

Durham's M&F Bank aims to capitalize on rising assets, surging interest

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Following weeks of hard conversations with employees about headlines and social unrest, the phone started to ring at the office of [James Sills III](#), the CEO of the oldest Black-owned bank in North Carolina.

The phone calls – which in any other year would have been a surprise – kept coming, from [JPMorgan Chase](#) (NYSE: JPM), [Bank of America](#) (NYSE:

BAC), [Wells Fargo](#) (NYSE: WFC) and [Citibank](#) (NYSE: C). Combined, they have trillions of dollars in assets, and yet they were scrambling to invest in the tiny bank.

“We had seen their releases,” Sill said. Bank leaders, moved by the increasingly visible realities of racial inequality, wanted to make an impact, to funnel dollars into minority depository institutions. As the second-oldest Black-led bank in the U.S., Sills expected a few calls.

But the breadth of the interest was overwhelming, he said. The four banks together would invest a whopping \$18 million. And they would be just part of the story. Amid a pandemic, a tiny bank in Durham saw its coffers swell 16.4 percent in 2020.



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James Sills, CEO M&F Bank

M&F Bank ended the year with more than \$309 million in assets — driven, Sills said, by the social justice movement.

M&F may be small, but it's generating prominence and relevance.

Industry watchers say they hope the wave is part of real change, one that can sustain M&F and banks like it for the long haul — and not just a reaction to headlines.

"I hate that it is such a high barrier to get folks to this point, to decide they wanted to put their dollars in Black businesses," said Henry McKoy, a former banker and head of entrepreneurship at N.C. Central University. "The reality is that it took a very long time for it to get to this point of economic inequity and ... making one-time big commitments aren't going to solve that."

That's where Sills, the man tasked with helping M&F not just to survive but thrive, comes in. It's a role of a lifetime — to make the historic institution relevant to new generations. And the opportunity has never been greater, as the pandemic showed the nation the realities of economic inequities and the Black Lives Matter movement forced it to listen.

High stakes

The stakes for M&F's success are high and getting higher as the pandemic wears on, particularly for the minority business owners it serves in Durham.

According to the JPMorgan Chase Institute, in at least 90 percent of all majority-Black and majority-Latino or Hispanic neighborhoods, a majority of small businesses have cash on hand to last less than three weeks. And never has that statistic been more evident than during the pandemic. A report out of the New York Fed last year showed that 41 percent of Black-owned businesses shut down in just the first three months of the spread of the virus. Just 17 percent of white businesses shut down during the same period. It came down to capital. The report found a lack of capital access, including federal Paycheck Protection Program loans, as driving the disparity.

That's where M&F and organizations like it came in. They're often the closest financial institutions to their communities — the last line

of economic defense between failure and solvency.

Long before the pandemic, M&F was serving Black businesses in the Bull City when others wouldn't. It was the financial center for the African American community during the Jim Crow days, started by a group of Durham businessmen more than 100 years ago.

But with integration came new challenges.

"It's indicative of pretty much all Black businesses," McKoy said. "Economic integration ended up being largely one way, the Black dollar out of the Black community and into the white community, not the reciprocal aspect of it."

With integration, M&F had to compete with big banks. And the businesses it served faced similar pressures from economic integration, McKoy said.

And M&F had more to worry about than its balance sheet: it had to balance its centenarian history.

When it hired Sills, it was a major departure. For a long time, the bank had been run on and off by the Sansom family. And while Sills was a former banker, he was also an entrepreneur and technologist, a former IT secretary for the state of Delaware. He didn't fit the mold – which is part of why he may have been attractive to the board.

The bank's early founders didn't fit any kind of mold either, people such as Aaron Moore, the first African American doctor in Durham, and John Merrick, a businessman born into slavery who also helped to found the North Carolina Mutual Life Insurance Company.

Like them, Sills didn't set out to be a banker.

Enter in Sills

Described by friends as "thoughtful" and measured in his approach, Sills, 62, started as a statistician for the state of Delaware, crunching numbers in the finance department. Through training programs he caught the tech bug. He found himself taking advantage of every technology training program available – from programming to networking. And there were a lot of training programs in the days before the internet and online banking.

“There was this unbelievable need to have people who could work in that industry,” he said.

Sills soon moved over to programming, taking on roles in network analysis and decision support. And after about two years, the programmer role at Beneficial National Bank lured him out of the public sector. There, he tapped away at a huge IBM mainframe and made friends.

And those friends are who would lead him on his banking journey.

The president of the firm’s commercial bank recruited Sills and a handful of others. They purchased a bank in Alabama for \$21 million. And together, they moved from Delaware to Alabama in 1991.

“We did not know a single person in Alabama and grew that bank to about \$85 million,” Sills said.

Sills, then chief operating officer, would leave to start his own bank in Memphis, Tennessee, only to return to Delaware years later as state CIO.

When he left Delaware again, it was for M&F, specifically. Inspired by the work he witnessed by bankers in Alabama, he wanted to be part of a legacy. And M&F had the story he was seeking.

“I’m standing on the shoulders of a lot of great banking leaders and business leaders,” he said. “The bank many, many years ago was actively involved in political issues, economic issues. It was just a historic bank. ... To be a part of that history, I just think it’s an exhilarating and fantastic opportunity.”

M&F’s shareholders are committed to more than the balance sheet, he said. They feel a connection to its founders, Merrick, Moore, William Gaston Pearson, Richard Fitzgerald, J.A. Dodson, S.L Warren, James Shepard and W.O. Stevens, who, more than 100 years ago, raised \$10,000 to start M&F. It’s a history board members remind Sills of every chance they get.

“They’re extremely loyal and they want our bank to be one of the crown jewels of the Durham community,” Sills said.

But they also add to the pressure of his job.

At M&F, Sills found a bank that tested his technological instincts. When he joined, the bank had not updated its website in 11 years. While running IT operations for the state of Delaware, Sills had a technology budget to work with and resources at his fingertips. M&F was completely different.

“They didn’t really view technology as a tool to make customers’ lives better,” he said. “It was a challenge at first.”

Robert James, board chairman of the National Bankers Association, said M&F isn’t alone.

“Most of the Black-owned banks have had issues with keeping up with the latest in technological innovations in the banking space,” James said. “Not unlike all community banks, but more acutely, because our institutions are smaller and have less capital available, and so it’s just very difficult when you’re starved of capital to keep up with changing technology.”

Sills was quick to update that website. He upgraded the bank’s core system, putting it through a conversion on his first day on the job. Sills led the outsourcing of some of M&F’s infrastructure to the cloud. He upgraded the phone system. He started a “Millennial Advisory Board” to reel in younger clientele.

And he answered phone calls from both board members and community stakeholders along the way – all of whom felt a personal connection to the bank they had grown up with.

Under Sills, the bank rebranded from Mechanics and Farmers to simply “M&F.”

His quiet, analytical approach was appreciated by colleagues. Sills is the kind of leader who, when forced to fire someone, wonders what the organization did wrong – “what else could we have done to make this person more successful.” And it’s an attitude that meshed well with the relationship-driven culture of the bank.

But it was still tough-going. The bank made tough decisions, laying off personnel. It delisted from the stock market. It cut expenses.

And all the while, the economic disparities were building – not just in Durham, but everywhere. And so, too, was the banking

competition.

In its home county of Durham, M&F has just 0.8 percent of the deposits. That's as PacWest, Truist Bank and Wells Fargo have 55.7 percent, 20.1 percent and 11.8 percent, respectively.

Changes come in 2020

Then the pandemic struck, putting many businesses in a tougher spot than ever before. And without an established relationship with a lender, it was tough to get PPP loans in round one.

For round two, the U.S. Small Business Administration gave minority institutions such as M&F a head start, specifically tailoring the program to give small businesses – particularly those run by minorities – advantages.

At M&F, it meant a scramble to get applications in – but it was worth it. Sills said his team could actually see the difference they were making in their communities. And they had help.

That's because, for the first time, major banks were backing M&F with their own dollars.

Sills is happy to see the money, but sad at the circumstances.

Attention to Black businesses was heightened after the murder of George Floyd in Minneapolis. Sills said the response was overwhelming – both corporations and individuals were looking to put their money into institutions that make a difference in minority communities. Deposits shot up 16 percent. Bank of America invested in a 5 percent stake.

Derek Ellington, market leader for Bank of America in the Triad, was involved in the negotiations with M&F, and calls it a win-win. For Bank of America, investing in minority communities is a way to deepen its commitment to the areas it serves, he said.

"It's renewing the focus – we've always had a focus on these business owners – but really renewing that focus," he said. "And I want to give Jim credit for his long commitment ... the desire to have staying power in the industry. When you think about [M&F]'s history ... it's something all of us are proud of in the industry."

Wells Fargo, Citibank and JPMorgan Chase would also invest. Together, the four banks would funnel \$18 million in equity. And JPMorgan, alongside Google, brought in a specifically tailored money market product, one Sills said would give the bank another avenue to help customers.

Even outside the big banks, interest by small corporations and individuals continues into 2021.

“We still receive calls and inquiries,” Sills said. “We’re getting a lot of people still wanting to do business with the bank.”

The social justice headlines brought awareness, he said, adding that many did not know M&F was here. They did not know its history. And they did not know its mission.

“Now they do,” he said.

While the interest has slowed in the past few months, Sills suspects it’s the pandemic, not waning attention.

“I’m excited about the future of the bank,” he said. “We’re doing all the right things.”

Sills said participation in the PPP is one of those “right things,” keeping the bank relevant to the community.

But there are challenges. Sills said round two of the program, which began in January, has meant more back-and-forth with the SBA, more staff time which, in the age of Covid-19, can be tough to navigate. He finds the SBA more “nitpicky” this time around – is the application initialed properly? Is the initial loan amount correct? What’s the original loan number?

“It’s just a lot of back and forth,” he said. By mid-February, the bank had already submitted 130 applications, but the turnaround time wasn’t as fast as the first round. What has been a positive, however, is the impact.

“I can honestly tell you that smaller employers, independent contractors, self-proprietors, they are receiving and applying for the funds, which is really good, as that’s what this round is meant for,” Sills said.

And it's clear business owners need the infusion, he said, pointing to national statistics that show 70 percent of the round two applicants applied in the first round.

"There are still businesses that are hurting out there, that are small and minority-owned and are still trying to take advantage of the program," Sills said. "The smaller businesses, generally speaking, do not have the bookkeeper or the CPA that can help them pull all the information together... so we're doing a lot of hand-holding."

That's a unique service of banks such as M&F. The challenge is maintaining those relationships while making new ones. And it's a balancing act, said James of the bankers' association.

"It's extremely important that our institutions stay very grounded in who we are and why we exist, which is to give access to mainstream financial services to communities that have otherwise been ignored or systemically excluded," he said. "But the challenge is for us to not be backward-looking and to be forward-looking ... because we have to maintain our relevance to younger generations."

What's next

But marketing campaigns and technology infusions take capital, which is why recent financial infusions are crucial. But it can't just be in the form of targeted deposits. James points out that when a bank gets bigger, it can cross regulatory thresholds that can add prohibitive expenses.

"A lot of our institutions are relatively small in scale and it's tough to accept all that at once," James said.

Sills said it's not something he worries about, but still, the American Bankers Association has lobbied for some thresholds to be temporarily halted in the cases of banks crossing lines through PPP infusions.

James said that's why equity contributions, such as the one being made by Bank of America, are vital.

"What we need is to have meaningful, long-term relationships that are not just episodic but that are sustainable," he said. "We

certainly want to push the envelope in terms of equity capital. That equity capital is the long-term sustainable capital that's going to help us grow over the long haul. There are regulatory challenges with how much capital we can accept. We are working through those with the regulators."

James said Black-owned institutions need to be in a position where they can accept as much capital as possible without "disturbing the character of our institutions."

"We don't want to become a bunch of corporate-owned banks," he said. "We want to be strengthened by outside capital, but where the people, the community, the outside management teams, the board ... they can still control them."

Serio Ora, CEO of the nation's oldest Black-owned bank, Tennessee's Citizens Bank, said the key is awareness. He said the historic legacy banks like his and M&F have is their strongest public relations advantage – and that gives them a mission to inspire both employees and customers.

"Our vision for the future will never go away," he said. "We run banks we want to be profitable because profitability gives us the ability to give back to the communities that we serve."

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