

TOM BROWN'S BANKING WEEKLY: 12/18/20

Financial Services Insights and Intelligence

FIRST WORD: A Talk with Stride Bank's CEO Brud Baker. For the last few years, I have kept hearing great things about Stride Bank. Chime CEO Chris Britt told me, for instance, that they had added Stride as a second bank partner. Then Curo, a subprime consumer lender that the fund I manage owns, announced a lending partnership with Stride. The last straw was an in-depth story about Stride in the new issue of *Bank Director*. I determined I needed to talk to Stride CEO Brud Baker, but had no idea if he would talk to me given that the company has just \$1 billion in assets and is privately held. But yesterday we talked, and he is every bit the incredibly modest mastermind behind the company's success that I had heard he is. Baker has worked at Stride, formerly known as the Central National Bank of Enid, which opened in 1913, for 50 years! The company's first foray into nontraditional banking activities happened when it began managing the ATMs for a bunch of other banks. This gave Stride valuable experience handling high volumes of transactions and dealing with multiple payment networks. It next teamed with a tech company and built a debit-card processing business as payroll and gift cards began to take off. By the end of last year, the company was processing 26,000 transactions per month, for a volume of \$2.9 million.

Stride's relationship with Chime started late last year, and by this past summer Stride was processing 2.5 million transactions per month, totaling \$1.5 billion. Chime's primary bank partner is Bancorp Bank in Wilmington, Delaware, but it is always wise for program managers to work with at least two bank partners. Chime and Lyft are the most well-known of the roughly 15 program managers working with Stride. Baker told me the bank has walked away from a lot of business because the program manager did not appear to be committed to strict compliance procedures. As a result of the success of offering banking as a service, Stride is looking to expand to help lenders like Curo and perhaps Chime to offer credit products. Notably, Baker said that the bank has turned down a bunch of other nonbank fintech lenders as partners because their management teams hadn't experienced a full credit cycle. Baker is still credit-shy because he was at Stride in the early 1980s when 112 Oklahoma banks failed because of shoddy energy lending practices. He says Philip Zweig's book, [Belly Up](#), is still required reading for any new lender at Stride.

Baker describes the bank's historical earnings performance as middle-of-the-road, with above-average profits in one year being reinvested to expand its businesses, but this year Baker says earnings will be "significantly higher," and next year he expects earnings to be "crazy good" despite earning just 10 basis points on all those excess deposits. In addition, he says there is "more opportunity than capacity" to enter into new relationships and, of course, all this rapid growth suggests the company will need additional capital. Baker has thought of going public either in a traditional IPO or through a SPAC, but he wisely has determined that he is better off running a private company. There are investor pools out there that will recognize the opportunity ahead of Stride and take a stake. Brud Baker reminds me of a wildcat driller whose well has just hit oil.

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