



The Future of Relationship Lending in the Digital Age

BRIAN SULLIVAN: Welcome to a very special edition of the FDIC podcast where we talk about the world of banking with the people who understand this world. I'm Brian Sullivan with the Federal Deposit Insurance Corporation.

Last fall, the Federal Reserve Bank of St. Louis, the Conference of State Bank Supervisors and the FDIC hosted the 10th Annual Community Banking Research Conference...it's an annual gathering of bankers, academics and regulators to talk about the state of community banking in this country.

It was at this annual conference that I had the pleasure to sit down with three experts to talk about two different banking models—old school relationship lending that so many of our nation's community banks are known for. And new school digital banking that has quickly become the way most people bank today. On the surface, at least, it would seem these two approaches to banking are polar opposites. So at the risk of being blunt, we ask—does technology spell the end of relationship lending, at least as we know it?

Greg Hayes is the President and Chief Operating Officer of Kish Bank based in Belleville, Pennsylvania. Kish Bank has been around since 1900...a bank very much in the mold of what everybody recognizes as a community bank with deep roots in their community.

Nicole Lorch is the President and Chief Operating Officer of First Internet Bank of Indiana, a financial institution that was founded 23 years ago as an Internet-based bank, a bank born to live entirely online.

And **Amanda Swoverland**, Chief Compliance Officer at Unit, a financial technology company that builds relationships with community banks to offer financial products through digital platforms.

So this was our conversation about the future of relationship lending in our digital age...

Greg, if we can begin with you. Your bank has been around now for more than a century. I guess that makes you the old school?

GREG HAYES: I guess it does. Thank you and appreciate being here. It's a great conference. It's one I've attended many times as a banker. It brings insight to things that we see

researchers and regulators trying to achieve in the industry. I'm fourth generation. We are publicly held company. We're not privately owned by the family but my great grandfather created Kishacoquillas Valley National Bank out of the merger of two local community banks, single branch banks, in a very small town of less than a thousand people in central Pennsylvania. And we've grown over that 120 years to be about one point...over \$1.2 billion now in five counties...supporting commercial lending, mortgage lending...you know, all the products that, you know, traditional relationship-based community bank would offer in our communities. But we're very focused on how we're going to do that in the future, because the needs of the consumer, the needs of the small business owner are changing. And being in our communities is what has created our growth. It's what's driven us. It's who we are.

BRIAN SULLIVAN: Nicole, the First Internet Bank of Indiana, as the name suggests, doesn't rely on the bank branch model at all?

NICOLE LORCH: That's true, we don't. We were launched in 1999. We are in the five percent that [Michelle Bowman](#) referenced yesterday of deposits that are derived entirely digitally. We were a pioneer and really changing the delivery or distribution system of banking when we launched in 1999. Within 90 days, we had customers in all 50 states, and today we bank customers coast-to-coast with an award-winning platform for consumer mortgage lending, consumer deposits, small banking deposits. And we're a top lender in the SBA space as well.

We also have a variety of specialty finance lines, and we're doing that on a nationwide basis. I do believe that our success is due to our fusion of tech-driven self-service options, but we're blending that with personal service.

BRIAN SULLIVAN: Amanda, you may be the unicorn here. You've been a regulator, a community banker. Now you're at a fintech...you've been around the horn!

AMANDA SWOVERLAND: Yeah. It's been exciting to be here and kind of back to back to my roots where I started with regulators. It has been a fun journey. And I think I get to do what I love, which is nerd out on compliance. I love compliance. I know everybody here does, too. And I get to build it into a tech-for-solution and really make sure that that compliance is very forward and built into any of the architecture that we do.

So, what does Unit do? And I think there's a lot of different definitions of fintech, but what we do is we are a system of record. Right. We a core type technology. We build a lot of compliance solutions. And compliance is built into our technology and the oversight programs that we can help our partner banks with. And really, at the end of the day, we're helping bring technology companies and brands and partnering them with banks and allowing them to meet each other. And this isn't anything that's necessarily new. How many of you have that that airline card in your in your wallet or the hotel branded card in your wallet? Really, it's that white labeling of products. So we have a platform where we can help bring banks and these technology companies together and together I think we'll get into the topic today of how that fits together.

BRIAN SULLIVAN: Well, let's start with how we define relationship banking. In the past at least, I always thought that this banking relationship required the human dimension, you know, the handshake, the signing of the papers, the bank branch. But are we redefining what relationship banking is in this digital age? We'll start with you Amanda.

AMANDA SWOVERLAND: Yeah, I think it is but at the same time, I think that digital-first banking is actually relationship banking. And one of the best examples that I can give of building that relationship is take an accounting software that a small business uses. Most small businesses will use some type of technology for their accounting to pay their bills, to do their payroll. Right. It is the core of running their business. And they have a lot of trust in that particular accounting software provider because it's helping them every single day.

Well, that online account software could say, you know what? I want to give this small business a checking account. Well, we know they need a bank. Banks are who offers checking accounts. So they need they need to have a bank and they need to find a way that they can partner with a bank now to do this. And they meet with banks and the bank is going to own that account. They're going to own those customer relationships. They're going to do due diligence on that accounting software company, and they're going to do all of the things that that they need to do. That bank now just accessed a marketplace and a relationship with that accounting software customer base that they never would have been able to access before. So there is really allowing banks to come and meet people at their place and where another trusted source is versus people coming into the bank. So it's just it's allowing new avenues of deeply trusted relationships to form with brands that are already trusted within the marketplace.

NICOLE LORCH: I think that's a great point, Amanda, because so long banking was thought of as a place-based transaction. You had to go to a branch to do the transaction. Well, I also had to go to Blockbuster to rent a VHS tape, and I had to go to Barnes and Noble to buy a book and I was taking the recommendation of that particular bookseller. Right? But today I can get such better recommendations through online sources where thousands of readers who like something that I like can come together to make a better, more personalized recommendation than that one individual. So I think what technology enables us to do is create *stronger* relationships by really pulling and aggregating all of that data in order to really personalize the experience.

BRIAN SULLIVAN: Greg, would you agree? I mean, I came into this thinking that maybe these two models are mutually exclusive. Would you agree maybe or not?

GREG HAYES: I completely agree...as a traditional community bank trying to break that old school mentality, if we can't do what these other organizations have proven can be successful, that we can take our very differentiated human personal relationship experience and do it digitally. If we don't figure out figure out how to do that, we will be dinosaurs, right?

But the idea that the physical goes away, I think is the big question for us, because there's always going to be...we serve everyone from the Amish to Penn State students. We're in

central P.A. in the State College area. And that's a very broad segment of customers. You know, average age of our client is 58. And while we see most of our technology adoption in that older segment, and I'm sure Nicole can say the same thing. The physical need tends to be the underserved. It tends to be the folks who...we have a lot of folks who don't have a credit card, they only have a debit card. We have a lot of customers who are primarily...they only have one banking relationship, very rural parts of Pennsylvania and across our country. And so it will be a long time until the physical goes away. But if we don't figure out how to build the digital relationship experience in our traditional structure, we may not be there for our communities. We may not be there for those customers that that don't have the kind of Internet access, the ubiquity of services available in more urban areas.

BRIAN SULLIVAN: How do we marry technology with the old school bank experience to preserve and maintain this thing, this relationship we have with the banks?

NICOLE LORCH: Well, I think right now...you think about what computers do really well. I mean, they can aggregate data. They can synthesize data. They can organize data. But they're binary. You know, it's on-off. It's black, it's white, it's right, it's left. And what people can do so beautifully...and AI will get us there... is work within a range of guidelines.

So a computer may make a decision, but that's based on human parameters that were set. Take a look at a person who can take a look at a credit memo and say, okay, so I know that if we just ran these through a system that it might say no, declined the loan. But my gut tells me that this one's going to work out. And we hear that. So I think people are still able, with care and compassion that computers cannot provide to take a look at scenarios and make an estimate within a range of options. And that's still where there is a place for people because money is emotional. I mean, your consumer who's getting a mortgage, that's the biggest purchase they've ever made in their lives. And your small business owner who is who needs a loan, they are chasing their passion. And so money is still very much about feelings and that's where people come in.

BRIAN SULLIVAN: But where does feeling come in with all these ones and zeros? Amanda I mean, can we be emotionally attached to our app?

AMANDA SWOVERLAND: Yeah, I think it's twofold. I do agree that there still needs to be that human touch. I think people want to be able to pick up their phone and their app and probably that app that they're using all the time that they trust. And they want to do quick transactions. They want to check their balances. They want to get quick access to credit. They want to they want to have those types of things. But they also want to know, at the end of the day, if they have a question, because this is money, this is trust, right? That they can call somebody. And I don't think that there's a single partner that we work with that doesn't have some level of that that connectivity.

BRIAN SULLIVAN: There's still a human?

AMANDA SWOVERLAND: There is still a human that sits behind all of this. It's not...Fintech is not a bunch of bots that are that are sitting behind this. These companies that that are partnering with the banks. You're going to hear me keep saying this, because the banks are just the critical piece of this. Their brand is so important to them and their customer and that customer experience is so important to them. Just like your customer experience of somebody walking into the branch, any brand that's going to partner with a bank has that same level of care that they want to take. And so when somebody has an issue, they want to make sure they address it because otherwise it's going to be a poor review out on the Web somewhere. So I do think that there is that same brand loyalty and care that that a branch would offer.

BRIAN SULLIVAN: Well, let me throw this out then. It's a variation on the theme. But do you... do *any* of you...envision a future where a bank customer can get a mortgage or a small business loan without ever having to speak to a human?

NICOLE LORCH: Well, sure. I mean, we've staked our business model on it. So we've built a process that will enable that to go online, shop for a mortgage rate, apply for the mortgage, get all the way to closing feasibly without ever talking to a human being. But the reality is people are not there yet. And so we have built behind that excellent customer service to support them at every step of the way. So I think it's conceivable that at some point we will be there...we're not there yet. And so in the meantime, it's about meeting the customer where they are in their journey.

BRIAN SULLIVAN: Well, Greg, is this future terrifying to you?

GREG HAYES: No, because I always I feel that we're a capitalistic society and there will always be people that have a need and have a preference. And [there's going to be people who want to meet with someone. There's going to people be people who want to talk to someone. And there's also going to be people who want 100% self-service. And that ability to meet people wherever, whenever and however they want is going to be critical to success.

AMANDA SWOVERLAND: Greg, just to double click into that, we actually just worked with Harris on a poll with small business owners and 71% of the people that we surveyed said that they would be willing to try to get banking in a new way given the current economic environment. So I think that there is a hunger to look at things in a in a new way and find banking products in a in a new way for that.

NICOLE LORCH: You know, the last three years have changed us, right? I mean, this conference was always in person. And I will say they've done a beautiful job of making it hybrid. I was watching yesterday from my home office and I felt like I was here!

And you think about, you know, when I started my career at First Internet Bank in 1999, my mother thought I was absolutely nuts. And so now I've got her ordering groceries online and having them delivered to her house. I mean, over the last three years, we've had to change. We've had to adapt. And what that has done is it has pulled forward this digital demand for

services that has forced us to become comfortable with things we didn't previously think were possible.

BRIAN SULLIVAN: Let me let me pivot to sort of a more market wide approach to this. Yesterday, FDIC Acting Chairman Gruenberg made a point to stress how important it is for the community bank's physical presence in communities. We've seen a steady decline in the number of...well, both banks and bank branches in this country. Are you all concerned that the bank branch model is an endangered species?

GREG HAYES: I'll start. I'm not. Our model going forward is that if we can find that sustainable business model that we're in, our approach is...we are opening branches. We just opened one, had a grand opening this week that I missed, unfortunately, and we're opening four more within the next six months. But we're talking about branches with one banker, one community banker. They are that face, that representative, that human relationship that connects back to the call center, that connects to the person on the chat or connects to the mortgage banker or insurance agent or wealth management advisor, commercial small business lender. Our communities have demonstrated a want for physical locations. We're trying to build a model that is, from a from a scalability standpoint, from an expense standpoint, from an overhead standpoint, able to be achieved. And so we think it is important to communities. We think that folks need it, but we also understand they have to have the digital access as well. And so it can't it can't be one or the other for us or our model.

BRIAN SULLIVAN: Amanda, how about how about you? Do you come at it from the technological point of view...

AMANDA SWOVERLAND: ...yeah, and I think that the critical piece of that is, are we are we getting access to financial products and services to everybody that needs them? Because there's going to be some people that just do not want to walk into a bank branch. They don't they don't trust that bank for whatever reason, they may not even speak the same language. Right? So, how are we going to make sure that we're that we and I keep saying this, we're going to meet people where they're at to make sure they have access to financial products and services.

BRIAN SULLIVAN: And Nicole, you know, your bank was never a branch-based model. So this talk of the endangered species...I don't know where you fall on that.

NICOLE LORCH: Well, I think to Greg's point and to Amanda's point, we need to make sure that our communities are being served. And First Internet Bank has always taken a very strong stance on that. But does it need to be a branch or does it need to be service to the customer? We have more customers who are more than a day's drive away from our branch or headquarters location than we do those who are within it. And it's more than just the 9-to-5. The famous quote, of course, is Henry Ford saying, "if I had asked customers what they want, they would have said a faster horse." But so it's not so much what our customers saying they need, but what is really being done if banking has become an errand and not a value added service, and maybe we need to think about what's taking place in that branch.

BRIAN SULLIVAN: Before we got talking, Greg, you likened it to the travel industry.

GREG HAYES: I did. You know, when you think back, you know, even the advent of the Internet travel was kind of the first disruption of industry in that Expedia and all of the different very Internet-based travel planning solutions came out. And now you see this large shift, especially coming out of COVID, this resurgence to travel and the use of travel agents, and the highly profitable, highly successful travel agencies out there that are bringing the kind of experience that people demand that people want, that they just can't get on their own. You know, you've got dual income families...both parents are working...kids...doing a lot of things. You can't plan that trip of a lifetime without a constant adviser. You can't buy that house, that huge purchase that you're going through, or start your business without resources and support. And in the travel agency business, they've realized you don't have to be physically located. You don't need to have that storefront. There are travel agents in California supporting my customers in Pennsylvania all the time because they can, because technology has allowed it.

BRIAN SULLIVAN: Let's pivot to what the implications to access to credit are with all this movement toward technology, especially for minority borrowers and low- to moderate-income communities. Is there a danger here that with a more technological approach to banking and to lending, that somehow we might fall short in reaching certain borrowers who have proven to be good credit risks?

AMANDA SWOVERLAND: I don't think so at all. I think that that when you when you take the learnings from that and you can combine that with technology, you can actually reach *more* people. You don't have to you don't have to lose some of those nuances.

BRIAN SULLIVAN: More is more?

AMANDA SWOVERLAND: More is more. It's not a zero sum game. You know, there is there is there's plenty of different ways to reach different people. And again, meet them meet them where they're at. So I don't think so.

BRIAN SULLIVAN: Well you, Nicole, had likened this marriage between technology and humanity. Is this a marriage made in heaven? Is this what I'm hearing? I mean, speak now or forever? Hold your peace.

GREG HAYES: I would I would say yes. I can't figure it out. Traditional banking mindset, mentality. My leadership team, we can't build what Nicole's team has built. But if Amanda and the team at Unit could help with this marriage, I think that the capability to bring the traditional physical relationship and that and the technology relationship capabilities together can sustain community banking as we know it in a very different future. And it's exciting. It really is. So I will forever hold my peace on that.

NICOLE LORCH: I think it is. It's a marriage. And, of course, you know, we all say to err is human and to *really* screw up takes a computer. But again, that's humans behind the computer. The problem exists between keyboard and chair is the PEBKAC rule we use in I.T. There's a place for all of this. I mean, we were talking before the session about, you know, Greg has millennials who only use cash. We don't have that customer because we're not built for that customer. And so I think what the beauty of this is, is there's a place for both of that. And companies like Unit are helping to bring those two together.

AMANDA SWOVERLAND: Clearly, I think 'heaven'...kind of staked my career on it. Yeah, it's really fun for me to...I started my career examining community banks, working at community banks, and now I partner with community banks. And it's been it's been really fun for me to watch the evolution of that and really what we've been able to do to at the end of the day, help the end customers.

BRIAN SULLIVAN: Well, if our question was, will technology spell the end of relationship banking as we know it? I guess that is a 'no' across the board?

GREG HAYES: Hard no.

AMANDA SWOVERLAND: Only making it stronger. Yeah.

BRIAN SULLIVAN: Well, okay...I'd like to thank Greg Hayes, president and CEO of Kish Bank, and Nicole Lorch, president and chief operating officer of First Internet Bank of Indiana. And Amanda Swoverland, Chief Compliance Officer at Unit. Thank you so much for joining us on the FDIC podcast.

GREG HAYES/AMANDA SWOVERLAND/NICOLE LORCH: Thank you, Brian. Thank you.