BRIEF CASES

9-919-517
JUNE 12, 2019

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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

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Boston-based financial institution. Within 18 months, she was promoted into the bank's centralized loan-processing office, where she spent three years before becoming a manager of a small bank branch. From there, she managed a larger branch before being named senior vice president in charge of lending for the bank's New England region. In this position, Daniels oversaw efforts to research, develop, and implement new lending products and implemented new data tools to improve the bank's underwriting practices. She also earned her MBA part-time from a local university.

Daniels was also passionate about the community in which she lived. She served on the board of directors of the local chamber of commerce and was involved with many other civic organizations. At Baypoint, she was heavily involved in the bank's local philanthropic initiatives. As a result, she had developed a strong network of business professionals throughout the Boston area. In 2015, Daniels had been named in *US Banker's* list of the Top 50 Women in Banking.

After 14 years with BayPoint, Daniels found herself feeling restless. She enjoyed the banking business, but the industry had undergone rapid consolidation. In her mind, these increasingly large banks focused less on their customers, particularly on individual banking customers. Daniels started toying with the idea of opening a bank herself—one that was customer-driven.

Daniels believed many consumers, particularly at the lower end of the credit spectrum, were not well served by the current banking system. According to a 2017 survey by the FDIC, 8.4 million U.S. households were "unbanked" and 24.2 million were "underbanked" (defined as a household that "had a checking or savings account but also obtained financial products and services outside the banking system"). Together, these populations comprised nearly 25% of U.S. households.[4] Small businesses also struggled to access credit—a National Small Business Association survey showed that 27% of small businesses were unable to find the funding they needed.[5]

To Daniels, customer-driven meant a conveniently located bank, with customer-friendly hours, knowledgeable staff, and real financial solutions. Yet banks had tightened their underwriting standards, leaving many individuals and small businesses without access to credit. In addition, many national banks were reducing branch staffing levels as customers moved to online banking.

Daniels believed that combining sophisticated algorithms with high-touch customer service and local knowledge could produce superior results. In her work for BayPoint, Daniels had met Tyler Cooney, an MIT-trained engineer who had worked with several local banks to improve their underwriting processes. Cooney's work was different from anything Daniels had seen in terms of the large amount of data it used (which were labor-intensive to collect) and the results it achieved, particularly with lower-income borrowers. She also felt that her background working both in branches and in credit had given her a holistic view of banking that many of her colleagues lacked. In business school, she had learned about community development financial institutions (CDFIs) and microfinance organizations, such as Grameen Bank in Bangladesh, where the institutions provided loans and then worked with customers to improve their financial literacy and help them to build credit and establish solid financial practices. Daniels believed that implementing parts of this model in a mainstream financial institution could create substantial value for a bank and its customers. However, doing so would require hiring the right people and providing them with the right training.

Daniels approached her network to raise capital for her new bank and raised $75 million in seed capital. She quit her job in 2015 and started hiring a team to help her build Athena Bancorp. She first hired a lawyer with expertise in bank regulation who dealt with the approval process with the FDIC, the bank's primary regulator. In 2016, Athena Bancorp opened its first branch in the main shopping area of a Boston suburb. The bank was just over 10,000 square feet in size (slightly below industry average[6]). It offered a full range of banking products and services, including checking and savings accounts, mortgage loans, home equity lines of credit, and other secured lending products. Daniels also opened a headquarters office for Athena Bank down the street from its first branch.

The Athena Bancorp Philosophy

Daniels believed that the big failure of the banking industry was a lack of customer-centricity. Thus, she decided that all Athena employees would spend some of their time in customer-facing roles. The first Athena branch had 10 full-time-equivalent (FTE) employees.

Daniels emphasized Athena's welcoming atmosphere. She worked to ensure that each branch was staffed so that customer wait times were kept to a minimum. She also wanted to provide customers with the best answers as quickly as possible, and she wanted the length of a customer's visit to the bank to be driven by the customer. "In other words," she explained, "the teller or relationship manager should spend as long as it takes to answer each customer's questions." Daniels also wanted to educate customers on the banking system. "Banking should not be scary," she added.

Rather than hiring recent college graduates who lacked experience and were using the position as a stepping-stone into the business world, Daniels hired experienced professionals who wanted to stay in the industry as a career. She explained, "I did not want to spend all of my time training kids who would walk out the door two years later. With Athena Bank, I viewed myself as being on a journey, and I wanted to work with individuals who were committed to taking that journey with me."

Daniels's first group of hires included people who had worked with her for years at BayPoint. Anna Thompson, who had been at BayPoint for over 30 years, was one of Daniels's first hires. Thompson said she never thought twice about quitting her position to join Athena Bank. "Beth warned me that there was a risk in joining a new bank," Thompson recalled, "But I had no qualms. I have never met someone so inspiring, charismatic, and visionary. She is an amazing leader. I learn from her every day. She is also extraordinarily dedicated to the customer and to creating economic opportunities that other banks don't even see, much less try to pursue. She made me feel like what I did was more than a job—it was a service."

Daniels then hired her long-time colleague, Paul James, who had run the regional human resources (HR) department for BayPoint as Athena's CHRO. Together, they created a customer service manual for employees and sketched out a training program to ensure that Athena's employees would provide high-quality, high-touch customer service and were proficient with technology. This training included a financial literacy component—every employee learned basic tools to serve customers who might not be financially savvy. Daniels and James also mapped out an onboarding process that offered weekly training modules for employees. In addition, they planned for continuing education that kept employees current on regulatory developments and technology. James also implemented a semiannual performance review and quarterly employee surveys.

Technology was the second piece of Athena Bank's strategy. Daniels hired John Richards as Athena's chief technology officer (CTO). Richards worked with Cooney and outside vendors to set up a loan underwriting system that enabled loan officers to combine objective criteria, such as credit scores and collateral values, with subjective criteria, such as personal character and employment record. The software applied Athena Bank–specific algorithms to underwriting criteria to obtain a single score that determined whether the loan would be approved, the credit line, and the interest rate. (The algorithms were constantly changing because the system was informed by actual underwriting results.)

The Athena Bancorp Staff

Each branch of Athena Bancorp was staffed with a branch manager, relationship managers, and tellers. In addition to Daniels, Richards, and James, headquarters staff included a tax expert, marketing professionals, a chief financial officer, a facilities person, and the head of the credit department, who was supported by several underwriters. There were also several administrative personnel—although outside customer-facing staff, Daniels aimed to keep head count low.

Branch managers oversaw the bank's operations. Their duties included supervising tellers and relationship managers; training, coaching, supervising and reviewing branch staff; preparing staff schedules; approving bank transactions; and growing business and customer relationships. Branch managers were required to have a college degree and at least five years of experience in banking.

Tellers processed deposits, withdrawals, and transfers. Each bank branch had two to five tellers working at any given time. Tellers had to have a high school diploma, and Daniels hired only individuals with at least two year's previous banking experience. Bank tellers at Athena started at $18 per hour, significantly above the median wage for tellers of $13.50.[7]

Relationship managers (often referred to as loan officers) were based in the branches. Each branch had two to three relationship managers, who worked with branch customers and originated loans. Relationship managers could approve loan applications that met specified criteria. They also referred credit decisions to the branch manager or to the centralized loan group. Daniels insisted that relationship managers have a college degree and at least five years of banking experience. Relationship managers were paid an annual salary, and Athena Bank set salaries above those of local competitors. Relationship managers did not earn overtime for extra hours worked.

Daniels focused on making high-touch customer service the differentiating factor at Athena Bank. Thus, customer interactions often lasted longer than they did at other banks. Daniels expected all staff to pitch in as needed. Thus, if the lines at the tellers' windows were long and the relationship managers were not with customers, they were expected to help. Similarly, branch managers spent substantial time working with customers, functioning as relationship managers and sometimes as tellers.

Expansion

After the first branch's success, Daniels opened four more Athena branches in 2017 and 2018. As with Athena's first branch, these were located in the middle of high-traffic suburban shopping areas. By the end of 2018, Athena Bank had 78 employees with $1.8 billion in assets and $1.2 billion in deposits. In 2018, the bank generated $15.2 million in net income. It had attracted lower-income customers. Despite what appeared to be less rigid underwriting standards than peer institutions had, Athena Bank maintained credit losses of 0.6%, broadly in line with its peers. Return on assets of 0.9% and return on equity of 11.3% compared favorably with regional peers. This growth had occurred in a market where both loans and deposits had basically been flat over the past few years. (See **Exhibits 2**, **3**, and **4** for excerpts from Athena's financial statements.)

Daniels attributed the bank's growth and credit statistics to its customer-first philosophy. "We spend time with customers and get to know them. Our deep customer and community knowledge lets us make better underwriting decisions. We provide higher credit lines than other banks, yet we also keep our losses low." Daniels continued to tell the story of a bakery owner who had had trouble obtaining a loan at other banks due to his prior issues with credit card debt:

> When we looked at his situation, we realized this debt coincided with his wife's illness four years ago. Since then, his credit history has been spotless. We extended credit to him when other banks would not because we had information they didn't take the trouble to find. He has made every payment on his loan with us. Having said that, getting this information takes time and hard work by our staff.

Daniels believed that Athena Bancorp's operating philosophy drove customer loyalty—customers would come to Athena to apply for a loan or to open a savings account for their kids; after comparing the service they received, they would transfer their other banking products to Athena.

However, this type of customer service posed challenges. Bank professionals wore many hats and often worked very long hours. The long branch hours and the high service levels meant employees often did paperwork after their branch closed. The intensive training requirements and personalized nature of the loan approval process, along with Daniels's insistence on fast turnaround times, meant that employees frequently worked late into the evening, practices that were unheard of in this 9-to-5 business. Salaries were higher than what bankers could earn at other institutions, but one Athena relationship manager pointed out, "When you look at what we make on an hourly basis, it's not so great. We work hard for the extra pay."

Athena was also experimenting with online banking platforms. Welcometoathenabank.com had been set up when the first branch had opened, allowing customers to check balances, pay bills online, and order checks. Now Richards and Cooney were creating more interactive online functionality to help serve customers and take pressure off bank personnel while still meeting the bank's high customer service standards.

Because of her high standards, Daniels had personally interviewed every single Athena employee before they were hired. She wanted to hire people who had her can-do attitude. She felt strongly that individuals could achieve far more than they thought they could if they set aside their beliefs about their own limitations and standard notions of hierarchy and specialized expertise.

The People Challenge

Daniels felt that Athena's success in the market was starting to attract attention. She believed that if Athena did not capitalize on its first-mover advantage by continuing to open branches, another bank was likely to fill that gap. However, Athena's employee absenteeism and turnover rates were increasing. One of Daniels first hires—a young woman who reminded her of herself at the woman's age—had just quit to take a similar position at a competitor. And the beloved Thompson had asked if she could pare back her hours to part-time because the workload was taking a toll on her health.

James had instituted quarterly employee engagement surveys in early 2017. Employees were asked to rate the firm's performance on a scale of 1 to 5 across a range of employee-related metrics. Average scores (across all employees and across all questions) had started out in the 4 to 5 range, but the scores had since declined to a bit over 3 in recent quarters.

Daniels had put customer comment cards and boxes in each Athena branch to ensure that her vision of superior customer service was executed. She had started seeing complaints such as "unsmiling and unhelpful relationship manager" and "hassled-looking teller." This feedback was consistent with both the employee surveys and lunchroom chatter about low morale and disgruntled employees. In addition, the volume of employment applications, which had been robust when Athena started hiring, had dropped off substantially. This shocked Daniels given the above-market rates the bank offered. Low application volumes had begun to affect Athena Bank's ability to hire and would likely have a larger affect going forward once the bank finished working through its backlog of applications.

Hiring relationship managers was particularly challenging. Because Athena's underwriting algorithm emphasized intangible factors such as "character," loan officers were highly empowered. Loan officers also stayed close to their customers. If a borrower faced difficulties, her loan officer could restructure repayments or help the borrower strategize about financial decisions. The loan officer could also reduce or eliminate revolving credit lines if she saw a situation deteriorating. Finding individuals with the skill set to perform these tasks well and who would work the long hours required to succeed was becoming increasingly difficult as Athena expanded. Athena's loan officers were overwhelmed with their caseloads.

While other aspects of banking benefited from economies of scale, such as investments in technology that could be leveraged across more customers, high-touch customer service did not. An individual loan officer could handle only so many customers. Daniels worked hard to keep operating costs down, and the bank had benefitted from margin improvement as the branches had grown in terms of assets and deposits, but salary expenses remained high and dampened profitability.

The Launch of TRUST

Recognizing that the labor-intensive nature of its loan process was slowing the bank's ability to grow, Daniels and Richards were beginning to roll out a more comprehensive technology platform. Daniels thought that, in an ideal world, this system would have been up and running before she had opened the first Athena branch. However, she had wanted to move forward with the bank's opening. Purchasing an enterprise IT system that lived up to her high standards and getting it running had taken longer than she had anticipated.

For instance, TRUST contained a customer relationship management (CRM) system that would allow a review of customer profitability across multiple products and determine profitability for the entire customer relationship. Such data were invaluable for making decisions on pricing and credit lines. At Athena Bancorp currently, however, most of that information resided in the heads of Athena's loan officers.

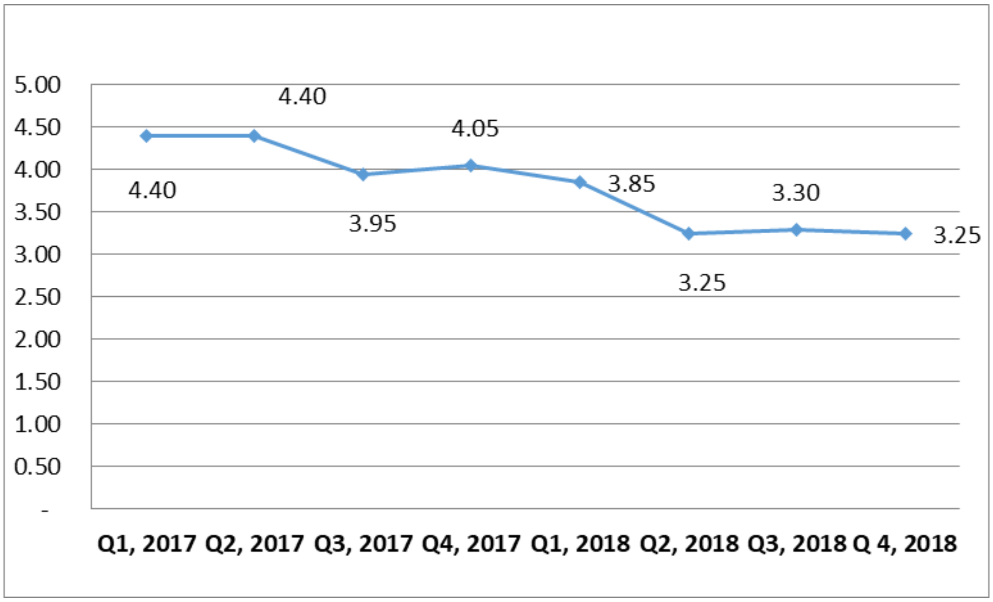
TRUST would also allow many functions to be standardized. In the meantime, employees were attending training sessions on how to use TRUST and helping to test the system throughout the bank. Daniels and Richards believed that it would probably take a year to get TRUST fully operational, and they knew that there would be complications with the system during its launch.

Next Steps

James wanted to postpone opening new branches until TRUST was up and running and Athena had hired and trained more employees. "Our people *are* our strategy," he told Daniels. "Without them, we are just another bank."

Daniels, however, was not convinced. Athena Bancorp had succeeded beyond her wildest dreams. How could she slow down now and risk a new bank coming into the market and stealing Athena's thunder?

Exhibit 1 Employee Engagement Surveys: Quarterly Scores



Employee engagement survey questions: Rate each question on a scale of 1 to 5, with 5 = completely agree, 4 = somewhat agree, 3 = neither agree nor disagree, 2 = somewhat disagree, and 1 = completely disagree.

1. Athena Bancorp cares about its employees.
2. I feel that I have the opportunity to grow and advance at Athena Bancorp.
3. I feel recognized for my contribution at Athena Bancorp.
4. I feel that I am well compensated for my work at Athena Bancorp.
5. I believe in the leadership of Athena Bancorp.

Exhibit 2 Selected Operating Data from Athena Bancorp's Income Statement*†

	2018	**2017**
Net interest income	$42,067	$32,225
Provision for loan losses	−1,989	−1,622
Noninterest income	2,611	1,870
Noninterest expense	−22,094	−19,277
Income before income tax expense	$20,595	$13,196
Income tax expense	−5,355	−4,619
Net income	$15,240	$8,577

* Dollars in thousands.

† In 2018, compensation and benefits comprised 58% of total noninterest expenses. Athena's effective tax rate declined to 26% in 2018.

Exhibit 3 Selected Data from Athena Bancorp's Balance Sheet*

	2018	2017
Total assets	$1,820,064	$1,295,222
Cash and cash equivalents	$75,404	35,326
Investment securities	120,367	91,347
Loans receivable, net	1,561,931	1,119,621
Deposits	$1,190,851	$881,653
Total stockholders' equity	121,060	96,553

* Dollars in thousands.

Exhibit 4 Selected Financial Ratios from Athena Bancorp's 2018 10-K (Year Ending September 30)*

	2018	2017
Return on average assets	0.98%	0.60%
Return on average stockholders' equity	14.0%	10.7%
Net interest margin	2.40%	2.44%
Efficiency ratio	49.5%	56.5%
Fee income ratio	5.84%	5.48%
Allowance for loan losses to total loans	0.68%	0.66%
Net charge-off rate	0.73%	0.62%
Equity/assets	6.65%	7.45%
Branches	5	3
FTE employees	78	60

* Dollars in thousands.

Endnotes

[1] OCC, 2018 Annual Report, https://www.occ.gov/annual-report/download-the-full-report/2018-annual-report.pdf.

[2] FDIC, "Statistics at a Glance," September 30, 2018, https://www.fdic.gov/bank/statistical/stats/2018sep/industry.pdf.

[3] FDIC, "Historical Bank Data," https://banks.data.fdic.gov/explore/historical?displayFields=STNAME%2CBANKS%2CASSET%2CDEP%2CNETINC%2CINTINC%2CEINTEXP%2CTPD&selectedEndDate=2017&selectedReport=CB&selectedStartDate=1934&selectedStates=0&sortField=YEAR&sortOrder=desc.

[4] FDIC, "2017 FDIC National Survey of Unbanked and Underbanked Households," https://www.fdic.gov/householdsurvey/.

[5] https://www.sba.gov/blogs/10-stats-explain-why-business-credit-important-small-business

[6] Codigo, "Branch Transformation: Reducing the Size of the Branch," August 29, 2014, https://www.gocodigo.com/digital-signage-101-blog/2014/financial-industry/branch-transformation-reducing-the-size-of-the-branch.

[7] Emma Kinery, "Why Banks Are Giving Tellers Raises, Instead of Firing Them All," August 20, 2018, https://www.bloomberg.com/news/articles/2018-08-20/why-banks-are-giving-tellers-raises-instead-of-firing-them-all.