Too vital to fail

Community banks important

OPINION

Guest writer

DARRIN WILLIAMS

SPECIAL TO THE DEMOCRAT-GAZETTE

After weeks of economic disruption following the collapses of Silicon Valley Bank and Signature Bank, it appears the federal government's intervention has worked. Yet the lingering effect of their quick action has unintended consequences: creating—and exacerbating—an unfounded concern about the strength and safety of community banks.

In their haste to assure depositors of the system's overall safety, the federal government seemed to imply that the nation's largest banks were the most important to the economy and therefore would be protected at all costs.

Offered the false choice between "risking" deposits in community banks or "securing" them in the nation's largest banks, many Americans understandably moved billions of dollars in deposits into the largest banks. JP Morgan estimated that, in the aftermath of the banking turmoil, depositors moved more than $550 billion from smaller, regional banks.

However, there were a series of critical facts left out of the narrative around "systemically important banks versus regional banks."

First, community banks are extremely safe for depositors. At Southern Bancorp, the bank I lead and one of the nation's oldest Community Development Financial Institutions (CDFIs), more than 85 percent of our deposits are protected. Compare that to Silicon Valley Bank where only 6 percent of deposits were insured.

The majority of Southern's deposit accounts have balances less than $250,000 and therefore have full FDIC insurance. To protect larger deposit customers, community banks like Southern utilize partnerships, such as Federal Home Loan Bank letters of credit and reciprocation tools, to distribute deposits across a network of other community banks.

Second—and equally as important—community banks are the primary lender to Main Street small businesses. Representing the vast majority of all businesses and accounting for almost one-half of all private-sector jobs, small businesses are the backbone of the U.S. economy.

Community banks punch well above their weight class when it comes to supporting Main Street business owners. In fact, according to a recent FDIC study, community banks held 36 percent of the banking industry's small-business loans, a large percentage relative to these banks' representation in the industry.

That's because community bankers live in the communities they serve. They see their customers at church, coach baseball alongside them, and know firsthand the specific challenges they face. Knowing a customer personally and understanding what they are struggling with is core to relationship banking offered by community banks.

Community banks, specifically CDFIs and Minority Depository Institutions, go beyond offering small-business loans. They deliver responsible financial services to underserved populations, such as rural and minority communities, helping bring individuals into the financial mainstream. From helping families build credit to buy their first home to supporting micro-businesses so they can pursue their dreams of becoming big, community banks help establish a financial foundation, providing opportunities for the economy to work for everyone.

Of course, community banks can only finance small businesses across America with strong deposit bases.

None of this is a disparagement of the largest banks. In fact, many of them were the first to acknowledge and support CDFIs at the start of the pandemic. During a White House roundtable meeting, Goldman Sachs CEO David Solomon said, "[W]e know that the expertise and experience of CDFIs will be crucial. They provide the far reach that's needed to rural areas, to big cities, to underserved areas, and, importantly, the many businesses who don't have a relationship with the traditional banking system."

The point is, America's banking system, much like our nation, is strongest when it's diversified. Our nation's financial institutions--like Bank of America, Chase, Regions Bank, Simmons Bank, Block and Cadence Bank that have invested in Southern Bancorp--understand this and continue to support community banks like us because they know that partnership is what makes our banking system strong.

Given the recent shocks to the banking sector, Americans are thinking more about their banking relationships than normal. Many are rightly worried if the money in their accounts is safe. The answer is a resounding yes--at both large institutions and small, community banks. The difference is that while some banks may be too big to fail, community banks are too important to fail.

Darrin Williams is CEO of Southern Bancorp, an Arkansas-based bank with a regional footprint that spans into Mississippi.