

# AMERICAN BANKER<sup>®</sup>

August 2017 | americanbanker.com



**Desperate for a bank, American Samoa is trying something that hasn't been done in nearly a century. Its creative — and complicated — plan involves importing a banker from Utah, to recreate a model from North Dakota, with the hope regulators in Washington will approve.**

**Phil Ware**, president,  
Territorial Bank of  
American Samoa

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American Banker (ISSN 2162-3198) Vol. 127 No. 8, is published monthly by SourceMedia, One State Street Plaza, 27th Floor New York, NY 10004. Subscription price: \$119 per year in the U.S.; \$139 for all other countries. Periodical postage paid at New York, NY and additional U.S. mailing offices. POSTMASTER: send all address changes to American Banker, One State Street Plaza, New York, NY 10004. For subscriptions, renewals, address changes and delivery service issues contact our Customer Service department at (212) 803-8500 or email: [help@sourcemedia.com](mailto:help@sourcemedia.com). Send editorial inquiries and manuscripts to American Banker, One State Street Plaza, 27th Floor, New York, NY 10004. This publication is designed to provide accurate and authoritative information regarding the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering financial, legal, accounting, tax or other professional service. American Banker is a registered trademark used herein under license. © Copyright 2017 SourceMedia, Incorporated and American Banker. All rights reserved. [www.americanbanker.com](http://www.americanbanker.com).

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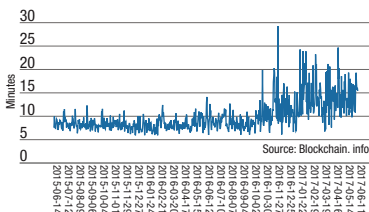
## MOST READ

### How I Missed The Point of Bitcoin

The world needs faster and cheaper international payments, but more than that it needs censorship-resistant ways to transact, American Banker's editor in chief, Marc Hochstein, wrote in BankThink.

#### Take a number

The median time for a bitcoin transaction to be added to the public ledger has spiked as the network has gained popularity. (Only includes transactions with miner fees.)



## MOST SHARED

### Inside Ripple's Plan to Move Money Faster

Most fintech startups either want to compete with banks or save banks from themselves. Ripple is the rare exception that wants to do both, and Miguel Vias is working to help make that happen.



## PODCAST

### How New Credit Score Tweaks Impact Lenders

Credit bureaus now have to remove information on tax liens and civil judgments from credit scores unless they can verify the data. Eva Wolkowitz of CFSI (below) and Sarah Davies of VantageScore discuss.



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Volume 127, No. 8

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# Editor's Note

BY BONNIE McGEER

## 'A Kind of Social Security for All'

As many as half of U.S. households experience what researchers call “income volatility,” meaning their income can go up or down by 25% or more from one month to the next – a statistic we reported in our April cover story.

How to help people cope with these fluctuations has become a hot topic, especially among those who work in the financial inclusion sector. Several speakers talked about this challenge at the annual Emerge conference that the Center for Financial Services Innovation hosted in Austin, Texas, earlier this summer.

Elizabeth Rhodes of Y Combinator Research is even testing a possible solution: “universal basic income.”

It would work something like this: Every citizen with income below a certain level in a given month would get a check that is at least enough to cover basic needs like food and shelter. When those people start to earn enough income, they would repay the money in the form of taxes.

Lose your job? Too ill to work? Need time off to care for aging parents? Universal basic income has you covered.

“Because it is universal, we wouldn’t have to apply for it or experience the stigma associated with traditional welfare. It’s a kind of social security for all,” said Rhodes, who is a research director at YCR.

Sound radical? Well, there are those who say that existing social programs could use some radical thinking. Rhodes is one of them.

“So many policies and social programs are reactive, not addressing a problem until many people’s lives have been upended, and then acting as more of a Band-Aid than a sustainable response to the problem,” she said. “We need to be proactive.”

YCR is an extension of the startup accelerator Y Combinator, whose alumni include companies such as Airbnb, Dropbox and Reddit. The mission of the nonprofit research institution is to explore big ideas and spur innovation.

It is seeking grants and donations to fund its study on universal basic income, which Rhodes hopes to get underway within a year. She plans to recruit about 3,000 people across two states and randomly assign 1,000 of them to receive approximately \$1,000 a month for three to five years.

“We want to know if and how this basic level of economic security helps people cope – and even thrive – in the midst of volatility and uncertainty,” she said.

She expects the results to be surprising, even if some outcomes like consumption smoothing, reductions in stress and improvements in mental health occur just as supporters of universal basic income predict.

Rhodes is already running what she calls a “pre-pilot” with fewer than 10 participants to work out some of the kinks. The sample group includes a range of socioeconomic levels, but is skewed toward the lowest, she said.

What Rhodes hopes to document with the study is: How will people spend their time and money once they no longer have to make choices driven by basic needs

like paying rent? Do health outcomes improve? Are people happier and more hopeful? Do they start to make more decisions based on long-term plans, like taking classes to learn a new skill? Do kids improve academically? Are there fewer financial emergencies in people’s lives, making them more stable and resilient?

Though people for and against universal basic income tend to argue about macro-level questions – would it replace existing social programs or supplement them? – Rhodes is more interested in learning about the life changes that could result.

“On its face, it seems completely infeasible: How do we pay for it? Politicians will never support it, and so on,” she said.

“We’re sort of taking this as the first step to see how it affects individuals who need it and, if that seems promising, then we can think bigger picture of what it might look like as a policy.”

The current debate about universal basic income relies heavily on conjecture, Rhodes said. “We have very little evidence for how basic income would actually work in the U.S. in the 21st century.”

But now we will.

“The reality is the labor market is changing rapidly and job loss, unemployment, and wages that leave someone who works full time at or below the poverty line will likely continue to rise unless we do something about it,” she said. “Instead of tinkering at the margins or participating in a debate based solely on conjecture, we need to start experimenting.” □

# Briefings

LAW & REGULATION | FORCED ARBITRATION | LOAN UNDERWRITING



## Disparate Impact? Prove It

Cities are being held to higher standards in proving banks steered consumers into high-cost loans

By Laura Alix

TWO RECENT COURT DECISIONS could complicate cities' efforts to sue banks for predatory lending.

While the courts have affirmed cities' right to file such suits, they also are holding them to a higher standard in proving that banks knowingly steered minority borrowers into high-cost home loans.

In a decision handed down May 1, the Supreme Court sided with a lower court in ruling that the city of Miami could sue Bank of America and Wells Fargo under the Fair Housing Act. The banks had argued that individuals could sue under that law, but cities could not.

The decision was generally seen as bolstering cities' claims against big banks and, just two weeks later, the city of Philadelphia filed a predatory lending suit against Wells Fargo.

Yet others view the Supreme Court ruling as a victory for banks, since it also states that cities have to show a much closer relationship between lending policies they claim are harmful and the actual harm done to the community.

Banks got an even bigger boost May 26, with a federal appeals court ruling in the City of Los Angeles' case against Wells Fargo and Bank of America.

In affirming a lower court's opinion siding with the banks, the Ninth Circuit Court of Appeals ruled that the city failed to show a robust link between the

banks' lending practices and damage to minority communities.

Taken together, the two rulings could make it more difficult for municipalities to prevail in lawsuits in which they allege that banks knowingly pushed high-cost, high-risk loans on minority borrowers, a practice sometimes referred to as reverse redlining.

"From a big-picture perspective, it's very hard for cities or municipalities to handle that burden when it shifts to them, showing that causality between the policy or procedure at the bank and any disparate impact they're alleging," said Craig Nazzaro, an attorney at Baker, Donelson, Bearman, Caldwell & Berkowitz.

For a policy or practice to have a disparate impact, it must affect members of a protected class more than others, even though it's neutral on its face. In contrast, disparate treatment is when the discrimination is intentional.

In its complaint, the city of Los Angeles said that three particular policies had resulted in disparate impact on the city's minority borrowers: a compensation scheme that rewarded loan officers for higher-dollar loans; marketing targeting low-income and minority borrowers; and a failure to adequately monitor loans for disparities.

A lower court found the city's argument lacking, particularly when it was limited to the two-year statute of limitations imposed by the Fair Housing Act. Ultimately, the Ninth Circuit agreed that the city did not establish the "robust causality" it needed to make its case.

That need for robust causality has its origins in a 2015 case, *Texas Department of Housing and Community Affairs v. The Inclusive Communities Project*, in which the Supreme Court ruled that disparate impact claims are allowed under the Fair Housing Act. The court also said that plaintiffs must show a robust causal link between the policy and the disparate impact; evidence of racial disparity is not enough on its own.

Adding to cities' challenges, the May 1

ruling from the Supreme Court says that cities will have to prove a much tighter connection, or proximate cause, between those lending policies they cite as harmful and the losses they've suffered in declining property values, lost tax revenue and increased spending on emergency services.

Suits filed against big banks by Oakland, Miami Gardens, and Cook County, Ill., were stayed when the Supreme Court took up the question of whether Miami had the standing to sue under the Fair Housing Act. Now that the court has answered that question, those cities are all expected to file amended complaints and argue their cases again. That includes the city of Miami, as the Supreme Court remanded that back to a lower court.

The city of Philadelphia was the latest to bring a claim under the Fair Housing Act. On May 15, it filed a suit against Wells Fargo in which it alleged that the bank intentionally steered many minority borrowers into high-cost or high-risk home loans between 2004 and 2014. In a news release announcing the suit, city officials said that the May 1 Supreme Court ruling "re-affirmed the important role of cities in combating housing discrimination."

Similar to other complaints, the Philadelphia suit is seeking compensation for lost property tax revenue resulting from unpaid taxes on abandoned properties, as well as declines in tax collections resulting from the declining value of foreclosed properties.

"We disagree with the claims that have been made in these suits. We don't think we engaged in the conduct alleged and it doesn't reflect how we've approached lending in any of those communities or in any community across the country," said Tom Goyda, a spokesman for Wells Fargo.

Stuart Rossman, the director of litigation at the National Consumer Law Center, said that cities are unlikely to stop filing suits against banks, but he acknowledged that the recent rulings by the Supreme Court and the Ninth Circuit Court

of Appeals will force them to retool their approach.

"The question is what kind of case is going to be successful? Part of this is trial and error," he said. "We're going to have to go back to the drawing board and look at what happened with the city of L.A. and see if we can come up with a better mousetrap."

Courtney Statfeld Tippet, a principal at McKool Smith, said she views the Los Angeles ruling in particular not as deterrent, but as guidance for how cities could pursue claims more successfully. She said, for example, that cities would be wise to bring in ex-employees of banks they are suing to help corroborate claims that banks intentionally pushed minorities into higher-cost loans. "If they have good lawyers, they'll take the guidance the courts are giving them for how to pursue these claims," she said.

Still, these recent developments could also bolster the defenses of lenders charged with discriminating against minorities. For the last decade or so, financial institutions accused of predatory lending have often chosen to settle out of court in an effort to minimize publicity, said Joseph Lynyak, a partner at Dorsey.

"Now you've got a much more favorable ruling," he said. "I think you're going to see people who can show they did nothing wrong say, 'We're going to fight this because we've got this defense of robust causation.'"

## Overdraft Showdown

Wells Fargo aims to force case into arbitration

BANK OF AMERICA, JPMORGAN CHASE and other big banks have long ago settled class-action lawsuits accusing them of trying to maximize overdraft fees by improperly changing the order in which they clear checks for customers. But



Wells Fargo is refusing to follow suit.

A federal appeals court is scheduled to hear oral arguments in August in a decade-old case against the San Francisco bank. Though Wells was forced to pay \$203 million to California customers last year in a similar case after the Supreme Court declined the bank's appeal, it is hoping it can force this case into arbitration.

The stakes are high. If Wells loses its appeal to the 11th U.S. Circuit Court of Appeals, it could ultimately end up paying potentially as much as \$1 billion, according to some estimates. B of A paid \$410 million in 2011 and JPMorgan paid \$110 million in 2012 to settle nationwide litigation on similar overdraft claims.

Richard McCune, a partner at McCune Wright Arevalo, a law firm in Redlands, Calif., that represented California customers in the case lost by Wells, said the allegations against the bank in this matter are similar. But there could still be a different result.

"There has already been a finding that Wells Fargo misrepresented how these accounts are ordered that had a detrimental affect on consumers," McCune said. "There's no difference between California and what's gone on in the rest of the country, except that California consumers got compensated. By asserting the arbitration clause, consumers elsewhere could get zero."

At issue is whether Wells has the right to resolve the issue through arbitration rather than a class-action lawsuit. Wells voluntarily waived its right to arbitration early in the case, when there were only a few plaintiffs, but sought to invoke its mandatory arbitration clause once more consumers joined it.

The industry is in the midst of a battle over mandatory arbitration agreements as the Consumer Financial Protection Bureau weighs whether to finalize a rule banning them. Banks argue that arbitration is a benefit to consumers, but some see the Wells case as an argument that lawsuits can provide far greater relief.

"This issue of forced arbitration is a big problem, especially when it comes to banks, because no consumer is going to arbitrate a \$3 or \$4 claim," said Peter Prieto, a partner at Podhurst Orseck in Miami, who represents New Mexico consumers in the overdraft litigation.

Wells stopped reordering payments from high to low in 2014, but contends that outstanding issues are best handled through arbitration. A Wells spokesman called arbitration a "fair, efficient and effective" way for customers to resolve a legal dispute.

Some lawyers commend Wells for fighting the case, noting that consumers typically signed contracts with disclosures that the bank debited accounts from high to low. Some also point out that reordering payments is legal and that the borrowers had overdraft services on their account, incurring the typical \$35 overdraft fee.

A key element of the case is timing.

The 2010 verdict against Wells in California came a year before the Supreme Court ruled in *AT&T Mobility v. Concepcion* that the Federal Arbitration Act of 1925 preempts state laws. In *Concepcion*, the court found that if a business has an arbitration agreement with a class action waiver, customers can only file for individual arbitration, not class actions.

Before *Concepcion*, there was "a lot written by the courts about banks not initially invoking arbitration and losing the right to do so, but it doesn't say what banks should do going forward," said Thaddeus King, an officer with the consumer banking project at the Pew Charitable Trusts. "Since banks have the *Concepcion* case on their side, they know that if they invoke arbitration they can avoid class-action lawsuits."

But, "if every one of these customers went to arbitration, they would be arbitrating disputes for decades," King said.

Prieto said Wells initially declined twice to compel arbitration early on in the case, and now is on its third appeal to force arbitration.

"If you want to seek arbitration, you need to exercise it promptly. You can't decline arbitration, and then litigate for two years and if you're unsuccessful, then seek to arbitrate," Prieto said.

The case is set in the shadow of the CFPB's proposal, which would ban mandatory arbitration. But the U.S. Chamber of Commerce has threatened to sue the CFPB if it issues a final rule. The chamber claims the CFPB's supervision and enforcement programs are enough of a deterrent for companies to comply with consumer protection laws. The chamber conducted its own study that found 90% of complaints submitted to the CFPB about arbitration were unique "one-off" claims that could not be litigated in a class.

— Kate Berry

## Is Your AI Racist?

The trouble with algorithm-based loan decisions

THE QUESTION OF WHETHER AN algorithm making underwriting decisions can be racially biased has long made lenders fearful of inadvertently running afoul of consumer protection laws. Now, the question has sparked interest from Congress.

"Fintech has been accepted pretty much as a positive impact even by" the Consumer Financial Protection Bureau, Rep. Emanuel Cleaver II, D-Mo., said in an interview. But "if we're not careful, we will develop a system that almost institutionally ignores and maybe even hurts small and minority businesses."

Cleaver, a member of the House Financial Services Committee, launched an investigation into the issue in June. He is specifically looking into the way artificial intelligence is used in small-business loans such as merchant cash advances. He asked five online lenders, including LendingClub and Prosper, to answer

questions about their loan products, disclosure methods and “potentially discriminatory practices.”

Like other Democratic lawmakers, Cleaver expressed his concern about online lenders’ decision-making process, while also praising their potential to extend loans to underserved groups.

“We’re not saying that fintech or alternative financing systems are innately evil,” Cleaver said. “They can have a positive impact.”

But the lawmaker also brought to the fore a question that online lenders are increasingly grappling with, as the algorithms behind underwriting decisions become more sophisticated.

“People tend to develop things from their own way of thinking and their own world,” Cleaver said. “We would be wise ... to make certain that they don’t build into their systems exclusionary practices.”

A complicated regulatory challenge facing advanced underwriting models is known as the “black box” dilemma. Because artificial intelligence programs can make decisions independently of human beings, it can be hard to track down whether their formulas comply with fair-lending laws.

“Traditional underwriting is using logistical regression, which is one kind of math or decision trees,” said Douglas Merrill, the chief executive of Zest Finance. “You can look at them and know what they do. When you leave that kind of clear math behind and do machine-learning, the algorithms are more powerful. But machine-learning algorithms are by their own nature black boxes.”

His company has created a product designed to reverse-engineer AI underwriting decisions.

The opaque nature of algorithms has caused some financial institutions, particularly traditional banks, to be wary of using artificial intelligence in their underwriting decisions. The concern is that if they were to face a lawsuit or enforcement action, they would be unable to de-

fend themselves.

“You can’t have people claim that they’re unfairly discriminated against in the lending process and have the lender say, ‘Oh, we don’t know how our scoring model works,’ ” said Richard Fischer, a senior partner at Morrison & Foerster. “That’s just not going to fly.”

There is another “black box” that lenders have to contend with: which standards of discrimination they have to comply with.

“Society has made different choices on what are protected classes and attributes for different financial services,” said Aaron Klein, a fellow at the Brookings Institution in Washington. “Their application to modern-day financial services are murky and unclear.”

For example, a lender cannot use gender in determining an interest rate for most loans. But it appears that’s what happens in auto lending. “Data show that teenage boys are higher risk drivers than teenage girls,” Klein said.

Beyond questions around what data can be used in an algorithm’s underwriting formula, companies also have to be wary of disparate impact claims. They could run into trouble if the machine makes individual decisions that at the aggregate level provide certain groups an advantage.

“The variables that are used in the artificial intelligence process, those variables could be highly correlated to race,” said Lisa Rice, the executive vice president of the National Fair Housing Alliance. “When you put three or four variables together, that could increase the likelihood of that data serving as a proxy for race.”

There needs to be a debate over these issues, Klein said. But it could become tricky if regulators need to determine which data points can be considered discriminatory and which ones are fair game.

“I don’t want somebody going through and going, ‘Apple yes, magazine subscription no, beauty product no, but

do they wear shirts or long pants? Yes,’ ” he said.

Cleaver has given the five companies until Aug. 10 to respond to his inquiry.

—Lalita Clozel

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# BankTechnology



## Get a credit decision in one-tenth of a second

High-tech, low-effort loans are winning over online shoppers

By Penny Crosman

BY BASING CREDIT DECISIONS ON artificial intelligence, Klarna made financing big-ticket purchases a cinch for shoppers. Now that the firm has received a banking license from Swedish regulators, it's time to seriously consider the broader industry implications of this kind of lending.

Klarna and companies like Affirm, Bread and Acima give online shoppers an instant loan to pay for a big-ticket item like a television or mattress.

The customer types in very little information – in some cases, nothing more than a name and email address.

Behind the scenes, Klarna's underwriting software takes in data from more than 100 sources and uses artificial intelligence to make a credit decision in less than one-tenth of a second.

"This is true disruption right at its heart," said Alyson Clarke, principal analyst serving e-business and channel strategy professionals at Forrester.

Klarna has been offering checkout financing for more than a decade in Europe and two years in the United States. It works with 70,000 merchant partners and 60 million consumers in 18 markets, including 3 million American customers.

Jim Lofgren, Klarna's chief executive



# THEM

A plastic interlocking construction block designed with NX CAD/CAM/CAE software and manufactured from a strong, resilient plastic known as acrylonitrile butadiene styrene (ABS), which is heated to 232 °C (450 °F), then injected into molds with a tolerance of up to two micrometers at pressures between 25 and 150 tons, and cooled for approximately 15 seconds. Collectively, each block constitutes a universal system—with six 2x4 blocks able to be combined in 915,103,765 variations.

# US



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for North America, theorizes that instant loans have become popular as a reaction to widely publicized card fraud and data breaches. Essentially, people are drawn to not having to surrender a lot of personal information.

“When transacting online was becoming popular and the method of payment was still card-based and you saw a large amount of card fraud, people were still doubting their primary payment method, which was card,” Lofgren said. “We took the risk away from the merchants and we took the risk away from the consumer, so they could get the product, try it on and send it back if they didn’t like it.”

The widespread adoption of smartphones is also driving demand, Lofgren said, because card transactions are clunky on mobile devices.

“The phone is only this big and you don’t like the inconvenience of having to pull up the card and keypunch all those numbers in and verify everything every time you want to make a purchase,” he said. “Instant financing lends itself well to the smartphone environment.”

Aaron Allred, CEO of Acima Credit, a provider of instant leases at the point of sale, gives a lot of credit for the growing U.S. market to Affirm, a startup based here. “Affirm has used technology to allow customers to buy anything and everything at the point of sale and pay for it over a period of time,” Allred said. “You could go to Delta.com and pay for your \$700 plane ticket over a six-month period, and you can do that in two or three minutes.”

Allred founded Acima Credit after he and his wife went to a local furniture store to buy their first couch as newlyweds, using the store’s financing. Three hours later they were approved and had their couch, but were frustrated at the hassle. He saw opportunity.

“There was this insatiable demand out there in the marketplace for customers,” who wanted a seamless point-of-sale option, Allred said. “They want to be able to get finance in a matter of seconds,

and because the tech has made it so fast and easy, this space has been exploding.”

Acima Credit works with several banks and is in talks with Wells Fargo for a large credit facility to use for its leases, Allred said. Wells would get some of the return, he said. “Banks are either buying these fintech companies or they’re partnering with them. All the banks see what’s going on. They want in on this space.”

These firms have better technology than traditional lenders, at least for now, Clarke said. Traditional players could catch up by building their own version of the technology, buying it or partnering with a vendor or a fintech firm.

If the technology becomes equal, competition may come down to distribution, Clarke said. “Once firms like Affirm and Klarna get embedded in a lot of retailers and they have that distribution footprint,” she said, “they have an advantage in being there, in that line of sight when I’m making a purchase.”

Lofgren calls Klarna’s credit issuing platform the “secret sauce of what we do.” It takes into account more than 180 creditworthiness variables.

“It goes significantly deeper and wider than the traditional FICO, which normally lenders would look heavily at,” Lofgren said. It looks at “what you’re buying, at what time of day you’re buying, what IP address you’re coming from, and a bunch of other variables.”

The way Klarna verifies borrowers’ identities varies by market. A big part of what it uses is behavioral data – a young parent buying diapers at 3 a.m. is a low risk. “There’s also external data we leverage, and that might be different from market to market, depending on what’s available to match your address to where you say you live and what’s on file and where the item is going, for example if it’s being shipped somewhere,” Lofgren said.

#### **Who are the customers?**

Much of online lending is dominated by those pursuing customers too risky for traditional banks. But that’s not always

the case. Companies like Affirm and Klarna go after prime customers. These users can get potentially lower interest rates than they would from their bank or card company. Some like the idea of using a loan purely for one purchase – once it’s paid off, it’s done.

In a study of more than 2,000 consumers conducted by Researchscape and sponsored by Klarna North America, 47% said that when shopping online, they would like to be presented with the option of instant financing.

These providers are tapping an unmet need, especially among younger people, Forrester’s Clarke said.

Acima does target subprime consumers. Rather than take out a loan, they can lease to own or lease to return, through a simple process on a smartphone.

Nine out of 10 people using lease-to-own services like this one do end up paying it off, according to Acima research.

Acima funds the leases through its balance sheet, so merchants are paid within 24 hours.

#### **Why become a bank?**

Klarna is becoming a bank to better compete with banks.

“Without the banking license we can’t offer all the services that banks can,” Lofgren said. “For us to really disrupt the industry, which is what we have been doing for a lot of our merchants and consumers for a long time in Europe and in the last two years in the U.S., we need that.”

Today, the company funds its business through deposits it takes from German and Swedish consumers through third-party banks.

“With a banking license, we can offer that directly to consumers,” Lofgren said. “We have a history of serving consumers really well. We want to take our DNA into the banking industry and make sure we disrupt it entirely.”

Lofgren couldn’t or wouldn’t say which products Klarna might start offering stateside, where it provides loans through Salt Lake City-based WebBank.

He said the company was not pursuing a U.S. charter, but declined to say whether it might in the future. A recent partnership with Visa spurred some speculation about it possibly issuing credit cards, but Lofgren said it was “too early” to confirm anything.

### Future of the model

Clarke said she worries that some of the checkout financing models haven’t been tested in a market downturn. For instance, some purchase financing firms offer promotions that customers mistakenly think are free, she said.

“The business model relies on a lot of these customers not paying off in time and getting hit with penalty rates after the interest rate period,” she said. “That sort of stuff can be dangerous in an economic downturn when people are defaulting.”

These lenders also might catch the attention of regulators if they target subprime consumers who wind up paying higher interest rates on credit cards or personal loans, she said. “To me this starts to look and feel not so good, and maybe even starts to be a little like payday lending.”

## The Pursuit Of Digital IDs

Banks have ambitious plans despite the obstacles

LIKE MANY BANKERS ON BOTH SIDES of the Atlantic, HSBC’s Dan Johnson sees great benefit in digital identity systems for financial institutions and their customers. But he also sees a big obstacle: liability.

“When things go wrong – not if, when things go wrong – who’s culpable?” Johnson, the head of digital identity at HSBC, said during a presentation in June at the Cloud Identity Summit in Chicago.

“How is it going to work? What hap-

pens when bad actors get introduced into the system?”

Banks such as Capital One and U.S. Bank have been looking at ways to monetize the considerable work they do vetting customers by selling identity verification services to other businesses. An electrical utility wouldn’t have to ask a new customer to upload a driver’s license, for example, if a bank could just zap the data over; a site that sells wine online wouldn’t need to collect a user’s birthdate if a bank vouched that he was over 21. Banks in Canada and Europe already provide services along these lines.

Conversely, if banks were allowed to rely on the work other organizations have done to identify customers they could eliminate redundant paperwork and spare the customer a branch visit to open another account.

“All of that maintenance, all of that effort costs the bank a lot of money to do, but also it’s a horrible user experience,” said Johnson, who is based in London and joined HSBC in October 2014.

In so-called federated identity systems, a user can log in to one website and then access others without having to create another profile or type another username and password each time. The other sites trust that the identity provider has authenticated the user.

Of course, using Facebook to connect to Candy Crush is decidedly lower stakes than using your Chase credentials to open a Wells Fargo account.

“We’ve got high risk between all three parties,” said Jeremy Grant, managing director for technology business strategy at the law firm Venable, in a separate presentation at the conference. “Without any certainty as to how the risk would be mitigated or allocated in a federation system, the market is stalled.”

Virginia is trying to solve the impasse. In 2015, Gov. Terry McAuliffe signed a law that creates a legal framework for identity systems and limits liability for identity providers if they follow high standards.

In theory, this should reduce the risk

to the system, but if the standards aren’t strong enough it could just transfer risk from the providers to individuals and relying parties, further discouraging participation, Grant cautioned. He is on an advisory council that is helping Virginia craft standards that are “beyond reproach.”

But banks would need a lot to change before they would partake in this sort of outsourcing of identity provision. At the moment, they are clearly liable, under anti-money-laundering and know-your-customer rules, if they provide accounts to bad actors, wittingly or not. (HSBC knows this all too well. In 2012, the international bank paid a \$1.9 billion fine to the U.S. government for AML lapses.)

“We need regulatory change so we can accept data without necessarily having to check that data,” Johnson said. “That new model needs to be created in order to allow for digital identity to work successfully in the financial sector.”

More broadly, governments would need to endorse identity systems for the public to trust them, and they’d have to work together to make identities globally interoperable.

While Johnson said little about HSBC’s plans during his presentation, he hinted that the bank envisions itself as a potential relying party rather than as an identity provider. In other words, it would leverage the information already gathered by other banks rather than give a customer the third degree all over again.

“There are lots of identity providers. There aren’t so many identity consumers,” he said, noting that in most existing schemes in which the private sector provides identity, the government tends to be the sole relying party.

To make digital identity portable, “we need a set of rules and a set of standards that allow us to be able to consume that data and fundamentally not have to check that data against other sources,” Johnson said. “Otherwise we’ve just added to our already existing workload.”

– Marc Hochstein



# Metrics & Measures

PEER ANALYSIS

## Deposit Growth Matters More Now

Some regional banks became top performers by outpacing their peers on loan growth, others by pursuing diverse sources of fee income. But core deposit growth might be the best indicator of which banks will have true staying power in the years ahead.

Low interest rates and a still tough regulatory environment kept net interest margins largely flat last year, but as rates inch up, banks of all sizes are going to be increasingly hungry for core deposits, said Kevin Halsey, a consultant with Capital Performance Group.

Regional banks with \$10 billion to \$50 billion of assets – ranked here by return on average equity across three years – generally grew core deposits at a respectable rate last year.

The 58 institutions that qualified for the ranking increased core deposits by a median of about 10% from the year before, according to CPG's analysis. But the banks at the top of the ranking attracted significantly more core deposits, with a median jump of about 13%.

"Some of the top banks have very, very robust growth in core deposits," Halsey said. "I think that will be a critical measure moving forward in 2017 and even into 2018."

Bank of the Ozarks practically doubled its core deposits, distinguishing itself with the largest increase by far of any bank on the list. Two acquisitions that it closed last summer added about \$4.2 billion in deposits to its balance sheet, said Tyler Vance, the chief banking officer and chief operating officer at the \$18.9 billion-asset bank in Little Rock, Ark. But organic growth, spurred by a "relationship banking" strategy, helped almost as much, bringing in an additional \$3 billion in deposits, he said. Core checking accounts are a key metric for the bank, and last year it added more than 13,000 of those accounts through its legacy branches alone.

Core deposits at Western Alliance Bancorp. in Phoenix rose about 26% last year. Dale Gibbons, its chief financial officer,

attributed the increase to organic growth, saying the \$17.2 billion-asset bank has focused on bringing in commercial deposits from the small and middle-market businesses in its footprint. Western Alliance last closed on an acquisition in mid-2015, when it added \$1.7 billion in deposits via Bridge Bank.

Another advantage the top performers had in common was a low efficiency ratio relative to the peer group. Though noninterest expense growth was particularly high for some – 37.5% at Bank of the Ozarks and 26.5% at Western Alliance, both well over the median of 6.8% for banks in this size range – they generated hearty loan growth and plenty of revenue to offset the higher expenses. Net loans increased by a median of 13.9% for the top 10 last year compared with peers' 8.7%.

Generally speaking the regional banks as a group generated more fee income than their highest-ranking counterparts. Noninterest income as a percentage of average assets was a median of 0.96% for the peer group and 0.82% for the top 10.

Even so, both Commerce Bancshares in Kansas City, Mo. (at 1.92%), and Bank of Hawaii in Honolulu (at 1.18%) stand out on that ratio, Halsey said.

Mortgage banking provided much of the boost that the \$16.5 billion-asset Bank of Hawaii had in its noninterest income last year, though asset management is an even heavier generator of fees overall. The bank reported a 72% increase in mortgage-related noninterest income, to \$19.9 million, compared with the year before.

The \$25.6 billion-asset Commerce has diversified its fee income across several business lines, with cards, wealth management and service charges on deposit accounts driving much of the growth, said Charles Kim, its CFO.

"We're not overly dependent on just one. It's not all cards, it's not all processing, it's not all wealth management," Kim said. "They tend to complement each other pretty well."

– Laura Alix

Rank	Institution/Ticker	Location	Total Assets (\$000)	3-YR ROAE (%)	ROAE (%)	ROAA (%)	Efficiency Ratio FTE (%)	Net Interest Margin FTE (%)	Net Income (\$000)	Net Income Growth YOY (%)	Core Deposit Growth YOY (%)	Cost of Funds (%)
1	Bank of Hawaii Corp. (BOH)	Honolulu, HI	16,492,367	15.37	15.79	1.15	57.46	2.83	181,461	12.92	8.26	0.28
2	Western Alliance Bancorp. (WAL)	Phoenix, AZ	17,200,842	14.90	14.67	1.61	43.02	4.58	259,798	33.75	25.74	0.31
3	FirstBank Holding Co.	Lakewood, CO	17,046,125	14.43	13.86	1.18	54.72	3.46	190,630	7.17	12.15	0.15
4	Bank of the Ozarks (OZBK)	Little Rock, AR	18,890,142	14.33	13.04	1.89	33.66	4.92	270,080	48.14	92.26	0.50
5	Signature Bank (SBNY)	New York, NY	39,047,611	12.97	11.59	1.09	31.82	3.19	396,324	6.23	18.20	0.52
6	Midland Financial Co.*	Oklahoma City, OK	13,287,855	12.86	11.47	1.09	62.56	4.07	212,943	(18.07)	19.22	0.71
7	East West Bancorp (EWBC)	Pasadena, CA	34,788,840	12.84	13.06	1.30	50.99	3.31	431,677	12.22	15.78	0.36
8	SVB Financial Group (SIVB)	Santa Clara, CA	44,683,660	11.70	10.72	0.89	55.94	2.72	390,266	4.12	(0.11)	0.11
9	PrivateBancorp (PVTB)	Chicago, IL	20,053,773	11.28	11.36	1.13	49.06	3.30	208,357	12.44	12.91	0.51
10	Commerce Bancshares (CBSH)	Kansas City, MO	25,641,424	11.27	11.09	1.13	60.54	3.04	276,854	3.70	4.93	0.15

# REGIONALS, RANKED BY 3-YEAR ROAE

Rank	Institution/Ticker	Location	Total Assets (\$000)	3-YR ROAE (%)	ROAE (%)	ROAA (%)	Efficiency Ratio FTE (%)	Net Interest Margin FTE (%)	Net Income (\$000)	Net Income Growth YOY (%)	Core Deposit Growth YOY (%)	Cost of Funds (%)
11	Bremer Financial Corp.	Saint Paul, MN	11,570,247	11.20	11.18	1.06	61.75	3.62	118,233	2.81	10.78	0.29
12	BankUnited (BKU)	Miami Lakes, FL	27,880,151	10.46	9.64	0.87	59.24	3.73	225,741	(10.30)	11.42	0.81
13	Cullen/Frost Bankers (CFR)	San Antonio, TX	30,196,319	9.95	9.95	1.06	57.77	3.52	304,261	8.93	6.56	0.05
14	Texas Capital Bancshares (TCBI)	Dallas, TX	21,697,134	9.70	9.03	0.74	54.73	3.11	155,119	7.09	13.86	0.33
15	Hope Bancorp (HOPE)	Los Angeles, CA	13,442,488	9.67	8.47	1.10	47.08	3.75	113,747	23.29	70.37	0.66
16	Hilltop Holdings Inc. (HTH)	Dallas, TX	12,738,062	9.57	8.24	1.21	82.33	3.76	147,944	(30.41)	4.78	0.60
17	Pinnacle Financial Partners (PNFP)	Nashville, TN	11,194,623	9.57	9.47	1.27	53.08	3.60	127,225	33.21	26.13	0.45
18	Cathay General Bancorp (CATY)	Los Angeles, CA	14,520,769	9.45	9.88	1.31	49.99	3.38	175,099	8.68	19.77	0.71
19	TCF Financial Corp. (TCB)	Wayzata, MN	21,441,326	9.12	9.26	1.05	68.25	4.34	221,717	7.72	2.53	0.46
20	United Community Banks (UCBI)	Blairsville, GA	10,708,655	9.04	9.50	1.00	56.49	3.36	100,656	40.62	14.23	0.28
21	International Bancshares (IBOC)	Laredo, TX	11,804,041	8.78	7.82	1.13	55.51	3.34	134,796	(1.40)	3.11	0.43
22	Prosperity Bancshares (PB)	Houston, TX	22,331,072	8.62	7.69	1.25	40.56	3.35	274,466	(4.25)	(1.95)	0.24
23	Webster Financial Corp. (WBS)	Waterbury, CT	26,072,529	8.55	8.35	0.82	62.36	3.12	207,127	1.17	8.90	0.46
24	BOK Financial Corp. (BOKF)	Tulsa, OK	32,772,281	8.27	6.93	0.72	70.73	2.62	232,281	(20.52)	9.99	0.29
25	Chemical Financial Corp. (CHFC)	Midland, MI	17,355,179	8.22	6.98	0.90	54.60	3.60	108,032	24.42	69.78	0.28
26	Washington Federal (WAFD)	Seattle, WA	14,873,654	8.18	8.62	1.15	48.55	3.07	170,197	8.40	4.76	1.08
27	Central Banccompany (CBCYB)	Jefferson City, MO	12,693,896	8.14	8.63	1.16	58.36	3.30	142,028	16.90	8.87	0.22
28	Trustmark Corp. (TRMK)	Jackson, MS	13,352,333	7.97	7.14	0.84	67.32	3.53	108,411	(6.57)	6.66	0.22
29	United Bankshares (UBSI)	Charleston, WV	14,508,892	7.97	7.67	1.10	46.34	3.60	147,083	6.61	18.54	0.40
30	EverBank Financial Corp (EVER)	Jacksonville, FL	27,838,086	7.90	7.64	0.53	66.76	2.81	144,931	11.04	7.91	1.07
31	Old National Bancorp (ONB)	Evansville, IN	14,860,237	7.88	7.84	0.98	66.47	3.58	134,264	15.03	25.32	0.38
32	Great Western Bancorp (GWB)	Sioux Falls, SD	11,422,617	7.64	8.02	1.18	45.62	3.94	127,695	13.18	16.59	0.39
33	BancorpSouth (BXS)	Tupelo, MS	14,724,388	7.63	7.80	0.93	68.75	3.52	132,728	4.11	3.60	0.24
34	Wintrust Financial Corp. (WFTC)	Rosemont, IL	25,668,553	7.58	8.11	0.85	64.31	3.26	206,875	31.98	18.71	0.42
35	Fulton Financial Corp. (FULT)	Lancaster, PA	18,944,247	7.56	7.69	0.88	66.91	3.18	161,625	8.11	8.80	0.52
36	Synovus Financial Corp. (SNV)	Columbus, GA	30,104,002	7.45	8.40	0.84	61.58	3.24	246,784	9.16	7.88	0.47
37	F.N.B. Corp. (FNB)	Pittsburgh, PA	21,844,817	7.35	6.84	0.83	55.20	3.38	170,891	7.04	32.79	0.38
38	UMB Financial Corp. (UMBF)	Kansas City, MO	20,682,532	7.32	8.01	0.81	71.67	2.88	158,801	36.81	11.55	0.16
39	PacWest Bancorp (PACW)	Beverly Hills, CA	21,869,767	7.31	7.85	1.66	39.59	5.40	352,166	17.54	18.91	0.33
40	First Horizon National Corp. (FHN)	Memphis, TN	28,555,231	7.22	8.86	0.87	68.55	2.94	238,511	145.10	13.78	0.37
41	First Midwest Bancorp (FMBI)	Itasca, IL	11,422,555	7.12	7.47	0.84	61.97	3.60	92,349	12.53	9.95	0.30
42	First Citizens BancShares (FCNCA)	Raleigh, NC	32,990,836	7.06	7.51	0.70	73.38	3.14	225,482	7.18	6.33	0.15
43	MB Financial (MBFI)	Chicago, IL	19,302,317	6.93	7.65	1.03	64.08	3.73	174,287	9.47	24.02	0.28
44	Valley National Bancorp (VLY)	Wayne, NJ	22,864,439	6.63	7.46	0.76	64.39	3.16	168,146	63.32	11.56	0.76
45	Associated Banc-Corp (ASB)	Green Bay, WI	29,139,315	6.59	6.63	0.70	64.35	2.80	200,274	6.36	4.31	0.33
46	IBERIABANK Corp. (IBKC)	Lafayette, LA	21,659,190	6.52	7.08	0.92	60.53	3.56	186,777	30.76	8.71	0.39
47	Sterling Bancorp (STL)	Montebello, NY	14,178,447	6.36	8.05	1.09	45.79	3.53	139,972	111.71	18.88	0.52
48	Arvest Bank Group	Bentonville, AR	16,700,806	6.24	6.90	0.59	80.44	3.00	98,818	61.62	6.88	0.25
49	Hancock Holding Co. (HBHC)	Gulfport, MS	23,975,302	6.18	6.06	0.64	62.71	3.23	149,296	13.57	5.00	0.36
50	Flagstar Bancorp (FBC)	Troy, MI	14,053,000	5.79	11.68	1.23	71.61	2.66	171,000	8.23	9.25	0.79
51	People's United Financial (PBCT)	Bridgeport, CT	40,609,800	5.59	5.78	0.71	62.53	2.80	281,000	8.04	7.27	0.45
52	Umpqua Holdings Corp. (UMPQ)	Portland, OR	24,813,119	5.50	5.97	0.97	61.71	4.04	232,940	4.67	7.91	0.33
53	Investors Bancorp (ISBC)	Short Hills, NJ	23,174,675	5.34	6.06	0.88	52.63	3.01	192,125	5.85	15.55	0.84
54	New York Community (NYCB)	Westbury, NY	48,926,555	5.26	8.19	1.00	44.73	2.91	495,401	NM	(7.80)	0.90
55	Astoria Financial Corp. (AF)	Lake Success, NY	14,558,652	5.26	4.23	0.48	72.36	2.35	71,529	(18.79)	2.21	0.96
56	Apple Financial Holdings	New York, NY	12,947,697	5.20	6.07	0.49	54.86	1.86	62,853	56.12	9.85	0.62
57	Stifel Financial Corp. (SFI)	St. Louis, MO	19,129,356	5.02	3.19	0.52	92.97	1.87	81,520	(11.71)	73.99	0.62
58	Third Federal Savings	Cleveland, OH	13,189,828	4.18	4.84	0.53	59.82	2.21	66,816	14.27	(2.81)	1.06
<b>Median for all 58 institutions</b>			<b>19,215,837</b>	<b>7.93</b>	<b>8.03</b>	<b>0.97</b>	<b>60.17</b>	<b>3.30</b>	<b>172,644</b>	<b>8.68</b>	<b>9.97</b>	<b>0.39</b>
<b>Median for the top 10</b>			<b>19,471,958</b>	<b>12.92</b>	<b>12.31</b>	<b>1.14</b>	<b>52.85</b>	<b>3.30</b>	<b>264,939</b>	<b>9.69</b>	<b>14.34</b>	<b>0.33</b>
<b>Average for all 58 institutions</b>			<b>21,179,942</b>	<b>8.52</b>	<b>8.60</b>	<b>0.98</b>	<b>58.98</b>	<b>3.32</b>	<b>193,076</b>	<b>16.16</b>	<b>15.44</b>	<b>0.46</b>
<b>Average for the top 10</b>			<b>24,713,264</b>	<b>13.19</b>	<b>12.66</b>	<b>1.25</b>	<b>49.98</b>	<b>3.54</b>	<b>281,839</b>	<b>12.26</b>	<b>20.93</b>	<b>0.36</b>

Source: Capital Performance Group analysis of data provided by SNL Financial.

Ranking is of top consolidated bank holding companies, banks, and thrifts with total assets of between \$10 billion and \$50 billion as of 12/31/16 and is based on three-year average ROAE from 2014 to 2016. Additional data is for the 12 months ended 12/31/16; year-over-year changes compare 2016 to 2015. Financials are from SEC filings. If unavailable, regulatory financials were used. Excludes industrial banks, nondepository trusts, foreign-owned banks, and bankers' banks, as well as institutions with credit cards to total loans of more than 25%, loans to total assets of less than 20%, or loans to total deposits of less than 20% at 12/31/16. Excludes institutions with a leverage ratio of less than 5%, Tier 1 risk-based capital ratio of less than 6%, or total risk-based capital ratio of less than 10% during any quarter in the ranking period. Excludes institutions that received a tax benefit of greater than 10% of net income or that did not report data for any year in the ranking period. Also excludes institutions that have fewer than five depository branches and are owned by a company not primarily focused on commercial or retail banking. Ties broken using the 2016 ROAE and subsequently the 2015 ROAE.

\* Denotes an institution that operated as a subchapter S corporation for at least one quarter between 2014 and 2016. Its profitability ratios were calculated from regulatory financials and adjusted using an assumed tax rate.



American Samoa





# HOW FAR DOES AMERICAN SAMOA HAVE TO GO TO GET A BANK?

The South Pacific island desperately needs a bank so it can modernize its economy. Its leaders have struggled to create one, finally landing on a creative solution that hasn't been successfully attempted in the United States in nearly a century. But will regulators approve it?

BY ROB BLACKWELL



**V**isiting American Samoa is like stepping back in time – both because of its unsullied natural beauty and its antiquated banking system.

The economy runs on cash, but until recently the island had just seven ATMs, only three of which usually worked, to serve 60,000 residents. It's common for residents to wait in line for two or three hours – sometimes queuing in the early morning hours before the bank opens – to cash a check. Few islanders have credit cards, and most retailers don't accept them.

American Samoa leaders have already tried to convince existing banks to open up branches there, and even attempted to form their own bank. But neither effort panned out. Now they have launched a bold effort to create a state-backed public bank, something that hasn't been done successfully in the U.S. in nearly a century. They hope it will help modernize the island's banking system – and American Samoa itself.

"There is a great need for basic banking services in American Samoa, because they are not being served right now," said Phil Ware, a longtime Utah banker who is president of the newly created Territorial Bank of American Samoa. "I mean basic needs, like supplying cash, offering checking accounts and offering credit/debit cards. Our whole bank is a CRA [Community Reinvestment Act] project."

Yet the outcome is by no means certain. The Territorial Bank of American Samoa took a major step forward last year by opening its doors and offering islanders limited services.

But it still needs a key regulatory ap-

proval to provide even checks to its customers and to make good on the hopeful vision of island leaders and bank executives. If U.S. regulators do not act soon, the endeavor could fall apart, leaving the island without any prospect for a solution in the foreseeable future.

"American Samoa is the truest form of banking – there is a definite need," said Robert Ho Chee, a banking industry veteran and island native who was hired to be American Samoa's regulator and run its new Office of Financial Institution.

#### **'THAT'S JUST HOW IT IS'**

This is the story of a bank in limbo, one whose future could reshape American Samoa.

Though the Territorial Bank of American Samoa has received no attention stateside, it is at the nexus of several policy debates, including the high requirements demanded of new entrants to the banking system and how best to bring underbanked consumers into the financial system.

But the leaders of the bank aren't interested in breaking new ground for the industry. They are worried only about the island itself.

American Samoa remains left behind from the technological changes that have fundamentally altered banking over the past few decades. More than half of the households on the island are at, near or below the U.S. federal poverty level, according to the most recent census statistics. The majority of American Samoa qualifies as low- to middle-income under the CRA.

Those who work for the bank are hopeful that the institution could help improve that situation.

"One of the initiatives is to get them

into the 20th century, never mind the 21st century," said Drew Roberts, a Utah-based banking consultant who was brought in to help set up the bank.

When he first arrived on the island, he was struck by what he saw at the branches of the two banks then still operating in the territory.

"There was a line of cars outside the bank, and people around the block," he said. "That's a 1929-type run on a bank."

But it wasn't a run, just people waiting to be served. "That's just how it is," he said.

#### **A CRISIS IN THE MAKING**

American Samoa is one of the United States' most far-flung – and forgotten – U.S. territories.

Acquired by the U.S. in 1899 as part of a deal with Germany and Great Britain, it operates in a nebulous area somewhere between statehood and independence. It has its own democratically elected legislature and governor, but all laws must be approved by the U.S. president, who retains the power to dissolve the legislature. Its people are not American citizens, but American nationals, with the right to live and work in the states. It is one of only two U.S. properties in the southern hemisphere, with the other being the uninhabited Jarvis Island.

Despite this, American Samoa has the sixth-highest rate of enlistment in the U.S. armed forces per capita of any state or territory. That is at least partly because of a lack of economic opportunity on the island. American Samoa has only two main industries: tuna fishing and tourism.

The island's modern banking history has been centered on two institutions: Bank of Hawaii and ANZ.

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But Bank of Hawaii, which had done business in the territory since 1969, shocked the island's government when it announced in late 2012 that it was pulling out of the island, citing American Samoa's "geographic isolation" from its other markets.

"Bank of Hawaii was so dominant over here and such a good bank," said Chee, who formerly worked for Bank of Hawaii both on and off American Samoa.

American Samoa pressured Bank of Hawaii to remain on the island for a few years until it could find a successor institution, though the bank wouldn't stay indefinitely.

Finding another bank to take its place has been difficult. The government sought out other institutions that might want to have branches on the island, but any takers face logistical problems that are hard to overcome.

The chain of islands that make up the territory have roughly the same geographic footprint as Washington, D.C., but only a tenth of that city's population. The island is thousands of miles away from the nearest other U.S. territory, with only two flights a week in or out. Just getting cash to fill up the ATMs is challenging. Internet service has been billed "the most expensive in America."

"We went to all the banks in Hawaii – and also tried some banks in the states – but none were interested," said Iulogologo J. Pereira, executive assistant to American Samoa Gov. Lolo Matalasi Moliga.

Eager to solve the problem, private investors in American Samoa tried to create a de novo of their own. Though they raised capital and applied to regulators for approval, that effort ultimately failed. It's been nearly impossible since the financial crisis to charter a de novo



"American Samoa is the truest form of banking — there is a definite need," says Robert Ho Chee, a banking veteran who was hired to be American Samoa's regulator.

institution. Many industry observers say the Federal Deposit Insurance Corp.'s standards are too high, though federal regulators attribute the drought to a lack of demand.

That left just the Australian bank ANZ willing to remain in the territory. It serves American Samoa from its "local" headquarters in Guam, more than 3,500 miles away, and it was unwilling to significantly step up its presence on the island, though it recently expanded to 10 ATMs.

"All the lending and everything else goes out of Guam," Pereira said. "It doesn't give us a relationship to help develop the economy."

With no bank willing to take over for the departing Bank of Hawaii, and the regulatory demands too high to form a privately owned institution, officials in American Samoa were struggling for an answer.

They found one in an unlikely place: the rural, landlocked state of North Dakota.

## A PUBLIC BANK

The Bank of North Dakota is unique in American history. Formed in 1919 in response to an agricultural crisis, it is not backed by the FDIC, but instead is run and supported by the state itself. Though other states formed public banks in the distant past, the Bank of North Dakota is the only one still operating.

By law, the state of North Dakota deposits its tax revenues in the bank, and those funds are used to offer cheap agricultural, energy, and student loans to local businesses and consumers.

The bank is widely regarded as a success, straddling the line between offering banking services while not seeking to compete directly with private institutions. The \$7 billion-asset Bank of North Dakota works with 100 bank partners, provides only limited checking accounts to customers and has no branches.

"We're not really competing with the private sector, but complementing them," said Eric Hardmeyer, president of the Bank of North Dakota.

Though any resident of North Dakota can open a checking account at the bank, doing so is a no-frills experience. The bank doesn't even offer debit cards.

"We're not trying to be everything to everybody," Hardmeyer said. "We're the financiers of economic development for the state of North Dakota. We are really here to make North Dakota better."

The bank has been profitable, earning record gains for the past 13 years, according to Hardmeyer. The profits go back to the state budget.

American Samoa officials saw an opportunity in the Bank of North Dakota's model, a way to sidestep the need for an FDIC sign-off while still allowing for a full-



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fledged banking institution.

“We wanted to find a model that reflects our uniqueness. The only model that is out there is the Bank of North Dakota,” Chee said. “They are the epitome of what it’s like to be a community bank at the state level.”

Public banks are more common in the rest of the world, particularly developing countries.

“Quite often the public banks are the ones who are banking the poor, or bringing banking services outside of the major centers,” said Thomas Marois, senior lecturer of development studies at the University of London, who has studied public banks.

But state-run banks are anathema to the American character. Despite renewed efforts in states like New Jersey to form one, the model is vigorously opposed by the banking industry and conservatives, who view state-run enterprises as government intrusion in the market.

Even American Samoa officials are reluctant supporters of the idea.

“The government doesn’t like to get into the private-sector business,” Pereira said. “There was no other alternative.”

There are two potential pitfalls to public banks. The first is opposition from private institutions who fear competing with a government-backed institution, an issue that simply isn’t relevant for American Samoa.

The second is more of a concern: that a public bank may become too intertwined with the government that’s supporting it.

To head off that worry, American Samoa officials have built a Chinese wall between the territory and the bank. Though its board members are nominated by the governor and confirmed by the Fono, the territory’s legislature, the relationship stops there.

“Once that is done, the government has no say in the running of the bank,” Pereira said.

The bank cannot lend to its board members or to the government.

“We built as many buffers as we could to keep the government influence directly or indirectly out of the bank,” Ware said. “We’ve been very careful to design it like that.”

### WAITING FOR THE FED

A tremendous amount of work has already gone into setting up the Territorial Bank of American Samoa.

Legislation was approved in February of last year to fund the bank via a bond issue. It formally opened its doors in October, using branches donated to it by the Bank of Hawaii, which finally departed the island at that time. Island leaders created a regulatory agency, the Office of Financial Institution, and hired Chee, a 23-year banking veteran, to run it. They sought out help from Roberts and Ware in Utah.

The bank is backed with more than \$12.5 million in capital and has already taken in \$1.7 million in deposits, according to its first-quarter financial statement.

Demand is clearly not a problem. At the bank’s opening ceremony – which featured a speech from the governor – the lobby was packed with customers. Even months later, the bank was opening 12 to 15 deposit accounts a day, according to Ware.

Yet for all that, the bank is missing a crucial piece, and that threatens to doom the entire enterprise unless it is granted soon: access to the payment system.

It is the key to being able to transact with other U.S. institutions and offer basic services that the rest of the country takes for granted. Without it, the bank is unable to offer traditional amenities to

customers, such as checks. It has to use a third-party service to offer customers their own debit card.

Those services are essential. Currently, there is no way for an American Samoa to obtain a credit card without going off the island, which can be prohibitively expensive to do. Technically, the Territorial Bank can offer loans without a transit number, but it’s harder without the connection to the payment system. That has left American Samoans prey to so-called backyard lenders.

Without access to the payment system, the Territorial Bank can’t even turn to other U.S. institutions as correspondent banks to help wire money or take other basic steps.

The Territorial Bank applied to the American Bankers Association last July for a transit routing number, which would make it part of the payment system. But winning that approval requires the Federal Reserve to sign off that the bank is eligible for central bank services. Despite months of waiting, that has yet to happen.

For the Fed, the case is unusual. It’s a state-backed public bank without FDIC insurance in a small geographic area with an overwhelmingly poor population. Fed officials are wary of government ties to the Territorial Bank, according to public testimony by bank executives.

But those executives believe they’ve addressed the substantive issues. Island leaders and bank officials have held lengthy discussions with the Federal Reserve Bank of San Francisco, which has sent the case to the Federal Reserve Board to review given the unusual circumstances. American Samoa’s governor met with Fed General Counsel Scott Alvarez in February of this year to discuss the application.

Since then, it’s been a waiting game.

"We've got the system, got the building, got the people," Ware said. "Everything is in place to offer all of this, but we can't do it, because we're not part of the payment system. ...

"That is very frustrating."

It's not clear when or even if the Fed will act. A Fed spokesman declined to comment.

For their part, bank executives and Chee are confident that it's only a matter of time. If the approval does come through, Ware, who currently splits his time between Utah and American Samoa, plans to move to the island permanently.

He estimates it will take the bank less than a month after getting the approval to start offering more services.

"We'll have everything lined up and ready to go – we will be a bank after that," Ware said.

It's difficult to overstate just how important this approval is to the bank. In interviews, it is invoked repeatedly by government officials and bank executives, who clearly are waiting on tenterhooks for it to happen.

"This is the linchpin," Roberts said. "That has to happen. Once it does, all the doors open. The world changes for American Samoa."

#### **FUTURE PLANS**

Bank executives have big plans if and when the approval comes through. For one thing, rather than running a public bank in perpetuity, they are hoping in a few years it can be sold into private hands and obtain FDIC insurance, two separate transactions that would likely have to come at the same time. That would enable American Samoa to have a private community bank all of its own.

Bank executives said they already have an interested group of investors – the same ones that tried to form a bank

earlier. But the Territorial Bank will need to show it can run profitably first.

Persuading the FDIC to grant deposit insurance will be its own challenge. The FDIC is unlikely to approve deposit insurance for a state-run bank. It last issued guidance on the subject nearly 20 years ago, and though it did not specifically ban the concept, it expressed significant reservations.

The hope is that once the Territorial Bank can prove itself, the FDIC will look more favorably on granting insurance, particularly if private investors are willing to take it out of government control.

"The intention is to run the bank for two or three years to make sure we eliminate all the problems," Pereira said. "So they have a track record for the FDIC to judge."

Roberts said the bank will ensure it follows requirements of other FDIC-insured banks to make getting deposit insurance easier. "This will be run as if it were an FDIC institution," he said. "Same reports, same structure. All of that will be as if it is an FDIC bank."

Beyond that, Chee has an even grand-

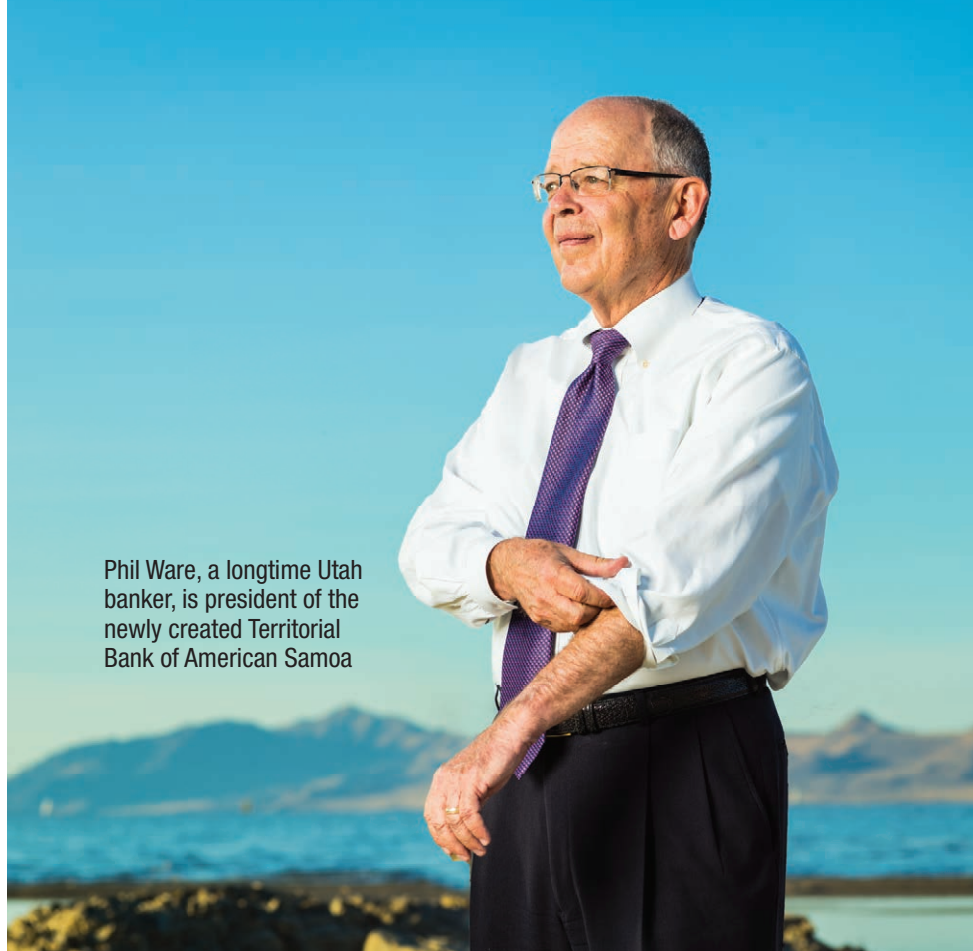
er ambition. He is hoping that once the Territorial Bank is successful, other institutions will see there's opportunity on the island, despite the challenges of branching there. To that end, his agency has joined the Conference of State Bank Supervisors and he's been in meetings around the mainland in an attempt to drum up interest.

"This little bank is the impetus for us to be noticed by the rest of the world so other banks can come in," he said. "For us, it's a necessary stopgap to get things going."

But all agree that those goals are for the future. For now, the focus is on winning the Fed approval, and making the bank a full-service one. Once that happens, they feel confident they can deliver on a promise to islanders to give them what consumers in the rest of America already have.

"The bank isn't there to make money. It's there to provide services to the American Samoan people," Roberts said. "The whole idea is to find the mechanisms so that people in American Samoa can live their lives like people in Portland." □

Phil Ware, a longtime Utah banker, is president of the newly created Territorial Bank of American Samoa



# THE Fintech SKEPTIC

Some policymakers are eager to accommodate online lenders with oversight that is looser than what applies to banks, but Maria Vullo, the head of the New York State Department of Financial Services, believes “fintech” is often just a cover for predatory actors.

**M**aria Vullo, the head of the New York State Department of Financial Services, is a skeptic of the so-called fintech revolution.

While some policymakers are eager to accommodate online lenders with regulatory oversight that is looser than what applies to banks, Vullo believes the word “fintech” is misleading and too often used as cover by predatory actors.

“We’re regulating the institutions; we’re not regulating the technology,” Vullo said in a recent interview at her

New York office. “What these entities want to do is they want to say, ‘We don’t have to comply with New York law; we can charge whatever interest rate we want.’ Well, do it in a state that allows it. New York doesn’t allow that.”

Vullo’s skepticism is reflected in her agency’s actions to date. Since taking office in January 2016, Vullo backed a Conference of State Bank Supervisors lawsuit against the Office of the Comptroller of the Currency’s proposed special charter for fintech firms and filed a separate lawsuit of her own against the agency.

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**BY** LALITA CLOZEL







"The OCC is trying to preempt state laws," she said, suggesting that she worries not just about the fintech charter itself, but about the possible start of a slippery slope. "We happen to have really strong laws in New York, and we have all these institutions, with billions of dollars in assets. The amount of fees that New York would lose if this thing happened!"

### FINTECHS AT THE GATE

To some, Vullo is a tough cop on the beat, a worthy successor to Benjamin Lawsky, who earned a reputation as a scourge of Wall Street. To others, Vullo's actions threaten to cause fintech firms to flee New York, leaving the country's financial capital out of a movement that promises significant innovations.

After a few months in office, Vullo issued subpoenas against LendingClub and nearly 30 other marketplace lenders to determine whether they should be licensed in New York. Her agency is now attempting to expand licensing requirements for all small-dollar consumer and commercial lenders, regardless of the interest rates they charge. (Currently, these lenders only have to register if their interest rates exceed 16%.)

The move has drawn fire from the fintech sector. "What the department is doing under her leadership is essentially attempting to force standards on the entire country based on the fact that New York is such a large, important state, without regard for the economic consequences of the rules that they're adopting," said Scott Pearson, a partner at Ballard Spahr who advises banks and fintech firms.

Critics warn that this environment might prompt fintech players to leave New York, especially marketplace lenders already smarting from a recent ap-

peals court decision that could force them to comply with the interest rate caps for each state where they operate.

"One of the questions is whether or not the amount of regulatory overreach is going to rise to the level where state financial institutions will convert to a federal charter in order to avoid the regulatory burden," said Joseph Lynyak III, a partner at Dorsey.

Some fintech industry players see Vullo as difficult to work with. They contend that her office doesn't seem to want their feedback, even though they are interested in establishing a dialogue.

"She's very hard to reach," said one fintech lobbyist who spoke on condition of anonymity. "The fintech companies, we're mostly open about a lot of this stuff, and I can't think of anyone that's had a voluntary conversation with her."

But Vullo is unapologetic about her stance and her willingness to strike out on her own.

"My job is to protect our markets in New York, our industry in New York and our people in New York from predatory conduct," she said.

It's an issue that Vullo, a Brooklyn native raised by second-generation Italian-Americans, takes personally.

"You can tell that this gets at me. Because, you know, I grew up in a lower middle-class community," said Vullo. "Italians are not generally people that put up with discrimination. ... 'cause we've been discriminated against."

Despite modest roots compared with many of her peers among the New York white-collar elite, she rose rapidly through the ranks, propelled by her outspokenness and ability to quickly absorb complex topics.

After attending an all-girls public

high school in Brooklyn, Vullo went on to study at the College of Mount Saint Vincent, a Catholic liberal arts college located a stone's throw from Yonkers, and obtain her J.D. from New York University School of Law.

But Vullo's own parents had no higher education degrees. Her father sewed fur coats in a factory, and her mother was a bookkeeper and homemaker, busy raising three girls and two boys.

Vullo recalled running for class president in sixth grade. "I lost by one vote," she said. "To a boy."

The memory still stings, but Vullo said her parents instilled in her a self-assurance that would help her make it through 27 years at the prestigious law firm Paul, Weiss, Rifkind, Wharton & Garrison, and ultimately take the helm of New York's financial services regulatory agency.

"My mother, in particular, encouraged her daughters to stand up for themselves," said Vullo, a parent to two adopted children. "It probably helped me in my profession and in the business world, where stereotypes of what leaders should be are male models."

In her stance on the OCC fintech charter, Vullo has backers among consumer advocates, who worry that the charter could allow predatory actors to reach more consumers by avoiding state consumer protection laws.

"New York has been a strong state in looking out for consumers and defending its interest rate caps," said Lauren Saunders, the associate director at the National Consumer Law Center. "States are really important players in protecting consumers, especially when it comes to loans, when we don't have interest rate caps for the most part at the federal level."

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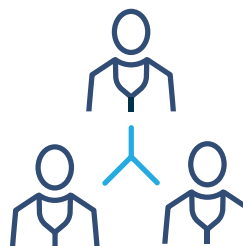
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## THE CYBER THREAT

Vullo wants to preserve her agency's reputation as a tough financial regulator. If that means upstaging the federal regulators, so be it.

Fintech isn't the only area where Vullo has blazed her own path. Under her leadership, New York's Department of Financial Services has imposed tough new cybersecurity requirements – an initiative begun under her predecessor, Lawskey – and backed a measure that would give the department the power to ban “bad actors” from the state's financial industry.

“This agency is situated in the financial capital of the world, and regulates the financial services industry in New York and is a leader in doing that,” said Vullo, “while at the same time protecting consumers in their health care and their financial services products.”

The industry has complained that New York is setting standards too high, and that those rules conflict with what federal regulators have required. But Vullo has suggested federal regulators should follow her agency's lead.

“I thought it was important to set rules of the road in order to bring institutions up to a certain level of protection, and to ensure that the institutions at senior levels are focusing on cybersecurity,” said Vullo. “I can't speak for other regulators and what their processes are.”

Though the final rule still carries a hefty price tag, some in the financial industry acknowledge it could have been worse.

“There was a very healthy give-and-take,” said Michael Smith, the head of the New York Bankers Association. “But the process went forward as it should have.”

Even being a relative newcomer on the regulatory stage, Vullo is no stranger

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**“What these entities want to do is they want to say, ‘We don’t have to comply with New York law; we can charge whatever interest rate we want.’ Well, do it in a state that allows it,” Vullo says.**

to the financial services industry. As an attorney, she focused on a broad range of commercial litigation, including some involving financial institutions.

The work got her noticed.

Her oratory in the case against the American Coalition of Life Activists, which she ultimately won in a landmark \$107 million victory, was praised by Martin London, her litigation partner and a legendary New York attorney.

In a memoir published this year, he described how her presentation's rehearsal had been received by other lawyers.

“When Maria was finished, the audience sat open-mouthed at the awe-inspiring performance,” he wrote.

Vullo, a no-frills dresser with rebellious curls poking out of a square bob cut, also challenged the image of a high-powered attorney.

“One of the problems with diversity,” she said, “is if the people that are in charge are all of a certain type, they view other people through their own personal lens, and that creates difficulty for diverse people to move up in the chain.”

At Paul Weiss, she was only the second woman to make partner in the firm's litigation division.

“We go back to a period where there were very few women partners,” said Judith Thoyer, a former colleague of Vullo's at Paul Weiss. “It's going to shape you in some way.”

Since then, Vullo has earned a repu-

tation as a demanding boss. “In a pleasant enough way, she tends to push people,” said Steven M. Cohen, the general counsel at MacAndrews & Forbes, and former top aide to New York Gov. Andrew Cuomo. “Push people who work for her and frankly push people who she is working with.”

But she has also demonstrated a capacity to adapt, especially when victory was at stake.

When she was lead litigator in the case against the ACLA, which stood accused of inciting murders against abortion doctors, Vullo was the one who invited London to join the trial team.

“He was one of my mentors and one of the country's top trial lawyers,” she explained in a follow-up email. But, she added, “I was also mindful that on this particular jury case, it didn't hurt to have a man on an otherwise all-female team.”

## NEW ERA

Under Vullo, the Department of Financial Services, a consolidated agency created in the wake of the financial crisis, faces a vastly different landscape than it did back then. Yet some still view her as an extension of Cuomo, a forceful leader who is famous for micromanaging his staff.

“It's a different time,” Smith said. “Her predecessor was coming in the aftermath of the financial crisis ... so there were a different set of issues.”

Today, “everyone in the industry agrees that if you were to select the top issues facing the industry, it would be cyber, followed by fintech.”

Vullo’s first stint in public service came in 2010, when she worked under Cuomo at the state attorney general’s office. There, she led the “economic justice” portfolio, pursuing Ivy Asset Management in a case related to the Bernie Madoff scheme and Ernst & Young for its auditing practices at Lehman Brothers.

Before that, Vullo had been on the short list for a judgeship on the New York State Court of Appeals twice, in 2013 and 2014.

Though she has contributed nearly \$85,000 to his campaigns since 2001, according to the New York State Board of Elections’ campaign finance database, she did not get the role.

Then, in January 2016, she was nominated by Cuomo to become the second head of New York State Department of Financial Services, for what could mark a new era in the agency’s relationship to Wall Street.

The criticism from some fintech players aside, John P. “Sean” Coffey, a partner at Kramer Levin and former colleague of Vullo’s, said she is willing to consider valid points made by the industry.

“DFS remains a very formidable regulator,” he said, “but one that is open to hearing the other side of the story and weighing carefully arguments that are put forth by supervised entities.”

And there is one point her admirers and critics agree on: Vullo can be relied on to speak her mind

“She is not following some hidden agenda,” said Lawrence Kaplan, a bank regulatory attorney of counsel at Paul Hastings. “You know exactly what you are getting.” □

## TOUGH TALK COMES EASY TO MARIA VULLO

In an interview with American Banker, New York Superintendent of Financial Services Maria Vullo discussed the Office of the Comptroller of the Currency’s fintech charter initiative, which has drawn strong condemnation from many state regulators.

Following is an edited transcript.

### What are your main concerns with the OCC fintech charter?

First and foremost, from a state regulator’s perspective, and particularly in New York, we already regulate money transmitters and other licensed financial services. Any proposed charter which has as a concept the preemption of what I do for New Yorkers and New York consumers is going to be met with significant resistance.

Second, the usury requirements that could be evaded by an OCC charter are of extreme concern to me. In New York, we have our statutes that protect consumers from very, very high interest rates and we ban payday loans.

To the extent this charter would seek to permit applicants who might gain such a charter to then seek to loan to New Yorkers in violation of New York’s rates, with some federal preemption idea, we would definitely fight that.

Third, I have significant concerns about the potential for the OCC to charter non-depository institutions under the current statutory authority that exists for the OCC to charter banks, and that’s the National Bank Act.

I think there are very, very significant questions about the OCC’s ability to do this without congressional authorization. And to do it without even regulations that would be subject to a comment period.

### How do you plan to fight it?

We are in constant consultation with other state banking supervisors across the country, through our association, the Conference of State Bank Supervisors, which also opposes this charter. As to what the appropriate steps would be if they actually go forward, we hope that given the comments that they’ve received, that they will think twice about the proposal.

We have some concerns also about the impact that something like this would have on our local community and regional banks, and their competitive advantage or disadvantage, as the case may be.

We have concerns about money laundering and terrorist financing controls for institutions that might be subject to the charter. We have concerns about “too big to fail” issues with some so-called national charter that would be light on regulation and preempt the states.

I am not in any way averse to what exists in the United States, which is a dual banking world. But a proposal that preempts state authority is not actually dual banking, particularly when the states that have in this area been at the forefront of on-the-ground consumer protections, for these types of companies.

The other thing that I’ll say is it’s unclear what exactly fintech means in the context of a bank charter.

There are companies in all different industries that use financial technology. But the OCC is a bank regulator. The National Bank Act gives the OCC its authority.

You can’t just try to get something passed that’s not appropriate for consumers or for the industry as a whole by using this fintech term, which is really an effort to suggest that you’re ahead of the game on innovation. I think that’s just a label.

Certainly on the nondepository level, the consumer protection and compliance requirements, the states really are better positioned. I don’t think that the OCC has demonstrated a history of being ahead of the game on these types of issues.

### What history are you referring to?

They don’t have a history of actually regulating nondepository institutions, money transmitters, online entities, small institutions that arise, startup companies. That’s a very local and a state-based function.

They have not had the best record on compliance. The 2008 financial crisis was caused by a number of institutions that were regulated by the OCC. The Wells Fargo scenario was troubling on consumer protection, as well.

# BankThink

BY MICHAEL WHELCHER

## Don't Overlook Diversity As a Source of Alpha

A decade ago, any discussion of doing good in deploying capital was seen as philanthropy. But today conducting business for profit and impact is recognized as both an investment opportunity and the best tool for addressing the world's most pressing problems.

This is an interesting time where both demand and supply dynamics within the financial sector are providing tail winds for this topic.

On the demand side – with the investors – big changes are happening. There will be a \$60 trillion wealth transfer over the next few decades and much of this wealth will be controlled by women and millennials. Studies show that these groups want their investments to have a higher level of positive impact.

EY's annual review of the global wealth and asset management sector listed impact investing as one of the 10 drivers of disruption, alongside fintech, cybersecurity and liquidity risk. EY states that wealth management firms must step up their offerings due to the rising influence of millennials and women and their affinity to these investments. Just a few years ago, no one would have predicted that impact investing would be sharing center stage with cybersecurity and liquidity risk. Wealth management firms are starting to see a specialty in investments that make positive social and environmental change as a competitive advantage.

On the supply side – with investment opportunities – there are changes as well. Let's focus on venture capital as an example, since it is the firestarter in our economy. How is diversity a competitive advantage in venture capital?

Mitch Kapor at Kapor Capital and Darren Walker at the Ford Foundation have articulated this potential the best. It can be summed up in the quote, "Talent is equally distributed, but opportunity is not." Ability and intelligence cut across race, sex and gender orientation, but opportunity (and you can fill in access to capital) does not. This is an arbitrage play for those who identify talent that the majority of the VC community has discounted and overlooked.

We have a bias in the system that keeps a large segment of our economy on the sidelines. Untapped genius – namely nonwhite, nonmale entrepreneurs – doesn't have access to the fuel needed to bring about untold innovation. The VC community traditionally asks what great company has not been created. We are asking what great entrepreneur has not been funded. What loss to society are we suffering accepting this deficiency in our system?

Let me share a few interesting stats that bring this opportunity into focus. The venture capital industry is dominated by men – it is 89% men and 76% white men. Just 7% of the people in this industry are women, only 1% identify as African-American and



less than 1% identify as Latino. Now keep in mind who is making the allocations.

*Arbitrage Opportunity No. 1:* Out of the \$60 billion that VCs invested last year, \$1.5 billion went to women-run companies. That is roughly 2%.

But studies show female chief executives in the Fortune 1000 drive three times the returns as S&P 500 enterprises run predominantly by men.

*Arbitrage Opportunity No. 2:* Of the thousands of venture deals done between 2012 and 2014, so few black female founders raised money that, statistically speaking, they registered as zero. (The

exact number is 24 out of 10,238, or just 0.2%.)

The few who have raised money averaged \$36,000 in funding. In contrast, the typical startup, usually founded by a white male, raised an average of

\$1.3 million in venture funding – even though most of them fail.

But black women constitute the fastest-growing group of entrepreneurs in the country today. They have over 1.5 million businesses – a 322% increase since 1997. These businesses generate more than \$44 billion a year in revenue.

Again, talent is equally distributed, but opportunity is not.

As an investment community, we have to realize that any system with 90% homogeneity is vulnerable, while diversity makes the system more resilient. And it is resilient organizations and investments that will outlast and outperform peers. □

### OPINION

For more viewpoints on industry issues, visit the BankThink page on [AmericanBanker.com](http://AmericanBanker.com)

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*Michael Whelcher is co-founder and managing partner of Big Path Capital, a boutique investment bank that focuses on serving companies and funds in the impact investing sector.*



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# BackPorch

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## JEROME POWELL

**"We're almost at a now-or-never moment here."**

Federal Reserve governor, urging lawmakers to act quickly to reform Fannie Mae and Freddie Mac

## RUMI MORALES

**"People have moved to pulling out their eye-lashes because they're done pulling out their hair."**

Executive director at the early-stage investor CME Ventures, on how impatient people are to see if blockchain can live up to its hype

## ANNE McNALLY

**"Creating dialogue, even controversial dialogue, is how things get changed."**

State Street's head of public relations, responding to criticism of its "Fearless Girl" statue

## WILLIAM MOUGAYAR

**"The momentum has shifted to Ethereum — there is no doubt about that."**

Founder of Virtual Capital Ventures, contending that bitcoin is losing its position as the dominant digital currency



**"Who would have thought that the weather app would be a pain point? Now I just say, 'Alexa, what's the weather today?' "**

U.S. Bank's executive vice president of omnichannel, on how what people think of as convenient is changing

## STEVEN MNUCHIN

**"We are committed to targeting North Korea's external enablers and maximizing economic pressure on the regime until it ceases its nuclear and ballistic missile programs."**

U.S. Treasury secretary, on plans to cut off a Chinese bank from the U.S. financial system for financing companies involved in North Korea's weapons program

## JOHN DONNELLY

**"This is like losing LeBron James and bringing in Stephen Curry to replace him."**

Managing director at the investment bank Donnelly Penman & Partners, on Chemical Financial having David Provost succeed CEO David Ramaker

## MELISSA STEVENS

**"Creating a PowerPoint with the customer in the middle doesn't make you customer centric."**

Fifth Third's chief digital officer, discussing the many steps her bank takes to design products that resonate with customers

## YVETTE HARRIS

**"How am I still paying for a car I don't have?"**

Borrower making payments on a car repossessed more than a decade ago, because it fell short of the loan amount at resale



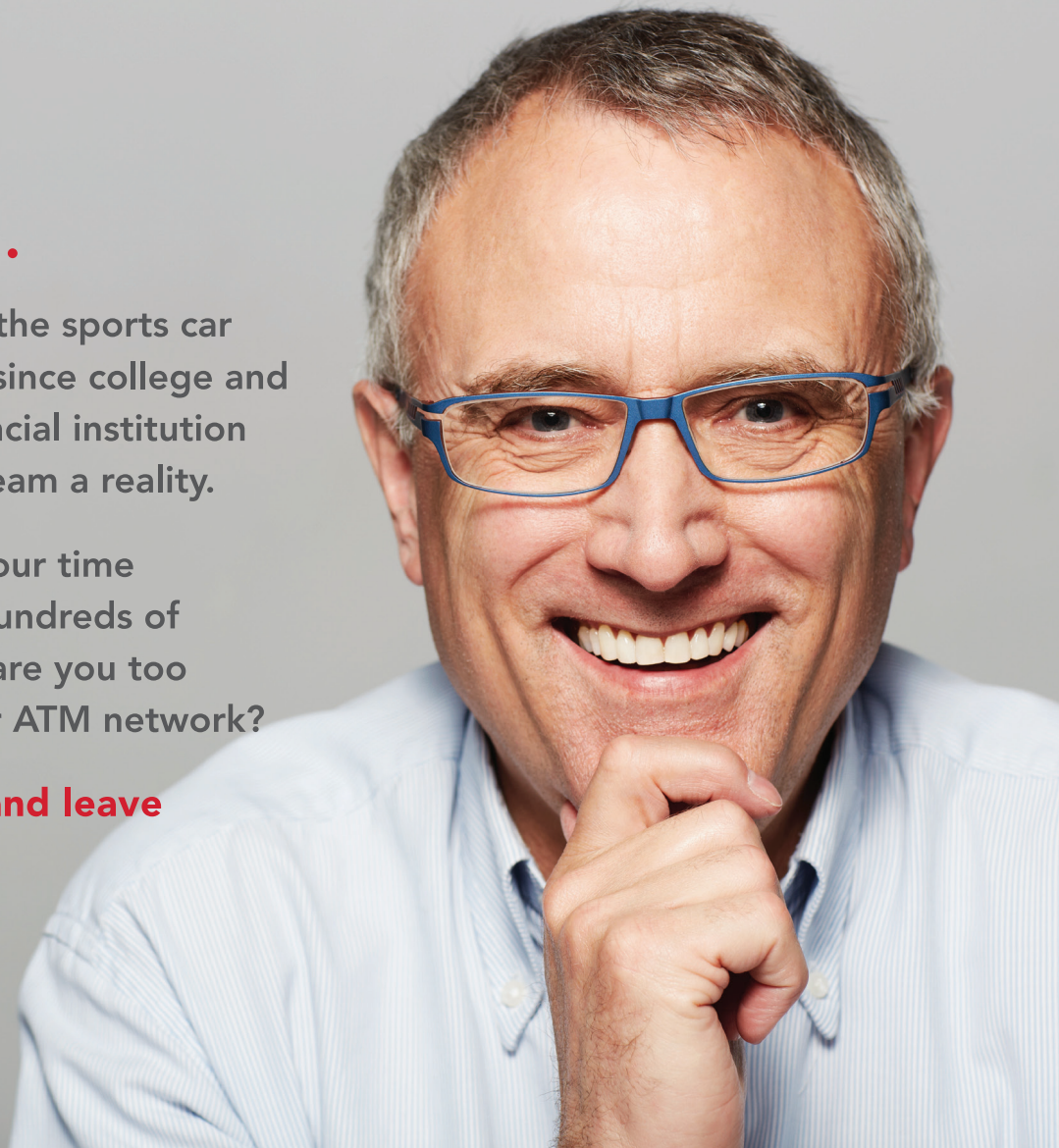
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