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Expanding the field

Doubling the asset threshold so a wider scope of banks can opt out of the CRA proposal would cover nearly 17% more institutions

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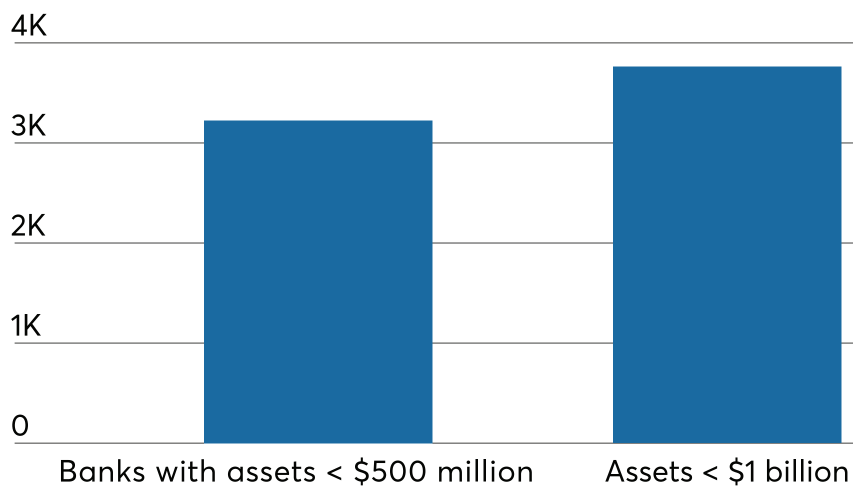

Source: FDIC (excludes banks supervised by the Federal Reserve)

dailybriefing

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CRA

Community banks seek broader exemption from CRA changes

By Brendan Pedersen
March 12, 2020

WASHINGTON — Community banks are asking regulators to broaden the scope of institutions that would be granted regulatory relief from a new Community Reinvestment Act framework.

The CRA reform plan proposed by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp. would allow banks with under $500 million of assets to stick with the old regime.

But community banks and industry representatives say that threshold should be closer to $1 billion to relieve smaller banks of the compliance ordeal of transitioning to a new framework.

"We want the asset threshold to be raised," said Lilly Thomas, executive vice president and senior regulatory counsel for the Independent Community Bankers of America. "We're still talking to our bankers about where exactly it should be, but at a minimum, we believe it should be $1.3 billion at least."

Under the current regime, banks with assets of $326 million to $1.305 billion are considered "intermediate small" for the purposes of CRA exams, while banks below $326 million are just considered "small." Banks in either category enjoy varying degrees of relief from CRA reporting requirements. The thresholds are adjusted annually for inflation.

The proposal would remove the "intermediate small" category and raise the threshold for "small" to $500 million. But the more significant step would be to allow institutions below $500 million of assets to opt in to the new framework or have their CRA performance measured under the current system.

Yet bankers say the agencies should allow more institutions to get relief.

"We believe that removal of the Intermediary Small Bank status would create undue burden for a Bank of our size. Operationally, a Bank with $720 million in assets functions much more similarly to an average 'Small Bank' than to the multi-billion dollar institutions we would be compared to under the proposed rule," Kevin Phillips, vice president and compliance manager for the $720 million-asset Sound Community Bank in Seattle, wrote in a comment letter on the proposal.

"Data collection and reporting does not come at the same proportionate cost to Banks of all sizes," Phillips said. "Alternatively, if the Intermediary Small Bank status is removed, we believe a threshold of $1 billion is more appropriate.

Patrick Thomas, senior vice president and CRA officer of the $664 million-asset Bank of Labor in Kansas City, Kan., similarly said the "small bank opt-in threshold should be raised to include banks with assets under $1 billion."

"The proposed data collection, recordkeeping and reporting are substantial and will require the bank to invest in a software program specific to CRA data collection," Thomas wrote, adding that the combined costs of new systems, staffing and training "will cause a negative impact to the bank's earnings."

Still, the proposed threshold would benefit a significant portion of the industry.

Roughly 73% banks supervised by the OCC or FDIC fall under the $500 million threshold, as of the fourth quarter of 2019. Raising that threshold to $1 billion would expand that figure to 86%.

And a great many more banks stand to be released effectively from the new regime since the Federal Reserve has balked at signing on to the OCC and FDIC's proposal, meaning banks supervised by the central bank would still follow the old CRA regime.

Responding to concerns about inconsistency between the agencies, Fed Chairman Jerome Powell recently told senators that giving small OCC and FDIC banks the opportunity to opt in to reforms could bring some degree of parity to CRA requirements across the industry.

"There are going to be two standards anyway," Powell said at a Senate hearing in February. "Under the FDIC OCC proposal, about 70% of their institutions will be able to opt out of that standard. So there's going to be the existing standard, and ... there will be the new standard assuming that they go forward with it. So there will be two systems, and ... if we don't do anything, then we'll just be like the 70% of the institutions that they supervise."

Thomas cited conversations with the ICBA's members, who have chafed at the sheer amount of change and cost the proposal would require, despite arguments from regulators that the proposal would simplify and clarify banks' requirements under the CRA.

"The primary reason is the cost of implementing an entirely new framework, and the complexity and difficulty of the new metrics, especially for small and community banks," Thomas said. "As written, it would be difficult for them to implement this."

While the banking industry has generally lauded efforts to modernize the CRA, some observers said the costs of the new system

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could persuade community banks to keep the current regime if they can.

“I don’t think community banks are enthusiastic about the proposed revisions as they stand,” said Camden Fine, former head of the ICBA and now president and CEO of Calvert Advisors. “The record-keeping requirements as written — although it could change — is a lot of burden. It may be as bad or worse as under the current regulation.”

Thomas, however, emphasized that community banks are not entirely averse to reforming the rules.

“Regardless of where the asset threshold for small banks is, a higher threshold gives small banks time to let a larger system develop around a new CRA framework,” Thomas said. “It gives the cores and other service providers a chance to develop new systems, and community banks can use the new framework with less burden once those are actually in place.”

Most bank trade associations, including the ICBA, have not yet filed a public comment on the proposal and are not expected to do so until April, closer to the now-extended deadline.

Among the many proposed changes, regulators also asked the public dozens of questions about the proposal, including whether or not the asset threshold for the small-bank opt-in should be raised to $1 billion.

“The OCC is encouraged by the number of thoughtful comments it has received so far to improve the proposal to strengthen the Community Reinvestment Act regulation,” OCC spokesperson Bryan Hubbard said in a statement. “Specific suggestions, like those regarding the threshold for smaller banks to opt-in to the proposed evaluation framework, are very helpful as we consider all of the comments in developing a final rule.”

Asked about the threshold at a recent press conference, FDIC Chair Jelena McWilliams said that, while she believed the $500 million threshold had been “positively received,” she had heard that “some banks would like a higher threshold so that they will have a choice between the old and, eventually, the new framework.”

Meanwhile, community reinvestment advocates, who assert the OCC and FDIC’s plan would hurt key groups that rely on the CRA, say a broad exemption for small banks raises further doubts about the overall proposal.

“If you raise the exemption threshold, you end up in a situation where the vast majority of FDIC banks are exempt from the new system, which begs the question — why sign on to the proposal at all if you’re preserving the way CRA is now for most banks?” said Jesse Van Tol, CEO of the National Community Reinvestment Coalition.

POINT-OF-SALE

What could quell the boom in 0% installment lending

By Kevin Wack
March 11, 2020

On the Urban Outfitters website, shoppers can purchase a six-drawer dresser for four interest-free payments of $212.25, each one equal to a quarter of the item’s $849 price tag.

If all goes as planned, the furniture will be fully paid off in six weeks, which is not too much longer than it will take for the unassembled dresser to be delivered.

Zero-percent interest plans with short repayment schedules are an increasingly popular method of financing everything from cosmetics to apparel, especially among young adults who do not have credit cards. But the products carry risks both for shoppers and lenders, particularly at a time of rising economic distress. They also raise new questions about the regulation of consumer credit in the digital economy.

The company that offers installment financing at urbanoutfitters.com is Afterpay, an Australian firm that has expanded rapidly in the U.S. over the past 18 months. Its thousands of U.S. retail partners also include Anthropologie, Levi’s and Skechers.

Melbourne-based Afterpay reported recently that it had 3.6 million active U.S. customers during the last six months of 2019, up from just 700,000 in the first half of the year. Underlying retail sales in the U.S. that were financed by Afterpay rose by 445% over the same six-month span.

The 6-year-old company has grown so quickly because of a value proposition that has proven enticing to many retailers: In exchange for fees that are higher than what merchants typically pay to accept credit cards, stores can expect a big boost in both purchase sizes and the percentage of shoppers who complete their transactions.

HSBC noted in a 2018 report that online shoppers who click on an item often abandon their purchases because they decide that the price tag is too high. Financing options from firms such as Afterpay can help to reduce consumers’ cost concerns, the report stated.

Put another way, four payments of $50 can seem more manageable to cash-strapped consumers than a single $200 obligation.

Participating merchants pay Afterpay an average of a little under 4% of the revenue they generate from the sales, according to CEO Anthony Eisen. But Afterpay says that the retailers’ conversion rates increase by roughly 22%, and their average order values increase by 20% to 30%, more than offsetting the higher acceptance costs.

“Our growth has been very viral,” Eisen said in an interview last week.

A regulatory gray area

Afterpay is one of several companies — others include Klarna, Quad Pay and Sezzle — in the nascent consumer finance segment known as “Buy Now, Pay Later.” Their products have fallen into something of a gray area for U.S. financial regulators.

Because Afterpay does not charge interest, and its customers agree to pay off their obligations in just four installments, its product does not appear to fall within the parameters of the Truth in Lending Act, which requires lenders to provide borrowers with information that could enable comparison shopping.

But just because Afterpay’s loans are interest-free does not necessarily mean they are cost-free to the borrower. When an Afterpay customer misses a payment, the company may charge a late fee. Those fees can be as much as $8, according to the company’s U.S. website. Total late fees are capped at 25% of the initial order value.

Eisen, a former investment banker who co-founded Afterpay in 2014, said the company’s product was designed to prevent consumers from falling into a debt trap. Customers who fall behind and owe a late fee cannot use the product again until their outstanding balances are settled.

"Our service is very efficient at weeding out people who shouldn't be using it," Eisen said. "Importantly, we don't seek to make money from late fees. We lose more than we collect. It really is an incentive for customers to pay on time."

In the second half of last year, Afterpay, which is publicly traded in Australia, derived 15.3% of its total income from late fees, down from 17.6% in the same period a year earlier. A study commissioned by Afterpay that was published early last year found that 93% of the company's customers do not pay late fees.

Companies that rely substantially on late fees could eventually draw pushback from consumer advocates.

"I don't think it's appropriate for late fees to be designed as a revenue source, and as a way of disguising interest charges," said Lauren Saunders, associate director at the National Consumer Law Center. Saunders made clear that she was speaking in general terms and not about Afterpay specifically.

State regulators are another source of uncertainty for Afterpay and other companies that offer 0% interest financing on retail purchases. A key question is whether states will classify these products as loans, which can trigger more protections for consumers.

In December, the California Department of Business Oversight issued a legal opinion to an unnamed point-of-sale lender, stating that the firm's product met the legal definition of a loan and rejecting the company's argument that it did not have to be licensed under the California Financing Law.

The following month, Sezzle received a California lending license, but only after agreeing to pay a fine and refund consumers for loans that it had already made without a license. California officials concluded that Sezzle customers who owe fees after falling behind on their payments could potentially pay annual percentage rates in excess of 600%.

Mark Leyes, a spokesman for the California Department of Business Oversight, said last week that other companies in the rapidly growing industry are still under review.

"We have some disagreement with some of the operators about what does and does not constitute a consumer loan under state law," he said.

Analysts at the Swiss bank UBS have argued that Afterpay's share price could decline as a result of looming regulatory risks. "In our view, somewhat paradoxically, the more successful Afterpay is, the more likely it will attract regulatory scrutiny," the analysts wrote in an October 2019 research note.

Eisen said that Afterpay's U.S. unit, which added former U.S. Treasury Secretary Lawrence Summers to its advisory board last fall, operates within all federal and state requirements.

An Afterpay spokesperson added, "While we don't consider ourselves to be traditional credit, we consider and take seriously our responsibility to comply with applicable law."

Anticipating the next downturn

Sometime in the coming months, Afterpay plans to expand further in the U.S. by enabling merchants to offer its financing plan to customers while they are in stores. The company already offers in-store financing in Australia, where shoppers generate bar codes on their mobile phones and scan them at the cash register.

In-store capability in the U.S. would match a feature introduced last year at Walmart stores by Affirm, a San Francisco-based company that charges interest on its installment loans and does not collect late fees.

"A lot of our major retailers are very keen to launch in-store with us after they've seen the success online," Eisen said.

Scott Galloway, a marketing professor at New York University's Stern School of Business, has argued that Afterpay and its upstart competitors should be making massive investments in their businesses in order to fend off competition from more established players.

JPMorgan Chase, Citigroup and American Express all now offer products that allow their U.S. customers to turn their credit cards into products that offer fixed repayment costs. Last year, Visa also introduced technology that enables issuers of Visa-branded cards to offer installment payments.

Another potential threat to Afterpay is an eventual rise in the firm's loss rates. The Australian company bears 100% of the loss when shoppers fail to repay their loans. So far, those costs have been manageable. Gross losses totaled 1.0% of the firm's underlying sales volume in the second half of 2019, which was down from 1.2% in the first half of the year.

Still, the odds of a U.S. recession appear to have increased in recent days as the economic damage from the coronavirus outbreak spreads. Consumers who live paycheck to paycheck — including many of the young adults that Afterpay targets — could be particularly challenged during the next downturn.

Afterpay, which reported total debt equivalent to $270 million in U.S. dollars at the end of last year, could also be hurt by a disruption in funding markets. The company has a $200 million receivables warehouse facility with Citigroup and another of the same size with Goldman Sachs.

During his recent interview, Eisen expressed confidence about the durability of Afterpay's business model.

He said that Afterpay has developed proprietary technology that determines whether to accept or reject a transaction in real time, and that loss rates have decreased as the company has included more data.

Eisen also said that Afterpay customers cannot have outstanding balances of more than $2,000, which means that the company has less exposure to particular customers than credit card issuers typically do. And he noted that about 85% of the firm's sales volume comes through debit cards, which are linked directly to consumers' bank accounts, helping to ensure repayment.

In addition, Eisen stated that the short-term duration of Afterpay's loans gives the company the opportunity to make changes quickly in response to evolving circumstances. "So we feel very good about our model in a climate that might get a little bit tougher," he said.

SBA

Do banks have a role to play in SBA's coronavirus loan program?

By John Reosti
March 12, 2020

President Trump's plan to equip the Small Business Administration to make $50 billion in low-interest loans to small businesses hurt by the coronavirus outbreak raises the

agency's already high profile in the federal response to the pandemic.

What's less clear is the role banks and credit unions that dominate the SBA's 7(a) and 504 lending programs might play. A total of $7 billion authorized last week as part an $8.3 billion emergency spending package, will be distributed through the SBA's disaster-relief program. Congress is working to hammer out the details of how the $50 billion President Trump announced Wednesday will be allocated.

"Congress is still discussing a role for SBA to play through its lending partners," said Tony Wilkinson, president and CEO of the National Association of Government Guaranteed Lenders. "It's too soon to know what that might look like, but it could be along the lines of the American Recovery Act."

Sen. Marco Rubio, R-Fla., chairman of the Senate Small Business and Entrepreneurship Committee, said he is working on legislation that would include a role for community banks.

"We want to take the commitment the president made last night and funnel it through our 7(a) program and community banks," Rubio said Thursday at a hearing in Washington. "They are in the community. They have the ability to process the paper on this."

The SBA did not immediately respond to a request for comment.

Signed into law by President Barack Obama at the height of the financial crisis in February 2009, the American Recovery Act reduced fees and increased the guarantees the SBA offered through its regular loan programs. It sparked a 30% increase in program activity as gross loan amounts approved jumped to $16.8 billion in the 2010 fiscal year from the prior year's $13 billion.

In this new crisis, the spotlight so far has been on SBA's disaster relief program. The agency disclosed Thursday that it will make disaster relief funding available to areas impacted by coronavirus once it receives a request from the governor of the state or territory. It will provide loans of up to $2 million at an interest rate of 3.75% to small businesses and 2.75% to nonprofit organizations.

While 7(a) and 504 loans are originated by banks, credit unions and other SBA-approved lenders, disaster relief loans are made directly by the agency.

The money Congress and the Trump administration have earmarked for disaster relief funding represents an unprecedented challenge for SBA. The agency's disaster relief lending totaled $12.7 billion for the five-year period that ended on Sept. 30.

After natural disasters such as hurricanes, the SBA has had to open local offices and hire staff to process applications.

"It does take time to ramp things up," James Ballentine, the American Bankers Association's executive vice president of congressional relations and political affairs, said in an interview before Trump's announcement.

It's unclear how the SBA would disburse coronavirus relief funds, given the emergency's nationwide scope.

"I believe the SBA can probably handle it, particularly if banks are involved in the process," said William Isaac, a former chairman of the Federal Deposit Insurance Corp. "This will require a cooperative effort."

Banks and credit unions, meanwhile, have played little or no role in disaster relief lending.

A pilot program authorized in October 2016 gave lenders authority to make loans of up to $25,000 to small businesses impacted by disasters, but it's seen little use. According to a Feb. 7 report by the Government Accountability Office, the SBA has received a total of 93 applications under its Express Bridge Loan Program, approving two loans totaling $50,000.

Under Express Bridge Loan, lenders participating in the agency's SBA Express program can make $25,000 loans to existing small-business customers affected by disasters. The program features a streamlined application process and a 50% guarantee, but the GAO pointed to shortcomings in the agency's marketing.

"SBA generally has not targeted its outreach for the program to disaster-prone areas," the GAO report said.

While increased funding could help boost confidence in the economy and the government's response to the crisis, the overall impact might be limited, said Robert Johnson, a finance professor at Creighton University.

"The problem with coronavirus is not the lack of lending or liquidity, but that there is a dramatic current and future demand-side reduction," Johnson said.

Ken McCarthy contributed to this article.

ENFORCEMENT ACTIONS

CFPB official will be recused from agency's suit against Fifth Third

By Kate Berry
March 12, 2020

The new acting deputy director of the Consumer Financial Protection Bureau will be recused from the agency's legal proceedings involving Fifth Third Bancorp, according to a CFPB spokesperson.

Leonard Chanin, recently tapped to serve as the CFPB's No. 2 leader under Director Kathy Kraninger on a part-time basis, worked as a deputy general counsel at Fifth Third from March 2017 to March 2019. Chanin is also the deputy to FDIC Chair Jelena McWilliams.

The CFPB sued the Cincinnati bank this week for allegedly opening unauthorized bank and credit card accounts without consumers' knowledge. The bureau said the bank did not take steps to detect and stop the practice.

The time frame at issue in the CFPB lawsuit — 2010 to 2016 — does not coincide with Chanin's tenure at the bank. Yet Chanin's ties to the bank — as well as those of McWilliams, who was Chanin's boss at Fifth Third — came up during the Senate Banking Committee's questioning this week of Kraninger.

"FDIC Chair Jelena McWilliams would have known about the fake accounts, she was legal officer at Fifth Third for a couple-year period," said Sen. Sherrod Brown of Ohio, the committee's top Democrat, said at the hearing. "Leonard Chanin was also her deputy at Fifth Third before he became deputy at the FDIC. He would have known about the bureau's fake-account investigation at Fifth Third."

Chanin — who had held prior jobs at both the consumer bureau and the Federal Reserve — and McWilliams were both employed by Fifth Third during the CFPB's three-year investigation of the bank.

"Even with this background, you recently named Mr. Chanin to serve as deputy director," Brown said to Kraninger. "Did you know about his role in the fake-account scandal at Fifth Third when you hired him?"

Kraninger responded, "I can assure you Mr. Chanin is a longstanding public servant who served at the Fed, who was the [former] head of regulations at the CFPB."

The FDIC declined to comment, noting the CFPB's continuing investigation of the bank.

Fifth Third has vowed to fight the CFPB's lawsuit, which it called "unnecessary and unwarranted." The bank said it identified a total of 1,100 unauthorized accounts out of 10 million that were opened between 2010 and 2016. The bank said the consumers suffered less than $30,000 in improper charges and that those were waived or reimbursed to customers years ago.

MONETARY POLICY

Fed unveils dramatic measures to ease market strain from virus

By Bloomberg News
March 12, 2020

The Federal Reserve took aggressive steps Thursday to ease what it called "temporary disruptions" in Treasuries, flooding the market with liquidity and widening its purchases of U.S. government securities in a measure that recalls the quantitative easing it used during the financial crisis.

The Federal Reserve Bank of New York said in a statement that the "changes are being made to address highly unusual disruptions in Treasury financing markets associated with the coronavirus outbreak" and had been done at the direction of Fed Chairman Jerome Powell in consultation with the Federal Open Market Committee.

Under the Fed's existing program to buy $60 billion a month in securities, the purchases will be widened to include coupon-bearing notes across a range of maturities to match the maturity composition of the Treasury market, it said.

Treasuries resumed rising and stocks pared losses after the surprise announcement, made about 10 minutes before the bidding deadline for $16 billion auction of new 30-year bonds. The current 30-year yield quickly shed about 10 basis points to 1.25% ahead of the auction as investors absorbed the Fed's muscular move.

"This is a full-blown crisis response operation, intended to make it abundantly clear that the Fed will not allow liquidity to dry up," said Ian Shepherdson, chief economist of Pantheon Macroeconomics. "We expect the Fed to purchase $60 billion of securities across the spectrum for the foreseeable future: QE4 is here."

In addition, the New York Fed offered $500 billion in a three-month repo operation and said it would repeat the exercise tomorrow, along with another $500 billion in a one-month operation, and continue on a weekly basis for the rest of the monthly calendar. This adds a massive jolt of liquidity to financial markets that will also expand the Fed's balance sheet for the duration of the operations.

The Fed has been under increasing pressure to act as investors lost faith the U.S. government's ability to quickly produce a coherent policy response after President Donald Trump addressed the nation Wednesday with few details on fiscal stimulus plans but restrictions on travel from Europe to the U.S. that deepened the sense of alarm.

"President Trump set out to calm everyone's concerns, and he added fuel to the fire," said Jack Ablin, chief investment officer of Cresset Capital Management, a Chicago-based wealth-management firm. "Right now, if you look at the technicals, we had finally slipped into what I'd call panic."

U.S. central bankers delivered an emergency half percentage-point cut last week and were expected to move again when they meet on March 17-18 in Washington, if not sooner, with some economists predicting they could slash rates to zero from 1% to 1.25% at the moment.

"Fed did its part today of helping with market functioning," said Priya Misra, head of rates strategy at TD Securities. "We still need the fiscal help."

BANK STOCKS

Senator urges banks to stop stock buybacks during coronavirus outbreak

By Neil Haggerty
March 12, 2020

WASHINGTON — The top Democrat on the Senate Banking Committee is calling on banks to suspend stock buybacks in light of the coronavirus outbreak and its impact on the economy.

As U.S. stocks continue to plummet as a result of the coronavirus, Sen. Sherrod Brown of Ohio said on the Senate floor Thursday that banks should suspend stock buybacks and invest in their communities.

"We have to act now, to make sure we can focus all our efforts on preventing this virus from spreading, and don't have one crisis stacked on top of another," Brown said. "One way we can do that is to suspend bank stock buybacks. Banks need to be investing in their communities right now, not investing in their CEOs' stock portfolios."

Brown's remarks came during another brutal trading day, as both the Dow Jones industrial average and S&P 500 were down more than 7% as the market opened.

In his Senate floor remarks, Brown referenced an ongoing $30 billion buyback at JPMorgan Chase and a $23 billion buyback at Wells Fargo.

"That money would be better spent investing in small businesses and medical research and relief for people who need help," Brown said. "The reason big banks are supposed to have that money is so they can keep lending and keep communities afloat when we have crises like this one."

It's not the first call from a member of

Congress for banks to halt stock buybacks this week.

At a House Financial Services Committee hearing Tuesday, Rep. Brad Sherman, D-Calif., asked Wells Fargo CEO Charlie Scharf if the bank would commit to halting stock buybacks and dividends until he is better able to assess the impact of the coronavirus.

But Scharf would not commit to suspending stock buybacks and said, “We’re going to run the bank the way we think is proven with our regulators.”

A banking industry source told American Banker that banks would be “cutting off money to ‘Main Street’ ” if they halted stock buybacks because roughly half of the U.S. population owns stocks either directly or in retirement savings accounts. The source added that banks are already highly capitalized.

Top executives from Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Truist Financial, U.S. Bank and Wells Fargo met with President Trump Wednesday to quell concerns about a potential financial crisis. The executives pledged to help consumers and small businesses with any financial difficulties resulting from the coronavirus.

CORONAVIRUS

Coronavirus is pushing U.S. consumers to contactless payments

By Michael Moeser
March 10, 2020

Contactless cards are a potential refuge for consumers who fear plastic and cash are carrying COVID-19.

The coronavirus, also known as COVID-19, has drawn attention to the safety and cleanliness of basic activities that many take for granted, such as air travel, being in enclosed places, or how transactions happen at stores. China and South Korea are reportedly burning or sanitizing banknotes, and new research suggests U.S. consumers are becoming more interested in contactless payments.

“The coronavirus could be the tipping for contactless in the U.S. much like the liability shift was for EMV,” said Demitry Estrin, founder and CEO of the Futurist Group, a financial services and information management consultancy.

“Despite issuers pumping out millions of contactless cards and more stores accepting Apple Pay, U.S. consumers have just shrugged their shoulders while the world embraced contactless payments. The question has always been ‘what will get consumers to change their payment behavior?’ Given coronavirus fears, I think we now have the answer,” Estrin said.

The Futurist Group recently conducted a two-wave study of 3,187 U.S. consumers before and after the coronavirus began spreading. About 38% of consumers now see contactless as a basic need or feature of payments, up from 30% a year ago. The percent of consumers saying they don’t need contactless payments has fallen from 41% in March 2019 to 33% in March 2020.

The dirtiness of paper banknotes is being highlighted by recent events in Asia. Starting February 15th, the Chinese government has issued a requirement that all Chinese banks begin sanitizing banknotes with ultraviolet light or high heat and then storing the bills in a sanitized location. The bills must be stored for 14 days before being released to the public in infected areas such as the Hubei province and for 7 days in unaffected areas.

The Bank of Korea, the country’s central bank, is heating banknotes, and in some cases burning the money. The landing page of Bank of Korea’s website states “Please understand that due to the spreading of COVID-19, we will not handle the exchange of coins and banknotes that have been introduced from abroad until further notice.”

“If you don’t have to touch anything or hand over your card to someone there is a big degree of safety in that. The consumer sensitivity to catching coronavirus is now showing up at point of sale,” said Richard Crone, principal at Crone Consulting, LLC.

Physical banknotes and coins can carry diseases. A U.S. Air Force study of banknotes collected in Ohio showed that 94% of them were infected with pathogens including E. coli, Salmonella and Staphylococcus aureus.

In a separate New York University study called the Dirty Money Project, biology professor Jane Carlton in 2014 found New York $1 bills carried more than 3,000 kinds of bacteria. One contributing factor was many people lick their hands when they count money, Carlton found.

“This is something that is forcing consumers to re-examine their behavior. When people are worried about touching something for fear of it being infected, the meaning of contactless in a payment all of a sudden takes on a new meaning in a very good way,” said Estrin.

It could also have a much deeper beyond contactless payments, impacting branch account opening and ATMs.

“Challenger banks all allow mobile account opening so it’s a bigger negative for banks that make you go into a branch to open an account. What about a germ-laden ATM? Wells Fargo’s $5 incentive to use Apple Pay to get cash out now makes a lot of sense,” said Crone.

This article originally appeared in PaymentsSource.

ILCS

Equipment finance firm applies for industrial loan charter

By Paul Davis
March 12, 2020

An equipment finance company in Cedar Rapids, Iowa, has applied for an industrial loan charter in Utah.

GreatAmerica Financial Services submitted an application with the Federal Deposit Insurance Corp. on March 4 for GreatAmerica Bank. The insurer also applied with the Utah Department of Financial Institutions.

The bank would be based in Salt Lake City

as a unit of GreatAmerica Financial.

"Our team is excited to continue working with the FDIC and UDFI in moving towards the establishment of GreatAmerica Bank," Tony Golobic, GreatAmerica Financial's chairman and CEO, said in a press release.

"Officially filing the application is the next step forward," Golobic added. "If the application is approved, GreatAmerica and GreatAmerica Bank will work in tandem to help manufacturers, vendors and dealers be more successful and keep their customers for a lifetime."

Golobic said having a bank would allow his $2 billion-asset company to provide more financing services to small and midsize businesses.

GreatAmerica Financial has offices in Iowa, Georgia and Minnesota.

COMMUNITY BANKING

Provident in N.J. to surpass $10B in assets with SB One acquisition

By Paul Davis
March 12, 2020

Provident Financial Services in Iselin, N.J., has agreed to buy SB One Bancorp in Paramus, N.J.

The $9.8 billion-asset Provident said in a press release Thursday that it will pay $208.9 million in stock for the $2 billion-asset SB One. The deal, which is expected to close in the third quarter, priced SB One at 121% of its tangible book value.

Acquiring SB One would allow Provident to enter New Jersey's Bergen County and Astoria, N.Y. SB One has 18 branches, $1.6 billion in loans and $1.5 billion in deposits.

"This business combination provides attractive financial attributes to shareholders of both Provident and SB One," Christopher Martin, Provident's chairman and CEO, said in the release. "The combined company comfortably surpasses the $10 billion-asset threshold and provides Provident a clear management succession plan."

Tony Labozzetta, SB One's president and CEO, will become Provident's president and chief operating officer. Labozzetta and two other SB One directors will join Provident's board.

The deal is expected to be 9% accretive to Provident's earnings per share. It should take about two years for Provident to earn back an expected 2% dilution of its tangible book value.

Provident plans to cut about 30% of SB One's annual noninterest expenses, or $13.5 million. The company expects to incur $18 million in merger-related expenses.

Piper Sandler and Luse Gorman advised Provident. Keefe, Bruyette & Woods and Hogan Lovells US advised SB One.

BANKTHINK

'Crossover hiring' can address the gender gap in fintech

By Michelle Tran
March 12, 2020

A scarcity of women in fintech — as employees, founders and investors — is slowing the industry and stunting careers.

Deloitte calls fintech "an industry founded for men, run by men, making products for men." Progress has been incremental at best, particularly at the leadership level. While one survey found that 37% of fintech workers are women, they make up just 19% of the C-suite. The numbers are even worse for female founders. Of all venture capital deals in fintech in 2019, only 7% had a female CEO; 93% were headed by men.

As the fintech industry looks for ways to boost the number of women, crossover hiring — recruiting from traditional financial service firms to fintechs — has emerged as an effective strategy.

More women across the fintech ecosystem means greater diversity of thought, better knowledge of the female market, a broader, more innovative array of products and services, greater profitability and increased prosperity.

Gender equality, both for individuals and collectively, has risen to the top of the business agenda. As this year's theme for International Women's Day, "Each for Equal," explains: "Equality is not a women's issue, it's a business issue. Gender equality is essential for economies and communities to thrive." That is certainly true for fintech.

Benefits of crossover hiring

Crossover hiring is a natural solution for fintech diversity because women working in traditional financial services have plenty of transferable skills. Many traditional financial services firms are also fintechs in their own right, meaning many women may have direct — not just transferable — expertise.

Women who have spent a long time at large firms also bring with them the extensive networks from those organizations, which can work to a startup's advantage when it comes to partnerships, acquisitions and integration with larger firms.

The financial services industry is arguably the richest talent pipeline for fintech. But few fintech firms, recruiters or potential job seekers know how to make the crossover leap.

The following three strategies can help broaden the pool of candidates and diversify the fintech industry, while also equipping potential candidates with the practical knowledge needed to transition into the fintech space, respectively.

Capitalize on transferable skills and learn the lingo of fintech

When people think of fintech, they often picture teams of engineers and developers. However, that's just one category of fintech employees. There are fintech jobs in client management, legal, regulatory/compliance, sales, marketing and human resources.

One major disconnect in crossover hiring is that fintech and financial services use very different language in their job postings.

For example, in fintech, the word "growth" can apply to sales, marketing, business development and account

management. Jobs might include "growth team lead" or "head of growth." In financial services, comparable positions would fall under "revenue," "sales" or "business development."

In one posting for a "growth team leader," the company is seeking someone to "develop a comprehensive digital strategy to drive business growth, users and overall revenue." Another fintech posting, this one listed as a "growth enterprise" job, is seeking "an experienced customer-facing professional to manage some of our largest relationships with leading fintech and financial services firms."

Clearly, these jobs could be filled by people who do similar work at a bank, asset manager, brokerage or other financial institution. If they don't know the lingo of fintech, however, they might skip over jobs with "growth" in the title. Resumes can also be a point of disconnection. Automated screening could easily eliminate qualified candidates whose resumes lack critical fintech-specific keywords.

Similarly, human resources teams and recruiters might not think to adapt recruitment and job advertising language to attract a broader candidate base. Some may not even understand the potential of the traditional financial services talent pool.

Pursue the power of connection by building new networks

Women seeking to work in fintech — and those who want to hire them — should proactively expand their networks. In some cases, they can branch out internally. Many traditional financial organizations, facing a talent shortage and looking for a competitive advantage, are seeking to integrate their tech and nontech talent to bring a multidisciplinary approach to solving problems.

Consequently, it may be easier than expected to make the connections needed to explore and advance internally or develop the skills needed to move to a pure fintech.

For those on the hiring side, from recruiters to company founders, it's equally important to expand their networks. One male fintech founder was interested in bringing more women in to his company, but all the candidates were male, reflecting his business network. He made an effort when attending industry conferences or other events to focus on connecting with women with relevant, transferable skills and knowledge. He ultimately found the chief technology officer he was seeking.

One other important advantage of active networking for both firms and candidates is the opportunity to dispel myths and explore cultural differences between traditional and fintech firms. Some women may worry that they not only lack applicable skills, but that fintech culture also may not be a good fit for them.

Newer and smaller fintechs may have a startup feel, from unpredictable hours to insular leadership that is exclusively or predominantly male. There may also be questions about compensation and work-life balance.

It's good practice to inform yourself of the culture within the industry from a firsthand source and not rely on assumptions. In fact, many startups are actually welcoming and supportive of women, encouraging flexible work schedules with the understanding that it's not so much when and where you do the work, but that you get the work done.

Be bold and take chances

Much of traditional hiring comes down to a simple calculation: Has the candidate done a similar job before and can they do it successfully in the new organization? That approach excludes a lot of capable people and doesn't result in the dynamic workforce that companies need. More than ever, companies need continuous learners with broad skills and experience. People with the curiosity and drive to transition into a challenging new fintech position often fit the bill.

Job-seekers, employers, entrepreneurs and recruiters all need to think differently. That requires taking a certain amount of calculated risk. Boldness, however, feeds boldness and building on a diverse workforce is easier than starting from just a few diverse hires.

Tapping the untapped market to boost women in fintech

The rapid growth of fintech means that the need for talented workers and leaders will only increase, perhaps exponentially. The rich pipeline of women in traditional financial services remains largely untapped.

By understanding the depth of transferable skills, being cognizant of the ability to "speak the same language" for recruiting, expanding networks and taking chances, fintech candidates and firms can open up new worlds.

With a diverse workforce, fintechs can distinguish themselves by developing products that are designed by women, for the female market. They can also send a clear statement that the firm values its diverse customers. Importantly, women will bring a perspective and diversity of thought that improves business outcomes.

The scarcity of women in fintech is not only stunting careers, it's creating a drag on business success. Not so long ago, fintech was a new idea. Now, it's poised to enter its next stage of growth, fueled by the talents and experience of women.

As we celebrate International Women's Day 2020, the potential for women in fintech — and beyond — is greater than ever. As the IWD campaign explains: "The race is on for the gender equal boardroom, a gender equal government, gender equal media coverage, gender equal workplaces, gender equal sports coverage, more gender equality in health and wealth … so let's make it happen."

By Donna Parisi, head of finance and fintech at Shearman & Sterling and Michelle Tran, founder, NYC FinTech Women. ❑

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