THE FINANCIAL INCLUSION ISSUE

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Colleen Briggs
Executive Director
Community Innovation
JPMorgan Chase

The gig economy is up

How banks and fintech companies are trying to help consumers cope with the challenge of income volatility

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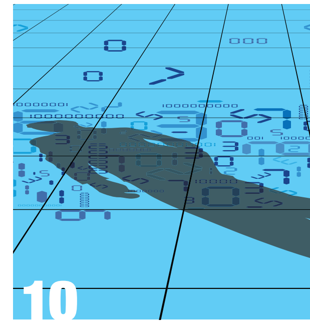

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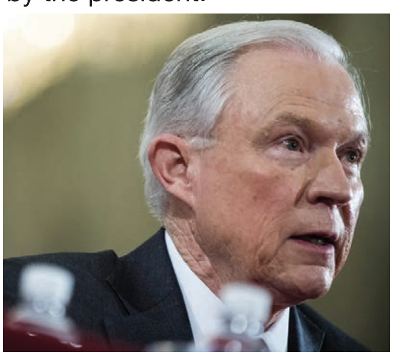

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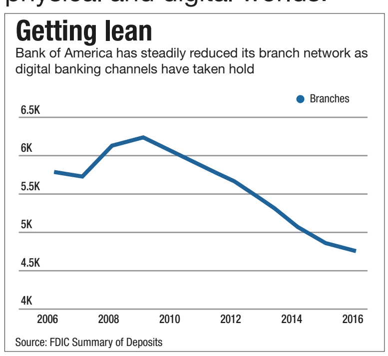

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Editor's Note

BY BONNIE McGEER

Cap One Shortens the Machine Learning Curve

When it comes to machine learning, it's the human learning curve that can be most crucial to the success of a project.

At the FinDEVr New York conference in March, Sandeep Sood, vice president of software engineering at Capital One, shared an interesting case study on how his company uses machine learning to analyze clickstream data. His pragmatic approach to implementing the new technology can be viewed as a template for others.

The most useful lessons he learned in the process had to do with strategizing ahead of time (think big for this part) and then rolling out the first use case (it helps to think small here).

To illustrate his point, Sood went all the way back to when electricity became available for general use. The business world had run without it and figuring out how to use it took decades. "There are tons of stories of companies that actually set up lab groups – the way we set up lab groups to explore machine learning or voice OS or whatever it might be – to figure out how to use this new technology called electricity," Sood said.

Many of the lab groups failed – "they would try these prototypes out and they couldn't take advantage of electricity in the way they thought they could" – because their focus was on improving the existing system. "Something so revolutionary as harnessing electrical energy required a complete rethinking of everything, top to bottom," Sood said. Not only the physical machines had to change, but the entire process.

That's a crucial insight still relevant to adopting new technology today, he said. The process of factories having to deconstruct how they work in order to capitalize on the use of electricity is a good analogy for what banks must do to effectively apply machine learning to their business models.

"It's going to affect every single business process, and it's going to take a fundamental rethinking of how we work today, how we market, how we prequalify customers at Capital One, in order to really take advantage of it," Sood said.

Capital One is up to the task, in Sood's view. He joined the $357 billion-asset bank a few years ago when it bought Monsoon, a mobile design and development company that he co-founded. Going from a startup to a large bank was an adjustment, he said. But he feels Capital One has a startup mentality that traces back to its own beginnings. "In the '80s and '90s, it was using data to offer credit cards to customers that had previously never had access to credit cards," he said. "It was doing marketing and using test-and-learn strategies – which are really statistical learning – in a more manual format."

When implementing machine learning at Capital One, he opted to create an internal database, then picked one real business application to develop first. Sood's team focused on analyzing clickstream data, which indicates the pages people visit on Capital One's website and what actions they take.

Up to that point, Capital One had been using something like Google Analytics, which had been limiting. "We needed something that was endlessly flexible," allowing teams to set up and run their own queries, he said. "If the mobile apps wanted to track something different than the web apps or the application areas, they could do that. And then, finally, we needed something that for the first time at Capital One would give us data in real time so that we could make decisions – when it came to marketing or anything else – that would happen directly during the same session for the customer."

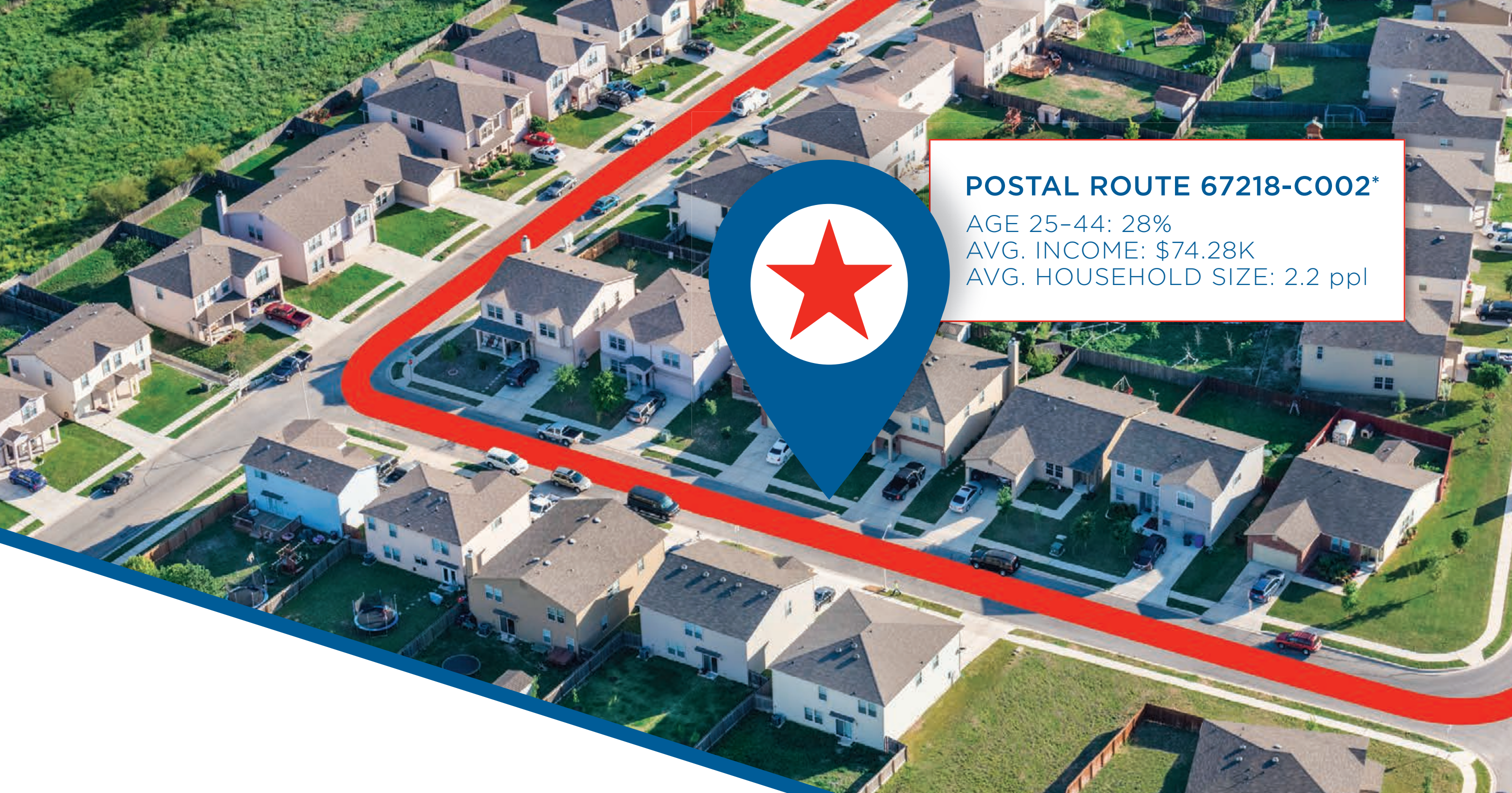
Now Capital One has a solution that uses machine learning to customize content in real time on the website for every user, based on their behavior during their session. So people looking at a reward card would be served content that is different from people looking at a savings account.

"A more complex use case would involve a credit card application where we detect potential markers for fraud," Sood said. For example, if someone spends too long inputting social security information – something they should know off the top of their head – this would get flagged and dynamically trigger additional questions for the applicant to answer on screen.

Deciding where to apply new technology is key, according to Sood. "My teams call it the 'N = 1 Strategy.' We always look for one use case and try to solve it for that," he said.

Too often companies pursue a solution for every business line across the entire enterprise. Inevitably, this bogs down the process with months of doing due diligence and getting executives to buy in.

"When instead, if you had just put your head down, built a prototype and proved it for one problem, you would have a much higher probability of success," Sood said. "It's not a guarantee by any means, but a much higher probability of success." □



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Briefings

BRANCH STRATEGY | FINANCIAL INCLUSION | LAW & REGULATION

Going Back to School with Students as the Teachers

Student-run branches at five California high schools create wide 'ripple effect' in minority communities

By Kevin Wack

A FEW MILES NORTHEAST OF DOWNtown Los Angeles is Lincoln Heights, a working-class neighborhood that belies the city's glamorous image. About 70% of the residents are Latino, and the rest are mostly Asian-American. While there are a few early signs of gentrification – like the craft beer shop that opened two years ago – the median household income is barely half of the citywide average.

On a cool morning in early March, the hills near Abraham Lincoln High School were a lush green – the result of an exceptionally rainy winter, and a jarring sight after several years of drought. The high school, which dates back to the early 1900s, is in need of a similar rebirth. It currently has about 1,000 students, more than a 50% decline from a decade ago, as charter schools have moved into the neighborhood.

Lincoln High is an unlikely place to find a bank branch. But just off the cafeteria, inside what used to be an adult-education office, is a small outpost of MUFG Union Bank. Amid alarm bells and intercom announcements, the familiar logo of the Federal Deposit Insurance Corp. offers a reminder that this is a real bank.

The branch is operated mostly by 12th graders, who take deposits from their classmates and teachers. They also make classroom presentations on financial topics and pitch bank accounts to their fellow students.

Priscilla Ortega, who is planning to attend Fresno State University in the fall, juggles her part-time banking job with classes and softball practice. She said that the experience has bolstered her self-confidence.

“Before I would get really nervous, but now I feel more comfortable talking to people,” she said. “I wish I would have learned all this stuff my freshman year.”

This branch is one of five that Union Bank operates inside California high schools. The $115 billion-asset, Los Angeles-based bank has several goals for the program.

It wants to motivate the students, many of whom come from low-income families, to go on to college. It aims to give them presentation skills that will serve them well no matter what career path they pursue. And it hopes that the students’ improved financial literacy, and their understanding of the importance of savings, will filter across their communities.

“I sometimes talk about it like the pebble in the pond,” Jan Woolsey, a managing director in Union Bank’s corporate and social responsibility division, said in an interview prior to her retirement at the end of April. “We may only directly impact a few students. But through their efforts to share with their peers and their parents and their parents’ friends, we actually have a ripple effect that goes way beyond our direct involvement. They can be a trusted voice in that community that we have difficulty being alone.”

How it works

Union Bank, a unit of Tokyo’s Mitsubishi UFJ Financial Group, started down this path in 2010.

The year before, a student-run branch at a Fresno high school was forced to close as a result of the failure of the $1.7 billion-asset bank that operated it, County Bank in Merced, Calif. Union Bank agreed to continue operating the branch.

Since then, the bank has opened four other student-run branches in Southern California, and it plans to open a sixth, in Oakland, later this year. All of the schools serve communities with a high proportion of low-income families.

The branches are only open during the school year, typically four days a week, from 10 a.m. to 3 p.m., with a manager there to supervise.

Students who want to participate have to apply and typically there are many more candidates than available spots. The bank tries to find a mix of high-achieving students and others who may or may not be headed to college.

About 10 to 13 applicants are selected for a one-year internship program at each branch - all but one so far have interviewed as juniors to work in their senior year.

Over the summer they receive the same two weeks of training that the bank’s full-time tellers get, including instruction on customer privacy. One week is spent in a classroom at the training center and another week job shadowing in a traditional Union Bank branch.

“They’re taught how to make their customers feel welcome when they come into the branch and appreciated when they depart after a transaction,” Woolsey said.

Each student works about four or five hours a week. The branches do not have ATMs, which is by design. Customers are required to talk to a student banker when they want to make a deposit or a withdrawal.

The students receive $250 halfway through their training and another $250 after it is completed, plus a $1,000 scholarship at the end of the school year.

There is no hourly pay, but the teens who participate get much more from the program than some pocket cash.

“None of them really care about the money. They care about the experience,” said Wendy Estrada, the branch manager at Lincoln High.

During a recent visit to the school, Estrada proudly showed off photos of the program’s last three graduating classes. Part of her job is to help these former students to find internship opportunities during college.

“A lot of them still come by, and they still bank with us,” she said.

Estrada sees herself in the kids she is mentoring. She grew up in an immigrant household in Glassell Park – another neighborhood in northeast L.A. – before embarking on a career in banking.

“I wrote my parents’ checks,” she recalled.

What the benefits are

Union Bank is one of a relatively small number of U.S. banks and credit unions – regulators were unable to provide an exact tally – that operate student-run branches. Capital One Financial runs four of them, in New York, New Jersey and Maryland. Banks can receive credit for student-run branches under the Community Reinvestment Act, which is undoubtedly part of the appeal.

Some critics have argued that these banks are simply using public schools to build their brands with the next generation of young adults. But if that is the motivation, student-run branches would seem to be a costly marketing strategy.

“I can tell you it’s not a profit gain,” Woolsey said, referring to Union Bank’s program. “And we don’t do it to make money. But we do it to have an impact on the lives of individuals and the communities they live in.”

Jose Torres, the principal at Lincoln High, said that the program has yielded benefits both for participating students and the broader community, which is teeming with immigrants. He noted that many parents of Lincoln students rely heavily on cash.

“A lot of parents don’t believe in banks, don’t trust banks,” Torres said.

Those parents may get an informal financial education from their kids. Parents also have the opportunity to attend regular workshops that Union Bank hosts on financial topics.

Lincoln High's branch opened in March 2014, and the bank said that all of the students who have participated in the program have gone on to college. During the same three-year period, roughly 80% of the student body at Lincoln graduated and enrolled in higher education.

Since 2011, roughly 150 California high-school students have been through the Union Bank program, and virtually all of them have gone on to college. But numbers do not tell the whole story.

"One mother told me at graduation that she was confident that our program had saved her son's life," Woolsey recalled. "She'd lost an older son to the gangs – he was killed as a teenager – and she was fearful that her second son was going down that path. But he got lit up about this program, decided it was something he really wanted to do, and improved his grades."

The program's impact on other teenagers is less dramatic, but still valuable.

Alicia Cortes, who participated in the program at Lincoln High in 2014, was raised by a single mom who did not feel comfortable using banks. Today she attends Pasadena City College, and she said the stipend she got from the banking program helped her pay for her books. The program also educated her about the importance of saving. "I don't want to want to get into any debt," she said.

Ortega, a senior at Lincoln High, plans to enroll at Fresno State University in the fall and major in child development and family sciences. She said that the banking program sparked her interest in personal finance. These days, she comes home from school with questions for her parents about their retirement savings.

Her father, Luis, is a 1991 graduate of Lincoln High who went on to become a Los Angeles police officer.

"I don't ever remember asking my parents about interest rates or CDs or anything like that," he said.

"I just wish this program would have been around when I went to school, because it would have helped me be a little more financially savvy."

The Hurdle Is High, After All

Financial inclusion rules in OCC's fintech charter are tougher than CRA

THE OFFICE OF THE COMPTROLLER of the Currency plans to require fintech charter applicants to submit a financial inclusion plan that is tougher in some ways than similar Community Reinvestment Act requirements for banks.

The OCC has said it would not impose CRA requirements on nonbanks, in part because the 1970s-era law is widely considered outdated in how it promotes financial inclusion. Instead, the agency has sought to create a new system under which fintechs draft financial inclusion goals and detail how they intend to achieve those goals – and then the OCC holds them to it.

Both supporters and critics of the proposed fintech charter described a draft licensing manual published by the OCC in March as vague.

But what stood out to many is that the financial inclusion requirements for fintechs seem to be more consequential than CRA is for banks.

"If you don't do well on CRA, you get a bad CRA rating," said Julie Williams, the former chief counsel at the OCC, who now is a senior official with IBM's Promontory Financial Group. But "if the special-purpose national bank doesn't comply with the financial inclusion plan, then the OCC can take enforcement action. That is actually more than what the OCC can do if a bank doesn't do well on the CRA."

At issue is how the OCC is trying to apply the spirit of CRA to companies that are not covered by it. Some bankers had feared the proposed fintech charter would go easy on this.

But the manual said that any financial inclusion plans would have to be submitted and approved as a condition for charter approval. "Most bank charters have CRA compliance as a secondary component, but here it's clearly front and center," said Brian Korn, a partner at Manatt, Phelps & Phillips. "As opposed to something that you have to comply with once you are already approved."

In addition, if the chartered fintech company does not follow its financial inclusion plan to the OCC's satisfaction, the agency would be able to issue enforcement actions. Though receiving a bad CRA rating can be harmful – not only impacting a bank's reputation, but preventing expansion – an enforcement action is more serious.

The OCC leaves the door open to unconventional financial inclusion plans, acknowledging that some fintech companies are built around the idea of extending credit to underserved groups.

"In those cases, the applicant should identify and discuss with the OCC the aspects of its business plan that address its financial inclusion goals," the agency said in the manual.

But there, too, observers said fintechs might face higher standards in making their case to the agency.

Though banks have to explain how they plan to comply with CRA, "it's generally not as much a creative writing exercise" as what the OCC has proposed for fintechs, Korn said.

It is also unclear which type of financial inclusion plan or business model will be most likely to win the OCC over.

"Will the OCC be satisfied with, 'We will fund financial literacy programs,' or will the OCC say, 'No, you need to make some loans here'?" asked Brian Knight, a senior research fellow at the Mercatus Center. *– Lalita Clozel*

A Nose Under The Tent?

Judge says bank can sue regulator over Camels rating

AFTER UNDERGOING AN EXAM IN summer 2016, Builders Bank in Chicago learned it had done poorly and took the unusual step of challenging the results in court.

Its Camels rating had reached a 4, the threshold at which an institution is considered a "problem bank" by regulators. The $41.4 million-asset institution responded by suing the Federal Deposit Insurance Corp., claiming that the agency's risk profile determination for the bank had been "flawed."

Against all odds, Builders Bank scored a critical victory in a case that could set a precedent for other financial institutions that feel they've been unfairly graded. In January, an appeals court found that Camels ratings – a risk-profile metric assigned by banking regulators that can affect how much an institution pays in insurance premiums – are challengeable in court.

"Generally, the courts just refuse to hear those cases, saying that it was completely within the discretion of the bank regulatory agencies," said James M. Kane, an attorney at VedderPrice in Chicago. "If things work out, it could be a significant victory for the banking industry."

In its decision, the Seventh Circuit Court of Appeals overturned a lower court's dismissal of Builders Bank's lawsuit, arguing it had jurisdiction to review the case. The case has now been remanded, while the bank is pursuing a second lawsuit against the FDIC challenging the results of its latest examination.

The appeals court found that even though bank regulators are at a liberty to determine capital level requirements, Camels ratings can face legal challenges because they are calculated based on a number of other variables.

The acronym Camels refers to the six components of a bank's condition that regulators assess: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk.

"The presence of capital as one of six components in a Camels rating does not necessarily mean that the rating as a whole is committed to agency discretion," Judge Frank Easterbrook said in the ruling.

"Suppose the FDIC's team of examiners were to conclude that the bank had adequate capital deserving a rating of 1 but that other components were unfavorable, leading to an overall rating of 4," he wrote.

"The examiners may be right or wrong about those other issues, but a district court could ask whether the FDIC's final rating was arbitrary, or supported by substantial evidence, without making any inroad on the agency's discretion to evaluate a bank's capital adequacy."

In his decision, the judge also resorted to a rare, if not unprecedented, move. He revealed the bank's Camels rating to the public: a 4, which is one point shy of the worst possible grade.

"As a bank you're not supposed to reveal what the report of examination showed," said Richard Grossman, the general counsel of Builders Bank.

Details on the institution's rating were filed under seal, he said. But "the appellate court revealed what our rating was. They just did it!"

In his decision, Easterbrook suggested that the bank's case had two other major weaknesses to overcome.

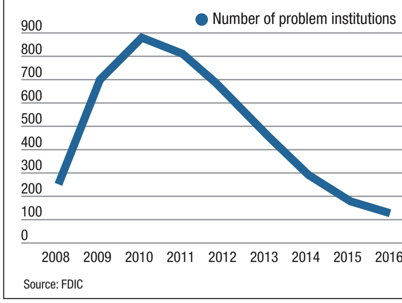
For one, the judge said, a Camels rating is not a final agency action. Because it is not an order, it is not appealable in and of itself, he argued.

"The Camels rating affects how much a bank must pay for deposit insurance, but the bank has not asked the court to order the FDIC to lower its rates," Easterbrook said.

Grossman, the lawyer representing Builders Bank, disputed the judge's position on that. "He's obviously brilliant," Grossman said, but "I think he's completely wrong."

Fewer problems

The number of troubled institutions, those rated Camels 4 or 5, has fallen sharply after the financial crises



Grossman went on to cite a 2015 Supreme Court decision, U.S. Army Corps of Engineers v. Hawkes Co., in which Chief Justice John Roberts found that for an agency action to be considered final, it must be "one by which rights or obligations have been determined, or from which legal consequences will flow."

Camels ratings have a direct consequence on the insurance premiums paid by banks, which should satisfy this last requirement, Grossman claimed.

Easterbrook also said Builders Bank had failed to appeal the Camels rating internally before taking it to the court, which could be another blow to the validity of the case.

The bank said in a court filing that the FDIC did not allow it to appeal the grade internally – that is, not until it filed its first lawsuit. The agency declined to comment on the case.

Regardless of the ultimate outcome of Builders Bank's lawsuits, its recent win could embolden other financial institutions to fight their Camels ratings in court.

"The Seventh Circuit established a principle here – that other than capital, there is grounds for appeal even to the courts on the other criteria in the Camels rating," said Karen Shaw Petrou, managing partner at Federal Financial Analytics. "It's a fascinating precedent."

– Lalita Clozel

BankTechnology

Are Human Traffickers Hiding in Your Bank's Data?

Anti-money-laundering tools help in fighting another type of crime

By Bryan Yurcan

THOUGH HUMAN TRAFFICKING might conjure up images of darkened tunnels and FBI raids, it's also something banks can help uncover using data and analytics technology.

In the last several years, banks have become adept at mining data to comply with anti-money-laundering regulations. Much of that same data also can be used to detect signs of human trafficking.

"You don't think of it as being a financial crime, but it is," said Robert Voets, director of financial crimes and corporate security at Ion Bank in Naugatuck, Conn.

The $1.2 billion-asset bank has been using fraud detection technology from Verafin since 2013. Last year, the company added human trafficking alerts to its fraud solution.

In the few months that Ion has been receiving the alerts, it has forwarded some suspicious cases to local law enforcement.

"It's a real wake-up call," said Voets, who was a police officer in Connecticut for 27 years before joining the banking industry. "You hear about human trafficking, but you never think of it as happening in your community."

When the alerts pop up, "we inves-

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tigate further, and if there seems like something to it, we contact law enforcement," he said.

Because the alerts that indicate if a customer is potentially a trafficking victim or a perpetrator of trafficking activity are so recent, there are no public indicators that the information Ion has passed along led to a conviction, Voets said. But he added that the bank has been impressed with the results so far.

"I'm sure in an immeasurable way this training will significantly enhance efforts to both save current victims and prevent future victims," Voets said.

Some financial patterns that could potentially indicate human trafficking include credit card purchases on some classified ad sites, several individuals with a common address depositing money into the same account, or multiple accounts transferring money to the same beneficiary, said Brendan Brothers, co-founder of Verafin.

The analytics tools also can cross-reference customer phone numbers to see if those same numbers appear on classified ad pages where illegal services might be sold.

"There are patterns you can look at – lifestyle indicators and what people spend money on, for example – that can indicate suspicious activity," Brothers said. "There's a lot of ways you can parse the data."

Though much of the same patterns banks flag for purposes such as AML compliance can be used to detect human trafficking, it's not something banks have typically done until recently, said Micah Willbrand, anti-laundering and financial crimes expert at the consulting and technology company NICE Actimize.

"We are seeing a lot more activity in the last year or so of banks addressing the human trafficking issue," he said. "Banks are being more proactive about it."

This newfound focus goes beyond technology, Willbrand added; some banks are starting to train front-line branch employees on how to recognize customer behavior that could be a sign of trafficking.

Though the goal is to stop the exploitation of people, banks that play a role in breaking up a crime ring also get to reinforce their role as good public stewards, Willbrand said.

Voets agreed. "I'm just so proud that we can help law enforcement in any way to stop crimes like this from happening in our community," he said.

Keeping Score

Credit report changes could affect banks' underwriting

CHANGES TO CREDIT REPORTS ARE coming this summer, and at least some companies are expected to tweak their credit modeling in response.

Come July, TransUnion, Experian and Equifax will no longer include tax liens and civil judgments on a consumer's record unless those actions include the person's name, address, Social Security number and date of birth. Many liens and judgments don't have those details, in part because Social Security numbers are often redacted for security reasons.

Millions of consumers will see their credit scores rise with the removal of such black marks.

The change is the result of a 2016 settlement the three major credit bureaus made with 31 state attorneys general over alleged problems with credit reporting accuracy.

LexisNexis Risk Solutions, which collects information about tax liens and civil judgments from government public records for the three credit bureaus, has estimated that 50% of tax lien records and 96% of civil judgment records do not include a full or redacted Social Security number and will not meet the new requirements under the settlement.

Industry insiders disagree over whether the changes to credit reports are positive.

Supporters point out that tax lien and civil judgment information is sometimes attached to the wrong consumer's file due to a lack of identity information.

"The bureaus are saying they don't want to unnecessarily penalize someone with this information if it's not the right consumer," said Sarah Davies, senior vice president of analytics, product management and research at VantageScore. "So this is a story about correcting consumer scores."

In a study last year, VantageScore found that 11% of consumers had either a lien or a judgment on their credit file. But "there's still this situation where they could be misidentified," Davies said. "Removing this stuff and making it accurate is the right thing to do."

Others argue it's important for lenders to know if consumers have had a lien on their taxes or a civil judgment against them, because the risk of defaulting on a loan is much higher in these instances.

"It's a bad idea to remove anything from a credit report that's predictive of future credit risk and is accurate," said John Ulzheimer, a credit reporting and credit scoring expert. "Liens and judgments have been a part of credit reports for decades. Can they end up on the wrong consumer's credit report? Yes. Is it such an overwhelming and common problem to eliminate almost all judgments and half of the liens from credit reports? No."

At least some banks will be rethinking their underwriting models starting in July, simply because some information they used to rely on will no longer be included in credit reports.

But in the bigger picture, it may be time to do this anyway. New forms of alternative data and machine learning methods of analyzing data have emerged (which come with their own risks and downsides, of course), and online lending competitors have been taking full advantage of this.

"It is encouraging to see that through innovation, credit scoring models are becoming more predictive and inclusive," said Debra Still, president and chief executive of Pulte Mortgage. She sees benefit in the recent availability of trended data and says the real estate finance community should gravitate toward alternative credit scoring models.

How credit scores will change

FICO, which says its credit scores are used by 90% of U.S. lenders, doesn't see the need to change its credit model to accommodate the loss of public records. The company projects that less than 11 million consumers will see a score increase of less than 20 points.

The number of consumers who will see a bigger bump in their score is small, FICO said, because most consumers who have a tax lien or judgment on their file still have other derogatory indicators such as collections or serious delinquencies, which will remain after the public record information is removed.

"Roughly 0.35% of the total scorable population, or some 700,000 U.S. consumers, are projected to have a score increase of 40 or more points as a result of the updated public record retention policy," said Ethan Dornhelm, vice president of scores and analytics at FICO.

VantageScore, the joint venture that is owned by the three credit bureaus and provides credit score data to 2,400 banks and other companies, updated its credit score model at the beginning of April.

VantageScore is reacting to the absence of tax lien and civil judgment data by adding trended data it gets from all three credit bureaus, as well as adding machine learning technology.

Trended data is a monthly snapshot of certain pieces of information presented in a way that shows how a consumer's behavior changes over time – in increased or decreased credit card use, for instance. An increase in use is interpreted as higher risk and drives the score down. "This trended data is teasing out a little bit of the nuance and allowing us to get a better read on the consumer in terms of their likely behavior," Davies said.

VantageScore's tests have shown a 20% improvement in a score's ability to predict the performance of prime consumers through the use of trended data.

Some of its testing also compared credit score models with and without the tax lien and civil judgment data.

"We found that absolutely you could swap in other information, and the model would be just as accurate at predicting risk as the old model based on public records," Davies said.

Specifically, VantageScore has replaced the public record data with the number of high-credit-limit credit cards in consumers' credit files. Where the record of a tax lien or civil judgment might be several years old, the credit card data is forward looking and can therefore give a slightly better indication of behavior going forward, Davies said.

The impact of machine learning

VantageScore also is adding machine learning to the latest version of its model. It's using a technique called "random forest tree" to select different behaviors from a consumer's credit file at random and see how that combination of behaviors affects creditworthiness.

The machine learning software can calculate the effects of different combinations tens of thousands of times to see what sticks – in other words, which combinations of behaviors yield a lot of people who ultimately default. In one test set, machine learning discovered that consumers who have less than $1,000 in a medical collection account that's more than 36 months old and have applied for credit more than three times recently, have a 32% default rate.

"Because you're doing it so many times with so many combinations of behaviors, the cream rises to the top and you end up identifying a set of information that's not intuitive to the human brain," Davies said. *– Penny Crosman*

Laplanche's Comeback

New venture will be a rival of the firm that ousted him

RENAUD LAPLANCHE LEFT LENDING Club under a cloud of suspicion. Now the online pioneer is back with the launch of a new venture that competes with the firm he co-founded 11 years ago.

Upgrade Inc. began offering personal loans in early April. The company plans to differentiate itself from competitors with credit monitoring and credit education features. In effect, its elevator pitch is Credit Karma plus Lending Club.

Laplanche's strategy with Upgrade illustrates just how much the online lending industry has changed since the French-born securities lawyer started Lending Club in 2006.

In the company's early days, the idea was to enable individuals to lend money to each other over Facebook. Over time, institutional investors became interested in funding the loans, and the industry shifted away from its peer-to-peer roots.

Today, Lending Club still sells some of its loans to everyday investors, but Upgrade has not announced plans to do so.

The startup, which is less than half a mile from Lending Club's San Francisco headquarters, will offer whole loans for sale to institutional investors, according to a press release.

Upgrade also said that it is working with the investment bank Jefferies on a capital markets strategy that'll include securitization. Jefferies was on the periphery of the scandal that led to Laplanche's Lending Club ouster – it bought a loan after Lending Club provided falsified information – which makes its involvement in Upgrade notable.

Upgrade is targeting mainly U.S. consumers with high credit card balances. Its loans will range from $2,000 to $50,000 and have annual percentage rates of 5.66% to 35.97%. *– Kevin Wack*

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Our annual ranking of publicly traded banks and thrifts with less than $2 billion of assets bears this out.

Last year the overall group of 669 institutions that fit our criteria for this ranking improved their return on average equity to a median of 7.62%.

Kevin Halsey, an analyst at Capital Performance Group, attributed the marginal gain of 31 basis points not to revenue growth – still a major challenge – but to a reduction in the ratio of noninterest expenses to average assets. And he said the improvement in that ratio is mainly a factor of added heft.

"Institutions are getting bigger, either from organic growth or from acquisitions," Halsey said. "So they're able to reduce their expense levels."

The top 200 institutions – ranked here by return on average equity across three years – grew assets by a median of $62.7 million last year, compared with $39.3 million for the peer group. That pushed the median asset size for those high performers up to $663 million, which is a whopping 50% higher than the peers' $446 million. "That increased scale really allows the top 200 to be more efficient," Halsey said.

The ratio of noninterest expenses to average assets was a median of 2.77% for the top 200 (7 basis points better than a year earlier), and 2.90% for the peers (5 basis points better), according to an analysis by CPG.

The efficiency ratio showed a similar trend, with a median of 63.07% for the top 200 and 70.51% for the peers. That ratio shrunk by 98 basis points for the high performers last year, compared with 80 basis points for the peers. – *Bonnie McGeer*

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1	Fidelity Federal Bancorp (FDLB)	Evansville, IN	456,271	11.12	10.00	20.46	17.15	2.30	3.38	9,138	15,746	50.54	26.26
2	Thomasville Bancshares (THVB)	Thomasville, GA	779,284	210.41	35.50	16.76	17.07	1.50	3.65	11,175	10,549	48.22	11.33
3	University Bancorp (UNIB)	Ann Arbor, MI	193,069	34.48	6.76	16.65	25.25	2.30	3.62	3,853	33,336	83.84	16.78
4	Seacoast Commerce (SCBH)	San Diego, CA	569,537	110.65	18.80	16.44	17.96	1.27	4.45	6,909	13,120	71.75	20.07
5	West Town Bancorp (WTWB)	Raleigh, NC	280,158	36.72	25.10	16.05	7.01	0.74	4.33	1,800	16,569	75.05	14.01
6	BancAffiliated (BAFI)	Arlington, TX	643,628	67.92	75.00	15.42	13.74	1.37	5.11	7,789	9,945	64.87	12.29
7	Union Bankshares (UNB)	Morrisville, VT	691,381	185.40	41.55	14.97	15.25	1.30	4.14	8,511	10,069	67.49	13.05
8	Plumas Bancorp (PLBC)	Quincy, CA	657,975	85.64	17.40	14.90	16.08	1.20	4.21	7,474	7,684	59.02	13.30
9	West Bancorp. (WTBA)	West Des Moines, IA	1,854,204	336.48	20.85	14.81	14.35	1.27	3.49	23,016	7,473	46.34	11.87
10	First General Bank (FGEB)	Rowland Heights, CA	840,573	NA	NA	14.48	14.64	1.63	3.97	12,814	3,131	32.96	14.76
11	Access National Corp. (ANCX)	Reston, VA	1,430,708	288.01	26.75	14.47	14.11	1.27	3.52	16,404	31,694	62.07	11.51
12	T Bancshares (TBNC)	Dallas, TX	213,125	41.12	10.15	14.39	15.15	2.13	4.64	4,278	13,612	67.92	17.19
13	First Farmers Financial Corp. (FFMR)	Converse, IN	1,616,450	257.76	72.00	14.03	12.89	1.10	3.76	17,033	13,300	58.42	12.82
14	Summit Bank (SBKO)	Eugene, OR	281,998	56.80	16.00	13.98	12.08	1.13	4.91	2,855	1,105	55.26	11.47
15	Trinity Bank (TYBT)	Fort Worth, TX	232,744	69.82	63.00	13.94	13.54	1.79	3.48	4,009	553	41.52	20.39
16	Citizens Bank	Carthage, TN	569,317	NA	NA	13.78	12.95	2.21	4.77	12,344	2,380	29.21	30.29
17	Commonwealth Business Bank (CWBB)	Los Angeles, CA	913,194	137.79	15.15	13.73	11.80	1.38	4.16	11,437	11,917	49.11	14.95
18	First Intercontinental Bank (FIEB)	Doraville, GA	325,680	55.28	9.35	13.72	14.02	2.27	4.11	7,218	9,735	48.27	21.07
19	Pacific City Financial Corp. (PFCF)	Los Angeles, CA	1,226,643	173.48	14.25	13.52	12.47	1.25	4.20	14,002	13,611	54.93	13.48
20	Coastal Banking Co. (CBCO)	Beaufort, SC	561,389	63.82	17.50	13.28	16.08	1.29	3.86	6,956	21,158	69.94	19.74
21	Fentura Financial (FETM)	Fenton, MI	703,541	66.05	18.25	13.26	11.26	0.81	3.80	4,071	6,658	71.89	11.41
22	Parke Bancorp (PKBK)	Sewell, NJ	1,016,185	146.56	21.30	13.01	15.58	2.01	3.96	18,943	4,509	39.02	18.33
23	Lyons Bancorp (LYBC)	Lyons, NY	956,132	115.72	36.49	12.99	11.92	0.82	3.39	7,600	8,533	66.92	12.34
24	Santa Cruz County Bank (SCZC)	Santa Cruz, CA	588,232	87.52	39.95	12.90	13.58	1.17	4.05	6,491	3,711	55.10	12.89
25	Minster Financial Corp. (MTFC)	Minster, OH	465,950	52.82	50.50	12.88	12.21	1.12	3.17	4,984	3,802	57.87	14.69
26	FFD Financial Corp. (FFDF)	Dover, OH	318,652	37.69	38.00	12.86	14.60	1.37	3.74	3,911	1,758	56.61	12.72
27	Unity Bancorp (UNTY)	Clinton, NJ	1,189,906	164.29	15.65	12.86	15.37	1.17	3.58	13,209	8,372	59.13	13.84
28	Cambridge Bancorp (CATC)	Cambridge, MA	1,848,999	262.40	65.00	12.85	12.79	0.95	3.18	16,896	28,223	68.38	13.14
29	Greer Bancshares*	Greer, SC	378,353	NA	NA	12.81	10.36	0.73	3.03	2,780	3,283	75.66	16.26
30	First Century Bancorp.	Gainesville, GA	117,957	NA	NA	12.77	12.90	1.05	2.03	1,267	4,438	80.84	36.30
31	Home Loan Financial Corp. (HLFN)	Coshocton, OH	205,029	37.81	27.00	12.73	12.39	1.55	4.55	3,117	1,202	51.53	16.16

Metrics&Measures

PEER ANALYSIS

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32	Washington Federal Bank for Savings	Chicago, IL	154,908	NA	NA	12.62	12.39	1.51	4.54	2,268	201	46.44	25.23
33	Capital Bank (CBJC)	San Juan Capistrano, CA	305,609	35.33	22.55	12.59	11.95	1.14	4.55	3,181	887	56.08	12.06
34	First Commerce Bancorp	Lewisburg, TN	337,366	NA	NA	12.55	13.14	1.31	4.13	4,212	1,527	53.05	13.44
35	Bank of Princeton (BPRN)	Princeton, NJ	1,025,995	152.76	32.50	12.51	12.06	1.16	3.79	11,843	2,354	59.34	12.05
36	First Bancorp (FBLV)	Lebanon, VA	1,648,963	253.06	61.15	12.48	12.14	1.31	3.76	20,069	14,119	55.63	16.09
37	Bank of South Carolina Corp. (BKSC)	Charleston, SC	413,950	103.99	20.96	12.47	12.65	1.28	3.71	5,247	2,480	58.95	15.46
38	1st Summit Bancorp (FSMK)	Johnstown, PA	996,919	115.38	105.00	12.42	11.54	1.05	3.12	10,136	4,798	57.52	18.70
39	Susquehanna Community (SQCF)	West Milton, PA	394,119	72.51	24.50	12.31	10.61	1.16	3.53	4,461	3,055	57.51	14.63
40	Truxton Corp. (TRUX)	Nashville, TN	407,225	86.11	32.50	12.28	12.27	1.35	3.15	5,505	8,508	61.38	14.80
41	Oregon Bancorp (ORBN)	Salem, OR	176,805	23.25	21.05	12.13	22.80	2.44	4.12	4,112	22,093	76.59	14.43
42	Greene County Bancorp MHC (GCBC)	Catskill, NY	931,981	189.61	22.30	12.05	13.32	1.15	3.61	9,926	6,111	52.41	15.56
43	Landmark Bancorp (LARK)	Manhattan, KS	911,382	114.55	29.60	12.01	10.34	1.00	3.45	8,961	14,292	67.67	18.46
44	United American Bank (UABK)	San Mateo, CA	306,357	13.50	0.30	11.89	12.69	1.06	3.22	3,245	322	85.31	13.65
45	Bank First National Corp. (BFNC)	Manitowoc, WI	1,315,997	219.95	35.45	11.83	12.02	1.13	3.26	14,913	7,111	54.08	11.68
46	Merchants Bancorp	Hillsboro, OH	668,499	NA	NA	11.83	11.80	1.13	3.77	7,603	3,027	54.88	13.84
47	Cass Information Systems (CASS)	Saint Louis, MO	1,504,839	701.17	62.62	11.81	11.76	1.62	3.32	24,348	85,749	72.06	22.75
48	Farmers Bancorp (FABP)	Frankfort, IN	511,646	65.17	62.50	11.79	10.54	1.04	3.89	5,219	4,382	66.80	12.77
49	SouthEast Bank	Farragut, TN	1,253,531	NA	NA	11.77	9.07	0.78	3.91	8,015	4,832	67.44	16.56
50	Somerset Trust Holding Co. (SOME)	Somerset, PA	1,067,637	113.44	46.30	11.74	11.16	0.97	4.46	10,107	10,892	71.40	11.92
51	Citizens Financial Services (CZFS)	Mansfield, PA	1,223,018	176.17	53.00	11.72	10.24	1.06	3.68	12,638	7,644	57.61	14.93
52	PSB Holdings (PSBQ)	Wausau, WI	827,528	96.13	63.00	11.72	12.39	1.07	3.46	8,436	6,727	59.41	14.01
53	Carolina Financial Corp. (CARO)	Charleston, SC	1,683,736	408.23	28.35	11.72	11.61	1.14	3.60	17,570	28,591	64.90	14.97
54	HomeTown Bank	Galveston, TX	572,149	NA	NA	11.70	10.76	1.10	3.81	6,226	1,910	58.85	17.06
55	Peoples Limited (PPLL)	Wyalusing, PA	322,445	37.51	65.02	11.70	10.99	0.98	3.55	3,114	2,334	66.29	14.37
56	Farmers and Merchants (FMFG)	Upperco, MD	380,225	45.55	27.50	11.66	11.27	1.19	4.13	4,303	1,522	61.78	NA
57	Heartland BancCorp (HLAN)	Gahanna, OH	781,302	119.53	75.50	11.63	11.43	1.05	3.94	7,988	3,362	62.78	13.16
58	F.S. Bancorp (FXLG)	Lagrange, IN	680,451	83.92	75.00	11.55	12.06	1.23	3.80	7,489	5,087	61.36	15.25
59	NASB Financial (NASB)	Grandview, MO	1,879,558	272.06	36.70	11.40	12.97	1.52	3.68	27,086	59,111	64.63	15.84
60	Baker Boyer Bancorp (BBBK)	Walla Walla, WA	601,382	89.97	69.00	11.33	11.03	0.96	3.24	5,565	11,881	74.21	16.58
61	Cashmere Valley Bank (CSHX)	Cashmere, WA	1,452,688	205.05	50.00	11.26	10.71	1.25	3.15	17,524	10,279	52.53	18.91
62	Security National Corp. (SNLC)	Dakota Dunes, SD	1,382,744	190.43	105.00	11.25	10.49	1.08	2.95	15,285	20,190	58.67	16.92
63	FS Bancorp (FSBW)	Mountlake Terrace, WA	827,926	110.50	36.05	11.21	13.76	1.31	4.43	10,499	23,423	66.62	12.88
64	Southeastern Bank Financial*	Augusta, GA	1,840,925	NA	NA	11.21	10.26	1.00	3.26	18,673	20,885	61.26	17.23
65	Chino Commercial Bancorp (CCBC)	Chino, CA	175,092	20.62	16.75	11.14	10.73	0.85	3.70	1,453	1,567	64.79	15.37
66	Southern Missouri Bancorp (SMBC)	Poplar Bluff, MO	1,492,349	240.34	32.26	11.11	11.86	1.06	3.74	14,889	9,840	56.82	12.11
67	Commercial National Financial (CEFC)	Ithaca, MI	400,367	46.03	11.60	11.09	10.66	0.65	3.02	2,598	1,538	70.77	13.91
68	Muncy Bank Financial (MYBF)	Muncy, PA	393,344	54.76	36.45	11.08	9.30	1.03	3.79	3,932	1,426	63.26	17.31
69	Northeast Indiana Bancorp (NIDB)	Huntington, IN	300,985	42.56	35.25	11.07	10.58	1.22	3.52	3,594	3,148	60.23	16.38
70	Paragon Commercial Corp. (PBNC)	Raleigh, NC	1,503,767	281.26	51.60	11.06	11.35	0.95	3.54	13,390	1,888	56.35	13.21
71	FFW Corp. (FFWC)	Wabash, IN	351,831	40.60	35.00	11.03	10.70	1.16	3.60	4,009	3,209	62.90	15.46
72	Southern First Bancshares (SFST)	Greenville, SC	1,340,908	209.85	32.45	11.02	12.73	1.04	3.63	13,036	10,415	55.76	12.11
73	Community First Bank of Ind. (CFHW)	Kokomo, IN	217,958	11.61	9.00	11.01	11.15	1.26	4.50	2,662	2,259	59.72	13.37
74	Choice Bancorp (CBKW)	Oshkosh, WI	334,264	39.46	18.00	11.00	11.85	1.03	3.24	3,129	859	48.74	15.15
75	Benchmark Bankshares (BMBN)	Kenbridge, VA	568,492	90.43	17.50	10.96	10.50	1.21	4.48	6,522	5,566	66.40	17.81
76	International City Bank	Long Beach, CA	209,702	NA	NA	10.93	16.91	1.93	4.23	3,481	5,958	56.75	17.44
77	BEO Bancorp (BEOB)	Heppner, OR	382,200	36.89	30.25	10.90	11.71	0.94	5.22	3,389	2,218	68.72	12.51
78	Summit Financial Group (SMMF)	Moorefield, WV	1,758,647	210.42	19.33	10.90	11.53	1.08	3.39	17,297	10,473	55.31	12.60
79	First Sentry Bancshares (FTSB)	Huntington, WV	629,864	47.09	32.75	10.89	10.15	0.99	3.53	5,368	1,734	54.69	14.24
80	First Business Financial Services (FBIZ)	Madison, WI	1,780,699	212.99	24.43	10.85	9.40	0.82	3.64	14,909	17,978	64.12	11.74
81	First Community Bancorp	Shelbyville, TN	448,025	NA	NA	10.82	14.60	1.74	3.28	7,803	40,716	78.18	15.66
82	Steuben Trust Corp. (SBHO)	Hornell, NY	516,123	64.05	38.75	10.81	10.47	1.06	3.44	5,446	4,266	63.03	17.33
83	Capital Bank of New Jersey (CANJ)	Vineland, NJ	443,553	41.58	16.70	10.79	10.48	1.01	3.51	4,173	1,029	58.44	12.88
84	Community National Corp.	Lexington, TN	135,740	NA	NA	10.71	11.00	1.05	4.63	1,378	585	61.43	13.08
85	Middlefield Banc Corp. (MBCN)	Middlefield, OH	787,821	121.12	43.25	10.71	9.33	0.85	3.80	6,416	3,656	66.65	15.75
86	Marlin Business Services Corp. (MRLN)	Mount Laurel, NJ	892,158	307.16	24.40	10.70	11.15	2.08	8.28	17,279	25,301	55.86	20.62
87	Civista Bancshares (CIVB)	Sandusky, OH	1,377,263	205.28	20.37	10.61	12.90	1.19	3.91	17,217	15,961	63.83	14.20
88	High Country Bancorp (HCBC)	Salida, CO	234,397	36.72	41.00	10.59	12.67	1.31	4.61	3,067	1,657	64.54	14.85

METRICS & MEASURES

TOP 200 COMMUNITY BANKS

Rank	Institution/Ticker	Location	Total Assets ($000)	Market Value ($Millions)	Closing Price ($)	3-YR ROAE Avg. (%)	ROAE (%)	ROAA (%)	Net Interest Margin (%)	Net Income ($000)	Total Noninterest Income ($000)	Efficiency Ratio (%)	Total Risk-Based Capital (%)
89	Commercial Bancshares*	Upper Sandusky, OH	355,721	NA	NA	10.59	12.22	1.31	4.33	4,530	2,737	61.72	14.11
90	New Tripoli Bancorp (NTBP)	New Tripoli, PA	410,944	61.30	955.00	10.58	11.11	1.35	3.46	5,280	733	56.07	20.04
91	Malaga Financial Corp. (MLGF)	Palos Verdes Estates, CA	981,376	152.99	25.01	10.57	10.10	1.16	3.12	11,559	671	34.55	23.85
92	Embassy Bancorp (EMYB)	Bethlehem, PA	924,720	103.57	13.95	10.55	10.34	0.85	3.28	7,354	2,868	61.80	12.20
93	First Bankers Trustshares (FBTT)	Quincy, IL	930,935	94.89	30.75	10.53	11.12	1.02	3.08	9,145	17,222	65.05	15.24
94	Hamlin Bank and Trust Co. (HMLN)	Smethport, PA	459,757	113.63	305.00	10.50	8.79	1.43	3.55	6,173	1,378	53.80	25.12
95	BankGuam Holding Co. (BKGMF)	Hagatna, GU	1,921,552	110.89	12.00	10.50	11.22	0.77	4.39	13,553	13,491	73.73	12.99
96	Crystal Valley Financial Corp. (CYVF)	Middlebury, IN	503,140	64.58	41.55	10.49	11.08	1.23	4.38	5,964	4,668	65.09	13.91
97	BNCCORP (BNCC)	Bismarck, ND	910,400	88.44	25.59	10.40	9.48	0.78	3.17	7,156	25,048	78.36	19.96
98	CSB Bancorp (CSBB)	Millersburg, OH	669,978	82.40	30.05	10.37	10.44	1.03	3.67	6,738	4,295	60.14	13.45
99	First Citizens Bancshares (FIZN)	Dyersburg, TN	1,599,000	199.38	52.00	10.36	9.78	1.01	3.62	15,902	15,995	62.62	15.87
100	US Metro Bank (USMT)	Garden Grove, CA	194,628	23.26	2.50	10.35	12.05	1.61	3.53	2,596	3,542	76.14	18.50
101	People's Utah Bancorp (PUB)	American Fork, UT	1,665,981	464.42	25.95	10.31	10.68	1.48	4.67	23,610	16,970	55.71	20.19
102	Hillsdale County National Bank	Hillsdale, MI	570,063	NA	NA	10.31	10.43	0.91	4.20	4,995	5,589	70.60	12.46
103	U & I Financial Corp. (UNIF)	Lynnwood, WA	258,452	47.24	9.50	10.30	10.59	1.42	3.72	3,662	3,086	57.73	20.21
104	F & M Bank Corp. (FMBM)	Timberville, VA	744,889	91.19	27.90	10.27	11.42	1.37	4.34	9,762	3,664	60.01	14.65
105	Community Bancorp. (CMTV)	Derby, VT	637,654	90.05	17.75	10.26	10.36	0.91	3.98	5,484	5,073	68.78	13.52
106	NorthWest Indiana Bancorp (NWIN)	Munster, IN	913,626	112.44	39.25	10.23	10.65	1.03	3.63	9,142	6,687	66.75	14.26
107	Mifflinburg Bancorp (MIFF)	Mifflinburg, PA	407,166	56.27	57.10	10.19	10.31	1.06	3.32	4,182	2,182	55.55	15.23
108	Northrim BanCorp (NRIM)	Anchorage, AK	1,526,540	195.89	28.35	10.18	8.25	1.00	4.20	14,990	43,274	75.27	15.80
109	FPB Financial Corp. (FPBF)	Hammond, LA	299,516	34.44	16.70	10.12	9.54	1.03	4.67	2,642	3,456	72.79	16.91
110	Auburn National Bancorp. (AUBN)	Auburn, AL	831,943	119.62	32.83	10.06	9.65	0.98	3.05	8,150	3,604	56.93	17.95
111	Two Rivers Financial Group (TRVR)	Burlington, IA	778,098	51.40	23.00	10.05	7.38	0.68	3.85	5,057	16,066	77.49	10.51
112	Foresight Financial Group (FGFH)	Rockford, IL	1,135,331	114.43	31.50	10.04	9.50	0.90	3.68	9,933	6,887	57.57	13.48
113	C&F Financial Corp. (CFFI)	Toano, VA	1,451,992	153.53	44.05	10.03	9.90	0.96	6.30	13,459	24,619	64.65	13.92
114	First National Corp. (FXNC)	Strasburg, VA	716,722	70.00	14.20	10.03	12.01	0.84	3.61	5,901	8,485	71.08	13.47
115	American Bank Inc. (AMBK)	Allentown, PA	557,136	69.56	12.25	10.02	9.23	0.79	2.84	4,444	962	53.56	12.35
116	Forsyth Bancshares	Cumming, GA	290,378	NA	NA	10.02	10.61	0.97	3.64	2,776	677	58.95	14.83
117	Highlands Community Bank	Covington, VA	138,058	NA	NA	10.01	9.16	1.15	4.21	1,570	511	56.92	20.42
118	GrandSouth Bancorp. (GRRB)	Greenville, SC	515,515	65.02	14.50	10.01	6.10	0.69	6.38	3,185	888	66.85	14.98
119	Clover Community Bankshares	Clover, SC	126,976	NA	NA	9.98	9.40	1.00	4.26	1,274	1,162	70.62	15.89
120	Bar Harbor Bankshares (BHB)	Bar Harbor, ME	1,755,349	306.46	29.88	9.97	9.21	0.89	2.96	14,933	7,851	59.84	16.52
121	Penns Woods Bancorp (PWOD)	Williamsport, PA	1,348,590	207.08	43.74	9.95	8.96	0.93	3.43	12,475	10,677	65.12	13.38
122	Mid Penn Bancorp (MPB)	Millersburg, PA	1,032,599	117.05	27.65	9.95	10.73	0.78	3.82	7,804	4,792	72.39	11.00
123	Chesapeake Financial (CPKF)	Kilmarnock, VA	720,761	92.02	22.85	9.94	9.37	1.01	3.83	7,026	21,280	80.31	15.30
124	Country Bank Holding Co. (CYHC)	New York, NY	630,619	38.74	20000.00	9.93	11.22	1.01	4.19	6,084	137	57.79	13.13
125	Merchants Financial Group (MFGI)	Winona, MN	1,623,475	162.61	59.55	9.89	9.77	0.87	4.26	14,155	14,994	65.46	12.91
126	QNB Corp. (QNBC)	Quakertown, PA	1,063,141	130.64	38.25	9.87	9.45	0.87	3.03	8,924	5,216	62.68	12.75
127	Communities First Financial (CFST)	Fresno, CA	363,533	37.51	13.75	9.86	10.66	0.98	4.08	3,075	1,726	55.08	16.08
128	Citizens National Bancshares (CNBL)	Bossier City, LA	885,178	155.81	23.81	9.86	9.00	1.06	4.31	9,130	6,132	64.49	14.23
129	Wells Financial Corp. (WEFP)	Wells, MN	268,475	38.67	49.55	9.83	7.54	0.88	3.70	2,387	3,928	70.83	14.63
130	Birmingham Bloomfield*	Birmingham, MI	290,029	NA	NA	9.82	11.22	0.92	3.91	2,567	1,075	57.99	10.21
131	First Freedom Bancshares	Lebanon, TN	420,812	NA	NA	9.81	7.51	0.74	3.84	2,918	1,997	66.17	11.73
132	First Guaranty Bancshares (FGBI)	Hammond, LA	1,500,946	184.14	24.20	9.80	11.18	0.97	3.39	14,093	5,716	59.68	12.79
133	Redwood Financial (REDW)	Redwood Falls, MN	263,903	16.12	40.00	9.79	10.89	1.34	4.73	3,413	4,413	59.77	14.51
134	Valley Commerce Bancorp*	Visalia, CA	421,572	NA	NA	9.79	9.52	1.10	4.20	4,608	1,603	65.87	16.08
135	First Bancorp (FNLC)	Damariscotta, ME	1,712,875	276.77	25.59	9.79	10.28	1.12	3.05	18,009	11,826	50.73	15.69
136	Summit Bancshares (SMAL)	Oakland, CA	241,175	30.06	24.95	9.75	7.14	0.84	3.35	2,000	1,800	63.83	17.51
137	Jeffersonville Bancorp (JFBC)	Jeffersonville, NY	483,771	66.06	15.60	9.75	8.45	1.06	3.78	5,118	3,119	68.48	17.94
138	Ledyard Financial Group (LFGP)	Hanover, NH	475,052	58.73	56.05	9.74	9.55	0.89	3.00	4,128	9,829	79.70	13.40
139	Timberland Bancorp (TSBK)	Hoquiam, WA	923,751	157.12	21.39	9.73	11.42	1.24	3.86	10,773	11,492	61.81	16.39
140	First Pulaski National Corp.	Pulaski, TN	760,126	NA	NA	9.72	9.64	1.01	3.66	7,532	5,366	62.48	15.89
141	Andover Bancorp (ANDC)	Andover, OH	399,525	63.38	25.50	9.69	9.10	0.94	3.75	3,780	3,187	66.94	21.05
142	Mission Bancorp (MSBC)	Bakersfield, CA	558,782	62.26	39.50	9.66	11.20	1.00	3.65	5,053	4,542	59.60	11.95
143	First Community Financial (FMFP)	Mifflintown, PA	477,802	46.75	33.10	9.65	8.62	0.85	3.47	4,016	2,434	65.66	18.27
144	Ames National Corp. (ATLO)	Ames, IA	1,366,453	269.09	28.90	9.64	9.38	1.18	3.36	15,735	7,664	48.99	17.24
145	SB Financial Group (SBFG)	Defiance, OH	816,005	81.66	16.76	9.61	10.39	1.11	3.75	8,784	17,627	68.63	11.35
146	National Bank of Indianapolis	Indianapolis, IN	1,991,693	NA	NA	9.57	9.48	0.62	2.91	11,916	17,698	71.56	11.83


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TOP 200 COMMUNITY BANKS

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147	Southwest Georgia Financial (SGB)	Moultrie, GA	448,464	57.57	22.60	9.55	10.51	0.94	4.14	4,034	4,290	74.15	14.04
148	American Business Bank (AMBZ)	Los Angeles, CA	1,843,140	272.30	40.25	9.52	8.94	0.72	2.93	12,717	1,701	67.37	16.38
149	Allegheny Bancshares	Franklin, WV	276,349	NA	NA	9.49	9.25	1.19	4.65	3,263	2,259	58.97	17.44
150	Solvay Bank Corp. (SOBS)	Solvay, NY	857,214	80.42	38.35	9.44	9.57	0.83	2.71	6,971	5,026	63.85	16.80
151	Farmers Bankshares (FBVA)	Windsor, VA	423,561	61.14	20.00	9.44	9.77	1.01	3.82	4,187	2,531	69.97	16.53
152	Fidelity D & D Bancorp (FDBC)	Dunmore, PA	792,944	101.30	41.05	9.44	9.64	1.02	3.72	7,693	7,996	62.61	14.90
153	ACNB Corp. (ACNB)	Gettysburg, PA	1,206,320	173.13	28.55	9.42	9.17	0.93	3.45	10,869	12,733	67.99	15.97
154	Citizens First Corp. (CZFC)	Bowling Green, KY	455,422	36.92	18.45	9.42	10.20	0.96	3.80	4,217	3,146	68.46	12.53
155	National Bankshares (NKSH)	Blacksburg, VA	1,233,942	262.32	37.70	9.41	8.30	1.24	3.51	14,942	9,700	50.95	26.58
156	Woodlands Financial Services (WDFN)	Williamsport, PA	391,317	41.93	27.25	9.40	9.44	0.88	3.40	3,354	3,413	69.63	13.33
157	Howard Bancorp (HBMD)	Ellicott City, MD	1,026,957	168.51	17.26	9.40	6.15	0.55	3.73	5,303	14,238	77.54	10.83
158	Sunwest Bank	Irvine, CA	999,823	NA	NA	9.37	11.24	1.35	5.25	13,307	3,427	52.51	13.58
159	Exchange Bankshares (EXCH)	Milledgeville, GA	237,647	22.73	35.00	9.36	8.66	1.13	4.18	2,598	1,892	64.45	21.20
160	FNB Bancorp (FNBG)	South San Francisco, CA	1,219,394	177.15	36.50	9.35	9.56	0.90	3.95	10,501	4,157	64.09	12.08
161	MutualFirst Financial (MFSF)	Muncie, IN	1,553,133	227.67	31.00	9.32	9.40	0.87	3.27	13,241	17,427	70.49	13.17
162	Hawthorn Bancshares (HWBK)	Jefferson City, MO	1,287,048	128.16	22.65	9.28	7.99	0.58	3.51	7,282	8,315	74.11	13.72
163	Minden Bancorp (MDNB)	Minden, LA	331,361	54.66	23.00	9.27	9.66	1.54	3.64	4,881	926	37.49	27.97
164	BayCom Corp. (BCML)	Walnut Creek, CA	675,299	88.68	16.20	9.24	7.91	0.92	4.20	5,912	1,359	58.76	13.86
165	First Capital (FCAP)	Corydon, IN	743,658	108.47	32.50	9.23	8.92	0.94	3.50	6,877	5,993	63.48	14.98
166	First Bancshares (FIBH)	Bellevue, OH	202,179	19.07	33.49	9.22	11.50	0.96	4.24	1,852	1,116	74.49	10.40
167	Codorus Valley Bancorp (CVLY)	York, PA	1,611,587	218.20	25.88	9.21	8.47	0.88	3.89	13,102	9,836	64.33	13.81
168	Lighthouse Bank (LGHT)	Santa Cruz, CA	218,069	42.53	17.65	9.20	8.69	1.28	4.89	2,533	277	51.94	16.11
169	F&M Bancorp (FMOO)	Miamisburg, OH	136,219	18.69	59.05	9.15	10.56	1.08	4.43	1,359	652	63.51	16.46
170	Oak Ridge Financial Services (BKOR)	Oak Ridge, NC	387,809	30.67	12.85	9.14	9.22	0.70	3.84	2,629	2,681	79.24	13.61
171	OP Bancorp (OPBK)	Los Angeles, CA	759,658	93.50	7.25	9.14	9.69	1.08	4.34	7,427	9,007	62.50	13.39
172	Evans Bancorp (EVBN)	Hamburg, NY	1,100,709	184.53	38.85	9.14	8.74	0.80	3.62	8,272	11,252	75.76	12.07
173	Killbuck Bancshares (KLIB)	Killbuck, OH	500,047	76.08	128.00	9.14	9.72	1.04	3.24	5,128	2,519	57.83	15.98
174	Eagle Financial Services (EFSI)	Berryville, VA	700,149	98.84	28.50	9.13	7.98	0.96	4.04	6,370	6,571	70.23	16.01
175	Citizens B & T Holdings (CBTH)	Guntersville, AL	414,180	21.30	15.50	9.12	8.37	0.80	4.12	3,131	2,616	69.28	12.76
176	1st Colonial Bancorp (FCOB)	Cherry Hill, NJ	487,820	42.29	10.90	9.12	11.52	0.74	3.21	3,661	3,906	63.27	11.86
177	Jonestown Bank and Trust Co. (JNES)	Jonestown, PA	504,228	49.64	21.40	9.10	10.04	0.91	3.37	4,470	3,120	64.68	12.91
178	County Bancorp (ICBK)	Manitowoc, WI	1,242,670	203.25	30.86	9.10	8.83	0.98	3.35	10,694	8,715	47.41	13.59
179	Sound Financial Bancorp (SFBC)	Seattle, WA	588,383	75.22	30.10	9.09	9.40	0.97	4.24	5,378	5,182	68.71	13.07
180	CBBC Bancorp (CBBC)	West Sacramento, CA	304,434	41.59	16.75	9.08	10.18	1.13	4.17	3,038	798	55.12	13.20
181	Croghan Bancshares (CHBH)	Fremont, OH	819,566	104.91	46.00	9.05	8.92	1.13	4.09	9,088	6,057	63.37	13.34
182	Pioneer Bankshares (PNBI)	Stanley, VA	195,000	22.79	23.50	9.05	8.69	0.84	4.92	1,623	1,289	71.00	15.00
183	Kish Bancorp (KISB)	Belleville, PA	725,071	67.09	54.00	9.02	8.54	0.64	3.31	4,617	6,322	81.57	12.68
184	Logansport Financial Corp. (LOGN)	Logansport, IN	170,388	27.23	43.95	9.02	9.05	1.17	3.87	2,051	629	58.84	19.76
185	InsCorp (IBTN)	Nashville, TN	393,417	48.03	17.00	9.00	8.31	0.86	3.41	2,928	3,627	63.11	12.15
186	Revere Bank (REVB)	Laurel, MD	1,894,287	192.76	20.00	9.00	8.42	0.67	3.73	8,777	1,397	56.94	11.79
187	CB Financial Services (CBFV)	Carmichaels, PA	846,075	118.35	28.95	8.99	8.48	0.91	3.82	7,580	7,194	63.97	14.99
188	Little Bank (LTLB)	Kinston, NC	361,863	51.18	15.25	8.99	8.46	0.85	3.41	3,085	1,679	65.75	15.51
189	Farmers & Merchants Bancorp (FMAO)	Archbold, OH	1,055,895	198.70	43.00	8.97	9.38	1.14	3.55	11,664	10,780	60.10	15.28
190	RBB Bancorp	Los Angeles, CA	1,396,755	NA	NA	8.96	11.09	1.37	4.31	19,079	9,673	42.08	19.16
191	Farmers Capital Bank Corp. (FFKT)	Frankfort, KY	1,671,030	285.00	37.95	8.95	8.94	0.96	3.36	16,605	21,607	72.03	20.10
192	Peoples Bancorp of N.C. (PEBK)	Newton, NC	1,087,991	154.65	28.50	8.94	8.11	0.85	3.94	9,177	13,183	74.32	16.12
193	IFB Holdings (IFBH)	Chillicothe, MO	69,173	6.35	36.00	8.94	8.35	1.10	3.76	756	322	57.02	30.99
194	Kentucky Bancshares (KTYB)	Paris, KY	1,028,447	108.52	36.50	8.91	9.07	0.86	3.62	8,569	12,149	76.30	13.90
195	Pinnacle Bancshares (PCLB)	Jasper, AL	216,561	25.51	22.20	8.89	8.95	1.02	3.46	2,284	1,660	64.25	18.85
196	Bank of the James Financial (BOTJ)	Lynchburg, VA	574,195	64.51	14.73	8.89	6.60	0.60	3.77	3,286	4,301	74.50	11.54
197	Surrey Bancorp (SRYB)	Mount Airy, NC	277,102	40.97	11.95	8.87	8.96	1.36	4.54	3,597	2,528	58.75	19.70
198	First Keystone Corp. (FKYS)	Berwick, PA	984,283	141.79	25.00	8.85	8.23	0.96	3.16	9,472	5,361	58.82	15.48
199	First Farmers and Merchants (FFMH)	Columbia, TN	1,337,767	154.44	34.00	8.84	8.48	0.79	3.06	10,326	11,100	70.76	13.52
200	Citizens Holding Co. (CIZN)	Philadelphia, MS	1,025,212	112.30	23.00	8.84	7.34	0.68	3.07	6,737	7,579	73.23	18.67
	Median for the top 200		**663,237**	**90.01**	**28.50**	**10.33**	**10.51**	**1.04**	**3.74**	**6,630**	**4,815**	**63.07**	**14.76**
	Median for all 669 Institutions		**445,977**	**55.95**	**20.75**	**7.35**	**7.62**	**0.79**	**3.62**	**3,298**	**2,814**	**70.51**	**14.95**
	Average for the top 200		**775,535**	**116.56**	**153.64**	**10.86**	**10.84**	**1.10**	**3.82**	**7,888**	**8,180**	**62.67**	**15.51**
	Average for all 669 institutions		**604,736**	**84.92**	**95.26**	**6.73**	**7.15**	**0.74**	**3.62**	**4,883**	**5,248**	**71.91**	**16.64**

Source: Capital Performance Group analysis of data provided by SNL Financial. Ranking is of bank holding companies, banks, and thrifts that had total assets of less than $2 billion as of Dec. 31, 2016, and that are publicly traded or report financials to the SEC. Ranking is based on three-year average ROAE for 2014 to 2016. Additional data shown is for the 12 months ended Dec. 31, 2016. Financials are sourced from SEC filings. If unavailable, regulatory financials were used. Excludes institutions that failed to report GAAP or regulatory data for any year during the ranking period. 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% in any quarter. Excludes industrial banks and institutions that operated as a subchapter S corporation at any time during the ranking period. Also excludes institutions that received a tax benefit of greater than 10% of net income in 2014, 2015 or 2016. Using the preceding criteria, 669 institutions qualified for the ranking. All data as of March 22, including closing prices. * Denotes institutions that were acquired or merged between Jan. 1, 2017, and March 21, 2017.

THE GIG IS

INCOME VOLATILITY IS A GROWING PROBLEM FOR U.S. HOUSEHOLDS AND THE **GIG ECONOMY** IS ONLY MAKING IT WORSE. **BANKS AND FINTECH COMPANIES** ARE TRYING TO HELP CONSUMERS COPE.

BY ALAN KLINE

Photograph by Jordan Hollender

UP

"Knowledge alone is not going to solve this problem," says ***JPMorgan Chase's Colleen Briggs****. "People need relevant, engaging information paired with products that are actually going to meet their needs."*

Overdraft protection can be a godsend in an emergency, like when the water heater bursts or your child needs stitches, but for the many households that routinely use it to meet monthly expenses it can be a costly form of credit.

Just 18% of consumers with bank or credit union accounts pay a whopping 91% of the billions of dollars financial institutions collect in overdraft fees each year. Most of these heavy users earn less than $50,000 annually, yet 25% of them will lose the equivalent of one to two weeks' pay to overdraft fees over the course of a year, according to research conducted by the Pew Charitable Trusts.

It is tempting to say that these repeat overdraft offenders simply need to get their spending in check, but the reality is far more complicated.

According to some estimates, as many as half the households in this country experience what economic researchers have deemed "income volatility," meaning their incomes can go up or down by 25% or more from one month to the next. Most high-earning households can deal with these swings easily, but meeting monthly expenses is a constant challenge for the many millions of Americans working in low-wage fields such as retail and hospitality. It's a problem that has worsened as well-paying manufacturing jobs have disappeared and been replaced by lower-paying jobs in the service sector and as the emergence of scheduling software has allowed employers to optimize staffing levels and reduce workers' hours. The rise of the gig economy – think Uber, Lyft and TaskRabbit – is only contributing to this volatility.

"It's not a matter of people living beyond their means," said Nick Bourke, Pew's director of consumer finance, explaining what he sees as the key driver behind consumers' use of overdraft protection. "It's more of a mismatch of when they are getting their hours and when expenses are coming due. Even if they are making decent money, $15 to $20 an hour, if they are down 10 or 15 hours in any given pay period, that leaves a pretty wide gap."

Economists point to erratic work hours as the chief cause of income volatility and those who study the issue expect the percentage of households experiencing these wide monthly swings to increase over the next decade. The challenge for financial services companies is coming up with the right products and services that can best serve this growing segment of the population.

"We know income volatility is a problem," said Colleen Briggs, the executive director for community innovation in JPMorgan Chase's office of corporate responsibility. "The question is, what can we do about it?"

The issue is top of mind at JPMorgan Chase, which over the last several years has established a think tank to study such things as income and expense volatility within its own customer base. The company also created an innovation lab, in partnership with the Center for Financial Services Innovation, that is dedicated to developing products to help consumers better withstand income and expense shocks.

The lab has provided funding and other assistance to 18 fintech startups over the last two years. Among the most successful is Digit, a San Francisco firm that helps users build savings by connecting to their checking accounts and applying algorithms to determine how much can be safely withdrawn from accounts on a daily basis. Since its launch in 2014, Digit's mostly millennial users have saved more than $350 million.

Income volatility is also top of mind at KeyCorp, which has a suite of products designed to help customers achieve financial stability. These include a small-dollar loan that it bills as a safer alternative to payday loans and a "hassle-free" checking account that charges no monthly fee, does not require a minimum balance and prevents customers from spending what they don't have by prohibiting debit overdrafts and eliminating paper checks.

Checks "are where most people get into trouble with overdrafts," said Bruce Murphy, a longtime retail banking executive at Key who now heads its office of corporate responsibility.

Key also has an overdraft-protection product, tied to its more traditional checking account, that is seen as far more consumer-friendly than what most other banks offer. While other banks charge around $30 per overdraft, Key's fee is 10% of the overdraft amount and will never exceed $10 per overdraft or $100 in a given month. Moreover, while most banks require that the overdraft be paid in full once the account is replenished, Key gives its customers the option of paying off the overdraft plus accumulated fees over time, as they would any other installment loan.

Key's philosophy is that, with the right level of patience and commitment, banks can responsibly serve this customer segment and make money doing so. Its hassle-free checking, which rolled out in 2014, has been particularly effective in acquiring customers who have then gone on to use Key's other products and services, Murphy said.

"Our approach to serving this segment was that it was a business decision, and not about getting Community

Reinvestment Act credit or keeping the consumer advocates away," Murphy said. "The leadership in the company didn't say, 'I need the return on this product to be "X" in order to keep investing in it.' They gave us time collectively to continue to build a strategy."

Still, there is a broad agreement – among bankers, regulators, fintech providers, economists and consumer advocates – that the mainstream financial industry can be doing more to improve the financial health of the millions of households that are largely living paycheck to paycheck.

Most of these households are not unbanked or even underbanked – they have checking accounts and credit cards and may even have some retirement savings. But they still live under a constant financial strain, and many credit products that they might use to help ease this strain can do more harm than good.

Payday loans can be a debt trap. Overdraft fees can quickly pile up. Even credit cards, which seem designed for ups and downs in cash flow, are flawed because they too often let customers borrow more than they can safely pay back, said Rachel Schneider, a senior vice president at the Center for Financial Services Innovation and co-author of a recently published book on income volatility, "The Financial Diaries: How American Families Cope in a World of Uncertainty."

"Our approach to serving this segment was that it was a business decision, and not about getting Community Reinvestment Act credit or keeping the consumer advocates away," says ***KeyCorp's Bruce Murphy.***

Schneider and her research team spent a year studying the financial lives of more than 200 households and witnessed example after example of households struggling to pay the bills while still gallantly trying to build savings buffers or avoid taking on high-cost debt.

One participant in the study, a blackjack dealer whose income fluctuated substantially from month to month, shredded her checkbook so she wouldn't be tempted to borrow from payday lenders. "It's like an addiction if you have a checking account," this woman said.

Another woman intentionally made it hard on herself to use savings for everyday expenses by keeping her money at a bank an hour from her home. Another participant, trying to save up enough money to move into his own apartment, kept himself on track by giving a portion of his paycheck to his frugal mother, who kept the funds locked away.

"While the U.S. financial services marketplace is large, its products and services are typically tailored to wealthier Americans and often geared toward helping families make big decisions about financial planning and investing," Schneider and her co-author, Jonathan Morduch, a professor of public policy and economics at New York University, write at the conclusion of their book. "The marketplace for services to help struggling families balance their needs for now, soon and later – with better ways to save, spend, borrow and plan – is growing and improving, but still insufficient. We need new products and policies designed to benefit lower- and middle-class families."

In an interview, Schneider explained why mainstream savings products are not really designed for families of modest means.

"The 401(k) is a terrific product for saving for retirement ... but it doesn't acknowledge people's need to save for the near term," Schneider said. "There are huge penalties for taking money out."

Traditional bank savings accounts have no limits on withdrawals, "and that makes them insufficient in terms of providing discipline for people about how to save," she said. "So we have this weird mismatch in which there's too much structure around long-term savings products and not enough around saving for the near term."

This is not to say banks are uninterested in their customers' financial health; lots of banks offer financial education in partnership with nonprofits like EverFi and Operation Hope or encourage saving and investing through one-on-one coaching or digital personal financial management tools. Low-balance alerts and tools to track spending also are embedded into many banks' mobile banking apps.

But "knowledge alone is not going to solve this problem," said Briggs at JPMorgan. "People need relevant, engaging information paired with products that are actually going to meet their needs."

Briggs points to startups like Digit and Even, both graduates of JPMorgan Chase's innovation lab, as examples of fintech firms that are helping low- and moderate-income consumers deal with cash-flow shortfalls.

Digit works to help its users build savings, while Even, of Oakland, Calif., provides artists, freelancers, independent contractors and other customers whose incomes tend to fluctuate with steady weekly paychecks. People tell Even how much they need to live on each week and, for a fee of about $3 a week, Even will be sure they hit the target. If it's a down week, Even will dip into a savings pool to smooth the person's income, and if it's a good week, Even will bank the surplus to use at a later date.

It's a challenging business model to be sure, but Briggs said that if Even gains enough traction, she could envision businesses offering it as a benefit to employees or perhaps even financial institutions offering it as a service to customers.

Similarly, SafetyNet, a startup in Madison, Wis., is offering cash-flow insurance to help primarily low-income or part-time workers cope with job loss or disability.

For a fee of between $5 and $40 a month, policyholders receive a lump payment of between $1,500 and $12,000 should they lose their jobs or are unable to work due to injury or illness. That's version 1.0.

Version 2.0, currently in development, will provide insurance for unexpected expenses, like a busted carburetor, that might not be covered by traditional auto insurance, said Mark Greene, SafetyNet's director of innovation, business strategy and development.

SafetyNet is a division of CUNA Mutual, a for-profit company that develops products for credit unions. Its policies are currently offered in only two states, Wisconsin and Iowa, largely because private unemployment insurance is virtually unheard of, so most state regulators don't yet know what to make of it, Greene said.

Still, it's another example of how nontraditional financial firms are thinking of new ways to serve cash-strapped consumers. "Our mission is to help people with cash-flow challenges and solve paycheck-to-paycheck living," Greene said.

In a perfect world, consumers would deal with monthly dips in their income by setting aside a portion of the income they received in those higher-earning months, and many small-business owners or high-earning contract or commissioned workers will do just that.

But that can be a huge challenge for lower-income workers, particularly if, say, a big medical expense comes due in a month when income is down 25% or more. As Fiona Greigs, the director of consumer research at the JPMorgan Chase Institute, put it, "fluctuations in income and expense don't often move in tandem."

Greigs has studied both income and expense volatility by tracking the transactions of some 250,000 JPMorgan Chase account holders. In its income research, the institute found that 55% of customers experienced at least a 30% fluctuation in income from month to month, due mostly to irregular work hours.

"That's like adding or subtracting a housing payment," Greigs said. "People need a substantial everyday buffer to withstand that kind of volatility."

Household expenses can be volatile too. Almost four in 10 households experience an "extraordinary payment" each year – usually a medical bill or major car repair – and in its research the institute found that many had not recovered from that financial shock a year later, Greigs said.

"Their liquid assets were still down 2% ... and revolving credit card debt was still elevated by 9% compared to baseline levels," she said.

Throw in stagnating wages and housing costs that are consuming an increasingly larger percentage of household incomes and it is no wonder that, according to a recent Federal Reserve study, 53% of U.S. households could not easily come up with $400 to cover an unexpected expense. Though 38% said they could find the money by borrowing or selling something, nearly 15% said they could not come up with the money at all.

Digit founder and Chief Executive Ethan Bloch said that roughly 40% of its customers are just getting by on their paycheck and another 20% are spending more than they make. By and large they are saving not for big purchases, he said, but rather "to make ends meet in a tight month." On average customers save $100 a month and typically draw down their Digit accounts after three months before building them up again.

Bloch said he has been obsessed with finance since he was 13 and "day trading my bar mitzvah money," but as he was building the business plan for Digit he came to realize that finances are dizzying to most people. He believes now that if banks really want to encourage consumers to save more, then they need to do it for them.

"Most people's brains aren't wired for this complex financial world we've created around us, and people need a sidekick to help them wade through all of that complexity," Bloch said. "The beautiful thing is now that most of finance is digital, we can do that. Our customers sign up, they connect to an existing checking account and they go back to living their lives."

Digit uses machine learning to determine the optimal amount it can pull from a person's checking account and move into savings each day. Users also can set their own savings goals simply by sending Digit a text message. The company gets its income from keeping the interest that accumulates on the savings.

Mainstream banks seem content, for now, to let fintechs lead the way in developing products to help consumers cope with financial instability. Even JPMorgan Chase's innovation lab is focused on nurturing startups rather than developing products internally.

"Financial insecurity is a huge issue and we need all the best minds in the country thinking about it," Briggs said. "That's what the lab is trying to do."

Still, Bloch said banks are eagerly watching and learning from Digit and other startups that are helping consumers more easily build savings buffers or extending credit to those who are maxed out on credit cards. "They get to see what we do and potentially pick the best ideas without having to do their own internal research and development," Bloch said.

Regulators are looking to encourage more of this type of innovation through the creation of a special fintech charter.

Fintech innovations are already giving consumers "greater control over their financial lives," Comptroller of the Currency Thomas Curry said at an industry conference in New York in March at which he outlined his vision for a fintech charter. "Consumers have been empowered with more responsive and automated tools that support payments, promote savings, smooth income volatility and provide personalized credit solutions that satisfy their lifestyle and needs. ...

"It's likely that we have just scratched the surface, and the future holds further promise because we are at the beginning of this innovation cycle."

Pew's Bourke, though, says the answer is to not to create a new charter but rather to modify existing bank regulation in such a way that it encourages more innovation in areas like overdraft protection and small-dollar lending.

Many banks won't make small installment loans, for example, because they involve too much paperwork to be worth the effort. Most of that paperwork is around complying with consumer protection laws, which is important, but there "needs to be a sense of proportionality," Bourke said.

"Smaller loans that have clear safety standards put in place by regulators shouldn't need a ton of paperwork associated with them," Bourke said. "Streamlining the origination process would save the banks money and lower their regulatory risk."

Bourke pointed to Kinecta Federal Credit Union's small-dollar loan product as one that banks, with the blessing of their regulators, should strive to emulate.

Southern California-based Kinecta began offering loans of up to $2,500 in 2013 primarily as a way to help members and nonmembers alike pay down high-cost debt, and it has since expanded the program to allow borrowing for other purposes. Loans can be approved and funded within 20 minutes, rates are capped at 18%, the minimum payment is set at a manageable 5% of outstanding principal and borrowers do not incur a fee for paying the loan off early.

The program was a money-loser at first, but Luis Peralta, Kinecta's chief administrative officer, said the credit union stuck with it because too many of its members and people in its communities were turning to payday lenders, pawnshops and auto title lenders when they needed help meeting monthly expenses. Today, the program is profitable – thanks primarily to an investment in new credit underwriting software – and, more important, many of the borrowers are on more stable financial footing. Fewer than 10% of the borrowers have returned to payday lenders and the average borrower's credit score has increased by 150 points, Peralta said. Some are even starting to get loan and credit card offers from other financial services providers, "but we hope they prefer Kinecta because we were there to help them when they needed it," he said.

Bourke said he would like to see more bankers thinking that way.

"Why would they sit there and watch them walk out the door to payday or auto title lenders," he asked, "when they could be adding on a service, building a relationship and profiting from it?" □

Serving the *Future* Financial Mainstream

Microfinance lenders focus on the customers that many banks don't want— yet. By paying attention to what's on the minds of executives working in this sector, bankers can get some insight into this untapped market.

We asked microfinance organizations around the country – all of them founding members of Credit Builders Alliance – about the challenges they face, what they wish banks would do differently, and even what they are reading. Here are some of their responses. — *Marian Raab*

CINDY LOGSDON

Chief compliance and finance officer

Citizen Potawatomi Community Development Corp., Shawnee, Okla.

Biggest microfinance misconception:

That small loans are easier for lenders to do than large ones

"Just as much, if not more, time and effort goes into educating borrowers and underwriting and processing small-dollar loans."

BETO YARCE

Executive director

Ventures, Seattle

If he could be a bank CEO for a day:

"I would hire loan officers who would look at more than just assets and credit scores when making lending decisions. There are so many examples of people who do not meet the increasingly stringent lending criteria."

Yanki Tshering

Executive director

Business Center for New Americans New York City

Biggest challenge:

Lack of support from the current administration

"The critical baseline of grants and loans that we need for operating our programs effectively are in grave jeopardy."

ROBERT BOYLE

Founder and CEO

Justine Petersen St. Louis

Biggest issue for the microfinance sector:

New fintech players

"The advent of online lending may be the single most formidable threat to responsible micro lending. Its omnipresence is plague-like, and it's oftentimes cavalier lending equates to a Wild West when it comes to accountability."

ROB SMITH

Executive director
Rocky Mountain MicroFinance Institute
Denver

Hottest microfinance trend:
A focus on skills development for entrepreneurs

"While not necessarily a sexy concept, this trend is fundamental to the long-term success of our industry and for the individuals and communities we originally committed to serve."

LAKOTA VOGEL

Executive director
Four Bands Community Fund
Cheyenne River Indian Reservation at Eagle Butte, S.D.

On the wish list:
More bank partnerships

"I wish banks were more familiar with the Community Development Financial Institution industry as a whole. In Native American communities, mainstream financial institutions rarely exist. Native CDFIs have responded to the need, going from certifying two in 2001 to having over 70 currently certified. I wish banks understood the demand that exists and more importantly that CDFIs are partners in those regions."

DAVID DALY

Director
Maui Economic Opportunity's Business Development Center
Maui, Hawaii

On the wish list:
For local banks to develop products to help those with no credit history or bad credit become part of the financial mainstream

"Create an out-of-the-box underwriting matrix to be able to include more with flexible risk analysis."

Carol Lighthall

Executive director
Community Capital of Vermont
Barre, Vt.

Currently reading:
"Overcoming the Five Dysfunctions of a Team," by Patrick Lencioni

"The title is terrible, but it's a great book and a positive read on team dynamics and seeing team members' strengths and weaknesses as different sides to the same coin. This also may relate to how we see our borrowers – not sure yet."

BankThink

BY ROBERT WILMERS

Low interest rates are hurting the middle class

With the benefit of hindsight, it appears the economy in recent years has fallen out of balance – overly reliant on monetary policy not accompanied by traditional fiscal stimulus.

Policies designed to benefit the majority have perversely only benefited a few. The impacts of these decisions or nondecisions are real. In particular, the middle class and small businesses are losing ground. So, too, are their communities.

This extended period of ultralow interest rates no longer benefits the average U.S. household. The majority of the wealth of the typical M&T customer, like that of most Americans, takes the form of equity in their homes, retirement savings, bank deposits and, to a lesser extent, stock market investments. Low rates initially provided middle-class households with relief both by lowering monthly mortgage payments and supporting a recovery in home values. However, the investments of these same families have suffered. Indeed, many middle-class families, frightened by the precipitous market decline of 2008, responded by pulling out of the market. Only half of these households today hold any stocks or mutual fund shares; before the crisis, fully 72% did so.

Crucially, without stocks and the growth in value and dividends they can provide, most households must rely on interest from their investments to save for college, a down payment on a home or to prepare for and navigate retirement. It is here that they have felt the sting of near-zero interest rates. Interest income for households has declined sharply in the aggregate. In 2014, it had, compared with 2005, fallen by some $64 billion. This disproportionately affected households with incomes of less than $100,000; their interest income declined by $44 billion, or 68% of the total decrease for all households.

Investments managed on behalf of the typical American family are not immune to these economic trends. At the heart of the issue is the declining rate of return on investments – particularly secure investments like bonds. The practical implications for the alternatives through which typical households preserve and grow wealth, such as insurance, retirement accounts and pensions, are troubling.

Indicative of what has happened in the marketplace, insurers that have traditionally invested premiums in safe, long-term instruments such as government securities and high-quality corporate bonds have come under pressure. The average yield on 10-year U.S. Treasury bonds since 2010 has declined to a level 274 basis points, or 53%, below the 30-year average. Insurers ultimately have limited options to offset sustained low yields on their investments.

Should rates remain low, it will eventually be necessary to raise prices or invest in assets that offer higher returns but also carry higher risk. Neither outcome would benefit middle-class families. Pension plans sponsored by employers, long a pillar of retirement savings for many workers, face similar pressures. Low rates that pension funds earn on investments mean either that businesses and governments must set aside more to ensure future benefits, or put those benefits at risk by underfunding them.

Given these costs and challenges, many businesses have responded by transitioning away from offering pensions altogether, instead sponsoring programs such as 401(k) accounts through which employees largely bear responsibility for determining the amount they save and the manner in which they invest. Workers then confront the same difficult choices as investment managers, weighing the trade-off between accepting low returns and undertaking greater risk with their hard-earned savings.

No wage growth. No investment earnings growth. No wonder families are stretched and stressed. We should hardly be surprised, then, to see a sharply increased rate of savings – 1.5 percentage points higher than that in 2000 to 2004. Accompanied by lower interest income, this has led middle-class families to spend less, dampening economic growth. Simple math suggests that a 1.5-percentage-point increase in the savings rate equated to nearly $200 billion in consumer spending – spending that did not occur as families instead saved more to make up for their lost income.

Monetary policy was intended to act as an accelerant for an economy in recession, and did in fact accomplish that goal early on; however, its benefits have waned, if not reversed, over time. □

Robert Wilmers is the chairman and chief executive of M&T Bank Corp. in Buffalo, N.Y.

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Marketplace Showcase

Welcome to the premier monthly showcase of products, services and solutions for the Banking and Financial Industry

LEGAL – FOUNDATION NOTICES

NOTICE

The annual report of THE **EUCALYPTUS FOUNDATION** for the calendar year ended December 31, 2016 is available at the offices of Morris & McVeigh LLP, c/o Charles D. Manice, located at 767 Third Avenue, New York, NY 10017, (212) 418-0500, for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Frances Setaro.

NOTICE

The annual report of **THE ASMUND S. LAERDAL FOUNDATION FOR ACUTE MEDICINE, INC.** for the calendar years ended December 31, 2016 and 2015 is available at its principal office located at c/o Laerdal Medical Corporation, 167 Myers Corners Road, Wappingers Falls, NY 12590, for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Ms. Patricia Goodwin.

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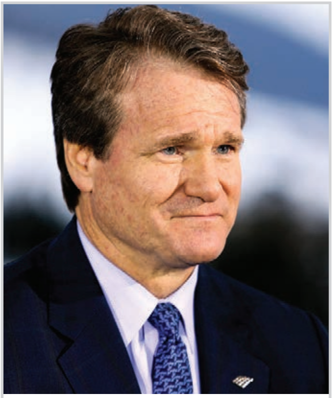
BackPorch



BRIAN MOYNIHAN

“Is that really needed for a portion of a portion of a portion of a portion of our business?”

Bank of America’s CEO, citing a 500-page attestation done to comply with the Volcker Rule as an example of the excessive compliance burden

CHRIS SKINNER

“You have to get to understand it or you will make fundamental mistakes. You might end up going with Betamax rather than the VHS version.”

Chair of the Financial Services Club, urging caution on adopting blockchain technology

BRIAN FOLEY

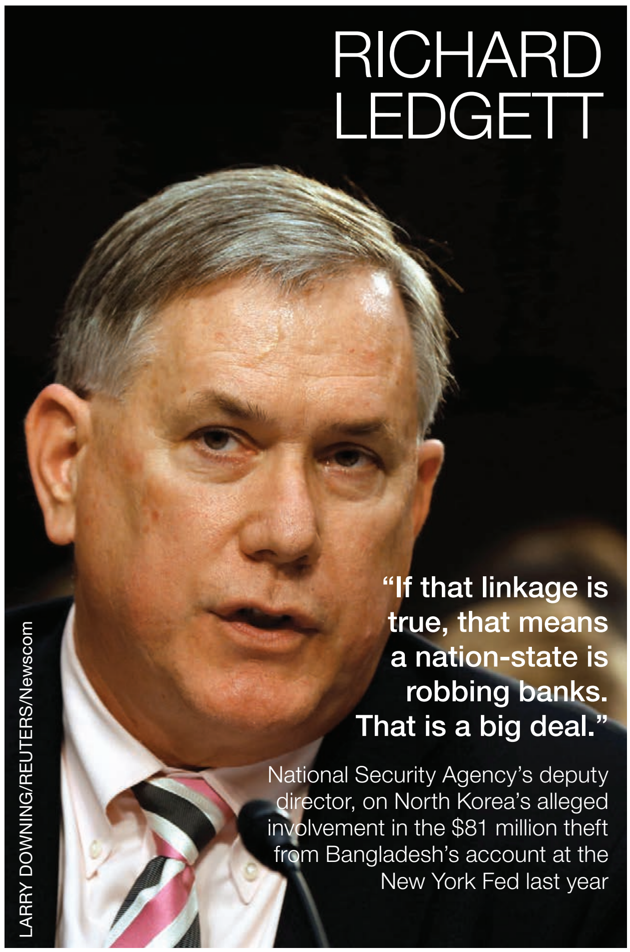
“He took his winning tickets to the window while the window was still open.”

Compensation consultant, on Wells Fargo’s former CEO John Stumpf exercising stock options a month before regulators imposed penalties over the phony-accounts scandal

DAVID MILLER

“You need banking, just like you need pharmaceuticals. And pharma can save lives, or it can kill and cause addictions.”

Princeton University professor, discussing how his side job as Citigroup’s on-call ethicist aligns with, rather than contradicts, his seminary training



RICHARD LEDGETT

“If that linkage is true, that means a nation-state is robbing banks. That is a big deal.”

National Security Agency’s deputy director, on North Korea’s alleged involvement in the $81 million theft from Bangladesh’s account at the New York Fed last year

LARRY DOWNING/REUTERS/Newscom

NICOLE FRIEDLANDER

“Otherwise, it’s like having a fire exit plan for a building you no longer work in.”

Former head of a federal cybercrime unit, saying banks should regularly update plans for responding to hacks

LISA MENSAH

“This is really the yeast that allows the whole tank to grow.”

Opportunity Finance Network’s CEO, saying community development financial institutions can leverage every dollar from the government 10 times over

NORBERT MICHEL

“If private institutions are not going to make loans without any sort of government subsidies, then maybe they shouldn’t be making them.”

Heritage Foundation research fellow, arguing for the elimination of the Treasury Department’s CDFI program

GREGOR MATVOS

“Women just have less margin for error. They walk on more of a tightrope.”

University of Chicago professor, on his research showing that financial advisers who engage in misconduct are far more likely to be fired if they are female

Consumers spent $141 billion in fees and interest to use $1.61 trillion in financial services in 2015.*

Tap into this growing market and learn how you can do well by doing good. Register for EMERGE: Financial Health Forum, the nation's premier event highlighting the best solutions that fintech companies, banks, and credit unions have to offer.

Visionary Speakers with Innovative Solutions:

Nandita Bakhshi, President & CEO, Bank of the West

Stephen Scherr, CSO & CEO, Goldman Sachs Bank USA

Anil Arora, President & CEO, Envestnet | Yodlee

ATTENDEE BREAKDOWN BY INDUSTRY

- 1/4 OF ATTENDEES ARE FROM BANKS AND CREDIT UNIONS
- 23% OF ATTENDEES REPRESENT FINTECH COMPANIES
- 16% REPRESENT NONPROFITS AND FOUNDATIONS
- 16% ARE FROM OTHER FINANCIAL SERVICE PROVIDERS AND LENDERS
- 6% REPRESENT GOVERNMENT AND REGULATORS

THREE COMPELLING TRACKS OF CONTENT:

- THE CONSUMER OPPORTUNITY
- BUSINESS STRATEGIES THAT WORK
- FUTURE OF FINANCIAL HEALTH

MORE THAN **800** ATTENDEES EXPECTED IN 2017

100+ SPEAKERS

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*2016 Financially Underserved Market Size Study, Center for Financial Services Innovation