Citi is improving its image with customers. Most other banks are headed in the opposite direction. What's going on?

ANNUAL SURVEY OF BANK REPUTATIONS

By releasing gender pay data that other banks would not, Citi scored points for transparency. Sara Wechter, global head of human resources, played a key role in the decision.
Josh and the Financial Institutions Group experts at Fifth Third Corporate Bank do more than offer competitive capital solutions. They build personal relationships with clients and provide meaningful guidance through all economic cycles—resulting in a partnership that’s truly strategic, flexible and efficient.

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@americanbanker.com

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Souring on Mortgage Lending
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A wrinkle from a firm called Raisin

Deposits-as-a-service model took off in Europe, and this fintech funneled billions to banks there. But it faces obstacles in the U.S.

By Will Hernandez

Raisin, a fintech based in Germany, is on the verge of introducing a new type of financial subscription model in the United States: deposits-as-a-service.

That’s how Raisin’s chief operating officer, Michael Stephan, described its online marketplace that aggregates high-yield savings accounts and certificates of deposit offered by banks.

Raisin has garnered 13 billion euros ($14.5 billion) in deposits brokered across 75 partner banks in Europe since 2013.

Raisin, which has PayPal as an investor, is set to introduce its model in the U.S. at a time when banks are increasingly seeking to acquire deposits through high-yield savings accounts.

“In Europe, we were growing really fast, so the question became, what else can we do around the world?” Stephan said. “The U.S. is a sophisticated type of market, and while there are areas we are still learning about, it’s an attractive market to get into.”

Raisin’s chief executive officer, Tamaz Georgadze, has already acknowledged one potential drawback — persuading Americans to save money. The U.S. net savings rate is 2.9%, while the global average is 9.6%, according to the latest figures from the World Bank.

“We’re not really a nation of savers,” said Ryan Gilbert, a partner at Propel Venture Partners, the investment arm of BBVA. “We’re a nation of spenders. Have a look at the credit card data. It’s through the roof.”

Despite that difference, Raisin could find success in the U.S. because of the market’s size.

“It’s super smart of them to attack a market that’s likely two times larger in consumer deposits than the EU,” Gilbert said.

Stephan said Raisin quickly gained ground in Germany and the European Union for a couple of reasons. While the company was founded well before the open banking directive PSD2 became law in the EU, it’s helped Raisin

...
more easily connect to banks. Raisin also has benefited from European consumers’ lack of loyalty to their primary bank.

“People shop around more, specifically when it comes to relationships online,” he said. “There’s convenience there, and we think that’s happening in the U.S. as well.”

Raisin’s other challenge is that it will need to build American consumer awareness. Georgadze said the fintech will seek to do so through various marketing efforts and partnerships. In Europe, Raisin grew its profile through partnerships with financial institutions such as mobile-only bank N26, Commerzbank and Vanguard, which is one of the world’s largest investment management companies.

Georgadze envisions a scenario where Raisin could partner in the U.S. with the likes of Bankrate or NerdWallet, two of the most popular personal finance comparison websites.

“There is functionality” — such as account opening and management — “we can offer to third parties that would benefit them,” he said.

Midsize banks in particular could benefit from Raisin as a way to decrease customer acquisition costs, which average about $200 per new account. That might set a new trend for fintechs seeking to partner with banks.

“The Raisin announcement, along with banks’ increased interest in acquiring stable deposits, will see the launch of a bunch of startups that will focus on the customer acquisition of financial services as opposed to building another PFM or creating another lending product,” Gilbert said.

For now, Stephan said, Raisin’s immediate focus is to wade through regulatory waters to officially launch its marketplace here.

“It will be likely that some of the activities we do here will require a banking license, and we will very likely have to partner with a sponsor bank so that we can operate under their license,” he said, adding that Raisin has had some discussions with potential partners.

## An assist from AARP

Program helps banks catch those preying on the elderly

It’s a $1 billion problem for financial institutions each year: people who con old customers out of their deposits.

“One in five older Americans are victims of financial exploitation, and each victim loses an average of $120,000,” said Jileen Gunther, national director of AARP’s new BankSafe program.

Chillingly, 60% of the time family members are the perpetrators of elder abuse. This can make it hard for bank employees to detect, as family members sometimes legitimately need to help older relatives as they age and lose cognitive function.

To help banks protect older customers, AARP started BankSafe — a free online training program for bank and credit union employees. The Independent Community Bankers of America and Credit Union National Association have signed on to distribute the training. Banks can also register directly at aarp.org/banksafe.

Two-thirds of all deposits are held by people over 50, AARP said.

The group enlisted 200 bank employees to help develop and review the training content, then tested it with more than 2,000 bankers in an 11-state pilot.

One component of the training is a video game called Trust Your Instincts that is loosely based on the 1984 game Duck Hunt. Employees are fed scenarios and have to decide which ones are potential elder abuse.

A classic red flag is when a customer comes in with a second person who is speaking for that customer, Gunther said. Another is when someone wants to obtain power of attorney for a customer. A third is when an older person asks to buy large quantities of gift cards. A fourth is when a customer who has had an account for many years suddenly moves money into another account with a second person on it.

BankSafe also provides role-playing videos. One shows a son and father who have come into a bank. The son wants to start a landscaping business using the father’s house as collateral. Players choose what steps the employee should take to protect the customer.

In addition to the training, BankSafe provides information about state laws, adult protective services agencies, employee tip sheets and resources for customers.

— Penny Crosman
Briefings

Miami heat
M&A activity is brisk once again in South Florida

Bank consolidation in Miami is picking up, with more deals expected in coming months.

Continental National Bank and Brickell Bank are two of the recent sellers. The $490 million-asset Continental is being sold to First American Bank in Elk Grove Village, Ill., while Brickell’s parent company agreed to sell the $440 million-asset bank to Banesco USA in Coral Gables, Fla.

They join a growing list of Miami banks that have changed hands in recent years, including TotalBank, Gibraltar Bank & Trust, Sabadell United Bank and Stonegate Bank.

The Miami area has lost a dozen banks since mid-2014, according to data from the Federal Deposit Insurance Corp. Premiums are higher than they have been in years.

“IT’s the best time to sell if you’re planning to sell,” particularly for bankers concerned that another economic slowdown is nearing, said Ken Thomas, president of Community Development Fund Advisors.

For now, buyers don’t seem overly concerned about a correction. For them, the Miami market offers a chance to diversify in terms of demographics, geography and product mix.

Thomas Wells, the chief executive of the $5.3 billion-asset First American, said his bank is interested in focusing more on Hispanic customers, including the Cuban-American clientele at Continental National.

“Getting a Hispanic grounding is important,” Wells said.

Continental, formed in 1974, was also attractive because it has been around for a while and has a good balance sheet, Wells said. He cautioned that some newer banks in the area have more transactional and less “sticky” business.

Scale in South Florida was another driver at First American. It only has one branch in Miami, which it obtained in a 2014 acquisition.

In addition to tourism and hospitality, Miami is a “vibrant economic hub” driven by its position as a gateway to Latin America, Wells said.

More banks will likely want to bulk up around Miami, said Dennis Holthaus, a managing director for Skyway Capital Markets in Tampa, Fla.

“As a financial institution, if you have significant growth plans in Florida, those plans have to include Miami,” he said.

The only issue is the limited number of community banks available, which will likely keep premiums above 200% of a seller’s tangible book value.

Thomas said out-of-state banks and those in other countries eager to be in Miami are paying up for local banks, as seen in the Banco Bradesco-BAC Florida Bank deal recently. Bradesco agreed to pay $500 million, or 2.6 times book.

But Holthaus does not expect prices to get overly inflated. “Bradesco has had an impact on the thoughts of sellers, but pricing still needs to make financial sense for a buyer,” he said.

— Ken McCarthy

Beginner’s pluck
Startup bets big on mortgages as other banks back off

Organizers of a de novo effort in Maryland apparently didn’t get the memo that community banks should give up on the idea of a national mortgage platform.

NXG Bank — short for “next generation” — plans to establish traditional deposit-gathering and commercial lending operations around Columbia, Md. But it also would bring on a large mortgage team the day it opens.

“We’re going to try to find niches that are profitable and scale the business,” said Bill Knott, the proposed bank’s chief executive.

NXG intends to originate and sell agency mortgages.

The lending team it has on tap is from Mutual of Omaha Mortgage. Chris Incentino, one of the bank’s organizers, oversees a 60-member team for the Mutual of Omaha unit that includes loan officers, processors and underwriters. The group is on pace to originate $400 million in mortgages this year.

NXG’s decision to build a nationwide mortgage platform comes as others, including HomeStreet in Seattle and Berkshire Hills Bancorp in Boston, have stepped back from that business, citing slim margins, regulatory hurdles and intense nonbank competition.

NXG, which plans to rely on technology to reduce overhead, would accept applications online, but loan officers would handle approvals, Knott said.

Other NXG organizers also have banking experience, including Mark Keidel, who served as interim CEO at 1st Mariner Bank from December 2011 to July 2014.

Lori Bettinger, who was director of the Troubled Asset Relief Program from 2008 to 2011, signed on to be NXG’s chairman, after being recruited by Knott. “It’s great to get an opportunity to see what a de novo really looks like from the ground floor,” she said.

NXG plans to raise $38.5 million to $42 million in initial capital. Knott said about a quarter of the capital will come from organizers, friends and family. The goal is to open by early 2020.

— Paul Davis
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Bank Technology

The Medicis (yes, those Medicis) are back, and starting an online bank that aims to remove pain points for small and midsize businesses

By Penny Crosman

The latest U.S. challenger bank has a unique origin: the powerful Medici family, which ruled Florence and Tuscany for more than two centuries and founded a bank in 1397.

The Medicis invented banking conventions that still exist. They pioneered branch banking because messengers transporting money along the famed Silk Road were often robbed. With branches, the money could be deposited at one location and disbursed elsewhere. That developed into banks forging relationships with one another to help distribute money to far-flung locations, a concept now called correspondent banking. They invented the double-entry system of tracking deposits and withdrawals that banks still use, as well as letters of credit.

In a return to his forebears’ work, Prince Lorenzo de Medici is setting up a challenger bank in the United States. The plan is for the digital-only bank to serve small and midsize international businesses in a tech- and crypto-friendly way.

“We are reimagining modern-day banking by leveraging technology that creates seamless, digital customer experiences and expands financial opportunity across global markets,” said de Medici, who is director of the bank as well as the manager of his family’s portfolio and shared ownership in several European banks.

**Why the Medicis are back in banking**

Growing up near a town on the old Silk Road that hosted a major trading exchange, de Medici always felt pressure to restart the family business.

“His entire life, people asked him, ‘You’re Lorenzo de Medici. Where’s your bank? Why don’t you have a bank? You should start a bank.’ It’s always been on the back of his mind — if he had a bank, what would it be like?” said Ed Boyle, Medici Bank’s chief executive.

Boyle, meanwhile, had worked at American Express and at the German online bank Fidor. After trying to find U.S. bank partners for Fidor, and determining they were too hamstrung by legacy systems to do the custom-friendly things he wanted to do, Boyle decided to create a Fidor-like bank in the U.S. He compared notes with de Medici. They realized they had a similar vision and decided to work together.

Much like the original Medici family used banking innovations to facilitate trade and commerce, Medici Bank will be focused on “innovating in order to solve the pain points of the customer as opposed to innovating in order to generate more margin for the shareholder,” Boyle said.

Boyle recently asked a New York importer what problem he would like a bank to solve. The New Yorker said he exports high-end electronics from the United States to other parts of the world — he might ask Medici to send 100 iPads to a trade show in Dusseldorf. He has to invoice customers for the electronics and pay customs duties.

“You need to move the money, you need to move it fast, and an exact amount needs to arrive,” Boyle said. “And typically as a small business working with a bank, you are sending a wire and an invisible amount of money goes through the ether; you don’t know when it will arrive, and it’s never in the amount you thought it would be.”

There are fintechs that have services that help, but usually customers have to wire money from their banks to the fintechs first. “You have the customer jumping through extra hoops in order to avoid hoops in the banking and payments space,” Boyle said.

The plan is for the digital-only bank to serve small and midsize international businesses in a tech- and crypto-friendly way.
American Banker plans to offer a fintech-like international payment service from a chartered bank. Boyle and de Medici have been selecting best-of-breed technologies for their new bank that will most likely include distributed ledger, international automated clearing house, and Swift wire solutions. They plan to announce their vendor choices in coming months.

Over time, Medici Bank might serve the customers of these international businesses with private banking and wealth management services.

"Lorenzo and I think the wealth management business is this last bastion of banking where it is anything but fast and data-centric," Boyle said. "And where you see robo-advisers making inroads into the retail space with apps on phones for millennials, we think there's a big opportunity in the traditional family office wealth management space."

Medici Bank plans to let business customers use its application programming interfaces to integrate with their accounting, payables, receivables and shipping systems. It's co-designing APIs with new and prospective customers, who are sharing how they'd like a digital-account-opening process and online banking to work.

Getting a charter
Becoming a U.S. bank is not easy. Obtaining a state or federal banking charter takes time, money and patience.

Medici Bank has taken an indirect route. Boyle and de Medici's team acquired a division of a Belize bank called Choice Financial. Through that acquisition, they obtained an international banking charter from the U.S. Commonwealth of Puerto Rico. It is supervised by the Federal Reserve Bank of New York.

"We were not allowed to use the word 'bank' until three weeks ago, when the commissioner told us we could use it," Boyle said.

This international banking charter lets Medici Bank operate in any non-sanctioned nation-state in the world (including the U.S.), as long as it can comply with Bank Secrecy Act and anti-money-laundering obligations. It can open accounts with customers inside and outside the U.S.

It does not have a U.S. federal or state bank charter, nor does it have Federal Deposit Insurance Corp. coverage. "DIC insurance at this stage is optional," Boyle said. "We're considering whether or not we will opt for it when we launch the bank by the end of the year."

Crypto-friendly, to a degree
One of the modern aspects of Medici Bank is its so-called crypto-friendliness.

This term has to be parsed. The bank has no plans to offer digital asset custody, digital wallets or other cryptocurrency services. It does not plan to accept cryptocurrency; it intends to deal only in sovereign fiat money.

It is open to banking companies that do something related to blockchain technology and cryptocurrency. Boyle said these companies often struggle to find a willing bank partner.

"We look at prospective customers of the bank on an individual basis — what business are they in, what is the nature of that business, what products, policies and procedures do they utilize in their business and how well do they apply those policies and procedures?" Boyle said. "So even in a high-risk industry like cryptocurrency, we are friendly to the extent that we'd be willing to speak with them and have an application from them and possibly bank them."
WHEN’S LIFTOFF?

While other industries reversed their previous downward trend, perceptions of the banking industry continue to get worse. Here are some steps banks can take to try to burnish their reputations.

By Matthew de Paula
Last year corporate America took a reputational hit across many industries, as public trust broadly eroded. This year as other industries started to improve, the banking industry is falling further.

“I think the leading theme here is that of a missed recovery,” says Sven Klingemann, director of research at the Reputation Institute.

Of the 40 banks evaluated in the 2019 American Banker/Reputation Institute Survey of Bank Reputations, only two earned an “excellent” reputation with customers, down from six last year.

Five had “average” scores, up from two.

The number of banks that have “weak” scores with noncustomers doubled, to more than half of them.

The decline in reputation translates into less willingness to buy a bank’s products and to recommend others do so, the research shows.

It also means people are less likely to give a bank the benefit of the doubt if something goes wrong.

But banks can counteract the negative sentiment. The research indicates the most effective way to do that is by demonstrating ethical behavior and good citizenship, Klingemann said.

“This is a strategy that banks can use consistently to turn things around,” because it improves perceptions regardless of the bank type and regardless of whether someone is a customer, he said.

Focus on governance

The survey rates banks in seven categories: products and services, innovation, leadership, workplace, performance, citizenship and governance. Which categories most heavily influence people’s perceptions of banks can shift from one year to the next.

Citizenship remains one of the top three drivers of reputation for noncustomers, though dropped in importance among customers, who now put more emphasis on financial performance.

But governance is in the top three with both customers and noncustomers.

Missed Recovery

While other industries on average have recovered some of the reputation losses they’ve suffered since 2017, the banking industry continues to decline again this year. This is a gauge of whether people perceive the bank as fair, ethical and transparent.

Compared with the large and nontraditional banks, regional banks as a group experienced the biggest drop in the governance category, losing three points on the 100-point scale, Klingemann said.

One exception is the $161.3 billion-asset Citizens Bank in Providence, R.I., which held steady in that category with its customers.

And on the overall reputation scores, Citizens is one of only two banks that did not lose ground with either customers or noncustomers.

Klingemann said customers consider Citizens’ brand personality appealing.

The survey shows that they perceive it as technologically advanced and modern. It is also perceived as one of the least self-serving among all the banks evaluated.

Beth Johnson, Citizens’ chief marketing officer, said it’s not any one thing that has made the difference, but a commitment to improving the way the bank does business overall. She cited a list of recent initiatives, both internal and external, that is improving Citizens’ standing with employees and customers.

One, called “Simple, period” (or “Simple.”), launched about a year and a half ago. It is focused on the customer experience and created a mechanism that allows employees to make suggestions and collaborate to drive improvements.

Another initiative called Community Connect encourages local branch staff to participate in random acts of kindness. It started in 2017 as a grassroots effort in Connecticut and expanded bankwide in February 2018. Citizens encourages employees to share their acts of kindness on social media, to magnify the effect.

The most risky behavior

Facebook misusing personal information, Volkswagen skirting environmental regulations, and Wells Fargo opening phony accounts all registered with the

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REPUTATION SURVEY

Still Falling
Large banks as a group did not lose as much luster with their customers as the regional and nontraditional banks did. Among noncustomers, bank reputations overall declined by an average of 3.8 points, sinking into “vulnerable” range.

LARGE BANKS
-0.7
-3.7

REGIONAL BANKS
-2.2
-3.9

NONTRADITIONAL BANKS
-2.0
-3.7

ALL BANKS - INDUSTRY AVERAGE
-2.1
-3.8

Scores from customers
Scores from noncustomers
Decrease from 2018
Not a meaningful change

Source: Survey of Bank Reputations 2019

public in a big way. Each of those companies is still facing fallout for their breaches in trust; Wells Fargo remains at the bottom of the bank rankings, and is the only one with a “poor” reputation among noncustomers.

In studying what events can damage bank reputations most, Klingemann found that risks related to privacy and data security are becoming more important to people.

But the risks that had the biggest potential negative impact all related to ethical behavior. Of the 19 risks assessed, deceptive sales practices and unequal pay by gender ranked at the top, each one having the potential to drag down reputation scores by a whopping 17.2 points.

It’s worth bearing in mind that treatment of employees matters in an outsized way, with bias related to race, gender and sexual orientation bias coming in second (-16.2), followed by incidents of sexual harassment (-15.8) and firing or punishing whistleblowers (-15.7).

Klingemann said the data shows that avoiding reputation trouble comes down to one principle: “Do the right thing.”

The political minefield
This is particularly useful insight given a new set of data in the study this year that focuses on political dynamics.

These day banks have to navigate tricky public policy positions and hot-button socioeconomic issues in a politically divided country, Klingemann said.

And with 2020 national elections looming, banks are particularly vulnerable to attack.

The Reputation Institute gauged how party affiliation correlates with opinions of bank reputations, and found that Republicans had the most favorable views, and Independents the worst, with Democrats falling in the middle.

But the key drivers of reputation for all three groups are the same, regardless of political persuasion.

“We see that on average, for each one of the affiliations, governance is the most important driver, followed by products and services, and citizenship,” Klingemann said.

“These three dimensions taken together are especially important for Independents, who view banks in the most skeptical way.”

The only bank with a strong score among all three political groups was USAA.

The $87 billion-asset San Antonio bank, which restricts its customers to current and retired military personnel and their families and operates almost entirely online, has been at or near the top of the rankings for several years, a streak that continues this year.

USAA is at the top of the customer ranking with a score of 88.2, which is considered “excellent,” and the noncustomer ranking with a score of 70.2, just high enough to qualify as “strong.”

Klingemann said with hedging against political risk expected to become especially important in the coming year, a focus on reputation will go a long way toward helping.

“Good reputation will boost your performance, but also offer protection in times of risk. It’s what we call an insurance policy,” he said.
The Reputation Institute gauged how party affiliation correlates with opinions of bank reputations, and found that Republicans had the most favorable views, and Independents the worst, with Democrats falling in the middle. But the key drivers of reputation for all three groups are the same, regardless of political persuasion. "We see that on average, for each of the affiliations, governance is the most important driver, followed by products and services, and citizenship," Klingemann said. The only bank with a strong score among all three political groups was USAA. The $87 billion-asset San Antonio bank, which restricts its customers to current and retired military personnel and their families and operates almost entirely online, has been at or near the top of the rankings for several years, a streak that continues this year. USAA is at the top of the customer ranking with a score of 88.2, which is considered "excellent," and the noncustomer ranking with a score of 70.2, just high enough to qualify as "strong." Klingemann said with hedging against political risk expected to become especially important in the coming year, a focus on reputation will go a long way toward helping. "Good reputation will boost your performance, but also offer protection in times of risk. It's what we call an insurance policy," he said.
REPUTATION SURVEY

What matters most when forming perceptions of a brand?
Governance remains among the top reputation drivers for both customers and noncustomers. For this survey, governance is essentially a measure of how ethical people think a bank is, with the score being based on perceptions of transparency and fairness.

The top 5 scorers for each of the reputation drivers

Customers

Products & Services
- Cullen/Frost Bankers 17.0%
- Discover Bank 16.9%
- Huntington Bank 16.8%
- BOK Financial 16.4%
- KeyBank 15.6%

Innovation
- Cullen/Frost Bankers 15.3%
- Discover Bank 15.1%
- Huntington Bank 14.7%
- BOK Financial 14.6%
- KeyBank 13.9%

Workplace
- Cullen/Frost Bankers 17.2%
- Huntington Bank 16.9%
- Discover Bank 16.7%
- Northern Trust 16.6%
- BOK Financial 16.5%

Governance
- Cullen/Frost Bankers 17.0%
- Huntington Bank 16.8%
- Discover Bank 16.7%
- BOK Financial 16.4%
- KeyBank 16.1%

Leadership
- Cullen/Frost Bankers 17.2%
- Huntington Bank 16.8%
- Discover Bank 16.7%
- BOK Financial 16.4%
- KeyBank 16.3%

Performance
- Cullen/Frost Bankers 17.6%
- Huntington Bank 17.2%
- Discover Bank 17.1%
- BOK Financial 16.8%
- KeyBank 16.7%

Noncustomers

Products & Services
- Discover Bank 17.0%
- Huntington Bank 16.9%
- Cullen/Frost Bankers 16.8%
- KeyBank 16.4%
- BOK Financial 16.3%

Innovation
- Discover Bank 17.4%
- Huntington Bank 17.2%
- Cullen/Frost Bankers 16.8%
- KeyBank 16.3%
- BOK Financial 16.2%

Workplace
- Huntington Bank 17.2%
- Discover Bank 16.9%
- BOK Financial 16.6%
- Northern Trust 16.6%
- KeyBank 16.5%

Governance
- Huntington Bank 17.0%
- Discover Bank 16.8%
- BOK Financial 16.4%
- Cullen/Frost Bankers 16.3%
- KeyBank 16.1%

Leadership
- Huntington Bank 17.2%
- Discover Bank 16.8%
- BOK Financial 16.4%
- Cullen/Frost Bankers 16.3%
- KeyBank 16.3%

Performance
- Huntington Bank 17.6%
- Discover Bank 17.5%
- BOK Financial 17.4%
- Cullen/Frost Bankers 17.0%
- KeyBank 16.7%

Source: American Banker/Reputation Institute Survey of Bank Reputations 2019

What Huntington is up to
Despite slipping a little — to 80.4 — Huntington Bank is the only one besides USAA to get an “excellent” score with customers this year.

The $108-billion-asset Huntington of Columbus, Ohio, attributes this in part to initiatives that it started in the midst of the Great Recession — particularly Fair Play Banking, which features 24-hour overdraft grace periods and Asterisk-Free checking.

“This is not an overnight thing,” said Sandra Pierce, a senior executive vice president in private banking and regional banking director at Huntington. “This is part of who we are.”

She also cited Huntington’s new digital banking platform, called The Hub, as a likely factor. It helps customers better manage spending and keep financial goals top of mind.

The Hub, which began rolling out late last year, was shaped by insights gleaned from what Pierce calls a series of candid “kitchen table conversations” Huntington executives had in customers’ homes during a two-year listening tour that entailed visits across the Midwest. The feedback is also informing in a new branding campaign.

The fact that Huntington was the top Small Business Administration lender by volume in 2018, and the largest originator in its footprint for the 10th year in a row is also a factor in how the bank gets perceived, she said. So is its decision to be one of the first companies to voluntarily raise its minimum wage to $16 an hour and improve health care and family leave benefits for employees.

“I think it’s all of that, not one thing,” Pierce said.

The same message recurs in the survey repeatedly: Managing reputations is about doing the right thing, not just in a few areas, but as many as possible.

And this becomes particularly important with regard to some of the most vocal stakeholders: influencers.

The outsized impact of influencers
Every year, the Reputation Institute polls C-level executives about what is top of mind when they come to managing reputation risk. This year, influencers emerged as a hot topic.

Though the term has become synonymous with social media, this study adopts a broader definition. “An influencer could be in the category of great publics or an employee,” Klingemann said. Basically, it’s anyone who is an active communicator, whether on social media, via word of mouth with friends and family, or by directly reaching out to regulators, politicians and banks.

“We asked them about their activities and involvement
Next to Last
Of the 16 industries that the Reputation Institute tracks, only telecom scored lower than banking this year. On a 100-point scale, overall bank reputations fell 3.3 points.

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Source: Reputation Institute

SURVEY METHODOLOGY

COMPANY SELECTION:
- Companies drawn from the Federal Reserve’s list of large commercial banks, with final selections by American Banker based on total assets and deposits.
- Only those with significant retail brands were considered.

RATINGS:
- Ratings were collected via online questionnaire in March and April 2019.
- At least 100 customers and 100 noncustomers rated each company, with more than 12,000 respondents overall.
- Each respondent was very or somewhat familiar with the companies they rated.

specific to the banking industry and then we selected the subset of people that were most active. And we’re really talking about 10% of our overall sample who are these very passionate and active people who are making their voices and opinions heard,” Klingemann said.

He described them as “ordinary people with authentic credibility and extraordinary influence and impact on reputation.”

They tend to be highly active on social media, but make their voices heard in multiple ways. They can create a movement, and shape the narrative around company- or industry-specific topics.

Influencers have the same top three priorities as the non-influencers when rating reputations — governance, citizenship and products and services — but they are more demanding in what they expect of banks. For example, excellence in leadership and workplace conditions are disproportionately more important for influencers in the banking industry, products and services less so.

“Talking about how great your products are makes some difference — it’s top three — but what you really need to focus on here is governance,” Klingemann said. “So convincing influencers that you go above and beyond the call of duty when it comes to fairness and transparency and ethical behavior is really the way to go.”

But that’s not all. “You also need a bit more of a balanced approach” when it comes to targeting influencers, he said. “So just focusing on one thing is definitely not going to cut it here.”

Citizens hired a social media manager in late 2017 and started ramping up influencer efforts last year through partnerships with personal finance experts, such as Jean Chatzky, financial editor of NBC’s “Today Show.” The goal was not to push products, but to educate parents and students on how to tackle paying for college. The campaign involved efforts on Facebook, Twitter and Instagram, including a Facebook Live interview between Chatzky and Christine Roberts, Citizens’ head of student lending.

It’s perhaps not surprising then, that influencers rate Citizens’ reputation three times more positively than that of the average regional bank.

Of the three types of banks, influencers score regionals most favorably and large banks most negatively by a wide margin. So at least for regional banks, influencers are a bright spot.

“Despite the fact that regional banks are kind of the loss leaders in reputation, they’re still viewed more positively by influencers. Imagine if the influencers were on their bad side what would happen,” Klingemann said.
REPUTATION IS A TEAM EFFORT

From left: Sam Lalanne, senior vice president, global talent and diversity | Elizabeth Kelly, director, global public affairs | Val Smith, global head of corporate sustainability | Sara Wechter, global head of human resources | Yiting Shen, global head of external network management, Treasury and Trade Solutions | Ed Skyler, executive vice president for global public affairs | Priya Rajani, senior vice president, corporate client strategy | Geetha Krishnamurthy, head of digital performance insights
It’s hard for the biggest banks to get much love these days, but Citigroup is taking risks that make it stand out from its peers. Here’s how it aims to do even better.

By Alan Kline | Photograph by David Yellen

EARLIER THIS YEAR, THE INVESTMENT FIRM ARJUNA Capital challenged 12 financial services and technology companies in which its clients own stakes to publicly disclose how much their female and minority employees earn in comparison to white men.

Research has shown that companies with higher percentages of women and minorities in decision-making roles tend to be more profitable and make better long-term decisions than those that lack diversity, and Arjuna asked for the median pay gap as a means of pressuring companies to bring more gender and racial equity to their management ranks.

To date, only one of the dozen has complied — Citigroup.

Citi did so knowing full well that the initial news coverage would not be flattering. The data showed that female employees are paid far less than male employees — even though women make up more than half of the global workforce — and journalists seized on that point.

“Citigroup’s business is money, but not a lot of it goes to its female employees,” read the opening line in a New York Daily News story.

But to Citi officials, it was an issue of credibility, said Sara Wechter, the company’s global head of human resources.

Months earlier, Citi had disclosed its goals for increasing female and minority representation at the management level and executives saw the challenge from Arjuna as an opportunity to measure progress in a very public way.
"It was a rough morning when we put out the numbers, but then the news cycle changed," Wechter said. Eventually, the stories became less focused on the numbers and more focused on Citi's transparency about the numbers.

"When you are willing to put out the raw number, it gives you so much credibility because you are admitting where there is a problem," Wechter said.

Its willingness to go further than its peers in releasing pay-gap data is among the reasons that Citi has made strides in the annual American Banker/Reputation Institute Survey of Bank Reputations.

Citi's reputation has also been bolstered by its decision to take a stand on polarizing social issues, such as gun control and climate change, and by its ongoing commitment to improving the cities it serves.

Customer scores for most of the 40 banks in the ranking dropped in 2019 when compared with 2018, but Citi essentially held steady amid the powerful downward trend.

Citi still trails most regional banks on the seven reputation components — citizenship, governance, innovation, leadership, performance, products and workplace — but it stacks up well against other large banks, a category that also includes Bank of America, HSBC, JPMorgan Chase and Wells Fargo.

Its score for each component was higher than the average for the large banks, with both customers and noncustomers.

"In an environment of reputation decline among U.S. retail bank customers, Citi has been able to buck the trend by reaping the benefits of their corporate responsibility efforts, especially with respect to workplace initiatives," said Sven Klingemann, the research director at the Reputation Institute.

Pioneer on the pay-gap issue

Those workplace initiatives include its transparency around disclosing pay-gap data.

Arjuna, a self-described impact investor, successfully pressed some financial services and tech companies to disclose their adjusted gender pay gap last year. That figure takes into account factors like type of work and level of experience.

But this year Arjuna requested companies disclose their unadjusted gender pay gap, which compares the median pay for all women to the median pay for all men.

While adjusted data shows if there is equal pay for equal work, the unadjusted data shows if there is equal opportunity in high-paying jobs, Arjuna argues.

Citi was the first of the large banks to disclose its adjusted figures, and several rival banks quickly followed suit. But that data was relatively uncontraversial. Banks found, for the most part, that men and women doing similar jobs are paid roughly the same amount of money.

It was after the request to disclose unadjusted figures that Citi stood apart from rivals. JPMorgan, Wells Fargo, Bank of America and Bank of New York Mellon all, in one way or another, tried to block Arjuna-backed shareholder resolutions that would have required them to disclose the data.

Why? "Companies are reluctant to publish unflattering data," said Natasha Lamb, a managing director at Arjuna.

Citi's numbers weren't flattering either. In a blog post in January, the company said, globally, its female employees earn a median of 29% less than its male employees on an unadjusted basis. It also said that, in the U.S., the median pay for minorities is 7% lower than the median for nonminorities.

Citi said bluntly that the gaps exist because the majority of higher-paying, mid- to senior-level manager positions are held by men — and, in the U.S., mostly white men.

"Our problem is not about gender equality or diversity," Wechter said. "It really is about representation at the most senior levels of the organization."

For banks, there are risks to making such data public. According to the Reputation Institute, unequal pay by gender is right up there with deceptive sales practices as the issue that could most harm reputations, so why voluntarily release data that could generate negative publicity?

JPMorgan has so far rebuffed Arjuna's calls for more transparency around pay differences by gender, arguing that its diversity efforts are self-evident. In its 2019 proxy statement, in which it urged shareholders to reject Arjuna's proposal to disclose median pay-gap data, JPMorgan noted that women make up 45% of its operating committee and lead some of its highest-revenue business lines, including asset management, consumer lending and capital markets.

It also argued that such disclosures could have unintended consequences. "We understand that a blunt metric like median pay gap may be helpful for a certain discussion about pay, representation and public policy, but it is not the answer," JPMorgan's proxy statement said. "For example, if a company with a high concentration of women in entry-level jobs wanted to even out its median pay metric, it could do so by limiting entry-level job opportunities for women."

Lamb and other activist investors reject that argument, however.

What the pay-gap data exposes most of all is a lack of diversity in the management ranks. Tracking it, Lamb said, while the data says something about whether a bank is placing women in leadership roles and by how much, it does not address whether it is good enough.

"If we keep doing things the way we've been doing them, then nothing is going to change," Lamb said.

Citi, by contrast, relies on righting its gender pay gap to promote its brand in the workplace. Its adjusted figures show an improvement of 0.7% at the median pay level, compared with 2018.

Echoing Wechter, she said, "The first step is admitting you have a problem."
“Our problem is not about gender equality or diversity,” Wechter said. “It’s really about representation at the most senior levels of the organization.”

"If we keep doing things the way we’ve been doing them, then nothing is going to change," Lamb said. Citi, she added, is “taking all the right steps. It’s setting hiring and promotion targets and being very transparent and honest” about how it intends to achieve more diversity.

Echoing Wechter, she said, “The first step is admitting you have a problem.”

**A good citizen**

Once a poster child for corporate wrongdoing — it has paid nearly $20 billion in fines and legal settlements for various financial-crisis-era misdeeds — Citi has, under Michael Corbat, worked diligently to improve its public image.

Corbat, Citi’s chief executive since late 2012, has been unafraid to take stands on controversial social issues.

After last year’s mass shooting at a Florida high school, Citi was the first major U.S. bank to impose restrictions on gun sales by its customers in the retail industry and processing of payments for gun purchases by its credit card partners.

“As an avid outdoorsman and responsible gun owner, I know that some will find our policy too strict while others will find it too lenient,” Corbat wrote in March 2018 email to employees.

“We don’t have the perfect solution,” in the effort to both support constitutional rights and keep children safe, he said. “But we shouldn’t let that stop us from doing our part.”

On climate change, Citi has committed to sourcing renewable power for 100% of its energy needs by 2020 and was the only U.S. bank to participate in a 2017 United Nations pilot program in which banks examined risks in their loan and investment portfolios under various global warming scenarios.

Two years earlier, it pledged $100 billion in financing within 10 years for activities that would help accelerate a transition to a low-carbon economy, such as wind farms, mass transit and energy-efficient buildings — and is already 95% of the way there.

Like many banks whose reputations suffered in the wake of the financial crisis, Citi has been very intentional about promoting its corporate social responsibility efforts. It has for a decade put out an annual report detailing initiatives that aim to better the lives of its customers, communities it serves and society at large. It also publishes a separate report highlighting its commitment to diversity.

Many of Citi’s ads are similarly themed. One 60-second television spot tells the story of how Citi helped the Public Lighting Authority of Detroit secure financing to replace and repair about 40% of streetlights that weren’t working, at a time when most other banks viewed the city as too great of a credit risk. Another spot detailed its role in financing the rebuilding of a housing project near John F. Kennedy Airport in New York that was decimated by Superstorm Sandy, spotlighting its broader commitment to affordable housing financing. (Citi has been the nation’s No. 1 affordable housing lender for nine straight years, according to Affordable Housing Finance magazine.)

Ed Skyler, Citi’s executive vice president for global public affairs, said that spreading the message of corporate responsibility matters because, these days, customers, employees and prospective employees want to know where companies stand on pressing social issues and how they are responding.

“You have to be very clear about your values and living up to those values in the decisions you make,” Skyler said. “And those decisions can be clients that you take on or, just as powerfully, clients and transactions that you don’t take on.”

Citi is a public company with a responsibility to make money for shareholders, so it can’t just stop financing activities that some customers, employees or impact investors may find objectionable, Skyler said. Despite its commitment to financing clean energy projects, Citi remains one of the
Diversity goals
There’s a strong business case to be made for bringing more gender and racial balance to the management ranks and it’s on Wechter, the head of human resources, to make sure senior executives are fostering inclusive environments and taking measurable steps to help Citi meet its diversity goals.

Citi has already made huge strides in diversifying its leadership. When Jane Fraser, now the CEO for Latin America, first joined the management team in 2014, there were only two women who reported directly to Corbat. Today, five of Corbat’s 14 direct reports, including Fraser, are women.

Citi’s chief financial officer, Mark Mason, is African-American, and its chief risk officer, Bradford Hu, and its general counsel, Rohan Weerasinghe, are Asian. There are also six women on the 16-person board of directors.

To keep the momentum going, Citi needs to be more intentional about filling the pipeline with more women and minorities, Wechter said. As a starting point, it aims to achieve two diversity goals by 2021: increasing female representation at the assistant vice president through managing director levels to 40% globally, from the current 37%, and increasing African-American representation in the U.S. to 8%, from 6%.

It is also setting ambitious diversity goals for hiring summer interns and entry-level employees. Fraser said the color-coded progress report is effective.

“Growing up in banking in the [male-dominated] ’80s and ’90s ... I wanted to [succeed] on my own merits, not because I was a woman,” she said. “And I felt that women who were taking on the mantle, pushing for more women, got the ‘women’s’ label.”

Now Fraser has a different view. She believes diversity is “increasingly important to a firm’s ability to compete” and, as one of Citi’s most-senior women, she feels a responsibility to help women and minorities overcome barriers to advancement so that the company can better serve an increasingly diverse market.

“It’s very important to create an environment that’s inclusive,” Fraser said. “The world is so divisive, and there’s so much change going on. If you don’t have diversity of thought around the table, you don’t compete well.”

Wechter and Terry Hogan, Citi’s head of talent and diversity, echoed that sentiment.

Hogan said that teams made up of men and women with diverse experiences and backgrounds “bring perspective that reflect our client base and allow us to be better prepared to innovate for our clients.”

Plus, said Wechter, it matters to clients, particularly large corporate clients seeking sophisticated banking or institutional services.

“We now have clients coming to us and asking about the [makeup of females and minorities] on the team that’s representing them,” she said.

“I love that corporate customers are asking these questions,” Wechter said. “It’s the right thing.”
Be ready to act on workplace conflict

By Jeff Butler

More than half of employees ages 18 to 29 see socialism in a positive light, but only about a quarter of those 50 and older do, according to a Gallup poll a few years ago. This is just one example of the varied — and sometimes conflicting — viewpoints that employees might bring up in the workplace.

Dealing with these differences effectively is important. Personal conflicts can interfere with work and even become nationwide political stories via a simple tweet or post.

Managers can help companies avoid a big headache by learning in advance how to address intergroup conflict.

Option one: Avoidance

Seeking to keep differences in beliefs outside of the workplace — a form of avoidance — is the most common tactic that companies use. Opinions, specifically political ones, don’t need to be brought up with colleagues.

Human resource policies can bar employees from behaving in certain ways, such as sporting Confederate flags or other political attire. Then, if employees break a rule, managers only need to alert HR.

But even so, millennials tend to be more expressive than their older colleagues, and generational differences are becoming more of a factor in workplace conflict.

“The older workforce was trained to separate their ‘personal’ personality, attire and relationships from the ‘professional’ as soon as they walked in that office door. But the younger workforce feels like you’re hiring the whole person, including their opinions,” says Cara Silletto, a consultant on employee retention. “I encourage people to be themselves at work … just know that people are watching you.”

Option two: Indirectly addressing

But what about employees from cultural backgrounds that are historically at odds with each other?

Researcher Thomas Pettigrew compiled a meta-analysis of 515 studies focusing on how groups with cultural, political, gender and age differences work together in a cohesive way. He concluded that emotional connection was the key.

Four things have to be in place to achieve this connection: The people must be on an equal level in the hierarchy; they must be working toward a common goal; the effort they are undertaking must be cooperative, rather than competitive; and there must be institutional support, especially when something goes awry.

Many companies undertake efforts that meet these conditions in the form of time off for employees to do volunteer work as a group, team-building events like escape rooms, and reverse-mentoring programs.

Employees participating in these types of programs are able to put aside their differences, consequently building a mutual understanding for one another.

Option three: Directly addressing

Directly addressing differences in the workplace has become a more mainstream approach to solving intergroup conflict lately.

Joseph Grenny, the author of “Crucial Conversations: Tools for Talking When Stakes Are High,” recommends getting everyone together and giving each person a chance to speak without interruption as the others take notes. Grenny then uses a whiteboard to categorize the problems that are expressed and presses all parties involved to brainstorm solutions.

As Grenny would put it, “The employees aren’t exactly lunch buddies now, but the process works.”

There are many companies that find the direct approach useful, though heated emotional conflicts often require specialized facilitators to intervene.

Differences of opinions will always exist — but they don’t have to go beyond the cubicle and lead to a public relations firestorm. How a company acts when conflicts occur can keep them from escalating.

Jeff Butler is a speaker and consultant on attracting millennials as employees and customers.
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TAMMY MCFADDEN

“You present them with everything, and you give them a recommendation, and nothing happens. It’s the D.B. way. They are prone to discounting everything.”

A former Deutsche Bank anti-money-laundering specialist, saying executives ignored recommendations to report some suspicious transactions by Donald Trump and his son-in-law

JAMIE DIMON

“It’s not responsible for a company — just my own view — to have a CEO leave with no plan in place. I don’t personally understand that.”

JPMorgan Chase CEO, criticizing Wells Fargo for its lack of preparation prior to the departure of embattled CEO Tim Sloan

JAMIE DIMON

"It was a party. Why stop it?"

Former chair of New York’s Taxi and Limousine Commission, saying all players, including city officials, let taxi-medallion lending get out of control

ROGER BERTLING

“I don’t think I could concoct a more predatory scheme if I tried. This was modern-day indentured servitude.”

Instructor at Harvard Law School’s clinic on predatory lending, condemning taxi-medallion lending in New York City

TAMMY MCFADDEN

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Instructor at Harvard Law School’s clinic on predatory lending, condemning taxi-medallion lending in New York City

BLOOMBERG NEWS

BLOOMBERG NEWS

JEFF EDWARDS

“There’s a culture where they are loath to acknowledge mistakes.”

Pastor at United Methodist Church of Parsippany, N.J., on suing Wells Fargo for incorrectly linking him to check forgery and causing his arrest

MANUEL DE LUQUE MUNTANER

“The crypto winter is gone.”

Founder and CEO of Block Asset Management, on the rebound in the price of bitcoin

HESTER PEIRCE

“A sandbox can be useful. But you don’t want the parents in the sandbox building the sandcastle. You usually want the kids to figure it out for themselves. It changes the creative process once you have the regulators watching you.”

Commissioner at the Securities and Exchange Commission, recommending U.S. federal regulators try a multiagency sandbox initiative that allows companies to experiment with new technology

MEERA JOSHI

“It was a party. Why stop it?”

Former chair of New York’s Taxi and Limousine Commission, saying all players, including city officials, let taxi-medallion lending get out of control

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MARK CALABRIA

“The status quo is no longer an option.”

Director of the Federal Housing Finance Agency, on the urgent need for housing finance reform

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Director of the Federal Housing Finance Agency, on the urgent need for housing finance reform

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