

A CDFI's digital ambitions

By Nathan DiCamillo

Steven Schnall has made a career out of helping mortgage companies expand.

For a time, he ran New York Mortgage Trust out of his Manhattan apartment. He developed a startup that grew into a publicly traded mortgage real estate investment trust and national mortgage banking company. Now he is CEO of the \$420 million-asset Quontic Bank, which had \$24 million in assets when he bought it during the financial crisis.

Quontic is a community development financial institution that specializes in residential mortgages and has its main branch in the Astoria section of New York; it has branches in three other cities, too. Schnall's vision for the bank is ambitious but clear: Move its corporate office to a higher-profile location in Manhattan — and make it a digital bank.

Schnall has been building toward this moment. He invested in bitcoin when it was \$75 in 2013, partly to keep tabs on the cryptocurrency space and advances in technology and regulation. He closely follows the interest rates on deposits offered by digital banks like Ally and Marcus to help him plan how to market his bank's accounts more aggressively. And like digital-first banks, he's pushed Quontic to get aggressive about gaining customer insights through data. The bank recently completed a database that aggregates and normalizes its data from its various siloes.

“Now I have the data I need when I need it,” Schnall said. “Literally every department head will be able to have ‘aha’ moments with breakthroughs in the data to better understand customer patterns and behaviors.”

The following is a Q&A with Schnall that has been edited for length and clarity.

What's the inspiration for Quontic's name?

STEVEN SCHNALL: It's made up. Part of it, ontic, comes from Greek and it means real. Qu is a reminder of something qualitative. We came out of the whole credit crisis. Banks were failing. We wanted something less bank-sounding, and it fits now with all the tech company names, such as Google, Facebook, etc.

What has growth looked like in the past three to five years?

We're really hitting our stride now. We operate within certain niches of the residential mortgage space that allow us to generate significantly higher yields on our loan book than some of our peers. We're focused on growing the assets of the bank by adding mostly residential loans. We also do some commercial real estate and multifamily lending.

The tricky part to growth is how you fund it. Banks small and large are facing serious challenges in gathering low-cost deposits. Funding costs are being driven up by online banks and by more savvy consumers who are starting to realize that they can be paid more than a quarter of a percent on their savings.

Do you want to compete in that space?

To simplify it for us, there are two ways we can grow deposits: One is by opening more brick-and-mortar retail branches or we can pivot to an online strategy and try to generate deposits online.

Clearly for us, the brick-and-mortar option would be extremely costly compared to the volume of deposits it will generate. It will take too long and cost too much. It's also counter to the trend of banks consolidating their retail bank branch footprint. If it costs \$500,000 to a million dollars to open a branch and then say \$50,000 a month to staff it and operate it, think about how many liabilities on the deposit side you have to generate to justify that cost.

You can alternatively go online and market for deposits online. You can pay top of the market and net your overall costs. The way we see it, it's still comparable to — if not better than — what it would cost you to open a branch. It's faster. You really have a lot of control. Marcus just raised \$35 billion online; we're deploying the exact same strategy. We just have to be willing to pay what they pay, and that's about 2.3% to 2.4% on a money market; but they just announced they're lowering it. Maybe others will follow.



Going digital

Quontic Bank CEO Steven Schnall (third from right) says the investment to start an online bank is "comparable to — if not better than — what it would cost you to open a branch."

The bottom line is that if you're looking for liquidity you can find it online, but in order to do that you have to grow your technology infrastructure. You have to have great digital account opening with robust fraud prevention devices. The know-your-customer and all that has to work, but can't be too rigid that no one can get through it. You also have to have all the bells and whistles. We have Google Pay, Apple Pay, we have Zelle. Virtually every type of peer-to-peer payment that exists. We're going to be launching Equip [in the fall], which allows you to lock your debit card if you lose it and unlock it if you find it.

Of course, you also have remote check capture and online bill pay. We also signed a partnership with Blend and are in the implementations stages, pushing to go live by the end of the month. With that we'll have eSign, and have automated a lot of the validation processes. To do this well, you need the standard suite of what everyone has come to expect online, plus a little bit more.

Does the bank have online account opening now?

We're going to be adopting a new technology where you take a picture of your government-issued identification card, and the software will validate its authenticity. Then you have to take a real-time selfie, and it will match the selfie photo to the ID photo. It's through a company called Jumio, which we learned about six months ago because a lot of crypto companies are using it.

There's a litany of partnerships your bank can engage in, but you need your core to talk to these fintechs through application programming interfaces. Rather than relying on our core provider, we're building our own database that extracts all of the data from our systems, our core, loan operating software, etc. By putting all of that into a database in the cloud, we can more easily connect to third parties who want to connect to a bank.

How do you think your digital bank will stand out?

If you're not among the top two or three interest rates, you don't stand out. The panacea of account type is the checking account which is generally not interest-bearing. We plan to advertise our checking account, which offers 1.85% interest if you swipe at least 15 times a month. We're taking that interchange fee and giving it back to the customer.

How will you manage the increasing cost of funds?

Part of the database project will calculate, based on our loan software, how many deposits we're going to need each month. For instance, right now we have too much cash. Sixty days from now, as we spend money, we're going to need more deposits. Soon, we're going to begin promoting our rates on Bankrate and other places. To do this, we're customizing a product from HubOne Systems in Montreal.

Since we're a CDFI bank, a certain percentage of our loans have to be made to low-income people in certain target markets or low-income census tracts. We built this database to combine all the counties across the country so that we now know what is low-income, in any county in the country, by household.

Are you going to spin that technology off?

We go to conferences, and bankers who run \$1 billion- to \$2 billion-asset banks are wide-eyed when we talk to them about it. We've thought about spinning it off, but for now need to keep our eye on the prize.

Why are you moving your headquarters to Midtown?

We're moving to One Rockefeller Plaza. The branch will remain here in Astoria, the mortgage operation and sales will remain here. What we're moving is the executive offices, IT, accounting, loan administration, servicing customer administration. As we evolve to more of a fintech bank, we're finding that it's a bit challenging to recruit the type of talent we're looking for here.

How does the space in Manhattan make that easier?

It's just Manhattan. It's the center of the universe.

It's a really opportunistic sublet from somebody who built out the space beautifully, is downsizing and needs out. It's a six-year sublet on what was a 10-year lease for somebody else. So here we have some flexibility to the point where if we outgrow it, we don't have too long of a tail on it. Sublets are a lot cheaper, but you have to accept someone else's design of a space. We love the way this company designed it. A millennial vibe with polished concrete floors and exposed ceiling, yet it's Midtown, which is generally a stuffier address. This has a cool flair to it.