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## Customer Service from an Unexpected Source

by [Steve Brown](#)

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We came across an article the other day about banking services being provided by a pawn shop. Rather than being a scandal story, there were accolades from extremely satisfied customers that got us thinking. As a result of the financial crisis and tight margins, banks have had little choice but to focus on clients who can generate better revenue, so emphasis has moved to more affluent and business customers. Banks have closed branches to cut costs and requirements for getting credit have increased in many areas.

The result has been an increase in pawnshops who have stepped into the vacuum. They have always been considered fringe financial operations, but with television shows now about the industry they are considered more mainstream. Now some are apparently branching out into other areas of financial services including credit cards, check cashing, prepaid debit cards, bill- paying and even text alerts on balances.

Everyone knows the basic model of a pawn shop is to take personal collateral at a steep discount against monies loaned -at interest rates of up to 25% per month. Fewer may know that the loan amount is calculated by assessing what the collateral can be sold for, taking into account depreciation, marketability and the likelihood the person will return (or if they will simply abandon the article). The goal of the pawnshop is not to sell the collateral, but rather to have the customer come back and retrieve it after paying off the loan. The collateral can be sold if payment isn't made, but the pawn shop generally prefers not to have to do that because the alternative is usually more lucrative. In addition to all of this, pawn brokers don't report defaulted loans on a customer's credit report, which is an advantage to some borrowers.

Because their primary business is to lend money against collateral, pawn brokers see themselves more as a service provider than a cash source. That makes sense when you consider the pawn broker's goal is to have customers regularly come into the pawn shop, regularly borrow and regularly repay any monies borrowed.

Amid the disruption of the credit crisis, the pawn shop industry association estimates the number of operations has risen about 56% from some 6,400 in 2007 to around 10,000 in 2012. This growth and the high interest rates charged on loans have also increased attention by the CFPB. Regulators are concerned non- bank lenders like pawnshops and payday loan operators are exploiting the non-banked and may not be following stringent enough lending rules. Regulators want to be sure customers with weaker credit histories that are unable to get approved for an account at a regular bank are being treated fairly when they use alternate channels.

As bankers, we know pawn shops have always been around, but we don't think they should be offering products like prepaid cards, credit and debit cards and other mainstream bank products. After all, these products are already readily available to customers on the next block over at a community bank in the very same town. Banks are there to support their communities and community bankers play the lead role across this country. Help get the word out in your community that you are actively involved, interested in helping and offer loans at competitive rates. The economy is slowly healing and activity is picking up, so keep talking to customers to make the most of opportunities.

# BANK NEWS

## **M&A**

Umpqua Bank (\$11.4B, OR) will acquire Sterling Savings Bank (\$9.9B, WA) for about \$2B.

## **Branch Closures**

BB&T CEO Kelly King said at an investor conference that the bank has closed 43 branches (2.5% of total) in recent months as part of a consolidation effort aimed at boosting efficiency.

## **Banker Survey**

A survey by Bank Director magazine of bank executives finds 43% see the US economy improving by the end of this year vs. only 13% who felt the same way last year at this time. In addition, bank executives said their biggest concerns were margin compression (89%), regulatory burden (86%) and online banking fraud (76%).

## **No Inventory**

Speaking at a conference in NC, the head of Wells Fargo's mortgage-servicing business said Wells is not holding any shadow inventory of foreclosed homes.

## **Customer Complaints**

Oracle research finds the most common customer complaints are long wait times (25%), a lack of clear communication (20%) and errors or inaccuracies (17%). This is important to know because a negative customer experience pushes 89% of customers to a competitor.

## **Jobs Picture**

Research by Funders and Founders finds consultants and contractors cost 30% less than employees for most jobs. In addition, it is projected that robots will perform at the same level as humans for most manual jobs by 2030 (only 17Ys from now).

## **Online HR**

A new survey by OfficeTeam finds 63% of human resources managers say they conduct video interviews vs. only 14% who did so last year.

## **Acquisition Cost**

Research by Customers That Stick finds it costs 5x to 16x more to capture a new customer and get them up to the same profitability level as existing customers.

## **Loyalty**

Research finds about 33% (\$16B) of rewards points and miles (\$48B total) go unredeemed by consumers.

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