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Arkansas CDFI channeling funds from Square into apps for underbanked

By John Reosti June 22, 2021, 2:25 p.m. EDT 4 Min Read



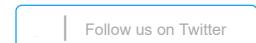
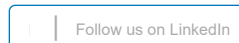
Southern Bancorp, a community development financial institution in Arkadelphia, Arkansas, is using an infusion of cash from Square to develop niche digital banking services for segments of its customer base.

[Square](#) made a multimillion-dollar investment in Southern as part of a larger \$100 million pledge to support minority and underserved communities, the bank announced this month. With this funding, Southern intends to create customized apps, each designed to address a specific situation for a well-defined underserved group.

“We think the true growth opportunity for our bank is digital,” said Darrin Williams, Southern's CEO. “We're very excited Square took note of the work we do. That capital will allow us to reach deeper into underserved markets.”

Southern developed its first app, Wealthable, for young people embarking on their careers. Wealthable is built around a zero-fee account that accrues interest daily. It calculates a “Wealthability” score based on customers' adherence to personal finance best practices such as spending below income, maintaining autopay for bills, and saving regularly.

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Cash infusions

Several financial companies provided capital and other support to minority depository institutions this year

June 18: Fifth Third invests \$2.5 million in First Independence in Detroit

June 17: Carver Bank participates in line-of-credit deal with Bank of America

June 10: Square invests millions in Southern Bancorp

April 13: Wells Fargo invests in five Black-owned banks

March 25: Greenwood raises \$40 million, mostly from banks

Feb. 23: JPMorgan Chase commits \$40 million to MDIs

Source: Staff research

Innovate community banking with cloud (Infographic)

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Buoyed by Square, Southern hopes to develop apps that are even more precisely targeted.

“We want to solve very narrow problems for a smaller group of people,” Williams said. “We’re not trying to be a mass digital bank.”

That said, Southern has also been an [active acquirer](#) and expects to deploy some of the added capital toward a roll-up strategy focused on buying small, profitable community banks headquartered within a 150-mile radius of its home office in Arkadelphia.

Williams was introduced to Square in February. Both companies participated in a conference organized by the Clinton Foundation to examine how CDFIs can better promote financial inclusivity. That meeting led to a follow-up conference call with Courtney Robinson, Square’s head of financial inclusion and public policy development, and ultimately to the investment.

Williams wants to deepen the relationship between Southern and Square.

“Square has a real dedication to financial inclusion,” Williams said. “We’re hopeful we might have a real partnership to help us think through technology issues.”

Southern was well capitalized before Square’s investment, reporting a common equity Tier 1 capital ratio of 12.93% on March 31. Southern has declined to specify the exact amount of the equity stake Square took.

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National impact

Square's investment comes at a time when large banks have made unprecedented efforts to support Black-owned and Black-led financial institutions.

In the wake of George Floyd's death in May 2020 and the civil unrest that followed, JPMorgan Chase, Wells Fargo, Citigroup, Bank of America, U.S. Bancorp, Fifth Third Bancorp and other money-center institutions have pledged hundreds of millions of dollars in equity investments and grants, as well as other assistance.

The trend is ongoing. Friday, Fifth Third announced it would invest another \$2.5 million in the \$324 million-asset First Independence Bank in Detroit, boosting its investment in the Black-owned company to \$5.5 million.

A day earlier, Bank of America and Carver Bancorp in New York, a \$686 million-asset certified minority depository institution, announced they would provide a revolving credit facility for BlackRock's alternative solutions group. The deal marked one of the first times a minority depository institution has been tapped to participate in a corporate-level credit line transaction.

While Southern is not designated as a Black-owned bank, Williams, who has been CEO since 2013, is African American. Financial inclusion has been one of Southern's top priorities throughout his tenure with the company.

"I've always been pretty impressed by them," said William Michael Cunningham, CEO of Creative Investment Research and an expert on the Black banking sector. "Their performance has always been solid, better than a lot of the small, Black-owned banks."

Next steps

With Square's money behind it, Southern plans to continue adding to its digital banking workforce, with an eye toward setting up teams — it calls them Mod Squads after the early 1970s television series — that can design and launch the additional customized apps Williams envisions. The first trial run could come this summer.

Southern is in talks with an Arkansas hospital that approached the bank for help counseling female employees seeking to purchase a home. Southern has homeownership counselors it could have put on the task. Williams saw a different opportunity.

"I said, 'Sure, we can do that, but maybe we can go a step further,'" Williams said. " 'Maybe we can actually create a fintech application for your workforce, if you partner with us.' "

The effort would bring Southern's digital bankers together with members of the target group to craft a homeownership solution. If it's successful, Williams hopes Southern can apply the concept to more hospitals, as well as to other groups facing their own unique challenges.

As for Wealthable, Southern plans to add a debit card along with capacity to make small personal loans to offer an alternative to payday lenders, which maintain a heavy presence throughout Southern's Arkansas-Mississippi footprint.

"If I can deliver a \$1,000 payday loan advance digitally ... I can hopefully disrupt some of that business and save people money," Williams said.

John Reosti Reporter

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