



Comptroller of the Currency  
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# Community Developments

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## **Southern Development Bancorporation: Making a Difference in the Delta**

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Highway 49 takes you through the Mississippi Delta on the Arkansas side of the river. Highway 61 runs along the Mississippi side. Whichever route you choose, you'll see the same thing: signs of severe impoverishment, mile after mile after mile.

Scores of stores and homes stand abandoned. Plywood covers doors and windows along many Main Streets. In many places, building foundations are all that is left as reminders of better days.

Nearly a third of the population of the Delta lives in poverty that often extends back three and four generations. It's been a long time since there were enough jobs to go around. Today unemployment in the region stands at 35%. Schools tend to be poor, health care tends to be inadequate, housing is mostly substandard.

Some \$40 billion in public funds has been poured into the Delta to fight these problems, but there's relatively little to show for it. The region's economic indicators continue to drift downward. Throughout the Delta people and communities are struggling to survive.

### ***Going local***

Any strategy to revitalize the region has to start with the recognition that short-term commitments won't work. At Southern Development Bancorporation, we take the long view. Our strategy — developed over 15 years of experience and more than \$100 million in loans — is based on supporting initiatives in Delta communities where a local community development bank can take the lead.

Local community development banks have the advantage of being able to operate in perpetuity rather than under the constraints of the limited-term funding cycles typical of many government and private development programs. And they have the great advantage of being rooted in their communities. Their programs are built on strong local support — the kind of support that's often missing from public or private programs imported, even with the best of intentions, from somewhere else.

In essence, Southern is working to revitalize the concept of the rural community bank. In rural America the local bank is as vital to a town's identity and viability as its schools and churches. When a bank closes its doors or is taken over by a larger financial institution headquartered elsewhere, the town loses the bank's leadership and its commitment to provide local lending and other services. The closing of a long-established bank often marks the beginning of a rural community's downward

slide.

We're putting "local" back into banking. Southern's development strategy involves local leaders and residents in development initiatives. Our development activity occurs within a concentrated, defined radius of our community development banking locations.

### ***Building on opportunities***

Last year a large regional banking organization announced plans to sell its local branches in several rural Arkansas and Mississippi Delta communities. Already grappling with a depressed economy, these communities faced the reality of economic abandonment.

Southern viewed the regional bank's downsizing decision as an opportunity to purchase the bank branches and re-establish them as a community development bank. In the course of the year we acquired seven bank branches and two family-owned unit banks. These acquisitions increased our assets by \$100 million (to a total of more than \$350 million) and allowed us to bring our community development banking mission to new markets in Mississippi.

To transition our new bank operations into community development banks, we plan to offer financial services and products tailored to the needs of low-income clients. Currently large numbers of Delta households — up to 20% of the population — are forced to rely on check-cashing and predatory lending services to meet their financial needs. Our goal is to help them move into the financial mainstream by offering products like Electronic Transfer Accounts and Individual Development Accounts. We also offer various retail lending products, mortgage lending services and small business lending with the support of agencies such as the U.S. Small Business Administration, U.S. Department of Agriculture, and U.S. Department of Housing and Urban Development.

### ***A comprehensive development strategy***

Rural economic development requires a holistic approach. You can't succeed at attracting new business to an area without at the same time tackling problems such as inadequate housing and unqualified workers.

Southern counts on the local board of directors and management of its community development banks to serve as facilitators and spark plugs, stimulating the formation of local leadership committees comprised of community leaders with broad economic, social and political backgrounds and responsibilities. We work closely and patiently with each community to prepare a development needs assessment that then becomes the basis for a comprehensive development plan.

We believe that sustainable economic growth and revitalization requires a combination of:

- Increasing the availability of capital and financial services;
- Providing financial and technical assistance to small businesses;
- Developing quality, affordable low-income housing;
- Providing career path training; and
- Promoting asset development.

Southern's structure, a mix of for-profit and non-profit organizations, is designed to advance these objectives.

**Banks:** Southern operates Delta Southern Bank, based in Ruleville, MS; Elk Horn Bank and Trust, based in Arkadelphia, AR; and First National Bank of Phillips County, based in Helena, AR. Certified

as Community Development Financial Institutions (CDFI), these banks offer a full line of savings and checking accounts and provide commercial, consumer and real estate loans to individuals, businesses and community organizations.

**Housing:** Opportunity Lands Corporation and its non-profit affiliate, Southern Community Development Corporation, develop modern affordable housing for low-income residents and manage small business enterprise centers.

**Small business lending:** Southern Financial Partners, a non-profit affiliate which is also certified as a CDFI, provides lending services and technical assistance to small businesses and health care providers.

**Human investment:** Good Faith Fund provides workforce development programs, business development centers, savings programs and advocacy efforts that help move people into jobs and educate them about managing money.

### *Financing growth*

Conventional capital can be hard to come by in the Delta, so we rely on a variety of alternative sources to help sustain and grow our programs. For example, since 1996 we've received four core awards totaling \$6 million from the U.S. Treasury Department's CDFI Fund. The award funds are structured as equity capital purchases by the CDFI Fund, which in turn purchases non-voting stock in Southern.

Southern and its subsidiary banks also participate in the CDFI Fund's Bank Enterprise Award (BEA) program, which provides financial incentives to regulated banks and thrifts to provide financial services in distressed communities, with award levels determined by increases in deposits. Thus far our subsidiary banks have received \$2.7 million in BEA awards.

Our stockholder base is comprised of 32 organizations and \$26 million in common stock outstanding. Stockholders include large philanthropic foundations, the CDFI Fund, and corporations that support our mission.

As an additional method of raising capital, Southern uses Trust Preferred Securities. Trust preferred securities are long-term debt instruments, typically with 30-year interest-only payments, that are considered Tier One capital by the Federal Reserve Bank. Trust preferred securities are accounted for as "minority interest" and are positioned between debt and equity on the balance sheet. We've raised \$9 million through the issue of variable rate, 30-year Pooled Trust Preferred Securities and \$3 million through a 1%, 30-year private placement with the Ford Foundation.

We're also working to generate capital through the New Markets Tax Credit (NMTC) program. Southern, its three bank subsidiaries and its non-profit affiliate, Southern Financial Partners, have been certified as community development entities (CDEs) under the program, allowing us to market valuable tax credits to individual and corporate investors.

Partnering with CDFIs such as Southern makes sense for any bank with a commitment to community development. What we bring to the table is a capacity for converting investment dollars into economic progress that can be measured in human as well as financial terms. We look at the whole picture — at the need to create affordable housing as well as good jobs, to support first-time homeownership as well as small-business development. We put together the right tools to do the job, and we follow through. It's a comprehensive development approach that works.

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