

# AMERICAN BANKER®

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## DIGITAL BANKER OF THE YEAR

Ankit Bhatt is pursuing his love of science in an entirely different way than he expected, and U.S. Bank's mobile offerings are better for it

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# AMERICAN BANKER.

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**Executive Editor** Bonnie McGeer  
**Art Director** Robin Henriquez  
**Contributors** Brian Browdie, Penny Crosman, John Engen, Will Hernandez, Andy Peters, John Reosti, Kevin Wack

**Established 1836**  
One State Street Plaza, 27th floor, New York, NY 10004  
Phone 212-803-8200  
Emails [FirstName.LastName@SourceMedia.com](mailto:FirstName.LastName@SourceMedia.com)

**Editor in Chief** Rob Blackwell 571.403.3834  
**Managing Editor** Dean Anason 770.621.9935  
**Executive Editor** Bonnie McGeer 212.803.8430  
**Senior Editor** Alan Kline 571.403.3846  
**Editor at Large** Penny Crosman 212.803.8673  
**Washington Bureau Chief** Joe Adler 571.403.3832  
**Technology Editor** Suleman Din 212.803.8738  
**BankThink Editor, Deputy Washington Bureau Chief** Victoria Finkle 646.477.7549  
**Community Banking Editor** Paul Davis 336.852.9496  
**News Editor** Andy Peters 404.500.5770  
**Contributing Editor** Daniel Wolfe 212.803.8397  
**Digital Managing Editor** Christopher Wood 212.803.8437  
**Copy Editor** Neil Cassidy 212.803.8440

## Reporters/Producers

Laura Alix 860.836.5431  
Kate Berry 562.434.5432  
Hilary Burns 617.276.6916  
Nathan DiCamillo 212.803.8246  
Neil Haggerty 571.403.3837  
John Heltman 571.403.3847  
Will Hernandez 212.803.8731  
Hannah Lang 571.403.3855  
John Reosti 571.403.3864  
Gary Siegel 212.803.1560  
Jackie Stewart 571.403.3852  
Kevin Wack 626.486.2341  
Rachel Witkowski 571.403.3857

**Group Editorial Director, Banking/Capital Markets**  
Richard Melville 212.803.8679  
**Executive Director, Content Operations and Creative Services**  
Michael Chu 212.803.8313

## ADVERTISING

**VP Sales, Banking & Payments**  
Dennis Strong 212.803.8372

## Northeast

Brad Bava 212.803.8829

## Midwest/Southwest

Shelly Schmeling 312.932.9392

## West

Sara Culley 831.438.8408

## Midatlantic/Southeast

David Cleworth 843.640.3713

## Marketing Manager

Deborah Vanderlinder 212.803.8323

## Group Director Custom Marketing Solutions

Virginia Wiese 704.987.3224

## CIRCULATION/CUSTOMER SERVICE

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## MOST READ



## A Conversation on Pay Inequity

At a House hearing with the top executives of the largest U.S. banks, CEOs such as Michael Corbat of Citigroup, above left, and Jamie Dimon of JPMorgan Chase faced criticism from lawmakers over how their salaries compare with those of lower-level employees at their companies.

## MOST SHARED



## Backtracking on Faster Payments

Community bankers who want the Federal Reserve to start a real-time payments service demanded it act after The Clearing House added a caveat to an equal-pricing pledge for its RTP system. "The Fed needs to stand up and do what the central bank should do," said Bridge Community Bank CEO Bob Steen, above.

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# Briefings

SMALL BUSINESS | MARKETPLACE LENDING | STUDENT LOANS | MORTGAGES



## Credit Unions, Meet 7(a)

Three-year SBA-NCUA initiative aims to inform while encouraging more participation

By John Reosti

A pair of government agencies have a new plan to spur credit unions' interest in Small Business Administration loans.

The SBA and the National Credit Union Administration are teaming up under a three-year agreement to let credit unions know about how SBA programs can help provide affordable credit to small businesses. The agencies pledged to step up their outreach efforts through webinars, training events and the news media.

While bankers have been concerned that credit unions would swoop in and take away meaningful market share, that hasn't been the case so far.

Through Dec. 31, none of the top 100

7(a) lenders in fiscal 2019 were credit unions, and fewer than 200 credit unions had made an SBA loan in the past 16 months, according to SBA data. The agency's fiscal year began Oct. 1.

In the 2018 fiscal year, the number of credit unions participating in the 7(a) program fell by 10% from a year earlier, to 178, and the number of 7(a) loans decreased by 11%, to 1,328, according to data from the SBA. Overall 7(a) volume from credit unions declined by 9.6%, to \$309 million.

Credit unions contributed to just 1.2% of all 7(a) originations in fiscal 2018.

The agreement between the SBA

and the NCUA is the latest effort to promote the government programs to credit unions. It is broadly similar to a three-year agreement the SBA reached with the National Association of Federally-Insured Credit Unions in September 2017; the two also signed a deal in February 2015.

Bankers, irate about credit unions' increased dealings with commercial loans, reject the notion that those institutions have spurned small-dollar business lending.

While SBA lending by credit unions has stalled, other lending categories have increased. For instance, member business loans increased by 2.6% in





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# Briefings

2018 from a year earlier, to \$66 billion, according to NCUA call report data.

Scott Heitkamp, CEO of the \$242.2 million-asset ValueBank Texas in Corpus Christi, called the SBA-NCUA agreement worrisome “because this is another attempt for credit unions to get in the commercial lending business.”

Small-dollar lending is central to ValueBank’s business model, Heitkamp said. “We help small businesses every day, and that includes those that need smaller loan amounts,” he added. “Our niche is small-business lending, and as an industry community banks make up a large percentage of small-business loans. I think it’s something like 90%.”

Other recent developments could encourage more credit union participation in SBA lending, including a revision to the member business lending rule that no longer requires loans secured by one- to four-family properties to be counted against the statutory cap on business loans.

Ann Kossachev, NAFCU’s director of regulatory affairs, said more than a third of the credit unions that responded to a survey the association conducted in February indicated that the rule change had allowed them to make more business loans.

The Credit Union Membership Access Act caps member business lending at about 12.25% of an institution’s total assets.

“We’re really happy to see the two agencies are working together,” Kossachev said. “Any work done to further access to capital is a really positive thing.”

While the SBA’s lingering reputation as a cumbersome lender of last resort may have kept some credit unions on the sidelines, “the truth is SBA is the best thing that could happen to a business, especially if it’s a startup,”

said Michele Kors, director of business services at Heritage Federal Credit Union in Newburgh, Ind.

The \$608 million-asset Heritage recently got into SBA lending. The credit union’s members have been inquiring about \$50,000 credit lines, \$100,000 equipment loans and \$350,000 commercial real estate loans, Kors said.

“I’m a complete supporter of SBA. You can’t beat it,” Kors said.

Most SBA loans made by credit unions are small, with many under \$100,000 in size, according to Kossachev.

Kors said that is certainly true of her credit union. “We’re not going to be doing large loans,” she said, adding that she is fine with helping borrowers take out loans that some banks consider too small to bother with.

“A lot of times they tell us banks have turned them down because the loan amounts are too small,” Kors said. “America’s foundation was built on small business, and Heritage wants to continue that legacy.”

## Closed for Business

LendingClub, lacking scale, stops making business loans

LendingClub is shutting down its 5-year-old business lending arm, which was dwarfed by its flagship consumer loan unit.

It will refer prospective commercial borrowers to two partner companies. Those with strong credit profiles will be sent to Funding Circle, an online lender that caters exclusively to small businesses. Those with weaker credit profiles will be sent to Opportunity Fund, a nonprofit lender that focuses on small commercial customers who

might otherwise be denied access to affordable credit.

In both cases, LendingClub will receive a fee when a referral results in a loan.

Steve Allocca, president of LendingClub, said in an interview that though the San Francisco company is getting out of the business of originating and servicing small-business loans, it will perform marketing activities to promote what will effectively be cobranded programs with its two partners.

Virtually all of the LendingClub employees whose jobs will be eliminated will either be reassigned within the company or hired by Opportunity Fund, Allocca said.

LendingClub CEO Scott Sanborn said that the publicly traded online lender is creating a system where its customers can take advantage of additional services from trusted partners. “This enables us to both deliver greater value to our applicants and capture a new revenue stream for LendingClub, while further simplifying our business and setting the stage for more partnerships,” Sanborn said.

LendingClub has been offering small-business loans since 2014. Like many online lenders, the firm saw an opportunity to make inroads by approving loans and delivering funds to borrowers much more quickly than traditional lenders did.

But LendingClub’s small-business unit has failed to achieve anywhere near the scale of its personal loan business.

In the fourth quarter of last year, small-business loans and certain consumer loan categories combined to account for 7% of the firm’s loan origination volume. Personal loans to consumers made up the remaining 93%.



In 2016, LendingClub launched a pilot program with Opportunity Fund, a small-business lender that is certified by the federal government as a community development financial institution.

Under the pilot program, Opportunity Fund, of San Jose, Calif., started offering loans to small businesses that had applied online to LendingClub for credit and would have otherwise been rejected.

The pilot program set the stage for the expanded partnership. Opportunity Fund, which currently makes loans to borrowers in 13 states, said that it could expand to 32 more states now.

The nonprofit lender plans to deploy \$1.2 billion in capital to underserved entrepreneurs by 2023, with roughly 30% of that loan volume coming from online applications. "This partnership is a significant piece of our business," Opportunity Fund CEO Luz Urrutia said in an interview.

Funding Circle is a U.K.-based online lender that has provided more than \$2 billion in financing to U.S. small businesses. Bernardo Martinez, U.S. managing director at Funding Circle, said the LendingClub partnership will help with accelerating its growth.

LendingClub, Opportunity Fund and Funding Circle all portray themselves as white-hat actors in an online lending market that has been tarnished by less scrupulous companies.

The three companies are all signatories of the Small Business Borrowers' Bill of Rights, a self-regulatory effort that calls for clear disclosure of loan terms. Last year, they all supported a first-in-the-nation law in California that requires lenders to disclose interest rates in a way that allows small-business borrowers to compare multiple offers.

— Kevin Wack

## Navient's Next Move

The student loan servicer is now a lender

Navient has begun offering education loans to college students following the expiration of restrictions on its ability to compete with Sallie Mae.

Since being spun off from Sallie Mae in 2014, Navient has focused largely on the business of collecting payments from borrowers who have already taken out student loans.

But in 2017, Navient acquired Earnest, a startup lender that specializes in refinancing student loans. And Dec. 31, 2018, marked the end of contractual provisions that barred Navient from competing with Sallie for new student loans.

Navient, of Wilmington, Del., is using technology that was developed by

Earnest in its new offering for current students. The Earnest-branded product, which launched last week, will enable borrowers to check their eligibility in two minutes by providing basic school information, school details and an estimated credit score, according to the company.

Earnest's loan application process is also meant to reduce the awkwardness of asking someone to cosign the loan.

"Today, the process of applying for a student loan is woefully outdated," Earnest CEO Susan Ehrlich said in an April 16 press release. "Our team conducted over 300 hours of user research with students, cosigners and financial aid offices to re-engineer the student lending process from start to finish."

Because Navient is not a bank, it has a higher cost of funds than some of the deposit-funded lenders — including Sallie Mae, Wells Fargo, Discover Finan-



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# Briefings

cial Services and Citizens Financial Group — that it will compete against in private student lending.

Navient may be able to reduce that funding disadvantage by relying more heavily than some competitors on digital marketing, instead of direct mail.

Navient CEO Jack Remondi said that near-term expectations for the new loan product are modest; the company expects to originate roughly \$300 million worth of loans to current students this year. By comparison, Sallie Mae originated \$5.7 billion in private education loans last year.

"But we think we can capitalize on our experience, our product innovation and design, and really ramp this product up pretty quickly over the next several years," Remondi said during Navient's quarterly earnings call.

— Kevin Wack

## Blockchain's Promise

Can the technology really trim mortgage closing costs?

Blockchain is at the core of how Figure Technologies, a fintech co-founded by former SoFi chief Mike Cagney, is originating home equity loans.

The startup claims the same technology can also help reduce mortgage closing costs for new homeowners, who typically pay up to 5% of a property's value.

The San Francisco company recently spun off that blockchain technology into a separate entity called Provenance Blockchain.

The idea behind Provenance is that it can help lenders reduce the costs associated with various loans and pass the savings to consumers, said Wendy Harrington, Figure's chief marketing officer. "From originating a loan to

servicing and financing a particular securitization, we think we can take 70% of the cost out of it," she said. "In addition, you get better transparency into the assets, and we believe there will be enhanced liquidity as well."

Figure developed Provenance as part of its digital home equity loan platform that enables consumers to receive approval in minutes and funding in as little as five days.

Provenance uses a combination of artificial intelligence and blockchain to hasten what is typically a 45-day process while also reducing fees, interest rates and the paperwork associated with home equity loans.

Figure first launched the offering in October after originating its first loan on Provenance in July.

One particular burden Harrington emphasized Provenance can help reduce is the paperwork involved in the loan process. One industry analysis determined the typical mortgage application can run 500 pages due to the third parties involved in the process.

What Figure is doing with Provenance is "emblematic of a trend that a lot of companies are following, which is the digitization of the consumer experience," said Kevin Shtofman, the U.S. real estate blockchain lead at Deloitte.

"Anything that used to involve only paper will in the medium term involve both paper and digital records," he said. "Eventually, consumers will trust the digital trail enough that we don't need paper records anymore."

Harrington said Figure originates the loan "on chain," as the full documentation for the loan resides on Provenance as a smart contract. "If you click on the smart contract, you'll be able to see all the information on that borrower," she said.

The speed at which Provenance can

help with loan approvals should also be a boon for both lenders and homeowners.

The AI portion of the platform conducts a soft credit check on the applicant and an automated valuation of the property, calculating the final loan amount based on that value.

"I think that using blockchain at the beginning, while it will provide value on the back end, will not be the main reason why transaction time will be cut down significantly," Shtofman said. "The digitization of the approval process and the AI involved will play a bigger role."

Shtofman relayed his own experience with a recent home equity loan that took 32 days for approval despite giving his lender the proper paperwork.

"Even with my advanced knowledge of the space and my preparation with the financial institution, it still took that long," he said.

Provenance announced it completed a \$20 million security token offering that is intended to support the continued development and expansion of the platform. It said in a press release that a "diverse set of funds, banks and dealers" are currently active on the network, but the company declined to provide their names.

When asked if Figure would allow potential competitors to access Provenance, Harrington said the company will welcome different lender types, including "home equity loans and lines, personal loans, credit cards and other secured products."

Harrington said Figure will eventually release a software development kit to enable third parties to build on the platform. "But the real purpose of this is to unleash a lot of pent-up value that can eventually go back to saving consumers money," she said. "We want it to be a platform in the industry."

— Will Hernandez

# Creating the future with inspiring leadership

## U.S. Bank applauds Ankit Bhatt.

Congratulations to Ankit Bhatt on being named 2019 Digital Banker of the Year by American Banker magazine!

We proudly recognize the outstanding leadership of our own Ankit Bhatt. With inspiring vision, Ankit has led the bank effort to completely transform our digital banking experiences to drive growth, customer-obsession and innovation at U.S. Bank. This includes the recent launch of the new U.S. Bank Mobile App, co-created with customers in mind for an experience that is helpful, easy and deeply personalized for them.

*Thank you, Ankit, for your many contributions to U.S. Bank!*



**Ankit Bhatt**

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# Bank Technology



## Will Banks Take 'Self-Driving' Payroll for a Spin?

On-demand wage delivery has caught on in other industries. Banks have taken notice

By Brian Browdie

In January, U.S. Commerce Secretary Wilbur Ross sparked outrage for suggesting during the partial government shutdown that furloughed federal workers could bridge missed paychecks by taking out short-term loans.

The billionaire Ross seemed oblivious to the reality of many Americans, according to critics, who noted that just four in 10 adults could cover an emergency expense of \$400 and nearly one-third of full-time workers have a second job to help make ends meet.

In recent years, the precariousness that faces such workers, coupled with

the growth of the gig economy, has produced a series of fintech startups with names like DailyPay, PayActive and Even that give people the ability to receive wages they have earned without waiting for payday. Employers in industries such as retail, ride-hailing and home health care use these services to help their workers pocket wages on demand.

Banks are taking notice of the trend.

They have been spending billions on technology to deliver faster payments, and this type of service — basically faster delivery of wages — is a use

case. Some business customers already have shown how the move to faster payments could prompt changes in both payroll and credit.

On-demand access to pay "is permeating a lot of the industries that we traditionally service and gaining steam in the marketplace," says Matt Miller, head of product and innovation at KeyBank.

Last year, the Cleveland-based bank teamed with Ingo Money to enable businesses to disburse payments directly to debit cards in real time. The bank built the capability for insurance



carriers, lenders and businesses looking to deliver payments to their final destination quickly.

Employers can use the service to offer their workers access to earned but unpaid wages, provided the employer adjusts its payroll processing to accommodate the shift.

Depending on the employer's goal, either real-time payments or same-day payments via the automated clearing house (ACH) may help to accomplish it, according to Miller, who notes that many of Key's business customers currently use same-day ACH for payroll processing. "The technology needs to be considered against the use case, because it's not always one size fits all," he said.

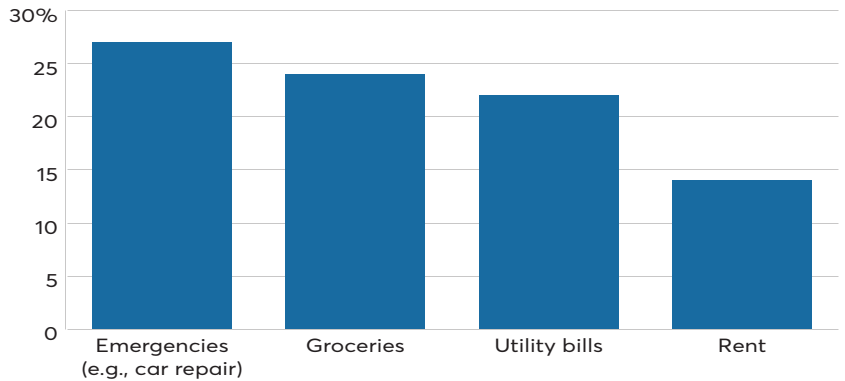
U.S. Bank is looking to new payment capabilities and technology to address the needs of some businesses that are exploring how to pay workers more flexibly, as well as changing preferences among workers on how and when they want to get paid, as well as the desire of some businesses to pay workers more flexibly. One such example includes distributing wages in real time using Disbursements via Zelle.

"There's a lot more familiarity with Zelle as a network for person-to-person payments, but it's also a way for our larger corporate and middle-market customers to make disbursements to individuals," said Sayantan Chakraborty, head of product for U.S. Bank's global treasury management business.

Chakraborty notes that for an employer that wants to pay workers at the end of each shift, the network exists to enable it. "The possibility is here and now," he said. "Theoretically speaking, pay can be distributed in a matter of seconds, if not milliseconds."

Both Miller and Chakraborty declined to discuss specific customers

## Why workers use on-demand access to wages



Source: PayActiv survey of 4,696 workers at 70 companies who make less than \$25 per hour

and noted that the shrinking of the pay cycle itself has yet to enter the mainstream. "The market is still in the first inning of figuring out how to price this, but there are a good number of markers out there," Miller said.

One may be the fintech providers themselves. For example, DailyPay, which moves wages to a user's bank account through their linked debit card via the Mastercard and Visa networks, charges \$2.99 for instant access and \$1.25 for access the next business day.

DailyPay and other services like it partner with employers, rather than market to individuals directly. But DailyPay's chief executive, Jason Lee, understands who the end users are. He said they primarily belong to one of two groups: those who need the funds right away, such as to get their car out of the shop, and the millennial and Generation Z workers who expect to be able to access everything from music to money on demand.

"DailyPay is an ATM for your earnings," Lee said. "You only use it when you need it."

### Peril and promise

Lee said that the payout turns on the ability of DailyPay, which sources its

capital from nonbank lenders in the specialty finance market, to assess with precision the risk presented by each worker and their employer. To do so, the company relies on a machine learning algorithm that it developed to determine the amount a user can request each day.

DailyPay is talking to some banks about partnering to offer its service.

It is a specialty that would be tricky for banks to develop on their own, according to Lee. The shift to real time from batch payments that instant pay demands, and the treatment of such credit by capital rules, "make it very difficult for banks to fund these types of payments," he said. "Banks need to tread very carefully in this space, because it is a deceptively complex business."

As conversations between banks and their business customers suggest, the capability holds value for employers. A study last year by Todd Baker and Snigdha Kumar at Harvard University's Kennedy School found that among six employers that offered instant access to wages via PayActiv, workers who used the service at least twice were 19% more likely to remain in their jobs than those had used the service less

frequently.

For a retailer the size of Target, that could translate to a savings of roughly \$108 million annually, the researchers found. (Target itself does not currently offer instant pay. Walmart offers on-demand access to wages through Even and PayActiv.)

The apps also can ease stress and lower costs for workers who live paycheck to paycheck. Aaron Klein, an economist who directs the Center on Regulation and Markets at the Brookings Institution, estimates the delay in receiving wages costs Americans at least \$10 billion a year in the form of overdrafts, late fees and payday loans.

"There's a mistake that often direct deposit means instant. It doesn't," said Klein.

He pointed out that at a Senate Banking Committee hearing in February, members asked the Federal Reserve chairman more questions about payments than about the rate of inflation. "That ought to be some indicator of the problems facing Americans," Klein said.

## Forcing out risk

The advent of instant pay presents opportunities and challenges for banks that go beyond payroll. Rick Burke, head of corporate products and services at TD Bank, says developments such as on-demand access to wages could change people's relationship to credit.

"Everybody knows that if you want to reduce your mortgage interest, pay twice a month," Burke said. "What would happen if you paid it every day? Or if I could get paid every day and pay my mortgage and car loan and utilities daily? Any place that I accumulate interest, I could either borrow more or reduce my debt burden very rapidly."

If more frequent pay cycles become

the norm, the cost of instant pay "would move closer to zero," Burke said. "The concept of faster payments helps to drive risk out of the system."

The move toward real time also runs in more than one direction. John Thompson, chief program officer at the Center for Financial Services Innovation, points to apps like Digit that monitor users' financial habits automatically with the aim of perfecting the amount the person can set aside for savings each day.

As with demand for faster payments generally, the changing assumptions around pay promise "to pull on the rest of the system to catch up," said Thompson. "It will create pressures on banks and legacy providers because it's hard to have part of the system be in real time and part of it not."

The shifts underway are an inevitability, said DailyPay's Lee. "Self-driving payroll is already here," he said. "Like self-driving cars, this will not stop at cruise control. This is a dynamic that folks will have to contend with."

## 'This Is Not A Luxury'

Chatbots are a centerpiece of TymeBank's business strategy

For many financial institutions, a chatbot that uses artificial intelligence to answer customers' questions may be seen as a bonus that helps cut costs or slightly improves the customer service.

But for Coenraad Jonker, CEO of TymeBank, the chatbot is essential to his business. With just 120 employees, his challenger bank competes with institutions that have 15,000 employees or more. Without the chatbot, that wouldn't be possible.

"Deploying these technologies for us is not a luxury. It is a critical part of the

long-term strategy," Jonker said. "If we want to make banking affordable, particularly for underserved segments, we have to find a way to drive the cost down. We believe to be truly affordable for our customers, we need to have less than 200 employees at scale."

Moving customer service conversations to automated chatbots is a growing trend in the U.S. as well as the rest of the world. Six million people use Bank of America's Erica virtual assistant. Regions Bank is using IBM Watson to answer, so far, about 22% of customers' questions. DBS Digibank uses Kasisto's Kai AI chatbot to handle more than 80% of customer interactions in India.

But TymeBank is unusual in the degree to which its business model relies on the technology.

## High on AI

TymeBank is an international digital banking operation for emerging markets that serves underserved consumers and small businesses. Its first deployment is in South Africa, where it started with the installation of a kiosk in a supermarket at the end of February. It now has 730 kiosks in supermarkets and has opened more than 250,000 customer accounts.

"That's a number we are very delighted with, in a country of 50 million people," Jonker said. "That's well ahead of our expectations."

The first place TymeBank is applying AI is in risk management, especially credit risk. The second is in conversational banking, to "rehumanize" banking by integrating with the channels customers use in their daily lives.

"Our challenge with financial inclusion is that we are dealing with customers that tend not to want to use banking in the way that banking is

offered," Jonker said. "They do want to use banking in a way that's more user friendly. But what we can't afford to do is to throw armies of people at it."

The bank is using an AI-powered chatbot from Finn AI to answer customers' simplest questions. "Humans only engage when the chatbot runs out of things to say," Jonker said.

Initially that means the chatbot deals with a relatively small percentage of the engagements, about 10% to 20%.

"Our job over time is to move that up to 90% and still give customers the sense that they are engaging in a human way," Jonker said. "The idea is to move away from a world where humans have to adjust to technology and into a world where technology adjusts to humans."

### Challenges of understanding customers' questions

Some U.S. bankers worry that a chatbot could misunderstand a customer's question — due to differences in accent, wording and intent — and give wrong information. In South Africa, this is an even bigger issue: There are 11 official languages and English is a second language for most people.

"The learning curve is longer and steeper than it would be in environments where people speak a more standardized dialect or more standardized language," Jonker said. "You're never going to solve in the short term for all that variation. And the margin for error in financial services and banking in particular is lower than it is for general use chatbots. The key is to always have a human on hand."

If TymeBank's chatbot has any doubt or uncertainty about the meaning of a question, it refers the customer to a person.

"For delicate items, we adjust our model so that it makes sure it's really right or it hands off to a human," said Jake Tyler, the CEO of Finn AI.

If someone is paying a bill, the Finn AI engine is set to have a high degree of confidence in name matching before letting that transaction through.

"That's one of the nuances with banking is that sometimes you really have to be right and sometimes with other conversations you have a little bit more leeway from the customer's end," Tyler said.

And the chatbot is designed to pick up on sensitive issues. For instance, if someone has had a death in the family or for some other reason seems emotional or frustrated, the chatbot will pass the customer to a human.

"What we are all trying to learn is what are the circumstances in which customers would get irritated by a machine and really want to speak to a human," Jonker said. "A computer glitch is a good example where people will potentially be aggravated by getting a stock standard answer and want to hear a human on the other side."

However, there are also times when people would rather speak to a machine than to a human.

"When I fall behind on my payments and I just want to get that payment postponed, I probably would rather speak to a chatbot, because it's less embarrassing than speaking to another human being and saying, listen, you know, things have gone wrong and I need another five days," Jonker said.

Finn AI has pre-mapped many of the questions retail banking customers ask frequently. It aggregates learning across the different customers it works with (including ATB Financial and Bank of Montreal in Canada and Fidor in Europe). Then it localizes the chatbots for local dialects and language as well

as for customers' specific products, according to Tyler.

TymeBank has been piloting Finn AI's technology for a year as a virtual assistant called Max that acts as a financial fitness coach. Max guides customers to improve their credit score and save more. Max is available within the TymeCoach Android and iOS Apps as well as in Facebook Messenger and Facebook Messenger Lite. The bank is also building Finn AI into customer service and customer onboarding through its own channels as well as Facebook Messenger and WhatsApp.

"One of the things that's interesting about the South African market and emerging markets more generally is being able to bank within third-party messaging platforms," Tyler noted. "In South Africa, 90% of people who have access to the internet use WhatsApp. If we can deliver banking within that sort of interface that's on people's phones that they're using every day, it is a very powerful channel for us to be in."

Jonker says that having people interact with a chatbot will keep a conversation going. "One of the big problems for neobanks or digital banks is that they onboard customers but they don't keep those customers engaged because, for instance, we don't have a marketing budget that would rival our direct competitors in conventional banks," he said.

A large part of TymeBank's work is learning about "what we think is an inevitable part of the future model of banking," Jonker said. "The question is not whether we going to be using AI extensively to do customer service, customer onboarding and a range of other use cases. The question is just who gets there first in the most skillful way with the least side effects or the least mistakes along the way."

— Penny Crosman



# Metrics & Measures

## PEER ANALYSIS

### How to Be Special

Midsize banks are more profitable overall than both their smaller and larger counterparts, and the strategy that some of the best performers in this group use to stand out is specialization.

The \$4.1 billion-asset Bessemer Group in Woodbridge, N.J., which landed atop our ranking for institutions with assets of \$2 billion to \$10 billion, focuses on wealth management. Its Bessemer Trust unit has only two branches.

By contrast, the \$6 billion-asset Woodforest Financial Group in The Woodlands, Texas, operates hundreds of branches — in its case inside Walmart stores. It generates returns on average equity high enough to put it in eighth place.

Kevin Halsey, a consultant at Capital Performance Group who compiles our annual rankings, said the lesson others should take away from top performers like these is to stop trying to appeal to everyone like the biggest banks do.

He advises finding a thing to focus on and doing that thing better than competitors. "Determining how they add competitive value is one of the biggest questions that midtier banks should be asking themselves," Halsey said.

Banks in general posted excellent returns in 2018, and the midtiers shined the most. The top 20 in this group posted a remarkable 16.14% median return on average equity, up 177 basis points from the previous year. The median for all 234

institutions that fit the ranking criteria was 10.44%, up 205 basis points.

Though banks in the other size categories improved as well, only the group with assets of \$10 billion to \$50 billion also managed to post a median ROAE that hit double digits (10.22%).

But at least one metric is an area of concern for midsize banks, just as it was last year. Their deposit growth isn't keeping pace with loan growth. The ratio of net loans to total deposits rose 33 basis points from a year earlier, to 93.55%.

Almost a third of all midsize banks had a loan-to-deposit ratio of at least 100%. Without a steady source of cheap deposits to fund loan demand, profits may suffer, Halsey said.

Nonetheless, many of the top-performing midtiers have developed successful niche strategies.

For the \$2.8 billion-asset Union Savings Bank in Cincinnati — which ranked No. 10 — its long-established residential mortgage business is a differentiator. About 67% of its loan portfolio consists of single-family mortgages.

Bessemer, Woodforest and Union Savings show it's possible to do well without having the size and scope of a large regional, Halsey said. "Those are three different business models. They have a clear strategy, they know what they're good at and they do it well."

— Andy Peters

Rank	Institution/Ticker	Location	Total Assets (\$000)	3-Year Avg. ROAE (%)	ROAE (%)	ROAA (%)	Net Income (\$000)	Net Interest Margin FTE (%)	Efficiency Ratio FTE (%)	Net Loan Growth YOY (%)	Net Loans/Deposits (%)	Revenue Growth YOY (%)
1	Bessemer Group*	Woodbridge, NJ	4,064,845	21.89	27.50	3.49	127,415	1.44	76.12	9.61	24.56	2.92
2	Sterling Bancorp (SBT)	Southfield, MI	3,196,774	20.99	20.66	2.04	63,468	3.94	35.10	7.02	118.12	24.91
3	ServisFirst Bancshares (SFBS)	Birmingham, AL	8,007,382	17.99	20.96	1.88	36,940	3.75	32.16	11.54	93.48	15.20
4	INTRUST Financial Corp.*	Wichita, KS	5,219,500	17.82	23.66	1.15	71,418	3.13	65.28	12.96	79.47	10.17
5	Independence Bank of Ky.*	Owensboro, KY	2,358,895	16.46	15.68	1.17	29,310	3.43	60.05	6.52	71.13	(2.83)
6	KS StateBank*	Manhattan, KS	2,029,298	16.09	15.50	1.42	28,529	3.27	50.44	10.99	87.68	(1.06)
7	Alpine Banks of Colorado (ALPIB)	Glenwood Springs, CO	3,744,403	16.04	19.85	1.53	54,693	4.20	63.29	7.24	72.68	12.93
8	Woodforest Financial Group*	The Woodlands, TX	5,952,532	15.84	19.59	1.56	113,234	4.07	79.56	19.08	85.73	12.43
9	Stearns Financial Services	Saint Cloud, MN	2,217,882	15.62	13.91	2.41	49,924	6.58	48.87	3.38	117.38	(6.18)
10	Union Savings Bank*	Cincinnati, OH	2,750,944	15.20	14.41	1.57	55,075	3.02	52.01	(0.40)	93.18	(5.98)
11	Hingham Institution for Savings (HIFS)	Hingham, MA	2,408,587	15.10	14.97	1.32	30,399	2.90	29.94	9.56	127.72	2.98
12	Preferred Bank (PFBC)	Los Angeles, CA	4,216,435	14.93	18.22	1.84	70,993	4.08	32.82	13.46	90.67	19.15
13	State Bankshares	Fargo, ND	5,522,113	14.83	13.60	1.32	66,426	3.97	74.57	14.76	108.75	13.82
14	Olney Bancshares of Texas*	Olney, TX	3,564,274	14.69	17.62	2.01	91,692	4.19	39.63	(2.41)	95.81	7.90
15	Fremont Bancorp.*	Fremont, CA	3,952,709	14.45	13.94	0.98	46,498	3.93	75.10	1.44	87.05	3.87
16	Inwood Bancshares*	Dallas, TX	2,824,890	14.21	15.78	1.55	51,990	3.39	44.48	5.74	71.91	7.94
17	ANB Corp.	Terrell, TX	3,160,365	14.00	19.59	1.50	46,540	3.95	56.32	4.96	66.86	22.60
18	Choice Financial*	Fargo, ND	2,142,520	13.94	13.15	1.46	24,410	4.28	53.37	72.23	95.85	24.25
19	Lakeland Financial (LKFN)	Warsaw, IN	4,875,254	13.92	16.51	1.69	80,411	3.43	44.56	2.49	95.66	11.26
20	First Financial Bankshares (FFIN)	Abilene, TX	7,731,854	13.79	15.37	1.98	50,638	3.96	48.68	13.66	63.49	14.64

# MIDTIERS, RANKED BY 3-YEAR AVERAGE ROE

Rank	Institution/Ticker	Location	Total Assets (\$000)	3-Year Avg. ROE (%)	ROE (%)	ROAA (%)	Net Income (\$000)	Net Interest Margin FTE (%)	Efficiency Ratio FTE (%)	Net Loan Growth YOY (%)	Net Loans/Deposits (%)	Revenue Growth YOY (%)
21	Stock Yards Bancorp (SYBT)	Louisville, KY	3,302,924	13.70	16.00	1.76	55,517	3.83	55.68	5.72	90.34	7.92
22	Northern Bank & Trust	Woburn, MA	2,162,309	13.65	14.65	1.51	31,117	4.35	44.23	4.40	105.42	8.36
23	First Bancshares	Merrillville, IN	4,431,257	13.58	16.37	1.37	56,446	3.79	56.16	12.97	106.16	14.90
24	Stockman Financial Corp.*	Miles City, MT	3,663,699	13.44	15.30	1.55	69,125	3.94	52.73	5.96	95.26	8.81
25	West Bank	West Des Moines, IA	2,295,160	13.38	13.96	1.39	30,282	3.14	46.81	14.13	89.82	3.00
26	Citizens First Bank	The Villages, FL	2,255,175	13.32	13.66	1.42	29,932	3.03	44.28	25.15	42.05	10.56
27	Cambridge Trust Co.	Cambridge, MA	2,101,384	13.23	15.78	1.21	23,965	3.35	65.70	15.53	84.98	9.95
28	Washington Trust Bancorp (WASH)	Westerly, RI	5,010,766	13.15	16.24	1.46	68,432	3.01	53.12	8.88	104.26	5.46
29	Exchange Bank (EXSR)	Santa Rosa, CA	2,653,960	13.15	17.90	1.47	38,511	3.61	56.53	1.17	61.96	13.47
30	Canandaigua National Corp. (CNND)	Canandaigua, NY	2,862,493	13.08	16.40	1.30	35,917	3.58	63.24	7.80	102.93	11.27
31	FB Financial Corp.* (FBK)	Nashville, TN	5,136,764	12.84	12.76	1.66	80,236	4.66	64.21	6.77	93.90	14.00
32	Eagle Bancorp (EGBN)	Bethesda, MD	8,389,137	12.74	14.89	1.91	152,276	4.12	36.90	8.93	99.52	8.87
33	People's Intermountain Bank	American Fork, UT	2,183,774	12.69	15.35	1.90	41,309	5.21	49.21	2.71	88.49	27.14
34	Arrow Financial Corp. (AROW)	Glens Falls, NY	2,988,334	12.63	13.96	1.27	36,279	3.14	56.50	12.62	92.77	6.66
35	North American Savings Bank	Grandview, MO	2,185,032	12.61	13.13	1.54	30,648	4.12	62.13	18.51	118.09	(6.76)
36	Enterprise Financial Services (EFSC)	Clayton, MO	5,645,662	12.55	15.46	1.64	89,217	3.82	49.48	6.14	93.87	8.81
37	Landrum Co.	Columbia, MO	3,132,938	12.48	12.01	0.86	25,652	3.27	67.58	15.99	68.99	0.85
38	Park National Corp. (PRK)	Newark, OH	7,804,308	12.30	14.08	1.45	110,387	3.84	60.33	5.98	90.09	9.91
39	City Holding Co. (CHCO)	Cross Lanes, WV	4,899,012	12.24	13.62	1.63	70,002	3.52	49.75	14.90	89.84	7.81
40	BancFirst Corp. (BANF)	Oklahoma City, OK	7,574,258	12.15	14.59	1.66	125,814	3.70	55.99	5.48	74.68	13.04
41	LegacyTexas Financial Group (LTXB)	Plano, TX	9,051,142	12.12	15.22	1.73	154,189	3.89	44.83	(0.50)	112.80	6.17
42	ANB Bank*	Denver, CO	2,567,131	12.00	14.20	1.09	34,879	3.70	63.32	10.92	72.24	4.68
43	First State Bancshares	Farmington, MO	2,470,741	12.00	12.34	1.35	32,110	3.82	64.52	6.74	91.22	10.67
44	Durant Bancorp*	Durant, OK	7,038,868	11.91	13.59	1.11	91,053	4.04	65.70	9.39	86.07	13.68
45	Great Southern Bancorp (GSBC)	Springfield, MO	4,676,200	11.90	13.46	1.49	67,109	3.99	55.05	6.86	107.13	5.92
46	Southern Missouri Bancorp (SMBG)	Poplar Bluff, MO	2,206,279	11.88	12.50	1.31	25,151	3.77	54.80	23.99	100.30	17.80
47	Farmers & Merchants Bancorp (FMCB)	Lodi, CA	3,434,243	11.87	14.80	1.45	45,527	4.25	50.87	16.21	82.15	14.50
48	Royal Business Bank	Los Angeles, CA	2,970,076	11.85	13.13	1.94	39,198	4.33	40.86	77.79	116.52	22.67
49	Hometown Community Bancorp*	Morton, IL	3,817,478	11.63	13.16	1.21	54,192	2.94	53.50	7.67	90.70	18.63
50	Farmers National Bank	Canfield, OH	2,309,148	11.55	13.78	1.42	31,551	3.84	55.81	10.12	95.48	6.17
51	German American Bancorp (GABC)	Jasper, IN	3,929,090	11.54	12.07	1.38	46,529	3.75	56.75	27.38	88.41	15.01
52	WSFS Financial Corp. (WSFS)	Wilmington, DE	7,248,870	11.53	17.63	1.92	134,743	4.07	60.13	1.70	86.68	11.70
53	Texas Bank and Trust Co.	Longview, TX	2,528,019	11.46	13.50	1.50	37,039	3.85	53.66	5.86	93.64	10.63
54	Tompkins Financial Corp. (TMP)	Ithaca, NY	6,758,436	11.31	13.95	1.23	82,435	3.37	61.26	3.48	97.99	5.87
55	United Community Bank*	Chatham, IL	2,077,491	11.21	9.64	0.93	18,856	3.30	61.82	15.33	71.73	15.56
56	Old Second National Bank	Aurora, IL	2,661,311	11.20	14.43	1.63	41,261	4.13	55.61	17.25	88.49	17.07
57	Institution for Savings	Newburyport, MA	3,470,490	11.20	11.59	1.15	38,958	2.01	63.54	8.35	95.81	7.20
58	Franklin Financial Network (FSB)	Franklin, TN	4,249,439	11.14	10.23	0.84	34,521	2.71	56.17	18.05	77.31	8.42
59	American National Corp.*	Omaha, NE	3,718,477	11.13	13.25	1.20	52,638	3.69	54.85	2.85	97.52	3.41
60	National Bank of Indianapolis	Indianapolis, IN	2,154,490	11.12	13.58	1.09	22,591	3.52	67.21	2.23	77.08	12.41
61	W.T.B. Financial Corp. (WTBF.B)	Spokane, WA	6,552,350	11.10	14.94	1.30	83,056	3.77	62.57	2.90	70.17	12.28
62	Luther Burbank Corp.* (LBC)	Santa Rosa, CA	6,937,212	11.07	7.91	0.70	45,060	1.98	48.51	21.65	121.90	9.13
63	CNB Financial Corp. (CCNE)	Clearfield, PA	3,221,521	11.04	13.46	1.12	33,719	3.72	61.63	15.42	94.04	13.66
64	Guaranty Bancorp	Denver, CO	3,780,368	11.01	13.34	1.50	56,163	3.84	51.94	3.56	92.74	9.99
65	QCR Holdings (QCRH)	Moline, IL	4,949,710	10.90	10.62	0.98	43,120	3.62	58.29	26.03	92.86	25.44
66	TrustCo Bank Corp (TRST)	Glenville, NY	4,958,913	10.88	13.05	1.25	61,445	3.33	53.97	6.60	89.59	3.49
67	Century Bancorp (CNBK.A)	Medford, MA	5,163,935	10.87	13.05	0.74	36,213	2.18	59.34	4.99	51.22	6.35
68	Fidelity Southern Corp. (LION)	Atlanta, GA	4,733,796	10.85	10.43	0.92	43,823	3.38	76.50	(0.39)	97.79	6.42
69	First of Long Island Corp. (FLIC)	Glen Head, NY	4,241,060	10.74	11.09	1.00	41,573	2.64	51.09	10.83	104.78	6.44
70	Farmers & Merchants	Lincoln, NE	4,209,594	10.72	12.67	1.47	59,507	3.48	59.11	9.61	95.74	14.27
71	Meta Financial Group (CASH)	Sioux Falls, SD	6,182,765	10.64	11.15	1.26	63,943	3.64	64.49	122.74	67.70	29.37
72	Hills Bancorp. (HBIA)	Hills, IA	3,042,464	10.61	11.33	1.23	36,767	3.21	52.60	6.43	107.10	6.93
73	Wilson Bank Holding Co. (WBHC)	Lebanon, TN	2,543,682	10.52	11.70	1.35	32,594	3.92	59.68	16.81	90.51	9.86
74	First Defiance Financial (FDEF)	Defiance, OH	3,181,722	10.44	12.03	1.52	46,249	3.99	59.52	7.97	96.09	9.25
75	Independent Bank Corp. (INDB)	Rockland, MA	8,851,592	10.43	12.31	1.46	121,622	3.91	54.80	8.71	92.21	12.37
76	Carolina Financial Corp. (CARO)	Charleston, SC	3,790,748	10.40	9.43	1.37	49,670	4.10	51.73	7.83	92.96	52.98
77	Flushing Financial Corp. (FFIC)	Uniondale, NY	6,834,176	10.37	10.30	0.85	55,090	2.70	63.36	7.25	111.49	(3.61)

# Metrics & Measures

## MIDTIERS, RANKED BY 3-YEAR AVERAGE ROE

Rank	Institution/Ticker	Location	Total Assets (\$000)	3-Year Avg. ROE (%)	ROE (%)	ROAA (%)	Net Income (\$000)	Net Interest Margin FTE (%)	Efficiency Ratio FTE (%)	Net Loan Growth YOY (%)	Net Loans/Deposits (%)	Revenue Growth YOY (%)
78	First American Bank Corp.*	Elk Grove Village, IL	5,338,360	10.37	10.55	0.69	34,612	2.64	72.67	19.03	45.59	14.97
79	Home Bank	Lafayette, LA	2,150,164	10.33	11.46	1.47	31,765	4.68	57.86	(0.81)	91.75	34.52
80	Hanmi Financial Corp. (HAFC)	Los Angeles, CA	5,502,219	10.31	10.07	1.08	57,868	3.57	56.57	6.97	96.43	(0.39)
81	Dime Community Bancshares (DCOM)	Brooklyn, NY	6,320,578	10.26	8.44	0.82	51,288	2.41	55.69	(3.73)	123.33	(4.02)
82	Summit Community Bank	Moorefield, WV	2,192,939	10.23	13.13	1.37	29,118	3.62	51.32	5.56	102.67	7.49
83	River City Bank (RCBC)	Sacramento, CA	2,206,367	10.20	12.28	1.15	24,005	2.73	41.12	9.59	90.87	3.07
84	Westamerica Bancorp. (WABC)	San Rafael, CA	5,568,526	10.20	11.35	1.27	71,564	2.98	49.99	(6.25)	24.37	6.64
85	Camden National Corp. (CAC)	Camden, ME	4,297,435	10.13	12.92	1.28	53,071	3.16	57.32	8.66	86.76	3.33
86	Heritage Commerce Corp (HTBK)	San Jose, CA	3,096,562	10.12	10.79	1.16	35,331	4.31	49.67	18.82	70.57	17.83
87	Community Trust Bancorp (CTBI)	Pikeville, KY	4,201,616	10.11	10.83	1.41	59,228	3.66	56.75	2.83	96.04	3.31
88	Revere Bank (REVB)	Rockville, MD	2,455,211	10.05	12.73	1.22	27,627	3.77	50.81	14.79	98.91	15.01
89	Enterprise Bancorp (EBTC)	Lowell, MA	2,964,358	10.02	12.15	1.00	28,881	3.97	64.41	5.24	91.80	10.04
90	Southside Bancshares (SBSI)	Tyler, TX	6,123,494	10.02	9.87	1.19	74,138	3.18	49.90	0.33	74.27	18.37
91	RCB Holding Co.*	Claremore, OK	3,139,842	9.95	11.58	1.05	36,695	3.71	62.25	14.66	71.27	9.07
92	Nicolet Bankshares (NCBS)	Green Bay, WI	3,096,535	9.95	11.10	1.39	41,353	4.04	58.19	3.59	82.42	11.35
93	Financial Institutions (FISI)	Warsaw, NY	4,311,698	9.94	10.18	0.95	39,526	3.18	60.31	13.04	90.75	8.42
94	Home Savings Bank	Youngstown, OH	2,801,504	9.92	13.03	1.30	35,722	3.39	58.31	8.82	100.31	5.71
95	First Merchants Corp. (FRME)	Muncie, IN	9,884,716	9.88	11.84	1.64	159,139	4.00	50.23	6.96	92.19	19.78
96	Mercantile Bank Corp. (MBWM)	Grand Rapids, MI	3,363,907	9.84	11.33	1.28	42,024	3.96	60.52	7.55	110.84	9.08
97	1st Source Corp. (SRCE)	South Bend, IN	6,293,745	9.83	11.09	1.34	82,414	3.73	59.16	6.76	92.66	11.18
98	Independent Bank Corp. (IBCP)	Grand Rapids, MI	3,353,281	9.81	12.38	1.27	39,839	3.88	65.41	29.88	90.75	20.16
99	Central Pacific Financial Corp. (CPF)	Honolulu, HI	5,807,026	9.80	12.21	1.05	59,462	3.22	62.23	8.03	81.62	3.74
100	Peapack-Gladstone Financial (PGC)	Bedminster, NJ	4,617,858	9.73	10.13	1.02	44,170	2.75	60.62	6.14	99.98	8.51
101	Mid Penn Bank	Millersburg, PA	2,077,686	9.72	8.46	0.88	15,044	3.66	67.88	78.94	93.62	47.27
102	Alerus Financial	Grand Forks, ND	2,176,480	9.70	12.66	1.42	30,322	4.01	71.06	9.54	95.50	4.20
103	NBT Bancorp Inc. (NBTB)	Norwich, NY	9,556,363	9.64	11.49	1.20	112,566	3.58	60.19	4.71	92.59	7.24
104	Sandy Spring Bancorp (SASR)	Olney, MD	8,243,272	9.55	9.84	1.27	100,864	3.61	51.07	52.87	110.58	46.16
105	S&T Bancorp (STBA)	Indiana, PA	7,252,221	9.54	11.60	1.50	105,334	3.64	50.56	3.13	103.77	1.66
106	Civista Bancshares (CIVB)	Sandusky, OH	2,138,954	9.53	6.50	0.81	14,139	4.15	63.33	34.32	98.09	19.41
107	Lakeland Bancorp (LBAI)	Oak Ridge, NJ	5,806,093	9.53	10.59	1.15	63,401	3.36	55.88	7.34	95.66	5.04
108	Henderson Citizens	Henderson, TX	2,313,086	9.52	11.29	0.91	20,765	3.80	70.22	29.17	65.81	29.02
109	First Bancorp (FBNC)	Southern Pines, NC	5,864,116	9.50	12.27	1.57	89,289	4.12	55.67	4.98	90.83	25.86
110	First Busey Corp. (BUSE)	Champaign, IL	7,702,357	9.48	10.36	1.28	98,928	3.45	54.47	(0.31)	88.71	15.48
111	Southern BancShares (N.C.) (SBNC)	Mount Olive, NC	2,684,237	9.45	10.19	1.13	29,545	3.82	62.34	4.47	71.93	8.73
112	TriCo Bancshares (TCBK)	Chico, CA	6,352,441	9.43	10.75	1.24	68,320	4.30	60.10	33.57	74.41	18.88
113	1867 Western Financial Corp. (WFCL)	Stockton, CA	3,179,839	9.43	8.73	1.39	42,046	4.10	48.32	9.49	72.12	6.94
114	BSB Bancorp	Belmont, MA	3,030,101	9.37	11.92	0.81	22,909	2.22	47.61	14.38	133.98	10.51
115	Parkway Bank and Trust Co.	Harwood Heights, IL	2,704,723	9.31	12.68	1.37	34,746	3.08	45.29	7.83	97.27	9.20
116	Horizon Bancorp (HBNC)	Michigan City, IN	4,246,688	9.29	11.22	1.31	53,117	3.64	59.04	6.19	95.45	16.87
117	Amarillo National Bancorp*	Amarillo, TX	4,371,309	9.26	11.74	1.66	84,222	3.81	50.20	5.34	91.93	7.50
118	First Mid-Illinois Bancshares (FMBH)	Mattoon, IL	3,839,734	9.25	9.59	1.13	36,600	3.80	54.28	36.41	87.61	19.60
119	Customers Bancorp (CUBI)	Wyomissing, PA	9,833,425	9.21	7.61	0.69	71,695	2.58	63.66	(1.90)	119.08	(3.06)
120	Broadway Bancshares*	San Antonio, TX	3,673,549	9.15	10.32	1.13	47,120	3.55	65.59	7.30	65.56	1.68
121	Bank of Marin Bancorp (BMRC)	Novato, CA	2,520,892	9.15	10.73	1.31	32,622	3.95	56.16	5.10	80.38	21.01
122	Access National Corp.	Reston, VA	3,039,160	9.10	8.16	1.21	35,384	3.63	61.58	9.85	96.33	6.59
123	Bryn Mawr Bank Corp. (BMTB)	Bryn Mawr, PA	4,652,485	9.10	11.78	1.47	63,792	3.80	57.09	4.20	94.73	29.20
124	Triumph Bancorp (TBK)	Dallas, TX	4,559,779	9.08	9.24	1.33	51,708	6.35	61.63	28.33	103.85	41.66
125	Bank of the Sierra	Porterville, CA	2,522,387	9.04	10.78	1.30	31,576	4.29	59.18	11.16	81.41	18.70
126	Community Bancshares of Miss.	Brandon, MS	3,249,930	8.98	10.96	0.77	24,648	3.62	72.73	3.39	75.71	5.02
127	First Financial Corp. (THFF)	Terre Haute, IN	3,008,718	8.98	10.98	1.57	46,583	4.32	58.86	2.48	79.35	6.81
128	MutualBank	Muncie, IN	2,044,013	8.90	9.72	0.95	19,117	3.48	68.80	26.79	97.59	25.60
129	Republic Bancorp (RBCA.A)	Louisville, KY	5,240,404	8.87	11.67	1.52	77,852	4.62	56.64	3.44	119.36	12.20
130	State Bank Financial Corp.	Atlanta, GA	4,851,506	8.86	10.57	1.40	69,423	4.85	63.97	(1.47)	85.06	13.53
131	Boston Private Financial (BPFH)	Boston, MA	8,494,625	8.84	11.04	1.00	83,871	2.96	69.46	5.99	100.58	(3.31)
132	STAR Financial Bank	Fort Wayne, IN	2,002,618	8.83	9.86	1.02	19,982	3.82	64.67	6.51	84.38	9.46
133	First National Bank Alaska (FBAK)	Anchorage, AK	3,753,466	8.79	10.97	1.46	54,102	3.67	55.10	7.75	80.73	2.93
134	Burke & Herbert Bank & Trust (BHRB)	Alexandria, VA	3,006,709	8.78	10.11	1.14	34,388	3.33	67.08	(0.09)	79.56	1.03



# MIDTIERS, RANKED BY 3-YEAR AVERAGE ROE

Rank	Institution/Ticker	Location	Total Assets (\$000)	3-Year Avg. ROE (%)	ROE (%)	ROAA (%)	Net Income (\$000)	Net Interest Margin FTE (%)	Efficiency Ratio FTE (%)	Net Loan Growth YOY (%)	Net Loans/Deposits (%)	Revenue Growth YOY (%)
135	First Foundation Inc. (FFWM)	Irvine, CA	5,840,412	8.72	9.09	0.81	42,958	2.99	63.35	25.86	105.50	25.72
136	Amboy Bancorp.*	Old Bridge, NJ	2,317,856	8.63	7.47	0.99	28,399	3.63	64.59	(6.58)	87.66	(7.73)
137	First Commonwealth Financial (FCF)	Indiana, PA	7,828,255	8.63	11.41	1.42	107,498	3.71	57.12	6.78	97.29	9.15
138	HomeStreet (HMST)	Seattle, WA	7,042,221	8.62	5.40	0.57	40,027	3.23	86.60	5.96	107.34	(13.22)
139	Bar Harbor Bankshares (BHB)	Bar Harbor, ME	3,608,487	8.62	9.22	0.93	32,937	2.87	60.73	0.12	99.72	(0.40)
140	Oritani Financial Corp. (ORIT)	Township of Washington, NJ	4,090,073	8.57	9.70	1.30	53,754	2.73	33.87	(2.87)	119.98	(1.31)
141	Old Line Bancshares (OLBK)	Bowie, MD	2,950,007	8.53	8.29	1.01	27,218	3.74	50.15	42.34	105.43	42.91
142	Dacotah Banks (DBIN)	Aberdeen, SD	2,577,174	8.48	9.83	1.14	28,013	3.95	64.60	3.63	91.04	3.21
143	Peoples Bancorp Inc. (PEBO)	Marietta, OH	3,991,454	8.41	9.48	1.19	46,255	3.72	61.67	15.94	91.83	12.14
144	Guaranty Bancshares (GNTY)	Addison, TX	2,266,970	8.38	9.03	0.97	20,596	3.50	65.22	22.05	88.02	13.26
145	CBTX (CBTX)	Houston, TX	3,279,096	8.38	10.18	1.50	47,289	4.35	57.93	5.90	87.60	14.52
146	Central Bancshares	Lexington, KY	2,600,173	8.26	10.43	1.12	28,128	3.97	72.65	4.42	97.79	6.02
147	Peoples Security Bank and Trust	Scranton, PA	2,285,486	8.22	9.46	1.12	25,022	3.59	59.34	7.67	95.95	2.73
148	Minnwest Corp.	Minnetonka, MN	2,016,507	8.22	8.58	0.93	17,147	3.95	67.08	13.54	96.46	6.26
149	Fidelity Bank	Wichita, KS	2,269,890	8.21	8.82	0.86	20,442	3.28	74.92	8.71	93.89	2.75
150	Brookline Bancorp (BRKL)	Boston, MA	7,392,805	8.20	9.81	1.20	86,551	3.61	54.71	10.10	114.56	11.78
151	Happy Bancshares	Canyon, TX	3,446,382	8.18	7.89	0.93	31,814	4.08	73.28	2.26	85.21	10.34
152	Territorial Savings Bank	Honolulu, HI	2,069,202	8.17	9.20	0.98	19,891	3.05	58.35	5.75	94.84	1.13
153	United Financial Bancorp (UBNK)	Hartford, CT	7,356,874	8.14	8.57	0.84	59,906	2.95	66.11	5.16	100.54	4.08
154	ConnectOne Bancorp (CNOB)	Englewood Cliffs, NJ	5,462,092	8.13	10.29	1.17	60,352	3.28	41.80	8.20	110.12	7.82
155	Cambridge Financial Group	Cambridge, MA	3,883,772	8.11	10.75	1.05	38,926	3.38	61.35	6.52	100.88	7.13
156	First Community Bankshares (FCBC)	Bluefield, VA	2,244,374	8.07	10.64	1.56	36,340	4.46	54.87	(2.29)	94.67	5.28
157	Heritage Financial Corp. (HFWA)	Olympia, WA	5,316,927	8.03	7.72	1.07	53,057	4.26	61.14	28.43	81.69	25.16
158	Independent Bank Group (IBTX)	McKinney, TX	9,849,965	7.94	8.69	1.35	128,259	3.99	49.52	21.65	101.74	21.36
159	Salem Five Bancorp	Salem, MA	5,012,263	7.92	9.58	0.98	47,092	3.03	60.27	7.30	101.62	7.45
160	Seacoast Banking Corp. of Fla. (SBCF)	Stuart, FL	6,747,659	7.88	9.08	1.11	67,275	3.85	56.35	25.96	92.80	19.29
161	Farmers & Merchants Bank (FMBL)	Long Beach, CA	7,308,236	7.86	8.62	1.19	85,636	3.45	56.74	9.44	75.43	2.61
162	Provident Financial Services (PFS)	Iselin, NJ	9,725,769	7.78	8.93	1.22	118,387	3.37	53.13	(0.97)	105.34	6.98
163	Allegiance Bancshares (ABTX)	Houston, TX	4,655,249	7.77	9.02	1.11	37,309	4.27	58.93	63.85	100.53	24.85
164	New York Private Bank & Trust	New York, NY	5,806,579	7.72	9.64	1.57	94,194	4.35	71.49	(10.59)	85.82	(13.35)
165	Bridge Bancorp (BDGE)	Bridgehampton, NY	4,700,744	7.71	8.66	0.87	39,227	3.30	55.85	5.64	83.48	7.61
166	Mutual of Omaha Bank	Omaha, NE	8,516,051	7.69	9.41	1.01	83,567	3.66	66.54	(0.94)	91.55	23.51
167	Firsttrust Savings Bank*	Conshohocken, PA	3,458,196	7.68	11.46	1.23	49,712	4.24	68.60	5.11	103.86	7.25
168	BancPlus Corp.	Ridgeland, MS	2,773,954	7.68	5.26	0.46	12,413	3.96	79.04	7.93	83.93	(6.04)
169	West Suburban Bank	Lombard, IL	2,251,005	7.61	8.83	0.82	18,395	3.31	68.51	7.92	59.21	1.81
170	Discount Bancorp	New York, NY	9,229,216	7.56	10.44	1.06	96,020	2.96	57.70	4.05	82.03	14.05
171	Metropolitan Commercial Bank	New York, NY	2,180,728	7.55	9.73	1.44	28,096	3.81	49.13	31.71	110.52	31.45
172	National Commerce Corp.	Birmingham, AL	4,205,488	7.47	7.65	1.26	44,913	4.75	54.48	54.02	96.58	42.01
173	Hometown Financial Group	Easthampton, MA	2,156,458	7.44	8.07	0.90	18,792	3.35	61.19	4.47	95.13	4.77
174	Cape Cod Five Mutual Co.	Orleans, MA	3,425,994	7.43	7.87	0.74	24,531	3.18	74.41	5.68	98.92	4.76
175	First Bancshares (FBMS)	Hattiesburg, MS	3,003,986	7.40	7.59	0.87	21,225	3.94	58.15	68.21	83.63	39.58
176	Republic Bank of Chicago*	Oak Brook, IL	2,057,806	7.40	2.23	0.23	4,444	3.78	55.52	5.79	80.49	2.11
177	SmartBank	Pigeon Forge, TN	2,278,710	7.37	9.31	1.16	22,741	4.34	64.76	34.25	91.17	63.34
178	Liberty Bank	Middletown, CT	5,093,375	7.32	9.78	1.50	71,567	3.19	72.99	7.68	104.22	2.32
179	Midland States Bancorp (MSBI)	Effingham, IL	5,637,673	7.30	6.92	0.72	39,421	3.76	63.31	27.20	101.79	32.98
180	Beal Financial Corp.*	Plano, TX	7,429,465	7.22	10.12	2.53	188,219	5.43	39.87	(9.42)	122.29	0.62
181	BCB Community Bank	Bayonne, NJ	2,673,815	7.22	8.74	0.74	17,809	3.39	64.08	38.58	104.48	25.58
182	Johnson Financial Group	Racine, WI	5,042,662	7.21	9.66	1.16	56,925	3.65	73.61	5.73	94.08	10.60
183	El Dorado Savings Bank	Placerville, CA	2,184,373	7.16	8.61	0.90	19,666	2.47	57.19	7.90	29.97	11.76
184	PeoplesBancorp, MHC	Holyoke, MA	2,869,938	7.08	8.56	0.74	18,917	2.96	69.88	24.44	106.02	7.11
185	Equity Bancshares (EQBK)	Wichita, KS	4,061,716	7.03	8.52	1.00	35,825	3.84	58.24	21.59	82.18	42.52
186	Univest Financial Corp. (UVSP)	Souderton, PA	4,984,347	7.03	8.26	1.07	50,543	3.72	60.86	10.52	102.39	8.50
187	Veritex Holdings (VBTX)	Dallas, TX	3,208,550	7.03	7.73	1.26	39,341	4.09	46.82	14.22	96.76	66.41
188	MidWestOne Financial Group (MOFG)	Iowa City, IA	3,291,480	7.02	8.78	0.93	30,351	3.62	60.94	4.90	90.71	1.67
189	Meridian Bancorp (EBSB)	Peabody, MA	6,178,683	6.98	8.36	0.99	55,771	3.03	52.86	20.91	114.53	10.80
190	Northwest Bancshares (NWB)	Warren, PA	9,607,773	6.95	8.61	1.11	105,491	3.88	62.31	3.36	101.29	1.52
191	OFG Bancorp (OFG)	San Juan, PR	6,583,352	6.93	8.73	1.31	84,410	5.41	51.57	9.25	90.29	4.00

# Metrics & Measures

## MIDTIERS, RANKED BY 3-YEAR AVERAGE ROE

Rank	Institution/Ticker	Location	Total Assets (\$000)	3-Year Avg. ROE (%)	ROE (%)	ROAA (%)	Net Income (\$000)	Net Interest Margin FTE (%)	Efficiency Ratio FTE (%)	Net Loan Growth YOY (%)	Net Loans/Deposits (%)	Revenue Growth YOY (%)
192	Sonabank	Glen Allen, VA	2,707,117	6.90	9.69	1.38	37,005	3.90	47.94	5.53	102.92	38.27
193	Lone Star National Bank	McAllen, TX	2,209,580	6.87	10.30	1.19	25,496	3.68	71.20	(1.21)	59.30	9.13
194	Bristol County Savings Bank	Taunton, MA	2,176,759	6.87	8.04	1.02	21,381	3.21	75.53	5.51	102.14	9.93
195	OceanFirst Financial Corp. (OCFC)	Toms River, NJ	7,516,154	6.86	7.31	0.98	71,932	3.67	55.10	40.68	95.95	41.68
196	Bangor Bancorp, MHC	Bangor, ME	4,415,179	6.85	7.81	0.76	31,697	3.17	75.58	15.37	86.47	15.16
197	New Hampshire Mutual Bancorp	Concord, NH	2,289,458	6.79	8.01	0.78	15,640	3.68	71.44	25.98	104.51	17.87
198	Capitol Federal Financial (CFFN)	Topeka, KS	9,303,782	6.53	6.68	0.90	91,474	2.06	44.65	4.67	135.41	1.85
199	Valley View Bancshares	Overland Park, KS	3,008,010	6.51	8.64	1.32	40,090	3.61	53.99	(0.99)	69.90	(0.26)
200	Union Savings Bank	Danbury, CT	2,159,424	6.39	8.84	1.00	21,810	3.61	68.56	1.59	104.15	(3.52)
201	Green Bancorp	Houston, TX	4,405,753	6.38	11.80	1.32	56,707	3.85	48.24	3.86	94.88	11.84
202	Dollar Bank	Pittsburgh, PA	8,514,086	6.11	7.18	0.82	68,781	3.04	67.47	0.97	102.02	7.75
203	Educational Services of America	Farragut, TN	3,162,217	6.10	6.43	0.71	22,087	2.93	73.61	2.57	271.22	5.63
204	Middlesex Bancorp	Natick, MA	4,838,114	5.87	6.79	0.85	40,701	2.96	66.59	0.76	74.26	6.88
205	Blue Hills Bank	Hyde Park, MA	2,805,410	5.84	8.33	1.06	28,583	2.94	57.86	5.71	107.22	7.13
206	Gate City Bank	Fargo, ND	2,231,157	5.84	5.65	0.63	13,474	3.11	81.30	8.75	105.13	8.10
207	Capital City Bank Group (CCBG)	Tallahassee, FL	2,959,183	5.65	8.89	0.92	26,224	3.64	76.50	7.41	69.79	6.93
208	Westfield Bank	Westfield, MA	2,116,384	5.62	7.79	0.85	17,995	3.07	62.38	4.01	105.26	2.70
209	Ocean Bankshares	Miami, FL	3,888,253	5.52	8.72	0.91	34,707	4.03	70.24	5.08	93.84	9.52
210	Bank Leumi Le-Israel Corp.	New York, NY	7,080,215	5.47	7.86	0.89	62,124	3.65	59.70	1.33	87.80	7.78
211	Origin Bancorp (OBNK)	Ruston, LA	4,821,576	5.46	10.07	1.16	51,605	3.75	66.06	16.45	100.63	12.86
212	Amalgamated Bank (AMAL)	New York, NY	4,685,489	5.38	11.38	1.01	44,654	3.53	67.87	15.34	78.22	19.70
213	National Bank Holdings (NBHC)	Greenwood Village, CO	5,676,666	5.30	9.28	1.10	61,451	3.93	65.73	30.21	90.50	46.71
214	Mercantil Bank Holding (AMTB)	Coral Gables, FL	8,124,347	5.07	6.29	0.55	45,833	2.84	72.50	(2.36)	97.11	0.57
215	Business First Bancshares (BFST)	Baton Rouge, LA	2,094,896	5.05	7.04	0.84	14,091	4.02	67.01	56.95	87.51	38.59
216	Manufacturers Bank	Los Angeles, CA	2,802,850	4.85	7.10	0.93	24,460	3.08	56.79	5.89	82.70	10.92
217	Northfield Bancorp (NFBK)	Woodbridge, NJ	4,408,432	4.77	6.17	0.95	40,079	2.81	55.79	3.31	97.91	0.27
218	Needham Bank	Needham, MA	2,174,256	4.73	5.30	0.68	14,094	3.06	70.05	9.40	123.37	(0.11)
219	Atlantic Capital Bank	Atlanta, GA	2,955,181	4.49	9.04	1.12	31,498	3.10	53.85	9.04	81.34	(9.14)
220	CTBC Capital Corp.	Los Angeles, CA	3,452,768	4.26	8.02	1.17	38,984	3.56	55.26	12.05	102.65	11.07
221	Blue Hills Bancorp	Norwood, MA	2,805,575	4.15	6.10	0.91	24,556	2.95	61.10	5.71	108.56	13.96
222	Howard Bank	Baltimore, MD	2,266,082	4.06	(1.21)	(0.15)	(3,314)	3.81	93.77	70.79	98.15	48.80
223	Industrial and Commercial of China	New York, NY	2,886,641	3.92	5.93	0.89	22,678	3.37	59.29	21.61	110.52	15.34
224	Spencer Savings Bank	Elmwood Park, NJ	2,947,705	3.80	4.84	0.53	15,085	2.73	68.70	11.11	107.62	6.45
225	Penn Community Bank	Doylestown, PA	2,158,804	3.73	4.36	0.55	11,518	3.04	74.41	12.78	99.24	2.45
226	HomeTrust Bancshares (HTBI)	Asheville, NC	3,413,099	3.61	7.17	0.88	29,165	3.46	65.61	9.15	116.20	7.64
227	North Shore Bank	Brookfield, WI	2,031,675	3.47	5.43	0.68	13,165	3.57	77.30	7.72	91.31	5.25
228	Ridgewood Savings Bank	Ridgewood, NY	5,534,383	3.28	4.97	0.64	35,187	2.36	72.48	8.62	89.30	3.60
229	Home Federal Bank of Tenn.	Knoxville, TN	2,152,413	3.17	3.58	0.65	14,086	2.68	74.84	3.81	58.46	0.87
230	Beneficial Bancorp	Philadelphia, PA	5,806,925	3.13	4.61	0.81	47,235	3.32	66.63	(3.50)	92.30	3.62
231	Opus Bank (OPB)	Irvine, CA	7,180,903	2.99	2.99	0.43	30,918	3.08	66.01	0.26	85.86	(8.84)
232	Carter Bank & Trust (CARE)	Martinsville, VA	4,039,599	2.09	2.75	0.29	11,905	3.10	60.14	0.66	74.27	7.63
233	Kearny Financial Corp. (KRNY)	Fairfield, NJ	6,702,440	2.01	2.95	0.57	35,009	2.60	62.59	44.59	113.12	35.54
234	Scotiabank de Puerto Rico	San Juan, PR	4,043,091	(0.11)	10.66	2.30	94,852	4.12	56.25	(12.08)	77.17	12.66
<b>Median: All Institutions</b>			<b>3,731,440</b>	<b>9.26</b>	<b>10.44</b>	<b>1.17</b>	<b>41,285</b>	<b>3.64</b>	<b>59.32</b>	<b>7.61</b>	<b>93.55</b>	<b>9.07</b>
<b>Median: Top 20 Institutions</b>			<b>3,654,339</b>	<b>15.15</b>	<b>16.14</b>	<b>1.56</b>	<b>59,272</b>	<b>3.94</b>	<b>51.23</b>	<b>8.4</b>	<b>89.18</b>	<b>10.71</b>
<b>Average: All Institutions</b>			<b>4,296,983</b>	<b>9.37</b>	<b>10.82</b>	<b>1.19</b>	<b>50,495</b>	<b>3.59</b>	<b>59.43</b>	<b>12.19</b>	<b>92.72</b>	<b>11.82</b>
<b>Average: Top 20 Institutions</b>			<b>3,997,073</b>	<b>15.89</b>	<b>17.52</b>	<b>1.69</b>	<b>69,500</b>	<b>3.75</b>	<b>53.12</b>	<b>11.19</b>	<b>87.36</b>	<b>9.55</b>

Source: Capital Performance Group analysis of data provided by S&P Global Market Intelligence. Ranking is of top consolidated bank holding companies, banks, and thrifts with total assets of between \$2 billion and \$10 billion as of 12/31/18 and is based on three-year average return on equity for 2016 to 2018. Additional data is for the year ended 12/31/18; year-over-year changes compare 2018 to 2017. 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%. Excludes institutions with a leverage ratio of less than 5%, a Tier 1 risk-based capital ratio of less than 6%, or a 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. Based on the preceding criteria, 51 institutions in this asset size range were excluded from the ranking. Ties broken using first the 2018 ROAE and subsequently the 2017 ROAE.

\* Denotes institutions that operated as a subchapter S corporation for at least one quarter between 2015 and 2017. Their profitability ratios were calculated from regulatory financials and adjusted using an assumed tax rate.

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# PEOPLE PLEASER

The increased mobile engagement at U.S. Bank goes back to Ankit Bhatt letting customers tell him — and, many times, show him — what needs to improve

BY JOHN ENGEN | PHOTOGRAPH BY THOMAS STRAND







1. *Journal of the American Medical Association*, 2000; 284: 2689-2695.

thought its mobile check-deposit offering was near best in class, yet customer adoption lagged most big-bank competitors. What was it missing?

Ankit Bhatt joined the team that April as senior vice president for omnichannel experience, charged with spearheading a broad transformation that is putting heavy emphasis on digital in the Minneapolis-based company's strategic plans.

It's a huge task, involving changes in technology, processes and culture — leading a 70,000-employee organization to embrace rapid and profound change in pursuit of a vision. It includes ensuring that core tools of the digital revolution, such as mobile deposit, are working well and embraced by customers.

Bhatt didn't know the reasons for the low penetration rates, but he knew how to fix things: Ask customers. Observe customers. Make customers into default designers and developers. Come up with creative ways to get customers to give something new a try.

Bhatt is part of the new guard of digital leaders focused on boosting the quality of customers' experience through intense research. Such insight might have shaped products in the past, but this goes much further — practitioners like Bhatt describe it as "co-creating" apps and capabilities with customers.

"It's one of the differentiating aspects of digital," said Bhatt, who has been part of five other banks' digital teams over the past 18 years. "Whatever you want to design, if you run it by customers you get a lot of amazing insights."

An analytical guy by nature who once thought he'd be a geneticist, Bhatt attacked the mobile deposit challenge like a scientist.

His team spent much of his first year watching and listening as customers used the feature. They did one-on-one interviews, intercepted customers at the branch and mined front-line employees, learning some valuable lessons.

Limits on how much customers could deposit were too low, and the image-capture software was error-prone and slow.

Faced with the data, executives agreed to spend money to fix the software and risk management signed off on doubling deposit limits.

The bigger roadblock to adoption was customer awareness and comfort using a new technology. Mobile deposit needed teachers and evangelists. Like a growing number of bankers, Bhatt found them by training branch employees to use it, love it and promote it to customers.

Next, Bhatt's team distributed thousands of "penny checks" — literally, checks worth 1 cent — which bankers used to show customers how easy it is to make deposits with the mobile app.

"We needed to create awareness and understanding among front-line bankers of how it works," Bhatt, 39, explained. "If they feel comfortable, they can have a conversation with the customer about it."

Such efforts paid almost immediate dividends. In 2018, 14% of checks deposited at U.S. Bank came in via the

mobile app, up from 8% a year earlier — a huge jump. In rankings of mobile deposit “customer experience” published by Futurion, a digital consulting firm, the bank jumped from No. 6 in 2017 to No. 3 last year — closing in on the leaders Capital One and Wells Fargo — with top scores in areas like user efficiency, auto capture function and real-time updates.

The user experience is so good now that "they really can't improve much," said Jim Van Dyke, Futurion's chief executive.

Credit the users with pointing out "what" needed to be done, and Bhatt with making the "how" happen.

"Ankit took us through a process that showed customers were put off by fixable things that we weren't even thinking about," said Lance Thornwood, head of user experience design and one of Bhatt's chief lieutenants. "And he helped us understand that we had to get our own bankers believing in it. We needed them to say, 'I've seen and used this new thing and it's pretty awesome.'

"This is something Ankit has introduced to our culture: the idea of looking at the experience itself as the thing we're creating," Thornswood added.

## Altering perceptions

There's little doubt that Bhatt's obsession with customer experience is transforming the way the nation's fifth-largest commercial bank — its executives, employees and customers — view and use digital platforms.

It's also altering perceptions of the bank externally.

Nothing is truly original in today's digital banking wars. Good ideas are quickly imitated. Everyone talks about personalization, the customer experi-

ence, co-creating apps with customers and turning front-line employees into digital “ambassadors.”

The stakes are high and the competition from the big guys and Big Tech is ruthless. The best a super-regional like U.S. Bank can hope for is a close-to-level playing field with the megabanks and their mega-budgets.

footprint,” said Scott Siefers, an analyst with Sandler O’Neill & Partners. “They’re accelerating their digital efforts these days and being more vocal about their success.”

There’s been a lot going on behind the numbers too. In two years, Bhatt has overseen a redesign of the bank’s online banking site, making it a more

“We’re creating an experience,” Bhatt said. “It has an element of design, an element of developing code for the design and an element of connecting it to our back-end infrastructure and core database.”

In the pre-Agile world, a design team might have passed off its design to the coder and so on, fostering a game of

## “THIS IS SOMETHING ANKIT HAS INTRODUCED TO OUR CULTURE: THE IDEA OF LOOKING AT THE EXPERIENCE ITSELF AS THE THING WE’RE CREATING.”

Bhatt has worked for Citigroup, JPMorgan Chase and HSBC, among others, and analysts say he not only understands what it takes to move U.S. Bank into the big leagues, he’s doing it.

“Are they totally there? Not yet,” said Emmett Higdon, digital banking director at Javelin Strategy & Research. “But they’re thinking about things the right way, and certainly Ankit’s background allows him to bring some of that best-in-breed knowledge together.”

### ‘Creating an experience’

Bhatt’s team has also notched some impressive successes beyond mobile deposit. Customer use of Zelle, the person-to-person payment app run by large banks, for example, rose 131% at U.S. Bank in 2018, compared with 61% reported across all institutions.

A record 32% of all U.S. Bank loans in a recent three-month period, including about three-quarters of mortgages, were originated digitally — up from 21% two years earlier.

With investors, management is justifying its digital emphasis as a way to “reduce costs and potentially acquire customers outside their traditional

effective driver of sales, and taken the reins on the creation of a substantively new technology stack — powered by application programming interfaces, or APIs, to enhance flexibility and responsiveness.

Perhaps most significant, he headed up a complete rebuild of its flagship mobile app, the iOS version of which was launched earlier this year in less than nine months from project start to customer launch. (The Android release is coming this summer.)

The app is heavy on personalization, and presents things in a menu-driven, easy-to-navigate way that’s integrated with other channels. “Instead of trying to appeal to the lowest common denominator, as often happens with mobile design, they’re emphasizing the individual’s experience and viewing things through the customers’ eyes,” Higdon said.

Along the way, Bhatt has quintupled the size of U.S. Bank’s “experience design team” to more than 150, and brought full-out Agile methodology, with its collaborative, cross-functional approach and sprint deadlines, to a team that had only dabbled in Agile before.

telephone that’s slower and less precise. Today, those teams work together, “continuously building and testing and iterating” to meet customers’ needs, Bhatt said.

“U.S. Bank has always cared about the customer experience,” said Jody Bhagat, Americas president for Personetics, a firm whose artificial intelligence algorithms are used in U.S. Bank’s mobile app to analyze transactions and other data to enhance customer insights. “The difference under Ankit is the speed and scale they’ve achieved by embracing Agile.”

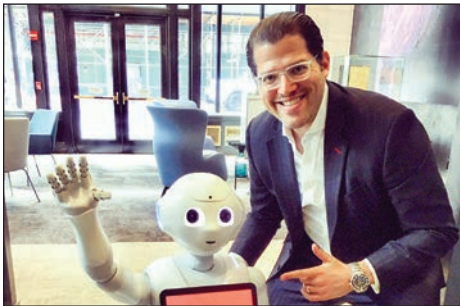
### Role playing

Bhatt grew up the son of an engineer in the northwestern India state of Gujarat, near the Pakistani border. His father got a U.S. student visa when Bhatt was 12, and the family moved to New Jersey.

After graduating from George Washington University in 2001 with a degree in biology, Bhatt took a job analyzing operational performance models at Merck, the pharmaceutical giant. “My initial love was genetics,” he said. “I wanted to be in research.”

Instead, the explosion of the internet





**JEREMY BALKIN**

Chief innovation officer

HSBC USA

New York

**\$170 billion of assets**

It says a lot about his stature in the banking industry that Jeremy Balkin was

nominated as American Banker's Digital Banker of the Year not by a colleague, but by a competitor.

In the application, the competitor said that Balkin, the head of innovation at HSBC USA, deserves recognition for taking chances that others in his position won't.

On his watch, the \$170 billion-asset unit of the global giant HSBC Holdings last year became the first bank in the world to deploy a customer-facing robot in a branch. It provides visitors with basic information about products and self-service banking options, and alerts employees when customers have more in-depth inquiries. HSBC USA also says it is the first bank to use wearable technology — a Samsung Gear S3 smartwatch — to modernize how branch employees communicate with each other. Neither of these initiatives is just for show; the purpose is to better assist customers.

Balkin — selected as a 2019 Digital Banker of the Year finalist — is “single-handedly moving our tired, boring, conservative industry forward in terms of cutting-edge innovation,” the competitor wrote in the application. “I wish I could work for him and his team.”

That's high praise and Balkin, who joined HSBC USA in 2015, seems genuinely humbled by it. Still, he points out that the investments in robotics and wearable technology will take some time to pay off. The robot, built by SoftBank Robotics Group and given the name "Pepper" by Balkin and his team, is currently roaming the floors of just three branches, in New York, Seattle and Beverly Hills, Calif., and will need to be deployed in many more locations before it can have meaningful impact on branch operations, he said.

Ultimately, Balkin envisions lots of Peppers being stationed in busy areas where HSBC has no physical locations — think shopping malls and commercial districts — promoting the bank's credit cards, deposit accounts and other products to noncustomers. "What you've seen with Pepper is not even what our vision is," he said.

Similarly, HSBC is just scratching the surface in its use of wearable technology. At the moment, the smartwatches are being used only by front-line staff at HSBC's three-floor Manhattan branch, but since the technology was first put to use in November, Balkin has been traveling to branches worldwide to tout the benefits. An HSBC branch in Saudi Arabia will be the next location to roll out wearable technology to employees. "I'm amazed that wearables haven't taken over corporate America" for this use case, he said. — *Will Hernandez*

captured his interest. Bhatt left Merck for a job in Citigroup's fledgling digital unit, where he got his start, again, in analytics. In 2006, Citi's digital efforts moved from intriguing sideshow to a core part of the business, with license to plow new ground. The team was small, and Bhatt got a taste of everything — strategy, marketing, technology, acquisition, budgeting, product management.

"We got to play a lot of roles," he said. "There was an exciting sense of empowerment."

That background turned Bhatt into a sought-after commodity. Over the next decade, he did stints as head of digital at HSBC, director of mobile strategy at American Express, vice president of mobile at JPMorgan Chase, and chief operating officer of digital channels at E-Trade Financial, never spending more than three years in any one place.

In 2017, Gareth Gaston, U.S. Bank's executive vice president of omnichannel, was looking for someone with a "bold vision" to turn the bank's digital efforts into a differentiating force, and found Bhatt's customer-obsession a match for his own. "I believe he has the drive and background to build the world's best digital experience," said Gaston, Bhatt's boss.

Bhatt seems unfazed by the expectations. He is by all accounts a humble leader — a guy who doesn't seek attention, preferring to defer credit to others. He's won over his team with a personal, easy-going touch.

It's not unusual, colleagues say, to find Bhatt's team prepping a PowerPoint presentation at a local bar. Earlier this year, as his team pressed against a tight deadline to push out the new mobile app, he surprised everyone by



telling them to go home for the weekend and recharge.

"People appreciated it so much they came back on Monday and worked even harder," Thornswood said. "Ankit makes you want to do a better job because he treats you well. People want to please him."

That doesn't mean Bhatt is a pushover when it comes to advocating for his digital vision. More than once, colleagues say, he's stood toe to toe with bean counters arguing for the better (higher-cost) option.

"I've been in conversations where he's held the line and said, 'It's not OK to sacrifice faster delivery to save a few dollars,'" Thornswood said.

Bhatt's argument: "The experience is the key differentiator of what we're doing. If it's going to cost more, it's worth it, and here's why."

The "why" is Bhatt's true forte. He's a data junkie who's at ease discussing "ethnographic research" and the need to "observe customers in their natural habitat" to inform decisions and provide ammunition for convincing the folks controlling the budget.

As digital blossomed, it threw off an ever-evolving set of experiences and new expectations. The only logical way to keep up was to study and analyze customers. "Ankit isn't encumbered by today's way of operating," said Bhagat, the Personetics executive. "He's redefining the entire digital experience for U.S. Bank by taking an intensive, fact-based approach to customer research, and using it to shape the design."

### Research focused

Bhatt's top challenge, launching a new mobile app, illustrates the value of research. The old app wasn't bad —

## JOHN ROSENFELD

President, Citizens Access  
Citizens Bank

Providence, R.I.

**\$160 billion of assets**



John Rosenfeld is used to taking risks. The former Green Beret turned Citizens Bank executive once led the

A-team of a free-fall parachute unit. Now he's taking a different kind of leap, spearheading the creation of a digital-only bank.

Citizens Access went live last summer, and has quickly gathered nearly \$5 billion in deposits from roughly 50,000 customers.

Like others that have pursued a similar strategy, Citizens decided to create the digital bank to help gather deposits as its loan volumes increased. "We came up with the idea that if we created a second bank that we operated nationally, we could raise deposits more aggressively," said Rosenfeld, the president of Citizens Access.

Because of the early success of Citizens Access and Rosenfeld's role in its speedy launch, he is a Digital Banker of the Year finalist.

Rosenfeld is no stranger to digital innovation. He previously worked at Bank of America, which on his watch became the first to offer online check images, free online bill payment and mobile banking. "John was one of the early pioneers of digital banking at Bank of America," said Brad Conner, vice chairman at Citizens Bank. "He has a lot of experience creating online and digital experiences and in the last several years of his career, he was running deposit products for us. So if you think about his background, he was an absolutely perfect fit."

Rosenfeld runs Citizens Access like a bank within a bank. It has its own office, balance sheet, chief marketing officer, chief operating officer, and core system. It doesn't charge fees, eliminating disclosure requirements and complaints about fees. The account opening process takes less than five minutes.

So far, it offers just savings accounts and CDs, but Citizens is considering letting customers link to trust accounts. "People with large accounts and large balances often establish trusts to protect their interests over time," Rosenfeld said. "And we want to be able to support that." (Overall account balances average more than \$70,000.)

Other new capabilities are likely too, he said. "When we see people implement great ideas, we'll take that idea into the lab and brainstorm within the team about, how could we be even better?"

Conner likewise suggested that the experimenting has just begun. "I don't think we've determined everything it can be," Conner said. "This gave us an ability to build something completely new from scratch. It also gives us a platform to launch other potential national capabilities."

— Penny Crosman

rating 4.8 stars out of five in the app store — but had grown stale. “We were making incremental improvements,” Bhatt said. “But the experience was just on par with competitors. We wanted something more.”

To inform the remake, Bhatt’s team tested, tested and tested again, gathering feedback from 5,000 users in various ways — surveys, usability tests, branch intercepts, one-on-one interviews, focus groups, “digital diaries” and in-home visits. Bhatt estimates that researchers spent time in more than 400 customers’ kitchens, observing them banking.

new app’s features, including a “money mentorship” dashboard that uses AI to analyze a customer’s spending habits in real time, tracks cash flows and reminds them of upcoming payments due.

Another feature tracks customer spending on a business trip. “Now, rather than typing everything into a spreadsheet, they can go to the app and see what they spent in Greece,” Bhatt said. “We took a need we discovered and created more value.”

The new app also comes with myriad technical improvements, including a new sales process embed-

Bhatt’s team backstopped the push with an in-house “hot potato” sweepstakes that gave front-line bankers incentives to “zelle” friends, family and each other. Employee use was tracked, and those who used it most won weekly and monthly prizes.

As with the “penny check” campaign for mobile deposit, “if employees feel comfortable using it, they can have a conversation with the customer” and drive adoption, Bhatt said. “We believe Zelle is central to the growth of mobile adoption.”

Over time, Bhatt has concluded that the bank’s digital efforts are more

## “WE WERE MAKING INCREMENTAL IMPROVEMENTS. BUT THE EXPERIENCE WAS JUST ON PAR WITH COMPETITORS. WE WANTED MORE.”

More than once, the feedback sent designers back to the drawing board. Before the app’s launch, for example, designers thought a hip, new icon, with an off-center logo that created “visual tension,” would be an attention-getter.

“We thought it was a brilliant piece of design,” Thornswood said.

But in focus groups, “customers said no. It didn’t hit on the attributes that were most important to them: simplicity, speed, trustworthiness,” he said. “So we changed it.”

Designers were similarly excited about an early iteration of the app itself, but got a thumbs-down from the masses for not going far enough on the personalization front.

“They said, ‘What you’ve got here is just table stakes. You already know so much about me, we expect you to really personalize this and anticipate my needs,’” Bhatt said.

The learning shaped many of the

ded in the app that can, for example, seamlessly prefill the customer’s information on a loan application. In contrast, the old app transferred customers to a mobile website that treated them like relative strangers.

At the same time, a redesign of the bank’s website has boosted mortgage originations sharply, with digital applications powered by Blend, a technology provider, which prefill with customers’ data and allow them to upload documents and e-sign through a secure portal from their kitchens. “It was a customer need,” Bhatt said, “and we’re seeing results of satisfying that need in sales growth.”

Zelle was another challenge. The peer-to-peer payments app was plagued early on by, among other things, a too-difficult enrollment experience and customer reticence. U.S. Bank became one of the first banks to embrace a new enrollment scheme.

about helping customers manage “pain points” in their daily lives than offering financial tools.

“Account and money-movement capabilities are just enablers,” he said. “We need to make it easy, and we need to add value for them by personalizing the app to provide real-time information and insights that they can use to manage their daily finances.”

Will Bhatt be there to see U.S. Bank’s efforts through? Given his history, it’s a fair question. He’s two years into his tenure, nearing his longest stay in a decade.

“Ankit’s a high-demand individual, so I don’t take him for granted,” Gaston said.

Bhatt, not surprisingly, says he has no desire to leave. “As long as the organization is committed to creating value for customers, I’m in,” he said. “I love it here.”

The feeling appears to be mutual. □

## Decision Support Is Key To Top Performance

By Claude Hanley

Year after year there is remarkable consistency among the banks at the top of the annual rankings that appear in this magazine.

What accounts for their consistent high performance regardless of external factors like interest rates? It cannot be attributed solely to good market demographics or strategy. They compete in a variety of markets and pursue different strategies.

Rather, in our view, these institutions have certain fundamental characteristics in common: an understanding within the organization about where it can win; an emphasis on generating positive operating leverage (i.e., there is alignment between expense growth and revenue growth at the business unit level); the allocation of investment dollars to higher-margin businesses and growth markets; and a corporate culture that encourages action, accountability and performance.

Obviously, each of these characteristics is predicated on having competency in many areas, including marketing, human resources and sales management. One of the most important skills for gaining such competency is quantitative analysis — it facilitates the informed decision-making that underpins all of the characteristics cited above.

As is the case with most banks, top performers possess varying levels of competency across functions. However, they typically have very effective financial management and decision support. Broadly defined, this discipline encompasses financial reporting,

financial and strategic planning, risk management, and analysis of sales reporting, performance and profitability.

Well-functioning decision support provides reliable, timely and accurate information, enhances control and enables an institution to deploy resources more effectively.

Traits of effective decision support found at top performers include:

- *Rigorous budgeting, forecasting and planning processes.*

Gather meaningful input from line managers for budgeting and planning through well-defined procedures. Use templates that isolate the financial impact expected from new initiatives.

Ideally, institutions should employ long-term forecasting to enable the executive team to gauge the momentum of the core business. Forecasting also helps quantify the financial impact from anticipated changes in the macro environment.

To reinforce accountability, establish a formal, recurring process for executives to review and discuss variances, to make changes in financial forecasts, to monitor the performance of the bank and to identify steps to prevent unfavorable variances.

- *Timely and relevant business intelligence and performance analytics.*

Deliver financial reporting and analysis in a targeted way throughout the organization, such as by line of business or geography. Incorporate performance metrics, peer data and trend analysis into financial reports.

Succinct and timely feedback helps line managers and executives evaluate



performance, whether from new lines of business, new strategies or sales and marketing initiatives. For instance, lead generation and customer conversion rates from digital channels are increasingly relevant, given the increased focus on digital marketing at many banks.

- *Financial and risk analyses for major projects.*

Make a business case for capital investments, marketing initiatives and major spending programs. To establish accountability, reflect the business case in budgets very clearly.

Conduct follow-up analysis to determine if the anticipated return was realized. For instance, did an investment in video teller equipment yield salary savings as projected?

Focus on profitability when evaluating new products and lines of business. One bank abandoned a proposed partnership with a digital third-party consumer lender because the financial and risk analysis showed that the net profits, after accounting for the revenue split with the partner, did not justify the potential credit risk.

Macroeconomic conditions certainly influence performance. However, institutions with important decision-support traits like those listed here can become top performers regardless of the operating environment. □

*Claude Hanley is a partner at Capital Performance Group.*

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# BackPorch



## ANDREA ORCEL

**"I don't know if the word 'disappointment' in English is really enough to portray the situation. I was saying, 'What? Oh my God. This is a black swan, this has never happened before.'"**

Former head of investment banking at UBS, on Santander reneging on its offer to hire him as its CEO

## PERRY PELOS

**"It's been a little bit more challenging for us to bring in new customers."**

Wells Fargo's head of corporate banking, on his unit's 4% decline in revenue last year following average annual growth of 6% previously

## NANCY BUSH

**"It's been like Whac-a-Mole at the bank. The minute one problem gets nailed down, another pops up."**

Banking industry analyst, on the many challenges facing Wells Fargo's next CEO

## HERMAN CAIN

**"Without getting too specific about how big a pay cut this would be, let's just say I'm pretty confident that if your boss told you to take a similar pay cut, you'd tell him where to go."**

One of President Trump's two controversial candidates for a Federal Reserve seat, explaining why he withdrew from consideration



## STEPHEN MOORE

**"The biggest problem I see in the economy over the last 25 years is what has happened to male earnings."**

Second Fed board contender to withdraw from consideration, complaining about a "steady decline" in men's pay (though government data shows the opposite)

BLOOMBERG NEWS



## LLOYD BLANKFEIN

**"Boy, I really miss my old job!!!"**

Former Goldman Sachs CEO, in a tweet after a House committee grilled leaders of the largest U.S. banks on everything from income inequality to environmental issues

## SETH FROTMAN

**"It felt like we were in some Ayn Rand debate club."**

Former student loan ombudsman at the Consumer Financial Protection Bureau who quit in protest, discussing how Mick Mulvaney ran the agency

## PETER NORMAN

**"These are disasters waiting to happen."**

Author of several books about central counterparties, warning that the financial system's heavy dependence on these clearinghouses is dangerous

## AJAY BANGA

**"Should I allow cards to be used to buy cigarettes? What about alcohol? What about contraceptive devices? Where would you like the line to be drawn, based on whose interpretation of what's acceptable and not?"**

Mastercard's CEO, saying his company won't put limits on firearm sales and other legal activities



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