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Bitcoin trading, wearable payments: What's next for Quontic Bank

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Quontic Bank, a community development financial institution in New York, has made a name for itself as an innovator.

It was the first U.S. bank to have a bitcoin rewards card; it pays 1.5% back in bitcoin rewards for every debit card transaction. The bank has other products in the works, including a ring that can make debit card purchases.

The $1.4 billion-asset Quontic also has been expanding its mortgage business. It is using a new method of underwriting that allows people in good credit standing but with low incomes to afford a home; 70% of its home loans are made to such customers.

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"If you don't have it in your DNA to take risks and innovate and try new things, get somebody on your team who does, and get somebody who will push you," says Steven Schnall, founder and CEO of Quontic Bank. *DENNIS CAHLO*

In a recent interview, founder and CEO Steven Schnall gave an update on the bank's bitcoin-related activities, its process for turning new ideas into action and its progress in the mortgage business.

How has the bitcoin rewards card been doing? Have people been signing up for it, and is it working out the way you hoped?

program. So right now the customers who have signed up are earning the rewards. They can transact or sell the bitcoin they receive as they wish, but they're not able to see all of that activity on the mobile app.

We want to be able to deliver a first-class customer experience before we launch it to the mass market. So we'll sign up anyone who happens to find us, but we haven't started marketing for it yet. We don't know yet what the full potential is for this product, but we love the fact that we're at least enabling consumers who don't have access to bitcoin to get an introduction to it, and for consumers who already are enthusiasts to earn more of it for free.

Have you been concerned about the price of bitcoin over the last month or so?

When we conceived of this product, one of the things that we thought was really cool about it was that unlike membership miles or points, or even cash rewards, these are rewards that have the ability to appreciate meaningfully. Of course, it will probably remain volatile for the foreseeable future, but the great thing is you don't have to pay for it. We're giving it to you for free. So you hope it appreciates. But the main benefit of the program is that you get bitcoin without risking your own money.

Is there anything else on your product drawing board related to bitcoin?

We would like to enable customers to buy and sell bitcoin. It's not something that we have scheduled to launch because the technology and the integration hasn't been built yet. But that's one of the things that NYDIG [Quontic's tech partner on its bitcoin rewards product] is working on. NYDIG is partnering with all of the core banking software providers to be able to facilitate buy and sell for customers.

And so I think we have a head start over other banks because our board is already deeply comfortable with NYDIG and with bitcoin in general. And we're going to try to do it early. And we'll do it without any risks to ourselves, because we're not balance-sheeting the bitcoin, we're just a technology facilitation.

Once consumers can buy bitcoin from their bank, they will have a much higher comfort level with it, and you might see mass adoption like we haven't seen before.

Was it hard for you when Patrick Sells, your chief innovation officer, left for NYDIG?

When we made the decision to go all digital, no branches, that required a lot of help. And so to bring in someone with Patrick's energy and intellect at that point in our history who had a skill-set outside of what anybody at the bank had — he was the right guy for the right job at the right time. We benefit from all that he and I were able to do together, From an entrepreneurial CEO's perspective, he was 28 years old when he came over, and he pushed me really hard to do things that I probably wouldn't have done had there not been someone from outside of banking who wasn't beaten down by the regulators and the whole construct of being a bank where banks don't innovate, banks don't evolve, banks don't pivot, they don't run hard at new stuff. And he wasn't familiar with those rules. So he pushed me to do stuff that I may not have done. One of the things I now believe is, if you don't have it in your DNA to take risks and innovate and try new things, get somebody on your team who does, and get somebody who will push you.

Now every time we look to do something new and interesting, I don't have that same filter where I say, well, I'm only going to hire somebody with banking experience. My chief marketing officer never worked at a bank, but he's really good at digital innovation and branding and marketing. My chief information security officer didn't come from a bank. And I think it's really beneficial for people to widen the lens. And now with remote workforces, you can hire anybody anywhere. So you have this national talent pool from which to recruit.

Are you still working on developing a wearable debit card ring?

It is slowly cooking. There are a number of different third-party vendors that we're reliant upon to bring this to life. And we're making progress every day. We're probably still a good quarter away from it. You have to be willing to accept that you're going to try new stuff and everything takes forever, but we're excited about it. A wearable debit card ring is a really cool thing that nobody's done before. And there will be a number of consumers who do want that, whether you're a runner or a bicyclist or you don't want to carry your phone, you can still go buy your Gatorade or whatever by tapping your ring on the contactless reader. We had a beta version of it a year ago. When I was wearing mine, I would go into a store, wave my hand over the card reader and they'd look at me like I had three heads. And then they see the thing go "ping," transaction approved.

Did the ring look good? Is it stylish?

Yes, it was awesome. I actually have a wedding ring that looks exactly like this ring, except it's made of rubber. This one is some ceramic material, but it's pretty stylish and I enjoyed wearing it.

You mentioned low-doc loans. I know you had a strong quarter in terms of growth in mortgages to low-income households. What do you chalk that up to? Is that pandemic-related?

The broader mortgage market tends to track two things. One, if interest rates have dropped significantly over a period of time, everybody runs to refinance and to the housing market. So rates have been low for such a long time that is starting to cool a little bit, partly because of a lack of inventory, partly because the prices have gone up so high. But we tend to focus on something entirely different. So as an example, in the last 12 months, most of the big mainstream mortgage lenders have done a lot of refinancing. For us over the last 12 months, 90% of our business was purchase business.

We had to forgo the refinance business because we're focused on lending to low-income households. And most people who are in low-income households can't run out and get the 2.75% interest rate. Rather, they're people who want to own a home who can't, and the reason they can't is not necessarily pandemic-related, although the pandemic made it worse. The reason they can't is because after the last credit crisis, there was this Dodd-Frank legislation enacted that put in place amongst other things an ability-to-repay rule. And under-the-ability to repay rule, lenders are now required to collect independently prepared, third-party documentation of income tax returns and calculated debt-to-income ratio that doesn't exceed 43%. Now that rule makes sense because the world went haywire pre-credit crisis with high-LTV, no-doc loans to people who didn't even have jobs. And what happened as a result is mass foreclosures and an economic global economic downturn.

And so the Dodd-Frank legislation was responsibly trying to address that issue and say, look, banks and mortgage companies, on an owner-occupied property, you cannot make a loan unless you verified somebody's income and calculated an affordable debt-to-income ratio above under 43%. So that was the good news. The bad news was there are millions of consumers who have resources. They have a down payment, they have good credit, but for various reasons, they aren't able to meet the ATR standard under Dodd-Frank. And so they will just not be able to get a home loan. And most of those people happen to be small-business owners. And so COVID is a great example of how the small-business owner got the shaft as a result of this rule, because maybe your small business had five or eight consecutive good years and then 2020 was a wipe out.

And so the niche that we serve is all of the people who would like to be homeowners, who are creditworthy as proven by a 700+ credit score. They have a savings propensity as proven by a 20% or 30% down payment, but they can't meet the ATR documentation and debt-to-income ratio guidelines put forth under Dodd-Frank. So that's who we serve. And there are millions and millions of these people out there.

This is something that nobody's doing. It's something that's innovative. It's something that we have to be willing to take a chance on, not from a credit risk perspective, but what will people think if we're making loans to consumers without requiring tax returns. We're serving an invaluable need in the market and we're doing it responsibly.

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