BRIEF CASES

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Athena Bancorp

In early 2019, Beth Daniels, CEO of Athena Bancorp (Athena or Athena Bank), reviewed the five-year plan that she had created with her team. When she founded Athena Bancorp in 2016, people had told her she was crazy. Daniels recalled, "Everyone said banking is a mature, overregulated industry that would go the way of the dinosaurs." However, she was passionate about community banking and about the role that community banks could play in revitalizing the locations where they did business. She also believed there was a segment of the population that was ill-served by the U.S. financial system. Daniels wanted to help these individuals—while building a growing and profitable business. Now, Athena Bank had five branches and $1.8 billion in assets. Her five-year plan called for Athena to grow to 15 branches, with loans and deposits increasing threefold over the next five years.

However, Paul James, Athena's chief human resources officer (CHRO), was concerned that Athena was having difficulty hiring experienced banking professionals to staff its branches. As a result, branch employees were working far harder. Low morale had led to increased employee turnover, compounding the staffing problem. Employee engagement, which Athena measured via quarterly surveys, had declined for several consecutive quarters (see **Exhibit 1**). James felt that employees were being pushed to the breaking point. Further, although Athena was testing a new software platform, TRUST, that Daniels believed would automate numerous tasks and thereby reduce the pressure on employees, it would take at least a year to implement. In the meantime, TRUST was creating even more work for employees.

Daniels hated to abandon her ambitious plans. She also had faith in her extended Athena Bank family. However, the survey data suggested something was amiss. Should she pursue her growth plan and attempt to work on the human resources problems simultaneously? Or should she hit pause on Athena's expansion while the company worked through its staffing issues?

HBS Professor Leonard A. Schlesinger and writer Sarah L. Abbott prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Although based on real events and despite occasional reference to actual companies, this case is fictitious and any resemblance to actual persons or entities is coincidental.

The U.S. Banking Industry

Customers gave a bank their money (deposits) and banks paid them a return on this money (an interest rate). Banks took those funds and lent them to other customers (as loans) at a higher interest rate. The difference between what a bank earned on its loans and paid on its deposits was known as spread income or net interest income. Community banks, which focused on the banking needs of individuals and small businesses, generated 75% or more of their net revenues from spread income. The remaining revenues came from fees—check fees, over-limit fees, credit card fees, and so on. The expenses incurred by a community bank included salaries; rent and occupancy costs; insurance, marketing, and technology expenses; credit costs; and taxes.

The biggest risk faced by banks was credit risk, the risk that a customer could not pay back a loan. In the case of secured loans (e.g., mortgages), this risk was mitigated by the fact that the bank held collateral, which it could sell in the event of default to repay the loan. In a market downturn, however, collateral values could decline dramatically (as happened during the 2008 recession) and could lead to large losses for the bank. The challenge for any bank was to grow its assets (its loan portfolio) while maintaining profitability. When marketing to low-risk customers, a bank needed to maintain profitability while still pricing the loan low enough so that customers did not go to another bank offering a better interest rate. With higher-risk customers, the challenge was to determine which bets were worth taking and at what price.

Banks' balance sheets comprised primarily loans and securities on the asset side and deposits on the liabilities side. Net assets, or the difference between assets and liabilities, were referred to as capital. Banks were required by their regulators to maintain minimum capital levels.

The U.S. banking system was highly regulated. Most customer deposits were insured by the U.S. federal government. For this reason, the government monitored (1) how banks utilized those deposit funds and (2) whether banks had enough capital. Banks were overseen by the Federal Reserve Bank. Banks in the United States could take a variety of forms, including bank-holding companies, federal credit unions, and savings and loan companies. Each structure had its own regulatory requirements, and several regulatory agencies shared supervisory responsibilities. These agencies included the Officer of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC). These agencies regularly examined their member banks. Banks had to submit quarterly call reports, which provided a detailed snapshot of their financial health.

As of 2018, the OCC regulated 1,264 financial institutions with $12.5 trillion in assets,[1] and, the FDIC regulated 4,774 commercial banks and 703 savings banks. FDIC banks had aggregate assets of $17.7 trillion, $9.9 trillion in loans outstanding, and $12.3 trillion in deposits. For the quarter ended September 30, 2018, the average annualized return on assets for the FDIC-insured universe was 1.12%, average return on equity was 9.9%, average net interest margin was 3.3%, and net credit losses (known as charge-offs) totaled 0.46% (as a percentage of loans outstanding).[2]

Across the United States, bank deposits and assets had grown at a 5% and 4% compound annual growth rate, respectively, over the past 10 years.[3]

Origins of Athena Bancorp

When Daniels graduated from college in 2001 with a BA in economics, she found that jobs were scarce. She quickly realized that her dream of landing a big Wall Street job would have to be put on hold. Instead she started working as a bank teller in the local branch of BayPoint Financial, a large