

AMERICAN BANKER

Why New York Community Bank is minting stablecoins

By [Penny Crosman](#)

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For Andrew Kaplan, the chief digital and banking as a service officer at New York Community Bancorp, the reasons to make his bank the first to mint a new stablecoin called USDF were clear.

The bank has begun working with Figure Technologies to issue a stablecoin, a digital asset that is always equal to a U.S. dollar, that runs on a blockchain Figure developed called Provenance. As lenders and investors buy and sell loans and other assets on Provenance, the use of the USDF stablecoin lets them settle those transactions instantly. New York Community Bank and Figure hope other banks will join their network, and also issue and honor the stablecoin.



“The possibilities are endless,” says Patrick Quinn, general counsel at New York Community Bank, left, of the bank’s work with Figure Technologies and the Provenance distributed ledger. “The demand will just become

greater.” Quinn and Andrew Kaplan, the bank's chief digital and banking as a service officer (at right), are overseeing the effort.

“We see a ton of disruption out there,” Kaplan said, from decentralized finance and fintech companies. “If NYCB and other banks don't lean into that and become part of it, they're going to be excluded from it and potentially become a dinosaur.”

Kaplan had seen Figure, a San Francisco online lender and technology company founded by Mike Cagney, use the Provenance blockchain to originate and sell mortgages and other types of consumer loans efficiently and would like New York Community to take advantage of that efficiency.

Blockchain is “disruptive technology that makes banking easier, whether it's payments or originations or securitizations or equity trading,” Kaplan said. “And we can now facilitate that with some type of representation of the fiat on the blockchain.”

This USDF project is part of a broader effort to modernize the \$57.9 billion-asset bank led by Thomas Cangemi, who was promoted from chief financial officer to chairman and CEO last December. The bank had historically been a traditional provider of deposit accounts and multifamily loans. In July, Cangemi [said he wanted to expand the company's digital banking capabilities](#) by working with a fintech. [In August](#), New York Community announced that the fintech was Figure Technologies.

New York Community is among a handful of smaller banks forging ahead with cryptocurrency initiatives to both take advantage of clients' growing interest in digital assets and to reap the potential efficiencies of blockchain technology.

The \$12.8 billion [Silvergate Capital Corporation](#) in La Jolla, California, launched a blockchain-based platform for cryptocurrency transactions in 2017. The \$108 billion-asset Signature Bank in New York launched a similar platform called Signet in 2019. A year ago, New York-based [Quontic Bank](#), with \$1.3 billion of assets, launched a checking account that pays rewards in bitcoin. In January, \$744 million-asset [Vast Bank](#) in Tulsa, Oklahoma, became the first community bank to [allow customers to buy and sell crypto](#) through the institution; it now supports such trading for 12 cryptocurrencies. [Customers Bank](#), a \$19.1 billion-asset subsidiary of Customers Bancorp in West Reading, Pennsylvania, recently announced its intent to bank crypto businesses.

Executives at other small banks have said they [would like to help customers buy and sell bitcoin](#) through their mobile banking apps, but are waiting for their core banking software providers to provide needed integrations with digital currency custody providers' systems. Some are waiting for regulators to come out with promised guidance on banks' crypto activities next year.

New York Community's support for USDF is an example not only of how a community bank is pushing through technology hurdles and regulatory uncertainty to support digital assets, but also how newer technology is making blockchains and cryptocurrency more palatable to financial providers. All these efforts are propelled by the growing popularity of digital assets among consumers and businesses. Globally, \$2.63 trillion has been invested in cryptocurrency since 2009.

How it works

The USDF digital marker, which represents U.S. dollars (the full name is USD Forward), allows money to be transferred over the Provenance blockchain to fund transactions. It's essentially a smart contract developed by Figure.

If someone is interested in conducting a transaction using Provenance, that person or company establishes a bank account with New York Community, after going through all the usual compliance procedures. The bank places that money in the form of USDF in a Figure wallet on the blockchain. The customer can then transact with others who have established bank accounts with New York Community (and any other banks that join the network). When the recipient of USDF wants to make a withdrawal, a message is transmitted to the sender's bank, the bank redeems the USDF and deposits the cash to the recipient's bank.

What customers get out of this is the immediate settlement of a transaction. The bank gets the chance to start using the Provenance blockchain and over time, reap the benefits of transactions that take place entirely on a distributed ledger. "Figure has originated billions in home equity lines of credit on its blockchain and we clearly see that as being disruptive: the speed at which those loans were issued, the speed at which they're settled, and the use cases around payments," Kaplan said.

Future uses could include accounts receivable management, said Patrick Quinn, the general counsel at New York Community.

"The possibilities are endless," Quinn said. "The demand will just become greater. It's at the beginning."

In September and in November, New York Community facilitated tests of Figure's trading system; buyers and sellers of equities settled trades instantly using USDF.

Building a network

Figure has been working with bank partners on USDF for a few months.

"We started seeing that stablecoin was going to be subject to more regulation," said Ashley Harris, the general counsel at Figure. "And we thought, banks are very well suited to engage in this activity, both because they're experts on engaging in payments and deposit-taking activities and because of the likely regulation that was coming. That was underscored by the [President's Working Group report](#) that recommended that banks be the exclusive minters of stablecoin."

JAM Fintop, a New York joint venture between JAM Special Opportunity Ventures and Fintop Capital, is forming a consortium of banks that will develop rules for minting and transferring USDF.

Every bank will mint the same coin.

"That enables interoperability across banks and allows for much bigger network effects," Harris said.

The consortium will coordinate the banks' efforts and make sure that they're operating with the same baseline rules, onboarding processes and standard bank compliance procedures, noted Ryan Zacharia, chief operating officer and director of research at Jacobs Asset Management.

Banks will be able to see their own customers' account activity. They'll see how USDF moves on the anonymized accounts of other banks.

The USDF can't be rehypothecated or otherwise used to create leverage or generate a return, Zacharia said. "We're going to relegate it to being a method of transferring value as opposed to speculation," he said.

Several banks are interested in getting involved, Harris said.

"Increasingly, transactions are moving to blockchain, and blockchain represents a really great customer opportunity — in the payments area, in lending, in sales of securities," she said. "They want to be there to fulfill that need."

Cosmos SDK

Figure originally built its Provenance blockchain on the Ethereum distributed ledger. In May, it migrated it to Tendermint's Cosmos SDK. Cosmos SDK is a framework for building custom application-specific blockchains. The acronym SDK often refers to software development toolkits, which are sets of code that can be assembled to create software programs. Tendermint did not respond to a request for an interview.

This was done in part so that the blockchain could be a public, open source ledger that anybody can build on, Harris said.

The Cosmos SDK lets business people with some tech experience build applications quickly, according to Steven Duong, equity research analyst at RBC Capital Markets.

"With Cosmos SDK, all you have to worry about is the application layer," Duong said. "They basically say, build your own blockchain from scratch the way you like it."

Any distributed ledger that banks use needs to quickly adjust to new regulations, so financial institutions need to have some control over the underlying technology, Duong noted. This is a challenge for decentralized ledgers like Ethereum that are run by independent people and entities.

"If the regulator comes tapping on your shoulder and says, hey, you've got to change that, you can't just say, well, let me talk to the Ethereum people and hopefully they'll vote on it soon," Duong said.

In the future, the Provenance blockchain could be used for auto loans and Small Business Administration loans, Duong suggested.

New York Community has high hopes for the technology's ability to provide efficiency for loan origination, payment processing and asset settlement.

"We clearly see with decentralized finance and fintech technologies, it's time for us to evolve," said New York Community's Kaplan. "We look at all these solutions as being banking of the future, and we want to make sure that we're there."

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