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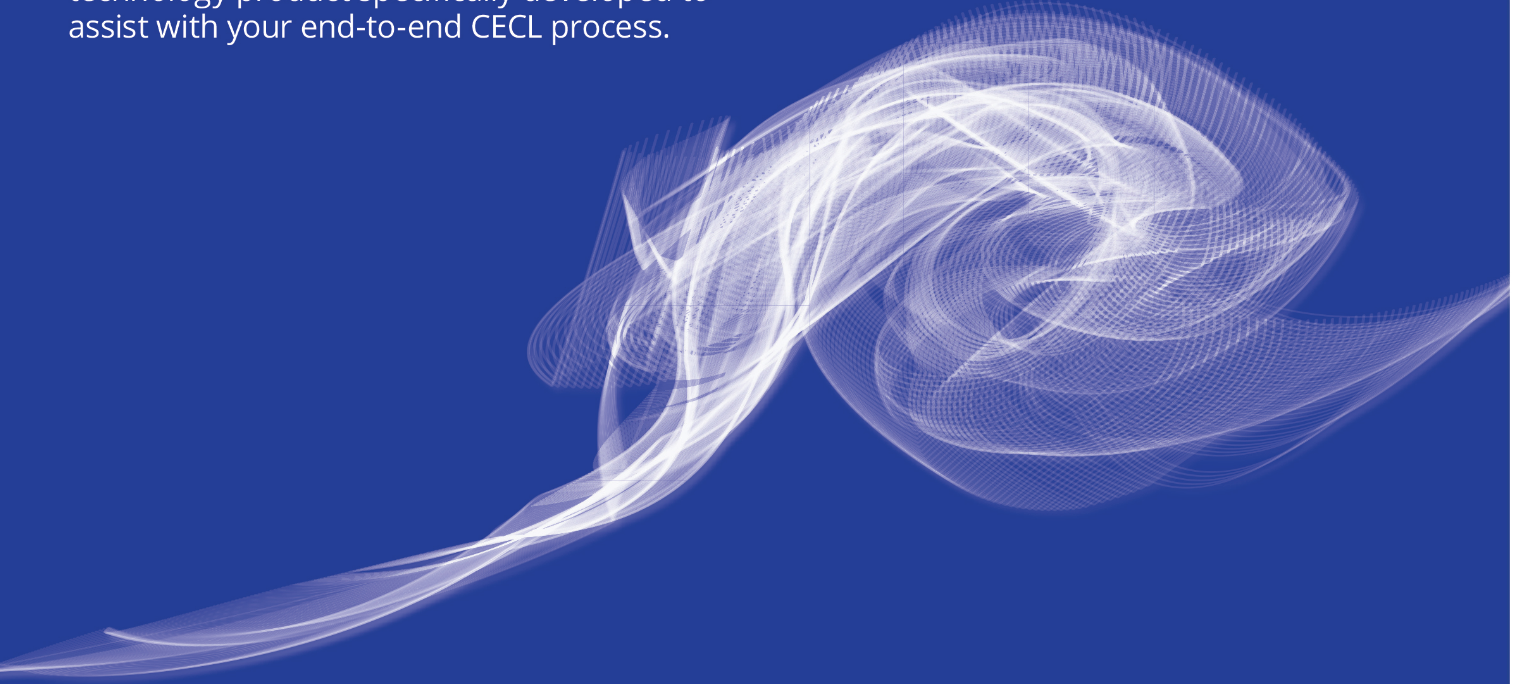

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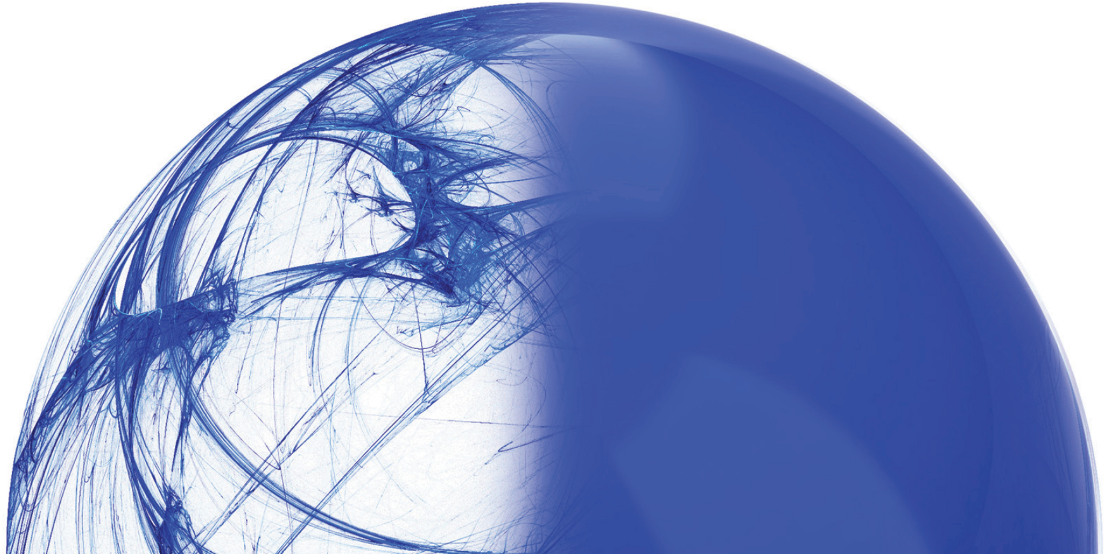

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WHEN THE ONLY BRANCH IN TOWN CLOSES

An Arizona town 40 miles from the nearest bank has found creative ways to adapt. The “banking desert” of Duncan (population 789) offers a glimpse into the future for more of rural America.

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BNY Mellon tech spending to rise

Interim Chief Executive Todd Gibbons, who succeeded Charlie Scharf in September, said its investments in technology give the custody bank a competitive edge and make it more efficient.

MOST SHARED

Pot banking takes a hit

Senate Banking Committee Chairman Mike Crapo, above, said he is opposed to a House bill that would give financial institutions legal cover to serve cannabis businesses. He asked for public feedback on the issue.

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One bank's impact investment

Bank of the West is the first U.S. bank to implement the Aland Index Solution, which lets customers keep tabs on how their spending affects the environment

By Laura Alix

If an environmentally conscious consumer knew that a two-hour flight produced 281 kilograms of CO2 emissions, would she look to offset the impact by reducing consumption elsewhere?

That is an option Bank of the West customers could soon be pondering, thanks to a new tool that lets them track not just their spending, but also the impact that spending is having on the environment.

The tool, the Åland Index Solution, was developed by Doconomy and is being offered to banks as a feature to provide to their customers. Doconomy, of Stockholm, launched the index in November, and Bank of the West is the first U.S. bank to implement it.

While the tool may never be a big moneymaker for the $91 billion-asset bank, it could be a useful selling point in attracting customers and recruiting employees, industry experts said.

"Millennials and younger generations are focused on these issues," said Mayra Rodriguez Valladares, managing principal at MRV Associates.

Its rollout also furthers Bank of the West's commitment to incorporate sustainability into its business practices. The San Francisco-based bank has pledged $1 billion to finance sustainable energy production and has vowed not to finance Arctic drilling, tar sands mining or coal-fired power plants, for example. In 2019 it became the first corporate sponsor of the Sustainable Ocean Alliance, a nonprofit that supports startups focused on improving the ocean's health, and it recently began teaming with the robo-adviser OpenInvest to promote socially conscious investing.

Nandita Bakhshi, Bank of the West's president and chief executive, said she is "thrilled" that her bank is the first in the U.S. to enable customers to track the environmental impact of their purchases. "Consumers understand their purchasing actions have the power to impact positive change," Bakhshi said.

The United Nations' Intergovernmental Panel on Climate Change has warned that man-made carbon emissions will need to be cut to net zero by 2030 to avert the worst effects of a warming world. As the issue gains prominence with consumers, particularly younger generations, banks are recognizing that climate-friendly initiatives play well with a growing segment of the population. Those efforts can include energy-efficient upgrades in branch networks, financing clean energy projects and re-evaluating their relationships with fossil fuel companies, among other things.

The Åland Index is a cloud-based program that relies on data from S&P Global Trucost and calculates the cost of a given transaction based on sector average and specific item cluster analyses. Banks pay a licensing fee to use the index, which they can customize to create their own carbon-tracking tool for their customers.

A customer then links a payment card to the tool in question, and the index pulls purchase information from that account to analyze the environmental impact of that person's spending. The index uses application programming interfaces to connect with the bank to pull that spending information and return its analysis.

The customer can then see that analysis in their mobile banking app or in the form of an alert, however the bank chooses to present it. A financial institution might also decide to offer an option to compensate for that environmental impact by investing in a project that promotes sustainable energy in developing nations.

Bank of the West did not provide details about how it plans to use the index, but for the U.S. subsidiary of BNP Paribas, the initiative is likely less about the bottom line than it is about demonstrating its values to its customers, shareholders, employees and the communities it serves, Valladares said.

"Banks have been challenged with net interest income compression, the low rate environment, and significant competition from nonbanks," Valladares said. "They're making money, but they're under pressure, so they're thinking about, how do we reach out to different segments?"

It could also help in recruiting employees, she said. "It's great for HR to be able to tell these younger people, this is who we are, these are our corporate values," Valladares said.

There are other online tools consumers can use to calculate the carbon costs of their spending choices, but Doconomy CEO Nathalie Green said she wanted to create a simpler way for people to determine their everyday impact. She likens Doconomy's tools to nutrition labels that tell people the caloric content of their food.

"When we talk about climate change, we often talk a lot about how politicians need to make decisions and legislation needs to change and systems need to change," she said. "But I think it's important to stress the fact that each and every one of us can contribute and we need to contribute. This is a pretty good way because the greatest part of a person's carbon footprint is linked to the way we spend our money."

The index is one of two tools Doconomy has developed. The other is a mobile app called DO, which is currently offered only in Sweden. DO is a direct-to-consumer offering that allows people to track which types of purchases have the biggest carbon impact. It also gives them the option to compensate for that spending by investing in U.N.-certified climate compensation projects in developing countries.

The fintech also recently partnered with Mastercard to offer a credit card that operates on a similar principle. Unlike other credit cards, the DO card also cuts customers off when they've hit their carbon limit.

Just two other banks currently use the index, Bank of Åland and Nordea Bank, both in Finland, but Green wants to bring on more banks.

"Our ambition is really to create a global standard for measuring the impact of consumption," she said. "To do that, we need to collaborate and partner up with big players."

Spelling relief CRA

One change to the law could invigorate tribal economies

Tribal leaders have long struggled to attract the financing they need from large banks as part of efforts to reverse chronic poverty and housing shortages on Native American reservations.

They have for the most part relied on government grants and subsidized loans from smaller, rural institutions nearby to fund projects for housing, schools and other infrastructure.

But a proposal from the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp. in December would give banks credit under the Community Reinvestment Act for lending they do in Indian Country even if these lands are far outside of their designated assessment areas.

The change would provide the kind of incentive tribes said they need to attract attention from big banks and, they hope, spur economic growth on reservations.

"I expect there will be a jump in lending," said Dante Desiderio, executive director of the Native American Finance Officers Association, which advocates for tribal economies. "It gives the banks a lot of reassurance, and the incentive is there to get a fair chance at getting projects funded."

The proposal is part of an effort from federal banking regulators to revamp the CRA, a tool community groups in low-income neighborhoods have used to steer more lending for economic development.

Reaction to the 239-page proposal so far has been mixed among lawmakers, industry groups and community advocates alike.

Comptroller of the Currency Joseph Otting included a visit this past summer to several pueblos in Albuquerque, N.M., as part of his tour to hear from different communities that would be impacted by CRA reform. He told tribal leaders at the time that upcoming proposals to change these rules would give their lands a chance to be included in the discussion.

"The proposal would encourage banks to provide more capital, investment, and lending in Indian Country," Otting said in a statement on Jan. 7. "Current regulations have neglected these communities far too long, and it is critical to make these changes now to encourage banks to do more in these communities and other rural and distressed areas, just as banks have spent trillions in CRA investments elsewhere since the law was enacted."

The need is great. The Housing and Urban Development Department's most recent estimate showed that 68,000 housing units were needed across Indian Country to alleviate overcrowding and replace older homes that had fallen into disrepair. The reservations can also be so remote that in some cases, tribe members would have to travel as many as 88 miles to a bank, according to a recent study from the University of Arizona.

Lenders averaged 1.9 loans per 1,000 Native American reservation residents per year between 2013 and 2015, compared with 22.3 loans per 1,000 residents across the entire U.S., according to recent findings from the Housing Assistance Council, which studies rural housing issues.

In addition to providing banks credit under the CRA for lending in Indian Country, the OCC and FDIC proposal would go further than current regulations by clarifying a list of what business activities would qualify for credit, which could be updated to take aim at spurring new investments as needed.

The proposal would also give extra credit to CRA scores for banks that lend in these areas. However, regulators are still considering whether to establish a minimum floor for activities before a bonus is applied to prevent lenders from spreading out low-dollar-figure activity in these areas to boost their scores.

Desiderio stopped short of saying he expected a large uptick in new loans from banks off the reservation right away. There are still hurdles advocates and tribal leaders must navigate to further coax more business from lenders, like smoothing out complicated land ownership laws and intertwining state and federal bureaucracies.

Importantly, the proposal would appear to give CRA credit to banks for providing funds to some community development financial institutions, or CDFIs, which are a lifeblood for financing in Indian Country. The Native CDFI Network, which advocates for these businesses and has asked for more incentive to let banks invest with them, is reviewing the proposal and expected to ask for some clarifications via comment letter.

"There are some things that are promising and some things we'd like to see some additional clarity on," said Jackson Brossy, a member of the Navajo Nation and executive director for the Native CDFI Network, who attended the OCC tour in August. Brossy declined to specify which items they would seek clarity on prior to drafting their comment letter.

Still, NAFOA said in a bulletin to its members after the OCC and FDIC proposal was released that the rule changes would be "historic" for giving them a seat at a table they've long sought. "We are pleased to see the agencies listened to us on that," Desiderio said. — *Jon Prior*

Libor action

Ala. bank is an early mover away from the benchmark

Banks have two years to phase out their use of the London interbank offered rate in setting interest rates on loans, but one bank in Birmingham, Ala., is already ditching Libor in favor of a new benchmark.

ServisFirst Bancshares, which has about $9 billion of assets and focuses almost exclusively on business lending, began using a new benchmark known as Ameribor on Jan. 1.

With regulators increasing pressure on banks to come up with a strategy for moving away from Libor, Tom Broughton, the bank's president and chief executive, said he saw little reason to wait, especially when a viable alternative was already available. "We felt it was just time to peel the Band-Aid off," Broughton said in an interview.

Libor is an average calculated from

overnight loans between banks in five major currencies around the world. It has long been used to set interest rates, but it has come under scrutiny in recent years since lenders were found to be manipulating the market through rate-rigging schemes.

Regulators have moved to phase Libor out in exchange for a benchmark set to a more active market of actual transactions that could resist schemes to influence it.

"The sunset is just around the corner," Broughton said. "The regulators are bringing it up. They're saying you need to find a replacement."

Ameribor is one of Libor's possible replacements and was developed with the help of Richard Sandor, a former chief economist at the Chicago Board of Trade and now CEO of the American Financial Exchange, or AFX. The benchmark is based on open-market transactions on the AFX, where overnight funding, unsecured borrowing and lending for U.S. banks and corporations take place.

Ameribor is billed by its founders as better option than Libor because it is based on actual transactions within the exchange where about $2 billion in deals per day take place between about 170 members.

During his postgraduate work at Northwestern in the late 1970s, Broughton took a class on the futures market from Sandor at the Kellogg Graduate School of Management at Northwestern University. When AFX was recruiting banks from each state to join its exchange decades later, Broughton recognized his old professor's name and reminisced about the complications of futures trading.

Ameribor is just one of several benchmarks lenders can use to set rates once Libor is phased out.

Another is the secured overnight financing rate, or SOFR, which has been regarded as a more prominent replacement for Libor. The SOFR benchmark is based on the Treasury repurchase market, where investors give overnight loans to banks, but unlike the deals on the AFX exchange, this funding is secured.

Broughton, though, favors Ameribor because he views it as less volatile than SOFR. In one day of trading in late 2018, the SOFR rate jumped more than 50 basis points, according to data from the Federal Reserve Bank of New York.

If the Ameribor rate goes through similar unsteadiness, Broughton said, ServisFirst borrowers will be given the option to secure their loan to a prime rate during a given month.

"We think 100% of customers on Libor right now will choose Ameribor" over a prime rate, Broughton said. "Prime would be a fallback if it misbehaves in some fashion." *— Jon Prior*

Sold on card surcharges

Merchants take to a practice that was once widely banned

U.S. merchants have long chafed at the high cost of accepting credit cards. They've also seen little choice but to pay the growing fees, since the alternative would alienate many plastic-wielding customers.

But in recent years, a new option has gradually emerged, particularly for merchants that sell their wares to other businesses: imposing surcharges to recover the hefty interchange fees that they would otherwise pay to card networks and banks.

The idea remains unpopular with credit card users, but it has become more feasible for many merchants as a result of rule changes by Visa and Mastercard, a favorable U.S. Supreme Court ruling and the emergence of new services that make it easier for businesses to impose surcharges.

"Now business operators are themselves seeing this proven out," said Jonathan Razi, the chief executive of CardX, which offers a service that enables merchants to impose surcharges on credit card purchases.

Merchants that signed up with CardX last year will save a total of $24.5 million annually by passing along card fees to customers, Razi said.

Until 2013, Visa and Mastercard prohibited merchants that accepted their cards from imposing surcharges. Even after the card networks revised their rules, it remained impractical for many merchants to charge higher prices for credit card purchases, since several of the nation's largest states had laws that banned the practice.

The landscape has changed since the Supreme Court struck down New York's anti-surcharge law in 2017. The justices found that the law violated merchants' rights, since it allowed discounts to customers who pay with cash, which in practical terms is no different than a surcharge on those who pay with a card.

"That seemed to really create much more interest in the topic of surcharging," said Scott Blakeley, an attorney in Irvine, Calif., who advises merchants on how to impose surcharges in a manner that complies with relevant laws.

The high court's ruling eventually opened the door for credit card surcharging not only in New York, but also in California, Florida, Texas, Maine and, most recently, Oklahoma. In December, Oklahoma Attorney General Mike Hunter issued an opinion stating that the state's anti-surcharge law would not survive judicial scrutiny.

Today, only the anti-surcharge laws in Kansas, Colorado, Massachusetts and Connecticut are still viewed as impediments. And efforts are now underway to enable surcharging in those states.

Merchants may be more willing to consider surcharges as credit card payments become more common. Credit card payment volume in the U.S. was 56% higher in 2018 than it had been six years earlier, according to Federal Reserve data.

It is unclear how common credit card surcharging has become; there is no comprehensive publicly available data on its prevalence. Many merchants, especially those who cater to consumers, remain skeptical that surcharges will boost their bottom lines.

One concern in the retail industry is that surcharges will make it easier for card issuers and the card networks to continue increasing interchange fees. Another worry is that consumers will balk at the higher prices charged by merchants who tack fees onto credit card purchases.

"Whether they are allowed to or not, most retailers do not surcharge for credit card use, and most have no interest in doing so," Stephanie Martz, senior vice president and general counsel at the National Retail Federation, said in an email. "Retailers welcome the availability of software that helps them comply with surcharge laws, but the number who choose to surcharge remains very small."

Razi of CardX contends that surcharging is actually expanding the universe of merchants that accept card payments, which is beneficial to banks and the card networks. He said that the option appeals to some merchants that traditionally refused to accept credit cards because of the extra cost.

"Many of these merchants don't even take cards until they have a chance to pass on fees," he said.

CardX enables merchants to charge a 3.5% fee to credit card holders while taking steps to ensure that the merchants do not violate card network rules. For example, the Chicago-based company provides signage to merchants stating that surcharges do not apply to debit card purchases. CardX takes what is left of the surcharge after the card-issuing bank and the card network get paid.

Payroc is a payment processor that also offers surcharging to its merchant customers. John Barrett, an executive vice president at the Tinley Park, Ill., company, said that surcharging has so far worked best in market segments where customers are less likely to leave because of the additional charge.

He mentioned charities as one example, since donors may not want their contributions to be defrayed by card fees. He also said that merchants that sell products primarily to other businesses are good candidates for surcharging, both because businesses' supply chains are hard to change and also because many of these merchants have not accepted credit card payments historically. "What the business is offering is the option," Barrett said. Customers "don't have to use the credit card."

— Kevin Wack

Here to help

New corporate card donates to charities for the homeless

Expensify, the expense management app provider, has launched a corporate card that offers Karma Points aimed at socially conscious cardholders.

With each customer purchase on the new Expensify Card, the company will make a donation to any of five charitable funds it has established to address homelessness and other social issues.

Expensify founder David Barrett said that, before starting Expensify, he experimented with different business ideas meant to help the homeless, none of which came to fruition. But now he wants to offer the more than 8 million people and 85,000 businesses that use Expensify a way to help.

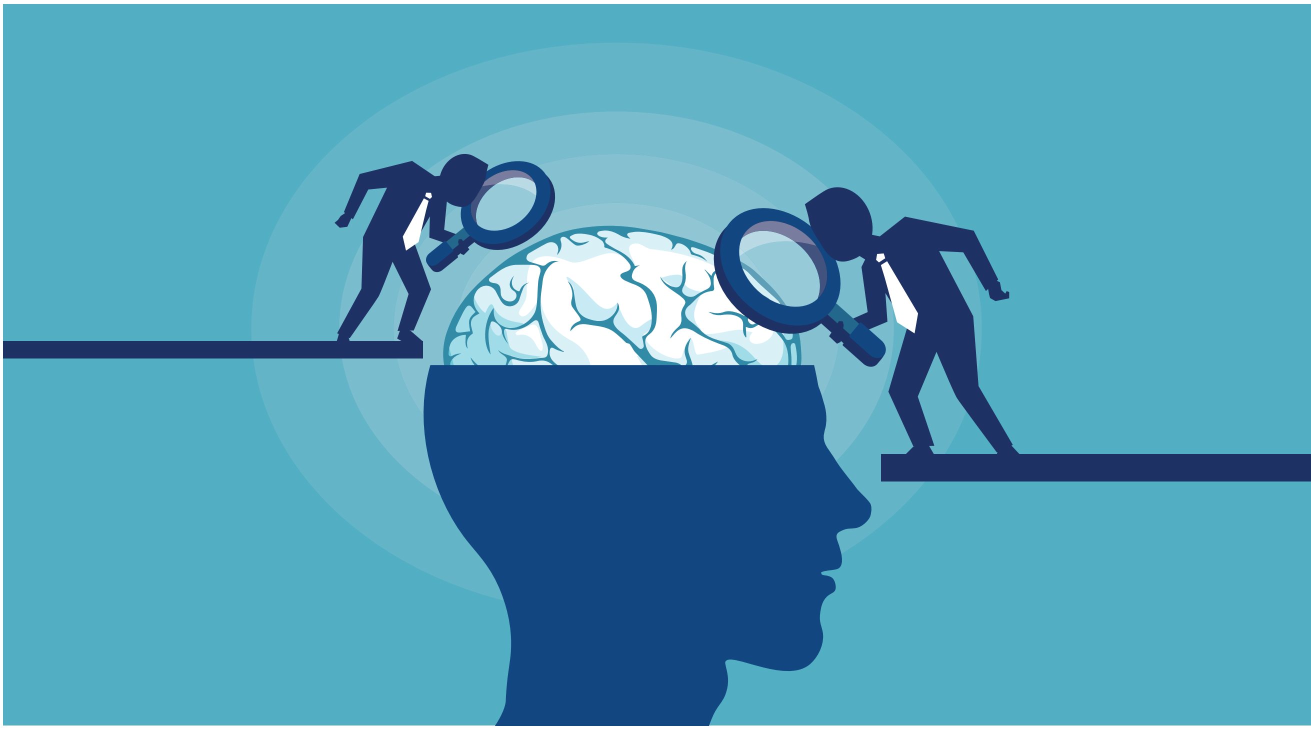
With the Karma Points initiative, Expensify is replacing traditional rewards points with donations. The company intends to donate 10% of revenue from the card to a new charity it set up called Expensify.org.

Expensify.org will manage five funds: Homes, which covers the costs of reuniting a person experiencing homelessness with their family; Youth, which sponsors weekly meals for young adults who have aged out of the foster care system; Reentry, which reimburses the cost of a journey home for people just released from incarceration to help them transition back into society; Hunger, which pays off a child's school lunch debt; and Climate, which supports the purchase and planting of trees.

Companies using Expensify can choose to enable Corporate Offsets, which will automatically donate $2 to Expensify.org for every $1,000 worth of approved expenses. Individuals will also have the option to donate out of pocket for the same amount with Personal Offsets.

Initiatives to help the homeless have become trendy among tech CEOs. In May, Salesforce's Marc Benioff donated $30 million to a research project aimed at finding solutions to homelessness, and in November, Jeff Bezos announced that Amazon will be housing a homeless shelter in its Seattle headquarters.

— Penny Crosman



TD catches up on its (mind) reading

The sentiment analysis software used in its call center will be deployed in online banking and more

By Penny Crosman

Many financial institutions want to discover as much about their customers as they can, but TD Bank is looking to go a step beyond most by assessing the moods of people as they interact with the bank.

So-called sentiment analysis software is already used in call centers to help detect when customers are getting frustrated or angry. But TD Bank aims to deploy it to capture mood as people interact with internet-of-things devices, with virtual assistants, and with the bank's mobile app and online banking.

It's challenging, because mood detection has to be of the moment, rather than relying on analysis of what a customer did yesterday or last month.

"The journey for us is more about getting a holistic view of the human being," said John Thomas, global innovation head for parent company TD Bank Group.

A combination of tech is used to help the bank with that, including chatbots, voice analyzers and phone channels, Thomas said.

"Some companies that are purely remote in their interactions will probably go down one technology route," he said. "Companies like TD that are both remote and face-to-face or phone-to-face will have more robust means of gauging mood over time."

The effort is part of TD Bank's recognition that it needs to create personalized digital interactions for customers.

"Traditional demographic-based segmentation doesn't really reflect how people see themselves today," Thomas said. "Our thought process, and it's validated by data, is these concepts of experience and perception with a brand are probably a better pursuit than pure conversion."

Thomas has a sense of urgency about that mission. "We are seeing data emerge across multiple service verticals where people are now leaving service providers, citing a lack of personalization as a primary reason," he said.

He's not alone. In a study Celent released in January, 22% of bank executives said their companies provide personalized offers in their mobile apps and 57% said they are planning to do so. "What TD and other banks are after is providing personalized and relevant insights at scale, delivered digitally," said Bob Meara, senior analyst at Celent.

Mood analysis

Thomas said the human brain has a built-in mood detector.

"If you're dealing with a co-worker, spouse or family member, what you're doing in that moment is trying to understand the other person's context and their mood. And then you're essentially censoring yourself based on that mood."

If he's planning to give feedback or make a suggestion to his wife, for instance, it's not enough that he knows her personality. "I also want to understand where she is in this particular moment," Thomas said. "Because based on her personality, it might seem fine to propose something, give her a piece of feedback or ask her a question. But her mood may say 'Not now' or it may say, 'This is the right moment.' "

TD Bank is trying to emulate that natural assessment in its interactions with customers. To enable it to understand moods and personalize interactions across all channels, the bank is redesigning its data layer.

"We have seen many people in banking and other traditional service verticals try to use a big data lake to do this kind of interaction personalization," Thomas said. "And that's a monumental struggle and a large investment."

Data lakes don't work well for real-time interaction layers, he said. For one thing, data streams inevitably arrive in different time frames.

"We still live in a world where not all data is real time — it doesn't matter what service vertical you're in," Thomas said.

So the bank built what it calls a "fast data architecture" that sits alongside its big data architecture. The faster system will handle interaction across channels and marketing interactions.

"That might include all of our system of record data, like our product systems and platforms," Thomas said. "It might include our channel data and anything else that's relevant, but it's going to be made to inform when somebody walks into one of our stores or calls us on the channel as opposed to data architectures that are made to run big reports or business insight queries."

Customer insights

The bank is developing insights about customers that can be provided to branch staff, through mobile and online banking, through direct marketing, and through phone banking.

"The journey for us is more about getting a holistic view of the human being," Thomas said. "We serve that through this data layer and then use that same data layer to inform interactions, no matter how the customer comes to us or we come to them."

This could include a view of the different transactions a customer has been doing in different places — in a branch, at an ATM, in their mobile app.

Every night, TD Bank analyzes its customer base and flags anything significant that happened with a customer during the day. The next day, it makes those flags and insights available to its interaction channels.

Some of the flags are warnings, as in this customer might be leaving to go to a rival bank. They might be opportunities, like finding out a customer might be ready to buy a home.

"Sometimes something is happening in a customer's life and we want to be on the spot and relevant in the next interaction," Thomas said. "Sometimes it's a signal of a deterioration of the relationship or a warning sign. We want to be proactive about that. All of this is aimed at feeling relevant to you in that moment of time and being contextual as opposed to sell, sell, sell."

Because of this work, TD Bank has been able to migrate from its traditional method of market segmentation around, say, propensity to buy something, to "relevancy triggers." So even if the segmentation suggests a customer might be interested in getting a credit card, an event in the customer's life would tell the bank something else in their life matters more to them right now. This can inform marketing campaigns and in-person interactions with customers.

One example of a relevancy trigger: Among TD Bank's mobile banking customers, it found a segment of people who frequently use the mobile app but go to a bank branch every other Friday to deposit a check.

"What if we took those insights and sent you a text message that includes a short video that shows you how to use mobile check deposit?" Thomas said. "That's a little thing that's not segmented but is just about the customer's behavior."

Algorithms help the bank connect the dots and find such opportunities today. "Pieces of this journey will be AI-enabled over time, but there's so much companies can do today to get to a segment of one without AI," Thomas said.

Assist from abroad

European fintechs want to help U.S. banks chase deposits

The market to help U.S. small banks gain depositors and boost lending growth is proving irresistible to European fintechs.

Deposit Solutions, which is backed by Deutsche Bank, is among the most recent overseas fintechs to plan a U.S. launch for next year. Its open banking platform enables lenders to offer customers access to third-party deposit accounts in a marketplace-type setting. Deposit Solutions has brokered over $22.4 billion in deposits in Europe with nearly 100 banks since 2011.

Philipp von Girsewald, who leads its U.S. operations, said the company is seeking to put a digital twist on a deposit brokering market that's existed here for decades. "The underlying idea is not new," he said. "But what is new in the U.S. is that this is now done digitally. Through our platform and distribution partners, we're connecting banks with new customers."

Deposit Solutions follows Raisin, an online marketplace in Europe that aggregates high-yield savings accounts and CDs. Raisin announced in the summer it was branching out to the U.S. The startup has the financial backing of PayPal and Goldman Sachs.

Whereas Raisin will market directly to consumers, Deposit Solutions will act as a broker between banks involved in their network.

Stephen Greer, a senior analyst at Celent, said the service these fintechs provide can be helpful to small banks in particular.

"It offers a way for smaller institutions to start quickly and cheaply acquiring customers," Greer said. "It's something banks outside the top 10 have struggled with and these kinds of platforms will help."

Deposit Solutions will work with CBW Bank in Weir, Kan., as a licensing partner. The bank will be handling the money from consumers on behalf of the fintech, von Girsewald said.

Deposit Solutions describes itself as the "middleware" in the process. It helps connect depositors from one lender with other banks offering high-yield savings accounts and CDs.

Von Girsewald said a lender could integrate the platform in its online banking front-end, either web or mobile. Lenders also could opt to create a separate service that is completely white-labeled.

Consumers would be able to choose third-party product offers from the Deposit Solutions partner bank network and deposit funds with that third-party bank from their existing account.

"At maturity, the money is automatically returned back," von Girsewald said. "The bank keeps the client relationship. CBW handles all of the money flows and is the custodian of these funds."

He added that Deposit Solutions provides the infrastructure for the process, but never handles the funds. "Customers can feel secure knowing the money stays in the banking system."

The fintech's overseas business was made possible largely thanks to the European Union open banking directive PSD2. Though it was founded earlier, the directive helped Deposit Solutions connect with more banks.

Von Girsewald said the model is ideal for any size bank.

Deutsche Bank, which has a 5% stake in Deposit Solutions, started to use the fintech's technology in 2017 to give its customers access to fixed-term deposit products from other European banks that pay higher interest. "In the digital age the only players who will maintain client contact are those who can offer the best products, even if they are provided by third-party vendors," Karl von Rohr, president of Deutsche Bank and the management board member responsible for private clients, said earlier this year when the stake in Deposit Solutions was announced.

Through September, Deutsche customers had transferred about $2.2 billion in funds to more than 23 fixed-term deposit products with from three banks.

Beyond working with banks, von Girsewald envisions a scenario where Deposit Solutions can work with a search engine, listing service, or an organization like the American Automobile Association to offer consumer access to deposit accounts.

Suresh Ramamurthi, the chairman and chief technology officer at CBW, said his bank's involvement with Deposit Solutions is twofold.

The $64.9 million-asset CBW has been working with open banking principles the past five years, making a partnership with the fintech attractive. Ramamurthi also said its ability to help "democratize" savings in the U.S. was appealing.

"What's going to happen [as a consumer] is, I have an extra $500 to save, and I can go through my bank's app and find the best possible rate I'm presented at any given time," he said.

CBW and Deposit Solutions will use application programming interfaces to integrate their systems and exchange information in real time.

"CBW's payment infrastructure provides for state of the art APIs for these purposes," von Girsewald said. "Deposit Solutions has its own APIs that connects all parties involved in our microservices platform."

Ramamurthi said the appeal for banks is that it's a low-cost, quick way to add deposits, particularly to ease liquidity challenges.

"It's about liquidity. If you look at this from a bank perspective, at any given point, any bank has liquidity needs," he said. "You may wake up on Monday morning and find you need an extra $5 million in six months for deposits. Some extra loans were made we didn't anticipate, whatever the reason. Do we start a campaign to attract deposits? Or do you plug into a system that enables you to gather $5 million in savings accounts? That's kind of how we're looking at this." — *Will Hernandez*

New charter course?

Fintechs frustrated with federal agencies weigh state options

With fintech companies stalled in their efforts to obtain banking charters, alternative state licensing options could get another look in 2020.

The past year was another series of fits and starts for fintechs looking to streamline a licensing process that now requires them to apply to multiple state regimes. Though some fintechs applied for a banking charter, none succeeded in obtaining one. And a specialized federal charter tailored just for them, once so close, has never felt more out of reach.

A glacial, murky legal process is nothing new for fintechs that have struggled for years to get access to the banking system. But as their path continues to be fraught, observers say states are trying to fill the void, developing options to improve multi-state regimes. "States are looking at how difficult the federal landscape can be, and based on their current laws, they're looking for ways to attract companies — either through their current regulations or even by introducing new legislation," said Mike Nonaka, a partner at the Covington law firm. "There's a lot of space to offer interesting charters and licenses, and you'll see more of that in 2020."

Last year, the industrial loan company — a banking charter that is offered by states such as Utah and requires Federal Deposit Insurance Corp. approval — continued to draw attention from those hoping to create a nationwide digital banking platform. New ILC applicants included the Greenwich, Conn.-based Interactive Brokers Group and the Japanese e-commerce giant Rakuten, while the student loan servicer Nelnet refiled.

But several companies pursuing various bank charters have struggled to gain approval or given up. The payments fintech Square has been trying since 2017 to get ILC approval from the FDIC. Varo Money has received conditional approval for a national bank charter from the Office of the Comptroller of the Currency, but was still waiting on FDIC approval in January. The financial services startup Robinhood said in November it was withdrawing its charter application.

At the same time, the OCC has a special-purpose fintech charter, which would allow companies to operate nationally without having to apply to the FDIC for deposit insurance. But it has not yet attracted any applicants. OCC officials say some companies are put off by the regulatory requirements of the charter, while the charter itself was recently struck down by a federal judge in a case brought by the New York State Department of Financial Services. (The OCC has filed an appeal.)

Another factor weighing on the special-purpose charter's viability is the changing attitude among fintechs toward deposit insurance.

"More and more fintechs are looking for charters that they can use to get deposits. It's an important part of the customer relationship, and companies are building their business models around that," said Rob Morgan, vice president of emerging technologies at the American Bankers Association.

To some extent, fintechs' pursuit of more streamlined chartering options grew out of frustration with having to answer to multiple state regulators. But now states that have been trying to adapt their models see an opening.

"There's a real incentive for states to do this kind of thing — bring in jobs, display some innovation," said Cliff Stanford, a partner at Alston & Bird. But companies pursuing deposit insurance would still need FDIC approval, he added.

For the last few years, the Conference of State Bank Supervisors has been focused on proposals that would streamline the state approval process, such as multistate licensing agreements.

"States have always been licensing these companies," said Margaret Liu, senior vice president and deputy general counsel of the CSBS. "What we've been focused on is making sure it's a modern and efficient process."

Observers expect more efforts on the part of states to craft common regulatory standards that can be applied to multiple regimes, as well as model legislative language for states to adopt to streamline multiple regimes. Meanwhile, more states could develop so-called sandboxes to let fintechs test products without fear of violating licensing and consumer protection rules — building off of frameworks already introduced in Arizona, Wyoming and Utah. — *Brendan Pedersen*

Six M&A trends likely to continue

From an uptick in mergers of equals to a record number of banks selling to credit unions, 2019 proved to be a busy year. Activity is expected to remain elevated in 2020.

The pace of bank consolidation quickened in 2019.

Despite a sluggish start, last year ended up being the busiest year for deals since 2015 in terms of the number of mergers announced. Aggregate deal value was in line with what took place a year earlier, excluding the megamerger of BB&T and SunTrust Banks that closed in December.

While the year featured some headline-grabbing combinations, led by BB&T-SunTrust, a slew of mergers between smaller banks accounted for most of the activity. Overall premiums were down, largely because of no-premium mergers of equals and the high percentage of small transactions.

Here is a deeper look at the key trends of 2019 bank M&A, which will likely continue this year.

Pace of deals accelerated

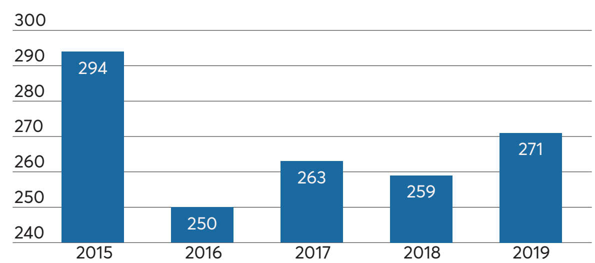
Overall, 271 mergers were announced, a 5% increase from 2018, according to data compiled by Compass Point and S&P Global Market Intelligence.

A lot of that activity occurred in the second half of the year due to a combination of factors.

The new tax reform law gave some would-be buyers a reason to delay selling, while a decline in the value of bank stocks forced many bankers to revisit pricing expectations.

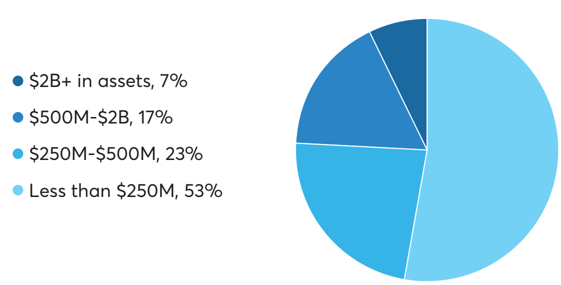
The three rate cuts by the Federal Reserve, which began in August, seemed to jolt some on-the-fence sellers, who were concerned that margin pressure would further crimp profits. And it took some time for the BB&T-SunTrust megamerger, announced in February 2019, to spur other deals involving large institutions.

Number of bank mergers, per year



Source: Compass Point and S&P Global Market Intelligence

Seller size for 2019 bank deals



Source: S&P Global Market Intelligence

MOEs more popular

Some banks characterized their deals as mergers of equals. The underlying goals were similar to a typical deal: find ways to be more efficient and allocate more funds to tech upgrades and marketing.

The year's biggest deal, by far, was the $30.8 billion combination of BB&T and SunTrust. It created the $430 billion-asset Truist Financial and rekindled longtime debates about systemic risk and whether banks that large should be allowed to merge.

TCF Financial in Wayzata, Minn., and Chemical Financial in Detroit struck a $3.5 billion deal in January. It closed in August, creating a $45 billion-asset regional bank.

Largely inspired by BB&T-SunTrust, First Horizon National in Memphis, Tenn., and Iberiabank in Lafayette, La., announced their $3.9 billion merger in November. The combined company would have about $75 billion in assets.

At least one proposed MOE fell through. SmartFinancial in Knoxville, Tenn., agreed in mid-January to merge with Entegra Financial in Franklin, Tenn. But then Entegra negotiated a more favorable sale to First Citizens BancShares in Raleigh, N.C., instead.

Small deals dominated

While the large MOE-like deals grabbed a lot of headlines, most M&A in 2019 involved smaller sellers.

Three-fourths of the banks that agreed to sell this year had less than $500 million in assets, and most of those were half that size, based on data from S&P Global. Only 24 deals involved sellers with more than $1 billion in assets.

That trend is expected to continue, and perhaps intensify, in the year ahead. Thousands of small banks remain, and they are dealing with thinning net interest margins, decelerating loan growth and intense competition from banks and nonbanks.

Premiums fell

Smaller deals tend to have smaller premiums, and that showed in the pricing data for 2019 bank transactions.

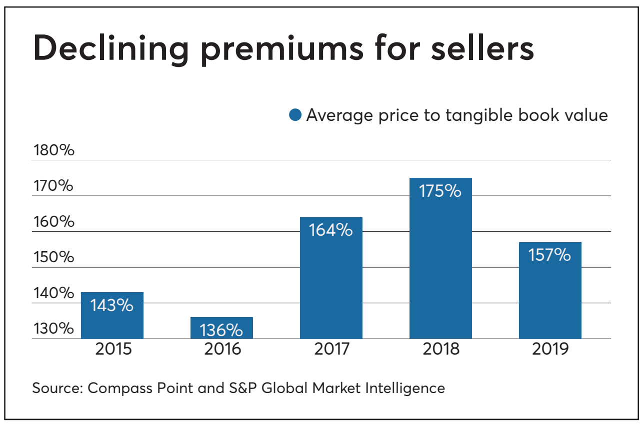
On average, sellers fetched a price equal to 157% of their tangible book value, according to data from Compass Point. That is the lowest level since 2016.

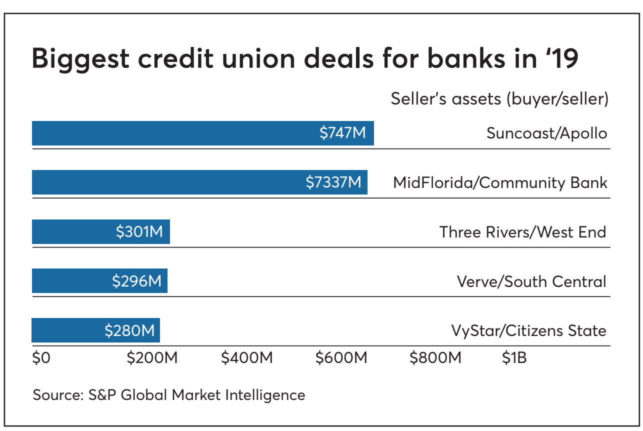
The average had been 175% in 2018, when bank stocks were surging after tax reform.

Meanwhile, the core deposit premium in 2019 fell to 8.5%, after holding steady at 9.5% in both 2018 and 2017.

Pricing is expected to remain at lower levels in 2020, according to industry experts, who cited the likelihood of smallish sellers and more challenging operating conditions.

The Current Expected Credit Losses accounting rule for loan losses is another factor that could restrain pricing, industry experts said. They note that CECL forces buyers to use new accounting methods for certain acquired loans, which complicates the math for mergers by increasing the size of the credit marks they must take.





Two states were M&A hot spots

Illinois and Texas led the nation in terms of the number of bank sellers. Those states each had 22 sellers, accounting for 16% of all deals announced in 2019.

One contributing factor is that the two states also have the highest number of active banks and thrifts — 429 for Illinois and 430 for Texas, according to data from S&P Global. No other state has more than 300 institutions.

Texas surpassed Illinois for overall deal value ($5.8 billion) and total seller assets ($30.6 billion). That was largely the result of a pair of mergers by bigger banks: Texas Capital Bancshares' proposed $3.1 billion purchase of Independent Bank Group and Prosperity Bancshares' $2.1 billion deal for LegacyTexas Financial Group.

Consolidation in Illinois largely centered on smaller, closely held banks in the Chicago area. The biggest seller was SBC Inc., parent of the $594 million-asset Countryside Bank, which announced in July that it agreed to merge with Wintrust Financial. The deal was valued at $90.5 million.

Wisconsin was a surprising entry on the list of most active states for bank deals, with 17 sellers. As was the case in Illinois, many of the sellers were smaller banks looking for more liquid stock from potential acquirers.

Florida tallied 16 deals and Minnesota 13.

More credit union buyers

Credit unions set a record for bank takeovers, with 16 such deals in 2019. That was nearly twice the number announced in 2018.

Most of the deals involved banks with less than $250 million in assets, but a few were larger. In December, Suncoast Credit Union in Tampa, Fla., said it agreed to buy the $747 million-asset Apollo Bank in Miami. Apollo is the biggest bank to agree to be sold to a credit union, and the $10.4 billion-asset Suncoast is the largest credit union to announce a deal to buy a bank.

The trend has raised concern among bankers. In October, the Independent Community Bankers of America announced its new Wake Up initiative, which aims to provide more evidence to lawmakers that credit unions have an unfair competitive advantage over community banks. — *Paul Davis*


TEL
BANK OF DUNCAN
ESTABLISHED
·1908·

Photograph by Kevin Wack

DESERTED

How one tiny Arizona town is dealing with the loss of its only bank branch and the implications for the future of rural America as "bank deserts" become more common

By Kevin Wack

DUNCAN, Ariz. — If you squint into the desert sunlight, you can still read the faded letters on the white sign atop the former bank branch overlooking the Gila River.

National Bank of Arizona, the last in a series of out-of-town banks to operate a branch in this small, geographically isolated community, closed its doors in July 2016. Today the beige-colored building is vacant, except for an ATM operated by another company, which charges $2.75 for a cash withdrawal.

Posted on the glass front door is a notice that invites visitors to patronize the bank's branch in Safford, Ariz. The trouble is, that location is 40 miles away. "We apologize for any inconvenience," the notice reads.

The local branch's closing has been a major blow to residents of Duncan, which is near the New Mexico border and was once a popular stop along the road connecting Phoenix and El Paso, Texas. Local business owners no longer have a place to deposit cash each night, nor anywhere nearby to apply for a loan. Many senior citizens, especially those uncomfortable with digital banking, have felt an outsize impact.

The absence of a bank branch in Duncan also makes it harder to attract new residents, said Richard Lunt, chairman of the Greenlee County Board of Supervisors, whose family has lived in the area for more than 100 years.

"Of course this is happening all over rural America — you see it all whittling away," Lunt said. "I guess they call it progress."

The total number of U.S. bank branches declined only twice between 1934 and 2009, but it has now fallen for six consecutive years, according to data from the Federal Deposit Insurance Corp. The 78,014 branches that were open in 2018 represented a 6.6% decrease from 2012.

The trend — driven by the rapid adoption of online and mobile banking — creates more of a challenge for residents of rural communities than it does for city dwellers. In 2017, only one in five people in metropolitan areas relied on bank tellers as their primary method of accessing their bank accounts, while the same was true for one in three people outside of metro areas, according to FDIC survey data.

The town of Duncan's experience illustrates how much the closing of the sole local bank branch can mean in a rural community, even to residents who were not particularly pleased with their branch before it was shut down. It also shows the creative ways that people adapt in banking deserts. And it foretells a worrisome future for many other small rural communities.

The economic implications are enough of a concern that the Federal Reserve has been studying what happens in areas where residents no longer have access to a local branch. The dynamics also are likely to influence efforts to revise the Community Reinvestment Act, which is meant to spur bank lending in low- and moderate-income areas.

"The loss of a bank branch," Randal Quarles, the Federal Reserve's vice chair for supervision, said in an October 2018 speech, "has a ripple effect on a community as a whole."

First settled in the 1870s, the high desert town of Duncan once had a bustling economy built on agriculture, interstate automobile travel and mining.

The area was long dotted with small farms, even though the land was never particularly well suited for growing crops. The retired Supreme Court Justice Sandra Day O'Connor wrote in her memoir about growing up on a nearby cattle ranch that the Gila River was "small and timid most of the year."

Today only a handful of farms survive, with some locals lamenting that water from the area is being sent to metro Phoenix.

Other residents trace the town's current economic troubles back to the construction of Interstate 10 in the late 1950s. Many drivers who previously would have passed through Duncan — and perhaps stopped for a meal, or filled their gas tank — now opt for the speedier route to the south.

Only mining has endured as a major source of local economic activity. The Morenci mine, which is a 40-minute drive from Duncan, is said to be the largest producer of copper in North America. With housing in short supply, many employees of Freeport McMoRan Inc., which operates the mine, make the daily commute from Duncan.

The town is also a magnet for bird watchers and mountain bikers, hundreds of whom ride in the Javelina Chase each spring, a race through the rocky terrain along the Arizona-New Mexico border.

Still, Duncan had an estimated population of just 789 people last year, which was down from 941 in 1950, according to the U.S. Census Bureau. Several hundred additional folks live nearby in tiny communities such as York, Ariz., Franklin, Ariz., and Virden, N.M.

On Duncan's Main Street, a semi-circular sign atop a modest building memorializes the former Bank of Duncan. That locally based institution shut down in 1926 after an examination found irregularities in its books. At the time, the bank held $65,000 in deposits, which is equal to around $940,000 in today's dollars.

In recent decades, a succession of banks with headquarters elsewhere operated the town's sole branch. Phoenix-based Valley National Bank of Arizona was acquired in 1992 by the former Chicago-based Bank One Corp., which is now part of JPMorgan Chase. Later came Community First National Bank of Fargo, N.D., and Stockmen's Bank of Kingman, Ariz.

In 2006, Stockmen's merged with National Bank of Arizona, a subsidiary of Salt Lake City-based Zions Bancorp. Each time the branch changed hands, new checks with new account numbers arrived in the mail, and local residents chafed at the inconvenience. "It was frustrating to say the least," said Steven Lunt, chief executive of the Duncan Valley Electric Cooperative (and a distant cousin of the county supervisor).

Still, local residents took advantage of the ability to withdraw cash without paying a fee, while small-business owners would stop by to deposit cash at night.

During the years that National Bank of Arizona operated the branch, some residents complained that it was difficult to get approved for a loan.

HARD HIT

Of the "deeply affected" counties — defined as those that had 10 or fewer branches in 2012 and lost at least 50% of those branches by 2017 — 89% were rural.

Type of county	Bank branches per 100 square miles		Bank branches per 10,000 people	
	2012	2017	2012	2017
Rural				
All 1,961 rural counties	1.9	1.8	5.3	5.1
The 39 deeply affected rural counties	0.7	0.3	5.5	2.3
Urban				
All 1,163 urban counties	19.7	18.4	3.3	3.0
The five deeply affected urban counties	0.6	0.2	2.3	0.5

Source: Federal Reserve's November 2019 report

After the branch closed, there were even some who suspected that the bank had intentionally denied loan applications in an effort to make the branch less viable financially and provide a justification for shutting it down.

Valerie Smith, who was the operations manager for the Duncan branch of National Bank of Arizona before it closed and is now the town's vice mayor, dismissed that theory.

"Unfortunately that bank wasn't making much money," said Smith, who became a middle-school teacher after the branch shutdown cut short her career in banking.

A Zions spokesman indicated as much, saying that the Duncan branch averaged $8 million in deposits between 1999 and 2015, and held approximately $9 million in deposits a year before it closed. That compared with an industrywide average of roughly $160 million in deposits per branch, the spokesman said.

After National Bank of Arizona closed its doors in Duncan, local public officials worked hard to attract another bank. They suggested that the branch could be operated one or two days a week. They also floated the possibility of a banking kiosk. But their efforts failed.

In late 2018, the Federal Reserve held a series of listening sessions in Duncan and other rural communities hit hard by branch closings.

In Nicholas County, Ky., Fed officials heard about residents who lack access to high-speed internet service and need to travel 25 miles each way to make change. In an Amish community in central Pennsylvania, they learned about the challenges of traveling by horse and buggy to the nearest bank. And in Brushton, N.Y., they were told that when residents travel to the nearest bank, they are more likely to shop and eat in other towns, which has compounded the economic impact of the local branch's closing.

"Banks do not just cash checks and make loans — they also place ads in small-town newspapers, donate to local nonprofits and sponsor local Little League teams," the Fed's Quarles said. "As towns lose banks and bankers, they also lose important local leaders."

This past fall, the Fed published a report on bank branch access in rural communities. In aggregate, the impact of branch closings between 2012 and 2017 fell evenly across urban and rural counties, according to the report. Both urban and rural counties lost 7% of their branches.

But the Fed's researchers also determined that 89% of the U.S. counties that had no more than 10 branches in 2012 and lost at least half of them over the next five years were in rural areas.

"Rural counties deeply affected by branch closures had higher poverty rates, lower median incomes, a higher share of their population with less than a high school degree, and a higher share of their population who were African-American relative to all rural counties," the report stated.

Many people who live in rural places are slower to shift to digital banking channels, the Fed also noted in the report.

"People in rural areas generally prefer to go into a bank branch to conduct their business," said Craig

Nolte, regional manager for community development at the San Francisco Fed and the organizer of some of the listening sessions.

Still, the Fed has been careful not to criticize banks that have closed rural branches. "The Federal Reserve has limited authority when it comes to influencing where and when banks close branches," Nolte said.

Critics contend that bank regulators should be doing more to keep rural branches open. "It's really common to hear, even from regulators, that people don't need a bank branch anymore," said Jason Richardson, director of research at the National Community Reinvestment Coalition.

He argued that maintaining rural branches should be a bigger priority for regulators, pointing to 2017 research from the University of Delaware that found each branch closing causes a 20% decrease in small-business loan volume. The study attributed its findings to the substantial role that relationships still play in small-business lending.

The question of how policymakers can address the loss of rural branches has recently drawn attention in Washington, though there is little agreement on what to do.

In December, Trump appointees at the Office of the Comptroller of the Currency and the FDIC proposed changes to Community Reinvestment Act regulations. The two agencies said that their plan is designed to encourage investment in rural communities by providing banks credit for activities that occur beyond the immediate vicinity of branches.

But Bill Bynum, the CEO of Hope Credit Union in Jackson, Miss., argued that the proposal would potentially lead to underinvestment in the most distressed rural communities, since the plan would allow banks to achieve a high performance rating by scoring strong marks in only half of the communities reviewed for compliance.

Another idea for increasing rural access, banking at the post office, has drawn strong support from liberal Democrats but opposition from both Republicans and the banking industry.

Mehrsa Baradaran, a law professor at the University of California, Irvine, and one of the nation's leading advocates for postal banking, noted that government regulations once forced banks to operate within a single state.

But in the age of interstate banking, banks can no longer justify operating in many rural areas. "It just doesn't work moneywise," Baradaran said.

Smith, the banker turned schoolteacher, says part of the problem for the Duncan branch was a gap between the bank's culture and the town's culture.

The bank wanted to make larger loans to people with relatively strong credit, she said. Meanwhile, townspeople generally wanted smaller loans, and they held onto the old-fashioned belief that a handshake should mean as much as a FICO score.

By the time the branch closed, National Bank of Arizona was just a brand name used by Zions, which had combined its bank units under a single national charter with more than $50 billion in assets.

"It's just that their big picture didn't fit with Duncan," Smith said of the Utah-based parent company.

But demographic realities and the banking industry's financial imperatives suggest that it was only a matter of time before Duncan lost its branch — its low level of deposits being a key indicator.

The National Bank of Arizona emphasized that it still serves the area, despite shuttering the branch.

"We pride ourselves on our commitment to serving all of Arizona, whether that is through the branches, online or over the phone," Mark Young, president and CEO of Zions' National Bank of Arizona division, said in a written statement. "We have always deeply valued the opportunity to serve as many communities of Arizona as possible and value the geographic diversity of our clients."

In response to townspeople's complaints about loan decisions being made elsewhere, Zions said that it wants to ensure that its branches are staffed with real bankers with longer-than-average tenure who can solve problems and build relationships with customers — in contrast with most large banks, which employ workers with little experience and have high turnover.

"Zions and most banks automate certain lending decisions, particularly for consumer loans and very small business loans, which is useful to keep costs low, allows Zions to remain competitive with the nation's largest banks, and customers often appreciate the speed of these decisions," a Zions spokesman said in a statement.

"However, we also believe — and the data supports this — that small- and midsize-business customers value greatly the relationship with their banks, more so than they value digital delivery such as online and mobile banking. Therefore, we continue to invest in branches, we have delegated additional credit authority to the local level, and take great pride in being a collection of great community banks."

Zions cited data showing that 20% of its branches are in locations with no more than 50,000 people living within a 10-mile radius. Only 1% of Bank of

America's branches are in such places, according to a Zions analysis of publicly available data.

When a community loses its only bank branch, the impact can be hard to quantify. But local residents do not necessarily lose access to the banking system.

The FDIC found in a 2017 survey that 8.4 million U.S. households were unbanked — in other words, no one in the home had a checking or savings account. That was down from nearly 10 million six years earlier.

And New York Fed research from 2018 found that the share of a state's population that is located in a banking desert is unrelated to the share that is unbanked. "Most banking deserts are literally in deserts, where few people live," the researchers wrote in a blog post.

Nonetheless, the absence of a place to bank tends to force people to get creative, as the Fed found in its research. Duncan is a case in point.

The tan-colored post office on Main Street cannot take deposits or make loans. But the circumscribed menu of financial services offered by the U.S. Postal Service has outsize value in a rural town without a bank.

If Deborah Mendelsohn, the proprietor of the Simpson Hotel and a Duncan town councilor, has an immediate need for cash, she will walk over to the post office, buy a single stamp and request cash back. It's cheaper than patronizing either of the town's two ATMs.

"It has made me think, why shouldn't post offices start to fill the role of banks in small towns?" Mendelsohn said.

The Duncan Valley Electric Cooperative has found another crafty way to use the post office.

The building that once housed National Bank of Arizona is vacant, except for an ATM operated by another company, which charges $2.75 for a cash withdrawal.

The cooperative is among the largest enterprises in the area, providing electricity and gas to 1,700 members in Arizona and New Mexico. It collects approximately $350,000 in revenue each month, roughly $20,000 of which is cash.

Rather than keeping a lot of currency on hand, or embarking on long drives to the nearest bank, an employee goes to the post office several days each week and buys a money order. "Thankfully the post office is the unofficial bank," the cooperative's CEO, Steven Lunt, said.

Owners of smaller businesses in Duncan have encountered their own challenges over the last three and a half years. Some of them hold more cash than seems advisable, which has spurred fear of robberies. The Local First Arizona Foundation has begun offering microloans to businesses in the area, but credit remains hard to come by.

Because cash is scarce, shoppers are more apt to pay with cards, which increases costs for local merchants. At Hilda's Market, a restaurant and meat shop, owner Hilda Goeking charges 30 cents on card purchases of $5 or less.

She said that Hilda's has suffered financially since the local branch closed, because people no longer cash their checks and then come to her shop to buy cuts of meat. "I don't sell as much as I was selling before," Goeking lamented.

Up the road at Rock-A-Buy, a shop that sells gems, owner Doug Barlow indicated that small bills are hard enough to find that he hoards them. "I never deposit a $10, $5, $1," said Barlow, who has an account at a credit union that operates a branch in Safford, Ariz.

Barlow is a retiree who grew up in Duncan, lived elsewhere for more than three decades and returned home in 1996. One morning in December, he sat inside his store for the first time in months, following his recovery from heart surgery. He wore a cowboy hat and described himself as a political conservative.

When the conversation turned to banking, Barlow had blunt words about the decision to close Duncan's only branch.

"They said, 'We're not making money.' But I think what they meant was, 'We're not making enough money,'" he said. "What I got from them was, 'We're not interested in this little town — we're sorry.' " □

MEET & GREET

PEOPLE TO WATCH **2020**

CHARLIE SCHARF

The pressure is on the newly appointed Wells Fargo chief executive to deliver the turnaround that his predecessors could not.

Scharf said early on his priority would be resolving the company's regulatory issues. It is contending with shareholders antsy about when the Federal Reserve Board's February 2018 asset cap will be lifted. It is also dealing with investigations by the Department of Justice and others.

But a bigger challenge might be rebuilding employee confidence after three years of scandal have diluted a longtime focus on sales. In his first few months, Scharf hired outsiders for a few key roles, and some high-level holdovers announced plans to depart.

Then there is the uninspiring balance sheet. Revenue fell in four of the last seven quarters.

In one hint at his strategy, Scharf pledged to keep the universal bank model intact, preempting questions about whether he plans to sell off any big pieces of the company. — *Kevin Wack*

TIM WENNES

The new CEO of Santander's U.S. business will oversee the launch of an unsecured personal loan product this quarter and a national digital bank later this year.

Wennes said in a recent interview that Santander Bank also will focus on increasing commercial lending, playing up its European and Latin American connections to appeal to companies with international operations.

Santander still has some challenges ahead, though. The company has resolved many regulatory matters in recent years but has one more Federal Reserve order to settle. And, as a midsize regional lender, it will face stiff competition from bigger banks and fintechs.

Even so, Wennes was upbeat, saying its relationship with its Madrid-based parent should give it a competitive edge with both tech spending and international business clients. — *Laura Alix*

PHIL MURPHY

New Jersey's governor campaigned on a pledge to create a public bank and took his first big step toward that goal in November, by forming the Public Bank Implementation Board via executive order.

Public banks hold municipal tax dollars as deposits and lend that money to small businesses, students and government entities. The U.S. has just two — in North Dakota and American Samoa — but progress in New Jersey could provide momentum to efforts to create others in California, West Virginia and elsewhere.

Bankers decry the prospect of government competition, though supporters argue that public banks would work with — not against — community banks and credit unions.

Later this year, New Jersey's 14-member implementation board is expected to deliver a plan for making a public bank happen, addressing capitalization needs, governance and operational structure.

The details of the plan could be copied in other states. — *Laura Alix*

CURT FARMER

Farmer is starting his first full year as chairman and CEO of Comerica Bank, after succeeding Ralph Babb.

He is taking over at a time when more provisions are needed for its book of loans to oil and gas companies. The Dallas-based bank had more than $1.8 billion in criticized energy loans at the end of the third quarter, up from $1.6 billion a year earlier.

The main issue is a drying pool of private investment dollars in U.S. oil fields, which had buoyed the prices that lenders could recover on land and equipment when a borrower goes bankrupt. Farmer said that the problem will "work itself out over the course of the next couple of quarters" but that provisions would remain elevated for a while. — *Jon Prior*

KELLY KING AND BILL ROGERS

After closing the biggest bank merger in 15 years, King and Rogers will spend this year managing the integration of BB&T and SunTrust Banks into Truist Financial, King as chairman and CEO and Rogers as president and chief operating officer.

One of the most important tasks they face at what is now the sixth-largest bank in the country will be combining separate technology systems while avoiding widespread outages or cyber breaches.

They also will need to find enough cost savings to meet their target of cutting expenses by $1.6 billion a year and make good on their promise to use the savings to develop groundbreaking technology that will help Truist better compete with behemoths Bank of America, JPMorgan Chase and Wells Fargo. — *Andy Peters*

MAX LEVCHIN

By any measure, 2019 was a milestone year for Affirm and its founder and CEO, Levchin.

The point-of-sale lender raised $300 million from venture capital investors, inked a partnership with Walmart, and spun off Resolve as a separate company that applies Affirm's pay-over-time consumer model to business purchases.

A Silicon Valley luminary dating to his days as a co-founder of PayPal, Levchin is now said to be looking to raise $1.5 billion — funds Affirm would use to turbocharge its growth. — *Alan Kline*

ELLEN ALEMANY

Now that CIT Group has completed its acquisition of Mutual of Omaha Bank, the big question on the minds of investors is, "What's next?"

The deal was a critical one for Chairman and CEO Alemany in her ongoing quest to transform CIT from a commercial finance company into a more traditional commercial bank. It added $4.5 billion of low-cost deposits, primarily from homeowners' associations, and roughly $4 billion of middle-market commercial loans.

But, as Alemany herself said, this acquisition also could make the now $60 billion-asset CIT more attractive to a potential buyer. "We think this transaction makes us actually more valuable to anyone," Alemany said when asked if the deal would rule out any chance of CIT selling itself. "We're very open to partners … in the future." — *Alan Kline*

JENNIFER PIEPSZAK

JPMorgan Chase Chairman and CEO Jamie Dimon is especially skilled at stoking the hot stove league of the C-suite with periodic — and purportedly calculated — shake-ups of the executive ranks that are said to be done in the interest of grooming candidates to succeed him. So it only follows that Jennifer Piepszak, who became the company's chief financial officer in May, also became the trending subject of future-CEO chatter.

She assumed the job of Marianne Lake, who had been viewed as (and may still be) a leading contender. It was notable that Piepszak would report to Dimon and Lake to Chief Operating Officer Gordon Smith.

But it had long been speculated that, to be a strong candidate to replace Dimon, Lake would have to take a turn running a business line (and indeed, she was named CEO of the consumer lending division). — *Dean Anason*

Encourage faster debt payoffs — here's why

By Kristen Berman and Brad Swain

Lenders generally don't like prepayments, but, as it turns out, offering borrowers the option to pay down debt faster could be beneficial for lender and borrower alike.

At present, most U.S. lenders collect on debt by issuing monthly statements, each directing borrowers to repay the same specific amount. The negative reinforcement is that borrowers who do not pay enter into default.

The unfortunate reality is that people's income fluctuates. Sometimes they change jobs or get laid off. And sometimes they receive a windfall, like a big tax return or an unexpected bonus.

When times are bad, people can often turn to their lenders for help. But what about when times are good? What if people have financial slack and want to pay off debt faster?

We tested the idea.

Common Cents Lab teamed up with EarnUp — a financial services company that offers software for mortgage, auto and student loans — to learn more about borrowers' debt repayment preferences.

In the experiment, 213 people were given the option to increase their monthly loan payments beyond the minimum amount due. For example, if a bank typically asked them to pay $322 each month, people were given the option to round up their payment to $350. The results were impressive.

In the experiment, a whopping 64% of people chose the option to pay more than required.

If this offer were made to all of EarnUp's customers and resulted in the same response rate, the participants would save a median of $16,327 in interest payments over the life of their loans. This works out to two years shaved off a 22-year loan.

Given how popular this option is and the fact that it's good for customers' financial health, all lenders should offer it, right? Well, this is not the case.

Most lenders don't ask consumers if they'd like to pay more than the minimum monthly amount. Some have even discouraged it through prepayment penalties, in which they impose a fee if a borrower wants to pay the loan off early.

There's a latent demand for a product that lets consumers increase monthly loan payments.

Some lenders might think that meeting this demand is bad for business. After all, increasing monthly payments decreases loan duration and, ultimately, interest paid. But as with so much in life, the reality is far more complicated than it first appears.

Yes, faster debt repayment means reduced interest revenue. But dig a little deeper and we think you will find the pros for giving borrowers a greater say in their payments outweigh this con.

First, the faster a loan is paid off, the lower the likelihood of a default. Not only does this mitigate risk, but the lender now has borrowers who signaled they are likely to repay. This also means the lender can offer more loans at more competitive prices than the market would traditionally offer.

Second, offering borrowers the ability to optimize their debt payments will increase customer trust. If customers see a lender is making decisions that could go against the company's financial interest, they may feel the lender is on their side. This will help the lender stand out from the competition and reap valuable reputational benefits.

To understand just how important these benefits are, consider a study that showed eBay buyers were willing to pay a premium of 8.1% on top of the selling price if the seller had a good reputation. In other words, consumers are more likely to patronize businesses they feel they can trust.

Any lenders looking to get ahead should consider a product that gives people the option to pay down debt faster. Not only will it improve the financial well-being of customers, but it should result in fewer defaulted loans, greater customer loyalty and a competitive edge.

That pays dividends. □

Kristen Berman is a co-founder of Duke's Common Cents Lab. Brad Swain is an adviser for the lab and the chief behavioral economist at Hello Next Step.

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NOTICE

The annual report of the **JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION** for the calendar year ended December 31, 2018 is available at the principal office located at 90 Park Avenue, New York, NY 10016, 212-687-4470, for inspection during regular business hours by any citizen who requests it within 180 days beginning January, 2020. The Principal Manager of the Foundation is Edward Hirsch, President. Publ. 01/2020

CRA INVESTMENTS

SUBSERVICING

REP. JOYCE BEATTY

"This is the first time in its history that there has been a six-month period where there has been no discrimination in lending occurring in this country. Do you really expect me to believe that?"

Ohio Democrat, challenging the CFPB director, Kathy Kraninger, on the recent lack of fair-lending cases

MICHAEL HELFER

"I loved working with her but I was glad I didn't work for her."

Board member for Banamex, on newly appointed Citigroup president Jane Fraser

DAVID ROBERTSON

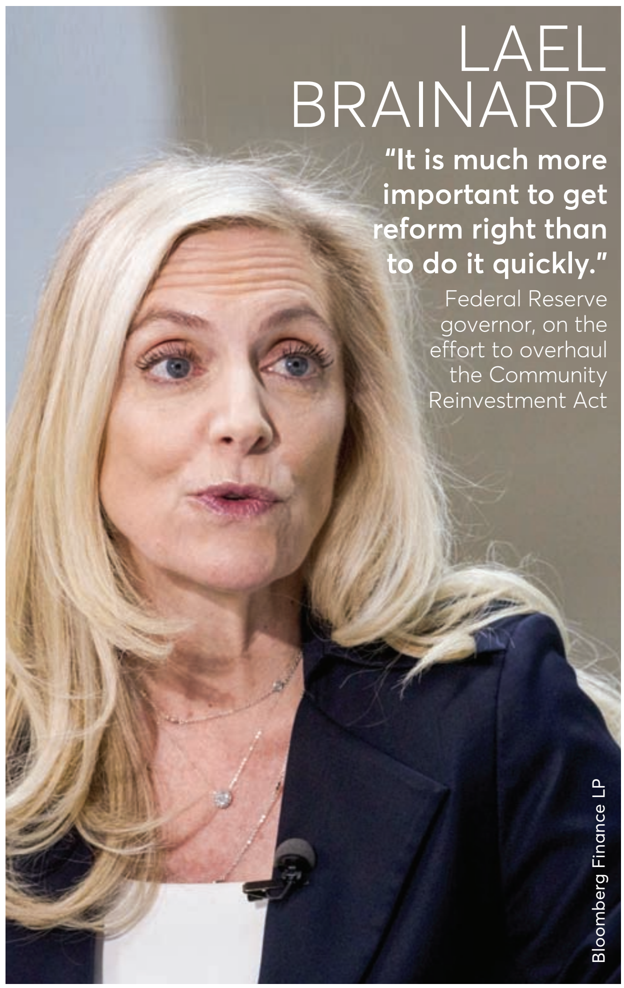
"It did not matter that interest rates went lower than a snake's belly for corporations."

Publisher of The Nilson Report, on consumers facing higher interest charges for credit cards despite several Federal Reserve rate cuts

CHAND RAJENDRA-NICOLUCCI

"There's more hesitation about the moral qualities of these jobs. It's like how people look at Wall Street."

University of Michigan senior, describing the change in attitude on college campuses about working at tech giants like Google and Facebook



LAEL BRAINARD

"It is much more important to get reform right than to do it quickly."

Federal Reserve governor, on the effort to overhaul the Community Reinvestment Act

Bloomberg Finance LP

KIM FOURNAIS

"It's already a monster big market and we see it growing significantly."

CEO of Denmark's Saxo Bank, on its effort to expand in China

REP. MAXINE WATERS

"We are going to put a lot of attention on Wells Fargo."

Chair of the House Financial Services Committee, on the panel's agenda for 2020

JOE KRULL

"What greater revenge from a symbolic point of view but to go after American money?"

Senior analyst at Aite Group, on the risk of Iranian cyberattacks against U.S. banks

BELCE DOGRU

"The work you do at a place like Facebook could be harmful at a much larger scale than an investment bank. It's in the pockets of millions of people, and it's a source of news for millions of people. It's working at a scary scale."

Stanford University graduate student, on the "techlash" that has some college students shunning Silicon Valley job offers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Emerging technology, changing consumer behavior, demographic shifts — an array of forces will reshape the economy and the industry in the years ahead. Those forces are largely outside the control of banks.
SO WHAT DOES BANKING LOOK LIKE IN 2025?