



Wintrust Financial:

engagement commentary

Federated Hermes SDG Engagement Equity
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ENGAGEMENT COMMENTARY:

Wintrust Financial

In a nutshell

Wintrust Financial is a bank holding company which encompasses 15 community banking subsidiaries with more than 170 locations across suburban Chicago and southern Wisconsin. It provides a variety of commercial and personal financial services to individuals, businesses, local government and institutions.

Wintrust seeks to offer a traditional community-focused personalised banking experience, and aspires to represent the entire city of Chicago.

At a glance:

US\$5.9bn 

Market capitalisation: (March 2024)

US\$2.27bn

Revenue: (FY 2023)

5,521

Employees: (of which 56% are female)



Investment case

- High quality company with strong market share.
- Differentiated community banking model, favourable geographic exposure, good management, strong balance sheet and the potential to grow within its market irrespective of the economy.
- In light of the 2023 turmoil in US regional banks, Wintrust has great diversification on both sides of its balance sheet. It has a granular deposit base and a loan book with exposure to a broad set of end markets.

Theory of change

Financial inclusion

Financial exclusion hinders people's ability to earn, protect themselves in times of crisis and to build financial health and resilience. The difficulties that some people encounter when accessing credit, perpetuates deep and long-term inequalities. Enabling relationships with mainstream financial institutions can, however, help to build credit histories and move people towards positive wealth-building activities like savings accounts, home mortgage loans, college savings accounts and retirement savings.

In the US, generations of discrimination in employment, lending, education and housing have created significant racial disparities in credit history. Past discrimination is baked into current determinations of creditworthiness. As a result, 49 million US consumers do not have conventional credit scores – including 28 million who are credit invisible (i.e. never had credit before); a further 57 million are classified as subprime¹.

¹ Oliver Wyman, Financial Inclusion and Access to Credit, 2022.

At a national level, 4.5% of US households are 'unbanked'² and approximately three times that figure are underbanked³. The unbanked rate varies considerably across the population with rates much higher among lower-income households, particularly black and Hispanic people.

Within Chicago:

- 7.5% of residents are unbanked – including 25% of black households – and the underbanked rate is nearer 28%⁴.
- 17% of persons are below the poverty line⁵.

Wintrust has aspirations to be Chicago's bank. It has grown in the three decades since it was founded to 175 locations across the city. As a community bank, Wintrust has the ability to meet the credit needs of the low-and-moderate income neighbourhoods in the Chicago area and southern Wisconsin and in so doing closing that unbanked gap.

Decent employment

As well as being the bank of Chicago, Wintrust aspires to be one of the best employers in the city. To that end, there is a need to both ensure that its workforce is representative of those communities in which it is operated as well as to ensure that its employees are provided with a decent income.

Practice of Change

- We have engaged with Wintrust management 14 times since 2018 across a range of matters.
- In early 2023 there was a change of CEO. Founder Ed Wehmer stepped down to be succeeded by Tim Crane. This change marked a significant event in the life of the company but has been handled smoothly and uneventfully, which is in keeping with the company's culture.

Financial inclusion

Wintrust continues to lean into its commitment to being the bank for all of Chicago.

- 13 of its 15 banks continue to exhibit 'outstanding' Community Reinvestment Act ratings from the regulator⁶. This rating is based on lending throughout the community – for example to people of different income levels.

The second most-cited reason unbanked individuals provide for not having a bank account is that they don't trust the banking system⁷. In order to overcome this trust deficit, it's important for banks to adopt a personalised community-focused approach.



Wintrust have eliminated overdraft fees.

To that end, it is positive that the bank's presence in low- and moderate-income neighbourhoods of the Chicago area has continued to grow. In fact, more than **50% of the retail locations opened in the past five years are located in low- and moderate-income neighbourhoods**. A notable example was the opening in 2021 of the company's branch in North Lawndale, an area where 43% of households live below the poverty line that has long been overlooked by most other financial institutions⁸. In the year after opening, Wintrust taught 51 financial education courses in the area and had garnered 10.5% share of deposits.

50%

of the retail locations opened in the past five years are located in low- and moderate-income neighbourhoods.

Beyond a lack of trust, almost three in ten cite bank account fees as being a barrier (the most common reason was not having enough money to meet minimum balance requirements). To that end, **Wintrust have eliminated overdraft fees**.

² FDIC 2021 National Survey of Unbanked and Underbanked Households.

³ Federal Reserve Report on the Economic Well-Being of US Households.

⁴ Bank on Chicago.

⁵ Census.

⁶ The Community Reinvestment Act, enacted in 1977, requires the US Federal Reserve and other Federal banking regulators to encourage financial institutions to help meet the credit needs of the communities in which they do business, including low- and moderate-income neighbourhoods.

⁷ [6 Reasons To Be Unbanked Or Underbanked | Bankrate](#).

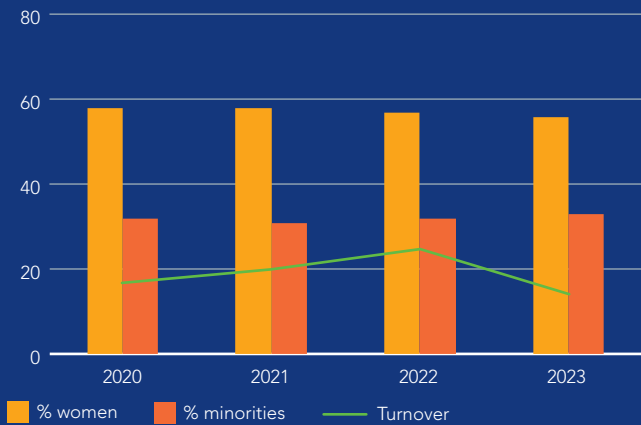
⁸ [chna-north-lawndale.pdf \(rush.edu\)](#).

Decent employment

Wintrust has recognised the need for its employees to reflect their communities and is cognisant of the widening representation gap among African Americans and Hispanics in Chicago’s financial services industry. To close that gap, initiatives such as its Wintrust Credit Academy – a two-year rotational credit analyst programme for recent graduates – aim to improve the diversity of the early career pipeline.

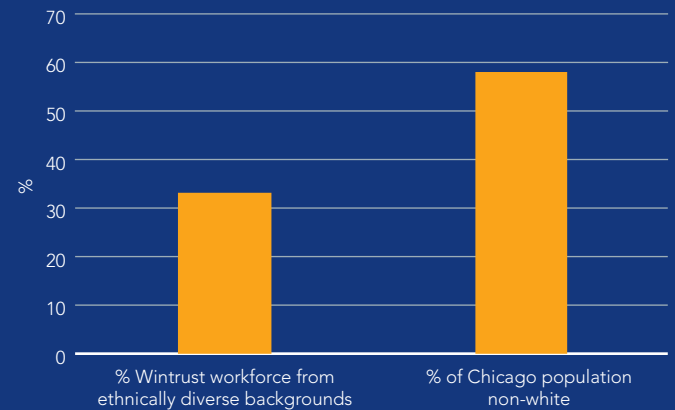
The company appointed a Chief Diversity Officer in 2016 (far from a common role at that time) and has set itself a goal of increasing year on year the representation of women and professionals of colour at the vice-president level and above. This focus on internal progression is one we welcome. However, there is more progress to realise as can be seen from the charts below.

Figure 1: Workforce composition



The company appointed a Chief Diversity Officer in 2016 (far from a common role at that time) and has set itself a goal of increasing year on year the representation of women and professionals of colour at the vice-president level and above.

Figure 2: Company diversity



Source: company reports.

Beyond diversity, it is commendable and reassuring that Wintrust has been consistently rated a Top Workplace in Chicago⁹. Similarly, we applauded the company’s moving of its minimum wage floor from US\$15 to US\$18 per hour in 2022.



⁹ Chicago Top Workplaces 2023.



Next Steps

The company has made meaningful progress and has indicated a clear desire to build on this momentum. Nonetheless, we continue to encourage the company to raise its ambitions and goals further. In that context, we highlight the following areas of future engagement focus:

Financial inclusion

The company's commitment to providing banking services for the entire community of Chicago is evident. We nonetheless **encourage the company to set out a more concrete and holistic financial inclusion strategy and accompany this with the provision of richer disclosures.**

Aspects of such a strategy would include a roadmap for further retail branches in low- and middle-income neighbourhoods, further investments in programmatic financial education initiatives and product innovation – including the utilisation of alternative data (e.g. telecommunications, pay TV, utility payments and rent-payments data) into credit lending decisions.

Potential multi-year targets and disclosures include:

- The number of lower-income residents it can potentially bring into formal banking for the first time.
- The number of lower-income residents provided access to credit (e.g. mortgages).
- The number of residents, disaggregated by demographics (age, ethnicity) that it can reach with in-person and virtual financial education programmes.

We encourage the company to set out a more concrete and holistic financial inclusion strategy and accompany this with the provision of richer disclosures.

Decent work

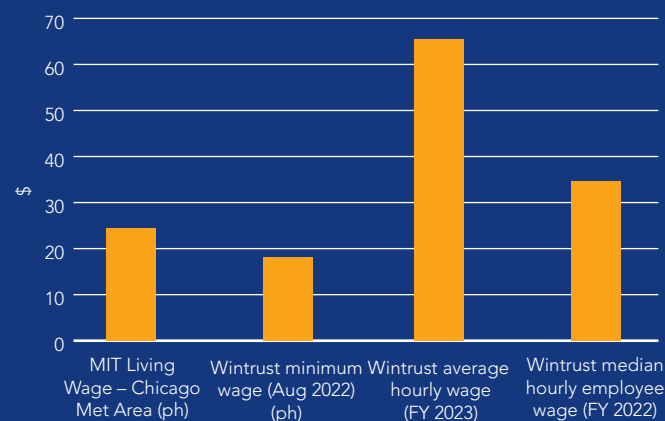
We welcome the commitment the company has made to improving workforce diversity. **We encourage the company to broaden its explicit diversity goals to cover entry level hires and to disclose its EEO-1 report¹⁰.**

In addition, we encourage disclosure of the investments the company allocates to employee investment in training. We are **mindful that frontline service employees will likely be on the frontline of disruption from the adoption of generative artificial intelligence (AI) and it is incumbent upon employers to invest in upskilling and reskilling their employees** to both ensure that this opportunity is maximised from a productivity viewpoint as well as to manage this transition for those impacted sensitively.

Finally, we note that, given high rates of inflation in recent years, the company's 2022 US\$18 minimum wage is lagging today's best practice. While the company average and median pay figures suggest that there is a decent degree of pay progression, we nonetheless **encourage the company to revisit this wage floor to align with a living wage.**

We signposted the company towards the MIT Living Wage calculator which in February 2024 updated its calculations and now suggests a living wage for the Chicago metropolitan area of US\$24.16. We also note other regional banks which have established wage floors of US\$20 per hour.

Figure 3: Hourly wage comparisons



Source: MIT Living Wage calculator / Wintrust Financial .

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¹⁰ EEO Data Collections | U.S. Equal Employment Opportunity Commission (eeoc.gov).

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