

## No Pal to Bargain Hunting Bankers

by [Steve Brown](#)

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Take a drive on a Saturday morning around the neighborhood and without a doubt you will see the colorful clutter of yard sales. People have stuff to sell that they no longer use and other people are looking for bargains. For those who don't want to have a yard sale, or who have just one item to sell, there is always Craigslist. Craigslist helps people sell things, but it also has become a target for fraudsters. It's normal for an ad posted on Craigslist to receive an immediate offer from someone wanting to buy the item for full price. In such cases, the buyer often makes an offer to write the check for a few thousand dollars over the asking price, requesting that the unsuspecting seller deposit the check and wire the excess balance to an Eastern European bank account. These scams are prevalent, so hopefully most sellers have become wise to the ruse.

This is an example of the difficulty of doing business with strangers. There must be a safe way to transfer money between parties that won't pose a risk to either side. Businesses use currency, credit cards and checks and all have their issues, but eBay and PayPal are the juggernauts in the consumer space. Both offer wildly successful internet solutions for business transactions to take place and PayPal acts as the intermediary.

Now, PayPal has begun making loans to its merchant customers. These loans are by invitation only, but the terms are attractive enough to put pressure on the credit card providers. These loans are being offered to 90,000 existing PayPal merchants so far, chosen from the enormous database of information PayPal has on its small business customers (along with data collected about their habits and cash flow).

It's true that banks haven't thought of PayPal as much of a threat until now, but a lending service has never been offered until now either and PayPal isn't a bank so it doesn't play by the same rules. PayPal is registered as a bank in Luxembourg, however. In the US, PayPal is subject to Regulation E for international consumer remittances and to regulations of the CFPB, but it is not directly subject to US banking regulations. For purposes of lending, PayPal is using WebBank, a Utah institution that provides white-label services to non-bank partners. Once again, as our discussion about Bluebird pointed out, a non-bank enterprise is stepping into the primary business of banking, without having to comply with most banking regulations, so we are letting community bankers know.

Is PayPal a threat to your bank? You had better believe it. They have a number of advantages, one of which is that cash transfers to the merchant's account are immediate. Because PayPal is relying upon its own database to determine what merchants to offer the loans to and for how much, they have mitigated a great deal of risk in advance. This makes their costs lower, which in turn allows them to offer a lower rate. In addition, loan payments come directly from the merchant's PayPal account, a level of access not available to other providers (like banks). When banks make small business loans, they rely upon financial data provided by the borrower, which is often limited or doesn't tell the full story. Banks are taking on more risk in making small business loans because they don't have the same level of access or information, so they ultimately must charge for that, putting bankers at a disadvantage over the longer-term.

Bankers should also note that in addition to small business lending, PayPal has also stepped up to purchase Braintree, its biggest competitor in the payments industry. Braintree brings further tech knowhow, one click mobile payments capability, a big client list, \$12B in payment flow and access to merchants in 40 countries. Clearly, PayPal is making a move to become much more than a payment intermediary for used sports equipment.

## **BANK NEWS**

### **Recovery**

Bloomberg reports US bank stocks have rebounded from a low of 0.3x book value in 2009 to book value as of 3Q.

### **Goals**

Research by Online-PHD-Programs.org finds the percentage of people in a controlled group who accomplished a goal they set did the best if they shared the goal with friends (76% achieved the goal) vs. writing it down (64%) or not writing it down (43%).

### **Dividends**

Bloomberg reports US bank dividend payouts are a median 25% vs. 35% to 40% historical average.

### **Bitcoin**

Regulators seized more than \$3B worth of digital cybercurrency and the FBI arrested a man suspected of illegal activities after closing down online marketplace Silk Road. Recall that in Mar. FinCEN required Bitcoin businesses to register with the federal government. The FBI says Silk Road reportedly facilitated 9.5 million Bitcoin transactions since Jan 2011 taking in some \$80mm in commissions on \$1.2B in sales.

### **Affluent Change**

A survey of affluent consumers shopping for new banks conducted by FindABetterBank found the percentage of this group that was different than an average response (of non-affluent consumers) found the affluent group sought out a new account relationship because they had a bad customer experience (37%), were moving (21%), wanted features their current institution did not offer (15%) or needed an additional account (14%).

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