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A second chance at JPMorgan Chase

How the nation’s largest bank by assets plans to help people with criminal histories reenter the workforce

By Jon Prior

JPMorgan Chase is broadening its effort to help former prisoners.

It is piloting a program in Chicago in which it is teaming up with area nonprofits to help train those with criminal backgrounds for entry-level jobs at the company.

It also has started a policy center whose mission is to help people who have been in jail reenter the workforce.

In announcing the initiative, JPMorgan Chase Chairman and Chief Executive Jamie Dimon said businesses need to do their part to reduce recidivism — which will, in turn, benefit them by bringing in talented workers and making the economy stronger.

About 10% of the employees JPMorgan hired last year had histories of minor crimes, including disorderly conduct, drug possession and driving under the influence. They were put in entry-level positions processing transactions and servicing accounts and loans.

In a shareholder note last year, Dimon said that the company has a "responsibility" to hire former prisoners. "The overwhelming majority of Americans who are incarcerated return to their communities after they are released," Dimon said in his 2018 letter. "Reducing recidivism is not only important to returning citizens and their families — it can also have profound implications for public safety."

JPMorgan had previously removed the box asking applicants whether they had a criminal background, and the new policy center will advocate for federal and local governments to find other ways to make hiring fairer for those who have been convicted of a crime.

The policy center is also advocating for changes to state and federal laws that would make it easier to expunge how the nation's largest bank by assets plans to help people with criminal histories reenter the workforce.
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records and to reinstate Pell grants for prisoners to help them take college classes ahead of their release.

JPMorgan appointed Heather Higginbottom, a former U.S. deputy secretary of state for management and resources in the Obama administration, to run the policy center.

The company supported reforms proposed last year by the Federal Deposit Insurance Corp. that would ease restrictions on banks hiring workers who have been convicted of crimes related to breach of trust or money laundering.

The proposal would allow banks to hire people whose crimes are related to bouncing checks of certain sizes, small-dollar theft and one-time, minor offenses committed as young adults.

**Briefings**

**Immigrants welcome here**

American Express courts 'an attractive set of borrowers' with an approach that is a first

Over the past five years, 10 million visas and green cards have been issued to immigrants in the United States.

But when they apply for a credit card or loan — no matter how solid their creditworthiness in their home country — these newcomers tend to be rejected because of their lack of credit history in this country.

This is a missed opportunity, said Sara Milsten, senior vice president of new member acquisition for U.S. consumer services at American Express. “Most of them exhibit prime or super-prime credit behavior, so they’re an attractive set of borrowers,” she said. “The majority of these visa types fall into categories that include pursuit of education and special occupation.

These are ambitious students and young professionals coming to the U.S. to pursue their next great opportunity.”

Amex has worked with the fintech startup Nova Credit to launch a new service that uses credit reports and scores from five countries — Australia, Canada, India, Mexico and the U.K. — to issue Amex’s personal credit cards, including Green, to newcomers to the U.S. Other fintechs provide credit cards to immigrants. TomoCredit, for instance, offers credit cards to students and young professionals with no credit score and no credit history. Petal provides a credit card for so-called credit invisibles. Approvals are largely tied to cash flow rather than credit scores, though scores are considered if available.

Capital One, U.S. Bank and Discover also offer secured cards that foreigners can obtain.

But the Amex-Nova effort is the first attempt to use credit bureau work done in other countries to lend in the U.S. In a pilot Amex has been running, “newcomers from these five countries are more than five times as likely to be approved as they would be through traditional underwriting solutions for new-to-credit applicants,” Milsten said.

Nova and Amex have found that “credit behaviors don’t change when people move across borders,” she added. “So if you exhibited strong credit behavior in one market, the likelihood is that as you move through another market, you will behave similarly.”

Exchange students and immigrants in specialized professions tend to have thick credit files and high credit scores in their home countries, according to Sarah Davies, head of risk and analytics at Nova. “This is an incredibly high-cred-
Let there be ‘sunshine’
Long-delayed rules should benefit small-business lending

For a measure that’s languished in bureaucratic limbo for nine years, the Dodd-Frank Act’s requirement that lenders start collecting and reporting data on small-business loans actually seems to have a lot of support.

At a forum the Consumer Financial Protection Bureau convened in early November, financial industry representatives said that the long-awaited rules can help protect against discrimination and curtail unsavory practices in the small-business credit sector.

“The business community will benefit from this rule,” said Brad Blower, vice president of consumer practices at American Express. “We don’t need to be scared by some sunshine.”

Richard Neiman, LendingClub’s head of public policy, said the rules can foster a market-based, pro-innovation approach to regulation. “We believe that the collection of data will encourage the market to address both the lack of access to affordable small-business credit and the unfortunate rise of irresponsible lending,” he said.

The CFPB is charged with writing the small-business lending rules, which bear a resemblance to the long-standing requirement that consumer lenders collect and report information about the race and gender of residential mortgage applicants.

A lot of important decisions remain to be made — including how much data will be collected, about which products, and from which companies. The event at CFPB headquarters in Washington marked a step forward in that process.

CFPB Director Kathy Kraninger promised to use “great care” in devising the rules, as she alluded to industry worries about a possible curtailment of credit to small businesses.

Yet those who spoke at the event were largely upbeat.

They did offer mixed views about the burden that the data collection is likely to place on lenders, with some saying it would be a challenge. But Maureen Busch, vice president of compliance at the Bank of Tampa, said banks already collect much of the necessary data, under the Community Reinvestment Act. She argued that the CFPB’s rules should cover alternative lenders, which are not subject to the 1977 law.

“It shouldn’t just be the traditional providers,” she said.

Digital first but flexible
Citi’s deposit strategy doesn’t rule out branch openings

Citigroup’s strategy of growing deposits by marketing checking and savings accounts to its credit card customers is paying off, but it could opt later on to open branches in new markets to keep the momentum going.

Citi said its U.S. consumer bank took in about $2 billion of deposits in the third quarter, largely by offering such perks as points and cash back to credit card customers who open accounts using digital channels. So far this year, the digital-first effort has brought in about $4 billion of consumer deposits — two-thirds of which have come from outside of its branch footprint.

It’s a different approach than the one taken by rivals JPMorgan Chase and Bank of America, both of which have been chasing deposits by opening branches in select markets where they previously had no retail presence.

On Citi’s third-quarter earnings call, Chief Executive Michael Corbat said that the company intends to stick with the digital strategy — for now.

“I wouldn’t rule out branch openings, but first it’s going to come from digital engagement,” Corbat said.

Brian Kleinhanzl, an analyst with Keefe, Bruyette & Woods, said Citi might have problems sustaining growth in digital deposits once it works through its “wide net” of existing cardholders likely to open accounts.

“In digital by itself, you’ll get an initial boost and that’s what they got,” Kleinhanzl said. “From here, we expect it to be more of a challenge than that.”

Citi reported $191.6 billion in North American consumer deposits for the third quarter, up 5% from the same period last year.

If the $2 trillion-asset company wants to increase overall deposits substantially, Kleinhanzl said it would have to take a harder look at adding physical locations in new markets.

Citi has just 700 U.S. branches, primarily in major metropolitan markets. JPMorgan, by contrast, has about 5,000 branches and BoA about 4,300. Even regions further smaller than Citi in asset size, such as Fifth Third Bancorp in Cincinnati and Regions Financial in Birmingham, Ala., have roughly twice as many branches as it does.

— Jon Prior
Bank Technology

A new frontier in loan underwriting

First National Bank of Omaha and TCF National Bank in Detroit are among the traditional lenders starting to try out artificial intelligence for credit decisions

By Penny Crosman

Though online players like LendingClub, Kabbage and Upstart, and auto lenders like Ford Motor Credit use artificial intelligence every day in loan decisions, most traditional financial institutions have stayed away, continuing to rely on factors like credit scores and debt-to-income ratios for underwriting. But there are signs that is starting to change.

Freddie Mac is partnering with ZestFinance on a pilot of AI-based mortgage underwriting software. Some large, global banks, meanwhile, are using an Experian sandbox to build explainable AI models as part of their credit decisions, according to Greg Wright, chief product officer for consumer information services at the credit reporting company.

"Machine learning as an application of AI is becoming more prevalent in lending because of its ability to automatically improve performance," Wright said. "This can result in increased customer acquisitions, reduced risk, and overall process efficiency."

And a few banks are actually piloting the use of AI platforms to make lending decisions.

Among them are $23 billion-asset First National Bank of Omaha, which wanted to try AI-based lending software to see if it could expand access to credit.

"It's about inclusion," said Marc Butterfield, senior vice president of digital and payment solutions at the bank. The hope is to be able to serve more customers, with better rates and better products, he said.

TCF National Bank in Detroit had similar goals for its test of AI in lending.

"No. 1 was the process itself," said Rita Carroll, executive vice president of consumer lending at the $47 billion-asset bank. "In traditional underwriting, you have to upload a bunch of pay stubs, provide all sorts of proof of income, every single thing, and it's a very cumbersome process."

TCF was looking to "institute a more digital way of doing things," she said.

"If you were to underwrite like everybody else, with a traditional FICO and debt-to-income grid, it would come to a very similar outcome, with a very similar approval rate, and that doesn't seem to be the case," Carroll said of the software. "Our mission for TCF is to allow access whenever possible."

The bias question

As banks begin experimenting with AI, an overarching concern shared by regulators, policymakers, consumer advocates and lenders is that bias could be built into a lending algorithm that’s looking at various data sets. For instance, if data on higher education is included, the software could favor people in groups that statistically have lower college attainment rates.

Butterfield had to overcome internal worries that the AI software might be biased. In part he does so by noting the "models in existence today are not perfect."

"I asked our chief credit officer to prove to me that FICO isn't biased," he said. "We need to be open to trying different things, especially if the data looks promising."

Butterfield said TCF are being "drawn to the future, not the past."

"TCF’s mission is to provide better and better choices for our customers," Carroll said. "We're looking at the AI that's available and the ways we can reach out to different parts of the population."

TCF applies the same discipline of continuous monitoring and testing with the AI lending that it applies with in-house models.

Jackson Mueller, associate director of the Center for Financial Markets at the American Bankers Association, said that while some of the data that AI uses might be good for making lending decisions, "there is a concern that if you don't have a model that is truly explainable, then you can't be sure what the model is doing. It could just be making decisions that aren't necessarily good decisions."

"There's a lot of discussion about the potential for AI to be used in credit decisioning," Mueller said. "But there are a lot of questions about how that will be implemented, and how it will be regulated."

"We're still in the early stages," Mueller said. "But it's an area of significant interest and potential."
The bias question
As bankers begin experimenting with AI, an overarching concern shared by regulators, policymakers, consumer advocates and lenders is that bias could be built into a lending algorithm that’s looking at various data sets. For instance, if data on higher education is included, the software could favor people who have degrees and neglect groups that statistically have lower college attainment rates.

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“I asked our chief credit officer to prove to me that FICO isn’t biased,” he said. “We need to be open to trying different things, especially if the data looks promising.”

Carroll sees it similarly. “All models are biased in one way or another,” she said.

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Jackson Mueller, associate director of the Center for Financial Markets at the Milken Institute, can point to multiple studies that find benefits in AI, including a report in May that found algorithms used by fintech lenders discriminate 40% less than face-to-face lenders.

But Mueller also acknowledges that it’s a controversial area, and each new study can have an outsized impact.

“It only takes one bad report to come out to overshadow all the positive ones that have been introduced,” he said.

Regulators’ concerns
Many banks are unwilling to test AI because they fear how regulators will react. The banks moving forward with the technology agree it’s important to keep examiners informed.

TCF has quarterly meetings with examiners from the Office of the Comptroller of the Currency in which it keeps them up to date on the AI lending project. It also communicates with the OCC’s Office of Innovation.

“In all sincerity they’re trying to catch up to understand what exactly is going on,” Carroll said, adding that regulators still need to update model validation policies from 2011. “The language and the policies no longer apply.”

Butterfield said First National has made a deliberate culture shift to be more proactive on the regulatory front.

Both TCF and First National embed their normal credit policies, which include traditional credit metrics like FICO score and debt-to-income ratio, in the AI software. (The software can also ingest many other kinds of data, including education and employment information.)

One reason they’ve kept FICO scores in the new models is that they have to report borrowers’ average FICO scores to regulators.

Jeff Keltner, general manager at Upstart, said the online lender tends to keep FICO scores in its models because it doesn’t want to throw out any data that might have some value.

He also pointed out AI-based lending models’ fairness can be monitored and measured by looking at their results. “You go, what’s the outcome of this? Was this decision fair? Are we treating people equitably?” he said. “You ask the same questions no matter what the underlying model is.”

Another issue regulators bring up around the use of AI in lending is that decisions have to be clearly explained — no “black boxes” allowed. Every AI underwriting software vendor says that it has built functionality into its platform to address this, and that its systems can explain decisions more clearly than humans can.

The results
The Upstart-enabled loan is a brand-new product for TCF, but it has made thousands of the loans so far.

“The customers love it. The branch employees love it,” Carroll said, adding that even customers who are declined still have positive comments about the experience.

One challenge was deploying the hybrid approach: allowing applicants to be served online and in the branches.

“A lot of our branch employees are used to being that helper to the customer and nothing was taken away from them,” Carroll said. “So it’s a lot of change management. But overall you couldn’t have a better experience.”

First National is just completing its pilot, which began in July. It has lent tens of millions of dollars so far.

The bank’s net promoter score among these borrowers has been “off the charts,” Butterfield said, adding that the bank is open to doing more testing.

“We’re figuring out what’s our overall risk appetite for Upstart-type loans.”
Bank Technology

Banking gets its own cloud

The Bank of America-IBM collaboration addresses issues that deter bank adoption of cloud computing.

The special-purpose cloud has security, privacy and bank-specific regulatory compliance built in. The design is meant to address challenges that hold banks back from adopting cloud computing.

IBM, along with its regulatory compliance arm Promontory Financial Group, partnered with BofA to create the new cloud.

“We believe that the whole industry has some unique challenges with the public cloud around compliance, security and resiliency,” said Bridget van Kralingen, senior vice president for global industries, clients, platforms and blockchain at IBM. “Governance, risk and compliance consumes around 20% of the operations costs of most major banks.”

The requirements for security and data protection change continually, as does regulation in general, van Kralingen said. “Because of that, many banks have not moved their production workloads to public cloud providers,” she said. “There is not enough focus on those specific control requirements for the industry.”

BofA and IBM executives have collaborated since March on a set of controls that provide their cloud with proactive and automated security and use the highest level of encryption certification, van Kralingen said. The group of executives involved in the project included Cathy Bessant, BofA’s chief operations and technology officer, and van Kralingen.

The cloud is expected to run on IBM’s existing public cloud, which uses Red Hat OpenShift as its primary Kubernetes environment to manage containerized software across an enterprise, and includes more than 190 API-driven, cloud-native platform-as-a-service products to create new and enhanced cloud-native apps. Container software provides certain functions, like security, in a wrapper within which applications run and can be moved from one cloud to another.

**BofA’s cloud journey**

BofA has been on an internal cloud journey since 2013, two years before Microsoft Azure even existed.

“We started out focused on efficiency of utilization and expense efficiency,” Bessant said. She said 80% of the company’s workloads run in its private cloud. BofA does not run anything in a public cloud, other than in test mode.

The private cloud has achieved the efficiencies Bessant sought. Where BofA once had 200,000 servers and 60 data centers, it’s pared that down to 70,000 servers and 23 data centers.

Through benchmarks, the company has found that its private cloud is 29% cheaper than other service providers. It now spends $2.1 billion less per year on infrastructure than it did in 2012, due in large part to the private cloud.

But Bessant recognizes that public cloud computing is bound to become the most cost-efficient option eventually. “While the economics [of an internal cloud] are great today, they’re not going to be great forever for us,” she said.

At the same time, Bessant has said all along that BofA would not use a public cloud unless the cloud provider had a wealth of controls that match the “cocoon” the company has placed around its own internal cloud in the areas of security, privacy and compliance. And the economics would have to make sense.

BofA’s work with IBM on a financial-services-ready public cloud is meant to ensure that the highest standards get incorporated into the technology, “to have the right home for our own workloads,” Bessant said. It’s also intended to help the third parties with which BofA works use fourth-party cloud providers “to enable the creation of a stack that is compliant by design for them,” Bessant said.

Compliant by design is helpful for banks too. “Today some of the midsize and smaller financial institutions have a hard time putting together a compliant design stack because they don’t have the leverage individually,” Bessant said.

The IBM cloud is also designed to help with burst-capacity needs.

Currently, BofA has to maintain more servers than it needs for its day-to-day computing to accommodate spikes in activity, such as running a stress test or threat detection. In a cloud shared with other banks, all would share the cost of that extra capacity.

Another advantage is that IBM will vet third-party software providers before allowing them onto its cloud.

“If you’re a big financial institution today, you can build custom controls and compliance,” van Kralingen said. “If you’re small, not really.”

Being able to use software that’s already met the compliance, security and privacy requirements laid out by BofA and IBM “is game-changing for many players in the ecosystem,” van Kralingen said. It will “also allow you to jumpstart your journey.”

That lower cost, lower service and higher security will be particularly attractive to banks, van Kralingen said.

**Promontory**

Promontory Financial Group, the consulting and research arm of the Office of the Comptroller of the Currency, the banking guidelines, the New York State Department of Financial Services, and other regulatory bodies, was brought in to test third-party software providers before allowing them onto its cloud.

“Though IBM is not traditionally the lowest cost provider, this financial technology, ‘to have the right home for our own workloads,’ Bessant said. The IBM cloud is also designed to help with burst-capacity needs.

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areas of security, privacy and compliance, "cocoon" the company has placed all along that BofA would not use a public cloud unless the cloud provider had a wealth of controls that match the bank’s work with fintechs and other providers, wanting to do things in the cloud, van Kralingen said. She declined to be more specific.

Promontory’s role
Promontory Financial Group, the consulting company founded by former Comptroller of the Currency Eugene Ludwig that IBM bought in 2016, has been part of this cloud effort. For the past year, Ludwig’s team has gone through hundreds of regulatory compliance rules to help build the controls banks need to have in place.

“This was an important project because it’s the first public cloud for banks with a regulatory backbone,” Ludwig said. “Making sure that it has the regulatory backbone appropriate for banks takes a lot because, appropriately, banks have a delicate balance in meeting all the requirements relating to their technology infrastructure, and helping to marry those requirements with the technology behind a public cloud takes a meticulous amount of review.

Regulations that impact cloud computing include federal regulators’ vendor management and digital banking guidelines, the New York cybersecurity law and California’s data privacy law.

“This technology offers a speed and efficiency that’s profound,” Ludwig said. “But this technology, like any technology for banks, is truly only accessible if it meets all the regulatory requirements for safety and soundness and other compliance obligations that banks have.”

Promontory is also building compliance with rules from other countries, such as Europe’s General Data Protection Regulation, into the cloud. So a bank that operates in other countries could use this cloud globally and not have to worry about violating other countries’ rules.

IBM will not only vet third parties that use this platform for compliance, security and privacy, it will maintain compliance on the cloud as regulations change. “Promontory will play a key role in ensuring that the platform stays ahead of the changes in regulations,” Ludwig said.

This is a large responsibility for Promontory. But Ludwig pointed out that even with Promontory’s help, banks will have to make sure they’re in compliance too.

Enabling fintech partnerships
Increasingly, banks’ software vendors and fintech partners want to do things in the cloud, van Kralingen said.

“Banks need to be very agile and work with fintechs and other providers, so they have a delicate balance in maximizing the promise of data, delivering better services, but also making sure that trust occurs,” she said.

Banks vary widely in their ability to use third-party cloud services, Bessant said. Small banks often have to use an off-the-shelf product, whereas large banks create their own controls around cloud computing.

Bessant indicated that she sees this as a business and culture change. “We have looked each other in the eye numerous times during all of this and said, ‘This could revolutionize a lot of the way we think about technology that supports all of our development and our production,’” she said. “I think of this a business strategy announcement more than a cool tech announcement, even though it is both.”

Promontory is now helping banks create their own controls around cloud computing.

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WHEN BRUCE VAN SAUN TOOK OVER AS CHIEF EXECUTIVE of Citizens Financial Group in late 2013, the Providence, R.I., company was fading into irrelevance. By then, most regional banks that had been hobbled by the financial crisis were back in growth mode after a long period of retrenchment.

An exception was Citizens, whose parent company at the time, Royal Bank of Scotland, had all but stopped investing in its U.S. operations since being seized by the British government five years earlier. While its competitors were ramping up lending, pursuing new revenue sources and investing in technology aimed at improving service and efficiency, Citizens was going in reverse. Total assets had shrunk by 25% from pre-crisis levels and the bank unit was losing deposit share in several of its key markets, including Boston and Philadelphia.

A lot has changed in six years. Under Van Saun and his management team — and thanks in no small part to its well-timed spinoff from Royal Bank of Scotland — Citizens is on the rise.

By Alan Kline

WHEN BRUCE VAN SAUN TOOK OVER AS CHIEF EXECUTIVE of Citizens Financial Group in late 2013, the Providence, R.I., company was fading into irrelevance.

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An exception was Citizens, whose parent company at the time, Royal Bank of Scotland, had all but stopped investing in its U.S. operations since being seized by the British government five years earlier.

While its competitors were ramping up lending, pursuing new revenue sources and investing in technology aimed at improving service and efficiency, Citizens was going in reverse. Total assets had shrunk by 25% from pre-crisis levels and the bank unit was losing deposit share in several of its key markets, including Boston and Philadelphia.

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into point-of-sale financing for products such as iPhones, home security systems and, most recently, Microsoft’s Xbox.

And Citizens, once a tech laggard, is now seen as an innovator. A stand-alone, digital-only bank it launched in mid-2018 has already amassed nearly $6 billion of deposits and attracted customers in all 50 states.

For his leadership in positioning Citizens as a regional bank with staying power, Van Saun is American Banker’s Banker of the Year for 2019.

The success of the turnaround is evident in the numbers. Total assets have rebounded to pre-crisis levels, at nearly $165 billion as of Sept. 30, and key profitability metrics, such as efficiency ratio and return on tangible common equity, have significantly improved, especially in the last two years.

It’s evident, too, in Citizens’ rising employee engagement and reputation scores. In American Banker’s most recent reputation rankings, only two U.S. banks scored higher with customers than Citizens.

Van Saun, 62, is the first to admit that Citizens “has work to do to become the top-performing bank we aspire to be.”

He noted that Citizens’ fee income as a percentage of revenue, while improving, still lags its peers. He also said the bank needs to upgrade some of its technology to cut costs and speed delivery of services so that it doesn’t lose ground to deep-pocketed rivals like Bank of America and JPMorgan Chase.

“We’re good compared to where we were, and we’re good compared to other regions, but we have to keep our eye on the megabanks,” he said.

Still, in a year in which some large and midsize banks have opted to join forces in hopes of better competing with those giants, Van Saun said he believes Citizens can continue to thrive by sticking to what’s been working for the last six years: hiring good leaders and staying relentlessly focused on the needs of the customer.

“If you’re a trusted adviser to individuals on their life journey or to companies navigating business challenges, if you show up at every touchpoint with good ideas that add value to the relationship, then they have no reason to move away from you,” Van Saun said.

Largest-ever bank IPO
After Van Saun arrived at Citizens, one of his first big decisions in advance of the September 2014 initial public offering was selling roughly 100 Chicago-area branches, as well as small-business operations and select middle-market relationships in the region, to U.S. Bancorp for about $315 million.

Citizens had struggled to capture market share in Chicago since entering the city with its acquisition of Charter One Bank 10 years earlier, and a sale would allow the company to invest the proceeds into other areas, Van Saun said.

He also started to remake his leadership team, using the pending IPO as incentive to attract top talent.

Among his first hires was Beth Johnson, a longtime industry consultant and partner at Bain & Co., whose focus was helping companies improve the customer experience to drive growth.

Johnson, now the chief marketing officer and head of virtual channels, said she didn’t know Van Saun, but signed on quickly after meeting him. “He created such a compelling vision for where he wanted to take the bank, what it was going to take to get there and how he needed talented people to help him get there,” she said. “It was really powerful.”

Another key hire was Don McCree, a former head of corporate banking at JPMorgan Chase. McCree had retired from JPMorgan Chase a year earlier and was looking for a career outside of banking when he got a call from Van Saun to gauge his interest in becoming Citizens’ vice chairman for commercial banking.

Like Johnson, McCree said he was drawn to the opportunity to help turn a company that had suffered from chronic underinvestment into a high performer that delivers results for customers and investors.

“When I think about my legacy ... I hope what people say about me is that I was committed to developing talent,” Van Saun says.

“I'm not unique,” McCree said. “We've been able to hire an enormous number of people who are very qualified, very experienced, and they are joining for the same reason I did — which is to operate in an entrepreneurial environment, focus on client service and take the company down an exciting path.”

The first phase of the IPO took place in September 2014, and the spinoff from Royal Bank of Scotland raised Citizens $3 billion, larger than any U.S. IPO at the time.

Van Saun said the bank had to invest in its technology infrastructure and marketing to compete with larger peers.

In its first quarter as a publicly traded company, it posted a return on tangible common equity of 6.1%, which was significantly below the average for the industry. During this period, with the buyout of Citizens, Van Saun put the company on a structural change, for a company its size, was going to take some time. “Part of [Van Saun’s] thesis was that it was going to take a few years to happen,” McCree said.

But he noted that the bank had made significant progress during Van Saun’s tenure. “I think in a two-year period, you can’t speed things up,” McCree said. “It’s not going to happen overnight. But I think van Saun has done a great job of laying the groundwork and positioning the bank for what it needs to do to be successful.”

It’s evident in figures for its growth. In the 14 months since the IPO was signed on quickly after meeting him. “He created such a compelling vision for where he wanted to take the bank, what it was going to take to get there and how he needed talented people to help him get there,” she said. “It was really powerful.”

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In its first quarter as a publicly traded company, Citizens posted a return on tangible common equity of 6.1%, which was significantly below the average of its peer group at the time. During one of his first earnings calls with analysts, Van Saun predicted that Citizens' ROTCE would reach 10% by the end of 2016 — a goal some analysts viewed as overly ambitious considering the Federal Reserve's benchmark interest rate was still near zero. Moreover, it had been roughly a decade since Citizens had last posted double-digit returns.
"Part of [Van Saun's] thesis was that returns would be boosted by a higher-rate environment, and that was going to take a few years to happen," said Terry McEvoy, an analyst at Stephens Inc.
Besides, he said, "Citizens was not viewed as a great competitor then, and structural change, for a company its size, was going to take some time."

Business transformation
McEvoy was right: It would take a little longer than two years for Citizens to finally post a double-digit return on tangible common equity.
Still, Citizens finally crossed that mark in the third quarter of 2017 — and it hasn't looked back since. For this year's third quarter it posted a return on tangible common equity of 12.44%. Meanwhile, its efficiency ratio, which was hovering near 70% five years ago,
is now below 60%, and earnings per share have beat consensus estimates from analysts in 20 consecutive quarters.
Rising rates and the cuts to corpo-rate income tax rates have helped, but the steadily improving performance is largely a result of strategic decisions made by Van Saun and his team, McEvoy said.
"Within the targeted loans they are looking to grow, they are growing," he said. "Within the targeted fee businesses — capital markets, wealth management, mortgages — they are beginning to grow. The numbers are showing improving trends and market share gains."
Under McCree's leadership, commer-cial loans are growing at a rate of about 6% a year, to nearly $42 billion at Sept. 30, as Citizens has hired lending teams in the Southeast, Texas and California, built a syndicated lending division and expanded into new areas of lending, including energy, health care, gaming and private equity. Citizens also has built up its capital markets capabilities, acquiring two boutique M&A advisory firms, and greatly enhanced its trading, cash management and hedging functions, all with an eye toward attracting larger clients.
"We were narrow in terms of our product set," McCree said. "We needed more sophisticated capabilities ... to basically be able to solve all of our clients' problems."

The myriad efforts to scale up the commercial bank have helped Citizens double its number of mid-corporate clients — those with annual revenue of $500 million to $3 billion — to about 900 since 2014. Its base of middle-mar ket clients — those with revenues of $25 million to $500 million — has increased by 50%, to about 3,000, according to Van Saun.

On the consumer side, growth has been driven largely by innovation. A student loan refinancing product Citizens pioneered has helped to more than triple its portfolio of education loans in the last five years, to $9.5 billion, while its point-of-sale financing
for iPhone upgrades and Vivint and ADT home security systems is fueling strong gains in unsecured personal loans.

Van Saun said that the point-of-sale loan program grew out of a relationship Citizens had with Apple to finance purchases of laptops for students. Apple approached Citizens about offering the service, so the bank built a point-of-sale tool that allows customers to finance iPhone purchases on the spot in Apple stores or on the tech giant’s website, paving the way for similar arrangements with other merchants.

The bank saw point-of-sale lending “as an opportunity to move into a marketplace where there was very little competition,” said Brad Conner, Citizens’ vice chairman of consumer banking.

The service is not just benefiting consumers, it’s also helping retailers sell more products because “we’ve created an experience that’s incredibly easy,” he added.

Still, as proud as Van Saun is of the loan growth and improved financial metrics, he takes just as much pride in Citizens’ improved score on the Organizational Health Index, a metric developed by McKinsey that measures a company’s leadership, culture and employee engagement.

When the survey was first administered to employees, in 2015, Citizens’ OHI score was 59 (out of 100), well out of McKinsey’s top tier. Citizens has since put in a robust new “people program” that emphasizes leadership training and development, recognizes excellence across the organization and removes bureaucracy that Van Saun said was preventing good ideas from being implemented.

Four years later, the OHI score is now at 72, putting Citizens just 1 point out of McKinsey’s top quartile.

“You have to have an engaged and motivated colleague base if you are going to do a great job on customer service and experience,” Van Saun said. “When I think about my legacy, when I finally pack it in, I hope what people say about me is that I was committed to developing talent and having a great culture that’s focused on the customer.”

The making of a CEO
Van Saun has made a career of tackling tough challenges.

Before succeeding Ellen Alemany as Citizens’ CEO, Van Saun served as finance director at Royal Bank of Scotland, where he worked closely with CEO Stephen Hester to lead what was nothing less than the largest corporate turnaround in history.

Before that, he was a longtime chief financial officer at Bank of New York, where he helped lead its transformation from a regional bank to a custody bank and then became a key architect of its landmark merger with Mellon Financial.

His leadership skills were evident from an early age. Growing up in northern New Jersey in the 1960s and 1970s, Van Saun was that kid who organized Olympic-like competitions for his friends during summer breaks and that athlete who relished taking the big shot or being at bat with the game on the line.

He was also a standout student, having grown up in a household that stressed academic excellence.

“Sports were fun and you learned good lessons from sports, but they couldn’t be the be-all and end-all,” said Van Saun, who majored in accounting at Bucknell University and later received a master’s degree in business administration from the University of North Carolina. “You had to do well in school.”

His first job out of business school was in New York, doing financial analysis and strategic planning for General Mills’ nonfoods businesses, which at the time included fashion, toys and specialty retail.

In the mid-1980s, the company decided to exit those businesses to refocus on food, and though Van Saun was offered a new role at the corporate headquarters in Minneapolis, he opted to look for new opportunities in New York instead.

He set his sights on financial services, a decision that was largely influenced by his admiration for his grandfather, Grant Van Saun, who years earlier had started the commercial real estate practice at the old Irving Trust Bank in New York.

He landed at the investment bank Kidder Peabody, which was looking for someone with Fortune 500 experience to bring discipline to its budgeting and financial planning. He stayed about five years, moving up to become its controller.

Then Wasserstein Perella, the boutique M&A advisory firm founded by two of Wall Street’s most high-profile investment bankers, recruited him to be its chief financial officer. Van Saun was just 32 years old.

A few years later he was recruited again, this time by Deutsche Bank, which needed a North American chief financial officer to help it dramatically expand its U.S. investment banking presence, and then moved on to Bank of New York, where in 11 years as CFO he had a hand in about 100 mergers and acquisitions.

They included Bank of New York’s 2003 acquisition of Pershing, the stock-trade clearing unit of Credit Suisse First Boston, for $2 billion; the 2006 swap of Bank of New York’s consumer, small-business and middle-market banking businesses for
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He dabbled in private equity for a year and was pondering his next career move when he received a call from Hester in 2009 asking him to move to London to help rescue RBS. The company was 80% owned by the British government at the time, and the challenge for Hester and Van Saun was figuring out which assets to sell and which assets to keep as they sought to keep the business afloat and repay a portion of the roughly $60 billion taxpayers spent to bail it out.

"We’re bomb experts, and we have to be really careful about how we pull the wires out," Van Saun recalled Hester as saying at the time.

Over a period of four years, RBS shrank its balance sheet by about $500 million by selling off business lines and loan portfolios and taking its auto insurance subsidiary public.

At first, Hester and Van Saun gave little consideration to spinning off Citizens because "we valued diversification and wanted to have as many earnings drivers as we could to ultimately pay back the U.K. government," Van Saun said.

But by 2013, with U.K. regulators pressing RBS to continue streamlining, the decision was made to turn Citizens into a standalone, publicly traded company with Van Saun at the helm.

At 56, he would finally become a CEO.

Future challenges
Six years in, his focus is on continuing to improve Citizens even more. He has a vision for where the company needs to go from here.

Van Saun acknowledged that a shortcoming in the consumer strategy is that point-of-sale loans and high-yield savings accounts at its digital bank are one-off products that aren’t really helping Citizens deepen relationships.

Among his top priorities is cutting expenses by about $300 million over the next two years and plowing some of the savings into technology and analytical tools that will help strengthen ties with those single-product customers.

Within the digital bank, for example, "we are trying to work through what would be a logical product bundle to expand us beyond just savings," he said. "Checking is one, business savings is one, but are there other products, like digital mortgages, that we can put in a bundle and use data analytics to go after some of these one-product customers? There is a huge opportunity if we can get that right."

Another high priority is improving its mobile platform, which Johnson, its head of virtual channels, said "was built back when the Motorola Razor was the No. 1 mobile phone in America."

On the financial side, there is still room for improvement on Citizens’ key profitability metrics. Its return on tangible common equity may be climbing steadily but remains below peer-group averages in part because it’s still working through the excess capital accumulated while it was a unit of RBS. "The capital normalization is probably still in the sixth or seventh inning," said Brian Foran, an analyst at Autonomous Research.

Citizens’ stock trades at a slight discount to peers, and Foran said that could be because investors are unsure how all those new consumer and commercial loans will perform if the economy weakens.

Foran said the question he gets most from investors "revolves around how’s it going to play out when the environment gets tougher. Have they built themselves into a better bank that resembles peers, or have they overextended themselves?"

Foran, for his part, has an "outperform" rating on Citizens’ stock. As he sees it, the company "isn’t in hyper-growth mode" — it’s simply playing catch-up after years of underinvestment.

"A lot of this is just regaining market share and doing things other banks have been doing for 20 years," he said.

Van Saun pointed out that the makeup of the balance sheet “is so much better than it was” before the financial crisis, when roughly 70% of its loans were to consumers. Today, its mix of consumer and commercial loans is much closer to 50-50.

“It’s taken us over a decade to get that balance sheet back to a size that allows us to achieve better levels of profitability,” Van Saun said.

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JPMorgan Chase’s corporate trust operations; and the $16.5 billion acquisition of Mellon in 2007 that created the world’s largest custody bank.

Van Saun left about a year after the Mellon merger, because he wanted to run a business and didn’t see a path to ever becoming CEO at BNY Mellon. He was 51 at the time and Bob Kelly, the former Mellon chief who became CEO of the merged company, was just three years older.

He dabbled in private equity for a year and was pondering his next career move when he received a call from Hester in 2009 asking him to move to London to help rescue RBS. The company was 80% owned by the British government at the time, and the challenge for Hester and Van Saun was figuring out which assets to sell and which assets to keep as they sought to keep the business afloat and repay a portion of the roughly $60 billion taxpayers spent to bail it out.

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COMMUNITY BANKER OF THE YEAR
Morris Bank’s Spence Mullis

By Andy Peters

Spence Mullis surprised, and even amused, some of his rivals when he decided to lend money to renovate the Fred Roberts Hotel in Dublin, Ga. Once the area’s premier lodging destination, the 1926 red-brick building had been vacant for decades. Georgia State Patrol officers were using it for rappelling practice.

The downtown wasn’t much to speak of, with its many boarded-up storefronts and persistent crime problem.

The timing wasn’t ideal either. It was 2008, and the Great Recession was underway. Five Georgia banks failed that year, along with 25 more in 2009.

Mullis, president and chief executive of Morris Bank, still made the loan. “Spence really stuck his neck out there, and I’m sure he had a lot of sleepless nights” over the project, said Louie Curry, a Dublin real estate developer.

Mullis, 45, who can see it all from the bank’s headquarters, takes some pride knowing the bank provided financing for those projects and others nearby.

As Dublin’s once-neglected downtown has bounced back, Morris Bank has also thrived. Its assets have increased from $115 million in 2005 to $980 million today. The bank, a unit of Morris State Bancshares, generated a 1.7% return on assets and a 15% return on equity in the second quarter, according to call report data.

For helping spur the revival of Dublin’s core commercial district, and for successfully executing a growth strategy in a primarily rural area, Mullis is being honored as American Banker’s Community Banker of the Year.

Repairing a bank, then a town
After graduating from Georgia Southern University with an accounting degree in 1996, Mullis completed two compliance programs with the Federal Deposit Insurance Corp. He would go on to work as a Georgia banking examiner before moving to a Dublin accounting firm.

He joined Morris Bank in 2002 as chief financial officer and rose to president in 2005. Though the bank was struggling with problem loans at the time, Mullis’ first move was to address declining morale. He created an employee rulebook, called Code Blue, which mandates a pleasant attitude and courteous behavior while on the job.

“We pay people based on Code Blue,” said Mullis, who added the CEO role in 2006. Performance-based raises are tied to a formula that rewards adherence to the rules.

One such rule: “We believe that hustle and getting after it every day with a smile will lead to success.”

Today, the bank encourages customers to “bank blue.” Fixing credit quality was the next task. At the worst point, in early 2009, 2.34% of the bank’s loans were noncurrent. That said, Morris Bank was profitable every year during the financial crisis.

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ment in Dublin. It’s not something that many community bankers in Georgia were doing.

“It was a leap of faith because there wasn’t much going on in downtown Dublin,” Curry said.

While rural Georgia is dotted with small towns that serve as county seats or regional economic hubs, those communities often suffer from high unemployment and commercial vacancy rates. The problems have been exacerbated as more young people leave for brighter prospects.

Thomaston, about 100 miles west of Dublin, is a case in point. Thomaston and Dublin are similar in size, and both are county seats. The local economies in those towns were hammered in the early 2000s when longtime textile mills closed. Many buildings on Thomaston’s historic courthouse square remain vacant.

Dublin is moving in the other direction. Its downtown strip includes several popular bars, music venues and restaurants, including a pizza parlor with a wood-fired oven. Buildings are being renovated in accordance with historic-preservation standards, allowing Morris Bank and its borrowers to qualify for historic tax credits.

Condos have been built on the top floors of many of the renovated buildings. Dublin’s mayor, Phil Best, said he and his wife recently moved into one. “About 10 or 12 years ago, if we had visitors come in from out of town, we would have dodged downtown,” Best said, adding that three dozen families now live there.

“Mullis did some creative financing with a lot of folks who were working on downtown projects,” Best said. “He took a chance to make it work.”

Businesses are moving in too. The Curry Maffett Insurance Agency has settled into a restored two-floor building dating to 1898. The $2.4 million investment qualified for about $780,000 in historic tax credits.

“It takes longer to do these loans with historic tax credits, and they’re more complicated, but it’s great when they work out,” said Mullis, who’s also chairman of the Dublin Downtown Development Authority.

Morris Bank’s competitors are coming back after abandoning the area for branches closer to Dublin Mall in past decades. The $220 million-asset Bank of Dudley built a branch two blocks from Morris Bank. The $214 million-asset Swainsboro Bankshares is renovating another 1898 building that originally housed the now-defunct Dublin Banking Co. Its Citizens Bank of Laurens County unit will become the building’s first bank branch in decades, said Jeffery Cannon, its Dublin market president.

Mullis welcomes them all. “I wish every bank and credit union in town had a presence in downtown to help foster additional growth,” he said.

Plenty of Georgia towns have the potential for a Dublin-style comeback, in Mullis’ view. Morris Bank is prepared to help make one happen in Statesboro, Ga., after buying the $191 million-asset FMB Equibanc in May.

Like Dublin, Statesboro has a large supply of historic buildings that would be perfect for restaurants, shops and condos, Mullis said. “I can’t tell you how many people from Statesboro have said to me, ‘Why can’t we have what Dublin has?’” he said.

Mullis decided to splurge on marketing after the FMB purchase, to let people in Statesboro know that Morris Bank was serious about its plans there. His bank agreed to pay $1 million over five years for the sponsorship and signage rights at Georgia Southern University’s football stadium.

Joe Brannen, CEO of the Georgia Bankers Association, said he thinks Morris Bank has a great chance to revive Statesboro’s downtown, given Mullis’ persistence. “He’s an energizing person to be around,” Brannen said. “He’s exciting, thoughtful and strategic. You can tell he really likes being a community banker.”

Hurdles remain

Mullis still faces numerous challenges, including Dublin’s sporadic economic growth. In the past decade, Dublin was hit by the sudden departure of big new factories, not long after they had opened.

In 2010, the German solar-panel manufacturer Mage Solar started building a plant, financed partly by a $600,000 working-capital loan from Morris Bank. But Mage shut the plant down five years later, citing volatility in the U.S. solar market.

Traces of Mage remain throughout town, including solar-powered streetlights and a small, active solar farm on the front lawn of Dublin High School. “We built this beautiful new school, but you can’t see it because of the solar panels,” Mullis said, half-joking.

Valmiera Glass, a Latvian Fiberglas manufacturer, was at the center of a similar story. The company in 2014 announced plans to build a $90 million plant in Dublin and create 400 jobs. The facility opened in 2018 but shut down a year later. The company said it had significant unexpected losses during a longer-than-expected startup phase. Valmiera’s U.S. subsidiary later filed for Chapter 11 bankruptcy protection.

A skeleton crew still at the Valmiera plant is slowly dismantling a multimillion-dollar glass furnace, Mullis said. Agriculture is big in the area, but ag loans make up less than 5% of Morris Bank’s $722 million portfolio. Mullis said it’s difficult for the bank to compete on price with the Farm Credit System. Plus,
most farms are owned by national agriculture companies that get their financing elsewhere.

Dublin’s largest employer — a 340-bed Veterans Affairs hospital — is virtually recession-proof. The town also has the 160-bed Fairview Park Hospital. Health care has become the area’s biggest economic engine, Best said.

Physician offices and other medical businesses are a big part of Morris Bank’s largest loan category, commercial real estate. In 2015, the bank provided an $8.4 million Small Business Administration loan for the development of a skilled nursing home facility for prisoners in Milledgeville, Ga.

A prison facility is an economic development project few towns would have wanted. But Milledgeville, about 50 miles north of Dublin, has a long history as the site of state-operated prisons and mental-health facilities, Mullis said. “The project not only made economic and business sense for the customer, it also helped a community that had lost so many jobs during the downturn,” he said.

Morris Bank also makes a lot of loans to homebuilders. It’s the lead lender on Moore Station Village, a new development planned by Curry’s real estate company.

The bank doesn’t have a monopoly on these loan opportunities. Dublin has nine banks in all: Wells Fargo, the $11.8 billion-asset Ameris Bancorp, the $3 billion-asset Capital City Bank Group and six other community banks. The $2.7 billion-asset Robins Financial Credit Union and the $1.4 billion-asset Georgia United Credit Union also operate there. “I compete with all of them,” Mullis said.

In search of opportunity
Morris Bank needed to expand beyond Dublin to generate growth. It bought the failed Gordon Bank in Gordon, Ga., in 2010. It expanded to Gray, a growing bedroom community near Macon, in 2012 by hiring an 11-banker team from a rival. In 2015 it bought a branch in Warner Robins from CertusBank.

There should be more acquisition opportunities, said James Stevens, a lawyer at Troutman Sanders in Atlanta who has advised community banks in Georgia on M&A and regulatory issues. “Morris Bank is significantly larger than the banks around them, and they’re in a position to be a consolidator,” Stevens said.

The leaders of many small banks in rural Georgia want to retire but have few in-house candidates to take over, Stevens added. “A lot of these banks have succession-planning issues.”

But Mullis said the opportunities may be limited. Small banks in rural Georgia may be a source of cheap deposits, but they’re in shrinking markets. And the deposits are likely to dry up.

“I take calls from all these bankers who ask me to buy them,” Mullis said. “I have to tell them that they don’t have anything to offer Morris Bank.”

A more immediate concern is falling interest rates, which have led to net interest margin compression throughout the industry. A recent surge of early commercial loan payoffs has forced Morris Bank to search for lower-yielding credits and investment securities. The bank’s profit in the first half of 2019 fell 7% from a year earlier, to $6.9 million.

Excluding FMB, total loans rose by only 4.4%, to $613 million, in that same period. The bank’s net interest margin shrank by 11 basis points, to 3.60%.

“We’re getting hammered by early paydowns,” Mullis said. “Every bank here is getting hammered by paydowns. Margin compression is a real thing.”

The margin is expected to tighten more as rates decline, but the bank’s net interest income could gradually increase “with reasonable and conservative asset growth,” Mullis said.

Mullis has big plans for Dublin, though. The father of two children, Beau, a college sophomore, and Nan Marie, a high school sophomore, with his wife, Brandy, he intends to do his part to ensure the town continues building on its momentum.

He wants to help Dublin develop a community walking path along the Oconee River.

The downtown strip needs a boutique hotel, Mullis said. He’s got his eye on one specific parcel that would be perfect if he can talk the owner into selling.

“These projects are starting to make more business sense as we’ve reached critical mass,” Mullis said.

Morris Bank’s top officers are still years away from retiring, and Mullis is confident his team can keep adding assets through organic growth and potential acquisitions. Morris Bank expects internal growth of 5% to 7% each year, he said.

“I think we have a tremendous amount of runway potential as we have a moderately young management team,” Mullis said. “My particular role will continue to evolve into a more strategic, versus tactical, one as we look for more growth opportunities.”

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ANA BOTIN
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“God, I hope it never comes here.”
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