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On guard

Three-quarters of corporate treasurers said in a recent survey that fraud risk had grown over the previous 12 months

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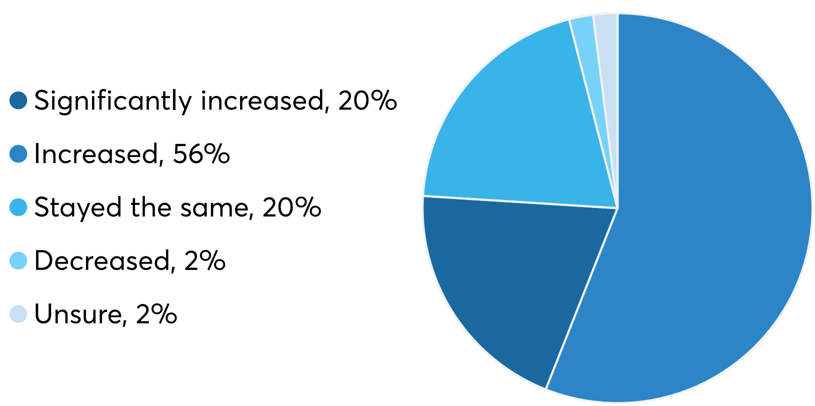

Source: Strategic Treasurer

dailybriefing

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DIVERSITY AND EQUALITY

An 'overwhelming' moment: Behind BofA's $1B racial justice commitment

By Laura Alix
June 18, 2020

Bank of America had been working for over a year on a $500 million racial equality initiative that hit all the right hot buttons — affordable housing, small business, economic development in minority communities — but the crises of 2020 so increased the need that it suddenly seemed inadequate.

Once the coronavirus pandemic's toll on people of color became clear, and following nationwide protests over the deaths of George Floyd, Breonna Taylor and others, the company moved quickly, doubling its commitment to $1 billion over the next four years.

Now, the pressure is on Vice Chair Anne Finucane to make sure BofA delivers on its promises.

"You've got a pandemic, you have a recession, and you have this moment this issue cracked open for all the world to see of racial injustice," Finucane said in a recent interview. "This is a lot for anybody to digest. But in the black and African-American community, it is overwhelming."

Finucane pledged accountability and shared some ideas for how the company could deploy the money, including hiring from historically disadvantaged communities.

Finucane is a natural choice to oversee the efforts and not simply because she's responsible for the company's environmental, social and governance (ESG) strategy. She has been the company's face in the recent past when it has confronted prickly social issues, such as financing private prisons or certain types of gun manufacturers, though she also said the motivation comes from the top down.

"None of this happens unless your CEO wants it to happen, and Brian [Moynihan] wants all this to happen," she said.

Finucane spoke with American Banker about the updated plan's four priorities — workforce development, health care, housing and small-business assistance — and what they will entail. The following interview has been edited and condensed for clarity.

How do you plan to ensure transparency and accountability for this initiative?

ANNE FINUCANE: Well, first of all, it will be run through my team. I oversee the ESG efforts and sustainability efforts, among other things. So we will report out to the ESG committee, which is made up of business heads all over the company, both here and outside the U.S. We also get input from them, and it's a very diverse committee. It's literally at the top of the house, but it has good diversity, and it's quite a robust conversation.

We will work with the infrastructure we have. We've already talked to [the bank's internal] black and African American leadership council, and Hispanic leadership council. This initial $500 million was built with all of these people thinking through what more could we do. We'll be programmatic, and we'll report out. I'm sure we'll report out on our ESG report as well as our human capital report, so it won't be a vagary.

How are you dividing up the $1 billion commitment? Can you give some examples of how that money could be used?

It's not divided up equally, and it's not fully divided up right now because we want to use opportunity and not have so much prescription that we're not seeing opportunity.

On health care, it's an immediacy issue. It's about providing and helping with testing, vaccines later and in between, just emergency health care. As an example, we're working with Howard University Hospital on testing, contact tracing and some work they're doing on emergency care and seeing if we can take that effort and bring it elsewhere, so it's delivered locally.

We're in 90 markets, we have 90 market presidents, and those markets have local leadership. They're aware of the issues of the area and what hospitals one would work with locally. Health care is about delivering it locally and immediately.

On affordable housing, that's a long-term play. We already do about $5 billion in community development, which is largely affordable housing, though not entirely. Sometimes it's just hard to get housing done, and it takes some concessionary capital upfront, meaning you're going to put money in early on to help with a feasibility study, or a first shovel in the ground, or maybe a green assessment. That sometimes requires some additional work or it requires that you find other participants.

What about workforce development?

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We have used our own company as a laboratory for that. And I'll just give you two instances: One is in tech and operations — we have a program called Year Up. You essentially pay for the training of an individual and on-the-job training, and we've been able to place many people into that program. That's been successful.

Another program we tried is, in the communities in which we operate, the financial centers, trying to distribute some of the back-office work, call centers, just back-office other work within the communities. So taking a financial center and if it has a second floor, standing that up so that we can hire people from the community, as well as in the financial centers. Over the last two years, we brought in 8,000 new employees into the company through that program.

We think that we could extrapolate on that and do a lot more, not just for our company but for other companies, by making sure the right training is in place.

Tell us about the role of vendor diversity here.

We are a very big company, and we buy things from people. We have a $2 billion diversity program right now, meaning those businesses that we purchase from are run by women or people of color, and we need to do more there.

Several years ago we realized we could do so much more than we were doing. We essentially doubled that from $1 billion to $2 billion just in the last four or five years. You do it by making sure you're creating marketplaces. That's a little harder right at the moment to do — these big efforts of having people come in — but we nonetheless are going to do what we can virtually. Hopefully in 2021, we can have more in-person efforts.

How do you plan to build on this work in the years to come?

We want to work with other financial institutions and also other companies. … If these are the four initiatives [workforce development, health care, housing and small-business assistance] to implement through the market presidents group, we will have good ideas generated out of the heads of small business, our diversity and inclusion council and the ESG committee, so we never lack for ideas.

One market may have a great idea, and we may realize we could do it in another market. The program we are doing with Howard University Hospital: Maybe we can do that in several other cities. What we did in Los Angeles was an affordable housing project … and we learned some things with that particular development around green spaces, sustainable building, building close to schools, making sure there was a grocery store within the larger complex. What we learned there we could apply elsewhere.

In some cases, we're willing to be the fast follower. If another organization or company has an idea that's really terrific, we will have the humility to recognize if that's something we want to be part of.

RACIAL DISCRIMINATION

PNC pledges $1 billion to fight racism

By Allissa Kline
June 18, 2020

PNC Financial Services will spend at least $1.05 billion to address systemic racism in the United States.

On Thursday, the Pittsburgh-based company became the latest large bank to announce a financial commitment to help address racial and income inequality in the U.S. Its announcement came two weeks after two other large banks — Bank of America in Charlotte, N.C., and U.S. Bancorp in Minneapolis — made similar pledges.

The $2.6 trillion-asset Bank of America pledged $1 billion over four years, while the $543 billion-asset U.S. Bancorp committed $116 million this year.

"We are living in one of the most important civil rights movements of our time," PNC Chairman and CEO William Demchak said in a news release. "Each of us has a role to play in combating racism and discrimination and PNC is committed to driving real change in areas in which we can make the greatest impact."

The May 25 death of George Floyd, an unarmed African American man in Minneapolis who died after being pinned to the ground for nearly nine minutes by a white police officer, led to waves of protests across the globe decrying racial inequality and police brutality. Scores of executives at American corporations, including banks, responded by publicly condemning racism and vowing to foster greater racial equality within their own organizations and enhance economic equity in the communities they serve.

On Friday many banks, including the $412 billion-asset PNC, will close early to observe Juneteenth, which commemorates the end of slavery in the U.S. June 19 marks the date in 1865 when members of the Union Army arrived in Galveston, Texas, to tell enslaved African Americans they were free and the Civil War was over.

"We have a responsibility to act — a responsibility to each other, our clients, communities and shareholders," Demchak said.

PNC said its commitment will support community development financing and capital for neighborhood revitalization, consumers and small businesses, as well as charitable donations to organizations that work to end racism and promote social justice. It is also expanding its matching gift program to include qualifying nonprofits that support economic empowerment and social justice educational efforts.

In addition, the bank will expand its employee volunteer program, which gives workers up to 40 hours of paid time off each year to volunteer in the community, including work for nonprofits that support economic empowerment and social justice.

Demchak said the bank is "also committed to an intensified focus on the recruitment, retention and advancement of African American talent, a more comprehensive and sustained effort to create a more inclusive culture at PNC and a focus on internal systems to improve racial equality."

FRAUD DETECTION

TD's answer to a pandemic-driven spike in wire fraud

By Penny Crosman
June 18, 2020

The banking industry has seen an escalation in fraud attempts involving commercial wire transfers since the coronavirus pandemic began, and is educating business customers and employees about how to spot scammers and establish proper controls to deter them.

Criminals have latched on to the fact that businesses' communication channels and controls around wire transfers have been disrupted with so many people working from home, according to Tom Gregory, manager of treasury management sales at TD Bank. And it's harder to identify phony wire transfers.

"Everything else is unusual — why would this be any more unusual than anything else?" Gregory said in reference to many business activities lately. "And so people are not seeing the red flags that they might see in a normal work environment."

Other banks and their customers will have to be on guard, too, as the FBI warned in April that it anticipates a rise in business email compromise schemes related to the COVID-19 outbreak. Not that fraud wasn't already a problem.

Indeed, 76% of businesses surveyed by Strategic Treasurer this year said fraud risks had risen in the previous 12 months. And, in a separate survey, 36% of firms said they had experienced an increase in fraud attempts since the shift to a work-from-home environment.

The risks tied to wire transfers conducted from home are greater than in an office because authentication and network security tend to be more lax, said Craig Jeffery, managing partner at Strategic Treasurer.

What worries him most, he said, is that "the bad actors are far more sophisticated and patient, they have better tools and they're automated, and they continue to learn. The threat level continues to systematically increase. And that means that the defense level has to correspondingly increase to combat that."

The average payout of a successful business email compromise is $130,000, Jeffery said.

Companies try to protect their systems with network security firewalls and encryption as well as training people to not fall for phishing emails, he said. But many organizations don't lock down their payment processes, leaving them vulnerable to being manipulated and exploited.

The $383 billion-asset TD Bank, the U.S. arm of TD Bank Group in Toronto, has found its share of customers falling for fake wire transfer requests.

In one case, a hacker broke into a Zoom training session at one of TD Bank's business clients, stole an email address from it and used that to break into the company's computers with malware and hold it for ransom.

"Thankfully, this company had all their data backed up and told the criminal to go pound sand," Gregory said. "But Zoom wasn't a thing really until this whole COVID-19 lockdown came upon all of us."

In other cases, criminals are taking advantage of the fact that so many businesses are shifting to ACH payments now that they can't deposit checks at bank branches. Fraudsters will call someone in charge of payroll and ask them to stop sending them a paycheck, and instead directly deposit their pay to a bank account.

It's not hard for fraudsters to impersonate employees in such cases because the person running payroll doesn't know them anyway and has no way of knowing they're not talking to the actual employee, Gregory said.

In another case, a human resources self-service site was hacked to siphon money out of a client.

"Criminals are seizing on the fact that people's guards are down and they're dealing with new ways to get things done that haven't really been proceduralized or audited," Gregory said.

Gregory considers himself an evangelist for prevention of business email compromise and wire transfer fraud.

"We continue to have an insufficient level of awareness and sensitivity to the human element of protecting your company's assets," he said. "If you look at companies that are sustaining losses from [business email compromise] and hundreds of thousands of dollars and sometimes millions in outgoing wires, and you look at what their IT infrastructure is, you may find that it's fine, well and good. But the loss is sustained because people just aren't suspicious enough or they don't have procedural controls in place."

Often leaders in a company, like a controller, treasurer or chief financial officer, are duped by a business email compromise attack and believe they are corresponding with an authentic counterparty in their organization or at a supplier.

"During the course of the correspondence, it's, 'Oh, by the way, I changed the account number you have on your accounts payable file — here's the new information,' " Gregory said. "And they're smart enough to time that with an upcoming large disbursement and the victim ends up sending a wire to the criminal's account."

An extra authentication step, such as calling the person who appears to be making the request to make sure it's really them, would stop some of this.

TD Bank conducts checks to protect people from themselves. It uses positive pay technology, through which business customers send over a file of all their outgoing payments, and the bank checks each payment against that list. It looks for first-time beneficiaries and unusual patterns of behavior.

But everybody has to share the role of risk management, Gregory said.

"When we check with our customer, they feel inconvenienced: that's a perfectly good wire, and I expected you to get it out minutes ago," he said. "So there is a balance, and we are constantly looking for more ways to do that, with automation, with human eyes and elbow grease. We're applying artificial intelligence to this. But we do require that our customers take care of their own business as well," by verifying the requester before sending out a wire transfer.

When the bank contacts customers, it reminds them of good security habits, like conducting background checks on employees and checking on wire transfers.

It's developing online training for customers' employees to help them understand how to keep their companies' assets safe. TD Bank employees themselves go through fraud awareness and cybersecurity training. They're sent test emails to see if they'll open or click on risky items they shouldn't; their bosses are sent the results.

"Instilling a culture with that risk awareness is really the duty of every financial practitioner," Gregory said.

CARES ACT

Has leadership vacuum hamstrung CARES Act watchdog?

By Neil Haggerty
June 18, 2020

WASHINGTON — A congressional watchdog panel is hitting a roadblock in its oversight of the federal government's economic recovery programs, as House and Senate leaders have yet to agree on a person to chair the commission mandated by the Coronavirus Aid, Relief, and Economic Security Act almost three months after it became law.

Although the Congressional Oversight Commission has issued two reports, including one released Thursday about the recipients of government aid, sources close to the panel say a lack of agreement by Speaker Nancy Pelosi, D-Calif., and Senate Majority Leader Mitch McConnell, R-Ky., on who will run the watchdog is slowing down its work. The lack of a leader has prevented the commission from hiring dedicated staff.

One source close to the commission said the inability to hire staff has become a "significant" obstacle, noting that a similar watchdog overseeing the Troubled Asset Relief Program in 2008 needed its own staff to probe the bailout.

"We are doing our best without staff, but the 2008 [Congressional Oversight Panel] had more than 40 staff by comparison, so it's a serious problem," the source said.

The Congressional Oversight Commission was established to oversee the implementation of Title IV of the CARES Act, which includes the Federal Reserve's emergency lending facilities and Treasury Department loans to sectors hit hard by the pandemic.

Another source close to the commission said that the lack of a chair has "complicated our process."

Neil Barofsky, a partner at Jenner & Block who served separately as the special inspector general for the Troubled Asset Relief Program in 2008, said that the Congressional Oversight Commission "can't really do its job at all without a chair."

"To conduct hearings, to get staff, to do all those things, you need to have a chair," Barofsky said. "So essentially one of the cornerstone pieces of oversight for the CARES Act … is empty, unconstructed. It's really remarkable in a lot of ways."

Barofsky added that the chair of the commission is also needed to set the direction and tone of oversight for Title IV.

"There's going to be a chief of staff, there's going to be a general counsel, there's going to be the leadership," Barofsky said. "And the chair is not going to inherit that from other members of the commission. They are going to pick their own. And who would agree to take a job right now working for the commission without knowing who the chair is, whether it's going to align with what they want to do, and their values and their vision?"

Lawmakers had been rumored at one point to be considering former Federal Deposit Insurance Corp. Chair Sheila Bair to lead the panel. But Bair said publicly that she didn't want the job, and it's unclear whether Pelosi and McConnell are holding further discussions.

Some groups say they are concerned that there is a lack of oversight for the roughly $500 billion in emergency lending that Congress authorized in the CARES Act in Title IV without a chair of the commission.

"This is a tremendous amount of money that's being put out there and there really aren't conditions on it from the Federal Reserve in terms of potential uses of the money," said Marcus Stanley, policy director at Americans for Financial Reform. "So oversight is very important."

A spokesperson for the Fed noted that some of the facilities authorized through the CARES Act, such as the Main Street Lending Program, have restrictions on stock buybacks and dividends for companies that borrow through the program.

But lawmakers on Wednesday warned that other programs, such as the Primary Market Corporate Credit Facility, don't have the same restrictions.

A spokesperson for the Treasury said that the department is "reporting on its CARES Act implementation on its website, on the governmentwide reporting site USAspending.gov, in written responses to Congress, and in congressional testimony."

Isaac Boltansky, director of policy research at Compass Point Research & Trading, who also served as a staffer on the Congressional Oversight Panel for TARP, noted that members who have been appointed to the commission have been tasked with a "data-intensive and time-sensitive job."

"Right now, we are talking about hundreds of billions of dollars and at least four commission members who have to spend time on this and don't have all the resources to spend the time on this as they should," Boltansky said. "It's absurd and deeply, deeply disappointing, not just as someone who worked for the last TARP oversight panel but also as a taxpayer."

As of now Sen. Pat Toomey, R-Pa., and Reps. French Hill, R-Ark., Donna Shalala, D-Fla., and Bharat Ramamurti, a former adviser to Sen. Elizabeth Warren, D-Mass., have been appointed to serve on the commission.

Barofsky said that watchdogs like the Congressional Oversight Commission, when fully constituted, can make a real-world impact on how policymakers are aiding business sectors struggling during the pandemic. He recalled how the 2008-era Congressional Oversight Panel, then chaired by Warren, focused in on issues with housing relief available through the bailout that was not working as intended.

"One of the key failures in the last crisis was the housing program, which in many instances did more harm to struggling homeowners through its flawed trial modification process," he said. "Warren, as chair, had a hearing in which [former Treasury Secretary Tim Geithner] had to testify, which helped lead to changes in the program.

"Also, transparency and accountability lead to programs being changed and errors fixed. Hearings of high level officials contribute to that."

Boltansky said a number of factors have likely contributed to the failure of Pelosi and McConnell to name a chair at this time, including the fact that "there probably aren't many things that those two agree on."

"There's probably something to the idea of slowing or stopping progress by not installing a director," Boltansky added. "There doesn't seem to be any urgency from leadership and I fear that there isn't anything in the near term that is going to catalyze that."

The commission's first report summarizes the purpose of the Fed's lending and liquidity facilities, and poses a number of operational questions to the Treasury Department and Fed about the programs.

The second report, released Thursday, suggests that the actions of the Fed and Treasury have enabled larger companies to issue debt and continue operations, but that there is "less evidence that the actions … have been as beneficial for small and mid-sized businesses and state and local governments."

"I give them a lot of credit for pushing out the first report and raising important questions and getting to agreement to be able to ask those questions," Barofsky said. "The real work of the commission includes having public hearings, and doing in-depth analysis and research. I have no doubt that members of the commission will do their best in the interim, but they can't really function as a commission."

MUTUAL BANKS

Nation's oldest mutual bank plans IPO to meet post-pandemic challenges

By Paul Davis
June 18, 2020

Eastern Bank in Boston, the nation's oldest and second-largest mutual bank, is going public to prepare for a post-pandemic world.

The $12.3 billion-asset Eastern disclosed in a regulatory filing Thursday that it expects to raise $1.3 billion to $1.7 billion through an initial public offering that should take place later this year.

Eastern Bankshares will be the holding company.

The coronavirus outbreak played a major role in Eastern's decision to shed its mutual status, the filing said.

Eastern, founded in 1818, said it would use the offering's proceeds for a variety of purposes, including acquisitions and technology investments, as it responds to shifting customer needs stemming from the pandemic

"We believe the most significant systemic challenge we will face is the accelerating pace of technological change driven by ubiquitous digital adoption" by retail and commercial clients, Eastern said in its filing.

"We believe this trend has greatly amplified the importance of scale in banking, and the increasing benefit of scale exacerbates the challenge of competing with significantly larger banks and large information technology and e-commerce companies," the filing added.

The bank said regualtory restrictions prohibit it from discussing the conversion further.

Douglas Faucette, a lawyer at Locke Lord and counsel to America's Mutual Banks, called Eastern's decision to go public "remarkable," given how the bank has "been so publicly dedicated to mutuality."

"The pandemic has had a profound impact on people's forecast of the future and this could be part of that," Faucette said. "Maybe they decided that the mutual form didn't let them be nimble enough for their size."

Eastern's mutual status — it is owned by depositors rather than investors — freed it up to make tech investments that it might not have been able to as a publicly traded company with a mandate of maximizing shareholder returns. Eastern was one of the first community banks to build its own innovation lab, which led to the creation of Numerated Growth Technologies, a fintech that allows banks to make small-business lending decisions in as little as five minutes.

Numerated was spun off from Eastern in 2017. Eastern Labs, the mutual's innovation unit led by Dan O'Malley, joined the spinoff.

Eastern quickly restaffed its innovation team, hiring Ashley Nagle Eknaian, a former managing director of State Street's emerging technology center, in early 2018 as its chief digital officer.

"We believe our ability to innovate and integrate new products, services and technology distinguishes us from many of our similarly-sized peers," Eastern said in Thursday's filing.

"Important to our development and refinement of technology-driven products and services in recent years has been customizing the interface between our customers and our outsourced core data processing systems," the filing added. "By customizing the software that connects our digital platforms to our core system, we believe we are able to develop, test and deploy new features and products more quickly than many of our peers."

Faucette said the filing suggests that Eastern has "big expectations" that could include tech acquisitions. He expressed surprise, though, that Eastern isn't opting for a two-step conversion process, which would allow it to raise capital more slowly.

"They're going to be really challenged to produce an acceptable return on equity with that much capital," Faucette added. Going public in two phases by creating a mutual holding company "would have let them convert gradually."

While there are no agreements in place, Eastern said it could use some of the funds to buy other financial institutions. The mutual also said it expects to use "a portion of the proceeds" to buy independent insurance agencies.

Like most banks, Eastern has been wrestling with fallout from the coronavirus pandemic.

The mutual's first-quarter income fell by 74% from a year earlier to $8.4 million, including a 96% decrease in its banking operations. It set aside $28.6 million for potential loan losses in the quarter.

Eastern said in the filing that at customers' requests it has modified $508 million of commercial real estate loans, $96 million of business banking loans, $87 million in mortgages and $25 million in other consumer loans. The modifications are for three- to six-month periods and include temporary reprieves from making principal and interest payments.

Eastern committed $7 million to create small-dollar emergency loan programs for consumers and small businesses. Consumers were allowed to borrow up to $5,000, with no interest or payments for three months, and small-business clients had access to up to $25,000 with interest-only payments over six months.

"I expect these funds will be quickly exhausted," President and CEO Bob Rivers said in March when the program debuted. "We see this as a first step among other things we will need to do over time, but this is a good place for us to begin."

Eastern has also been active in the government's Paycheck Protection Program, making 7,900 loans totaling $1.1 billion. The loans could produce fees of $30 million to $35 million, the filing said.

The bank had 89 branches, $10.3 billion in deposits and $9.1 billion in loans on March 31. It is the seventh-biggest bank in the Boston area, with 2.5% of the market's deposits, based on June 2019 data from the Federal Deposit Insurance Corp.

Other large community banks in the market include the $13 billion-asset Berkshire Hills Bancorp in Boston and the $12 billion-asset Independent Bank Corp., the parent of Rockland Trust in Rockland, Mass.

M&A

Maine mutual banks plan merger

By Paul Davis
June 19, 2020

Kennebec Savings Bank in Augusta, Maine, and Kennebec Federal Savings and Loan Association of Waterville in Maine will no longer have to deal with brand confusion in the middle part of the state.

The $1.2 billion-asset Kennebec Savings and the $94.5 million-asset Kennebec Federal announced plans on Thursday to merge. The combined mutual bank will operate as Kennebec Savings.

The merger is expected to close by the end of this year.

"We're thrilled to welcome KFS's talented employees and valued customers to the KSB family," Andrew Silsby, Kennebec Savings' president and CEO, told the Kennebec Journal.

"Kennebec Savings shares the same values we have: a commitment to our customers, our community and our people," said Allan Rancourt, Kennebec Federal's president. He added that the mutual bank's decision to merge is tied to his decision to retire at the end of this year.

REMITTANCES

In the middle of a pandemic, two remittance startups thrive

By Miriam Cross
June 17, 2020

The business of global remittances, in which immigrants and expatriates send money to family and friends back home, has been slammed by the coronavirus pandemic. But at least two remittance providers — Remitly and TransferWise — say the disruption has brought new customers to their door.

The World Bank has predicted the sharpest decline of remittances in recent history, 19.7% in 2020, because of the economic hit taken by migrant workers, who tend to be more vulnerable to losses of jobs or wages during an economic crisis.

"Some of our customers who work in the service sectors or hospitality have been inordinately hit by the COVID crisis," said John Scrofano, vice president of Passbook, the bank account Remitly offers with Sunrise Banks in St. Paul, Minn.

Yet Remitly says its remittance volumes are growing and its banking services expanding, while rival TransferWise says it's at least holding its own. A closer look at how the pandemic has affected these companies and the steps they've taken to adapt provides a window into how remittances are evolving in this country, and how these kinds of companies are becoming stronger competitors to banks or the source of technology solutions banks can use to be more competitive.

Surprise surge in remittances

Most of Remitly's customers in the U.S. send money to friends and relatives in developing nations. Fees range from $0 to $3.99 to send money to China, Colombia, India or the Philippines, for example, depending on the amount transferred, the origin and the destination.

Despite the overall drop in remittances, Remitly said remittance volume rose 40% from February to March. In May, new customer growth tripled year over year, the company said.

"This growth truly speaks to the essential nature of remittances and the accelerated shift to digital," said Scrofano. "The resilience of our customers and their steadfast commitment to their loved ones continues to inspire us, and is the motivation behind everything we do."

Immigrant customers are turning away from traditional providers that require them to go to a physical location, according to Remitly co-founder Matt Oppenheimer.

"It's really important that our customers feel safe and secure when they spend money and they don't feel safe when they go to a physical cash location right now, which is how most remittances are sent," Oppenheimer said. "And so people are increasingly looking to digital providers like Remitly as a safe and secure way to get money back home."

TransferWise's customers in the U.S. are typically Americans looking to send money to friends and family abroad, or immigrants who are actively moving money back and forth between the U.S. and their home countries.

"While we can't go into specifics, what we can say is that our volume flows actually look pretty similar to what they would normally," said Nicholas Lembo, head of growth, Americas, at TransferWise. "Remittances will always be needed, so we're just focusing on how we can make the best possible way to send money abroad, rather than focusing on how we can adapt to lower remittance volumes. We've already launched a new peer-to-peer payments feature that allows people to send money using phone contacts, and we're continuing to engage in ways to help enable cheaper and faster remittance transfers for customers around the world."

Building out bank accounts

Both companies are also developing banking or banklike products to round out the services they offer immigrants and expats.

Remitly, which launched a bank account called Passbook earlier this year, partnered with the prepaid card provider and bank Green Dot in May to launch Cash Deposit, a feature that lets customers add cash to their Passbook account through stores in the Green Dot network, including CVS, Kroger, Walgreens and Walmart.

This agreement lets Remitly give customers a bank-branch-like option that most banks themselves haven't been able to offer throughout the quarantine: Many of the locations in the Green Dot network are consistently open because they are considered essential businesses.

"Many of our core remittance customers rely heavily on cash as their predominant form of legal tender," said Scrofano.

Passbook uses documents such as a passport, residence permit or visa to verify a customer's identity if they do not have a Social Security number. The funds are federally insured and held at Sunrise Banks. Remitly declined to say how many users have signed up for Passbook.

"When we talked to our customers about what challenges they have getting into the financial system, banking came up over and over," said Scrofano. "Traditional banks are not built to serve immigrants."

That may be because they live paycheck to paycheck and can't keep the minimum balance required to hold a bank account or avoid monthly maintenance fees. They may not have a Social Security number, or may wish to avoid traditional banks for privacy concerns.

For now, the features are fairly simple: a no-fee bank account with a contactless debit card (printed with a flag of the customer's choice) and a flat $2 cash-back reward for international transfers through Remitly.

TransferWise's "borderless" account — which it refers to as an electronic money account rather than a bank account — is more flexible for those dealing with multiple currencies but less cash-friendly.

Last year, the company brought its account and debit card to the U.S. It lets customers add, hold and convert money in more than 50 currencies and get paid as a local by generating bank account details as if the user lived in the U.S., United Kingdom, eurozone, Australia, New Zealand, Singapore or Poland. Funds are kept with several partner banks in the U.S. but are not backed by the Federal Deposit Insurance Corp.

"There's been an evolution of this product to still have a really fast, convenient money transfer product but also build out features to help people manage their money efficiently and effectively across borders," Lembo said.

TransferWise doesn't allow for cash deposits, but the number of requests that TransferWise gets from customers for cash deposits is relatively small, said Lembo. Direct debits are in the works for U.S. customers.

Financial institutions around the world — including Novo and Stanford Federal Credit Union in the U.S. — are also integrating with TransferWise application programming interfaces to facilitate cross-border payments.

For now, these banking services are still fairly basic. They supplement, rather than replace, the capabilities of a traditional bank.

But, "by offering a bank account, Remitly is able to attract underbanked consumers to its platform and potentially expand its market share," said Talie Baker, senior analyst at Aite Group. "I think this provides a valuable service to underbanked individuals that may be hesitant to open an account with a traditional bank."

As for TransferWise's digital account, it enables customers to move money across borders with less friction than what traditional financial institutions offer, said Baker. "I think this is the way of the future for digital wallets as the world continues to globalize."

HOMEBUILDERS

Lenders in the construction market hold their breath as economy reopens

By Bonnie Sinnock
June 16, 2020

Financing for custom-home construction, which dried up after the coronavirus outbreak began, has as much riding on the success of the reopening of the economy as any loan segment, if not more.

There's certainly some room for optimism: Builder loan applications financing new homes were up almost 11% year-over-year and 26% on a consecutive-month basis in May, according to numbers the Mortgage Bankers Association released Tuesday.

That represents a significant rebound from April, when these loan applications were down 25% from March and 12% from a year earlier.

During those first months of the outbreak, when restrictions on construction work and other social distancing measures were at their height, some investors and lenders suspended related lending programs altogether, said Jim Fraser, commercial real estate director at Built Technologies.

"Most of that suspension was related to construction halts, but it was also related to the availability of third-party services," he said. These included inspections, appraisals, general contractor bids, and supply and labor.

"All those peripheral components that are required to underwrite loans were, in some form, not available. So lenders had to pause those programs until that got resolved," Fraser said.

Now some of these programs are starting to get underway again, and the National Association of Home Builders anticipates modest growth in purchases of new custombuilt houses.

"We had a short pause, but business is ticking right back up," said Amy Ellis, senior vice president for commercial lending at Hyperion Bank.

Difficulties in securing permits and inspections were the largest obstacles for issuing construction and renovation loans at the Philadelphia-based Hyperion, according to Ellis. With these hurdles more or less cleared today, the bank has resumed portfolio funding of such loans, with some underwriting restrictions to account for increased performance risk related to the coronavirus, she said.

There are signs that underwriting risk continues to constrict the availability of some construction and renovation lending more broadly.

Carol Lynn Upshaw, a senior loan originator at Hyperion Bank's new mortgage company affiliate, said she personally finds investor programs outside the bank to be scarce.

"COVID has really changed our industry, and even when there is no COVID, these are complicated loans," she said.

Some programs remain shuttered. American Financial Resources' wholesale channel, for example, has suspended its one-time close program, according to a statement on its website. The company confirmed the closure, but declined to comment on it.

The rebound in the construction and renovation market also has regional variations.

The majority of Hyperion's client base, for example, is in the Southeast, which has had few coronavirus-related restrictions on construction activity compared with certain areas, including parts of the Northeast and Washington state.

Other areas of the country have faced more challenges in that regard, but there are signs things are improving.

More than 4,000 projects across Washington, Massachusetts, New Jersey, Louisiana, Kansas and California were affected by government-imposed construction halts, according to Fraser's assessment of consumer-dominated loans in Built's system.

Now, only a little over half those construction halts are still active and Fraser expects that number to be nearly halved again by the end of June.

"The initial shock of the pandemic that we saw in March and April looks like it has really kind of worked its way through," he said.

The coronavirus-related damage to construction lending overall could be manageable if there isn't too much of a resurgence in infections, and if government efforts in supporting consumer spending remain effective enough to continue driving purchases of new homes.

Activations on Built's system reflecting newly closed loans rose on a consecutive-month basis between February and March, March and April, and April and May by 6%, 14% and then 20%, respectively.

This uptick during the spring buying season and the Mortgage Bankers Association report on construction loan applications suggest coronavirus-related restrictions on construction lending may have been offset by record-low mortgage rates and pent-up demand in a market with limited inventory that has only gotten tighter in the past month.

New authorizations for homes decreased 8.78% on a consecutive-month basis in May and were down 6.89% from a year earlier, according to BuildFax. In comparison, new authorizations for homes in April were down 7.37% from March but up 1.2% year-over-year.

"We thought [the coronavirus] might throw a severe cut into the housing market, but — knock on wood — so far it really hasn't emerged," Fraser said.

COMMUNITY BANKS

WSFS to report 2Q gain from selling Visa stock

By Paul Davis
June 18, 2020

WSFS Financial in Wilmington, Del., will report a $22 million gain in the second quarter from selling Visa shares.

The $12.3 billion-asset company disclosed in a regulatory filing Thursday that it sold 360,000 shares of class B shares earlier in the week. WSFS said it still holds about 4,000 class B shares.

WSFS received about 50,000 shares of stock when Visa went public in 2008. WSFS said it acquired another 325,000 shares over time. It received 17,000 more shares when it bought Beneficial Bancorp last year.

The company, which invested $17.7 million to obtain the shares, said its returns on the investment have totaled $78 million. That number included $48.5 million in mark-to-market gains, $4.5 million from a 2018 sale of stock and $3 million in dividends.

BANKTHINK

NCUA's low-income designation hurts service members

By Rob Nichols and Steven J. Lepper
June 18, 2020

For decades, mission-focused, low-income credit unions, or LICUs, have played a critical role by providing financial services to communities in need. In continuing their federally mandated purpose, these credit unions should be supported and allowed to thrive.

Unfortunately, a recent decision by National Credit Union Administration Chairman Rodney Hood to presume all active-duty military personnel as low-income — a consequential decision announced without the opportunity for any public comment or debate — threatens to undermine the very purpose of LICUs.

Ignore the rhetoric put forward by credit union lobbyists that this is about helping deserving service members. It's not.

Instead, this move is nothing more than an early Christmas present to the nation's largest credit unions, intentionally camouflaged under the fog of the fight against the coronavirus pandemic.

This arbitrary action will allow industry giants like Navy Federal Credit Union and PenFed Credit Union to qualify as low-income institutions overnight, and gain enormous and inappropriate regulatory benefits intended for true LICUs.

Here are just three examples of the gifts the NCUA can now grant to the nation's largest credit unions that have nothing to do with helping the troops, and everything to do with expanding other business at these large credit unions at the expense of smaller institutions.

First, low-income credit unions are allowed to seek secondary capital investments from beyond their customer base. That means Navy Federal, which already has assets of $126 billion, can now turn to hedge funds to fuel its growth.

By law, credit union customers must share a "common bond." Yet the only common bond with those outside investors is a thirst for tax-advantaged credit union profits.

Second, the NCUA move will grant mega credit unions expanded limits on nonmember deposits, allowing them to tap institutional investors and other outside players seeking to benefit from their tax-exempt status.

Lastly, traditional credit unions face a statutory cap limiting their ability to make business loans, a restriction designed to maintain safety and soundness, and focus on their mission of making consumer loans. With the new low-income designation from the NCUA, that cap disappears for these credit union behemoths. Meaning, young Marine recruits will not share in PenFed's next multimillion-dollar real estate development deal.

None of these changes offers any tangible benefits to financially struggling service members. In fact, these gifts make it more likely that the mega credit unions will simply expand their nonmilitary revenues.

The only reward for troops — even for service members not considered "low-income" by any definition — is to be potentially stigmatized as "low-income" by a federal agency more concerned with boosting the tax-exempt income of the largest credit unions than helping the military communities its meant to serve.

If Washington truly wants to help struggling military personnel and their families now, there is a far better solution ready and waiting: Congress can expand service members' financial service choices by incentivizing more banks to operate on military bases. All lawmakers need to do is offer banks the same access and terms they offer credit unions.

Despite a long and proud history of partnership between banks and the military, the Defense Department discourages banks on bases by forcing them to pay rent, while credit unions operate rent-free. It's an uneven playing field made even more unfair when banks pay federal taxes that help fund the military, while the multibillion-dollar credit unions do not.

As the Senate and House begin their work reauthorizing the National Defense Authorization Act, lawmakers must make this sensible change and push back against credit union lobbying that only limits the financial choices for service members and their families.

Leveling the playing field and ensuring that the nation's men and women in uniform are well served financially is not about politics. It's about doing the right thing. The NCUA just did the wrong thing and used U.S. troops to shield the real intent.

Lawmakers should hold the NCUA and its leaders accountable. And ensure that military families, and Defense Department civilians who support them, finally get the full range of financial services options they deserve.

It should be an easy call.

Steven J. Lepper is president and CEO of the Association of Military Banks of America and a retired Air Force major general.

Rob Nichols is president and chief executive of the American Bankers Association. ❑