AMERICAN BANKER®

WEDNESDAY AUGUST 19, 2020 VOL. 185 No. 160 AMERICANBANKER.COM Follow us on Twitter @AmerBanker

Making progress

TCF continues to tackle the to-do list for integrating Chemical Bank. Here are the tasks it has completed since the pandemic disrupted normal operations.

See story on page 4

- Integration activities retooled to fit work-from-home model
- Digital banking upgraded for legacy Chemical customers
- Mock data conversion and two readiness reviews completed
- Systems integrated on Aug. 10
- Set in motion cost cuts expected to reach $321 million by 4Q

Source: The company

dailybriefing

1 Wells Fargo consumer chief may testify of 'fear' her predecessor inspired

Mary Mack is expected to say that other employees were scared of Carrie Tolstedt, according to the bank's regulators. Tolstedt, one of five former Wells executives facing civil charges in connection with the bank's phony-accounts scandal, could be fined as much as $25 million. **Page 2**

2 Kamala Harris pursued banks without earning industry-bashing reputation

Democrats on Wall Street welcomed Joe Biden's choice of running mate Kamala Harris as a sign that party progressives who favor more aggressive bank regulation had been kept at bay. But her track record in the Senate and in state government might give the financial industry pause. **Page 3**

3 How TCF pulled off huge M&A integration during pandemic

The Detroit regional relied on smaller teams, flexible deadlines and tightly defined tasks to convert the systems of Chemical Financial and rebrand. (See chart above.) **Page 4**

4 Organizers lay out ambitious plan for New Orleans de novo bank

ViZ Bank would eventually have branches across several major U.S. cities, including Dallas, Denver and Atlanta. It would also offer a program to help former inmates build savings and establish credit. **Page 4**

5 'I'm a budget nerd': How new FHA chief is confronting pandemic

Dana Wade, a former OMB official, says a strong capital footing will help the Federal Housing Administration weather an uptick in delinquencies and ensure the mortgage market is viable once the economy recovers. **Page 5**

6 Amex, already small-business card king, wants more with Kabbage

American Express is acquiring the teams and technology behind the online lender Kabbage Inc. as the credit card giant seeks to provide more loans and other services to small-business owners. **Page 7**

7 TD payments exec: COVID response breaking barriers, spurring diversity

Jo Jagadish, who joined TD Bank in April as head of commercial products and payments innovation, spent her childhood moving from country to country, so she's used to a world without borders — the kind of world emerging from the capabilities of fintech and demands of the pandemic. **Page 7**

8 Citigroup's $900 million loan blunder to face OCC, Fed scrutiny

The bank has begun briefing regulators about how it mistakenly sent payments to creditors of Revlon, the financially strapped cosmetics company. Citi has also filed a lawsuit against Brigade Capital Management seeking to recoup $175 million it sent to Brigade on Revlon's behalf. **Page 8**

9 Mortgage forbearances fall 23 points for second straight week

The number of loans going into coronavirus-related forbearance fell for the ninth consecutive week. **Page 9**

10 FedNow? More like FedLate.

The Fed's faster payments platform may well roll out in three or four years, but by then it will already be outdated, Karen Petrou writes. **Page 9**

CRIME AND MISCONDUCT

Wells Fargo consumer chief may testify of 'fear' her predecessor inspired

By Kevin Wack
August 17, 2020

Wells Fargo's consumer banking head, Mary Mack, may testify against her predecessor, Carrie Tolstedt, at an upcoming civil trial that is expected to explore where the responsibility for the bank's phony-accounts scandal lies.

Mack is among four dozen current and former Wells executives and board members who were listed as potential government witnesses in a document filed early this month by the Office of the Comptroller of the Currency, which has brought the case before an administrative law judge. The agency alleges that five former bankers at Wells Fargo, including Tolstedt, failed to perform their duties adequately, and that their missteps contributed to systemic problems at the bank.

The case could expose internal rifts that would normally remain outside of public view, though most of the bankers who may be called to testify are no longer with Wells Fargo. A trial has been scheduled for next summer.

When Tolstedt left the San Francisco company in 2016, shortly before the fake-accounts scandal erupted, Mack succeeded her as head of its consumer banking unit. Mack had previously led the brokerage subsidiary Wells Fargo Advisors.

If Mack testifies, she is expected to speak about her communications with Tolstedt both before and after the latter executive's departure, the OCC stated. Mack may also testify about the "fear" that Tolstedt's team had of their onetime boss, according to the OCC.

A Wells spokesman did not provide comment on Mack's behalf, but said, "Wells Fargo continues to cooperate with the OCC regarding this historical matter." Tolstedt's lawyer, Enu Mainigi at Williams & Connolly, did not respond to a request for comment.

The former Wells Fargo officials who may be called to testify by the government include ex-CEOs John Stumpf and Tim Sloan, ex-chief administrative officers Patricia Callahan and Hope Hardison, ex-Chief Risk Officer Michael Loughlin and ex-Board Chair Stephen Sanger.

Stumpf, Hardison and Loughlin all agreed to civil settlements with the OCC in January. Sloan, Callahan and Sanger have not been charged.

Many of the same former Wells executives, including Stumpf and Sloan, could also be called to testify as defense witnesses.

The five defendants have also said that they may seek testimony from various current and former OCC officials, including Bradley Linskens, Kenneth Peyer, Scott Wilson and Tanya Smith, all of whom have served as the agency's examiner-in-charge at Wells Fargo.

Those individuals may be asked to testify about the OCC's supervision and oversight of Wells Fargo's incentive compensation plans, its cross-selling efforts and the contemporaneous understanding of alleged sales misconduct at the bank, according to a court document filed on Aug. 4.

In addition to Tolstedt, the defendants in the case are former Wells Fargo General Counsel James Strother, former Chief Auditor David Julian, former Executive Audit Director Paul McLinko and former Community Bank Group Risk Officer Claudia Russ Anderson.

The case represents one of the largest-ever efforts by U.S. regulators to punish individual bankers. The OCC is seeking to collect a combined $37.5 million from the five defendants. Their attorneys have called the charges unfounded.

One episode that could be illuminated at trial is what happened internally in the immediate aftermath of the September 2016 announcement that Wells would pay $185 million in penalties to federal regulators and local authorities in Los Angeles.

The following day, Stumpf wrote in an email that has since been made public as part of the court case: "Day 1 was far worse than we expected — far worse. We are in damage control with an eye for how we move on from here."

Eleven days later, Stumpf gave congressional testimony that was widely panned. He told senators that the vast majority of the bank's employees were doing the right thing, even though millions of potentially unauthorized customer accounts had been opened.

It was years later before Stumpf, who stepped down shortly after that hearing, acknowledged that the bank actually had a systemic problem.

If Stumpf is called to appear at trial, he is expected to speak about the involvement of the bank's law department in his congressional testimony, according to the OCC's Aug. 4 filing.

AMERICAN BANKER.

Established 1836
One State Street Plaza, 27th floor, New York, NY 10004
Phone 212-803-8200 AmericanBanker.com

Editor in Chief Alan Kline 571.403.3846
Managing Editor Dean Anason 770.621.9935
Executive Editor Bonnie McGeer 212.803.8430
Washington Bureau Chief Joe Adler 571.403.3832
Executive Editor, Technology
Penny Crosman 212.803.8673
BankThink Editor Rachel Witkowski 571.403.3857
Community Banking Editor Paul Davis 336.852.9496
Contributing Editor Daniel Wolfe 212.803.8397
Digital Managing Editor
Christopher Wood 212.803.8437

Copy Editor Neil Cassidy 212.803.8440

Reporters/Producers

Laura Alix 860.836.5431, Kate Berry 562.434.5432
Miriam Cross 571.403.3834
Jim Dobbs 605.310.7780
John Heltman 571.403.3847, Allissa Kline 716.243.2679
Hannah Lang 571.403.3855
John Reosti 571.403.3864, Gary Siegel 212.803.1560
Jackie Stewart 571.403.3852, Kevin Wack 626.486.2341

Another aspect of the phony-accounts saga that may be spotlighted at trial involves a consent order that Wells Fargo reached in July 2011 with the Federal Reserve Board. That earlier consent order, which has drawn scant attention in coverage of the scandal, involved allegations that employees of a now-defunct subsidiary, Wells Fargo Financial, falsified income information in mortgage applications.

The OCC alleges that the subsequent sales misconduct in the company's retail banking unit was similar to the problems uncovered earlier at Wells Fargo Financial. The agency contends that the 2011 order triggered an obligation for Strother, the firm's longtime general counsel, to stop similar misconduct elsewhere in the company.

In deposition testimony, Strother has spoken about differences between the two episodes, and has said that to the extent similarities exist, they are evident only in hindsight, according to a July court filing by his attorneys.

Strother and Callahan, who retired as Wells Fargo's chief administrative officer in 2015, are among the potential witnesses who may testify about the July 2011 consent order with the Fed, according to court filings.

ELECTION 2020

Kamala Harris pursued banks without earning industry-bashing reputation

By Bloomberg News
August 18, 2020

Democrats on Wall Street welcomed Joe Biden's choice of running mate Kamala Harris as a sign that party progressives who favor more aggressive bank regulation had been kept at bay. But her track record in the Senate and in state government might give the financial industry pause.

Harris's political rise was paved with a strong post-crisis stand against big mortgage lenders as California attorney general in talks that forced lenders including Bank of America Corp., Wells Fargo & Co. and JPMorgan Chase & Co. to pay $18 billion to settle claims they improperly foreclosed on borrowers.

"While Harris may be an ill-defined progressive, she's still a progressive," said Stephen Myrow, a former Treasury Department official who is now managing partner of Beacon Policy Advisors in Washington.

Before Biden selected Harris, bankers were concerned that he might have to pick a progressive as his No. 2 following high-profile campaigns by Sens. Bernie Sanders and Elizabeth Warren that featured strong criticism of Wall Street. By comparison, Harris, California's junior senator, was considered a safely moderate choice by bankers still wary of Democrats after tough regulations were imposed under President Barack Obama.

Harris's work and policy positions haven't garnered her the anti-bank reputation embraced by some of her Democratic colleagues. In fact, financial-industry professionals and their favored law firms have been among her steadiest sources of campaign cash. And when she was attorney general, critics from the left accused her of being unwilling to go after OneWest Bank, the California lender once led by now-Treasury Secretary Steven Mnuchin that was accused of improper foreclosure practices.

Transaction tax

Still, during her campaign for the presidential nomination, Harris supported a tax on financial transactions such as stock trades and derivatives moves — an idea widely loathed on Wall Street. She saw the levy as a way to raise trillions of dollars to pay for her health care proposals. Biden has expressed some support for a transaction tax, but he hasn't yet included it in his proposals.

And while serving as California's attorney general, Harris played a key role in leading one of the many investigations of Wells Fargo over the fake-accounts scandal that toppled two successive chief executives and continues to dog the San Francisco-based bank to this day.

It's also notable that Harris in 2012 chose a little-known law professor to monitor the foreclosure settlement for California. That professor, Katie Porter, was elected to the U.S. House of Representatives in 2018 and has quickly become one of Wall Street's most vociferous antagonists in Washington.

Prosecuting bankers

Harris and Porter joined forces last year to push for legislation that would bolster states' legal rights to prosecute bankers. Their proposal, which hasn't advanced in Congress, would have given state law enforcement officials more power to help "protect consumers and prevent the type of illegal behavior that caused the Great Recession," as Harris put it. She was also among critics of a recent bipartisan push to relax some banking regulations established after the 2008 financial crisis.

"She has demonstrated a clear willingness to stand up to Wall Street to protect workers and families from the economic harms inflicted by unchecked financial sector risk-taking," said Gregg Gelzinis, a policy analyst at the Center for American Progress.

Harris's ascent may represent a mixed bag for Wall Street, but Myrow of Beacon Policy Advisors said it's too soon to know how she would affect the banking industry. Much depends on how much influence she would have on Biden's policies and his choices of key industry watchdogs. She may find a role in the "reinvigoration" of the Consumer Financial Protection Bureau, Myrow said.

After Biden announced his choice, Jaret Seiberg, an analyst for Cowen & Co., wrote in a note that Harris's addition to the Democratic ticket is "modestly negative" for the financial industry. He cited her record as attorney general and the likelihood she'd push for broader enforcement from the CFPB, but added that Biden was probably already going to head in that direction.

Harris's actions in the Senate show that "she does not want to loosen any of the restrictions and rules that Team Obama put in place," Seiberg added.

M&A

How TCF pulled off huge M&A integration during pandemic

By Jim Dobbs
August 17, 2020

TCF Financial in Minneapolis and Chemical Financial in Detroit had prepared for a daunting integration as part of their $3.6 billion merger.

They underestimated the challenge.

The $50 billion-asset company that emerged from the deal, which closed about a year ago, had to navigate the coronavirus pandemic, civil unrest in each bank's home city and flooding across Michigan as integration teams worked through an extensive checklist.

TCF, which completed a companywide systems conversion on Aug. 10, finished many tasks remotely, learning along the way how to become more efficient. The integration relied more heavily on smaller teams and meetings were more focused on tightly defined tasks, making projects easier to manage.

"Productivity really popped" as a result of eliminated commute times and office distractions, said James Costa, chief risk officer for TCF's bank and the executive in charge of the integration.

Those efforts should serve TCF well whenever it returns to bank M&A, and its experience could act as a blueprint for other acquirers looking to become more efficient with integrations.

To be sure, employees had their doubts in March when the pandemic set in. They were wrestling with changes to their daily lives and jobs, while coping with the sudden stress and uncertainty imposed by the coronavirus.

"People were anxious," Costa said. "They were very concerned."

Costa and a team of more than 50 bankers — selected from the major departments across TCF and Chemical — did the only thing they could, shifting more than 90% of the work to remote setups while increasing the use of digital meeting tools.

The host of challenges, in many ways, galvanized the integration effort, said Tom Butterfield, TCF's chief information officer and the key leader on the technology side of the integration.

"We got this done in spite of a pandemic, in spite of civil unrest, in spite of flooding," Butterfield said. "There is a shared empathy and patience with the situation that lends itself to strong communication."

TCF braced itself for all sorts of possible complications, Butterfield said. While a digital banking conversion evolved from a one-week effort to a switch that took place over four weekends, most other items on the checklist went as planned.

"We had mitigation scenarios, but we didn't end up needing them," Butterfield said. "We stayed on track."

Butterfield said he was particularly impressed with staffers' resolve during the civil unrest that erupted after the death of George Floyd in Minneapolis. Many TCF employees and customers were personally concerned about the challenges amplified by Floyd's killing.

Heavy rains in May and the failure of two dams caused flooding in Michigan that forced thousands of people to evacuate their homes. TCF in May launched a special $10 million loan fund for residents and businesses affected by the flooding. Loans were aimed at helping clients buy supplies and rebuild quickly.

TCF, with the integration complete, can focus more on achieving the $321 million in annual expense savings, including the closing of 13 overlapping branches. Executives said during a recent earnings call that they were on track to hit their target by the end of this year.

With 500 branches across nine states, TCF has the scale to put more investment into technology, products and talent needed to compete with bigger banks, executives said.

Early indications are clouded to a degree by the pandemic, with traditional loan demand muted as consumers and businesses delay purchases and investments.

But Costa said TCF has high growth expectations coming out of the pandemic in major cities across the Midwest, as well as in specialty national business lines such as leasing. In the meantime, credit quality is solid and capital levels are strong.

"We're being tested now, and we're holding up well," he said.

DE NOVO INSTITUTIONS

Organizers lay out ambitious plan for New Orleans de novo bank

By Paul Davis
August 17, 2020

A group in New Orleans is looking to form a bank that would eventually operate in eight cities across the country.

Organizers of ViZ Bank & Trust filed an application on Friday seeking deposit insurance from the Federal Deposit Insurance Corp. They will also seek a national charter from the Office of the Comptroller of the Currency.

"The timing for us coming into this is spectacular," David Anderson, who would be the bank's president, said in an interview.

"Banks with less than a $1 billion in assets are declining in every town," added Anderson, who was president of FPB Financial in Hammond, La., when it was sold in 2018 to First Bancshares in Hattiesburg, Miss. "We have a plan that is written for this environment."

ViZ aims to open later this year with a branch in New Orleans and a loan production office in Houston. The goal over time is to open loan production offices in Denver, Dallas, Houston, Washington, Atlanta and Miami.

Each office would eventually convert to a branch, called a "ViZ Life Center." The 500-square-foot centers would be open every day, feature a technology courtyard

and operate next to businesses such as coffee shops, yoga centers or smartphone repair shops, according to a playbook circulated by the organizers.

ViZ Bank "will be a new bank with a dual mission to combine all the benefits of an internet bank with the commitment to community banking," the document said.

"We're looking at downtown locations at a time when everyone else is going to the suburbs," Anderson said. "It gives us access the entire metro area through public transportation ... and we can get in there cheaper now than we could have before."

ViZ Bank would take a cautious approach to growth after entering a market.

"We won't grow fast and we never have to have more than a billion [in assets] in any market to be successful," Anderson said.

Organizers aim to raise $40 million to $71 million.

The de novo "was conceived and developed by a group of diverse professionals who are highly experienced in all aspects of banking, finance, and investments," the playbook said. "ViZ Bank's commitment to provide unparalleled personal service coupled with leading-edge banking technology makes [it] a unique and inviting partner for today's busy consumer."

ViZ Bank would offer business loans, while also focusing on unions and union members, religious institutions with schools, physicians and government employees. It would offer a "reentry program" to provide auto loans to "customers reentering the workforce after incarceration."

Anderson said he is excited to offer a program to help nonviolent felons get their finances in order. The effort, which would help ViZ Bank earn credit under the Community Reinvestment Act, aims to help former inmates build savings and eventually qualify for mortgages.

"We'll take a hands-on approach to financial literacy, using AI to assess where they are in that area," Anderson said. "They will be required to budget for savings. We plan to use a nonprofit to match those savings."

ViZ aims to have $410 million in assets, $321 million in loans and $372 million in deposits at the end of its fourth year, the playbook said.

Joe Dorsey, who was part of a group seeking to form Coastal Community Bank in Hollywood, Fla., would serve as CEO. Coastal Community withdrew its application in May, about two months after receiving conditional approval from the FDIC.

Henry Coaxum Jr., a former McDonald's executive, would be the proposed's bank's chairman.

The proposed bank has also committed to a minimum annual salary of $50,000 for every employee.

"We want to really be a broad-scale bank to every community we're in," Anderson said.

FHA

'I'm a budget nerd': How new FHA chief is confronting pandemic

By Hannah Lang
August 17, 2020

WASHINGTON — Dana Wade is taking the reins of the Federal Housing Administration during an unsteady time for the mortgage market.

The risk of delinquences remains elevated due to the pandemic, and Congress has not passed another round of stimulus to help the lower-income borrowers that the FHA traditionally serves.

The delinquency rate of FHA loans increased to 15.65% in the second quarter of this year, according to the Mortgage Bankers Association, compared with 6.09% in the first quarter.

But Wade — whom the Senate confirmed as FHA commissioner July 28 — says she's confident she can steer the agency through this challenging period.

She stands behind initiatives put in motion by her predecessor, Brian Montgomery, to address pandemic-related risks, including making FHA insurance available for loans in forbearance and requiring lenders to pay the agency for loans that enter foreclosure. (Montgomery is currently deputy secretary for the Department of Housing and Urban Development.)

While Wade plans to continue other policies spearheaded by Montgomery, like bolstering the agency's capital reserve and updating the FHA's complex servicing policies, she also intends to embark on a few of her own.

"We will step up and do whatever we can to make sure that we ensure market stability," she said in an interview with American Banker. "But we know [the pandemic will] ... pass and we're going to have a strong, vibrant economy when it does. We'll be going gangbusters when the pandemic passes, and hopefully that happens soon."

Wade is no stranger to the job. She served as acting FHA commissioner from July 2017 until June 2018. She then worked as the general deputy assistant secretary in HUD's Office of Housing before joining the Office of Management and Budget, where she worked as a program associate director for general government until December 2019.

She plans to put her budgeting acumen to use to stress-test the FHA's capital reserves and possibly update an underwriting metric for mortgage borrowers with student debt. She also plans to monitor how policies of other agencies — like the Federal Housing Finance Agency — affect FHA borrowers.

"I am diving in right now and definitely hitting the ground running," Wade said.

The following interview has been condensed and lightly edited for clarity.

Under former Commissioner Brian Montgomery, the capital reserve ratio of the FHA's Mutual Mortgage Insurance Fund improved significantly. How concerned are you now about the fund, especially with delinquencies on the rise and no congressional stimulus in sight?

DANA WADE: I am definitely in the position where I see myself as the chief risk manager of FHA. That is my background. I'm a budget nerd, so I am digging into the numbers, and I am looking at the books on an hourly basis. I will say that one thing that has been incredibly important is that this administration has taken a lot of steps, including under the prior commissioner and including during my prior tenure as

acting commissioner, to strengthen the capital position. Oftentimes you will get a lot of calls to lower mortgage insurance premiums, and this is something that always has to be evaluated very carefully. We took a lot of steps to manage the risk, to make the risk more transparent, to build capital and currently, FHA is well above its statutory 2% minimum level for capital. It's more than double.

Given the uncertainty and the challenges that have presented themselves during this time, having strong capital is what will help us weather the storm, and I cannot emphasize that enough. What we are really doing and what has been incredibly important to me in this role is stress testing the portfolio. We will be going through multiple scenarios — we'll be using our own baseline, the president's economic assumptions, we'll be using the Moody's baseline, we'll be using several more pessimistic scenarios and making sure that we are fully projecting our losses and doing everything we can to understand what's coming down the pike. We do that on an informal basis, but of course, we'll be releasing that data to the public in November [when FHA releases its annual report to Congress].

Will you consider extending the FHA's eviction and foreclosure moratorium past the end of this month? It's currently set to expire Aug. 31.

We are looking at that. I think the president has made clear that HUD should, given this unprecedented pandemic, look at all of its resources to prevent evictions. And for the single-family portfolio, we do have that authority that we can do that administratively.

Fannie Mae and Freddie Mac recently said that starting Sept. 1 they will impose an adverse market fee on refinanced mortgages, which the industry has strongly opposed. Are you concerned that that fee will bring riskier refi borrowers to the FHA? And is the FHA considering a similar fee for its portfolio?

We are a different program. FHA is geared towards first-time homebuyers, low-income, moderate-income, minority borrowers, and so we do not have the same share of refinances. I think it's under one-third of our book. We are not looking at imposing a loan-level price adjustment at this time. We monitor trends, and so we will see what the impact of Fannie and Freddie and FHFA's decision to apply this fee is on FHA. We're monitoring it carefully. We have no plans right now to increase pricing for refinances.

Before you came aboard, the FHA implemented a policy on insuring new loans entering forbearance that requires lenders to be on the hook for 20% of the amount of the loan if it goes into foreclosure. How do you respond to lenders who say that policy is punitive and will limit access to FHA loans?

This policy has not limited access to credit. We have seen that with the data that we follow. It's a small percentage of borrowers that actually would find themselves in forbearance prior to endorsement, so no, it has not had a broad impact on availability of credit.

The indemnification at 20% was needed to protect FHA's risk. I appreciate the comments of the industry, [but] we have to balance what we do with our mandate, quite honestly. It is in the statute to protect taxpayers and protect the capital reserve position, and so we had to kind of build that in in order to account for the risk of those loans that would go into forbearance prior to endorsement.

A number of industry groups have called on the FHA to change an underwriting calculation that they say disqualifies borrowers with income-based student loans. Is that something you may consider?

I am looking at it. I am sympathetic to this issue. I understand where they are coming from. I know that FHA is out of step with some of the other government and quasi-government providers of mortgage credit. What we've heard from the industry is that this inflates the debt-to-income ratio for certain borrowers with student loan debt, especially those that have income-based repayment. However, FHA, compared to the conforming market, has a higher average debt-to-income ratio, and we accept higher DTI loans. So I'd want to balance any decision made with an overall look at what should be the right level of debt-to-income and our borrowers being too stretched. We want to provide good access to credit. We also want it to be sustainable for borrowers.

The FHA currently has a proposal in the works to streamline its servicing practices. How would you like to see FHA's servicing practices change, and what is your ideal outcome for developing the current proposal?

I think first of all, we need to get rid of outdated practices that don't make any sense. You find a lot of times when you come to an organization or a government entity, people do things based on what has always been done, and frankly, the market has outgrown FHA's servicing policies. In fact, FHA takes some losses through the fund through servicing, through the asset disposition process, and so we know this is something that needs to be modernized. We've already worked a lot, and I started this when I was acting commissioner, to enhance the claims without conveyance of title. It's such a wordy term, but it basically allows us to dispose of assets before they become [real estate owned]. REOs are very costly for FHA. We don't like to see the REO inventory get too high, and so we look for alternatives to asset disposal. When a property sits vacant for too long, it has an adverse impact on the neighborhood. We've done a lot of really good things to get that turned around and get them off FHA's books and into the marketplace quicker.

HUD Secretary Ben Carson and Montgomery have focused on bringing banks back into the FHA program by providing some relief from requirements in the False Claims Act. Is this also a goal of yours, and if so, how do you plan to achieve it?

Yes, I would love to see banks come back to FHA, and there are a lot of reasons for that. The first is that, I think from the borrower's perspective, I would like to see them have as many access points to the market as possible. It's also a good thing for FHA, because banks have capital, and they have uniform standards for regulation. I think there's just a lot of variation in terms of the counterparty risk that we face by having over 85% of the lenders on FHA's books [as] nonbanks. So I like the capital; I like providing consumers as many access points to credit as possible.

I think this administration has taken action that will have a lot of staying power when it comes to the MOU with DOJ [and] when it comes to the expectation that we have set on uses of the False Claims Act — that it's really for the most egregious cases—and that we are continuing to use the administrative tools that we have, such as the Mortgagee Review Board to conduct enforcement in house, and basically provide clarity to lenders on penalties that are associated with the defects in their loan portfolios.

B-TO-B PAYMENTS

Amex, already small-business card king, wants more with Kabbage

By Bloomberg News
August 17, 2020

American Express Co. is acquiring the teams and technology behind the online lender Kabbage Inc. as the credit card giant seeks to provide more loans and other services to small-business owners.

Details of the acquisition talks emerged last week, and Amex said Monday in a statement that the deal won't include Kabbage's pre-existing loan portfolio. Those loans, including ones tied to the federal government's Paycheck Protection Program, will be managed and retained by a dedicated entity when the deal is completed, Amex said. It didn't disclose other terms of the transaction.

Amex has been encouraging its credit card customers to borrow more on its products, and is now bringing that strategy to its small-business unit. Already the largest credit card issuer in that sector, Amex will use the deal to offer more cash-flow management tools and working-capital products to mom and pop operations.

"The current crisis has been hard on small businesses — in many ways they're at the epicenter of this Covid crisis," Anna Marrs, president of global commercial services at Amex, said in an interview. "We believe that, over the long term, providing small businesses what they need to help them manage their cash flow and payments will continue to be an important growth area."

Small businesses have been hit hard by the coronavirus pandemic, which has prompted widespread shutdowns across the country. Even before the crisis, the Federal Reserve classified just 35% of U.S. small businesses as "healthy" — meaning they are profitable, have higher credit scores and use retained business earnings to fund their operations.

SoftBank, Reverence

Bloomberg reported last week that Amex was seeking to acquire Kabbage in an all-cash deal that would value the lender at as much as $850 million, according to a person familiar with the matter. Kabbage, which is backed by investors including SoftBank Group Corp.'s Vision Fund and Reverence Capital Partners, was most recently valued at more than $1 billion after SoftBank plowed $250 million into the lender in 2017.

Kabbage CEO Rob Frohwein said Amex's "card dominance provides a phenomenal base" to build strong customer relationships. "So we sort of feed off each other in a way that's helping small businesses focus on their business and allowing us to help them with all things financial," he said in an interview.

FINTECH

TD payments exec: COVID response breaking barriers, spurring diversity

By Kate Fitzgerald
August 17, 2020

Jo Jagadish has never really met the team she heads as TD Bank's head of commercial products and payments innovation. She started in April from her New Jersey home office during the peak of the pandemic and hasn't left.

From the moment she started this role, Jagadish was pulled into marathon meetings by video, phone and text helping direct TD's rapid response to the government's Paycheck Protection Program, including a 72-hour project repurposing and rolling out online lending forms.

"TD operates on an agile foundation, so when I started, we were already moving at the speed of a fintech," Jagadish said. The bank accepted a record number of 100,000 PPP applications in a short window of time before scaling up other pandemic-related services for U.S. and global clients in accelerated time frames.

If there's one clear lesson from the pandemic, "it's that we can very effectively connect with companies and people not just across the country, but around the world. Fintech isn't confined to Silicon Valley anymore," she said.

TD Bank's U.S. headquarters in Cherry Hill, N.J., is near Manhattan, a major hub for fintech and innovation, but Jagadish says increasingly the fintechs she seeks out are based anywhere her connections and research take her.

"A lot of research goes into finding the

right partner, not just from a technical and product perspective but making sure it's good to go beyond short-term projects," Jagadish said.

Jagadish became deeply interested in working with fintechs over the past several years, most recently in JPMorgan Chase's commercial banking division, where she was executive director, head of new product development and fintech partnerships. Over more than four years, her position there evolved from heading investment strategy for the commercial bank to developing products and services for the treasury department.

She was spending more and more of her time striking and cultivating fintech partnerships to accelerate product development and get new tools to market faster.

"It's important to explore the VC community, do market research, study analyst reports and understand the backgrounds of the founders to learn who they are and what they're trying to solve for," she said.

Before joining Chase, Jagadish spent several years at Citigroup, where she held key posts including global management of Citi Cards' franchises, and was vice president and product manager in digital payments.

Citi was among the first banks to launch Apple Pay, and Jagadish had a hands-on role in that deployment. She was also briefly engaged with Google Wallet, which Citi was the first issuer to support. "I really enjoy developing new ideas into new products," Jagadish said.

At TD, Jagadish gets to draw on all her experience to nurture and develop new products with fintechs, a habitat that suits her even though she acknowledges the hard-driving, entrepreneurial fintech sector is largely male-dominated.

It doesn't faze her, because she has always considered herself to be somewhat of an outsider who's skilled at finding her way in.

"My parents were born in India, but my father was a diplomat, so I grew up living all over the world," Jagadish said.

She attended middle school in Africa (in Namibia) and high school in Canada, and also lived in Vietnam, moving every few years.

"It taught me so much about adaptability and range," she said. "In product development, cross-cultural values help you put yourself in your customers' shoes. If you think of the demographics of the U.S., it's the most racially diverse population ever with a big generational range."

TD puts a strong emphasis on developing diverse talent, Jagadish said.

"TD promotes talent across every type of background — and whatever your race, if you see someone who looks like you in a senior role, it creates aspiration and motivates everyone."

The payments industry also has lacked representation from women and underrepresented groups, and Jagadish aims to help change that.

"This is who I am," she said. "I'm a minority woman in payments, but it's evolving and changing, with more companies focusing on STEM talent. I'm a huge advocate of encouraging women in engineering, because I remember being one of nine women in a classroom of 91 engineering students."

The summer of 2020 has been a catalyst for confronting social unrest around equality and racial justice.

"As a country, as a society and at our company we've had a lot of very different conversations about race, about who we are and what it means to be an American," Jagadish said. "It's become important to have these conversations, even if they're uncomfortable. And not just at senior levels but at the grass roots, face to face. At all levels of leadership, these conversations are encouraged and it's been very, very positive."

Gradually, the fintech industry too should start to see more diversity, especially as the digital revolution stemming from the coronavirus pandemic eliminates physical distance as a barrier, Jagadish said.

"What we're doing in fintech — bringing ideas together from people and locations around the world to power new capabilities and toolkits for financial services rails — is really powerful," she said, "and it's happening at a very interesting time right now in the atmosphere of coronavirus and social change."

COMMERCIAL LENDING

Citigroup's $900 million loan blunder to face OCC, Fed scrutiny

By Bloomberg News
August 17, 2020

Citigroup has started briefing bank regulators on how it mistakenly sent almost $900 million in payments to Revlon's lenders amid a bitter a fight between the cosmetics company and creditors.

The bank is in contact with watchdogs including the Office of the Comptroller of the Currency and the Federal Reserve about the situation, according to people familiar with the matter, who asked not to be named discussing private discussions. Citigroup last week told Revlon's lenders the payments were tied to a clerical error.

The roughly $900 million — an amount equal to the full principal value of the loan, plus accrued interest — landed in the lenders' bank accounts last week. While some opted to return the funds to Citigroup, others —including Brigade Capital Management, Symphony Asset Management and HPS Investment Partners — have at least initially refused to give the money back.

Bank regulators aren't likely to settle that dispute. Rather their focus will be on making certain that any lapses at the New York-based bank can't be repeated and that they don't reveal deeper problems that pose a threat to its stability.

Citigroup had been in the process of resigning as administrative agent on the loan prior to the blunder. Representatives for the bank and regulators declined to comment.

Meanwhile, Citi asked a federal court on Monday to order Brigade to return its share of more than $900 million that the bank mistakenly wired to Revlon's lenders, some of whom are locked in a bitter fight with the

struggling cosmetics giant.

In a lawsuit filed in New York, Citigroup said it was supposed to make an interest payment on Revlon's behalf but instead sent a payment that was more than 100 times greater.

Brigade has kept about $175 million of the $900 million and has refused to repay the funds "despite crystal-clear evidence that the payments were made in error," Citigroup said in its complaint.

Brigade is among a lender group also including HPS Investment Partners and Symphony Asset Management who sued Revlon over its debt-restructuring tactics.

A representative for Brigade declined to comment.

Brigade "should have known that a surprise repayment of principal could not be made under the governing credit agreement," Citigroup said. "And it was well aware that virtually no company, let alone a distressed retail and consumer company such as Revlon, would ever make such a substantial repayment while dealing with the significant financial consequences caused by the ongoing pandemic."

Revlon, controlled by Ron Perelman's MacAndrews & Forbes, has struggled to remain relevant and stem falling sales amid competition from Estee Lauder Cos. and a host of smaller companies using social media to lure customers.

Saddled with nearly $3 billion of debt, the retailer has been hit hard by the pandemic and is seeking to rework its borrowings.

Because of the lender suit, Citigroup had already been in the process of resigning from its administrative role before the payment mishap, the people said.

The case is Citibank NA v Brigade Capital Management, 20-cv-6539, U.S. District Court, Southern District of New York (Manhattan).

LOSS MITIGATION

Mortgage forbearances fall 23 points for second straight week

By Paul Centopani
August 17, 2020

After dropping 23 basis points a week ago, the pace of mortgages going into coronavirus-related forbearance plummeted another 23 basis points between Aug. 3 and Aug. 9, according to the Mortgage Bankers Association.

The rate declined for the ninth week in a row with an estimated 7.21% of all outstanding loans — or an estimated 3.6 million — sitting in forbearance plans compared to 7.44% and about 3.7 million the week earlier. The share of forborne loans at independent mortgage bank servicers dropped to 7.42% from 7.71%, while depositories decreased to 7.49% from 7.63% in that same period.

The forbearance share of both conforming mortgages — those purchased by Fannie Mae and Freddie Mac — and Ginnie Mae loans — Federal Housing Administration, Department of Veterans Affairs and U.S. Department of Agriculture Rural Housing Service products — outpaced the overall drop.

The conforming share fell 25 basis points to 4.94% from 5.19%, marking the first time it went below 5% since April. Ginnie Mae's share dropped 52 basis points to 9.54% from 10.06%.

"Borrowers with conventional mortgages have been faring somewhat better throughout the current crisis, and there is no sign to date from these data that the risk to the GSEs is increasing," Mike Fratantoni, the MBA's senior vice president and chief economist, said in a press release.

"The decline in Ginnie Mae loans in forbearance was again because of buyouts of delinquent loans from Ginnie Mae pools, which resulted in these FHA and VA loans being reported in the portfolio category. In a sign that more FHA and VA borrowers are struggling with a very tough job market, more Ginnie Mae borrowers requested than exited forbearance," Fratantoni wrote.

Private-label securities and portfolio loans — products not addressed by the coronavirus relief act — actually rose this week to 10.34% from 10.12%.

Forbearance requests as a percentage of servicing portfolio volume edged down to 0.11% from 0.12%, while call center volume as a percentage of portfolio volume inched up to 7.9% from 7.8%.

The MBA's sample for this week's survey includes a total of 50 servicers with 25 independent mortgage bankers and 23 depositories. The sample also included two subservicers. By unit count, the respondents represented about 75%, or 37.3 million, of outstanding first-lien mortgages.

BANKTHINK

FedNow? More like FedLate.

By Karen Petrou
August 17, 2020

The Federal Reserve is four-square for its own instant-payments system, dubbed FedNow, even though the final implementation schedule suggests it might better be called FedLate.

The Fed added stimulus-payment snafus to the updated public-good rationale for a its faster-payments system, in a report released Thursday. But details of both its rollout and all the critical, unfinished pieces suggest that the 2023 or 2024 target launch date by could slip into the more-distant future, leaving many folks still looking for their unemployment insurance.

Even so, the new Fed policy continues to brush aside concerns that its heavy footprint slows payments-system innovation, asserting that it doesn't compete with any undue advantage against the private sector. It may well be that a Fed payments system preserves and protects the public

good, and that it's better late than never. However, a read of the Fed's notice leaves one thoroughly unconvinced.

The Fed's all-is-fair rationale rests on several thin reeds.

First, the report notes that the Fed started talking about offering faster-payments services in 2013 and only one competitor — The Clearing House — has since entered the field. This assertion shows that the faster-payments market will not be competitive unless the central bank throws its hat into the ring.

However, it would take either the built-in advantages of very big banks that bolstered TCH's bid or tremendous temerity to take on the Fed. Even from the start, the central bank said that it would ultimately price faster-payments services based on a schedule assuming 10 years of upfront, unrecouped investment and "mature" usage levels.

In short, capital expenditures will not be recovered for at least a decade, if then. Who else could raise private-sector capital from investors with the patience of saints? The Fed seems to assume there are crowds ready to witness a business proposition along these lines, but most payments-service providers have yet to find them.

The detailed competitive analysis is in the easily missed last section of the Fed's service notice. This section walks through comments complaining about a possible central-bank edge over private firms, asserting that the Fed's full backing from a sovereign state and its ability to print all the money it needs under stress has no competitive value.

It may well be that the public-good proposition of payments-system infallibility warrants the government's role. But the Fed doesn't tread on this controversial ground, preferring to pretend that it's just one of the payments-system guys. Of course, it's not.

There is, though, one hint of a public-good rationale in the final notice: The Fed says it lacks "plenary power" over the payments system and thus must control it to ensure stability. This is technically true, but only Jesuitically speaking. It is the Financial System Oversight Council — not the Fed — that designates financial-market utilities (FMUs) in the payment, settlement and clearing sectors.

However, the Fed has a significant say in who is designated an FMU and regulates any of them — TCH for example — in offering payments services.

Should other competitors dare to challenge the Fed, the FMU moniker could quickly be applied and plenary power would follow in short order. Conversations have already begun about whether payments processors, either on a specific or activity-or-practice basis, are FMUs and thus should be subject to the Fed. A faster-payments provider could easily join them and be as fully regulated as any central-bank plenary power might permit.

What's unsaid in the Fed's competitiveness assessment and the few hints it provides about public good is what appears to be the Fed's fundamental premise: that the world can await FedNow because the U.S. is destined always to have an interbank payments system over which the Fed can reign semi-supreme.

This might have been true in 2013, but it's far less likely to be true in 2023. The Fed is sanguine that its sovereign might dictate the shape of things to come, resting on this not only to justify its leisurely FedNow rollout, but also the tortoise-paced consideration of central-bank digital currency announced on Thursday.

However, the Fed should not confuse its unchallengeable might as a central bank with its vulnerable position as a payments-system provider.

Forces of innovation are loose in the land, forces with enormous war chests and little respect for legacy systems, and the central banks that run them. A Fed dubious about its plenary power now will really have none at all if the vacuum it creates pushes payments services outside the interbank system.

Editor's note: This article originally appeared, in slightly different form, in an email to Federal Financial Analytics' clients.

Karen Petrou is a managing partner at Federal Financial Analytics. ❑

© 2020 Arizent and American Banker.
All rights reserved.