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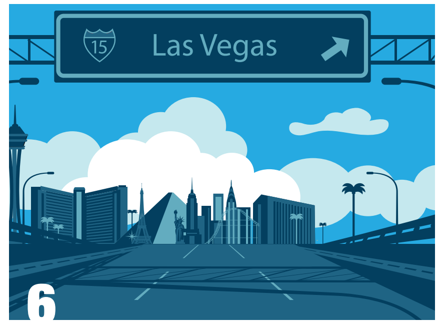
Contents

MARCH 2018 / VOLUME 128 / NO 3



COVER STORY

Briefings

BankTechnology

BankThink

BackPorch

IN EACH ISSUE

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After 10 years of development, nobody has come up with a use for blockchain that has been widely adopted, True Link Financial Chief Executive Kai Stinchcombe argued in a BankThink piece.

MOST SHARED

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Sen. Mark Warner (below) called on policymakers to take a hard look at cryptocurrencies. Senate Banking Committee Chairman Mike Crapo agreed that a hearing was needed on the issue.

Bloomberg News

POLICY & REGULATION

Nonstop drama at the CFPB

Go online to keep up with news from the CFPB, as Mick Mulvaney (below) reshapes the agency, fends off lawsuits over his appointment and engages in public spats with former director Richard Cordray.

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Editor's Note

BY BONNIE McGEER

Make More Microloans, Get More Macro Impact

Grameen America intends to grow its microlending effort significantly, and it is looking for banks and social impact investors to help.

The plan is to double its loan portfolio, and lend a cumulative total of $2 billion, over the next five years, David Gough, its chief financial officer, said in an interview.

But the nonprofit will need a lot more capital to achieve that goal, so it is making a foray into impact investing.

Gough said the target for this year alone is to raise $16 million of additional capital, which it will use for lending to low-income female entrepreneurs in underserved areas across the United States.

A big chunk of that new money is coming from a fund that the organization recently created to capitalize on the growing trend of impact investing. The hope is for banks and other supporters to make up the remaining gap. "We're looking to meet that need from wherever the market will be interested in helping us to meet it," Gough said.

The inaugural Social Business Fund – which Grameen America expects to be the first in a series – is going to allow the nonprofit to move away from relying so much on philanthropy. The high-net-worth individuals and foundations participating in the fund essentially have become investors in Grameen America's portfolio of microloans.

The targeted return is 3% interest annually, with the principal being given back after five years. The fund is structured with a 20% first loss guarantee.

Impact investments – now a $114 billion sector overall, according to data cited by Grameen America – are meant to deliver positive social and environmental benefits while also providing a financial return.

By tapping into the large demand for such investments, the microlender aims to diversify its funding, attract new supporters it might not have been able to reach otherwise and give existing supporters another option for helping fuel its growth.

"It's a way to appeal to impact investors who are interested in this kind of concept as opposed to pure philanthropy – where they just give you the money and you take it and it's a one-off," Gough said.

"This is a sort of a recurring relationship that we have, whereby our value proposition to the investors is, hey, invest this money for five years and at the end of the day we'll give it back to you and we'll give you an annual rate of interest in the meantime."

Grameen America's average loan size is $2,700. Because the loans are only for a short term – 26 weeks – the money raised through the fund will get recycled repeatedly, with new loans being made as older ones are repaid.

Thanks to this recycling, the $11.15 million in capital that the fund is providing ultimately will result in 59,000 loans being made over the coming five years. "That'll translate into $140 million disbursed," Gough said.

Grameen America, which opened in New York a decade ago, now has 20 branches in 13 cities. Its borrowers use their loans for all kinds of small enterprises, like tailoring, pet grooming and housecleaning. They attend weekly meetings to make payments on the loans and receive financial training.

Of the $820 million Grameen America has lent to nearly 98,000 borrowers since its inception, 99% has been repaid, Gough said.

Banks provide the microlender with much of its funding, and even with the social impact investors coming in, the need for bank participation is only going to increase in coming years, he said.

Grameen America raised a total of $10 million last year, and Gough estimates that 80% of the money came from banks. They range in size from small community banks to megabanks.

The opportunity to earn Community Reinvestment Act credit is only part of the attraction.

"What we're seeing with our banking relationships is that they tend to be multipronged," Gough said.

Often the relationship starts with a grant made through a corporate social responsibility program. "Then they kind of learn institutionally what we're doing," and the ability to get CRA credit sparks the interest of others at the bank.

"And now what we're finding is that many of the relationships are actually maturing, so they look at us as a standalone credit," Gough said.

"A lot of the commercial banks see us as a great conduit to be able to reach communities that they can't necessarily reach through their retail operation."

One way Grameen America measures its success is by jobs created, and its current tally exceeds 100,000. That is a stat any banker or social impact investor can appreciate. □

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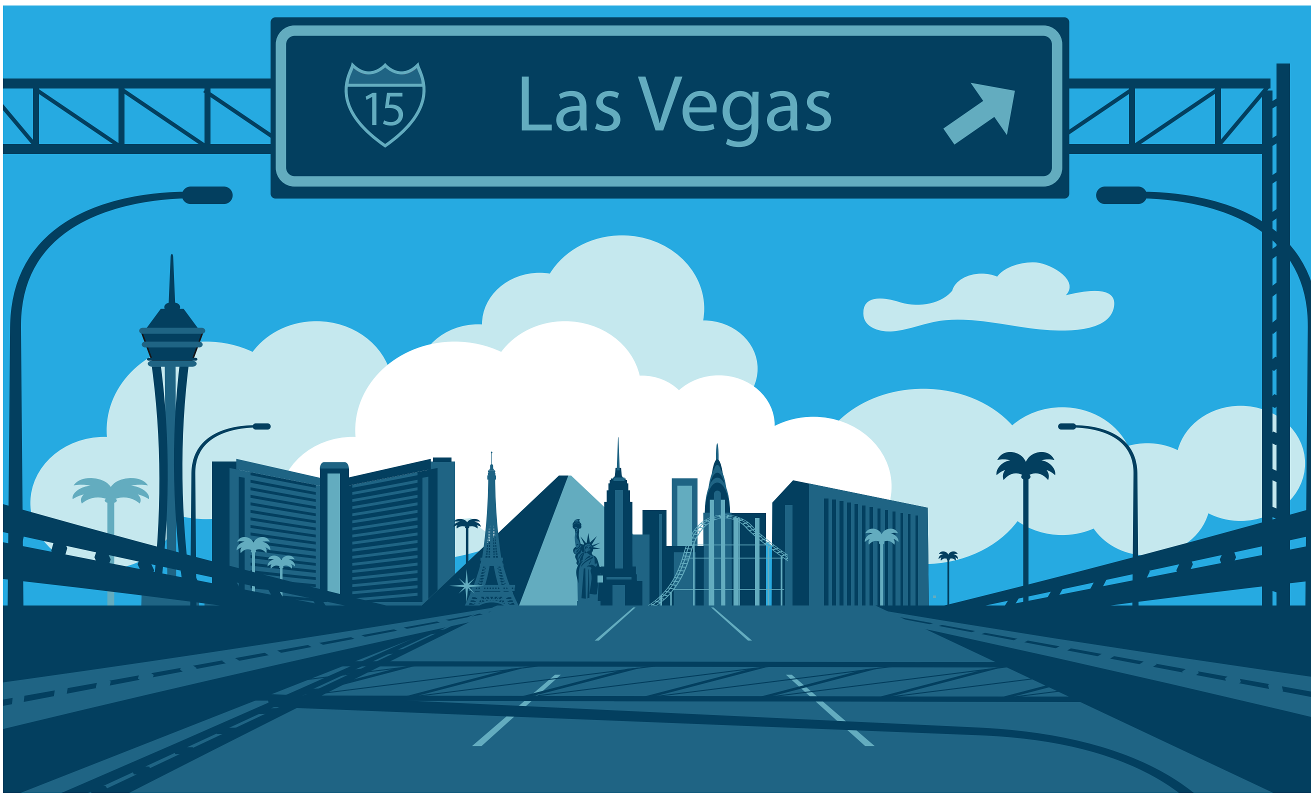


Community bankers like their odds in Las Vegas

Improved economy and greater business diversity point to more lending opportunities

By Jackie Stewart

LAS VEGAS' REPUTATION AS A community banking desert may be about to change.

The housing crisis of a decade ago hit its construction-fueled economy very hard, but the region is diversifying so that it is less dependent on tourism and gaming and its banks are doing well.

A dozen Nevada banks, including eight in the Las Vegas area, failed from 2008 to 2013, often because they had loaded up on land acquisition and development loans. Even those that survived suffered losses and shed assets.

Nevada lost more than half of its state-chartered depository institutions during the crisis years, the highest percentage of any state in the country, said George Burns, the state's commissioner of financial institutions.

Las Vegas is no longer the headquarters to any independent, publicly traded banks.

But the area's economy appears to be on the upswing. Community bankers say they are hopeful about new lending opportunities and about their prospects for grabbing market share from larger rivals that dominate the market.

Las Vegas "was the poster child for everything that was wrong prior to the

Great Recession," said John Miller, who is part of an investor group that is seeking regulatory permission to open Sterling Bank.

But, "there is a strengthening that has taken place," said Miller, who would be chief executive of the de novo.

That strengthening, he and others say, comes from changes made by civic and business officials – and at banks themselves.

Devising a strategy for resilience

Before the financial crisis, real estate values soared in Las Vegas in part because of the booming construction industry, said John Guedry, CEO of Bank of Nevada, which is part of Western Alliance Bancorp.

But the hyperinflated housing prices were not sustainable.

Once the meltdown began, the city lost 190,000 construction jobs, or more than 14% of its total employment base, Guedry said.

About six years ago, with the state still lagging the rest of the nation in terms of its recovery, Nevada officials worked with regional economic agencies and the Brookings Institution to develop a plan to diversify away from a heavy reliance on gaming and tourism.

The plan also looked at ways to leverage assets in areas like renewable energy and minerals.

This led Nevada to push for more universities to open up medical schools to address the state's shortage of doctors, as an example of one change, Guedry said. The state's rich deposits of lithium, an important component of batteries, helped lure the electric car company Tesla to open a plant in Nevada as well.

A professional hockey team, the Vegas Golden Knights, arrived recently, and the Oakland Raiders pro football team plans on relocating there as well.

The complete transformation is likely to take at least a generation, Guedry said. Las Vegas' unemployment still tops 5%, according to the Bureau of Labor Statistics in October. Nationally that number was 4.1%.

"Most people have a view of Las Vegas that you either work in a casino or you are a dancer," Guedry said.

"But it is like any other community. There is a community of 2.5 million people with churches and schools and businesses. We are on the precipitous of being a community that people no longer relocate to but are where people are actually from."

Stronger banks and brighter outlook

Meanwhile, Nevada banks now have some of the lowest past due rates in the nation, Burns said.

"We are positioned for expansion, but not the Wild West expansion prior to 2008," Burns said. "The thing with Nevada, and particularly Las Vegas, was it had never faced a major downturn before."

Given the diversification of the local economy, bankers are optimistic about their lending opportunities. Commercial real estate lending for small businesses, including Small Business Administration owner-occupied loans, are doing better, said James York, president and CEO of the $104 million-asset Valley Bank of Nevada in North Las Vegas.

There is also more demand for commercial and industrial lending, including fixed-asset and equipment purchases, tenant improvements and account receivable financing, York said. Recent tax reform that allows businesses to accelerate the depreciation expense of their equipment is "adding fuel to the fire," he said.

"As a banker that has helped see our bank through the greatest recession our generation will most likely know, I am changed forever," York said. "Las Vegas has been an economic greenhouse of learning for bankers and businesses. We are interested in growing at a slower and more sustainable rate and have a long-term outlook for ourselves and our clients."

The challenges ahead

Still, community banks face big challenges. Much of the state's deposits are concentrated at large competitors. Only one independently owned bank headquartered in Nevada is in the top 10 in terms of deposit market share in Las Vegas, according to Federal Deposit Insurance Corp. data from June 30. In contrast, seven out the top 10 deposit holders in Kansas City, which has a similar population size as Las Vegas, are community banks.

The team behind Sterling sees the high level of concentration as more of an opportunity than an obstacle, Miller said. The proposed bank will focus on commercial customers, particularly small businesses, while emphasizing that lending decisions will be made locally. That should allow it to operate efficiently and attract clients quickly, Miller said.

If Sterling is allowed to open, it would be the second de novo approved in Nevada since 2011. Charles Schwab Trust Bank's application was approved in December.

Overall, there has been a recent uptick in proposed de novos nationally, though activity still remains far below the levels prior to the financial crisis.

Regulators are focusing on ensuring that new banks have the proper expertise at the board and management levels, said Burns, who noted that before the financial crisis some banks were allowed to start where the CEO's prior experience was being a branch manager.

Local bankers seem to have mixed reactions to the prospect of another bank in their city. Sterling would be a competitor, but its regulatory approval would show how far Las Vegas has come from the depths of the crisis.

"Do we need a new bank? As an existing bank, I might say no. I don't want more competition," said Arvind Menon, president and CEO of the $773 million-asset Meadows Bank. "But in the heyday, we had a lot more community banks so it doesn't hurt to have another bank open up."

A Technology First Strategy

This startup is buying a bank to roll out a wire fraud service it developed

A BIG RULE IN BUSINESS IS TO FIND A need and then meet it.

The founders of Nano Financial Holdings in Irvine, Calif., believe there is a need to address fraud from wire transfers. So they are developing technology to make transfers easier and more secure.

To advance its strategy, Nano is going the route of buying a bank. The plan is to offer its technology to commercial clients of the bank at first and then consider ways to provide the service to other financial institutions.

Nano's ambitions hit on several trends in the industry, including the growing cybercrime threat and the rise of fintech.

Mark Troncale, Nano's co-founder and president, said wire fraud is "a very serious issue," and several industry experts agreed with that point of view.

One common scam involves business email compromise. The scam occurs when a criminal infiltrates a company's email, then targets people responsible for the protocols necessary for a wire transfer.

Wire transfers were the second most targeted payment method for fraud in 2016, according to a study released last year by the Association for Financial Professionals. The percentage of finance professionals who reported wire fraud jumped from 5% in 2009 to 48% in 2015, the study found.

Despite the risk, the exposure often goes overlooked, said Gilles Ubaghs, a senior analyst with Aite Group's wholesale banking and payments practice.

"Wire transfer fraud isn't that different from classic phishing scams," Ubaghs said. "These fraud networks are kind of ingenious."

Wire fraud can be costly for banks and their clients, with domestic and international wire fraud losses totaling $5.3 billion in 2016, Troncale said. In some cases, banks will not cover a client's loss, which could lead to litigation and damage to an institution's reputation.

Nano is working with three outside firms to build its technology, which will use a multilayered authentication process to ensure security. The platform will replace passwords with other verification methods, such as biometrics.

Eventually Nano might license or sell the technology to other banks, said Troncale.

Licensing can allow a community bank to differentiate itself from the competition, said Paul Schaus, president and chief executive of the consulting firm CCG Catalyst. Smaller banks lack the resources that bigger banks have to pour into numerous technology projects.

For instance, JPMorgan Chase said last year that it was spending $9.5 billion on technology, Schaus said. "How do you even compete against that?" he asked.

"Community banks can't be everything to everyone," and instead need to devise a focused strategy, Schaus said.

Executives at Nano decided to buy a bank rather than apply for a charter because doing so will give them an immediate foundation to start from, Troncale said. They announced a deal to buy Commerce Bank of Temecula Valley in Murrieta, Calif., in December.

While the number of de novos being approved is rising – Southern California has seen at least four de novo applications in recent years – it remains far below pre-crisis levels.

"It will be interesting to wait and see how Nano Financial and its bank play out," said Ruth Razook, founder and CEO of RLR Management Consulting, who discussed the option of doing a de novo charter application with Nano. "It is the first one I'm aware of that's a borderline fintech bank."

Despite Nano's fintech elements, members of its management team think of themselves as commercial bankers, Troncale said. The technology component is intended as a way to better serve the businesses they will target, he said.

"We service high-net-worth individuals and businesses that are successful," he said, "so we had to be out in front of the cyber threat." *– Jackie Stewart*

Pushback on Payday Loans

States mull new laws to sidestep CFPB restrictions

THE PAYDAY LOAN RULE FROM THE Consumer Financial Protection Bureau was supposed to reduce the number of Americans who get mired in debt they can't afford.

But in an ironic twist, the four-month-old rule is being used in state legislatures to justify the creation of a new category of loans that would be even costlier for many borrowers.

One such bill in Florida zipped through three legislative committees in January, and the Indiana House of Representatives voted to pass a similar measure.

The CFPB rule, which faces an uncertain future in Washington, is designed to sharply reduce the use of two-week payday loans. But it does not crack down on longer-term installment loans with triple-digit annual percentage rates, and that is where payday lenders now see an opportunity in state capitals.

"They have crafted this so that it would not fall under the CFPB rules," said Alice Vickers, director of the Florida Alliance for Consumer Protection.

The industry's lobbying effort stretches back several years. In anticipation of the CFPB's action, payday lenders were pushing lawmakers in numerous states to authorize high-cost installment loans.

But before now, the threat that the CFPB posed to the payday industry was merely conjectural. The final rule, which was released in October, presents a clearer target.

"This rule, a 1,700-page rule, imposes burdensome regulations on lenders that will eliminate this credit option for consumers," state Sen. Rob Bradley, a Republican who is sponsoring the Florida legislation, said at a hearing in January.

"And there's 10,000 people who work in this industry whose jobs would be threatened if we do not address the actions of the federal government," he said at another hearing.

Last year, bills to legalize high-cost installment loans were introduced in 10 states, including Michigan, Georgia and Oklahoma, according to the Center for Responsible Lending. All of those measures were rejected.

This year, payday lenders appear to be better positioned to score victories.

The legislation in the Florida Senate, which is attracting bipartisan support, would authorize 60- to 90-day loans of up to $1,000, while continuing to allow payday loans. Though these new two- to three-month loans would carry a lower annual percentage rate than the shorter-term loans, they would be substantially costlier for many borrowers.

A borrower who took out a 60-day, $1,000 loan under the pending legislation would pay fees of around $215, according to an analysis by Senate staffers in Florida. Under current law in the Sunshine State, a borrower who takes out two 30-day, $500 loans owes $110 in fees.

"To us, that looks like you're basically going backwards," said Jared Ross, a senior vice president at the League of Southeastern Credit Unions & Affiliates, which opposes the legislation. "We view these types of loans as predatory."

But the legislation's supporters argued during hearings that the bill would benefit consumers. For example, they noted that the Senate bill allows borrowers to skip a payment if they cannot come up with the cash. One speaker pointed out that those who pay off the 60- to 90-day loans within two weeks will owe less in fees than payday borrowers.

The CFPB rule, which was released by then-Director Richard Cordray, is expected to be reviewed.

If the rule survives, payday lenders are not required to be in compliance with most provisions until August 2019.

– Kevin Wack

Eloan gets reboot for a new era in online lending

Personal loans will roll out first, as this pioneer re-enters a market where fintechs are now a force

By Bryan Yurcan

ONE OF ONLINE LENDING'S PIONEERS is back, upgraded for a new digital era.

Banco Popular is relaunching E-loan to serve as its "fintech arm," a standalone brand offering solely digital products.

This time around the name is Eloan – without a hyphen – and the first product to roll out is a personal loan.

The loans have no origination fee, put money in the customer's bank account as soon as the next business day, and are available in all U.S. states except Massachusetts, said Mariel Arraiza, senior vice president of Eloan.

"After extensive research and trials, we have created a simpler, smarter platform that balances technology, data and customer profiling while delivering a unique and effective banking experience," Arraiza said.

Eloan, which launched back in 1997, re-enters a market where fintechs now account for over 30% of personal loan originations, according to TransUnion. The brand will compete for customers alongside well-financed upstarts like LendingClub and a growing list of digital-only plays by banks.

Eloan was acquired for $300 million by Banco Popular in 2005. Subsequently, it shifted away from lending and began offering savings accounts and CDs, as Banco Popular sought to increase its deposits. Now, existing Eloan deposit products will be managed by Popular Direct, the direct online channel owned and operated by Banco Popular North America.

Eloan will power its digital lending platform with technology from Avant. "They host the platform, but it will be customized for the Eloan brand, and we will use our pricing structure," Arraiza said.

Though Avant is itself an online lender, and potential competitor, the arrangement isn't unique; Regions Financial in 2016 began using Avant's digital lending platform to approve and fund consumer loans.

The move should allow Banco Popular to target customers it normally would not attract as well as provide credit to existing customers who previously weren't considered creditworthy because of the cost of underwriting and processing an application, said Ian Benton, a digital banking and payments analyst at Javelin Strategy & Research.

"In a commoditized market like the one for unsecured consumer loans, customers tend to not care much where they source their credit, as long as the terms are right for them," Benton said. "The whole 'primary financial institution' concept goes out the window. You might hold your checking account at a particular bank, but how valuable is that if you're going elsewhere for your credit products? The bank becomes primary in name only."

Benton said it is increasingly important for banks to be able to make short-term credit available to their customers as a retention play. "Of course they want to make money on loans, but they also want to prevent the erosion of the rest of the banking relationship, which can happen if customers are turned down for a loan," he said.

The personal loan product is just the first of many offerings to come from the new Eloan; a credit card product is likely later in 2018, said Arraiza.

As with other recently launched digital offerings from traditional banks, financial management and budgeting tools are integral for Eloan. One adjustable tool on the Eloan website lets consumers see what their monthly loan payment would be, depending on how much they borrow and how long they want to take to pay it off.

Informational content is uploaded weekly, such as guidance on making home improvements, for example. With this feature, visitors also can access tools that assist with evaluating the cost of renovation projects.

If it's successful enough, Eloan eventually could be spun off by Banco Popular, Arraiza said. But it's too early to say whether that will happen.

"Our vision is for Eloan to be a self-funding operation," she said. "It could remain a separate brand within Banco Popular or an independent organization."

Varo Rattles And Hums

Startup's latest backers include U2 frontman Bono

VARO MONEY, A MOBILE BANKING fintech that created a stir by applying for a national bank charter in July, is raising more capital to support that ambition.

The cash infusion – $45 million in Series B funding – is notable both because of what Varo is trying to do and the sources of the money.

Varo aims to help the masses better manage their money and make banking cheaper for them, especially those with income that varies from one month to the next. It is a mission that has attracted financial support from the likes of the U2 lead singer Bono.

"Our technology could help the masses – not just the people who can afford a private banker – to get ahead and improve their financial situations," said Colin Walsh, Varo's founder and chief executive.

Walsh, who worked for 25 years in financial services firms like American Express and Wells Fargo, considers himself a "reformed banker."

In traditional banks, "there's a reliance on overdraft fees, minimum balance fees and things that are quite punitive for people who are just starting out and don't have lots of money," he said.

Varo provides checking and savings accounts, direct deposit, online bill payment, a debit card, predictive forecasts of cash flow, a line of credit and an unsecured loan through its app (currently with the backing of The Bancorp).

There are no minimum balance requirements, overdraft charges or foreign exchange fees.

"We're looking at how we can lower the cost of banking, particularly for people who have volatile cash flows," Walsh said.

The latest round of funding will help Varo lay the foundation for becoming a national bank, for instance, by building out operations, risk and technology, he said. It also will be used to hire talent, invest in product development and increase marketing activities.

"We had a large Series A round, and we still had a fair amount of money in the bank," Walsh said. "We felt the timing was right to go back to the market, particularly as we're in the middle of this application process, to raise more capital."

Varo's business model is based on interchange fees, interest income from loans, and in the future, fee income from partners like insurance, wealth management and student loan providers.

The fintech has tens of thousands of checking account customers, Walsh said. He declined to share how many customers have taken out loans.

The banking charter application is under review by the Office of the Comptroller of the Currency, Walsh said.

"We're very actively engaged with the regulators," he said. "The OCC is not going to relax their standards, so it's been a rigorous process. They're definitely not just sitting on it. We speak regularly."

The charter would give Varo the ability to accept deposits without having to use a bank partner and thereby gain low-cost funds. It also would enable Varo to report to one regulator rather than myriad state and national agencies.

If the charter is approved, Varo will maintain its relationship with The Bancorp for a period of time. "They're very supportive of us becoming a national bank," Walsh said.

One of Varo's investors is The Rise Fund, which is led by the private equity firm TPG. The fund is committed to achieving social impact while also delivering competitive financial returns. It was founded by Bono; Jeff Skoll, an entrepreneur, film producer and impact investor; and TPG's Bill McGlashan.

The global private equity firm Warburg Pincus, which led Varo's Series A financing, also participated in this round. So did 30 others, including angels, existing investors and management.

When the Series B round closes, Varo will have raised more than $78 million in less than two years. *– Penny Crosman*

Battle Buddy For Business

Online lender aims to match up more veterans using its peer-to-peer model

AN ONLINE LENDER THAT TARGETS veterans as its customers is looking to grow.

StreetShares – which recently announced $23 million in fresh funding – was founded in 2013 by U.S. military veteran Mark Rockefeller and former Capital One Financial executive Mickey Konson. The company uses the peer-to-peer lending model, bringing together borrowers and savers through an online platform that offers small-business loans.

The goal is to tap into the loyalties of military veterans who already feel a sense of camaraderie. StreetShares has said that veterans who take out loans are more likely to repay if other veterans are backing the loans and they have an opportunity to connect through an online forum.

"It's a bit like if a bank allowed depositors to interact with borrowers, and you organized that interaction around social groups to create additional loyalty to the bank," Rockefeller said in a 2016 interview, after the Securities and Exchange Commission gave StreetShares permission to open its platform to everyday investors.

Today, small businesses can apply for term loans and lines of credit from StreetShares of up to $100,000. Accredited investors are eligible to back the loans, while nonaccredited investors can buy bonds that pay 5% interest.

The Reston, Va.-based company did not offer specifics about how it will use the $23 million in new equity funding, other than saying it will fuel growth.

The funding round includes $20 million from Rotunda Capital Partners, a private equity firm based in Bethesda, Md. Existing investors provided the remaining $3 million.

StreetShares had previously raised $8.3 million in three equity funding rounds between 2014 and 2016.

– Kevin Wack

Kabbage Incursion

Bigger credit line now, and maybe new services next

KABBAGE HAS STARTED OFFERING credit lines of up to $250,000, pushing deeper into territory traditional banks consider their own.

Kathryn Petralia, president and co-founder of the online lender, said requests from existing customers prompted the move.

As with the smaller lines of credit Kabbage already offers, the lending process will take 10 minutes, with no human intervention needed, she said. The lowest loan rate will be 6% of the loan amount in a six-month period or 12% in a 12-month period.

Like other online lenders, Kabbage is data driven. It has what it calls "live data connections" with 1.7 million customers, through which it gathers information such as bank account data, payment processing data, social data, shipping data, credit card transaction data, and accounting information.

"All this data gives us a unique view into that business performance," Petralia said. "It's what enables the user experience we have today, which is a really rapid onboarding process, and it also has the potential to enable a lot of other things."

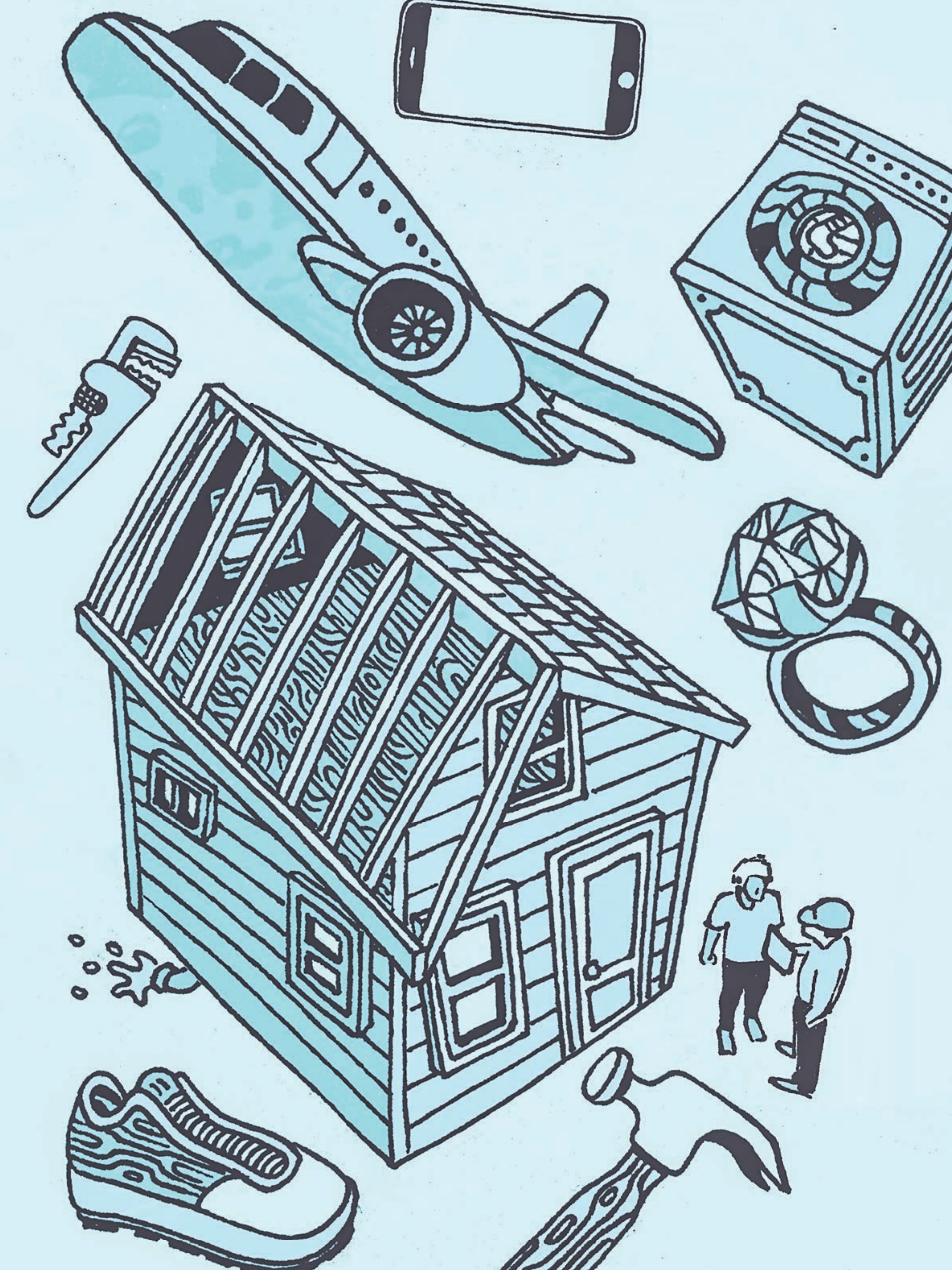
For instance, the company might start giving customers advice about, and access to, other services they need to run their businesses, such as insurance, payroll, enterprise resource management programs, or customer relationship management software.

"We're uniquely positioned to deliver that data back to our customers in a way that's meaningful and useful," Petralia said.

"That could help businesses focus more on the things they really love to do and the things they're really good at. We want the chefs to be able to cook and we don't want them to have to worry about the other parts of their business."

Kabbage worked with its partner, Celtic Bank, to develop the larger line of credit.

The small-business lender has been growing quickly: In three years its revenue has jumped 979%. It provided 250,000 loans in 2017 and has lent out $4 billion overall. *– Penny Crosman*



HOW BUY NOW IS EVOLVING INTO BORROW NOW

A confluence of trends — advances in technology, changing consumer preferences and banks' need to diversify their balance sheets — has made point-of-sale loans more popular than ever.

BY ALAN KLINE
ILLUSTRATION BY JACOB THOMAS

Many consumers – millennials in particular – have a love-hate relationship with credit.

They are comfortable borrowing for specific purposes, such as paying for school, buying a car or even financing a dream wedding. But research conducted by banks and fintechs has found that many younger Americans are uncomfortable carrying credit card balances, partly because they saw their parents struggle with debt during the financial crisis and prefer the more certain repayment terms of installment loans.

This affinity for more straightforward credit products helps explain why so many banks and fintechs are now offering personal loans that consumers can use to consolidate debt, finance big-ticket purchases and, increasingly, buy smaller items too. Personal loans issued by banks – these exclude credit cards and auto and home equity loans – hit a record $807 billion at Sept. 30, according to data from the Federal Deposit Insurance Corp., up 9% from two years earlier and nearly 30% since 2012. That's not even including the many billions of dollars of loans made by upstart online lenders that don't end up on banks' balance sheets.

This confluence of trends is also giving rise to a fast-growing subset of personal loans known as point-of-sale loans.

Point-of-sale loans are hardly new – banks have been offering them indirectly at the likes of furniture stores and orthodontists' offices for decades. The biggest players historically have been Wells Fargo, Citigroup and Synchrony Financial.

But this type of lending has become increasingly popular in recent years as technology has improved to the point where merchants and contractors that previously may have only accepted cash, check or credit cards are now offering the option of a loan at the moment of purchase, whether online, in stores, or in person.

Think of the owner of a roofing company at the house to give an estimate on a project whipping out an iPad to offer an instant loan to pay for the work. Or think of a travel website providing an alternative to putting that overseas trip on your credit card, with the loan approval just as easy and speedy as entering the usual card information.

Besides giving consumers another payment option, these loans help retailers sell more, bankers and fintech executives say. Point-of-sale lending also has been a boon to online lenders – San Francisco-based Affirm originated more than $1 billion in point-of-sale loans last year – and, increasingly, regional banks that are funding the loans, either directly or behind the scenes.

Citizens Financial Group has built a thriving business as the exclusive point-of-sale lender for iPhones at Apple stores and at Apple.com. It has a similar exclusive partnership with Vivint, a home security firm.

But Citizens' partnership with Apple may not stay exclusive for long. In early February Goldman Sachs was reportedly in talks with Apple to offer point-of-sale loans on iPhones and other Apple products. Goldman would make the loans through its consumer-lending arm, Marcus, which it launched in 2016.

Regions Financial, Fifth Third Bancorp and Synovus Financial have all seen their point-of-sale loan portfolios swell since they joined forces with GreenSky, an Atlanta-based fintech whose technology platform enables home improvement contractors, medical firms and specialty retailers to offer instant loans and lines of credit to their customers. As of late 2017, GreenSky had partnerships with 16,000 merchants.

For banks, these loans have become a key driver of consumer loan growth at a time when other options are dwindling. Many are tapping the brakes on car lending and demand for home equity loans is weakening, because they have fallen out of favor with homeowners. Maintaining consumer loan growth is important because banks are under pressure to bring more diversity to their loan books, which historically have been heavily weighted toward commercial real estate loans.

One of the biggest risks to bulking up in consumer lending is that the economy sours and consumers begin struggling to keep up with their monthly payments. Declining personal savings rates, rising consumer debt levels and increasing delinquencies on consumer loans, while nowhere near financial-crisis levels, are all warning signs that some U.S. households may already be stretched thin.

Still, bankers say that they are well aware of the risks and that they are taking all the appropriate steps to mitigate them. Tim Spence, the head of payments, strategy and digital solutions at Cincinnati-based Fifth Third, said that the systems banks have built to run stress tests have gone a long way to helping them understand just how much risk in consumer lending they can tolerate.

Stress testing "has become an incredibly useful tool for strategic planning," Spence said. "It's what drives the decisions we make as it relates to the profile of the customer, to whom we are willing to extend credit and the size of a given portfolio on our balance sheet."

Moreover, many of these loans are short term – generally for less than two years and sometimes for only a few months. This reduces the risk to bank balance sheets compared with lengthier auto loans or mortgages.

So, at least for the foreseeable future, don't expect banks and fintechs to ease up on point-of-sale lending. Here are four reasons why they see it as a lucrative growth business.

Consumers want options

Affirm facilitates point-of-sale loans for a wide range of merchants, including clothing retailers, bicycle dealers and travel websites. As recently as late 2015, the lender had partnerships with just about 100 retailers. Today, it has more than 1,500 partners and is adding more all the time.

By rapidly adopting point-of-sale lending, merchants are clearly acknowledging that their customers want alternatives to mainstream or store-branded credit cards when it comes to paying for goods and services, said Max Levchin, Affirm's founder and chief executive.

"Consumers recognize the need for credit, but are unhappy with the terms and lack of control associated with traditional cards," Levchin said.

In 2016, Affirm conducted a survey of more than 1,000 consumers ages 22 to 44 to gauge attitudes about consumer credit. Most said that they fear debt and nearly half said that they enjoy some purchases less if they are still carrying a balance on their credit cards.

Perhaps most tellingly, 87% of respondents expressed an interest in paying for large purchases via monthly installment loans and the bulk of those respondents said that the most appealing aspect of an installment loan is knowing exactly how much they will owe and when, including interest.

Americans still love their credit cards, as evidenced by the fact that card debt outstanding is now at an all-time high of $800 billion, according to the Federal Reserve Bank of New York. Yet the number of active accounts is well below pre-crisis levels, a clear sign that many consumers are trying to avoid revolving debt. In its research, Fifth Third found that millennials in particular dislike carrying credit card debt but have little problem taking out a loan to pay for a specific product or service, such as a laptop or a vacation.

"There is a natural psychological affinity within this group for credit products with a purpose," Spence said. "That was a big 'aha moment' that drove us to offer a financing solution at the point of need."

Fifth Third's research also found that many homeowners are less inclined these days to use home equity loans to pay for a kitchen remodeling, the installation of solar panels or other home improvement projects. Those who have memories of the financial crisis worry that tapping the equity in their homes to fund upgrades could leave them underwater if a recession hits and home values decline. Others simply find home equity loans to be more trouble than they're worth, especially when there are other financing options available to them.

"If a tree falls on your garage, you don't want to wait 45 days to get an appraisal and for a proper closing package to be put together … before the loan gets funded," Spence said.

At Regions, indirect consumer lending shot up 57% last year, and Tracy Jackson (left) attributes much of the growth to GreenSky. Citing the consumer appeal of point-of-sale loans, Synovus' Steve Adams says, "We believe, in a lot of ways, this is where the industry is going."

This is where GreenSky loans come in. The loans, which range from about $5,000 to $55,000, are offered through thousands of contractors and can be funded in minutes by any one of the roughly 15 banks in the GreenSky network. The loans carry higher rates than home equity loans because they are not secured by a home's value, though most at the outset will offer a 0% promotional rate that allows a borrower to avoid interest charges if the loan is paid off before the promotional period expires.

Steve Adams, the head of investor relations at Synovus, in Columbus, Ga., said that while home equity loans will always have a place, some homeowners looking to finance an upgrade or an addition are drawn to GreenSky loans for their speed and simplicity.

"This type of transaction is very appealing to a customer because it happens very quickly," said Adams, who until recently headed consumer and small-business lending at Synovus. "We believe, in a lot of ways, this is where the industry is going."

Point-of-sale loans help sell more stuff

It's easy to see why thousands of home improvement contractors would want to partner with GreenSky and hundreds of retailers and web merchants would want to team with Affirm: The more payment options they can offer to prospective customers, the more likely they are to close the sale.

Brendan Coughlin, the head of deposits and consumer lending at Citizens Financial Group, in Providence, R.I., said that merchants were very much top of mind when the bank began building its own internal loan platform a few years ago. Not only did Citizens' executives see point-of-sale lending as a way to provide better service to consumers, they also viewed it as an opportunity to help existing – and future – business customers "achieve a dramatic improvement in sales," Coughlin said.

Arrangements between merchants and lenders can vary, but in many instances the merchants will pay a fee to participate in a point-of-sale partnership. GreenSky, for example, makes its money off of contractors who pay it a fee for facilitating loans. (Those fees are adding up too. The Wall Street Journal recently reported that GreenSky is the country's second-most valuable fintech, with a market value of roughly $4.5 billion.)

Citizens makes its loans directly, not through a third party, and it also charges merchants a fee on each loan it originates. Importantly, the loans are interest-free, and Coughlin stressed that the 0% offer is for the life of the loan, not for a set promotional period after which borrowers would have to pay accumulated interest.

Merchants "are giving up a little bit of a profit margin to run a program like this, but the bet they are making is that this very frictionless experience will provide more accessibility to their products by making them more affordable," Coughlin said.

Citizens currently only offers point-of-sale loans for Apple and Vivint, but Chairman and CEO Bruce Van Saun told investors and analysts in January that it expected to announce partnerships with more merchants later this year.

"We're working on things that are in pilot, so stay tuned," he said.


Point-of-sale lending helps business customers "achieve a dramatic improvement in sales," says Citizens' Brandon Coughlin (left). Research revealing millennials' dislike of credit card debt was an "aha moment" for Fifth Third that prompted it to enter this space, says Tim Spence.

Tech advances have simplified point-of-sale lending

Apart from 0% interest, the other main selling point on Citizens' iPhone loans is the speed at which they can be approved and funded.

According to Coughlin, loans can be approved "in less than one second" with a simple swipe of a credit card already in a prospective borrower's wallet. That smooth customer experience is among the reasons Citizens' portfolio of unsecured consumer loans has more than tripled since mid-2016.

Similarly, GreenSky loans can be approved in a matter of minutes and are generally funded the same day.

The process has to be simple not just for the borrowers, but also for the contractors and merchants that are offering the financing and leasing options in the first place, said Bob Wickham, an investor in Microf, a fintech lender that makes point-of-sale loans to homeowners seeking upgrades to their heating, ventilation and air conditioning systems. The 6-year-old Microf has partnerships with thousands of HVAC dealers and dozens of distributors and primarily works with homeowners with slightly blemished credit records.

"The point-of-sale financing has to be quick and easy for contractors to use," said Wickham, a partner at Rotunda Capital, a private equity group in Bethesda, Md., that invested roughly $18 million in Microf in 2015 and 2017. "During the busy season, these guys are often working 7 a.m. to 7 p.m. and they aren't going to take the time, nor do they have the time, to suffer through a complicated application and funding process."

Lenders are continuing to refine their technology so that consumers can access funds when they most need them. Fifth Third will soon roll out a new personal loan for which existing account holders can apply through a mobile app. If the loan is approved, funds will be deposited in the customer's account the next business day and could be used, conceivably, for any big-ticket purchase.

Affirm also recently began offering a new type of loan that lets consumers borrow to buy a product or service from any merchant, not just one that has an existing partnership with Affirm. App users who are approved for a loan are given a temporary credit card number that can be used at the point of sale to complete a purchase.

Any item – as small as a new pair of jeans – could be paid for with the loan. Affirm loans start at around $150 and can go as high as $17,500. The average loan size is $650, Levchin said.

"We believe the future of credit is not a piece of plastic but an app that gives consumers flexibility to spend where and when they want, along with transparency into the true cost of a purchase," Levchin said.

For banks, it's about portfolio diversification

As recently as late 2016, Fifth Third barely had any point-of-sale loans on its books, but since then it has originated hundreds of millions of dollars in such loans and expects to reach $2 billion within a few years, all thanks to its partnership with GreenSky, said Spence. The bank is so bullish on the business model that last year it invested $50 million in GreenSky to help fund the fintech's expansion into new business lines.

Regions doesn't break out GreenSky loans in its financial statements, but at Dec. 31 its portfolio of indirect consumer loans totaled $1.4 billion, up 57% from a year earlier. Much of the growth can be attributed to its relationship with GreenSky, said Tracy Jackson, Regions' senior vice president of consumer lending.

"A bank like ours doesn't have the existing technology to provide the infrastructure to these thousands of locations," Jackson said. "GreenSky has that technology, plus all these relationships with the home improvement contractors. For a bank, that's just too much overhead to support."

This access to GreenSky's technology is helping banks diversify their loan books. Synovus nearly failed a decade ago after overloading on commercial real estate and construction loans, but its loan portfolio has become more balanced in recent years as it has pursued more small-business and consumer credits.

Adams, its head of investor relations, said that the company made a conscious decision a few years ago to expand its point-of-sale lending and concluded that partnering with GreenSky was the best way to do that.

"The choice was to build our own solution, go out into the market and buy somebody or find a partner," he said. GreenSky "had the most compelling value proposition."

Regions' Jackson added that the partnership is cost-effective as well because it allows banks to make loans "without always relying on branches."

They also can lend outside their footprint and introduce more geographic diversity to their loan portfolio. But that can be seen as a disadvantage too.

If there's one drawback for banks in partnering with GreenSky it's that there is little opportunity to deepen relationships with borrowers. GreenSky by and large assigns loans to its bank partners on a round-robin basis – this one to Fifth Third, the next one to Regions and so on – so more often than not banks end up funding loans to borrowers in markets where they have no retail presence. A borrower in Seattle might get a monthly statement from Regions, but otherwise will likely have no other interaction with the bank, which operates in the South and Midwest.

Jackson said that there is some point-of-sale lending Regions can do on its own, without the help of a third party.

For example, it works directly with several energy companies within its footprint to offer loans to homeowners seeking to finance energy improvements, such as duct replacement or a heat pump tune-up. The bank is also exploring partnerships with hospitals and other medical providers in its markets to offer loans for medical procedures not fully covered by insurance, all with an eye toward developing deeper relationships with the borrowers.

"At some point, we want to provide all this ourselves and not have to rely on a third party," Jackson said. □

BankThink

BY TODD McELHATTON

How to bridge the finance talent gap

Chances are, when I'm not at my day job or with my family, you can find me at my favorite Bay Area wine shop. Before you judge, let me clarify that I am part owner of this particular shop. Interacting with customers there has validated something for me – millennials really are more willing than other generations to move to new jobs when they feel unfulfilled.

As the chief financial officer for a major company, it's something I've been thinking about a lot – mainly because the finance function is changing. It is no longer just about reporting and balancing books, but about shaping a company's strategy and driving business outcomes. And in order for the function to continue to evolve, we simply must attract and retain talent. Unfortunately for us, the right talent is in short supply.

Today, only 33% of chief executives are willing to give their CFOs a passing grade for talent management. Availability of people with key skills is a concern for 70% of financial services CEOs. Why is this happening?

It's a collection of reasons, but I'll narrow it down to one: finance's changing role in business. Specifically, finance's ability to drive business outcomes rather than simply report them.

This is thanks to the increasing capabilities of technology and the emergence of new roles in finance, like social and behavioral scientists. Unfortunately for us, there just aren't that many behavioral scientists out there well versed in finance, or vice versa.

There's also a general skills gap when it comes to these jobs. According to a report by McKinsey, there could be a need for 736,000 data scientists in 2024, with only 483,000 projected to be in the workforce by then.

To add to this, people in finance today are expected to be well versed in soft skills like communications and leadership. One 2015 survey of financial professionals found crucial nontechnical skills among the most lacking in entry-level talent: leadership, strategic thinking and execution.

As finance's importance to the business grows, so too will its importance in guiding strategic decisions. Finance has a seat at the table. That seat requires the ability to collaborate, relationship-build and lead.

To boost our pipeline of qualified, smart, young talent, we need to take the following three steps.

• **Automate**. Consider the exceptionally mundane task of budgeting. There's no reason this should be a manual process done on spreadsheets.

If the menial and boring tasks are automated, entry-level employees can do more meaningful work – something that will make them feel like they're having an impact.

• **Empower and entrust**. Create an environment where risk-taking is encouraged. Finance used to be a field constrained by monotony and processes. But what we need are new ideas and new ways of doing old things. If your team is pushing to acquire new technology, hear them out. If a young hire recognizes an inefficiency, listen. Just as important, make sure employees feel empowered enough to voice their opinions in the first place.

Culture is shaped at the top, and building confidence is one of the surest ways to help develop those soft skills so desperately in need today.

• **Engage**. Engagement is crucial. Your employees need to feel like they're part of the team – that this is not merely a 9-to-5 job.

OPINION

For more viewpoints on industry issues, visit the BankThink page on **AmericanBanker.com**

Not only are millennials willing to move on if the work is unfulfilling, they are less likely than previous generations to "pay their dues" doing transactional work. They can indulge such inclinations easily – the rise of the gig economy is testament to that fact.

Today, people can make a living by providing a service online or through an app. In fact, 43% of the American workforce is expected to be freelance by 2020. Millennials are entering a workforce where short-term gigs that don't provide benefits are growing in popularity. They're simply responding accordingly.

Finance is not the same field I entered two decades ago. As finance leaders, we have two choices: We can prepare our organizations or we can grumble and hope things change. Only one of these is a winning strategy. □

Todd McElhatton is the chief financial officer of SAP North America.

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ANNOUNCEMENT

MARK BOWER

ELECTED EXECUTIVE VICE PRESIDENT

CHIEF FINANCIAL OFFICER OF CENTRAL BANK

Houston – February 8, 2018 – Central Bank today announced the election of Mr. Mark Bower as Executive Vice President – Chief Financial Officer.

"We are excited to have Mark Bower join Central Bank's executive management team," said Robert Mrlik, President and Chief Executive Officer. "Mark's industry experience and excellent financial management skills will serve the bank well in its commitment to providing long-term value to our stakeholders."

Bower comes to Central Bank with 36 years of commercial banking experience; with the last 23 years at Home State Bank, Loveland, CO.

Bower, a Certified Public Accountant, is a graduate of Augustana College. Mark and his wife Annie, have three children, Elizabeth, Hannah and Michal.

Central Bank was founded in 1956 as Montrose National Bank and in 1961 changed its name to Central National Bank of Houston. In 1979, the bank converted to a state bank charter. As of December 31, 2017 Central Bank reported total assets of more than $650 million and total deposits of $583 million. It operates four locations in Houston.

CRA INVESTMENTS

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The annual report of **THE ASMUND S. LAERDAL FOUNDATION FOR ACUTE MEDICINE, INC.** for the calendar years ended December 31, 2017 and 2016 is available at its principal office located at c/o Laerdal Medical Corporation, 167 Myers Corners Road, Wappingers Falls, NY 12590, for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Ms. Patricia Goodwin.

SUBSERVICING

BackPorch

BLOOMBERG NEWS

RICHARD CORDRAY

“The fish rots from the head down.”

Former CFPB director, after the agency dropped a multiyear probe into a payday lender that allegedly contributed to Mick Mulvaney’s campaign

JIM GEUTHER

“It’s really not your grandfather’s Rust Belt any longer.”

Northeast Ohio banking veteran recruited by SunTrust to lead its foray into the region, on the surprising influx of large banks the market is attracting lately

WARREN BUFFETT

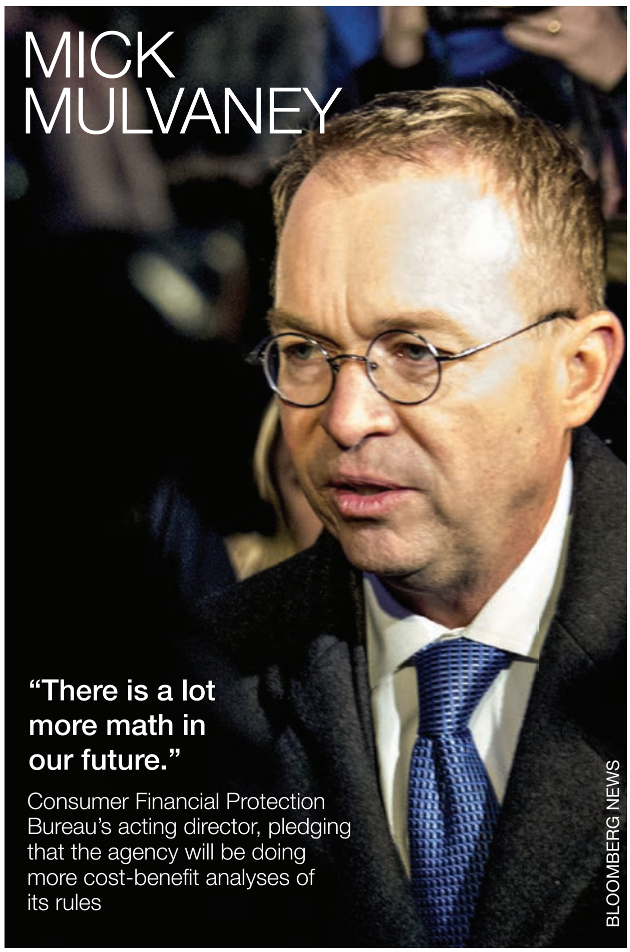
“The ballooning costs of health care act as a hungry tapeworm on the American economy.”

Berkshire Hathaway’s CEO, on launching a nonprofit health care company with JPMorgan Chase and Amazon to experiment with lowering expenses

IAN KATZ

“The Fed just put the fear of God into bank boardrooms across the country. And that’s exactly what it wants to do.”

Analyst at Capital Alpha Partners, on the Federal Reserve’s harsh rebuke of Wells Fargo over the phony-accounts scandal and the bank’s announcement that four board members would be removed



MICK MULVANEY

“There is a lot more math in our future.”

Consumer Financial Protection Bureau’s acting director, pledging that the agency will be doing more cost-benefit analyses of its rules

BLOOMBERG NEWS

ANA DUARTE-MCCARTHY

“People spend their entire educational and professional career trying to get to this pot of gold, and some guy dropping his drawers is not going to get in the way of that.”

Citigroup’s former chief diversity officer, saying one reason Wall Street has avoided the #MeToo spotlight is that women working there have too much money to lose if they speak up

JOHN KERSCHNER

“It’s got the Elon Musk magic to it.”

Head of securitized products at Janus Henderson Investors, on the extreme market demand for Tesla’s first asset-backed deal

REEVE COLLINS

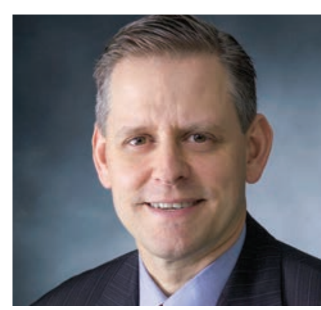
“This is the first time in human history anyone other than kings or governments or gods can create their own money.”

Internet veteran who raised $20 million from an initial coin offering for BlockV

BRYAN LARKIN

“We’re going to make this crypto land.”

Blockchain entrepreneur who moved to Puerto Rico to join others in creating a haven for cryptocurrency businesses



JEFF CLARKE

“This is not a dog food company that’s creating a currency.”

Kodak’s CEO, defending its newly minted cryptocurrency, called KodakCoin, as “a real solution” to the challenge of managing image rights

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- Embracing Disruption
- One Year In: Lessons & Opportunities with Zelle
- Building Effective Fintech Partnerships
- Growing Deposits in the Digital Age

The event will provide a variety of learning formats, from big picture keynotes to targeted, deeper-dive workshops and scheduled networking for meaningful business connections. Combine this with an audience of the industry's thought leaders and it's no surprise that consumer banking business leaders return to *American Banker's* **Retail Banking** event year after year!

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