CaliforniaBanker

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CALIFORNIA BANKERS ASSOCIATION

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Throughout my travels, I have been inspired by the dedication and passion of our members.

With the second quarter now behind us, I am excited to share an update on some of our recent efforts on behalf of our members.

Advocacy

Stateside, we've had an active legislative year. We remain deeply engaged, and are taking a leadership role, on several major measures, including bills relating to elder financial abuse, artificial intelligence and automated decision tools, mortgage and foreclosure reform, and data reporting on client trust accounts. We are also pleased to report that a CBA-sponsored bill increasing the statutory threshold from $50,000 to $100,000 where a trust may be terminated without court order was signed by the Governor. The measure is helpful to beneficiaries and to banks with trust departments.

Our second sponsored measure pertaining to the use of reciprocal deposits to meet collateral requirements for local agency deposits is in the second house pending further action. The Legislature returned on August 5 from its one-month summer recess and final adjournment will take place at midnight on August 31. The Governor will have until September 30 to take action on measures that reach his desk.

We have an update on the Department of Financial Protection and Innovation's (DFPI) plan to increase bank assessments. After increasing annual bank assessments for 2023-24 by 27 percent, the DFPI was initially poised to impose a similar increase for 2024-25. CBA expressed concern regarding the proposed increases in annual bank assessments and memorialized our perspective in writing last August.

In a prior edition of the California Banker, we reported that the Department would pause any subsequent increase in annual bank assessments pending the completion of an external fee study. We understand that the study is expected to be completed by mid-August. In addition to studying revenues, the report is supposed to examine expenses and long-term sustainability. We look forward to reviewing the study and sharing our feedback with the Department.

At the federal level, there is legislative gridlock given the split Congress and slim majorities in both the House and Senate. Notwithstanding, we continue to be present in

Washington, D.C. Following our visit with bankers in attendance in March, Jason Lane, our Senior Vice President and Director of Government Relations, conducted meetings in July on the Hill with the California delegation. Jason covered important issues impacting the banking industry, including agricultural lending, overdraft fees, artificial intelligence, and interchange. We hope that you will join us for our Joint Visit to Washington, D.C., with our friends from the Florida Bankers Association scheduled for September 24-26, 2024.

With little movement on federal legislation, the action has been more in the regulatory space. Accordingly, we have joined peer banking associations in comment letters focused on the importance of federal preemption. Coincidentally, Acting Comptroller of the Currency, Michael Hsu, delivered a speech in July, wherein he indicated that the OCC would "fortify and vigorously defend" federal preemption, which he states is central to the dual banking system.

We also sent a letter to the FHFA in response to the Agency's request for information on the Federal Home Loan Bank mission. Overall, the letter concludes that absent a clear directive from Congress that changes are needed to the mission of, or incentives provided to, the system, the FHFA should exercise extreme caution that it does not exceed its regulatory mandate when proposing changes.

In addition, we submitted a joint letter opposing the CFPB's proposed rulemaking on overdraft protection urging the Bureau to withdraw the proposal and another to the Federal Reserve Board expressing concern with the proposed rulemaking on Regulation II.

Forums and Gatherings

We have scheduled monthly virtual forums featuring special guest speakers. We kicked this effort off in July with Federal Reserve Board Governor Michelle Bowman. The meeting was well-attended. We had a very interactive conversation that covered a wide range of topics, including the cumulative impact of regulations, de novo activity, mergers and acquisitions, Regulation II, and BASEL III. These updates are free to California bankers and tackle a wide range of topics impacting the industry. Please check our website for our upcoming virtual forums at https://www.calbankers.com/events-education.

We are eagerly anticipating our upcoming Women in Banking Forum (September 30) and Bankers Summit (October 1-4), both to be held at Caesars Palace in Las Vegas, Nevada. These two events promise to be enriching and provide excellent opportunities for networking and professional development. We are pleased to announce that CBA has collaborated with the Pacific Coast Bankers School (PCBS) to provide curated content and exclusive sessions featuring PCBS educators.

In addition, the team is scheduling a series of Women in Banking Mixer events. These events provide a unique opportunity for bankers to connect with peers and expand their professional network. Please check the CBA Weekly newsletter for event registration and information about the Women in Banking Mixers.

In-Bank Visits

I have had the privilege of conducting several in-bank visits so far this year, engaging with many of you to learn more about your priorities and concerns and how the association can do more to support you. Your feedback is critical as we strive to enhance the value we provide. I have more visits on the calendar for this year and will schedule more next year. Throughout my travels, I have been inspired by the dedication and passion of our members. I am so proud of the work that you do to support your customers and communities.

Looking Ahead

We have a busy second half of the year ahead of us and are already looking forward to next year. Politically, we will be on the other side of the Presidential election, we will have a new Congress and a new state legislative session will commence. We will kick off the year with our Bank Presidents Seminar in January and are excited to bring our Annual Convention back to La Quinta, California in May.

Thank you for being a valued member of our association. We are grateful for your support and are here to serve you. Please do not hesitate to reach out if you need any assistance. »

Bringing members together. Making our banks better.

Kevin Gould
President & CEO, California Bankers Association

A CONVERSATION WITH VIRGINIA VARELA

Q: Can you tell us about your journey and how you came to be Head of Community Banking at SoFi?

My career has been a unique, exciting, and engaging experience, and I consider myself a blessed woman because of it. I started as a Federal Bank examiner in the 1980s, at the height of the savings and loan crisis. This early experience in examinations and supervision, followed by a transition to private banking after semi-retirement in mid-2000, has shaped my journey in a distinctive way.

As CEO and in other executive positions, I've mainly led the turnaround of small community banks, which is challenging. I've always been interested in fintech and see it as the future of banking.

Around 2010, SoFi approached Golden Pacific Bank while I was CEO with an M&A proposal. I felt it was an excellent partnership. I am proud to say that we were leaders in achieving an approved fintech-to-bank transaction, and it's been a very successful integration process.

SoFi asked me to stay on post-acquisition, and it's been a wonderful experience. I've personally learned and grown a lot through the process, and I'm very proud of this transition. It's a testament to the potential for personal and professional growth in the financial services industry.

What are some key leadership lessons you've learned throughout your career?

There are too many leadership lessons learned to list here. Among the greatest lessons I've learned is to stay dedicated to your values no matter what. The bigger person always leads with an excellent moral compass, is willing to work hard, takes responsible risks, and aims for success. This unwavering commitment to my values has been a guiding light throughout my career.

Another lesson learned is that women can excel in a field primarily biased against someone like me. When I started my first job as a bank CEO, about 2 percent of all national banks reported a female CEO. Thankfully, that number is changing. I believe it's vital to promote women in banking, and I am honored to join the board of Bank on Women, Inc., a national organization that promotes women at leadership levels in the financial services industry, including assignments to executive and board positions.

How does SoFi differentiate itself from other fintech companies and traditional financial institutions?

SoFi is a leading fintech company and also a national bank association. Very few organizations can claim to be large fintechs that achieved an approved bank charter with a high level of strategic success. SoFi is a disruptor in the financial services industry. I'm honored and proud to be a small part of the building process and stepladder to success.

What motivates you in your role as Head of Community Banking?

In all my executive and board assignments, I feel a natural tendency to lead in a non-traditional manner. I think I was just born that way. As a young girl, I figured out how to be the kingpin in kid's games, and a lot of it was through a style of inclusion, deep communication, and service to others.

Many times a day, I ask myself, how can I best be of service? Leadership can be about how I can serve and support others to succeed. In the process, I become a leader and mentor. That's been my experience.

How do you balance the demands of your professional and personal life?

I've always loved to work. I don't mind demanding work and see it as a great escape and actually fun (most of the time). I have a wonderful family and great friends who support me and are patient as I spend much time with a professional hat on. It's who I am, and I naturally lean toward spending my time professionally.

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What advice would you give young professionals aspiring to enter the fintech industry?

Fintech offers great career development opportunities. It's a growing and evolving field that can be exciting.

I encourage young professionals to consider jobs in either banking or fintech. At this time, the lines are blurred anyway. Compared to smaller community banks, some fintech and larger major banks offer a narrower range of services, and the jobs tend to be siloed. Smaller banks with a wide range of responsibilities are a great start to a career and where I personally learned the most technically and as a leader.

Also, consider starting your career as a bank regulator. I guarantee you will learn a great deal and later transferring to a job in the industry can be a blueprint for success.

How do you envision the financial services industry evolving, and what role will SoFi play in that evolution?

SoFi is one of the first largest fintechs to become a bank. It's a great company, and it's set up for excellence. Young customers want automated financial services, and organizations like SoFi are catering to those greater customer expectations.

Community banks, credit unions, and other traditional banks are also adapting, and we are becoming a more automated industry. Automation is the future of banking.

Without a significant commitment to digital transformation, traditional banks and credit unions will disappear. The old style of customer-facing, brick-and-mortar banking will not be able to compete.

Banking is evolving, and a digital strategy is key for banks to attract and retain savvy customers. Automation is key to the global banking industry. »

**Virginia Varela's responses to questions posed here represent her thoughts and do not necessarily reflect the views and positions of her employers or other organizations she has worked with.*

Meet Virginia Varela

Virginia Varela is the Head of Community Banking for SoFi Bank, N.A. She was the President and CEO of Golden Pacific Bank, a nationally chartered community bank headquartered in Sacramento for eight years until it was acquired by SoFi Technologies in February 2022, making it one of the most significant approved fintech bank purchases in the nation. Before that, Varela held executive and board positions at three California community banks, including CEO/President/Director at the Bank of Rio Vista, President/Director at San Luis Trust Bank, and COO at Bank of the Orient.

Varela first entered the banking industry as a bank examiner in 1984. Her experience includes various senior examiner and supervisory roles at the Federal Home Loan Bank Board, Federal Home Bank of San Francisco, Office of Thrift Supervision/Office of Comptroller of the Currency, and the Federal Reserve Bank of San Francisco. She is a Federal Reserve Bank Commissioned Senior Examiner, and a Treasury Department designated Certified Safety and Soundness Thrift Regulator and Federal Compliance Regulator.

Since 2010, Varela has served on the board of the California Bankers Association and, from 2017 to the present, chairs the Federal Government Relations Committee. Varela was a Director with the Federal Home Loan Bank of San Francisco from 2019-2023 and chaired the Affordable Housing and Community Investment committee. Since 2018, she has served on the Executive Committee of the "Friend of Traditional Banking Committee," supporting politicians who advocate for community banks in a nonpartisan grassroots effort.

Varela currently serves as a Commissioner on the CalAccount Blue Ribbon Committee with the California State Treasurer's Office, which is tasked with analyzing a program offering financial services to individuals with low or fluctuating income. In 2017, she helped to start the Mercy Pedalers nonprofit, which focuses on direct outreach to persons experiencing homelessness on the streets. She is the President of the Board of this organization.

These are just some of Varela's banking and professional experiences over a long and dedicated career. »

2024

WOMEN IN BANKING FORUM

AND

BANKERS SUMMIT

CALIFORNIA BANKERS ASSOCIATION

Women in Banking Forum
September 30 - October 1, 2024

Bankers Summit
October 1-4, 2024

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Las Vegas, Nevada

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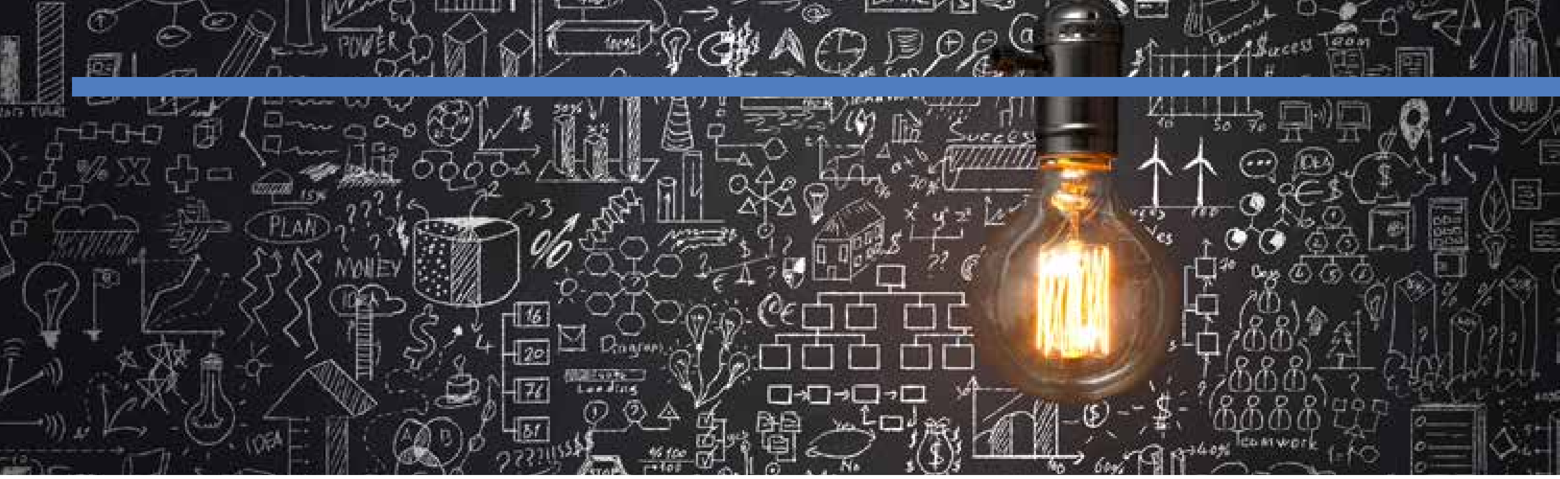

CalAccount Feasibility Study Released

By Jason Lane, Senior Vice President, Director of Government Relations, California Bankers Association

In 2019, Assembly Bill 1177 (Santiago) was enacted, which created CalAccount within the State Treasurer's Office, to provide financial services to California residents. The purported need for this program was to help unbanked residents who lack access to traditional banks. If enacted, CalAccount was to become the state's preeminent payment system by offering access to voluntary, zero-fee, zero-penalty federally insured transaction accounts and debit card services at no cost to account holders. Deposits into CalAccount would be participated out to public banks, credit unions and local commercial banks.

As introduced, the governance of CalAccount was to come from the Public Banking Options Board, which the measure created. The primary mission of the Public Banks Option Board was to ensure deposits are fairly participated out to public banks. The board was required to structure and design the CalAccount program in a manner that encourages partnership with, rather than competition with credit unions, other local financial institutions, and public banks.

Through strong opposition by CBA, the measure was significantly amended throughout the legislative process to become a study bill to examine the unbanked. The measure required an analysis of existing private sector solutions, and the risk and cost of those private sector solutions in comparison to the proposed program. The Legislature must review the study and pass legislation to implement the program if deemed feasible. The study was to be performed by a neutral third party, and not by public bank advocates. The measure also required the creation of the CalAccount Blue Ribbon Commission to select a vendor to perform the feasibility study. The contract was eventually awarded to RAND Corporation and the feasibility study was completed in July of this year.

RAND gathered data from 418 banking institutions, of which 153 are commercial banks (5,629 branches) and 265 are credit unions (1,567 branches). RAND found that most California residents who live in densely populated areas have adequate access to banking services with only small differences among racial and ethnic groups in cities. Where population density decreases, so too does bank branch availability. In their analysis, RAND refers to the 2021 FDIC survey that shows the overall rate of Californians who are unbanked is 5.1 percent and the underbanked population is 13.9 percent, but the study notes disparity in unbanked and underbanked rates by race and ethnicity. The number of unbanked households is nearly double for non-white households. They also note significant disparities based on household income and between married and unmarried households.

RAND's survey included an analysis of existing marketplace solutions to serve unbanked populations and while they note that many banks participate in the BankOn program, low-cost checking accounts are not widely marketed by financial institutions because they are not profitable.

Ultimately, RAND concludes that CalAccount could have a positive effect on Californian's if it's implemented correctly, and if there's robust participation in the program by California's unbanked population. Therein lies the rub. According to RAND's own analysis, "storing one's financial resources with a public or private external entity requires a substantial degree of trust on the

The primary mission of the Public Banks Option Board was to ensure deposits are fairly participated out to public banks.

part of the owner…if trust in a particular entity is low, it may be challenging to convince new customers to place their financial resources at risk…among the unbanked, levels of trust in the California government (57.0 percent) were on par with their trust in banks (56.3 percent). However, of all the institutions and financial services presented to them in the survey, the unbanked placed the most trust in money transfer services: 68.9 percent of unbanked California households in the RAND survey sample agreed with the statement "I trust money transfer services." When asked to cite the number one reason unbanked Californian's do not have a bank account, 63.9 percent responded that they did not have enough money to need a bank account.

RAND provides three options for the CalAccount. The first option in an online bank; the second option is for online banking services and an ATM network; and the third option, which RAND hypothesizes will induce the most participation in the program, consists of options 1-2 and an expanded brick and mortar presence throughout the state. This option is estimated to cost the state of California hundreds of millions of dollars each year and does not provide any net benefit for 10 years. Notably absent from the cost analysis is any mention of fraud costs, nor is it clear if RAND has accounted for the contractual cost by financial service providers who would form the backbone of the CalAccount program but would be prohibited from charging account fees. This brings up the final implementation barrier highlighted in the report- participation by financial service providers. Since CalAccount would not be a true public bank in the traditional sense that the state of California will not hold deposits, it relies on financial service providers to service the program. RAND notes that there is little financial incentive for banks to participate in the program, other than an increase in interchange revenue, which may be curtailed by proposed federal regulation.

With the state facing additional budget deficits in the coming years, an investment in CalAccount, which will not solve the underlying reason individuals are unbanked, may be a tough sell for some lawmakers.

Jason Lane is Senior Vice President, Director of Government Relations for the California Bankers Association and manages California state tax policy for the association, which involves analyzing legislation and regulatory activity, and the development of policy positions for the association. Lane is one of three lobbyists at CBA and, in addition to his primary focus on taxation, he also lobbies on behalf of the association on issues related to the state budget, and consumer lending legislation.

Unlocking Liquidity & Balance Sheet Optimization

By Jeffrey Zuendt, Executive Vice President and Chief Deposit Officer, R&T Deposit Solutions

In today's competitive banking landscape, the strategic allocation of resources is crucial for determining a financial institution's resilience, profitability, and capacity for growth. A key aspect of this strategy involves the optimal use of collateral for regulatory and commercial purposes, as well as accessing liquidity. Traditionally, banks have set aside excess collateral to provide principal protection for uninsured balances in deposit relationships. While effective in addressing the investment policy needs of customers, the increasing opportunity cost of holding collateralized deposits has led bank treasurers to seek alternatives for using high-quality liquid assets.

One viable option for banks is to shift collateralized deposits into insured deposit placement programs like the Demand Deposit Marketplace® (DDM®) program administered by R&T Deposit Solutions[1]. The DDM Program is an automated daily cash sweep service that allows a bank to send, receive, or reciprocate deposits, providing high flexibility and balance sheet management. It also offers the bank's customers access to an expanded level of deposit insurance coverage on their deposits through a network of participating FDIC-insured receiving institutions. A bank can participate as a "send-only," "receive-only," or "reciprocal" institution, with the ability to adjust the level of deposits on its balance sheet at any time.

Flexibility

Transitioning collateralized deposits into FDIC-insured cash sweep programs grants banks greater flexibility in managing liquidity. Instead of locking funds in collateralized assets, banks can allocate resources to areas offering competitive returns or aligning better with strategic objectives. This adaptability enables banks to respond more effectively to changing market conditions, regulatory requirements, and customer demands.

Diversifying Funding Sources

Redirecting liquidity from collateralized deposits allows banks to diversify their revenue streams by exploring alternative deposit opportunities. This can involve investing in new market segments, funding innovative projects, or forming strategic partnerships. Leveraging freed-up liquidity enables banks to pursue a broader range of income-generating activities, enhancing revenue potential and mitigating risks associated with overreliance on traditional banking products, such as the risk of uninsured deposits.

Cost Reduction

Collateralized deposits often incur administrative costs related to managing and monitoring collateral, conducting valuations, and ensuring regulatory compliance. Reducing reliance on such deposits can streamline operational processes and generate cost savings. Additionally, freeing up liquidity can lessen the need for more expensive funding sources, such as wholesale funding or interbank borrowing.

Regulatory Requirements and Risk Management

Regulatory frameworks governing collateralized deposits impose strict requirements on asset valuation, collateral adequacy, and reporting standards. By diversifying funding sources and reducing exposure to collateralized assets, banks can lower their collateral regulatory burdens and associated costs. A more diversified funding base also enhances resilience to market shocks and systemic risks.

Competitive Rates

FDIC-insured cash sweep programs allow banks to offer competitive rates on deposits, daily liquidity, the convenience of a single bank relationship, and access to expanded FDIC deposit insurance coverage. These programs automatically sweep excess cash balances from customers' deposit accounts into interest-bearing accounts across a network of participating banks. Unlike collateralized deposits with fixed or predetermined rates of return, cash sweep programs typically offer

[1] The DDM Program is administered by Stable Custody Group II LLC, which is an affiliate of Reich & Tang Deposit Networks, LLC (d/b/a R&T Deposit Solutions).

variable rates tied to market conditions. This flexibility enables banks to capitalize on interest rate fluctuations and optimize returns on liquidity. For a bank utilizing the reciprocal feature of the sweep program, the bank maintains control over the rates offered to its customers.

Conclusion

The benefits of reducing collateralized deposits and freeing up liquidity extend beyond immediate financial gains. By embracing this strategic approach, banks can achieve enhanced flexibility, improved capital efficiency, diversified revenue streams, cost reductions, strengthened customer relationships, and reduced regulatory burdens. As the banking landscape continues to evolve, optimizing liquidity will remain a cornerstone of sustainable growth and competitive advantage in the industry.

Jeffrey Zuendt serves as Executive Vice President and Chief Deposit Officer for R&T Deposit Solutions. Zuendt is responsible for all day-to-day operations of funding and capacity management, including identifying and growing deposit relationships that support the firm's different and unique deposit programs. Zuendt also provides oversight into the firm's Demand Deposit Market Place product including insurance limits and capacity. He provides historical experience utilizing the Demand Deposit Market Place to the nation's largest financial institutions and community banks alike.

Prior to joining Reich & Tang, Zuendt served as Senior Vice President, Assistant Treasurer at Investors Bank. In this role, he managed interest rate risk, liquidity and budget modeling, as well as relevant stress testing. Zuendt started his career at Hudson City Savings Bank as a financial analyst in the Treasury Department where he was responsible for the Bank's cash and liquidity position.

Zuendt received his Bachelor of Science degree in Business Administration from Rider University, with a double major in Finance and Management and Leadership. He was awarded the New Jersey Bankers Rising Star award in 2019 and has been a volunteer firefighter for more than 20 years.

Putting Deposits in Reach: Digital Growth Solutions for Small Banks

By Ben McLaughlin, President and Chief Marketing Officer, Raisin US

From supporting small businesses to reaching communities that may have more limited access to banking services, small banks play a vital role for the communities they serve.

However, in an increasingly digital economy, these smaller institutions can face struggles as varied as increased competition from larger institutions to higher costs for compliance and cybersecurity protection.

Add to those struggles decreased consumer confidence in banking and a widespread consumer assumption that larger financial institutions are safer and there now exists a playing field that has never been more uneven for small banks.

That doesn't mean all is lost, however. In many ways, community banks are working to differentiate themselves while also looking to fintech innovation to solve their unique challenges.

A Changing Environment

In 2023, failures of large financial institutions like Silicon Valley Bank and First Republic Bank shook consumer confidence in banking. In fact, a May 2023 poll from The Associated Press-NORC Center for Public Affairs Research found that only 10 percent of adults in the United States had "high confidence in the nation's banks and other financial institutions" — less than half the amount that reported high confidence in 2020.

Despite this, big banks continue to grow larger while community banks are on the decline. According to data from USAFacts, as of 2022, big banks managed more than 70 percent of consolidated assets among FDIC-insured banks, up from 42 percent in 2003. Meanwhile the number of community banks in the United States shrank by nearly 50 percent in the same time period.

The question is: How do these smaller institutions effectively reach consumer demand and level up for sustainable growth on a playing field built for a handful of behemoths?

The Larger Local Impact of Small Banks

Smaller banks are uniquely positioned to be able to have an outsize impact on their local areas. With smaller footprints, it can be easier for them to direct their loans right into their communities in a way that larger banks may not. This can allow them to help their local economies more directly.

One community bank that is focused on this sort of community development is Mission Valley Bank, a certified CDFI. Community is in Mission Valley Bank's roots. Headquartered in Sun Valley, Calif., Mission Valley Bank was founded by people who are dedicated to working in and serving their community.

Founder, President and CEO, Tamara Gurney, has made it her pledge to build and nurture relationships that empower both business and the communities that they serve. Under her leadership, Mission Valley Bank embodies a steadfast dedication to fostering meaningful connections and driving positive change.

They take their role as a CDFI seriously, prioritizing the financial success of their customers and the well-being of the community above all else. Through initiatives like the "Give Where You Live" program, launched in 2015, they shine a spotlight on local nonprofit organizations and encourage support from their community members.

Anthony Chuan, EVP and Chief Financial Officer, encapsulates their ethos perfectly: "Success for one means success for all. Serving our customers and the community as a whole go hand-in-hand for us."

CDFIs like Mission Valley Bank offer the full circle of community development and reinvestment opportunities in ways that may be more difficult for larger banks to accomplish.

Giving Back to Build Consumer Confidence

Beyond community development banking, mission-driven banking also gives smaller financial institutions an ability to set themselves apart in a field dominated by larger banks. This can include banks that are focused on giving back in the form of financial donations, employee volunteer programs or a combination of the two.

First Financial Northwest Bank is one such institution that is dedicated to giving back. With over a century of experience serving counties in Washington state, First Financial Northwest Bank strives not only to pay a competitive interest rate to depositors, but to make giving back to their communities part of their mission.

"Having a charitable program not only helps us to attract depositors, but also to retain them" says Joseph W. Kiley, President, Chief Executive Officer and Director of First Financial Northwest Bank. "People want to know their money is being put toward worthy causes."

First Financial Northwest Bank is proud to serve as a promoter and sponsor of a range of events and fundraisers for nonprofits and civic organizations. From food drives to festivals, local organizations are able to benefit from these philanthropic efforts and First Financial Northwest Bank is able to leverage these relationships to show that it is truly a member of the community.

It is through these sorts of initiatives that smaller banks are able to organically build back consumer confidence in banking, bucking the tide of industry-wide trends.

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Agility in Pricing to Get a Step Ahead

A majority of Americans keep their savings in traditional or regular savings accounts — with systemically important financial institutions typically offering as little as 0.01 percent APY. This is despite a historic series of interest rate increases by the Fed. The good news is this has given smaller banks the opportunity to offer American savers a much-needed lifeline.

Smaller banks have been comparatively more nimble in responding to this environment, giving them leverage to offer historically competitive interest rates to win over rate-conscious savers.

When smaller financial institutions need to source deposits quickly, a third-party solution can be a game-changer, enabling them to compete nationwide for funds. In reaching an audience of savers beyond their traditional footprint, community banks can also test products and rates without cannibalizing their main deposit base.

Combatting Compliance and Cybersecurity Costs

Growing costs from compliance and cybersecurity protection can also disproportionately impact small banks. The Conference of State Bank Supervisors found that compliance costs were typically around 10 percent of non-interest expenses for smaller banks compared to 5 percent for larger institutions. Costs of cybersecurity measures can also be proportionally higher for smaller institutions, adding to the already competitive edge larger institutions have.

Finding solutions that help smaller banks source deposits without adding to these security and compliance costs can help them to grow sustainably. Smaller institutions looking to gain this headway have begun looking to financial technology solutions that can help them compete with the economies of scale inherently possible for systemically important financial institutions.

Smaller banks have also leveraged fintech solutions like Raisin to increase funding without incurring the increased costs of servicing, compliance and cybersecurity. By using Raisin's full service funding model, dozens of banks like Mission Valley Bank and First Financial Northwest Bank are able to source retail deposits not only with Raisin marketing their products directly, but handling compliance and cybersecurity on their end as well.

In Conclusion

Leveling the playing field for smaller banks remains difficult, but possible, through a combination of strategies. By highlighting their larger potential impact on their local communities, giving back through charitable programs and taking advantage of larger banks' paltry savings interest rates, these institutions are able to compete against systemically important financial institutions — despite powerful headwinds.

Add in fintech solutions, and opportunities abound for smaller financial institutions to thrive in a digital economy. »

About Raisin: On the Raisin savings platform, smaller banks and credit unions have offered rates as high as 5.35 percent APY on savings accounts. Its unique turnkey digital solution empowers U.S. banks to expand their reach, making it easy to source funds from depositors nationwide..

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Branch Closings: Requirements & Nuances

By Erin Busse, JD Associate General Counsel, Compliance Alliance

As I am sure you are all aware, regardless of a bank's regulator or state jurisdiction, there are certain notice requirements that apply when a bank will be closing a branch under Section 42 of the Federal Deposit Insurance Act ("Section 42"). To be exact, any closure would be subject to Section 42, the bank must provide 90 days prior written notice of any branch closing to its primary Federal regulator, as well as to all branch customers to meet the applicable notice requirements. Further, the bank must also ensure that a notice is physically posted at the branch site at least 30 days prior to the intended date of closure to be in compliance with Section 42.

However, while this may seem straightforward, with the ever-evolving landscape of the banking industry and the different types of exemptions under Section 42, figuring out when notice is required is not always expressly clear. As such, it is critical that banks understand the nuances of the notice requirements, as discussed within the Joint Policy Statement of the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of Thrift Supervision, Concerning Branch Closing Notices and Policies (the "Joint Policy Statement") to ensure that they are meeting the applicable notice requirements.

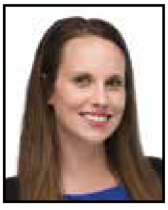
First, it is important to discern what exactly is considered a "branch" under the guidelines to trigger the notice requirements. Specifically, for the purposes of the branch closing rules, a "branch" is considered to be a "traditional brick-and mortar branch, or any similar banking facility other than a main office, at which deposits are received or checks paid or money lent", and notice is required whenever any facility meeting this definition is intended to be closed. However, the Joint Policy Statement clarifies that, when closing other facilities that do not meet the requirements to be considered a "branch", such as "an ATM, remote service facility, or loan production office, or of a temporary branch", which are, instead, classified as "non-branch facilities" under the rules, notice is not explicitly required under Section 42.

Further, it is important to note that, even if the facility would be considered a "branch", not all closures will require notice. For example, the Joint Policy Statement suggests that certain branch relocations and consolidations would not be considered a "closure" under Section 42. To be considered a "relocation" or "consolidation" the guidance seems to indicate that the change must be one which is within the branch's "neighborhood and does not substantially affect the nature of the business or customers served". Considering this, it seems evaluating the proximity of any intended moves may prove valuable in understanding the application of the branch closing rules in varying situations.

Additionally, in general, there's not a specific notice requirement for customers or regulators for just a temporary or an emergency closing under the federal regulations. Nonetheless, it's typically considered an industry best practice to post information pertaining to the temporary closure on the front door or in another location the public can view it, even if only for informational purposes and general customer service considerations. As the Joint Policy Statement outlines an exception from the branch closing requirement for temporary closures, so long as the bank "plans to restore branching services at the site in a timely manner". Moreover, if a bank is simply reducing the hours of operation for a branch, but not closing the branch entirely, while notice is still generally recommended, and may be required under other federal regulations or specific Federal regulator guidelines, this also tends to not be considered the "closing" of a branch which triggers the branch closing notification requirements of Section 42.

It is important to clarify that, while the reduction of a branch's hours will not generally be considered the "closing" of a branch, in certain situations, the reduction of the services offered by a branch may constitute a branch closure. Namely, as the Joint Policy Statement states, "[w]here, after a reduction in services, the resulting facility no longer qualifies as a branch, section 42 would apply". The Joint Policy Statement also offers an example of when a reduction in services may trigger the notice requirements, suggesting that they would generally apply if a bank were to "replace a traditional brick-and-mortar branch with an ATM". As, following this type of service change, an ATM would no longer qualify as a "branch bank, branch office, additional office, or any branch place of business . . . at which deposits are received or checks paid or money lent", and would effectively have the same consequence for consumers as a branch closure would.

Understanding the nuances of branch closing regulations is essential for banks to remain compliant and maintain customer trust. While the guidelines may seem straightforward, there are complexities that require careful consideration, and branch closings can implicate rules beyond just those contained in Section 42, such as the Community Reinvestment Act, as one example. As such, it's crucial for banks to proactively review the federal and state-specific branch closing rules with legal and compliance experts when planning any changes to branch operations. This ensures that all necessary notifications are provided, customer disruptions are minimized, and the bank remains in compliance with all applicable regulations. Remember, transparency and clear communication are key to maintaining positive relationships with both customers and regulators. As always, reach out to us at Compliance Hub for any additional questions! »



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FINTECH CORNER

By Lori Shao, CEO + Founder of Finli

Banks today are facing a perfect storm: competition from non-traditional players, rising deposit costs, and an aging clientele. This squeeze on profitability demands a strategic shift to capture a larger share of business deposits.

Customers are increasingly comfortable using non-bank financial institutions, forcing banks to adapt. The traditional model of relying solely on interest margins is under pressure, with lower policy rates impacting earnings. To compensate, banks need to prioritize non-interest income sources like fees for financial services.

But how can banks attract and retain customers in this new environment? The answer lies in a delicate balance: providing cutting-edge digital tools while maintaining the personalized service that businesses value. Customers want real-time access to financial data and user-friendly tools, but they also crave expert advice and a human touch.

Small- and medium-sized businesses (SMBs) represent a massive untapped opportunity. While these businesses often seek financial guidance from banks, many are frustrated by outdated technology and a lack of digital offerings. This is particularly concerning as many current business owners are nearing retirement, and their tech-savvy successors will expect a different banking experience.

The key to success is leveraging data. By partnering with fintech companies, banks can gain valuable insights into customer needs and tailor solutions accordingly. This data can also strengthen customer relationships by enabling banks to provide targeted financial support and relevant financial products.

In short, banks must embrace digital transformation and cater to the evolving needs of a tech-driven generation. The future of business deposits hinges on the ability to offer a seamless blend of personalized service and cutting-edge digital tools.

Key Strategies for Banks to Enhance Business Deposits

Understanding market dynamics, tailoring product offerings, building strong client relationships, leveraging digital transformation, and optimizing risk management are crucial strategies for banks. By implementing these tactics, banks can enhance liquidity, profitability, and competitiveness, ultimately driving sustainable growth in business deposits.

Addressing Competitive Dynamics

The financial landscape is shifting rapidly, with traditional and new rivals challenging banks more intensely. As more customers become open to non-financial institutions, banks need to reassess their approach to deposits, especially considering the combination of higher deposit costs, lower policy rates, and constrained loan potential affecting net interest margin (NIM) in 2024.

Prioritizing Non-Interest Income

To compensate for the shortfall in net interest income, banks should focus on non-interest income. Regular conversations with financial institutions reveal three primary goals: capturing and retaining sticky deposits, boosting non-interest income, and competing with fintechs and neobanks. Evaluating the true cost and longevity of new deposits is essential, as many solutions promising growth may not offer lasting results.

Types of Innovative Solutions

1. **External Solutions:** Integrate banking services into financial platforms to create embedded banking experiences. However, this approach comes with regulatory scrutiny and compliance challenges.

2. **Partner Fintechs:** Collaborate with fintechs like Finli to provide digital tools that support customers while minimizing regulatory risks. Finli enables banks to offer comprehensive digital-first experiences, meeting evolving customer expectations without outsourcing core operations.

Finli

After my extensive experience in banking as a Certified Treasury Professional, responsible for growing core business deposits and increasing non-interest income for banks, I have realized the critical role bankers play in supporting small and mid-sized businesses in every community. However, to effectively compete against neobanks and fintechs, we need more than just a friendly smile and strong relationships. We need advanced tools and resources to enhance our capabilities. The key to attracting and retaining business customers lies in asking, “What’s keeping you up at night?” and being ready to provide tailored solutions to address those challenges.

Finli helps banks attract new business clients, deepen existing relationships, and improve their digital experience. By partnering with Finli, banks can:

- **Capture and Retain Sticky Deposits:** Offer a streamlined solution that replaces the need for multiple digital tools, ensuring business customers remain loyal.
- **Boost Non-Interest Income:** Provide value-added services like invoicing, customer management, and inventory management, creating additional revenue streams.
- **Compete with Fintechs and Neobanks:** Deliver competitive digital experiences without significant investments in engineering talent.

Enhancing Bankers’ Capabilities with Real-Time Data

Finli bridges the data gap by providing real-time insights into customers’ financial health. Bankers receive valuable data on invoicing volume, transaction quality, and more, enabling informed decisions on revenue-based financing and cross-selling opportunities.

Finli empowers banks to compete against megabanks and neobanks by providing innovative digital tools and solutions. By partnering with Finli, banks can attract, acquire, and retain valuable business clients, enhance their digital experience, and develop a robust non-interest income strategy, ensuring sustainable growth and profitability.

NEW MEMBERS

The California Bankers Association is pleased to welcome our new associate members.

PWCampbell

PWCampbell

PWCampbell aims to provide an unparalleled experience, building on the legacy of its past while striving for innovation for the future. The company uses its expertise to create customized solutions that exceed their clients’ expectations. It not only designs outstanding facilities; it builds lasting relationships that are the cornerstone of business.

Primary Contact: Eric Smith, Regional Vice President
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veritran

Veritran

Veritran is a global tech company developed to simplify banking experiences. Through its business solutions, the company inspires financial institutions to take digitalization to the next level. Veritran is proud to be a key strategic partner for renowned clients across Latin America, North America and Europe, helping them become the banks their customers prefer.

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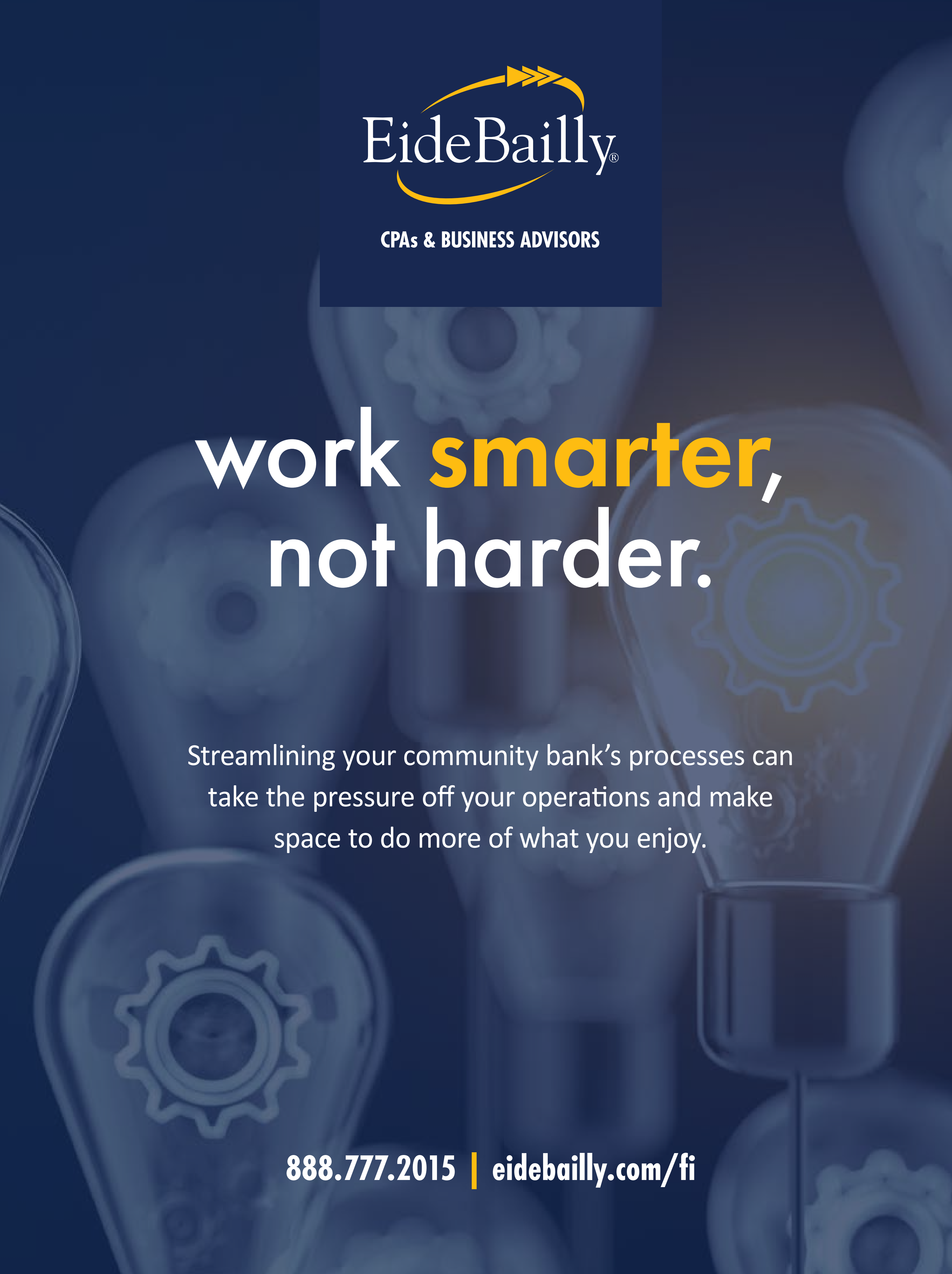
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