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THE WALL STREET JOURNAL.

Goldman, Barclays Vie for GM Credit Card --- Moves are part of wider effort to wire everyday gadgets like cars to the web

By Liz Hoffman and AnnaMaria Andriotis
643 words
13 August 2020
The Wall Street Journal
J
B1
English

Goldman Sachs Group Inc. is seeking to acquire the credit-card business of General Motors Co., doubling down on consumer banking and betting on a future where people pay for gas, takeout and groceries from the driver's seat.

The Wall Street firm is among a small number of bidders for the auto maker's credit-card business, which has about $3 billion in outstanding balances, according to people familiar with the matter.

There is no guarantee that GM will ultimately choose to replace its current card issuer, Capital One Financial Corp., or that Goldman will win. Barclays PLC is also in the running, some of the people said, and a decision is expected in the next few weeks.

Goldman launched its first credit card last year, partnering with Apple Inc. and positioning it as a tech-enabled and secure alternative to an outdated product rife with fraud. The Apple card is digitally issued onto users' iPhones in minutes and uses location data to categorize and track spending.

The bank agreed not to launch another co-branded card for about another year, according to people familiar with the matter, but has been open about its desire to add more merchants. It will have to unseat big banks that dominate the co-brand space, including Synchrony Financial and Citigroup Inc., whose former head of card partnerships, Scott Young, Goldman hired in 2017 to pursue similar deals.

Capital One has issued the GM card since 2012 and still has about a year left on the contract.

In their pitches to GM, Goldman and Barclays have pushed the idea of cars as e-commerce portals, people familiar with the matter said, an effort that the auto maker itself has embraced. GM was the first major car company to allow drivers to order food, pay for gas and book hotel stays from dashboard touch screens, and it signed up merchants including Dunkin' Brands Group Inc. and Shell.

It is part of a broader effort to wire everyday gadgets to the web to encourage consumer purchases and gather data. This **technology** has been slow to take hold -- not everyone needs a refrigerator that says when the milk is running low -- but it taps into a broader trend of consumer spending becoming more seamless and digital. The coronavirus pandemic could add to the appeal by increasing demand for e-commerce and contactless pickup.

The push is supported by card networks such as Visa Inc. and Mastercard Inc., which make money when cards are swiped, virtually or not. These companies are eager to expand shopping beyond store checkout counters and websites.

A deal with GM would advance Goldman's ambitions on Main Street. Since launching its consumer arm, Marcus, four years ago, the firm has amassed $7 billion in loans and is aiming for $20 billion by 2025. Holders of the Apple Card had $2.3 billion in outstanding balances as of June 30.

Without a well-known consumer brand or physical branches to bring in customers, Goldman is turning to partnerships, hoping to turn iPhone users, GM drivers, Amazon shoppers and AARP members into customers.

In deals like the one being discussed, a new bank typically agrees to pay a small premium to buy an existing card portfolio and hopes to make up the money by encouraging more spending, signing up more cardholders, and cross-selling them on other products. The deals typically involve sharing of card interchange fees and other revenue.

It is not unusual for merchants to shop around for new issuers, often to negotiate a better financial arrangement. Walmart Inc. replaced Synchrony with Capital One in 2019, and Costco Wholesale Corp. traded American Express Co. for Citigroup in 2016.

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THE WALL STREET JOURNAL.

Banking & Finance: Capital One Fined Over Massive Hacking --- Regulator imposes $80 million penalty and consent order for lax cloud procedure

By AnnaMaria Andriotis
416 words
7 August 2020
The Wall Street Journal
J
B10
English

A top banking regulator has fined Capital One Financial Corp. $80 million over a 2019 hack that compromised the personal information of about 106 million card customers and applicants.

The Office of the Comptroller of the Currency said the bank failed "to establish effective risk assessment processes" before transferring information-**technology** operations to the public cloud and "to correct the deficiencies in a timely manner."

Consent orders from the OCC and the Federal Reserve also require the bank to make risk-management changes and beef up its **cybersecurity** defenses. The bank said it has already made many of the required changes.

"In the year since the incident, we have invested significant additional resources into further strengthening our cyber defenses, and have made substantial progress in addressing the requirements of these orders," said a Capital One spokeswoman in a statement.

The Capital One hack was one of the largest-ever data breaches of a big bank.

Prosecutors have accused Paige A. Thompson of breaking through the bank's firewall to access data that it stored on Amazon.com Inc.'s cloud service.

The hack exposed addresses, dates of birth and self-reported incomes of individuals and small-business owners who applied for Capital One credit cards between 2005 and early 2019. Some Social Security numbers, bank account numbers, credit scores, payment histories and credit-card spending limits also were compromised.

The bank said controls it had in place before the breach helped it to secure customer information before it could be used and helped authorities catch the alleged hacker. The OCC said its consent order took into account the bank's customer notification and remediation efforts.

Ms. Thompson has pleaded not guilty to charges of wire fraud and computer fraud and abuse. Her trial is scheduled to start next year.

Prosecutors have said that Ms. Thompson began attempting to access the bank's information in March 2019. Capital One learned about the breach months later from an outside researcher.

Before the hack was made public, Capital One employees had raised concerns about what they saw as high turnover in its **cybersecurity** unit and a failure to promptly install some software that could have helped to spot and defend against hacks, The Wall Street Journal reported last year.

Some of these issues had been flagged to the bank's internal auditors and senior executives, the Journal reported.

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THE WALL STREET JOURNAL.

EXCHANGE --- Small-Business Survival Guide: Breaking Up With the Bank --- Some owners are moving their money permanently to smaller lenders that were able to deliver their PPP funds

By Peter Rudegeair
1,262 words
1 August 2020
The Wall Street Journal
J
B6
English

In Pavia Rosati's hour of financial need, her bank ghosted her.

It was April, and the coronavirus pandemic was taking a toll on Ms. Rosati's New York-based travel-writing website and consulting firm, Fathom Unlimited Inc. She went to Capital One Financial Corp., Fathom's bank for nearly 10 years, for a Paycheck Protection Program loan.

But Capital One wasn't ready to accept applications for the government-loan program. A branch banker took days to respond to emails, she said, and referred her to a customer-service hotline.

Ms. Rosati decided to switch banks: "Why would I work with a bank that was so unhelpful to me at the moment I needed it?"

Conceived in March as a government lifeline to keep employees paid during the coronavirus lockdowns, the PPP soon evolved into an acid test for business owners' banking relationships. Rather than lend directly to businesses, the Small Business Administration empowered banks to make more than $650 billion in forgivable loans to cover payroll and other expenses.

But banks weren't prepared for the flood of applications when the program launched on April 3. Some delayed accepting paperwork until they could build new systems. Others favored certain customers, giving preference to those with outstanding loans or closer ties to bankers.

Many business owners who felt unserved by their banks voiced their displeasure by moving their money elsewhere. Of businesses that secured PPP funding, about 28% received their loan from a lender with whom they had no prior relationship or a bank that wasn't their primary one, according to a July survey of 931 firms conducted by Barlow Research Associates. About 44% of those borrowers said they would move at least some of their accounts and loans to the bank that came through for them with PPP loans, the survey found.

Ms. Rosati eventually got a roughly $30,000 PPP loan from a financial-**technology** company, and she transferred the funds to Grasshopper Bancorp Inc., a $100 million startup bank that debuted last May. She plans to move the rest of Fathom's money to Grasshopper by the end of the summer, she said.

A Capital One spokeswoman said the bank historically had a modest SBA lending portfolio but that it "worked around the clock to stand up our digital PPP application." The bank funded more than 14,000 PPP loans as of July 1.

Business owners that struck out with big lenders often had luck with smaller ones that were less deluged with applications and less centralized in their decision-making. Banks with less than $10 billion of assets account for just 14% of the industry total, according to the Federal Deposit Insurance Corp., but they punched above their weight when it came to the PPP. About 52% of the loans and 44% of the program's dollars were approved by banks of that size and other small specialty lenders, according to the Small Business Administration.

Most of the time, the pain of syncing incoming and outgoing payments to new account numbers dissuades owners from switching banks. But many were willing to endure the hassle as a thank-you for PPP help.

Stan Doida, managing attorney at Doida Law Group LLC in Greenwood Village, Colo., moved hundreds of thousands of dollars of business and personal deposits from Wells Fargo & Co. to Denver-based InBankshares Corp. after the smaller lender secured his law firm a roughly $90,000 PPP loan.

Wells Fargo didn't immediately accept PPP applications; Mr. Doida could only fill out a form on its website to express interest. He received six emails over the following nine days telling him he was in the PPP queue but no Wells Fargo employee could answer questions about it.

On April 15, Mr. Doida panicked when he read that the initial $350 billion in PPP funds was nearly exhausted. A friend introduced him to InBank, and Mr. Doida promised that he would move his accounts there if they could help secure him a loan. Five hours later, he received confirmation that his PPP application was submitted.

Mr. Doida waited until Colorado's lockdown eased to go to a Wells Fargo branch to close his accounts. "Bottom line is I needed you and I got no response," Mr. Doida remembers telling the branch manager. "I'm voting with my dollars at this point."

A Wells Fargo spokesman said in an email that its volume of requests and evolving government requirements sometimes created delays, but the bank funded PPP loans to more than 185,000 businesses.

InBank added 350 new customers because of PPP, said Chairman and CEO Ed Francis. It would normally take the bank, which had $423 million in assets as of March 31, as long as two years to bring that many aboard. PPP, he said, was "the most unique opportunity that I've ever seen in my 32-year career."

There are trade-offs for owners in choosing smaller banks, which often have fewer digital tools and skimpier **technology** budgets than their larger rivals. Ms. Rosati said that unlike Capital One, Grasshopper didn't seamlessly integrate with her Quickbooks accounting software.

But PPP demonstrated for many businesses that better **technology** isn't everything. Company Folders Inc., a commercial printer based in Pontiac, Mich., initially applied for a roughly $115,000 PPP loan with its longtime bank, JPMorgan Chase & Co. CEO Vladimir Gendelman gave high marks to JPMorgan's online banking and mobile apps.

Still, Company Folders was left empty-handed when the first round of PPP funds ran out in April. After reading that big banks were favoring certain customers and fearful of being shut out in round two, Mr. Gendelman filled out a new application at Waterford Bancorp Inc., a $1.3 billion bank based in Toledo, Ohio, and asked JPMorgan to cancel the one he had filed with them.

Company Folders received about $115,000 from Waterford on May 1. The next day, JPMorgan deposited a similar amount in the company's account, even though the bank said it withdrew the application. It was against PPP rules to take out multiple loans, so Mr. Gendelman contacted a JPMorgan banker to fix it.

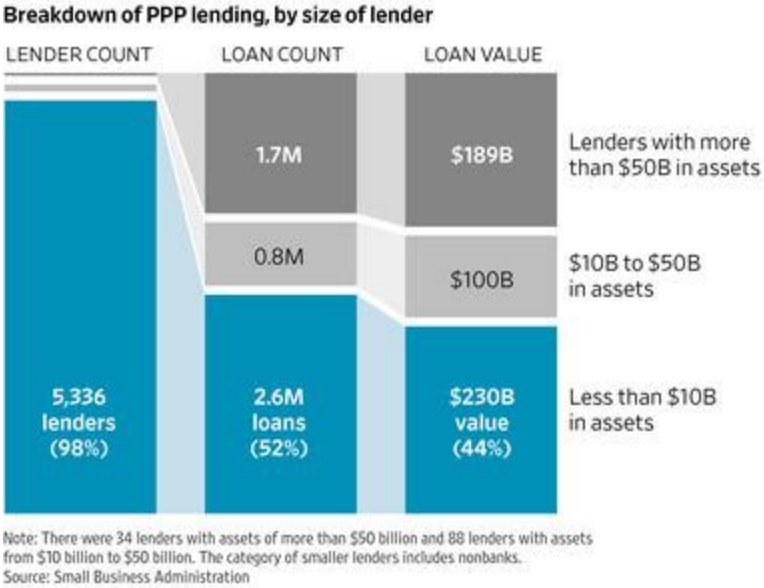
When the bank clawed back its funds, it accidentally removed about $10 more than it put in. Mr. Gendelman again complained, but JPMorgan only restored about $9. The experience convinced him to leave the bank and move over to Waterford, which he plans to complete soon.

A JPMorgan spokeswoman declined to comment. Through July 24, JPMorgan was the top PPP lender, approving more than 274,000 loans for about $29 billion, according to the SBA.

Waterford handled PPP loans for 180 businesses that weren't existing customers and is expecting to convert more than 100 of them into full-time relationships. Every Monday, Executive Vice President Larry Boyer asks his staff of commercial bankers for a status update on how those transitions are going.

Through late July, these new customers had transferred more than $25 million in new deposits, on top of PPP funds, to Waterford, Mr. Boyer said. Bankers there had courted many of those prospects for years, but it wasn't until PPP that they listened more to what the bank had to offer.

"Because we've helped them, they opened the door more than they did previously," said Jeremy Zeisloft, a Waterford vice president for commercial lending.



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