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What could go wrong

Comment letters to the FHFA on the proposed capital plan for Fannie Mae and Freddie Mac raise concerns about potential unintended consequences

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- Guarantee fees could spike to support higher earnings
- Multiple types of borrowers could be priced out of GSE market
- Emphasis on leverage ratio could obscure risk sensitivity
- Stability capital buffer could restrict liquidity in times of stress
- Capital charge could discourage credit risk transfers

Source: FHFA comment letters

dailybriefing

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GSE REFORM

Could capital plan for Fannie and Freddie stymie home-ownership?

By Hannah Lang
September 08, 2020

WASHINGTON — A proposal for Fannie Mae and Freddie Mac's capital levels to grow by more than five times once the companies return to the private sector has drawn the ire of both the mortgage industry and consumer groups over concerns the plan could drive up housing costs.

The proposed rule unveiled in May by the Federal Housing Finance Agency would align capital requirements for the government-sponsored enterprises with those of the large banks and incorporate the spirit of several post-2008 crisis regulations. The plan would not go into effect until after Fannie and Freddie are released from conservatorship, whenever that is.

But in comment letters submitted to the FHFA, many industry groups and even the two companies themselves pushed back on the idea that the GSEs should be treated like banks.

"While the U.S. bank capital framework may provide a useful precedent, the Enterprises' business models and risk profiles are substantially different from those of banks," said Ricardo Anzaldua, executive vice president and general counsel at Freddie. "In contrast to banks, the Enterprises are pass-through, monoline businesses focused on a traditional, well understood and secured asset class."

The plan would result in a colossal effort to strengthen the GSEs' balance sheets. For example, if the framework had been in effect in September 2019, the FHFA estimates that the companies would have been required to hold a combined $234 billion in capital, representing 3.85% of their total assets and 13.9% of risk-weighted assets. Currently, Fannie and Freddie's retained earnings are capped at $45 billion combined.

Ed DeMarco, the president of the Housing Policy Council and a former acting director of the FHFA, agreed that the GSEs are substantially different from banks. He suggested that the capital framework use insurance companies in addition to banks as a point of comparison for Fannie and Freddie.

"Banks do not engage principally in the mortgage credit guarantee business, which is the core business of the Enterprises," he said in the group's comment letter. "Moreover, unlike banks, the Enterprises do not rely upon deposits for funding, so they do not face the same liquidity and interest rate risk as banks."

The Community Mortgage Lenders of America also urged the FHFA to treat Fannie and Freddie more like insurance companies and less like banks.

"We remain highly skeptical of arguments that the GSEs must mirror bank-like capital standards given that they have solidified their business models as insurance companies, with a … regulator better able to keep them in this space relative to the old regulatory model," the group said, referring to the FHFA.

Yet the proposal was not universally panned. Some noted that the new capital regime is not as tough as the supervisory standards imposed on the largest, most complex banks.

Sheila Bair, a former chair of the Federal Deposit Insurance Corp. and a member of Fannie's board, called the FHFA's proposal a "highly credible framework" that would protect taxpayers from losses while at the same time assuring shareholders a return on investments. While the plan would go further than a 2018 proposal drafted by the FHFA's prior leadership, Bair said, it still strikes a middle ground.

"The rule FHFA has proposed seems to strike a good balance," she wrote in a comment letter. "While much stronger than the 2018 proposal, it would still only require roughly half as much capital as would be required under rules applicable to globally systemic banks, which protect the FDIC from losses."

But Fannie and Freddie both warned that a higher capital benchmark would require them to boost their earnings in order satisfy the requirements. That could require them to increase the fees they charge lenders to back mortgages, they said.

"To satisfy the requirements of the proposed rule while achieving a rate of return sufficient to attract loss-bearing, private-sector capital, increases to guaranty fees may be required," said Celeste Brown, the chief financial officer at Fannie. "The final capital framework should take into account the potential impact of such guaranty fee increases on the borrowers Fannie Mae serves and housing affordability generally."

Anzaldua estimated that the proposed capital framework could force Freddie to increase its guarantee fees by up to 35 basis points. If those fees increase, lenders would

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likely pass on the extra cost to consumers, he said.

"Certain negative effects on our business and in the markets may arise from this increase," he said.

A joint comment letter from 14 consumer groups said the end result would be reduced mortgage credit availability, "with an acute impact on low- to moderate-income families and families of color."

"It would do this directly, by pricing out of the GSE channel many borrowers with lower credit scores and higher loan-to-value ratios, and indirectly, by pricing out higher credit score and lower LTV borrowers that generate much of the current system's cross subsidy to make its loans more affordable," said the groups, including the Center for Responsible Lending and the National Community Reinvestment Coalition.

But on the flip side, Bair also noted that strong capital requirements would reduce the likelihood of another taxpayer bailout of the GSEs.

"What we learned from the Great Financial Crisis is that weak capital requirements lead to financial instability and crisis and that the brunt of the damage caused by that instability falls disproportionately on LMI families, and African-American families in particular," she said.

The Mortgage Bankers Association suggested that the proposed capital requirements were too strong, and also took issue with the framework's use of a fixed leverage ratio requirement.

"The level of required capital implied by the framework is too high and may be determined too frequently by a leverage ratio rather than risk-based standards," wrote Robert Broeksmit, the president and cheif executive of the MBA.

Broeksmit also argued that the capital framework was too complex.

"Taken together, these multiple, complex, overlapping constraints are likely to frustrate FHFA's goals of providing a clear signal to the Enterprises — and to the broader market — regarding how much capital is required for the Enterprises to conduct their businesses safely and soundly, and how they might operate to reduce that requirement, or to more efficiently allocate that capital," Broeksmit said.

The proposal suggests that Fannie and Freddie maintain a leverage capital buffer on top of the leverage ratio requirement, as well as a "prescribed capital conservation buffer amount" that would be comprised of a stress capital buffer, a countercyclical capital buffer and a stability capital buffer.

Fannie and Freddie would be required to hold excess regulatory capital in the amount of the prescribed capital conservation buffer, or would face limits on capital distributions and bonus payments, similar to the expectations for banks regulated by the Federal Reserve, FDIC and the Office of the Comptroller of the Currency.

The stability capital buffer in particular would go against the GSEs' mission to provide liquidity to underserved communities in periods of stress, argued Vince Malta, the president of the National Association of Realtors.

"Specifically, the stability buffer, which grows in proportion to the Enterprises' role in the market, would rise in a crisis, precisely when the GSEs should be taking a more supportive role that implies a larger market share," he wrote.

Many commenters also expressed concern about the proposal's treatment of credit risk transfers, which Fannie and Freddie currently take advantage of in order to offload some of their risk to third parties. However, the new proposal would boost capital requirements on the amount of exposure a GSE retains through a credit risk transfer, which some feel would disincentivize the use of the program altogether.

"The proposed rule's treatment of credit risk transfer would discourage the use of credit risk transfer, treating it more like another risk to be managed rather than as a critical means to absorb credit losses," DeMarco said. "The result will be … an increase in systemic risk."

Freddie Mac also implored the FHFA to rethink the policy.

"The capital framework should recognize the risk-reducing nature of CRT and the historical policy support provided by FHFA and Treasury to develop the CRT program," Anzaldua said.

LICENSES AND CHARTERS

State oversight of payments giants 'a vestige of history,' Brooks says

By Brendan Pedersen
September 08, 2020

WASHINGTON — The acting head of the Office of the Comptroller of Currency suggested that states should defer to the authority of the federal regulator in supervising large global payments companies.

The remarks by acting Comptroller Brian Brooks appeared to be a sharp escalation in the ongoing battle between the OCC and state regulators over who supervises tech-focused firms that want access to the banking system.

"It's important we have a dual banking system. But there are also gigantic global enterprises that are only regulated by the states as a vestige of history," Brooks said during a question-and-answer session hosted by American Banker. "There's no reason that they should be regulated by the states at all, and the law, we don't believe, requires that."

States and the OCC have long been at odds over federal preemption policies. The tensions have increased lately as state regulators have mounted a legal challenge to the OCC's special-purpose fintech charter, and more recently have spoken out against an OCC plan to tailor a charter specifically for payments companies.

Brooks sought to frame the OCC's push for the fintech charter as something that should have bipartisan appeal. He noted that the OCC originally developed its plan for a fintech charter under former Comptroller of the Currency Thomas Curry, an Obama administration appointee.

"Somehow, in this current moment, everything in America seems to get politicized and seen in partisan terms, but I guess I would just remind people that the fintech charter has longstanding bipartisan support," Brooks said.

Yet he vowed not to back down in the face of litigation brought by states against the fintech charter. A case in which a federal judge sided with the New York State Department of Financial Services in blocking the charter is currently pending in a federal appeals court.

"I don't think I can avoid the legal controversy; I think I have to win," Brooks said.

"Previous comptrollers before me, both Democrat and Republican, have also had to win, but they have a long track record of doing so," Brooks continued. "And I think we'll win on this as well. I think it's important to the economy that we do that."

In a statement, John Ryan, president and CEO of the Conference of State Bank Supervisors, stressed the value of the dual banking system and states' track record as being "the laboratory of innovation for financial services."

"Changing the current system would unnecessarily distort a thriving market that has fostered a system of entrepreneurship, supported innovators, provided choice as well as protection for consumers and made our financial system the envy of the world," Ryan said. "The issues the acting comptroller raises are constitutional in nature and could significantly alter how our economy functions."

Earlier in the Q&A, Brooks signaled that the OCC would likely continue to issue interpretive letters on emerging issues in cryptocurrency and crypto assets — rather than make policies through rulemaking — in the short term.

"We do rulemakings when there's a significant policy change of some kind, so, you know, if we were to change a capital standard, or if we were to change a licensing standard or something like that," Brooks said. "What we've done so far is, we've addressed the legal authority of banks to do certain things that are established law, and those traditionally have been done by chief counsel legal interpretive letters."

"We don't need a new rulemaking to just give you that interpretation of our own regulation," he said.

As for what the OCC would be issuing specifically, Brooks said that the public will soon see "some additional commentary on things like payment networks around blockchain, on things like stablecoins and the rules for reserve accounts of backing stablecoin projects, and other things."

"We're working on a couple of additional crypto issues now beyond just the custody issue, because we see banks already participating in this," he said.

"We haven't opined yet on what the rules ought to be about reserve requirements, collateral requirements, audit requirements for those things," Brooks said. "These are things already occurring. We need to speak to those sooner rather than later."

SMALL BUSINESS LENDING

Lenders press Congress to restart — and revamp — PPP

By John Reosti

September 08, 2020

As Congress returns to Washington after a summer break, lenders are pressing lawmakers to resuscitate the Paycheck Protection Program.

While the first two rounds of the $659 billion program centered on getting loans into the hands of new participants, lenders want the next iteration to focus on quickly getting many of those borrowers' loans forgiven or helping those still struggling secure another round of funding.

Specifically, lenders want a streamlined forgiveness process for loans of $150,000 or less. They would also like permission to make new loans to PPP participants that can show ongoing stress from the coronavirus pandemic.

The viability of scores of small businesses is at stake, lenders said.

"It's critical we do an additional round of stimulus," said Christopher Maher, chairman and CEO of the $11.3 billion-asset OceanFirst Financial in Red Bank, N.J. "This round needs to be far more targeted on the people who are feeling continuing pain."

Though Democrats and Republicans have struggled to find common ground on extending unemployment benefits, aiding state and local governments and another round of direct stimulus for Americans, broad agreement exists on the need to reinvigorate the Paycheck program, lenders said.

"There's a lot of agreement around PPP," said Lendio CEO Brock Blake. "I'm disappointed we didn't get it done before the recess."

PPP "seems to be the one thing everyone agrees on," added Ryan Metcalf, Funding Circle's head of U.S. regulatory affairs and social impact.

The Small Business Administration, which is administering the Paycheck Protection Program in partnership with the Treasury Department, approved 5.2 million PPP loans totaling $525 billion before the program closed on Aug. 8. That left more than $133 billion unallocated.

With the timing of a recovery unclear, demand for capital is surging after many small businesses exhausted their original loans, Blake said.

"PPP was a great shot in the arm, but that was back in April," Blake said.

"Most of that money has run out," he added. "A lot of businesses are in a tough spot and they're not sure they'll make it through. A lot of them are asking how they can set up their application so that the exact moment something passes they'll be ready to go. That demand is surprisingly strong."

The stimulus package that created the Paycheck Protection Program did not allow for small businesses to obtain second loans.

Funding Circle is backing proposals that would provide new PPP loans to businesses with 100 or fewer employees that can demonstrate pandemic-related reduction in revenue of 50% or more.

"It's another issue where there's a lot of bipartisan support in both chambers," Metcalf said.

Blake said he would be comfortable with a 25% revenue-loss threshold, and that he hoped Congress will avoid limiting relief to specific industries or types of businesses.

"There should be broad, universal criteria," Blake said. "I don't think it's Congress's job to pick and choose which businesses or industries were hit the hardest."

Meanwhile, a simplified forgiveness process for smaller PPP loans has been championed by groups such as the Independent Community Bankers of America, which has criticized the current applications as being unwieldy for many of the program's participants.

For now, PPP proceeds spent on rent, mortgage interest, utilities, payroll, benefits and select other business expenses are eligible for forgiveness. Lender groups are continuing to lobby strongly for automatic forgiveness for loans of $150,000 or less if the borrower completes a one-page attestation certifying funds were spent properly.

"Giving automatic forgiveness to sub-$150,000 loans and a streamlined process for sub-$2 million loans is better for small businesses, better for the economy, better for lenders — and better for the SBA, by the way," Metcalf said.

COMMUNITY BANKS

Investor group to buy Georgia Banking Company

By Jim Dobbs
September 08, 2020

An investor group has agreed to buy Georgia Banking Co. in Sandy Springs, Ga.

The group, led by Bartow Morgan Jr., said in a press release Tuesday that it plans to raise $150 million to build "a major presence" in commercial lending and private banking, primarily targeting customers in Atlanta and surrounding counties.

The acquirer, which plans to add services for midsize businesses such as treasury management, did not disclose the price it will pay for the bank.

"As our local economy continues to recover from the pandemic and begins a new growth phase, we plan to expand [the bank's] presence in commercial banking and add more services to help owners of mid-size businesses grow," Morgan said in the release.

Morgan was CEO of Brand Group Holdings in Atlanta when it was sold in 2018 to Renasant in Tupelo, Miss., for $453 million. His family had run Brand Bank since its founding in 1905.

Formed in 1998, Georgia Banking focuses on mortgage warehouse lending, construction lending and retail banking.

"Our shareholders are excited about Bartow's plans for our organization's growth and expansion in new areas of banking and financial services," Elliott Miller, Georgia Banking's president and CEO, said in the release. "His banking pedigree, business background and knowledge of metro Atlanta's business community are a perfect fit."

Morgan has experience raising capital.

Brand Group raised $200 million in 2011 and expanded into commercial-and-industrial lending, franchise acquisition lending and dealings with the Small Business Administration and Department of Agriculture. The company also expanded its consumer lending and deposit products.

FINTECH

What's next for Jiko now that it owns a bank

By Penny Crosman
September 08, 2020

When a small fintech called Jiko bought a community bank last week, it caught many observers by surprise.

Jiko was a small, under-the-radar company, as was the bank, Mid-Central Federal Savings Bank in Wadena, Minn.

The acquisition occurred shortly after the Office of the Comptroller of the Currency granted Varo Money a national bank charter. Better-known fintechs such SoFi, Square, Robinhood, Moven and Rakuten had for years struck out at efforts to buy a bank or start one.

The green lights partly reflect the willingness of Brian Brooks, the acting comptroller, to welcome payments companies, challenger banks and other fintechs into the regulated banking environment. Brooks, a former Coinbase executive, said Jiko's move "represents an important milestone in the maturity and evolution of fintech companies seeking to expand the reach of their products and services by becoming banks, buying or combining with a bank, or continuing to partner with banks in other ways."

Here is the backstory of how Jiko, based in Berkeley, Calif., bought Mid-Central and what the head of Jiko says he plans to do with the bank.

The Berkeley-Wadena connection

Wadena is a small town in central Minnesota with a population of around 4,000. It's named after a chief of an Ojibwe Native American tribe.

"A lot of people ask, how does a little bank in central Minnesota get involved with a company that's doing this?" said Gary Sellman, president and CEO of the $125 million-asset Mid-Central, which he has led since 1995.

The answer is one of Jiko's founders had been a shareholder of the bank for several years. That connection led to discussions beginning six years ago between Sellman and Jiko's three co-founders, who shared with the banker their ideas and asked questions about how the payments and banking systems work.

"Rather than just developing the product and selling it or leasing it to a big bank, they wanted to have a little more control of it," Sellman said. "They wanted to have their own technology company, writing the software and marketing the product. And they also wanted a bank to be able to run the product through and to have independence."

Jiko's founders knew they wanted to obtain a bank charter before doing anything else, according to Stephane Lintner, the startup's CEO and one of the co-founders.

"That was core of our thesis: If you don't own your own license, it's going to be really hard to bring the kind of change the industry needs, the evolution in technology," Lintner said. "So we were focused from the beginning on securing a bank charter and a broker-dealer charter."

The two companies did a proof of concept for Jiko's first product, which Lintner refers to as "spendable T-bills." Customers deposit money into a Mid-Central account that immediately gets invested in Treasury bills in a brokerage account held by Jiko Securities. A debit card issued by the bank lets people spend the money in the account.

Shortly after the proof-of-concept was completed, the bank's board decided it wanted to sell. The bank has since been renamed Mid-Central National Bank.

"We thought it would be a great buy — the price point was something you could fit in a Series A," Lintner said. Jiko raised $7.7 million in its Series A funding round.

"The appeal of going through a bank that existed is there's already someone supervising who's been running the bank for 30 years," Lintner said. "This let us do what we wanted to do without burning a lot of cash."

The two companies began talking with the OCC's Office of Innovation and with the Federal Reserve. Many discussions and audits took place.

"This process has been long, and there's been a lot of work involved," Sellman said. "Normally in a situation where one bank buys another, that happens in three or four months. This has been going on for about four years now. This has not been what you'd call an easy route, because there's a lot of regulatory scrutiny."

Having worked at Goldman Sachs for several years, Lintner was unsurprised by the regulatory scrutiny.

"The regulators have been extremely friendly," he said. "They're doing their job, and you come with something very different, so you have to expect that. You never ask for forgiveness at the end, you actually ask for forgiveness at the beginning, because you know you'll make mistakes. You work diligently, and when there are issues you highlight them, and you really show that you care [and] communicate a lot."

The regulators who met with the bank were mostly looking for safety and soundness, Sellman said.

"We had to be able to show them and persuade them that these new controls and assessments and processes that we're developing are going to be safe and sound for the bank and wouldn't affect the bank's liability at all," Sellman said. "Anytime you have something new, the regulators are questioning: What does this mean for the safety of the bank?"

Apart from rethinking its risk assessments and controls to accommodate Jiko's product and the funds that will flow through the bank into the Jiko brokerage account, the bank itself is not going to change much, Sellman said.

"We're still a separate entity that's operating as we did last week before we sold," Sellman said. "The main change is that our bank is now handling all of the current and future transactions that'll happen with Jiko. The bank is mainly the conduit for the funds and for debit cards. We just have to make sure that we have the proper controls to run an operation that's potentially a lot greater than our own operation."

What Jiko is building

So far, the operation is small. Today Jiko has 1,500 users who are mostly friends and family.

The basic promise of the app and account is instead of storing money in a bank account, where technically it's not being stored but lent out or invested by the bank, the money is stored as Treasury bills that can quickly be sold if need be. In some respects, it's a stablecoin backed by T-bills.

"Our core product is this integration between real-time trading, the way it works on trading floors, and payments," Lintner said. "Money comes in, it's traded, and now you own Treasury bills. It's fluid."

Jiko's team of 15 engineers built all the cloud-based technology, including ACH payment processing and trading.

"The last two years, we've been all about making sure we knew what we were doing, testing it in small volume and making sure everything reconciles," Lintner said. "There's no backup, there's no third party that has copies of the data. So if we lose it, we've lost it."

Jiko tokenizes account numbers to preserve security and privacy.

"Why do you need to give the same bank account number everywhere?" Lintner said. "If something changes on your account, that's really annoying."

The tokenization lets Jiko offer an "anti-snooping" debit card that has no number printed on it.

"The physical card we carry around is just a physical token," Lintner said. "If you lose it, nobody knows the number. They shouldn't have it. Instead you have virtual numbers."

Lintner said his company can do this because it has built its own technology.

"We don't have to register the numbers anywhere else," he said. "We're the issuer, we're the processor."

The debit card is accepted by the Visa and Discover networks.

Part of Jiko's vision is to have other fintechs use its platform for what could be called money storage as a service or money movement as a service.

"That fluidity and safety of knowing where your money is and that you can access it, that's what everyone wants to embed in their regular technology experience," Lintner said. "Whether it's the fintechs, whether it's at the point-of-sale checkout, or whether it's a reward program, everyone wants to be the bank without really wanting to be the bank, but we can facilitate that. We want to open up the platform, let others benefit from what we've done and focus on that scale and being the new cash layer that could power a really large industry."

Some articles have said that Jiko is bypassing Federal Deposit Insurance Corp. insurance. Lintner bristles at this description.

"We're not bypassing the FDIC," he said. "The FDIC applies to deposits. We don't keep deposits at the bank. The money's invested in Treasury bills in your name. That's the novelty — we're making you a direct owner of your Treasury bills. You know where the money is, it's clean, you get the yield. It's the same Treasury that backs the FDIC. It's a different way to think about money storage."

If Jiko were to take deposits, it would have to generate returns by lending against them, Lintner reasons.

"We would have to start taking risk," he said. "The regulators would ask a lot of questions about our loan plan, and rightly so. Most banks are excellent lenders. They know what they're doing. The core movement of money and the storage, that's where we're bringing value."

The use of Treasury bills allows Jiko to be efficient and scalable, Lintner said.

"We've rebuilt the basics of ACH capabilities, card processing, so that allows us to make your T-bill experience feel as fluid as a regular bank account, with a couple of great things like tokenized bank accounts," Lintner said. “Over time we can invent in other payment systems as well.”

Jiko can also facilitate payments directly between people.

Though beta users are getting the service for free, the startup plans to charge consumers $99 a year for a subscription. Lintner said the subscription fee is needed because the company won’t be leveraging deposits or selling personal data.

“The American public is used to this now: Netflix and Amazon are a flat fee,” he said.

Jiko’s special sauce

There are a lot of fintechs out there with interesting ideas about money and apps.

What makes Jiko special, in Sellman’s view, is the security features it’s building.

“The architecture of this Jiko account is such that, from a security standpoint, you can’t just break into a database and get all the data,” he said. “This is designed so that somebody would actually have to break each separate Jiko account.”

And the basic idea of having money flow into a brokerage account and go into T-bills, but also be available for day-to-day expenses, is novel, in his view.

“This has a lot of potential for people to eliminate the middleman along the way and have an opportunity to earn more on their daily transaction accounts than they did in the past, and have a safe investment to do that,” said Sellman, who uses Jiko himself.

Todd Baker, a senior fellow at the Richman Center for Business, Law & Public Policy at Columbia University and the managing principal of Broadmoor Consulting, said that Jiko’s purchase of a bank is unusual because it’s a venture-capital-backed startup.

“There’s a complicated story here about finding a way for a venture-capital-backed company to acquire a bank, which has been almost impossible in the past,” Baker said. “There are no venture-capital-controlled banks.”

The business model is also unique, he said.

“What they’ve tried to do is create a whole independent non-legacy-based money transfer system,” Baker said. “Now they have direct access to the ACH system, which they’re using to move all the money instead of having to pay some other bank for all the money movement. If they have a bank, and they have direct access to the payment rails, that is a cost saving and a technological advantage.”

It’s in line with the payments bank proposal that Brian Brooks has floated, Baker said.

Buying a bank that is a member of the Federal Reserve System and has access to the payment system is “essentially an artificial way to get to the OCC payments bank charter,” Baker said.

Under Brooks’s watch, the OCC seems more eager than it has been in the past to give these kinds of companies a green light.

“He really wants to encourage this,” Baker said. “He really wants this because he’s a technology aficionado and he’s a remarkable guy. He wants to encourage bank business models that don’t look necessarily like the traditional bank. He’s not going to object to banks that are partly fintechs so long as from a risk standpoint, he can be sure that the operation will be safe and sound.”

FINTECH

Huntington launches automated savings tool

By Laura Alix

September 08, 2020

Huntington Bancshares in Columbus, Ohio, has launched a feature in its mobile app to help customers automate their savings.

Money Scout analyzes a customer’s spending patterns, income and expenses and then moves small sums of money, between $5 and $50, to their savings accounts. The company began developing the tool in-house early this year but fast-tracked it when the pandemic hit and customers suddenly needed more help.

“We actually had this in pilot and I chose to accelerate it because I thought there was a need,” said Andy Harmening, the $118 billion-asset company’s director of consumer and business banking. “The dollars really add up, and it shows you what’s possible.”

Huntington joins a number of other banks and fintechs offering savings options that play on a similar behavioral principle.

Bank of America has long offered a “keep the change” option that rounds up a customer’s purchases to the nearest dollar and deposits the extra money into savings. Fintech firms like Digit, Qapital and Chime were among the first to offer algorithm-based apps that automatically move money out of a consumer’s account based on spending patterns. Last year, Fifth Third Bancorp in Cincinnati relaunched Dobot, a fintech it bought that follows a similar algorithmic approach.

Huntington conducted a four-month pilot with “a few thousand” people starting in May, Harmening said. The company said Money Scout helped those customers save $1.7 million, or an average of $115 a month.

The tool is housed within Huntington’s digital banking dashboard, called The Hub. Harmening said Money Scout notifies customers before it moves money into savings and that customers can easily shut it off if they’re going through a rough patch.

“It helps people get started and maybe see an opportunity where they didn’t,” he said. “It gives them a cushion where they need it most.”

DEPOSIT INSURANCE

FDIC board to discuss fund restoration plan next week

By Brendan Pedersen

September 09, 2020

WASHINGTON — The board of the Federal Deposit Insurance Corp. will consider a plan on Sept. 15 to shore up the Deposit Insurance Fund after its reserve ratio fell below the statutory minimum.

Last month, the FDIC announced that the reserve ratio of the DIF — the fund responsible for covering depositor losses and administrative costs when a bank fails

— had fallen 9 basis points between the first and second quarter of 2020, from 1.39% to 1.30%. The decline was attributed to an unprecedented surge in deposits. Congress requires the agency to maintain reserves of 1.35% of estimated insurance deposits.

"I want to emphasize that the Fund has more money than at any time in the FDIC's history, and the reduction in the reserve ratio was solely a result of the unprecedented increase in bank deposits," FDIC Chair Jelena McWilliams said in prepared remarks last month announcing the results of the agency's Quarterly Banking Profile. The DIF's current balance is $114.7 billion.

It is unclear whether the FDIC's coming restoration plan will raise premiums on banks. While the DIF is primarily funded by assessment fees paid by banks, McWilliams said in her prepared remarks last month that the agency believes "deposit growth is likely to normalize in the upcoming quarters and for the reserve ratio to rise above 1.35 without any need to modify assessment rates in the near term."

The Dodd-Frank Act raised the statutory minimum of the DIF's reserve ratio from 1.15% to 1.35% in 2010, and gave the agency until Sept. 30, 2020, to hit the new target. The FDIC managed to reach the goal early, achieving a reserve ratio of 1.36% in September 2018.

DIVERSITY AND EQUALITY

BofA details investments to help Black- and Hispanic-owned businesses

By Allissa Kline

September 08, 2020

After pledging $1 billion to address racial and economic inequities in the areas it serves, Bank of America is detailing how it plans to spend $300 million of that financial commitment.

The Charlotte, N.C., bank said Tuesday that it will invest a combined $200 million in Black- and Hispanic-owned businesses seeking capital and in programs that develop future entrepreneurs in minority communities.

The company will invest $50 million in minority depository institutions. The bank will also spend $25 million on community outreach and an additional $25 million on jobs initiatives in Black and Hispanic communities.

"These initiative investments will address access to jobs and support for small businesses by creating more pathways to employment in communities of color and more support for minority entrepreneurs," Chairman and CEO Brian Moynihan said in a news release.

The bank's financial support is already underway. So far, it has completed investments in three minority depository institutions: First Independence Corp. in Detroit, Liberty Financial Services in New Orleans and SCCB Financial Corp. in Columbia, S.C. Each of those investments amounted to roughly 5% of the respective bank's common equity. To help communities combat the spread of coronavirus, the bank has also already provided 5 million masks to communities in need.

On deck are investments in additional Black and Hispanic-owned depository institutions, more donations of personal protective equipment, and grant funding to provide career training for Black and Hispanic individuals. The grants will be facilitated through partnerships with over 20 colleges and universities serving Black and Hispanic students.

The bank said it expects to release more details about direct equity investments at a later date.

In June, Bank of America became the first major bank to announce a financial commitment to help local communities tackle economic and racial inequalities that have been exacerbated by the coronavirus pandemic. Vice Chair Anne Finucane, who is overseeing the plan, told American Banker that the crises of 2020 — the pandemic and recession as well as the unrest after the police-involved killings of George Floyd, Breonna Taylor and others — spurred the bank to double its initial pledge.

Other banks have made similar commitments. In June, PNC Financial Services Group in Pittsburgh pledged at least $1.05 billion to fight systemic racism, while U.S. Bancorp in Minneapolis said it would spend $116 million this year, including $100 million in additional capital to Black-owned and operated businesses and organizations within its 26-state footprint.

Last week, Huntington Bancshares in Columbus, Ohio, said it would spend $20 billion over five years to improve economic opportunities across its Midwest footprint. Like its peers, Huntington unveiled a community plan that involves a combination of lending, investments and philanthropic donations.

DIVERSITY AND EQUALITY

Fed wants banks to say what they're doing to promote diversity

By Bloomberg News

September 08, 2020

The Federal Reserve wants the banks it oversees to provide more information on what they're doing to promote racial and gender diversity, a senior central bank official said.

"In the last two years, regulated entities slightly increased their submissions of assessments of their diversity policies and practices," Sheila Clark, program director of the Fed's Office of Diversity and Inclusion, said in congressional testimony published ahead of a hearing Tuesday.

"However, we are not satisfied with the level of responsiveness."

She said the Fed is continuing to explore ways to promote greater participation by the banks, including by working with other financial regulators.

Much of Clark's scheduled testimony to a House Financial Services Committee panel was devoted to detailing the steps that the Fed has taken to promote diversity.

Among the "significant accomplishments" she cited was an increase in the number of women and minorities in senior leadership positions at the Fed board in Washington. "In 2019, there were 19 appointments to the official staff, of which five were minorities (26%) and six were women (32%)," she said in testimony posted on the Fed and committee's websites.

The Fed's Board of Governors "is deeply committed to an inclusive workplace and a diverse workforce, as well as to fostering diversity in our own procurement practices and those at the institutions we regulate," Clark said.

BANKTHINK

In these trying times for bankers, a little humor can go a long way

By Dave Martin
September 08, 2020

On any given day, a dozen folks will message me the latest joke or meme highlighting some bizarre (yet actual) occurrence, with an added "2020" caption.

Most of the memes and jokes are premised on seldom funny things. However, humorous and offbeat observations about 2020 tend to bring some cathartic relief to people.

It's also a good reminder of the important role humor plays in the workplace. Levity helps individuals deal with stress, uncertainty and hardship — it's been a soapbox topic of mine with bank leaders for many years.

Over the years, I've often quipped how amazing it is that, somewhere along the way, the phrase "get to work" became synonymous with "stop having fun."

(If you wanted to test it, simply walk up to any person or group appearing to enjoy themselves on the job and say, "hey, get to work.")

The term is universally known to mean someone is not taking things seriously or not focusing enough on getting a job done. To be fair, goofing off in the workplace happens. And there are times and situations in which humor may be out of place.

My point, however, is that smiles, laughter and humor can be real performance enhancers. Smiles and laughter release dopamine, serotonin and endorphins into the body. As opposed to substances you'd hope never to find in an employee's system, those are incredibly beneficial.

Beyond that, it provides a fairly accurate reading of how well coworkers get along with each other, as well as how comfortable they feel around their managers based on the presence, or absence, of humor.

My antenna goes up whenever I spend any amount of time with branch teams who are very reserved and formal with each other on the jobsite. Where some folks see seriousness, I see probable friction.

People who work challenging jobs for long hours with coworkers they like and trust tend to smile and laugh easily. When trust or respect is low, humor tends to be low.

Managers at all levels should be keenly aware that humor, smiles and laughter have a powerful influence on the culture and productivity of most workplaces. In fact, the more stressful the job, the more likely humor will be present amongst the most cohesive teams.

More importantly, folks in leadership positions tend to have a dominant influence on whether teams are relaxed and comfortable enough to laugh during their jobs. Controlling the laughter of a group is a way of exercising power by controlling the emotional climate of the group. That dynamic can be exhausting and emotionally draining to a team if it's misused.

Many employees can tell stories of having to gauge what kind of mood their manager was in to know what kind of mood they would be allowed to have that day.

On the flip side, most employees can easily recall the leaders who created great workplace environments through clear communication, empathetic leadership and a healthy sense of humor.

For many, 2020 has presented especially difficult challenges to the morale of many bank teams. For instance, the near-universal wearing of masks impacts the way bankers interact with customers and coworkers. People are being restricted from the ability to see (or use) smiles to share a universal sign of goodwill.

Masks, social distancing and other protocols greatly impacts one's ability to bond socially. If ever there were a time when healthy doses of humor and brevity can be helpful to bank teams, it is now.

Whether you lead a small team, region or entire organization, understand that empathy, sincerity and humor you project matters almost as much as the words you say.Confident and secure leaders tend to smile and laugh freely. And those leaders comfortable with even the self-deprecating humor helps humanize them to others, and brings groups together through shared experiences.

Purposefully fostering more smiles and humor with your teams and customers these days isn't funny business. It's good for business.

Dave Martin is a consultant specializing in retail banking strategies, including in-store branches. He is the founder of the retail bank performance company bankmechanics.

COMMERCIAL LENDING

Most loans in Fed's Main Street program exceed $1 million

By Bloomberg News
September 08, 2020

The Federal Reserve's Main Street Lending Program, aimed at supporting small to midsize businesses through the coronavirus pandemic, has mostly made loans in the millions of dollars, according to data disclosed by the central bank Tuesday.

Of the 118 loans bought by the Fed's program through the end of August, only 11 were under $1 million. Only one, at $265,000 was close to the $250,000 minimum loan size.

The Fed initially announced the program with a minimum loan size of $1 million in April. It reduced it twice, bringing it to the existing minimum after it received comments from businesses and industry groups calling for more aid to smaller entities.

Very small businesses had access to the Paycheck Protection Program, which saw loans averaging $107,000. Unlike with the Main Street facility, PPP lending is forgiven provided that certain criteria are met.

Overall, the $600 billion program has made $1.2 billion in loans, the Fed said in a separate disclosure last week. That includes $741 million in loans in the Priority facility, $306 million in the New Loan facility and $82 million for two loans in the Expanded facility.

Companies in 24 states have received Main Street loans, with Florida seeing the greatest volume at $332 million in borrowing.

CORONAVIRUS

JPMorgan probing employees' role in misuse of COVID relief funds

By Bloomberg News
September 08, 2020

JPMorgan Chase says it has identified instances in which COVID-relief funds were misused by customers and is probing employees' involvement in the potentially illegal activities.

The New York-based bank said the conduct includes "instances of customers misusing Paycheck Protection Program Loans, unemployment benefits and other government programs" and that some "employees have fallen short, too," according to a memo to staff from the bank's senior leaders Tuesday. The firm said the incidents don't meet its principles "and may even be illegal."

"We are doing all we can to identify those instances and cooperating with law enforcement where appropriate," according to the memo. The bank asked workers to report any conduct that violates its policies.

JPMorgan spokeswoman Trish Wexler declined to comment.

The Small Business Administration's paycheck program was the centerpiece of the $2.2 trillion coronavirus relief package enacted in March and allowed small businesses to apply for a loans of as much as $10 million each. JPMorgan, the biggest U.S. bank, issued about 280,000 loans totaling more than $29 billion, making it the top PPP lender in the country, according to SBA data.

The U.S. Department of Justice has been pursuing cases of potential fraud in the emergency program. A congressional subcommittee found earlier this month that more than $1 billion in federal coronavirus relief went to U.S. small businesses that received multiple loans, according to a report that also raised red flags for potential fraud with thousands of other companies. ❑