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Outside the 'bankers box' thinking propels Sunrise Banks into emerging markets

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INNOVATIVE and INTENTIONAL

By Jacqueline Nasseff Hilgert

Opposite page: Sunrise Banks CEO David Reiling and President Nichol Beckstrand, who describes the St. Paul, Minn.-based bank as an “entrepreneurial social enterprise company that delivers banking services.”

How entrepreneurship is steering the socially-conscious Sunrise Banks toward new opportunities

WHEN THE FDIC launched its small-dollar loan pilot in 2008, one of its assumptions was that banks would be willing to forgo short-term profitability to pursue new banking relationships. Twenty-eight banks participated in the pilot. St. Paul, Minn.-based Sunrise Banks — a Community Development Financial Institution since 2001 with a long history of working with underrepresented communities — was not among the participants. When the FDIC pilot was completed two years later, regulators were no closer to solving how banks might profit from offering affordable small-dollar loans than before. Sunrise Banks, by contrast, was nearing the ability to ink a deal with a California startup that promised to revolutionize small-dollar lending by utilizing payroll services.

Community bankers aren't typically part of the microfinance conversation. But Sunrise Banks isn't a typical community bank. “My unique ability is in that innovation space,” said David Reiling, CEO of Sunrise Banks, a certified B Corp. Reiling is in his element when he finds ideas that match the bank's strategic vision. The small-dollar lending product the bank developed, called TrueConnect, fits the bank's mission to do good in the world. So does its

rapidly growing national products division, which offers stored-value, prepaid and gift cards. Recent growth in what Reiling calls “people-based solutions” has led the bank to expand into South Dakota, to build a new headquarters in St. Paul to further develop its culture of innovation and entrepreneurship and to house its compliance department. All of it is designed to contribute to what Reiling calls his triple-bottom line: the bank's social, environmental and financial impact.

‘Fix it for them’

Each year, roughly 12 million Americans are ensnared in the payday lending trap. According to Pew Charitable Trusts, most of those people use small-dollar loans to cover ordinary living expenses; the average borrower takes out eight loans of \$375 each, per year — and pays \$520 in interest for the privilege.

“We work in this world where we deal with the ‘haves’ and the ‘have nots’ every day,” said Sunrise Banks President Nichol Beckstrand. Regulators fall into the “haves” category, she said, which may be part of the reason Beckstrand thought the FDIC pilot wasn't going to solve the payday lending problem and opted not to participate. Sometimes a regulation is a directive to “go in

and fix it for them” as opposed to “help be a part of the solution,” Beckstrand explained. When Reiling and Beckstrand looked at the FDIC pilot, with an APR at 36 percent and a directive to pull a credit report on each borrower to help determine loan amounts and repayment ability, the pair knew where the plan was headed. They decided to look elsewhere for solutions.

At about the same time, a group of developers in San Diego were studying the payday lending problem for their employer, TurboTax. The online tax software company wanted to unveil its own short-term loan program for consumers anticipating a tax refund. What the developers learned about payday lending and their employer's intention prompted them to leave in search of a more palatable solution.

“It really troubled us what was going on in payday and car title lending,” said Doug Farry, vice president of partners for Employee Loan Solutions, Inc. Soon the startup had a patent on a fully-automated system designed to plug into payroll systems. Loans could be made online through the employer's system and repayment facilitated through payroll deductions. With the automation solved, Farry and his partners needed a bank to pro-

vide the underwriting. “We talked to a few big banks but the ones we met with all wanted to boost the interest rate and tack on all sorts of fees to increase revenues,” Farry explained. Through a mutual contact at TurboTax, Farry, Reiling and Beckstrand met.

“There are people out there who want to do amazing things and have awesome resources to do it,” Reiling said. “But if you want to do business with Sunrise, you have to be values aligned. Otherwise it’s not going to happen.”

Beckstrand said Sunrise Banks brings discipline to its potential partners. “We are nimble, entrepreneurial; we can bob and weave; but we also bring the compliance,” she said. A compliance expert herself, having spent 10 years as an audit and compliance consultant at CliftonLarsonAllen, Beckstrand is the person who ensures any great new idea at Sunrise Banks is regulatory aligned.

Once the lending and repayment parameters were set for TrueConnect, Sunrise Banks launched the program internally for 12 months. It was a time for the developers and the bank to tweak the program, figure out the take rate, control for the unexpected such as an employee disability or maternity leave or sudden departure. All the while, the regulators watched.

“I don’t think David expected his employees would use the program,” Farry said. “You have to have good credit to even work at the bank.” Yet life impinges its will on everyone at random. About half of Sunrise Banks’ employees used the program and provided useful feedback. In 2014, TrueConnect officially

launched for employees of the City of Anaheim, Calif. Today, Farry said there are more than 2,500 employers with employees in nearly 45 states who have access to small-dollar loans through TrueConnect. Loans are capped at 8 percent of gross annual wages or a maximum of \$3,000. The borrower receives only the amount they qualify for based on their wages. The



Sunrise Banks was formed in 2013 when bank owner and CEO David Reiling merged the former Franklin, Park Midway and University Bank charters. The history of the institution is told along this first-floor corridor that leads to the community room.

system allows for anonymous access to loans at 24.9 percent APR — 12 percent less than the FDIC’s pilot.

“We can keep it at that level because of the patent, the unique relationship with the employer, and the automated process,” Beckstrand said. And, the bank doesn’t pull a credit score on the borrower. “It’s a relationship between the consumer and the bank, but as long as we feel the employer is going to stay in business and they have a stable workforce, we feel comfortable offering the service.”

The program also allows borrowers to build credit. Sunrise Banks estimated a 6 percent loss rate on the product at conception; reality has been closer to 1 percent.

Building a culture of innovation

As Beckstrand narrates the TrueConnect story, Reiling annotates by scribbling on his touch-screen laptop. He’s seemingly brainstorming with himself, as if filling out one of the grids from the Entrepreneurial Operating System (EOS) that the bank uses. A couple of times, Beckstrand says something that excites Reiling and his chair can barely hold him. Yet he never interrupts her; instead he channels his energy into the stylus, drawing thought bubbles and circling topics he wants to return to when she’s finished speaking.

Gino Wickman, founder of EOS, would surely classify Reiling as the bank’s Visionary and Beckstrand as its Integrator. The two embody that key leadership dynamic so critical to successful entrepreneurship. A decade ago, before Sunrise Banks had

a project management office and an innovation group and a dream accelerator, the two of them had each other. “He’d come to me and say, ‘I have this cool idea,’” Beckstrand recalled. “I’d say, ‘Hmmm. No. Banking law doesn’t allow this.’” He continued to funnel ideas her way; she maintained the solid footing in the reality of their industry.

“Compliance is not a burden,” she explained. “Compliance is our license to do business.” That knowledge and the respect for compliance she embodied led to their first innovation.

“We were three banks at the time (Franklin, Park Midway and University) and the Fed had just increased FDIC insurance to \$250,000,” Beckstrand recounted. Reiling asked Beckstrand, then chief operating

officer, if they could leverage their three charters and give customers \$750,000 of deposit insurance. She told him it was possible and together they launched Sunrise Secure Deposit, buying and selling deposits between the three banks on a daily basis.

Their process of vetting ideas has evolved. Sunrise created a culture of innovation which allows ideas to come from inside and outside the bank. Ideas are passed through a filter process that looks at sustainability and profitability but also at impact and the community it will serve. If the idea survives the filtering process, it comes to the banking side where it launches as a pilot.

With many of their products, Sunrise stays in the background, allowing the trusted source in the community to be out front. This was the case for its entrée into stored-value cards, which the bank initially offered for sale in its lobby. As they learned more about the prepaid industry, however, they realized they didn't have to convince buyers they were the trusted entity, Beckstrand said. It was a turning point for them in terms of distribution. With their line of Mango cards — prepaid debit cards with an online/mobile component — it became clear the trusted source for consumers was their neighborhood bodega.

"We had a program in California where migrant farm workers were getting their payroll on these cards," Beckstrand explained. "Some of them started asking for two cards, a saving card and a

Why become a Benefit Corporation?

In 2009, Sunrise Banks became a Certified B Corp, one of only a handful of financial institutions across the country to do so. The bank also became a legal Minnesota benefit corporation in 2015, shortly after the state made that designation available.

Other Certified B Corp banks in the United States include Beneficial State Bank, Oakland, Calif.; New Resource Bank, San Francisco; City First Bank, Washington, D.C.; and Amalgamated Bank, New York, which is also a union-owned bank.

The process to become a Certified B Corp is overseen by a nonprofit called B Labs, which was formed in 2007 to provide businesses with a management and impact-governance framework through which they could manifest their ideals.

B Corp certification isn't a legal designation; it's akin to other values-based certifications such as Fair Trade or Certified Organic in that it requires companies using the power of their businesses for social good to meet rigorous standards in areas of overall social and environmental performance, accountability and transparency. As of mid-2017, there were more than 2,200 certified B Corps operating in 50 countries and 130 industries.

Social initiatives have historically been under the purview of nonprofit entities while for-profit entities have been understood to exist primarily to make money for shareholders. A hybrid of these two models designed for companies like Sunrise that take seriously their role in improving society while also valuing profits is the Public Benefit Corporation.

A problem already solved in two-thirds of U.S. states is how to address the traditional corporate directive to maximize financial value for a corporation's owners. If a corporation decides to direct revenues toward programs deemed "socially good" at the expense of maximized profits, a shareholder could file suit against management and directors for breach of fiduciary duty. Through state-by-state legislative action, this barrier to using profits for social good is being removed. B Labs wrote the model legislation for states that wanted to create public benefit corporations and lawmakers have moved quickly.

In the *NorthWestern Financial Review* readership area, states that have created a public benefit corporation option include: Illinois (2013), Nebraska (2014), Colorado (2014), Minnesota (2015), Indiana (2016) and Kansas (2017). States that have seen legislative movement on public benefit corporation designation, but have yet to enact legislation are: Iowa, Montana, Michigan and Wisconsin. Legislatures in Missouri, North Dakota, South Dakota and Wyoming have not taken up debate over public benefit corporations.

Benefit corporation laws do not impose a new regulatory regime on businesses that choose to operate under traditional corporate law. Shareholders of benefit corporations retain all of their traditional governance rights, and benefit corporation directors have the same duties of care and loyalty that they have in traditional corporations.

A benefit corporation must annually self-report how it makes its public impact. There are no audits conducted by the state but the reports are publicly available so anyone can see how well the benefit corporation's actions lived up to its stated intentions.

With Certified B Corps, the process to determine accountability to ideals is more intensive. David Reiling, CEO of Sunrise Banks, said the B Corp assessment is as rigorous as a regulatory exam. Sunrise Banks was named a "B Corp Best for the World" by B Lab in both 2013 and 2014.

Find information about becoming a Certified B Corp or read the impact assessments of any B Corp online at bcorporation.net.



A purposeful approach to positioning for the future

You can see Sunrise Banks' newly-opened headquarters above the trees as you approach the I-94/MN 280 interchange near where Minneapolis and St. Paul rub shoulders. Unlike a couple of its offices, the nearly 60,000-square-foot building isn't on University Avenue but situated a few blocks south — a five minute walk to the door if you ride the Light Rail Transit Green Line to the Westgate Station.

The Green Line, which was completed in 2014, has brought a flurry of redevelopment along the central corridor and Sunrise Banks, as a CDFI, has been awarded New Market Tax Credits to help fund a number of them. The bank received its first allocation of NMTCs, \$25 million, in 2010; it received another \$38 million in 2013. It used NMTC loans in the amount of \$9.1 million to purchase and develop its new headquarters. Sunrise was recently awarded

another \$70 million to deploy; some of those funds are already earmarked for the central corridor, said Sunrise CEO David Reiling.

When deciding where to build its headquarters, Sunrise President Nichol Beckstrand said they had initially thought they should find a building to rehab rather than go for new construction. Leadership wanted a location as convenient for the bank's East St. Paul employees as for the people working in Minneapolis's North Loop. "We polled our employees to find out where they all lived, and this location was almost exactly in the center of everyone," Beckstrand said. The bank has 220 full- and part-time employees, with 115 of them working in its headquarters.

The building's three-story exterior is more glass than brick, pulling natural light into the audit, credit and IT departments, along with the holding company

spending card." The bank delivered.

Though prepaid cards don't require users to have a direct relationship with a bank, Beckstrand considers cardholders to be part of the banking system. She acknowledges prepaid cards have an image problem, adding:

"Our goal is to bring consumers to wherever they want to be along the banking spectrum. Some may never go beyond prepaid cards, but some use them very sophisticatedly."

Sunrise has developed relationships with national retailers

to offer gift cards. Funds gathered from gift cards are greater than the balances in the reloadable side of its business, but the number of cards in the marketplace is roughly equivalent, Beckstrand said. As of today, Sunrise Banks is the No. 5 issuer of prepaid cards

offices, all located on the two secure upper floors. There are conversation nooks inside each department as well as between them, positioned intentionally to encourage employees to collaborate, perhaps innovate.

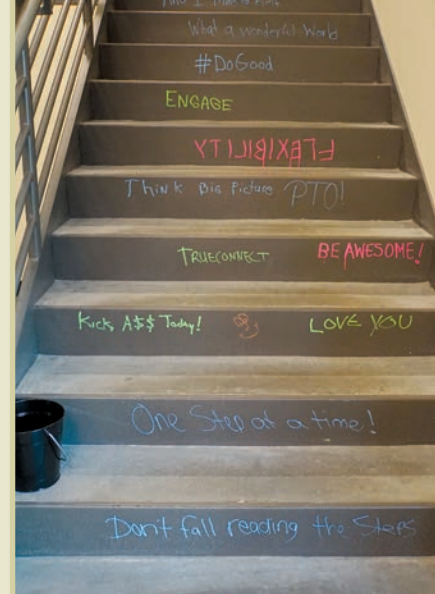
The first floor was designed to embrace community. Roughly half of the ground floor, some 7,600 square feet, has been leased to the Twin Cities YMCA for use as its employee training facility. Nearly equal in size is the bank's community room, dubbed The Bridge, a nod both to the physical proximity of the building and the bank's role within the community. The Bridge offers the latest in multimedia technology and is available without charge to bank customers and community groups. Also located on the main floor is a dedicated employee fitness center with shower facilities and a yoga room. The company dining space is called The Garage — a misnomer for the airy, colorful and clean dining amenities.

Along the corridor that leads to The Bridge and The Garage, a collage of photos, news clippings and artifacts tell the story of the bank's past. The unfolding story of today's Sunrise Banks is also on display throughout the building, albeit more subtly, from the Do Good stickers inside the elevators where employees swipe their access cards, or the myriad

variations on Do Good messaging in conversation nooks, on the walls of shared spaces, embedded into the floor. The bank's brand is even reinforced inside the stairwells, where employees are encouraged to take chalk to stair risers to write their own interpretation of mission and values.

Outside the building, an American flag flutters. Because environmental impact is a B Corp metric and an institutional value, there are designated parking spots for car sharers and carpoolers and those cars that might need an electric charge during the day. Mica in the sidewalk catches the morning light. The asphalt is neatly striped and unscuffed. The sod is lush. It's all in hopeful contrast to the pale warehouse situated next door, fenced and overrun with weeds — a shuttered Weyerhaeuser distribution center of use to no one but graffiti artists. But the 12-acre site that is Sunrise Bank's most prominent neighbor won't be a blight for long. Moderate income and senior apartments, retail, and a city park are in the planning stages. It's another urban revitalization project for Sunrise bankers to keep an eye on from their new offices. "We can't wait to see how the neighborhood transforms," Reiling said.

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Opposite page: Sunrise Banks completed its nearly 60,000-square-foot headquarters on Wabash Ave., in St. Paul in 2017. Above: Employees are encouraged to use chalk to express their interpretation of mission and values. Left: Colorful murals tell the story of Sunrise Banks' commitment to the communities it serves.

in the country, but it will soon become No. 3 due to Wirecard AG's acquisition of Citibank's Prepaid Cards businesses in the United States. That transaction, which closed in the first half of 2017, gave Wirecard, a European player, entrance into North

America. Sunrise struck a deal to acquire a portion of the U.S. based assets and deposits of Citibank's Prepaid Services division and will act as issuer for the Wirecard prepaid cards. Sunrise invested \$1.7 million into infrastructure and people in the last nine months, in-

cluding a new software system to allow it to conduct cross-program analysis and sharper velocity testing. Beckstrand is confident that Sunrise has the rich compliance background, staff, systems, and now the space, to support this major expansion. ■