

No Account For You

by [Steve Brown](#)

We have been catching re-runs of Seinfeld lately and have to say one of our favorite characters in all of sit-com TV is the Soup Nazi. This character is a gruff New York City chef, renowned throughout Manhattan for his soups and his short temper. His demands of customers are strict, in terms of queuing, ordering and payment policies. Prices are on a floating scale depending on the customer and things can be more expensive if he doesn't like you or you may not even get served at all. A minor infraction of the rules brings the stern "No Soup for YOU!" at which point he yells at the top of his lungs "NEXT" and bypasses the stupefied customer standing in line. Rumor has it there was an actual soup chef in NYC upon whom the character was based, but who was not at all amused by Seinfeld's portrayal. When visited by the real Jerry Seinfeld, the soup man reportedly ejected Seinfeld from the restaurant (not sure if he yelled NEXT!).

No matter the customer, banks are not in the same business, so yelling "NEXT" anytime someone fails to follow the rules is much more problematic (albeit fun). There are cases when you may have to refuse service to a customer, but that is always a complex decision to make. To avoid conflict perhaps or ensure consistency, there are banks that leave such decisions to outside resources rather than internal guidelines.

While outsourcing can save money, decisions around customers should be closely reviewed. Certainly, non-core processes that can be outsourced can make sense to gain efficiencies and save money, but we would qualify this by saying, only do so if the provider can actually assist the bank. Outsourcing when and how you might fire a customer just doesn't seem to fit that analysis.

Certainly, there are databases that score credit or look at records of bill and payment histories. These can be leveraged to track customer transgressions, like overdrafts or bounced checks, but they probably should not be used in isolation to determine whether to do business with a given customer. To begin, as seen in the news, some of these databases have real difficulties with accuracy. Plus, consider the incidents that land a customer on a given list may be quite minor. Even transgressions long ago resolved may flag these potential customers as undesirable, so care must be taken.

To test this, we called one of our banking friends to get their feedback. They said their bank gave up on the database idea years ago for a variety of reasons. These included the impact of a turn-down on their reputation in a small town, cost and data inaccuracies. They found the risk outweighed the value, as numerous customers who turned out to be of good quality and had associated relationships would have been bypassed. These customers have become quite profitable for the bank.

Beyond that, the banker said people who are active fraudsters and are supposed to be caught by these databases typically know how to manipulate the system as well. That left the bank paying for a service that excluded good people and didn't always catch miscreants, so they discontinued the service.

Every bank needs to do what is appropriate in their business footprint and for their business model, but before you kick someone to the curb and you shout "NEXT!" at a potential client, be sure it is the right move.

BANK NEWS

M&A

Carolina Alliance Bank (\$248mm, NC) and Forest Commercial Bank (\$139mm, NC) have announced a strategic merger. After the transaction, CAB's shareholders will own about 60% of the combined bank and FCB shareholders will own about 40%.

Branch Cuts

PNC is reportedly in process of cutting 200 branches nationwide.

Branch Sale

Croghan Colonial Bank (\$630mm, OH) will sell a branch containing \$29.5mm in deposits to Farmers & Merchants State Bank (\$949mm, OH) for an undisclosed sum.

Competition

Wells Fargo is reportedly planning to launch a credit card that pays customers points for purchases. The points can then be used to pay down balances on other loans customers have with the bank.

Less Credit

The ABA reports the amount of delinquencies on bank credit cards now sits at the lowest level in 23Ys.

Less Consumer Debt

The Fed reports the amount of consumer debt to income is at the lowest level in 33Ys.

Less Mortgage Debt

Bank of America reports the amount of mortgage debt to disposable income has declined to 76%, the lowest level in 10Ys.

Shifting Consumption

A new eMarketer report finds people spend about the same amount of time (about 40% in total or 20% each) consuming media on their mobile devices (smartphones and tablets) now as they do on their computers (laptops and desktops). That was followed by TV (38%) and radio/print (17%).

Student Loan Risk

The CFPB reports the repayment status of the 27.8mm student loan borrowers with newer loans backed by the federal government (since 2010) are as follows: paying as agreed (39%), still in school (28%), in deferment, forbearance or default (26%) or in the 6 month grace period following graduation (7%). This is the first large scale review of these sorts of loans.

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