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THE WALL STREET JOURNAL.

Business News: Consumers Add To Credit-Card Debt As Savings Dwindle --- Big banks say people are taking longer to pay off their balances

By Angel Au-Yeung
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U.S. consumers continue to burn through their pandemic savings and are taking on more debt, as they face high prices on everything from food and housing to entertainment.

Marianne Lake, co-chief executive of JPMorgan Chase's consumer bank, said at a December conference that before the pandemic, the bank's lowest-income clients had on average 12 days' worth of cash on hand.

Today, that average is around 15 days, meaning consumers are close to spending down money they socked away during the pandemic.

"We're still on that journey, but getting closer to the end," said Lake.

For many consumers, maintaining their lifestyles while grappling with inflation and rate increases means relying more on credit cards and other products.

Some are loading up on installment loans offered by **buy now**, **pay later** players as grocery bills remain elevated and mortgage rates sit at around 7%.

Credit-card spending was up in the third quarter at major banks, including 9% at JPMorgan Chase, the nation's largest bank, and 15% at Wells Fargo.

Citigroup's credit-card spending was up 2%, partly because the measure includes store credit cards, which consumers have been using less as they favor other forms of credit.

Meanwhile, credit-card loans, or unpaid balances on accounts, jumped nearly 16% in the quarter at JPMorgan compared with a year ago, which means consumers are taking longer to pay their bills. Credit-card loans jumped 14% at Wells Fargo and 11% at Citigroup.

When JPMorgan reported its third-quarter earnings in October, CEO Jamie Dimon said that while consumers' financial pictures remain generally healthy, it is clear they are spending their savings. Deposits dropped 3% compared with a year ago in JPMorgan's consumer segment.

At Citigroup, deposits declined 5% in the personal-banking unit and 2% in wealth management. CEO Jane Fraser said on the bank's third-quarter earnings call in October that the pace of spending growth is slowing and consumers appear more mindful of what they are spending on.

At Citi, wealthy clients drove the spending growth, especially in travel and entertainment.

At Wells Fargo, deposits were down 10% from a year ago in the consumer-banking unit and 31% in the wealth-management unit. CEO Charlie Scharf said on the bank's third-quarter earnings call in October that the decline was mostly driven by consumer spending and reallocating cash into higher-yielding alternatives.

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Citizens Tries to Crack Private-Bank Market

By Rachel Louise Ensign and Gina Heeb
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Regional lender Citizens Financial Group opened a new private bank for wealthy customers last month. Its inspiration: First Republic Bank, which collapsed earlier this year in the second-largest bank failure in history.

Citizens, based in Providence, R.I., is spending tens of millions of dollars hiring former First Republic staffers. It hopes the strategy will help it crack a market it has long coveted. Executives said they plan to copy only the good parts of First Republic, such as its beloved customer service.

"We scooped up the very best talent," Citizens consumer banking head Brendan Coughlin said. "Our goal is going to be to build the pre-eminent private bank in the United States for high-net-worth individuals."

Banks are in an arms race for rich customers, and lots of other, bigger players have a head start. Snagging such customers can lead to a bounty of fees, loans and deposits, something that particularly appeals to regional banks such as Citizens eager to prove their viability after First Republic and two other peers failed this year.

While regional banks were able to avoid the full-blown contagion many feared this spring, they still face an existential crisis of sorts. They are trying to find a way to thrive in a world of higher rates and potentially tougher regulations.

For Citizens, which has 1,100 branches in the Northeast and Midwest, the stakes are high. Shares are down 32% this year, compared with an 18% decline in the KBW Nasdaq Bank Index. Profit dropped 32% in the third quarter from a year earlier, due in part to customers demanding more interest on their deposits.

The wealth unit at Citizens is tiny, even for a regional bank. And it isn't a cheap business to build, especially these days.

"Now that interest rates are even higher than when First Republic ran into trouble, it's going to be that much more difficult for this business to work," said David Chiaverini, an analyst at Wedbush Securities.

First Republic attracted wealthy customers by offering them a bureaucracy-free banking experience and extremely low rates on loans such as big mortgages. (Mark Zuckerberg once got one at a starting rate of 1.05%.) It seemed like a winning approach: The San Francisco-based bank became one of the 15 largest in the U.S.

But the business didn't hold up when the Federal Reserve started raising interest rates, prompting rich customers to move their deposits out of no-interest accounts. The bank's profits also started to get squeezed by its low-rate loans. A March run on peer Silicon Valley Bank prompted panicked First Republic customers to pull about $100 billion in deposits, mortally wounding the lender.

The Federal Deposit Insurance Corp. seized First Republic on May 1. Citizens and PNC Financial Services Group were among the bidders, The Wall Street Journal reported at the time. JPMorgan Chase was the winner. The megabank still operates the unit under the First Republic name but plans to change it.

Citizens, long known for its branches inside supermarkets, has tried to do more business with wealthy people since its 2014 spinoff from the Royal Bank of Scotland.

Some efforts have worked, like getting more affluent customers to keep their primary checking accounts at the bank. Others, like building a business that manages customers' investments, have yielded mixed results.

Citizens has also done deals to get a foothold in the affluent New York City market, where it now sponsors local sports teams such as the New York Giants and New Jersey Devils and events like the New York City Marathon and Queens Night Market.

"It's not for the fainthearted," CEO Bruce Van Saun told the Journal at a New York City Marathon event in Central Park, where the bank hosted almost 100 clients. "It's a competitive market."

There are some parts of First Republic that Citizens plans to leave in the past, such as 1% mortgages in a higher-rate world. The bank is, however, considering bringing back the fresh-baked chocolate-chip cookies and high-end umbrellas that First Republic was known for.

Citizens has hired about 60 top First Republic bankers and about 100 support staffers. The bankers were largely in roles where they were the main point of contact for customers. Customers would call them up if they needed yen delivered before a trip to Japan or a bespoke mortgage for a new vacation home. These staffers were largely paid based off the business they generated and could earn seven figures in a good year.

The new hires are "hunter-gatherers who love the thrill of bringing in new business," Van Saun said in an interview.

Citizens said that it spent $35 million on the hires and related costs in the third quarter, even as it announced a companywide expense freeze for 2024. The bank is renting office space for the bankers in New York, Boston, San Francisco and Palm Beach, Fla.

Executives said they are giving the new hires free rein and believe clients will follow. "It feels incredibly familiar," said Susan deTray, head of the private bank at Citizens and First Republic's former deputy chief credit officer.

Citizens has simplified account opening in the private bank and increased deposit limits. The new hires can lend to individuals and businesses, and some underwriting was centralized to cut down on red tape. Customers in venture capital and private equity, areas where the failed banks did a lot of business, are a big focus.

Eric Bahn, co-founder of a venture-capital firm in the Bay Area, loved that he could text his First Republic bankers and turn to them to sponsor events his firm held for startups. His bankers went to Citizens, and they persuaded Bahn to switch over last month. He is happy with his new bank accounts and commercial lines of credit and says the service is great.

His one gripe: the **technology**. "It's probably one of the roughest bank websites I've ever seen," Bahn said.

Citizens said the new hires brought in more than $500 million in deposits and investments before the private bank's October launch. It says the unit will boost the bank's earnings starting next year.

Citizens will offer big customers discounted rates but doesn't plan to undercut the market by as much as First Republic did. Executives also said the First Republic-style business is less risky as a small part of a more diversified bank.

Alexis Jeffries, a product strategist, professor and angel investor in Los Angeles, said she would consider moving some of her First Republic accounts to a bank like Citizens if it offered good service and competitive rates.

But she won't be in the market for a mortgage soon: The one she got with First Republic in 2021 has a rate of 2.6%.

"Short of pulling a rabbit out of their hat and giving me a lower rate," she said, "I don't see that happening."

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Dimon, in Shift, Looks to European Consumers

By Josh Mitchell and David Benoit
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LONDON -- Not long ago, JPMorgan Chase Chief Executive Jamie Dimon insisted the Wall Street giant would never get into retail banking in Europe.

Now, he is all in.

Chase is preparing to launch a digital-only consumer bank in the first of several European countries in the next two years, said Sanoke Viswanathan, the bank's global strategy chief. It is also expanding its fledgling retail operations in the U.K., established two years ago as a beachhead for the region.

The goal, Viswanathan said, is to gain tens of millions of new customers and tens of billions of dollars in deposits.

JPMorgan is plowing into international retail banking, while other big banks such as Citigroup and HSBC Holdings are retrenching. It is counting on its brand and the rise of **digital banking** -- which has made it easier for households to switch banks -- to grab a share of some of the globe's biggest consumer markets.

"The world is wide open," Viswanathan said.

JPMorgan's foreign retail foray looks to upend an established hierarchy of American banks abroad. Citi has long been the U.S. bank with the biggest overseas exposure, something it has tried to pare back in recent years. JPMorgan, while strong in investment banking overseas, had had a more limited international footprint.

Inside JPMorgan, the move has had skeptics. Senior executives questioned an expensive expansion that would burn cash for years and openly wondered if it would last long, people familiar with the matter said. Some think there is more room to run in the U.S., where it has successfully expanded its branch network into new states, booking good returns.

The U.K. venture has been losing roughly $450 million a year.

Chase is spending heavily on developing software and IT infrastructure, on advertising and on incentives and relatively high interest rates on deposits to lure new customers. Chase doesn't yet offer loans or other products that earn interest.

"They don't have a deep knowledge of the markets they're entering. So they are starting from scratch in that context," said John Cronin, an analyst at Goodbody. "The transportability of the credit decisions and the experience they've gained may not translate" in Europe, he said.

Under Dimon, JPMorgan, the top U.S. retail bank, long resisted entering foreign markets given the cost of leasing and staffing brick-and-mortar branches.

"On the retail side, we've always said we're not going to go retail overseas," Dimon said at a conference in 2018. "You'll be losing money pretty much the rest of your life."

What changed Dimon's mind? **Digital banking**, which has slashed the cost of entering new markets.

Eight in 10 Chase customers in the U.S. use **digital banking**. By 2018 the company began studying other markets to expand in **digital banking**, including in Latin America, Europe and the U.K.

In 2021, it bought a 40% stake in Brazilian startup digital lender C6 Bank. In the U.K. that year, it bought digital wealth manager Nutmeg Saving and Investment and launched Chase **digital banking**, initially offering checking accounts through an app.

Four big banks -- Barclays, HSBC, Lloyds Banking Group and NatWest Group -- have long dominated the U.K. retail market. Their grip has loosened as a batch of startups, along with Chase, entered the market.

In the three years through 2021, the share of U.K. checking accounts at the big four fell to 64% from 68%, according to Financial Conduct Authority, a regulator.

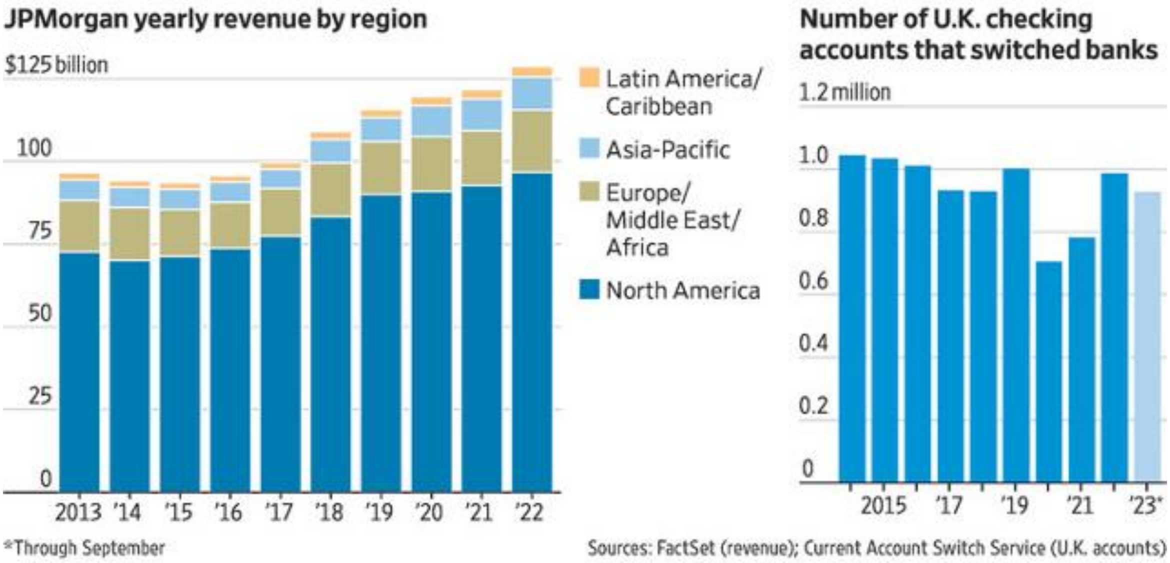
Chase and Nutmeg combined have over 2 million U.K. customers, GBP 15 billion (equivalent to $18 billion) in deposits and GBP 5 billion in assets under management.

In September, the U.K. government announced a big rule change that will pave the way for JPMorgan's expansion. Officials said they would ease ring-fencing rules that require banks with more than GBP 25 billion in deposits to split their retail- and investment-banking operations. The new rule will lift the threshold to GBP 35 billion.

Viswanathan said Chase U.K. has focused on signing up customers on the app and will offer credit cards over the next year, followed shortly thereafter by personal loans -- products that will generate income. The bank hasn't decided whether to offer mortgages.

Chase and other new banks on the scene are benefiting from higher interest rates, which have made households more willing to shift savings to accounts that earn higher interest.

In the year through September, 1.4 million U.K. checking accounts switched lenders, a 55% increase from the prior year, according to the U.K.'s Current Account Switch Service, a program that allows consumers to switch banks seamlessly.



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