



DIVERSITY AND EQUALITY

Why PayPal just deposited \$50 million in a small South Carolina bank

By Penny Crosman August 26, 2020, 8:07 a.m. EDT 5 Min Read



PayPal has just deposited \$50 million in an account at Optus Bank, a minority-owned institution in Columbia, S.C., that has \$155 million in assets.

As unlikely as this pairing may sound, it happened relatively quickly. In June, PayPal announced a \$530 million commitment to support minority communities and businesses in the U.S., especially those hardest hit by the pandemic, to help address economic inequality.



Optus Bank, led by CEO Dominik Mjartan (left) and Chairman Paul Mitchell, used the first \$10 million of PayPal's deposit to fund Paycheck Protection Program loans.

Dominik Mjartan, Optus Bank's CEO, obtained a contact at PayPal through a friend and set in motion a conversation through which the San Jose, Calif., payment giant made Optus one of its recipients.

Top 5 recovery challenges for banks post-crisis

Is your bank prepared to tackle the unprecedented challenges facing you in the months ahead?

SPONSOR CONTENT FROM VELOCITY SOLUTIONS

In an interview, Mjartan told the story of how the new funding came about, what he intends to do with it and why so many financial hurdles still exist for Black-owned businesses.

It sounds like with this new money, you'll be able to provide more capital to small businesses, especially those facing systemic barriers to mainstream funding. In your view, what are those barriers?



impact your ability to access credit. So that's one systemic barrier. Who is predominantly located in those communities that have significant disadvantage in accessing equitable opportunities? They're predominantly communities of color, immigrant communities, low-income communities. So right off the bat, we're seeing this disparate access to credit, capital and opportunities just by the ZIP code, the census tracts.

It is illegal to redline, right?

Absolutely.

So why is it still happening?

Redlining is related to branch location. Where do most banks close their branches? In low-income communities. If you're not extracting the positives from the community, you really don't have to serve it.

I know people are worried that banks will close more branches in low-income neighborhoods in the wake of the pandemic.

Yes. Also, when you think about the five Cs of lending [character, capacity, capital, collateral and conditions], every one of them is impacted by systemic disparities in this country. Whether you have capital, whether you have credit. If you grew up in a low-income community but you aspire to be an entrepreneur and you didn't inherit a house or wealth or your father-in-law didn't loan you money, or your grandfather didn't loan you money, or you don't have access to financial and social capital, right out of the gate, entrepreneurs in communities of color or low-income communities have a lot less to bring to the table.

CORONAVIRUS IMPACT: ADDITIONAL COVERAGE

1 Regulators finalize rule changes to help banks weather pandemic



3 Fannie and Freddie pushing COVID refi fee to December

Even as an immigrant coming to this country with \$500, I knew people with money, I lived with a family that was well-to-do, so I had access to their social capital. If I needed an idea or I needed help starting my first small business, they said, go talk to this person.

I sometimes forget to think about those factors.

Most people don't and I don't blame them. I don't judge anyone who has not been exposed. I've been fortunate to work in the Mississippi Delta. I've been fortunate to work in low-income communities. My wife ran a homeless shelter for 12 years. Now I run an African American bank that was founded on this basic idea that every person, regardless of their upbringing, should have access to opportunities. We've been closing the racial wealth gap for a hundred years. I'm surrounded by the disparities, and I see them every day walking through our door. People that are very smart, very motivated, talented, good businesspeople, but they happen to be facing obstacles that their white counterparts simply don't face. Unless you're exposed to it, it's really hard to believe, and it's hard to acknowledge in this greatest, most powerful, wealthiest country in the world. We have to acknowledge and recognize that a huge part of our community is left behind.

How did the deal with PayPal come about? Did you have to apply for it, or did they approach you, or do you have some kind of mutual connection?

I read the press release about their sweeping commitment. And then a friend of a friend connected me to one of the lead folks at PayPal who was organizing this work. I emailed him one day, he responded almost instantly, and we had a call the next day. A week or two later, we received the \$50 million wire.

Usually when you go to raise money, you find out what the investor has to offer, and they tell you their basic parameters, take it or leave it. PayPal asked us about the challenges our communities are



say enough good about how thoughtful and responsive they were to our needs.

So I gather the \$50 million deposit will help strengthen your balance sheet so you can lend to more small businesses?

Yes. It's long-term, patient and low-cost funding. We know we can count on that money staying here for a long time. This is not a PR stunt where they're going to pull this money out as soon as the interest in George Floyd and other tragic news dissipates.

The short-term effect is, it's helped us fund Paycheck Protection Program loans.

The way the funding is structured, PayPal didn't force us to keep all of it on our balance sheet. They made it flexible enough that we can invest some of it for now until we need it. So it's not hurting our capital ratios. It's on-demand capital for us.

We loaned out \$10 million right away. The other \$40 million we essentially parked in short-term investments and securities and other structures that allow us to get it off our balance sheet.

What percent of your loans go to minority and low-income borrowers?

Last year, a consultant geocoded our loans and tried to track the socioeconomic and demographic status of each of our borrowers. About 90% of them were either in low-income communities or were minority- or women-owned businesses or minority homeowners.

One thing that's come out of this pandemic is suddenly banking is no longer viewed as a commodity. People who thought they were banked found out they were not so banked, and businesses that had banking relationships for decades found out suddenly they're underbanked because they couldn't even get a call back from their banker that has been calling on them for 20 years.

Penny Crosman Executive Editor, Technology at American Banker and Arizent, American Banker 