

A two-pronged strategy for reaching the underbanked

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Sunrise Banks in St. Paul, Minn., serves two distinct client groups — underserved communities and fintech.

The \$1.1 billion-asset unit of University Financial, a B Corp and Minnesota's only Community Development Financial Institution, has built a culture around promoting financial wellness for all. B Corps are privately certified by B Lab, a nonprofit, for meeting certain social and environmental standards.

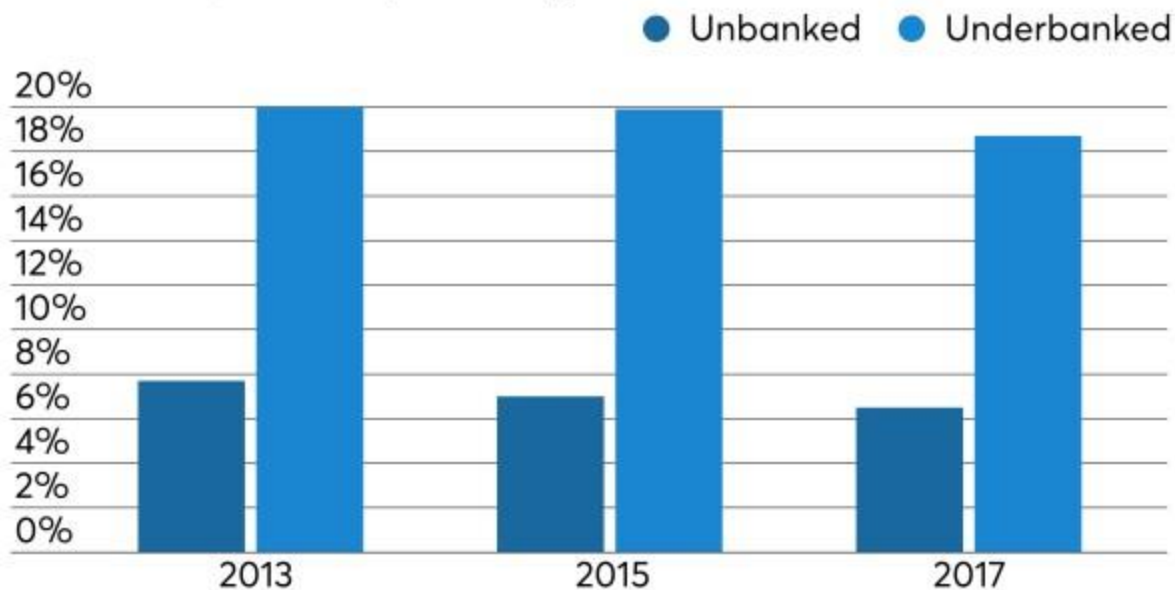
Sunrise's story began in the 1980s when Bill Reiling bought the first of three small, troubled banks in the Twin Cities area. His son, David, merged the banks in 2013 and renamed the company.

Sunrise, among the nation's biggest prepaid card issuers, has spent the last five years courting fintech and payments firms.

The effort made sense to the younger Reiling, who is Sunrise's chairman and CEO. The bank views its fintech dealings — which include offering compliance oversight and other services — as an extension of its commitment to underserved communities.

Thinning out

The ranks of the unbanked and underbanked, as a percentage of households, are slowly declining



Source: FDIC (biennial survey)

"How do we leverage technology in order to scale good?" Reiling said in a recent interview. "How do we use prepaid and payments to provide access to the financial services system? How can we distribute small-dollar loans responsibly, nationally and at scale?"

Sunrise's efforts fill a void. Roughly a quarter of all U.S. households are unbanked or underbanked, according to a 2017 study conducted by the Federal Deposit Insurance Corp.

"The bank's service to [unbanked] and underbanked people is very real," said Joe Witt, president and CEO of the Minnesota Bankers Association. "They firmly believe that banking services are essential to make people's lives better. All their employees know that the work they do is meaningful and makes a real difference."

Reiling, a past board member of the state banking association, recently discussed Sunrise's unique mission and growth strategy. Here is an edited transcript of the conversation.

How has the strategy evolved since you merged the banks?

DAVID REILING: I don't know if the strategy has changed all that much. I think it probably accelerated my strategy, which was essentially a solid traditional community bank model. Sunrise has a two-model strategy — one is very traditional and focused on the urban core. We are mainly a commercial lender so commercial real estate, small-business loans, affordable-housing lending and nonprofits or [nongovernmental organizations] that bank with us due to our mission. We want them to be healthy because they can get to parts of the community that, as a bank, we can't lend to. So leveraging our strengths with theirs really helps.

We are intensely local and yet we have 26 million prepaid cards all over the world. Our largest prepaid client happens to be a German company. We find ourselves with partners coast to coast, so geography isn't a barrier for us. We have to create our own future and develop our success to be relevant in the financial services, banking and payments space, so we have to keep innovating and improving. We also know that the more we do for our mission, the more the business thrives financially.

How do you measure social impact?

We have an impact team, and one person in particular spends their day measuring impact. You can measure impact in different ways. If you think about it from a loan standpoint, you can measure the number of jobs — both temporary and permanent — that are created and you can do surveys or estimates around

that. We measure things like volunteer hours and the diversity of our employee base. If you measure something it inherently gets better. If you measure and report it, you start to benchmark yourself.

I understand you're interested in selling deposits and loans to other banks. Why?

We're fortunate that we have a decent economy, but the fact is our loans and deposits are growing significantly. Our deposits primarily are growing fast from our prepaid and fintech business, and our loans are growing significantly in the St. Paul area because of a healthy local economy. We probably can't sustain that level of growth due to capital [constraints]. There are opportunities for us to manage our own balance sheet in a very agile way to sell off parts of loans when we have concentrations as well as deposits to manage our capital levels.

What's it like growing a national business as a local community bank?

We have been doing it for a while. We were in the national student loan business back in the early to mid-2000s. Soon after that we were in the prepaid business. It has its challenges. You have to have compliance and systems that are bigger and better than what the bank is. So while we're a \$1 billion-asset financial institution, we have a compliance department that looks like more like a \$10 billion to a \$20 billion bank. That's just the requirement of being in the game.

The transaction volumes are heavy and you need the IT and cybersecurity to protect data and the systems, so there's definitely an investment in getting into these national spaces. Every year we get a little better and more efficient in what we do. I think we've earned the respect of the regulators. When we look for partnerships — fintech or other — we're looking for values-aligned partners. If we

share the same values, this is going to be a good partnership. If we don't, it's going to end abruptly or miserably. We've made those mistakes, too.

Where do you see the company five years from now?

We want to be the preferred fintech bank. We want venture capital companies to say, "Oh, you bank with Sunrise? OK, I'll invest in your fintech." Because they'll know they have a chance to be successful. We want to continue to scale our impact. I think we can [scale our business to] ten times our impact in terms of jobs, people served and access. Growing the bank's revenues and assets and so forth — I know those numbers are important, but that's a result of us being successful in other areas and doing things right. We could be a \$1.6 billion or \$1.8 billion-asset bank — I don't know what the right number is in terms of growth. I would much prefer that our revenues continue to grow and we diversify our revenue streams.

Would you consider M&A to gain scale?

Not necessarily, although a bank in South Dakota [where Sunrise has a loan production office] would be strategic for us. But our growth is coming organically through traditional means and financial technology partnerships.

How have you built a reputation in the fintech space?

You have to be in the business and do it well. We have people on airplanes a lot. You have to get out of the house. We send people out to different places and a lot of what we do today is not your traditional bank meetings. We find ourselves in startup places, payment conferences, incubators and talking to venture capitalists. That's my tribe and where I feel comfortable and so I enjoy going to

those things. You sit on panels and I wrote a book called Fintech for Good that highlights five fintechs that do good work.