risk. Through this analysis, we contrasted FCCB with banks that failed and identified key contributors to community banks' resilience in times of uncertainty. In Part I, we analyzed FCCB's financial performance over the past five years. The bank displayed impressive growth over the period, driven by two acquisitions; however, the inverted yield curve has led to shrinking margins. In Part II, we described the causes of the 2023 bank closures and how these events have affected ALM practices and regulatory risk policies. We found that FCCB displayed resilience during this time due to supplemental insurance for uninsured depositors, highly relationship-centered values, and its agricultural lending niche. We also found that regulators are now increasingly concerned with liquidity management and capital planning. In Part III, we evaluated how social media was a catalyst during the bank failures. We concluded our analysis by explaining how FCCB uses social media to advertise and develop relationships with community members while also managing the risks associated with such technology.

SVB, Signature Bank, and First Republic Bank each failed due to insufficient liquidity, caused by rapid withdrawals from uninsured depositors. Technology and social media put these bank runs into hyperdrive. As a community bank, FCCB differs because of how it values relationships. In the aftermath, keeping values close, the bank even reached out to customers to reassure them. The bank consistently focuses on the present needs of its community members, exemplified through its agricultural lending niche. Unlike large banks, FCCB sees its customers as individuals rather than a statistic. One of the bank's core values is that its strength is derived from relationships within its community (FCCB). Even during times of crisis, FCCB ensures its customers agree: "We put the *Unity* in Community."

Acknowledgments

We, the Commonwealth University of Pennsylvania team, would like to acknowledge each of the individuals who assisted us in completing our case study paper and video. We could not have done it without the help we received from FCCB and our Commonwealth University faculty advisors. First and foremost,



we would like to thank our advisors, Dr. Atika Benaddi and Dr. Victoria Geyfman. They were both always available for feedback, to answer our questions, and to provide guidance. Combined, each of their specialized knowledge was very valuable to our team.

Secondly, we would like to thank the individuals from FCCB who took the time to meet with us, answer our questions, and provide insight into the bank relative to the 2024 CSBS competition topic. Specifically, we thank Randy Black, President and CEO; Steve Guillaume, CFO; Mick Jones, COO; Heather Sargent, Director of Marketing; LeeAnn Gephart, Chief Consumer Banking Officer; and Lauri Nelson, Human Resources Manager. Each of these employees at FCCB helped us in different ways, and we could not be more grateful for their contributions.

Finally, we would like to extend appreciation to the Conference of State Bank Supervisors for holding the annual Community Bank Case Study Competition. We believe this competition is truly unique and rewarding, irrespective of the outcome. It provides the opportunity for students, regardless of background or school size, to develop professional communication skills, learn about the banking industry, and expand their network.

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more grateful for their contributions.

SECOND PLACE

University of Illinois Springfield

Students:
James M. Aldus
Robert S. Lassiter
Kurtis Wagner

Advisors:
Dr. Serkan Karadas
David Saner

A Case Study in the Resilience of Community Banks: Evidence from Springfield, IL

Introduction

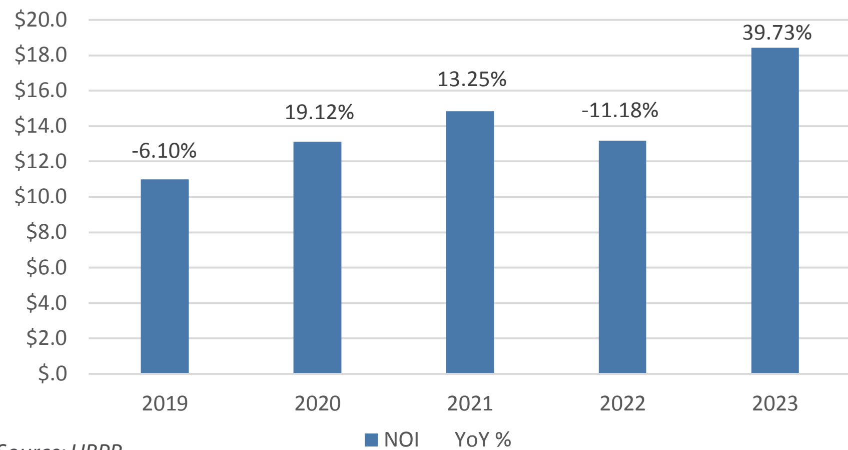
This case study will look at one community bank, INB in Springfield, Illinois, and examine how it was affected by, and how it responded to, the bank failures of 2023. Through this case study, we will attempt to determine how INB is different from the banks that failed and how they are ensuring that they will be around to serve their community for years to come.

History of INB

The Illinois National Bank name has a long history in Springfield, going back to the late 1800s. In the late 1980s though, the bank was bought by a multi-bank holding company, which was sold to a larger bank, which was then eventually sold to an even larger bank. The Illinois National Bank name was lost along the way. Also lost was the focus on customer service found in a community bank. And so, in 1999, former employees of the original Illinois National Bank decided to start their own bank, reclaiming the name and the community-oriented approach that gave

that name meaning (Titone-Schaefer, "Every Brick"). Since then, INB has grown to include 13 branches around Central Illinois and to over $2 billion in assets. INB has also begun to expand into new markets, opening loan production offices in St. Louis, Missouri, then in Tampa and Miami, Florida.

Figure 1: INB Net Operating Income (in Millions)



Source: UBPR

Part I: Financial Analysis

For our financial analysis, we will look at various metrics, considering both year-over-year (YoY) performance using end-of-year numbers and compound annual growth rate (CAGR), when appropriate, for a five-year period.

The *Comptroller's Handbook*, issued by The Office of the Comptroller of the Currency (OCC), suggests that bank examiners use peer comparisons that more closely align to a bank's business model than do the generic peer groups found on the UBPR (OCC, *Earnings* 2). To that end, we have created a custom peer group (CPG) for INB that considers three factors:

- total assets: $1B to $3B
- geography: Illinois based
- asset concentration: commercial lender

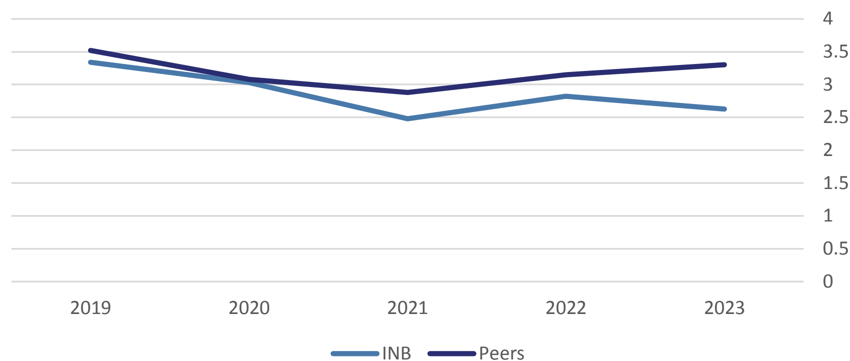
The resulting peer group has 25 banks compared to 511 banks in the FFIEC's peer group 4, which only considered total assets[i].

Earnings Performance

In 2023, INB posted a net operating income (NOI) of $18.4 million, a 39.7% increase from the previous year. INB has increased its NOI for four out of the past five years for a CAGR of 13.8% (UBPR). This is better than INB's peer group, which had a five-year CAGR of 11.2% (FDIC *BankFind*). To analyze this income, we can break down INB's net operating income into interest and non-interest income and expense and see how each affects the key ratios of net interest margin (NIM) and efficiency ratio.

Interest income accounts for 86.8% of INB's gross income[1]. This is an increase over previous years, which brought it more in line with INB's peers' 89.9%. While INB and its peers have followed the same trend over the past five years, INB has consistently relied less on interest income than its peers: by almost 8 percentage points on average. This is part of INB's strategy to have diverse income streams and reduce their exposure to some of the risks associated

Figure 2: NIM



with lending, which is where most community banks derive the bulk of their income (Donovan *Email*). As with all banks, the Federal Reserve's interest rate increases have affected INB's interest income and expense alike. INB's interest income as a percentage of average earning assets increased 1.46 percentage points but was outgrown by their interest expenses, which increased 1.65 percentage points. This led to a decrease in their NIM to 2.63. The interest rate changes disproportionately affected INB's expense side, at least in part, because a larger percentage of total assets are in interest-bearing deposits compared to their peers. The biggest difference is in transactions accounts, which make up 34.5% of total assets compared to only 11.5% for peers, thanks to INB's interest-bearing checking accounts. In recent years, INB's NIM has followed the same trend as its peers', only diverging this past year with a slight drop (See Figure 2). Overall, INB's net interest income increased 12.5% over the previous year, and they achieved a five-year CAGR of 11.4%. This is right in line with their peers who posted numbers of 12.6% and 9.5%, respectively (FDIC *BankFind*).

Non-interest income accounts for the remaining 13.2% of INB's gross income. This is significantly less than in previous years, partly due to the increase in interest rates and the resulting increase in overall interest income. Despite making up a smaller proportion of income, INB's non-interest income levels have grown over the past five years with a CAGR of 4.05% compared to only 1.32% for their peers. Non-interest expenses, while also increasing in absolute numbers, have steadily decreased over a five-year period as a percentage of total assets, from 3.28% to 2.34%. This has led to an improvement in INB's efficiency ratio, a measure of how much the bank spends in operations for every dollar made, which has been fairly steady but has declined over the five-year period (73.88% to 69.75%). This shows they are being more efficient in how they make their money, but it still lags their peers' average ratio of 57.42% (UBPR 3).

Ultimately, a bank's earnings should be sufficient to provide for retained earnings and to cover losses. While INB's return on average assets (ROAA, subchapter S adjusted) at 0.73%, was lower than its peers' 1.10%, it had a higher than average retained earnings (10.11% of average bank equity vs. peers' 8.21%), as they elected not to declare dividends this year. Also, INB's 2023 earnings covered their net losses 184.48 times. While this was an outlier due to low net losses

in 2023, the four years proceeding still averaged 29.7 times coverage of losses (UBPR 1).

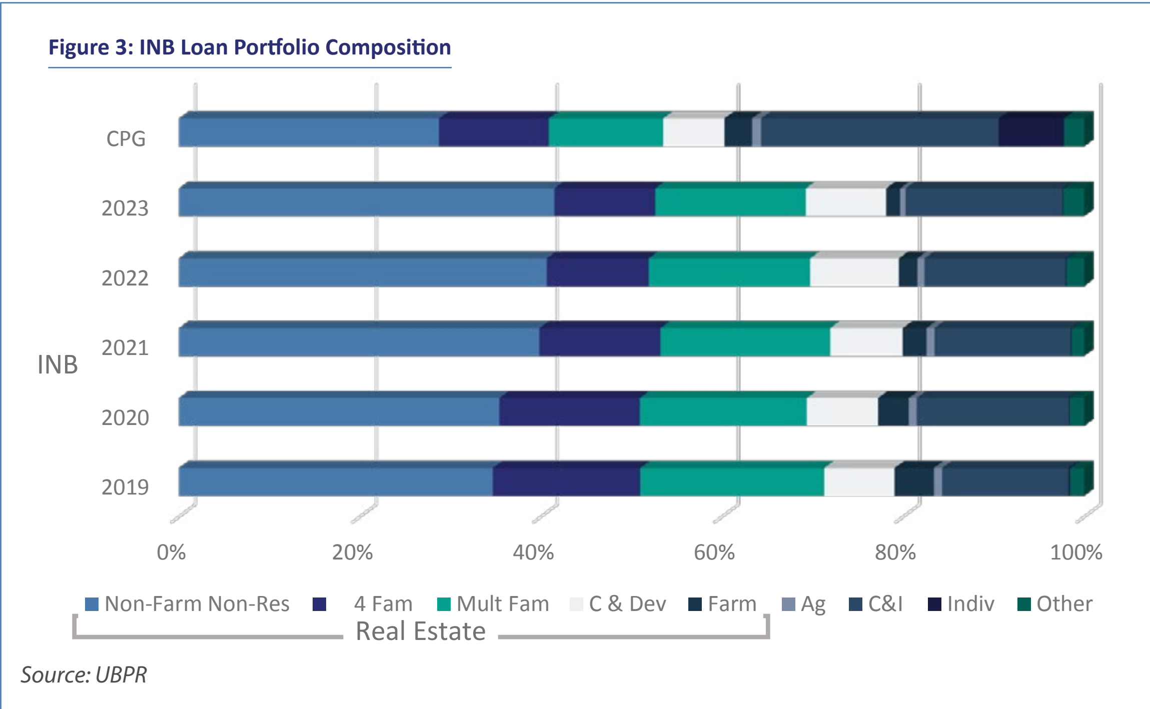
Loan Portfolio Composition

Loan portfolio composition is important to any bank, but perhaps more so to INB as loans make up a large percentage—95.0% in 2023—of total assets compared to its peers (81.5%). INB's largest loan concentration is in real estate, making up 83.7% of all loans (CPG: 64.1%). INB has comparatively lower levels of commercial and industrial (C&I) loans and individual loans than its peers. See Figure 3.

It is apparent that INB's loan portfolio is less diversified than its peers', with a strong concentration in commercial real estate (CRE). There are several factors, though, that mitigate the risk involved with CRE. First, CRE is a very broad asset class that includes retail; office buildings; industrial, such as manufacturing, warehousing, and distribution; hotels; land; mixed use; and special purpose. (*The 8 Types*). Also, CRE, like all real estate, has the benefit of having collateral built in. Finally, according to Nick Newton, who is an Assistant Vice President and Portfolio Manager for INB's Commercial department, INB makes sure they are lending to quality borrowers (Interview, 1 March). This is evidenced by INB's Allowance for Loan and Lease Losses, which, taken as percentage of total loans

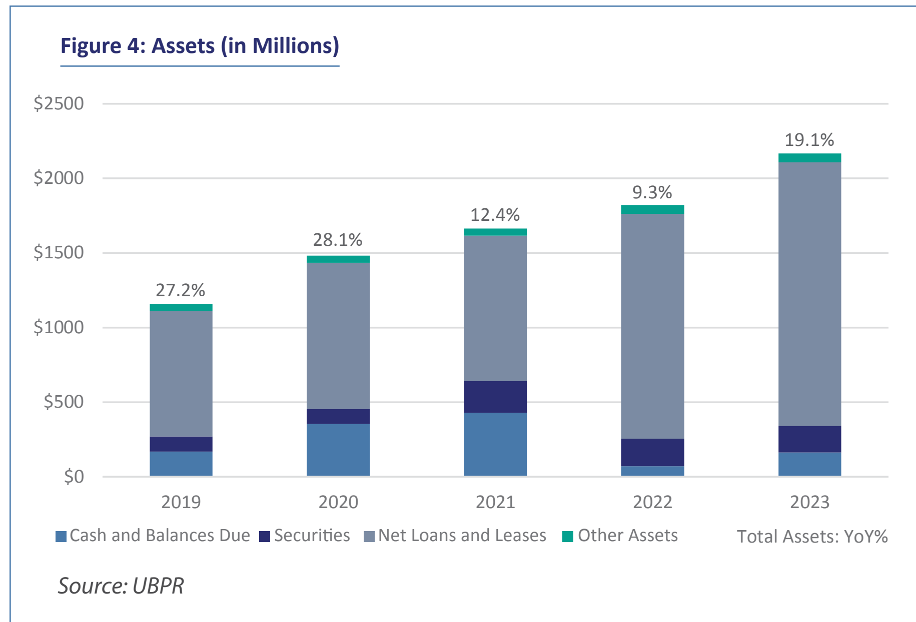
> ***Ultimately, a bank's earnings should be sufficient to provide for retained earnings and to cover losses.***

Figure 3: INB Loan Portfolio Composition

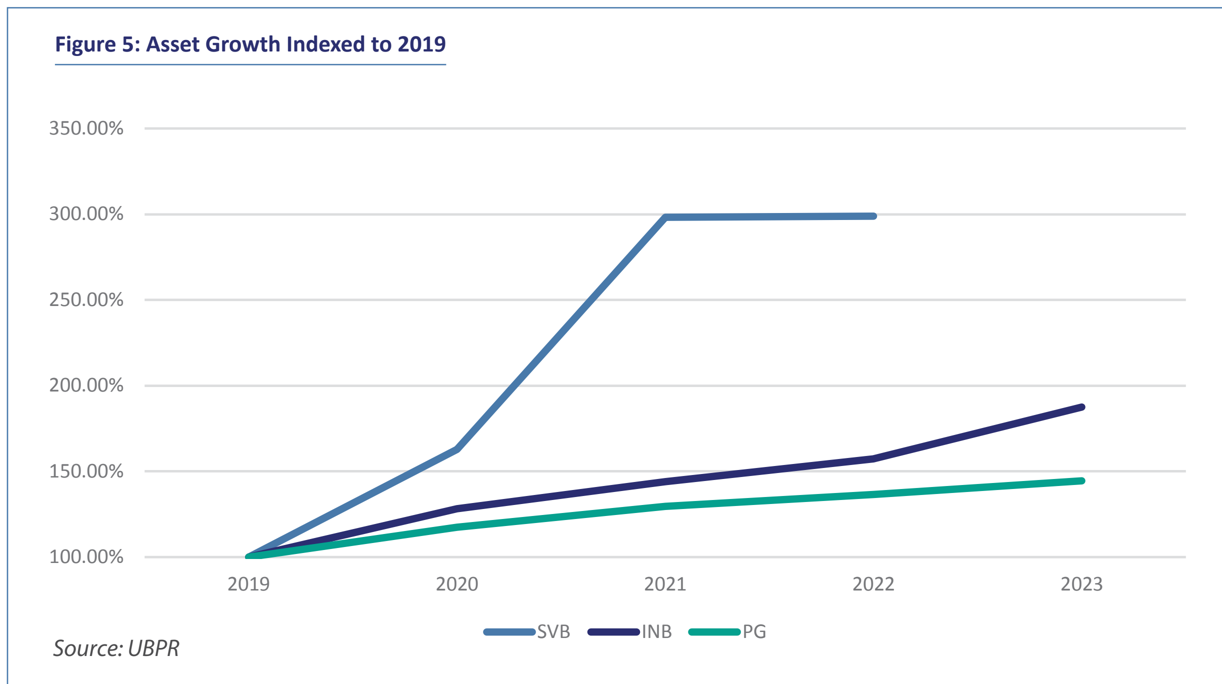


Source: UBPR

and leases, was 0.99% for 2023, slightly better than its peers' average of 1.07%. Further, that metric has remained consistent for INB over the five-year period ranging from 0.94% to 1.01% (UBPR).



INB has also taken strategic steps to mitigate its risks associated with loan concentration. Recognizing that one of the inherent risks of the community banking model is geographic concentration, INB has expanded beyond its home market of Central Illinois by opening loan production offices, first in St. Louis, Missouri, then in Miami and Tampa, Florida. While the bulk of the loans in these markets are also in CRE, geographic diversification reduces the risk of losses presented by a downturn in an individual market. As such, INB's portfolio may



be more diversified compared to its peers than is immediately apparent. Finally, Newton says that they recognized that they were reaching their concentration limits in CRE, and that the expansion to the Florida market was partially to expand their portfolio of C&I lending (Interview, 19 April). This strategy is paying off, as INB has grown their C&I portfolio at a five-year CAGR of 22.5%, while all real-estate loans increased 19.7% (CAGR) over the same period (UPBR).

Asset Growth

In 2023, INB listed $2.17 billion in total assets, a 19.1% increase over the previous year outpacing their peers' 5.9% growth rate. Overall, INB grew assets at a CAGR of 17.0% over the past five years (CPG: 9.6%). While typically growth is good, rapid growth was listed as a cause of failure in the Federal Reserve's and FDIC's reports on all three of the banks that failed in 2023, and the OCC's handbook on earnings lists asset growth that significantly outpaces capital growth as a red flag, so INB's growth deserves further examination (OCC, *Earnings* 36).

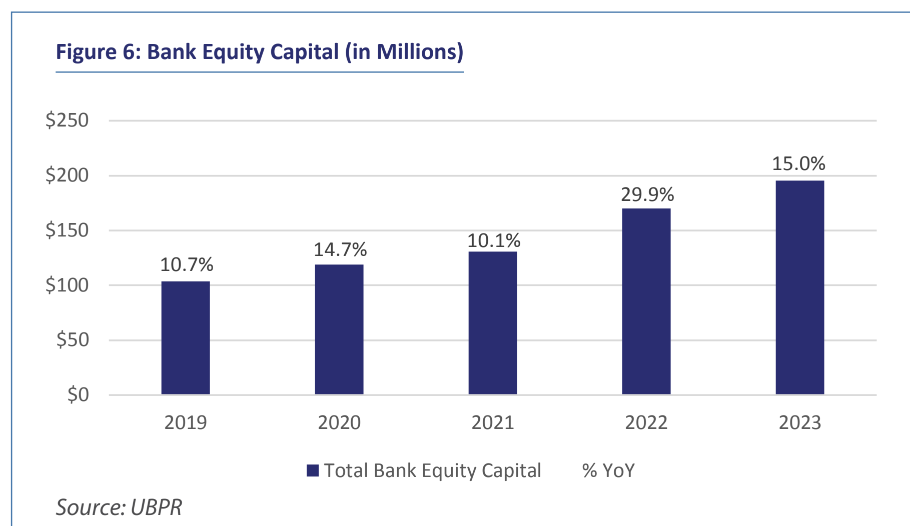
INB grew their deposits, the main source of funds to grow assets, by $362.2 million in 2023, a 22.7% increase from 2022. The asset category with the largest increase was Net Loans and Leases, which increased $256.3 million, with real estate loans increasing $230.9 million and commercial and industrial loans $25.1 million. Their largest reduction in holdings was in Securities, as they allowed $4.8 million to roll off, reinvesting that in loans. Overall, earning assets make up 97.29% of INB's average assets, slightly higher than the peer group's 95.82% (UBPR). Figure 4 shows the levels of total assets by category over the past five years YoY growth rates. The shift from cash to loans and leases between 2021 and 2022 was due to INB's entry into the Florida market and the production of new loans there.

Also, while INB's growth was higher than its peers', comparing it to SVB's growth shows that the level of growth that set SVB up for failure was significantly higher than that experienced by INB (See Fig 5). Furthermore, INB's assets have not out grown it's capital levels. Tier 1 capital has remained between approximately 8% and 10% of total assets during the past five years. As of 2023, it was at 9.62%, virtually identical to its peers' average of 9.65%.

Capital Levels

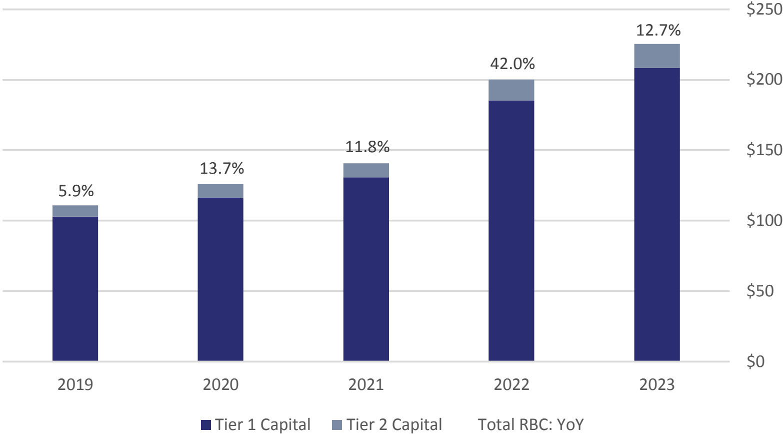
INB increased its total bank equity capital level by $25.5 million in 2023, ending the year with

Figure 6: Bank Equity Capital (in Millions)



Source: UBPR

Figure 7: Total Risk-Based Capital (in Millions)



Source: UBPR

$195.5 million in capital. This represents a 15.0% increase over the previous year and a 17.2% CAGR since 2019. Of this, $18.4 million was from retained earnings. While the peer group had a slightly higher net income ratio—12.49% of equity compared to INB's 10.11%—INB had a higher ratio of retained earnings—10.11% compared to 8.21%—as INB elected not to declare dividends this year. INB also saw a $5.5 million increase in capital through a transaction with its parent company Illinois National Bancorp (UBPR).

Table 1 - PCA Well-Capitalized Bank Requirements

Total RBC Ratio	≥ 10%
Tier 1 RBC Ratio	≥ 8%
CET 1 RBC Ratio	≥ 6.5%
Tier 1 Leverage Ratio	≥ 5%

Source: FDIC

Tier 1 capital increased 12.4% ($23.0 million) in 2023 and achieved a 19.3% CAGR over the past five years. While overall level increased, INB's tier 1 and total risk-based capital (RBC) ratios declined to 11.23% and 12.14% respectively. The peer group shows a similar downward trend over the past five years while rebounding slightly in 2023. Overall, INB's capital ratios for 2023 were slightly lower than the peer group's 11.97% and 12.92% for tier 1 and total, respectively (Both INB's and peers' common equity tier 1 (CET1) ratios were identical to their tier 1 ratios). INB had a leverage ratio of 9.51% in 2023 while their peers attained 9.63%. Despite being slightly lower than its peers, INB is well within the ratios for being considered a well-capitalized bank by the FDIC's prompt corrective action (PCA) system's guidelines (See Table 1).

Further, many members of the INB management team commented on the fact that the founders and board members of INB have always been there to support the bank when they have needed capital to grow (Donovan, et al.). This is evidenced by the $5.5 million influx of capital this year and a $45.5 million-dollar one last year to support the bank's expansion into the Florida loan market.

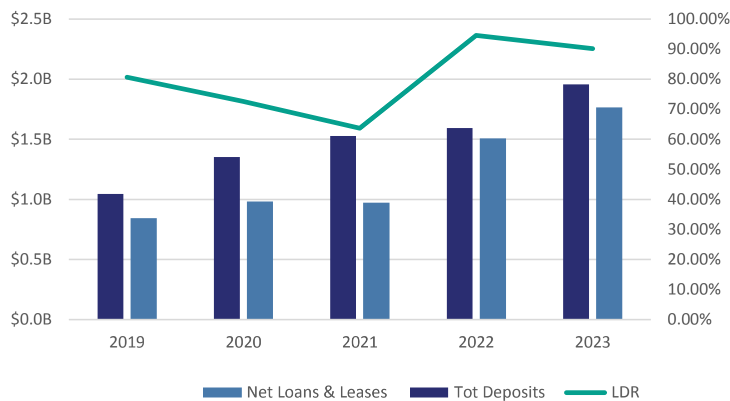
Liquidity

INB's net loans & leases to deposits ratio (LDR) was 90.16% in 2023. This was somewhat higher than its peers' 85.98%, but still within the

80%–90% range considered to be ideal for a loan-to-deposit ratio (Murphy). INB's ratio was down slightly from the year before (94.57%) but up overall from 2019 when they sat at 80.62%. The increase in the LDR between 2021 and 2022 was due to INB's expansion into the Florida commercial lending market. There is a trade-off to be found in the LDR, as higher ratios will increase earnings but expose the bank to more liquidity risk. In the remainder of this section, we will examine other factors to show that INB's LDR, although on the high end of ideal, is still consistent with their risk profile given their solid loan portfolio, discussed in the previous section, and access to sources of contingent liquidity.

First, INB's liquidity ratio—cash and cash equivalents[2] as a percentage of average assets—is right in line with its peers: 6.6% for INB, 6.7% for peers. Second, INB's total Federal Home Loan borrowings are only 0.53% of average assets. This is down from the previous year's 0.62%, a five-year high for INB. INB's peer average is 4.71% for 2023 and had a five-year *low* of 2.31%.

Figure 8: Loan-to-Deposit Ratio



Source: UBPR

This shows that INB is using only a portion of the contingent funding available to them, and therefore has a low funding-liquidity risk.

Part II: Responding to the 2023 Bank Closures

Bank Niches

When reviewing the Federal Reserve report on the failure of Silicon Valley Bank (SVB) and the FDIC reports on the failures of Signature Bank of New York (SBNY) and First Republic Bank (FRB), we identified three common characteristics that played a role in their failure:

- rapid growth
- concentration of deposits
- reliance on uninsured deposits

(*SVB* i; *Signature* 2; *FRB* 7)

As we already addressed growth in the financial analysis section, this section will focus on how these factors and the banks' failures were influenced by the communities those banks chose to serve and how INB compares in the areas of concentration of deposits and reliance on uninsured deposits.

Concentrations and Communities

From its founding, SVB served the technology sector (Farrell). Tech startups, in a way, were SVB's community. According to the Federal Reserve report on SVB's failure, at the end of 2022 over 50% of both SVB's deposits and off-balance-sheet funds were from the technology sector (19).

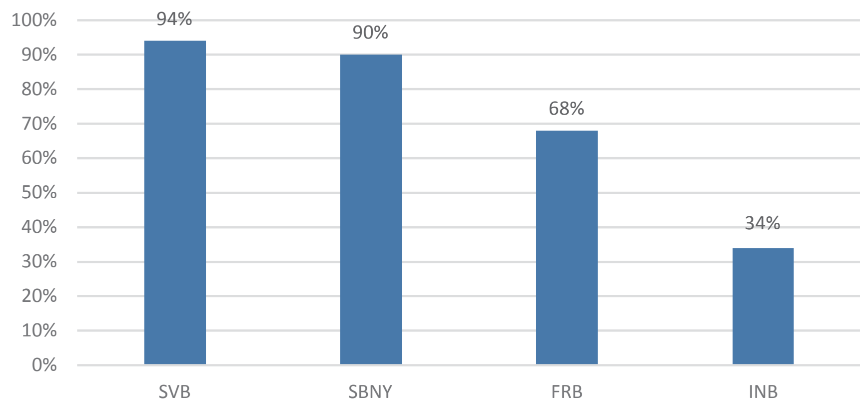
According to the FDIC report on the collapse of SBNY, they also had a concentration of deposits from technology companies. At the end of 2021, digital asset-related deposits accounted for 27% of total deposits. While this was not nearly as heavy as SVB's, SBNY's association with technology became an issue of reputation risk in the aftermath of SVB's failure.

We spoke to INB about concentrations of depositors and were assured that, while they don't have any concentrations, that is something that they track internally. While the UBPR does not break down deposits at a very granular level, we do notice one difference that makes INB stand out from its peers: INB has government deposits (U.S., state, and local) accounting for 17.9% of total deposits compared to only 11.3% for its peer group (UBPR). For most community banks, their communities are defined by their local markets. This is true for SVB as well, and its greater proportion of government deposits is due to being in the state capital—and county seat—Springfield.

One feature of INB that is unique for a bank of its size is that they operate a remittance and lockbox facility that processes payments for commercial and governmental customers. INB serves its community by using its facilities to process annual county property-tax payments. Citizens can pay these taxes at any INB branch in the county. While it does not receive payment for this service, INB sees it as a way of giving back to the community and ensuring continued good relations with one of its larger customers.

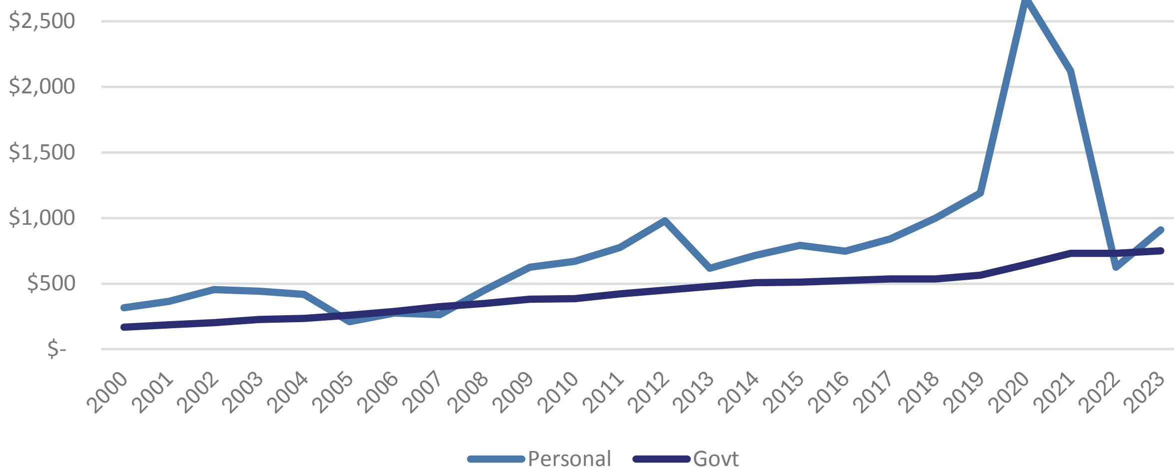
While strong ties to the local community are certainly one of the strengths of community banks, the built-in geographic concentration can also be an inherent weakness of the community banking model. As a way of mitigating that risk, INB is diversifying its geographic markets by expanding into new areas. Five years ago, they expanded into St. Louis, Missouri and two years ago, into Tampa and Miami, Florida by opening loan production offices in those markets. Mark Donovan, INB's COO, says that he sees INB as a "boutique business bank" and emphasizes that this growth was a natural extension of their current business practices and that they were following existing customers whose business expanded into new states. Newton points out that this will also help diversify their loan portfolio, as

Figure 9: Uninsured Deposits as % of Total Deposits as of 12-31-2022



Sources: SVB 21, Signature 6, FRB 7, UBPR

Figure 10: Personal Savings vs. State & Local Government (in Billions)



Sources: Statista, Board of Governors of the Federal Reserve System (US)

one of the reasons for the move into Florida was to seek more opportunities for C&I investment.

Large and Uninsured Deposits

One result of having so many business and government clients is having many clients whose deposits would likely be beyond FDIC insurance coverage limits. An over-reliance on uninsured deposits was a key component of the failure of all three banks, as depositors are going to pull uninsured deposits more quickly when there is a risk of bank failure. INB's uninsured deposit levels were much lower than these banks, especially SVB and SBNY (See Figure 9). INB runs a quarterly large-liability dependency report to evaluate and track its largest deposits, then uses a multi-pronged approach to dealing with the risk of large or uninsured deposits, depending on the client.

For its government clients, INB is required to provide collateral for any deposits beyond the $250,000 FDIC limit. The fact that they are secured by collateral makes them less subject to run off at the first sign of a bank's distress. Also, historically, state and local government deposits have proven to be more steady than personal savings deposits. See Figure 10.

INB's largest individual depositors tend to be its owners—the founders and shareholders of INB. As such, these deposits are considered—and have proven to be—secure. Other clients whose deposits may exceed the FDIC insurance limit tend to be large and small businesses. It was

> ***An over-reliance on uninsured deposits was a key component of the failure of all three banks…***

these individual and commercial clients that INB reached out to in the days after SVB's collapse. According to Cayla Keyes, VP, Retail Sales Manager, many had questions, both on the bank failures and on FDIC insurance, so there was a renewed focus on educating the customer about the limits of FDIC insurance for individuals or spouses but also on other ways the bank could protect the clients' funds.

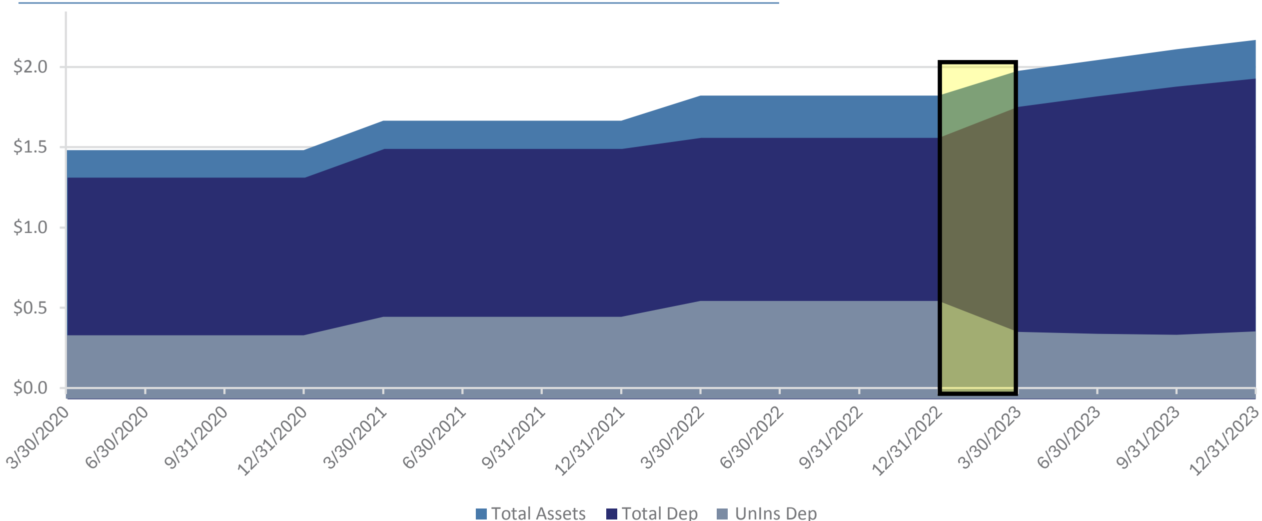
IntraFi

Government deposits may be backed by collateral, but business and large individual accounts require other methods of protection. To this end, INB uses IntraFi, an insured cash sweep, which sets up reciprocal deposits with other banks to spread depositors' money among a number of banks while allowing the customer to interface with just one bank. Donovan notes that the large number of governmental as well as high-net-worth individual clients that do business with INB made it a need that they addressed long before the crisis hit. Having this system in place allowed them to quickly get other clients signed up who had concerns in the wake of the bank failures. It is evident in the graph below that this system benefited INB. In the period immediately following the failures (highlighted), INB's uninsured deposit levels drop while total deposits and assets rise on account of clients bringing in funds from other institutions that were uninsured there.

Asset and Liability Management

Deficiencies in asset and liability management were among the root causes of the bank failures. Specifically, the banks failed to plan for interest rate risk by holding long-maturity assets (SVB and FRB) and did not test their borrowing lines, so they could not borrow funds when they needed to (SVB and SBNY) (SVB 4, 21; *Signature* 12; FRB 10).

Figure 11: INB's Uninsured Deposits vs. Total Deposits and Assets (in Billions)

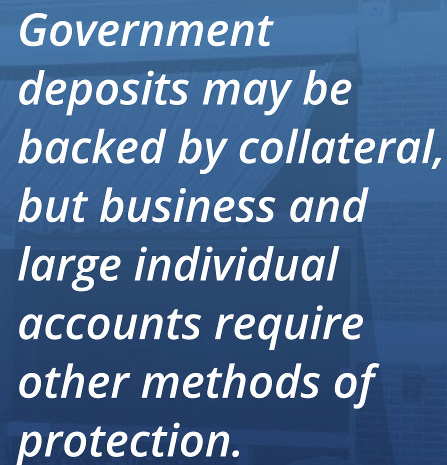


Source: UBPR

INB has an Asset and Liability Committee (ALCO), including an interest rate subcommittee, that meets quarterly and reports to the board. They plan for interest rate risk by conducting case studies, evaluating how much runoff of deposits they would see at various interest rate changes. They also conduct shock studies, essentially evaluating if they could survive, if there is anything that could cause material harm or failure at a given interest rate change. The studies typically look at 200–300% changes or 500 basis points up or down. In the period that caused the failures of three large banks, "we saw the largest interest rate jump in such a short time in modern history," according to Donovan, and while INB was "caught out on budgetary expectations," they survived—even prospered.

Keep It Short

INB also mitigates interest rate risk through its investment strategies. Donovan puts their investment strategy succinctly: "Keep it short." When flooded with deposits during the pandemic, SVB invested in 10-year treasury securities. Scott Sowers, INB's Assistant Controller, notes that while INB also invested in treasuries, buying $100 million shortly after the pandemic, INB chose to invest in short-term treasuries that matured in two to three years. Despite taking a book loss, INB was able to use these securities as pledged funds for government accounts and hold them to maturity so they would not be forced to take a loss as SVB did. The failure of FRB, an otherwise well-run bank, was also closely tied to the interest rate risk inherent to long-maturity assets. In order to compete for the business of high-net-worth



clients, FRB issued a lot of 30-yr fixed mortgages during the low-interest-rate period. Unrealized losses on FRB's loans alone had increased to $22 billion by the end of 2022, which drew comparisons to SVB and ultimately led to FRB's failure (*FRB* 15).

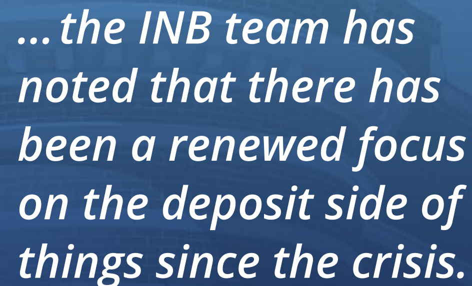
ALCO & Contingency Planning

The ALCO also performs a local competitor analysis. According to Newton, they track their concentrations of who they are lending money to and in what areas—primary areas for INB are CRE and C&I. They make sure they are loaning to quality borrowers and track what they will be funding over the next six months, making sure they have funds for projects they have committed to. As mentioned before, they also create a large liability dependency report, tracking their largest depositors. They identify them; track them as percent of total deposits and total capital; risk rate them based on how the client's business is doing, the stability of

their deposits, and the likelihood that they might leave INB under various scenarios. They then develop contingency plans for covering the loss of funding if a large depositor suddenly withdraws their funds.

Contingency planning for INB begins with testing their borrowing lines, especially with the Federal Home Loan Bank (FHLB), INB's first line of defense for short-term liquidity concerns. Donovan says that they test their lines of credit "just to check operations, make sure we remember how to do it." If they had to take out an advance from the FHLB, they would then, if necessary, backfill that with brokered deposits and then, finally, with organic products by picking up sales activity, bringing in deposits by offering promotions on CDs or checking and savings accounts. In a crisis, external secondary funding options would be buying brokered CDs on the open market then liquidating investments. This would be dependent on whether the crisis was just affecting INB or if it was industry wide, as brokered deposits may not be available if the whole industry is affected. Likewise, choosing to liquidate deposits would depend on their mark to market and how much of a haircut they would have to take on their investment. Internal funding sources to increase liquidity would include trying to bring off-balance sheet clients back to more traditional bank products and picking up sales activity to bring in new deposits.

When asked which of these funding sources INB has used, Donovan says they have used FHLB, who he notes has been a true partner to banks over the years and can be used for both crisis and strategy. They have not, however, used the



...the INB team has noted that there has been a renewed focus on the deposit side of things since the crisis.

Federal Reserve Discount Window in his 22 years with the bank; for INB, it would be a last resort.

Funding Sources

It is evident from our time with the INB team that they consider the founders and board members of the bank to be one of their most important and stable sources of funding. For the founders, INB and the community-focused banking that it practices is a passion, and they have been there whenever INB has needed to grow.

Donovan also points to the depositors as the "primary and most healthy funding source." That is what was proven out of this crisis, he says, the importance of a strong and diverse set of clients as a bank's source of funds to make loans and investments. Newton also echoes this, saying that "the best funding source is obviously the community" (Donovan, et al. 1 March). There is also a pragmatic side to this statement, as deposits are usually also one of the cheapest sources of funding, and INB seems intent to use this to their advantage, as deposits make up a higher percentage of total assets than their peers: 89.86% vs. 83.73% (UBPR).

Regulatory Risk

In the aftermath of any crisis or disaster, there are sure to follow laws and regulations designed to protect the public and ensure that said crisis never occurs again. This one will likely be no different, and the INB team has noted that there has been a renewed focus on the deposit side of things since the crisis. Historically, there has been a lot of regulatory attention on loans, but they expect regulations will come out in the coming years that will require them to track and report on the risk rating and composition of liabilities, especially deposits, with the same degree of granularity currently applied to the asset side of the balance sheet, specifically the loan portfolio.

The INB team notes that since the 2008 crisis, INB has kept in close contact with their examiners, the OCC. They keep open lines of communication to ascertain what the examiners are focusing on. INB also keeps in contact with peer banks, and as inspections rotate between banks, they can share information between themselves as to what to expect from upcoming examinations. This proactive approach to coming regulations and regulatory attention helps INB mitigate its exposure to regulatory risk.

Donovan points out that new regulations will create both a burden and an opportunity for community banks. While the regulatory burden can be proportionally larger on smaller banks that do not have the resources to dedicate to complying with increased regulations, often regulations are lighter on smaller banks due to the lessened risk they present to the macro environment. This can present opportunities. Donovan gives one example of banks that are “kicking out” customers that may represent volatile or risky deposits. Some of these customers have had accounts closed because they triggered an algorithm designed to prevent fraud. Even after explaining the pattern of withdrawals, the large banks will not override the algorithm (Lieber and Bernard). Community banks, who take the time to get to know their customers, can judge whether these clients truly present a risk. While these customers may also present a risk to a smaller bank, there is an opportunity for smaller banks to serve this niche if they can appropriately price their services according to the risk presented.

Part III: Social Media

The Role of Social Media in Banking

Life in the 21st century has been irrevocably changed by social media’s presence. In the past, people, businesses, and banks had a certain amount of time to wait before learning about what is happening in the world. Today, because of technology and social media, information travels at a faster pace than ever

The INB team notes that since the 2008 crisis, INB has kept in close contact with their examiners, the OCC.

before in human history. For banks, this was readily apparent in the SVB and subsequent bank failures. Three large American banks with billions of dollars in deposits suffered bank runs one after another. While there have been many bank runs in the past, what made this particular bank run unique was two things: (1) the medium through which it spread and (2) the speed at which it happened.

Social Media as a Medium

Social media has a unique strength of being able to connect people and spread messages across wide distances at a speed so far unmatched. Users get an influx of messages from multiple perspectives, some of which are fueled more by fear than fact. On social media, a small group of people who are vocal in posting their opinions can heavily influence how general audiences perceive a situation.

A prime example of this was the SVB bank collapse and subsequent bank runs. In our conversation with the INB management team, they pointed out that it was a small group of venture capitalists who spearheaded the initial panic at SVB. This tiny, concentrated group of venture capitalists became concerned after SVB suffered heavy losses due to rising interest rates. They began to spread their fears through social media posts, which ultimately snowballed enough fear for many SVB depositors to withdraw their deposits.

Public panic can spread regardless of what a bank communicates to their depositor base

At this point, communicating and calming a panicking group of people is extremely difficult. Public panic can spread regardless of what a bank communicates to their depositor base. Even though SVB communicated why their losses happened, public panic prevailed, since depositors feared that SVB wasn't being honest when they said they would be able to recuperate their losses.

This issue of public perception during a crisis taught INB to focus on preventive measures and careful yet honest communication during panic-causing situations. While depositors can be hard to soothe once panicked, preventing a panic in the first place stands to work out best.

Speed of Social Media

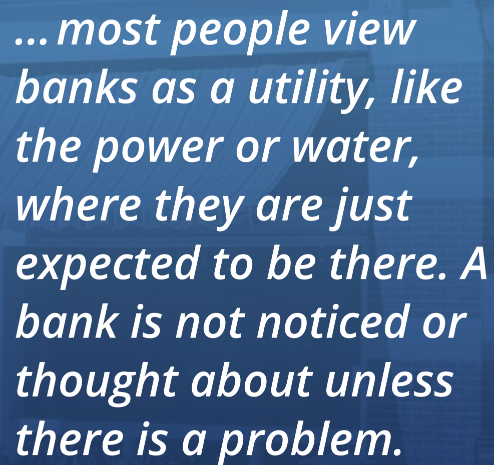
In our interviews with the INB team, they relayed that one of the new lessons they took from the crisis was the realization of how fast bank failures can happen now. Donovan commented that "the speed at which this happens now is greatly amplified. Social media runs 24/7." But it is not only during a crisis that the speed and always-on nature of social media is a concern: The speed and sheer volume of information flows also cause problems in a bank's day-to-day operations. First, social media must be monitored regularly. New messages pop up on social media constantly, causing banks to have to constantly keep up with the social media posts that reference them. This

adds additional costs for banks through recording, storing, and analyzing social media posts. According to Marilyn Titone-Schaefer, INB's VP and Director of Communications, they experience extra difficulty in this regard: There are a lot of social media posts which use the bank's initials, INB, in reference to other companies. This makes it difficult for INB to discern which social media posts are relevant for them to analyze (Interview with Authors).

Complicating this issue of social media's speed is public perception of banks in general. Donovan says that most people view banks as a utility, like the power or water, where they are just expected to be there. A bank is not noticed or thought about unless there is a problem. This unspoken attitude also affects a bank's social media presence. A lot of banks' customers follow their bank on social media but do not really pay attention to their posts until a major issue happens. Then depositors rush to a bank's social media sites for information. Banks must be able to deliver information at the speed that customers expect it.

Social Media at INB

INB has two distinct purposes for its social media posts: (1) *eduselling* to potential customers and (2) engagement with personal and humanizing posts. Both goals ultimately aim at providing people with a useful and quality service, which will help improve their financial lives. INB must be able to achieve these goals while also maintaining a professional image on social media, so as not to lose the consumer's confidence about INB as a bank.
INB's first focus regarding social media posts is



eduselling. Eduselling is when social media posts are used to educate an individual about a topic in hopes that, once they see the need or utility in a service or product, they will become clients. For INB, this takes the form of posts about financial literacy, bank enrollment benefits, and fraud/scam protection. A specific form of eduselling INB has recently done is by trying to encourage young people to create a bank account. After some research, INB discovered that there is a surprising number of young people between the ages of 18–25 who don't have savings or even a bank account. Once INB has provided some useful information through eduselling, they offer links to their website so they can set them up with appropriate banking services.

INB's second focus revolves around showcasing how INB employs real people who care about what they do: serving people in the communities they are in. This helps establish a real "community" feeling for INB as a community

bank. By posting about recent employee accomplishments or bank celebrations on social media, INB shows how it values its employees as people. Through this, INB shows that they value treating employees and depositors as people worth focusing on. Unlike larger banks, which post about interest rate increases or recent branch successes, INB uses social media to show how it serves customers and the community.

Conclusion

INB has achieved earnings and asset growth above the average of their peers despite the pandemic and the challenges of rising interest rates. Their conservative and disciplined approach to liquidity management by keeping investments short served them well in the rising interest rate environment. Their foresight in seeing the benefits of the IntraFi system worked to their advantage in the aftermath of the bank failures. This service gave existing customers peace of mind and brought in new ones as depositors sought a safe shelter for their funds.

With the steadfast support of their board, they have expanded into new markets to diversify their investments and income streams. They continue to seek diverse revenue streams to reduce their reliance on investment income which will make them less subject to associated risks. This will benefit INB in the future as they seek to navigate the pressures of the current economic environment and the inverted yield curve. While banks in this environment may see their NIM compressed, banks like INB that keep short-term maturities on their assets, including loans that reprice more quickly to the market, will do better in this environment that those that do not (Board *Implications*).

Since its rebirth in 1999, the vision of the founders of INB for a community-focused bank has guided the decisions and practices of the INB management team. The disciplined, conservative approach that they take to banking ensures that they will be around to serve their customers and the community for years to come.

Endnotes

i. Custom Peer Group (FRB ID—RSSD): 44647,201834,248240,428547,397531,382649,454676,3437483,3404207,3280625,2970657,3216017,1459717,2298995,2624400,2339795,804338,771140,887340,890742,930442,856243,595430,671334,716833,925037

1. Total of interest and non-interest income

2. For our analysis, we used interest-bearing and non-interest-bearing bank balances and US Treasury securities (excluding mortgage-backed securities) from the UBPR as cash and cash equivalents.

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THIRD PLACE

Southeastern Louisiana University

Students:

Blake Eiermann

Tu Nguyen

Gabriela Santana

DiJon Smith

Putheara Sok

Faculty Advisor:

Dr. Danielle Lewis

Navigating Turbulence: The Financial Resilience and Social Media Strategy of b1 Bank

Introduction

Buddy Roemer, Louisiana's 52nd governor, founded b1Bank in 2006. Headquartered in Baton Rouge, LA, b1Bank earned its reputation as a trusted financial partner through cultivating a diverse base of loyal clients. As of December 2023, b1Bank has $6.6 billion in assets and $5.3 billion in deposits, making it the second largest bank headquartered in Louisiana with 48 banking centers spread across the Louisiana and Texas I-10 and I-20 corridors.

b1Bank's core beliefs and values define the shape the decisions and define their banking culture. Its principles of thoughtful, disciplined decision-making; meaningful communication; doing the right things the right way; and striving to be the best through continual improvement allow the relationship-driven team to interact with clients to positively impact the communities they serve.

Part I: Financial Analysis

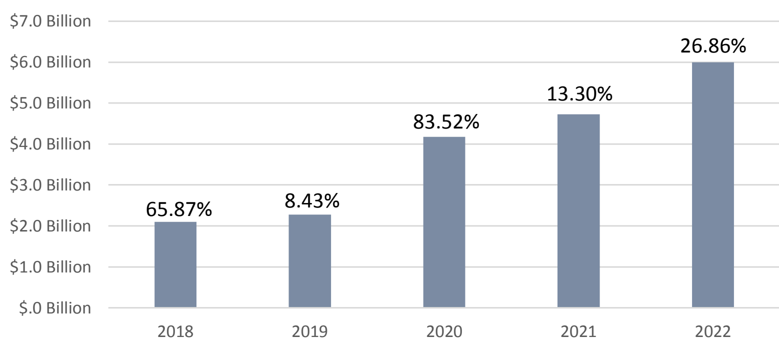
We perform a time series and cross-sectional financial analysis of b1Bank relative to each of the 2023 failed banks, including Silicon Valley Bank (SVB), First Republic Bank (FRB), and Signature Bank (SBNY). Since the failed banks ceased operations in spring 2023, our team uses financial data from 2018 to 2022.

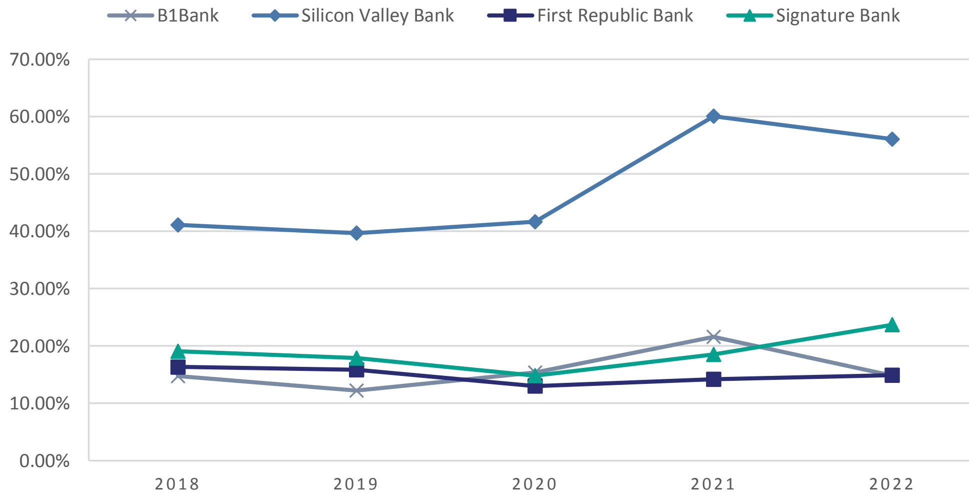
Asset Growth

Between 2018 and 2022, b1Bank nearly tripled its total assets, from $2.1 billion to $6.0 billion. Organic accompanied by mergers and acquisitions (M&A) resulted in approximately 25% deposit growth since Q4 2018. Excluding acquired deposits, b1Bank's average deposit growth rate accounts for about 17% of deposits (Investor Call Q4'22). b1Bank fostered complimentary deposit growth by acquiring four banks in LA and TX: MBL Bank and Richland State Bank in 2018, Pedestal Bank in 2020, and Texas Citizen Bank in 2022 (FDIC's call report). Compared to b1Banks's UBPR peer group of banks with assets of $3 to $10 billion, b1Bank average growth of 40% consistently outperforms the peer group's average assets growth rates of 11.61%.

b1Bank's loan portfolio grew from $1.52 billion to $4.57 billion, accounting for about 72% of its total assets while its securities portfolio grew from $310 million to $891 million–about 16% of total assets. b1Bank's commitment to the community it serves presents a significant contrast to the large regional banks that failed, especially Silicon Valley Bank (SVB). SVB observed 36.48% asset growth, yet its assets comprise about 48% securities and 41% loans and leases. Unlike SVB, b1Bank allocates its assets to its loan portfolio that serves the community and yields consistent interest income.

Figure 1: b1 Bank Total Assets

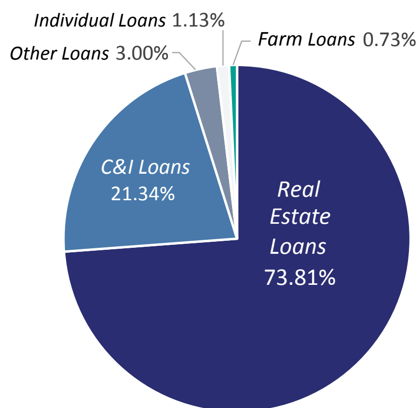




According to Jude Melville (President and CEO), growing owner-occupied real estate and C&I loans are crucial for managing risk when interest rates shift (Melville, et al, personal interview, 21 Mar. 2024). Owner-occupied properties presuppose less risk than non-owner-occupied properties, while C&I loans, backed by diverse business assets, offer more flexible repayment terms. The diverse mix of loans helps b1Bank mitigate risks tied to interest rate fluctuations.

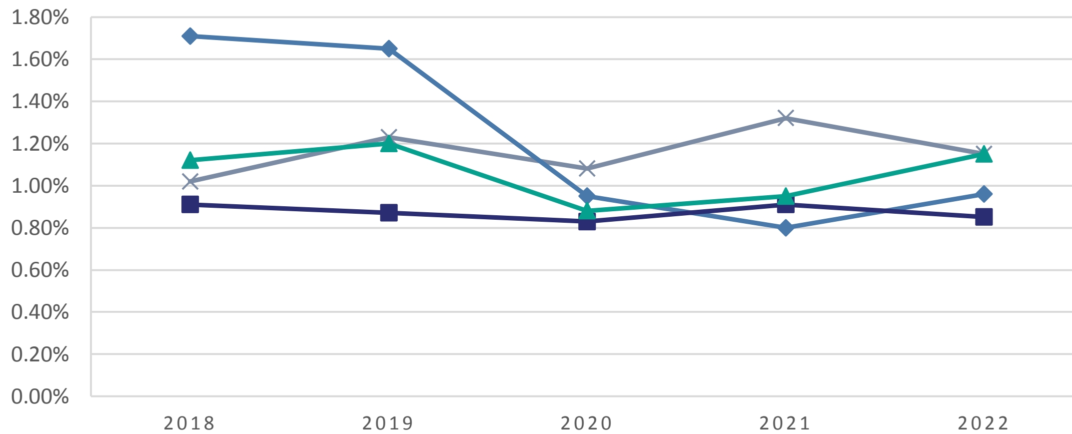
Loan Portfolio Composition

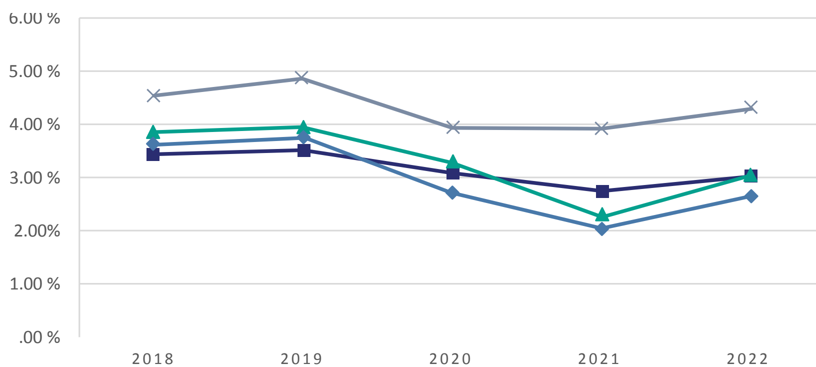
The 2018 call report shows the investment in real estate and C&I loans consisted of 91.54% of the total loan portfolio and grew to 95.14% in 2022. b1Bank allocated more investment in the community within the five-year time period and increased its reliance on real estate and C&I loans for interest income.

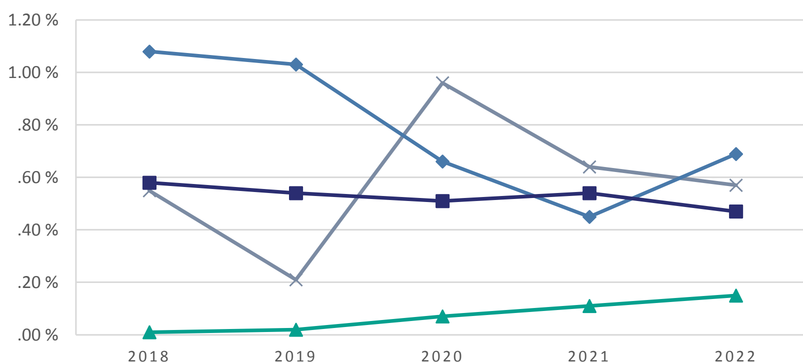


Earnings Performance

From 2018 to 2022, b1Bank's net income grew 274%, increasing from $16.9 million to $63.4 million, and contributed to an improvement in the Return on Assets (ROA) from 1.02% to 1.15%. Compared to the failed banks, b1Bank's efficiency in generating both interest and noninterest income helped increase ROA. According to Greg Robertson (CFO), b1Bank generates interest from loans and expands its subsidiaries' investment advisory services–Smith Shellnut Wilson–to generate consulting revenue (Robertson, personal interview, 21 Mar 2024). A two-pronged approach to b1Bank's business strategy diversifies revenue and mitigates the impact of volatile interest rates.







Capital Levels

While b1Bank and its comparison group all meet the Basel III for well-capitalized banks (common equity tier 1 capital ratio of 6.5%, tier 1 capital ratio of 8%, total capital ratio of 10%, and a leverage ratio of at least 5%), b1Bank maintained the highest leverage capital ratio (tier 1 capital / the total on-balance sheet exposures) among the four banks. This ratio demonstrates its non-risk-weighted measure of capital was better equipped to absorb losses during the financial shocks. Additionally, in 2020, b1Bank's management opted to use the Community Bank Leverage Ratio framework to assess the strength of its capital base. Mr. Robertson explained that management chose the

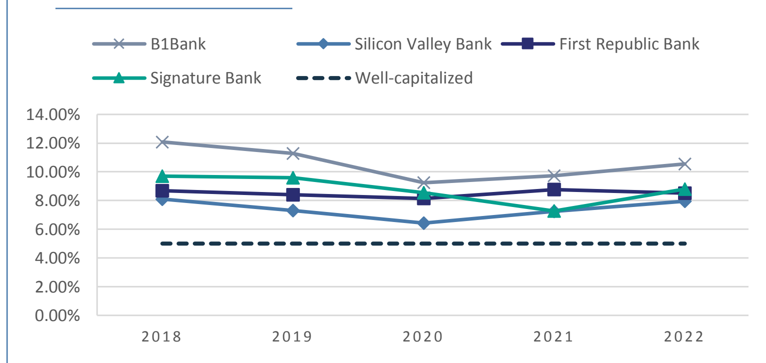


Figure 7: Leverage Ratio

approach to meet more simplified capital requirements during reporting. While using the more simplified framework, b1Bank continued verifying all capital requirements in the background.

Liquidity

Net Loans and Leases to Deposits ratio (LDR) measures the bank's liquidity and indicates the percentage of deposits tied up in loans, and the bank's ability to cover liabilities, such as withdrawals. From 2018 to 2022, b1Bank maintained its LDR between 80 and 90 percent. SVB reported the lowest LDR, 41.97%, in 2022. SVB concentrated their investments in held-to-maturity securities leaving few securities available to easily liquidate, obscuring their securities' market value, and liquidity. b1Bank holds all securities available for sale (marked-to-market) allowing greater liquidity and transparency. Using transparent strategies to maintain liquidity and capital protection, b1Bank balances between generating interest income through community lending and rate-neutral non-interest income.

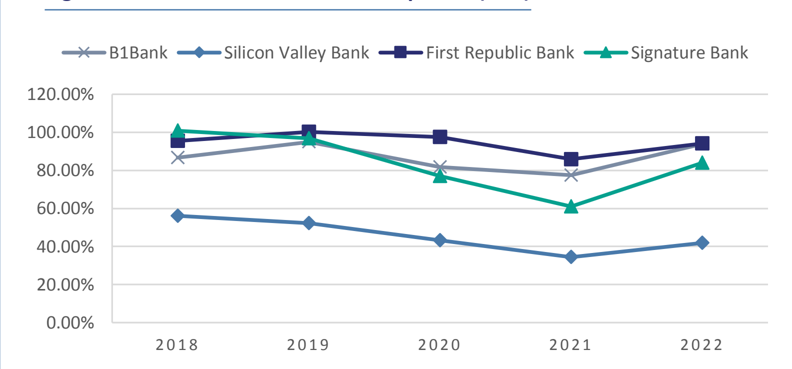


Figure 8: Net Loans and Leases to Deposits (LDR)

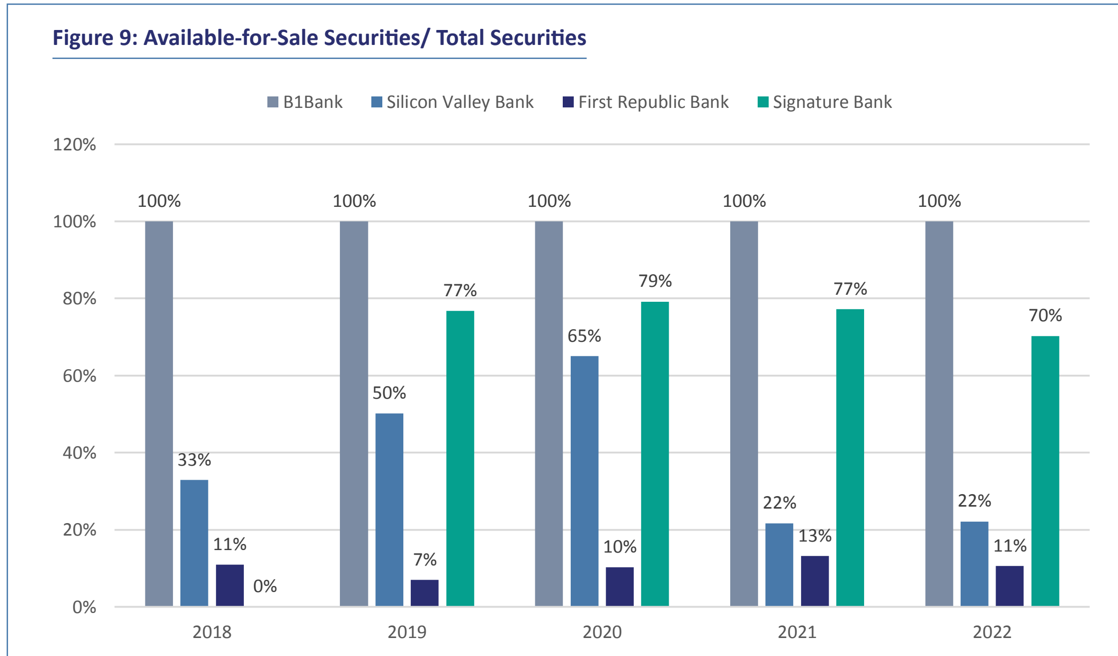
Part II: Responding to the 2023 Bank Closures

Bank Niches

Characteristics of Banks Closed in 2023 and Distinctive Features of b1Bank

The 2023 bank closures highlighted the importance of diversification in banking operations. Some banks failed due to high concentrations of their deposit base in specific industries, such as technology for SVB, crypto for FRB, and individual real estate for SBNY—when exposed to sector-specific downturns. b1Bank differentiates itself by maintaining a diverse deposit base across geographic locations in LA and TX.

An overreliance on securities instead of on loans—particularly held-to-maturity (HTM) loans, played a role in liquidity crises faced by some banks during the 2023 closures. SVB and FRB's strategy to hold substantial portions of their assets in HTM securities to protect the book value



of equity in a rising rate environment made each vulnerable due to the illiquidity of the position. In contrast, b1Bank manages its loan portfolio and securities as entirely available for sale and focuses on aligning the maturity of these assets to ensure sufficient liquidity.

Types of communities b1Bank serves

b1Bank targets a distinct niche within the community banking sector–businesses expanding at a rate that might overwhelm smaller community banks but not large enough to garner personal attention from large banks. Focusing on a middle market segment allows the customer to benefit from access to financial products typically reserved for larger entities. The personalized attention b1Bank provides to the middle market segment allows b1Bank to occupy a unique position that bridges the gap between small community banks and larger banks. b1Bank provides services tailored to the needs of mid-sized businesses which are often underserved by both ends of the banking spectrum.

Outreach to customers in the aftermath of the 2023 bank closures

In response to the widespread uncertainty following the collapse of SVB, Melville appeared on "Talk Louisiana" of Baton Rouge Public Radio on March 21st, 2023 to provide insights about the difference between community banks and large regional banks. He also participated in several interviews with local press such as NOLA.com and *The Advocate of Baton Rouge* to calm and reassure depositors during a period of industry-wide anxiety (Riegel; Boone). By choosing to be visible and communicative, b1Bank's management team reinforced their commitment to their customers and community. Additionally, they communicated with customers and investors by dedicating several pages in the investor presentations for

Q1, Q2, and Q3 of 2023 with numbers of clients and the exposures within the deposit base.

Following the bank closures, b1Bank prioritized direct communication through banker engagement with clients. Melville highlighted the effort by saying “The primary means of communication with our client base tends to be our bankers reaching out. They’re going to have the same questions clients would have. So we make sure that they’re confident and comfortable explaining our position to the client base” (personal interview, 21 Mar 2024). b1Bank’s bankers took a hands-on approach to proactively contacting clients, especially those who were most concerned.

Uninsured deposits and services offered to large depositors

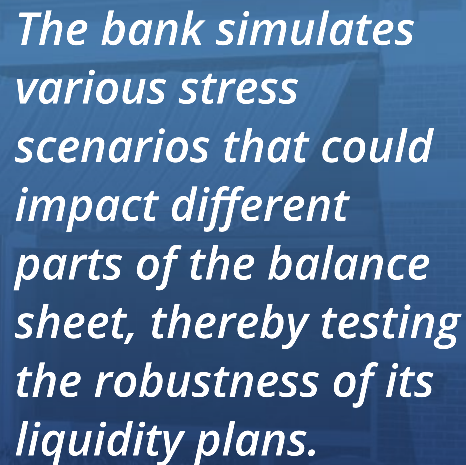
While the failing banks had more than 60% of their deposits uninsured and highly concentrated, b1Bank had 30-40% uninsured.

> ***b1Bank manages the risk associated with uninsured depositors by maintaining relationships with the depositors. On average, depositors use multiple products offered by the bank.***

Moreover, SVB’s average deposit account was about $4 million, while b1Bank’s average deposit account is about $40,000. b1Bank manages the risk associated with uninsured depositors by maintaining relationships with the depositors. On average, depositors use multiple products offered by the bank. The relationship allows b1Bank to offer strategic solutions to back uninsured deposits with other assets or securities and provide a buffer against sudden withdrawals.

b1Bank actively cultivates relationships with depositors that exceed the $250,000 FDIC insurance cover limit. The bank provides depositors with multiple banking products such as lines of credit, real estate loans, and treasury services. Robertson further explained, “ We always measure the top 25 clients of the uninsured group. Our top 25 client base is typically constructed of a lot of municipality accounts. In the state of Louisiana, those aren’t uninsured. We have to securitize those with either a letter of credit from the FHLB or actual pledging of investment for portfolio security” (personal interview, 21 Mar 2024). The added level of security for the depositors ensures the bank’s assets are back in the larger accounts and safeguards depositor funds.

Before the bank failures of 2023, b1Bank offered the CDARS program to its customers. Through CDARS, b1Bank extends FDIC insurance coverage to larger deposits, effectively spreading these across multiple banks within the network. Using the CDARS network involves additional costs—approximately 12 basis points on top of any paid interest rate, according to Robertson.



Asset and Liability Management (ALM)

Asset and liability management, ALCO committee, and its importance

Asset and Liability Management (ALM) allows b1Bank to mitigate key risks like interest rate fluctuations and liquidity constraints. b1Bank's policies ensure that the bank meets all obligations in times of financial stress without unfavorable asset sales, regulatory compliance, and stakeholder confidence including regulators, investors, and depositors. The proactive ALM practices of stress testing and scenario analysis boost efficiency and profitability by optimizing capital use and aligning funding strategies with the bank's risk appetite.

b1Bank's ALCO committee, which includes President and CEO Jude Melville, CFO Greg Robertson, and other highly experienced professionals from the banking, business, and regulatory sectors, brings a diverse background to its operations. This committee addresses risk management from multiple perspectives, enabling them to make well-informed financial decisions and communicate them effectively to bankers.

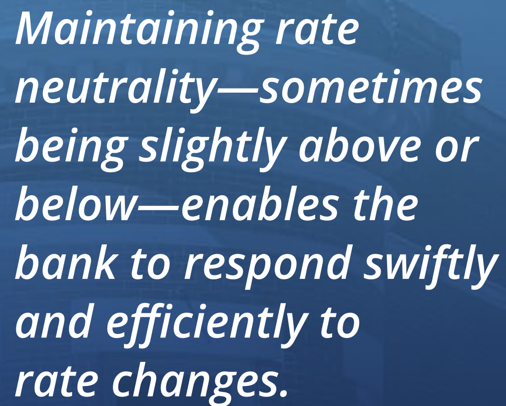
Liquidity planning post-closure, contingency funding plan, borrowing lines testing

Following the 2023 bank closures, b1Bank revised its liquidity management approach to enhance financial stability and adapt to new regulatory and market conditions. One includes participation in the Bank Term Funding Program (BTFP). In response to the temporary drop in their liquidity ratio due to the securities pledged in the BTFP, b1Bank chose to maintain excess cash reserves of $150 million on their balance sheet. Leveraging underwater securities to increase cash reserves allows the bank to enhance its Federal Home Loan Bank (FHLB) capacity and provide a readily available liquidity buffer (Robertson et al, personal interview, 21 Mar 2024).

b1Bank annually conducts rigorous tests of its contingency funding plan to ensure that all the accessibility of identified liquidity sources during times of stress, beyond mere procedural adherence (Robertson et al, personal interview, 21 Mar 2024). The bank simulates various stress scenarios that could impact different parts of the balance sheet, thereby testing the robustness of its liquidity plans. Moreover, b1Bank adopted a more aggressive and integrated funding strategy in 2023 post-crisis. The strategy focuses on a dynamic deposit campaign coupled with the strategic management of broker deposits and other funding sources. The plan allows greater operational flexibility to optimize the bank's

responsiveness to rapid changes in the financial landscape and safeguards the bank's liquidity under a variety of market conditions (Robertson et al, personal interview, 21 Mar 2024).

b1Bank tests all borrowing lines annually, including those from the Federal Home Loan Bank (FHLB) and the FRB Discount Window. Zach Smith said, "Anything that we don't actively use, we test on an annual basis. So, any of our Fed funds lines, FHLB, or brokerage CEs, we would test those out as part of our contingency funding plan" (personal interview, 21 Mar 2024).


Maintaining rate neutrality—sometimes being slightly above or below—enables the bank to respond swiftly and efficiently to rate changes.

Funding sources, its pros and cons

Based on annual reports, b1Bank leverages a variety of funding sources such as FHLB, subordinated debts, and lines of credits with other banks - each with unique benefits and drawbacks. One key source is FHLB Advances, which provides a borrowing capacity of $1.8 billion, with $211.2 million utilized as of 2023 ("b1Bank Shareholder Information"). The advantages include a substantial borrowing limit and the ability to stabilize interest expenses but may introduce rate volatility and stringent collateral demands that limit operational flexibility. Another key source is subordinated debt, which the bank issued $25 million in 2018 to support general corporate activities and enhance Tier 2 capital ("b1Bank Shareholder Information"). The debt issues feature a fixed interest rate until 2028 before transitioning to a floating rate, maturing in 2033. The long-term funding provides additional funds for the bank's financial base and regulatory capital requirements while offering predictable costs during the fixed-rate period. However, it comes with higher interest costs due to its subordinated nature and future cost uncertainties due to the floating rate period. Lastly, b1Bank maintains lines of credit with other financial institutions, such as a $5 million line with First National Banker's Bank, mainly for short-term liquidity management ("b1Bank Shareholder Information").

Interest rate risk (IRR) management & IRR model

Even before the Silicon Valley failures, b1Bank constantly monitored rate forecasts. To hedge extremely uncertain movements in interest rates in the last three years, b1Bank chose to become rate-neutral (Melville et al, personal interview, 21 Mar 2024). When the bank failures occurred, b1Bank was slightly asset sensitive but at the end of 2023, they were slightly liability sensitive. Maintaining rate neutrality—sometimes being slightly above or below—enables the bank to respond swiftly and efficiently to rate changes. The flexibility

ensures that the bank can incrementally benefit when rates change and allows the bank to focus on its core competencies. The rate-neutral portfolio allows contrast between b1Bank and materially asset-sensitive or liability-sensitive banks that failed (FDIC). Being rate-sensitive exposes FRB and SBNY to risks depending on interest rate movements, as their financial performance may suffer if rates move contrary to their position (Finley et al, personal interview, 15 Mar 2024).

b1Bank employs duration matching of liabilities and assets. Within b1Bank's loan portfolio, C&I loans encompass about 50% with a weighted average life of 2.38 years while consumer loans, consumer real estate loans, and residential real estate loans' average weighted life is about four years. b1Bank's securities portfolio's average life weight is 4.57 years with an effective duration of 3.81 years ("b1Bank Shareholder Information"). To achieve a neutral position and balance sensitivities, b1Bank concentrates on managing liabilities, particularly focusing on deposits. Last year, the bank had $1.3 billion in consumer certificates of deposit (CDs) maturing in 12 months with rates on the CDs locked until they matured. The bank decided to shift some of its funds from CDs to money market accounts for more flexibility. Over the past year, b1Bank increased its holdings in CDs to $1.9 billion and expanded its money market investments from $800-900 million to $1.7 billion. The interest rates on these money market accounts float based on the market conditions (Robertson et al, personal interview, 21 Mar 2024). b1Bank matches the duration of assets and liabilities by repricing its loans and then its deposits. The repricing occurs by adjusting the interest rates on new and renewing loans according to the changes in the interest rate environment using the Treasury Yield Curve as a benchmark for pricing most loans. As the yield curve inverted, b1Bank adapted its approach to align with the new cost of funding by shifting from pricing loans against the longer end of the curve to the shorter end. For maturing loans, the bank resets the interest rates when they renew, which might involve a new underwriting process.

b1Bank adjusts its deposit rates in response to market trends and competitive pressures through informed pricing from close monitoring of the short end of the yield curve. Currently, both one-year CDs and money market accounts return around 5%, reflecting little difference in yield between shorter and slightly longer-term deposits under present conditions. As competition intensifies, b1Bank strategically responds by adjusting rates to remain competitive without necessitating a major strategic repositioning

To achieve a neutral position and balance sensitivities, b1Bank concentrates on managing liabilities, particularly focusing on deposits.

Every month, the bank loads the bank's financial results into an Excel-based model developed by their financial team ...

of its balance sheet (Robertson et al, personal interview, 21 Mar 2024). Strategic responses to competition enable b1Bank to maintain a balanced deposit base, optimize its cost of funds, and manage interest rate exposure while taking advantage of prevailing market conditions to maximize financial performance.

In their IRR models, b1Bank tests for instantaneous shocks by examining the impact of rate changes of up to ±400 basis points on their overall balance sheet to see what it does to net income and the economic value of equity. The shock tests help b1Bank assess the cash flow, capital effects, and credit underwriting impacts from interest rate changes. The tests attempt to discern cash flow variations of up to ±300 basis points at the time of loan origination (Robertson et al, personal interview, 21 Mar 2024). The tests gauge how a loan made two years ago would perform under current conditions, simulating both the loan aspect and the overall asset-liability management response. If rates rise by 100 basis points, b1Bank proactively adjusts its strategies to manage the associated risks. In scenarios where rates spike by 400 basis points, the bank adapts its approach from both the loan and deposit side of the balance sheet by making changes to safeguard the bank's stability.

As a check of simulations provided by third-party systems like Compass and Empyrean for managing IRR, b1Bank independently operates an Excel model to compare the outputs from each to verify alignment. Every month, the bank loads the bank's financial results into an Excel-based model developed by their financial team, b1Bank uses the model to recast and forecast various elements of the balance sheet and income statement. The dynamic model allows the balance sheet data to drive the earnings model to ensure that it reflects real-time financial conditions and forecasts (Robertson et al, personal interview, 21 Mar 2024). Subsequently, the bank loads the model results into Empyrean with the b1Bank-specific assumptions and analyses. The software package calculates the cash flows for each instrument based on contractual obligations, as well as factors such as loan prepayments or changes in deposit rates. While the Excel model directly leverages balance sheet data to project financial outcomes, Empyrean performs calculations for each balance sheet instrument based on detailed specifications, including prepayment speeds and changes in deposit rates. The usage of both systems helps verify that the data from b1Bank's core systems and general ledger sync (Robertson et al, personal interview, 21 Mar 2024). If b1Bank identifies discrepancies, they make the necessary adjustments to align the models, ensuring that their financial strategies and risk assessments are based on reliable, up-to-date information.

Securities investment strategy & Preferred security investments

As of December 2023, b1Bank's securities portfolio value is approximately $964.0 million with 85 percent invested in agency-guaranteed mortgage-backed securities (MBS) and A-grade municipalities ("b1Bank Shareholder Information"). Typically backed by government-sponsored enterprises, agency MBS significantly reduces the risk of default and thereby mitigates credit risk. Both MBS and municipal securities provide regular interest income–a reliable source of revenue. The interest from municipal bonds provides tax exemptions at the federal and potentially state levels that effectively enhance the yield of these investments.

With interest rates at fifteen-year highs, b1Bank extended the asset durations to protect their income and minimize the volatility of their earnings. In December 2023, the bank repositioned its portfolio by selling about $70 million in lower-yielding, short-term securities and purchasing a similar amount of higher-yielding, longer-term securities ("b1Bank Shareholder Information"). The move enhances the portfolio's yield while slightly extending the overall duration. b1Bank structures its securities portfolio for cash flow instead of earnings. The bank structured the portfolio using a ladder approach with maturities of cash flow at a certain level every year trailing into the future. For example, a billion-dollar securities portfolio will have about 100 to 125 million in maturities or cash flow for the next three years (Robertson et al, personal interview, 21 Mar 2024). Given the short-term cash flow creation in the securities portfolio, b1Bank can sell securities for liquidity purposes without a lot of financial harm. The laddered approach allows b1Bank to redeploy its securities or allocate them to its loan portfolio for maturity duration diversification. By not chasing yield for earnings, market changes impacted b1Bank less. Robertson stated, "b1Bank is comfortable with whatever the market is." A laddered strategy gives the bank more flexibility to manage risk as opposed to held-to-maturity securities where more limits exist (Robertson et al, personal interview, 21 Mar 2024).

Federal Reserve's Bank Term Funding Program (BTFP)

Launched on March 12, 2023, BTFP offers banks loans with durations of up to one year secured by qualifying assets such as U.S. Treasuries, agency securities, and agency MBS. The loans bear b1Bank participated in the program and had an outstanding debt of $300 million under BTFP as of December 31, 2023. The program

The laddered approach allows b1Bank to redeploy its securities or allocate them to its loan portfolio for maturity duration diversification.

allows b1Bank to benefit from rate arbitrage–the borrowing rates that were approximately 60 basis points lower than those available through the FHLB. The rate differential allowed b1Bank to replace $300 million of its FHLB borrowings with cheaper funding from the BTFP. b1Bank repaid the $300 million by March 22, 2024 and gained about $3 million in net income from the interest rate difference in 2023 (Robertson et al, personal interview, 21 Mar 2024).

Regulatory risks

Regulatory and supervisory changes expected by management post-closures

b1Bank anticipates no regulatory changes due to the closures of banks in 2023. However, following the bank failures, discussions with the Louisiana Bankers Association, Louisiana Office of Financial Institutions, and b1Bank revealed that there may be heightened scrutiny on areas such as liquidity management (Laurent; Jolly). Increased scrutiny ensures that banks rigorously adhere to existing guidelines that govern liquidity and other risk management practices.

Increased scrutiny ensures that banks rigorously adhere to existing guidelines that govern liquidity and other risk management practices.

Representatives from all involved indicate that new regulatory emphasis ensures improved stability through stringent enforcement of current regulations rather than introducing new ones. Regulators advise banks to rigorously review their liquidity management strategies to meet these enhanced regulatory expectations and safeguard against potential financial instabilities similar to those that led to recent bank failures.

Challenging past regulatory changes and current proposals under review

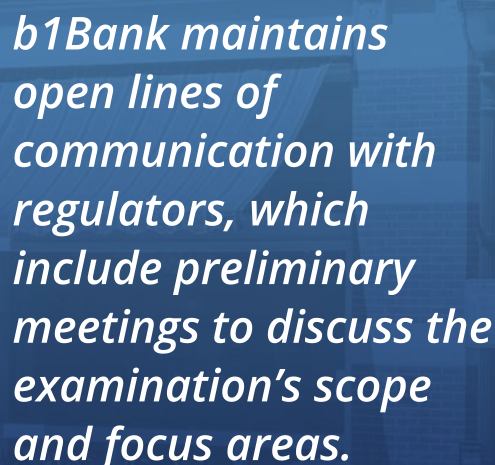
b1Bank historically found mortgage compliance regulations challenging due to stringent timelines. Robertson said, “At the end of the day, mortgage compliance is part of the reason why a lot of community banks left the space.” He went on to say, “If you apply for a real estate loan to buy a house, there’s a certain amount of documentation disclosures that a banker gives you, which starts a time clock to where certain responses from the bank and the customer are measured and checked by the regulatory bodies. The banker may not hear back from you, which is normal, because you ended up going to another bank with a lower rate. However, if the banker doesn’t turn in a declination notice in their paperwork, with it properly dated within a certain time frame, that’s noncompliance” (personal interview, 21 Mar 2024).

Section 1071 of the Dodd-Frank Act requires extensive data collection on loans to small businesses and those owned by women and minorities. The regulatory requirements of the act attempt to verify greater inclusivity and transparency in lending practices. b1Bank

acknowledges the need for the data but Melville expressed concern about the potential for the regulations to commoditize customer data (personal interview, 21 Mar 2024). Compliance versus maintaining personalized customer service may lead to tension between the bank and regulators.

Bank Examination Preparation and Anticipated Adjustments

b1Bank specifically prepares for regulatory examinations through a detailed and systematic process to ensure compliance and demonstrate sound financial management. b1Bank conducts a thorough self-assessment, involving internal audits to identify and address any potential compliance issues or operational risks (Robertson et al, personal interview, 21 Mar 2024). The process includes a comprehensive review of findings from previous examinations to verify the effective implementation of all recommended changes. b1Bank examines the risk management framework to certify adequately addresses the risks faced by the bank—credit, market, operational, and liquidity. Testing includes inspecting risk assessment models and verifying that the risk management processes comply with regulatory guidelines (“Examination Policies Manual”). As part of the preparation for the examination, b1Bank conducts training and briefing sessions for staff integral to the visit. The training includes procedure reviews, role clarifications during the examination, and staff updates on regulatory changes. b1Bank maintains open lines of communication with regulators, which include preliminary meetings to discuss the examination’s scope and focus areas. Through these extensive preparations, b1Bank demonstrates its commitment to regulatory compliance and operational integrity.



Part III: Social Media

The Role of Social Media in the 2023 bank failures

b1Bank’s marketing team believed that the role of social media was significant in shaping public perception and reaction in the 2023 bank run. On March 8th, 2023, SVB issued a press release announcing the raising of $2.25 billion in capital and the sale of $21 billion in securities with a $1.8 billion loss (SVB Financial Group). This announcement, intended to stabilize the bank’s financial situation, unfortunately, led to widespread panic across social media platforms. Instead of engaging with the public to address their concerns, SVB remained silent for 24 hours, a period during which doubts about the bank’s stability quickly spread. This absence of effective crisis communication allowed the situation to

Tracking effective interactions allows the bank to focus on items that boost brand visibility and engagement as well as increase customer acquisition and retention.

worsen, contributing to a massive withdrawal of $42 billion from the bank. Unlike SVB, b1Bank maintains a timely and proactive communication plan on social media, especially during times of crisis. To control the narrative and counteract misinformation, b1Bank aims to respond quickly during the first hour–the "golden hour" of crisis communication–because "social media is a two-way communication. And, if you are not active, somebody is writing that narrative for you" (Albrecht et al, personal communication, March 21, 2024). To ensure effective oversight, b1Bank's marketing team collaborates closely with its marketing agency SASSO to actively monitor and manage their social media presence. They leverage technology such as the Notified app, which provides immediate notifications of social media activity, and address issues immediately to maintain trust with their customers and control over the information surrounding their brand.

Uses for Social Media in the Communication Plan

In collaboration with SASSO, b1Bank creates social media posts schedule to communicate with its customers and utilizes various metrics and key performance indicators to track engagement on their platforms. SASSO and b1Bank analyzes engagement data such as likes, shares and comments, eventually sending monthly performance reports to b1Bank's marketing team. The reports include detailed analytics comparing their engagement numbers to industry standards. Besides posting and seeking direct engagement with its customers, b1Bank also utilizes digital advertising on social media to increase traffic to its website. By integrating links in their digital ads that lead directly to specific product pages or promotional content, b1Bank effectively directs possible customers through the purchasing funnel. Albrecht points out that this marketing strategy aims to create a seamless transition from customer awareness, to consideration, and finally to transaction. Once users land on their website, b1Bank tracks these interactions to gauge the effectiveness of their campaigns and refine their marketing strategies accordingly. Tracking effective interactions allows the bank to focus on items that boost brand visibility and engagement as well as increase customer acquisition and retention.

Additionally, b1Bank's social media strategy involves having a well-known figure serve as the bank's ambassador–Drew Brees, a successful entrepreneur, owner of multiple small-businesses, and formerly Super-bowl

winning quarterback for the New Orleans Saints. He started as a b1Bank customer looking for a bank that would be able to effectively assist him in his business ventures. After seeing how uncomplicated the entire process was, Brees approached b1Bank with the idea of joining their team, stated, “This is a banking relationship I hope every small business could be able to experience, so I would love to be able to tell this story for you” (Brees, personal communication, 24 Apr 2024). Since then, Brees has assisted by representing b1Bank on social media posts, television advertisements, and at social events.

Measuring the impact of social media on profitability

Determining the direct impact of social media can be challenging since social media influences consumer behavior and brand perception, which are hard to measure (Albrecht, personal interview, 21 Mar 2024) (“Social Media in Banking 2023 Report”). Despite these challenges, b1Bank actively uses social media as a strategic tool to enhance profitability by driving traffic to its website. By integrating links within digital advertisements on social media platforms, b1Bank directs users to their site where they can distinguish between new and returning visitors. This tracking helps b1Bank assess the effectiveness of specific advertisements and provides insights into user engagement levels. Once on the website, visitors are tagged, allowing b1Bank to deliver more targeted advertisements across the internet, nudging them further down the purchasing funnel. This sophisticated approach to tracking and targeted advertising enables b1Bank to convert social media engagement into tangible business outcomes, such as account openings, thereby illustrating a potential path from social media activity to increased profitability.

Optimal social media platforms for b1Bank

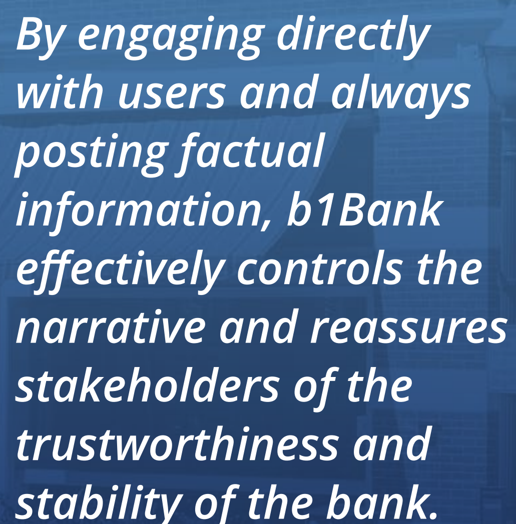
While present on most social media platforms, b1Bank strategically focuses on LinkedIn and Facebook to connect with its customer base and workforce due to its ability to target specific demographics. Its LinkedIn account, with about 5,000 followers, is pivotal for engagement with small to mid-sized businesses and showcasing its workplace culture. The platform is utilized to share professional content such as financial advice and business growth strategies, appealing to entrepreneurs and business-minded individuals. It also features images and stories of employees at community events, helping attract potential job applicants and enhancing the bank’s community image. Its Facebook page, with approximately 6100 followers, serves a

broader audience, making it ideal for promoting products and educating customers through more detailed content. The bank continuously assesses the impact of its social media efforts to maintain a strong focus on brand awareness and increase engagement (Albrecht, personal interview, 21 Mar 2024).

Potential risks with social media

Misinformation, rumors, and negative feedback present significant risks to b1Bank, due to social media's ability to rapidly spread misinformation about the bank's financial stability. To quickly identify threads of negativity or misinformation, b1Bank and SASSO use the Notified app, which scans social media for comments and conversations mentioning 'b1Bank' or the names of its executives and employees across the internet. b1Bank also uses an in-house monitoring tool to capture traditional media mentions and any comments on made on their social media pages. b1Bank's marketing team handles negative comments and misinformation as quickly as possible and tries its best to remove any blatant misinformation from the internet (Albrecht, personal interview, 21 Mar 2024). Addressing misinformation on personal social media pages is a straightforward task for b1Bank, but correcting inaccuracies on external pages involves a more complex process. The social media team's commitment to navigating these challenges underscores their dedication to maintaining b1Bank's reputation and trustworthiness. In the case of a negative comment from an unsatisfied client, b1Bank quickly responds in the comments section or contacts the dissatisfied person privately to help resolve their issue. By engaging directly with users and always posting factual information, b1Bank effectively controls the narrative and reassures stakeholders of the trustworthiness and stability of the bank.

Every community bank must focus on maintaining privacy and compliance to adhere to regulations regarding personal information as well as demonstrating to customers that the bank is a good steward of the customer's information. Social media platforms may



inadvertently compromise a customer's information through the accidental sharing of sensitive information or non-compliance with advertising standards (FDIC). To address this risk, b1Bank SASSO, as they are well-versed in adhering to regulatory compliance and the nuances of customer privacy. b1Bank enforces strict approval processes for all social media

content to ensure it meets legal and regulatory standards before posting. Furthermore, b1Bank regularly audits its social media practices to identify and close any potential compliance gaps, ensure ongoing adherence to legal requirements, and safeguard customer information.

Fraud and security threats pose potential challenges for b1Bank, as phishing schemes or the creation of fake social media accounts can deceive customers into revealing personal banking information, leading to financial losses, and damaging the bank's credibility. To combat these risks, b1Bank employs sophisticated security software to detect and report fake accounts impersonating the bank.

Conclusion

Through the 2023 bank run, b1Bank exemplifies great resilience and strategic foresight. Established in 2006 and now standing as Louisiana's second-largest bank, b1Bank has effectively leveraged its asset growth and prudent loan portfolio management to solidify their market position. Unlike the other banks that succumbed to economic pressures last year, b1Bank has maintained a diversified approach to banking; they concentrate on commercial and industrial loans along with real estate while keeping their securities portfolio 100% available-for-sale. This strategic focus on stable, income-generating assets has enabled b1Bank to withstand the fluctuations of interest rates and economic downturns, demonstrating a strong financial foundation that promises continued growth and stability. ALCO's proactive asset and liability management ensures that the bank not only survives but also thrives in the evolving financial landscape. The bank really stands out for its proactive approach in looking for potential shifts in the regulatory environment as well as handling any regulatory changes. With social media, b1Bank goes beyond industry standards, setting them apart with initiatives like leveraging celebrity endorsements and actively managing their social media narrative. b1Bank maintains a dynamic presence that engages customers and enhances community trust through a balanced use of traditional banking methods and innovative social media strategies.

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1300 I St NW, Suite 700 East
Washington, DC 20005
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