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## Shining Light on Bottom Feeders

by [Steve Brown](#)

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Bottom feeder is a term that generally refers to various species of fish that feed on the bottom of a body of water. There are invertebrates like sea cucumbers that fit this description, but most of us think perhaps of fish species like grouper and carp. A number of dinnertime favorites like halibut, flounder, bass, snapper and catfish also fit into this category. Most bottom feeders are detritivores, meaning they feed on decomposing plant and animal parts. This behavior is the primary reason that it's not considered very nice to call people or business sectors bottom feeders, so let's be classy and call them detritivores.

There are detritivores in almost every part of the economy and the financial industry has quite a few different species. Payday loan outfits, car title loan companies, pawn shops acting as bankers and specialty lenders who deal in subprime or low credit score borrowers.

There are certainly groups of borrowers that banks often can't help very efficiently, so there is nothing wrong in principal with other organizations picking up some of that market. Those that do may have experience and expertise in pricing for this kind of risk and it doesn't easily fit the banking system given all the regulations, but most still don't like it. As such, these organizations are of interest to the CFPB who is looking at debt collection practices in order to build a set of comprehensive rules to govern collections. They want to be sure everyone operates with full understanding of the rules and that consumers are informed and treated fairly.

The CFPB is gathering input in a unique way, in collaboration with Cornell University's Law School. The staff and students at the school have set up a website at [RegulationRoom.org](http://RegulationRoom.org) in order to gather comments with the objective of removing barriers to public participation; this is a good first step.

The attention from CFPB is also timely, as we are seeing some pseudo-lending organizations branching into new areas. Slowdowns in the subprime mortgage sector due to higher interest rates are causing margin compression so many nonbanks are moving into new areas. These detritivores still swim in other ponds, as they accept car loans and do other lending activities. In fact, studies find the mid-market non-prime auto loan market (with credit scores between 525 and 675) makes up about a third of the \$800B auto financing market.

As your bank comes across potential customers who don't qualify for a loan at your bank, maybe it makes sense to make a referral to a quality institution that can help them. You have to be careful when you do, but some lenders can take smaller loan amounts & lower credit scores as they avoid the detritivore label.

There are no doubt detritivores who end up a delicious filet of halibut, but for the most part, this sector of the financial industry preys upon the weakest and gives all financial institutions a bad name. Community bankers can play a strong role here and help their communities thrive and prosper. Providing education that will help your customers avoid bottom feeders is just good business, so shine your light through the murky financial ocean of complexity that surrounds the community to help customers and potential customers alike.

# BANK NEWS

## Searching

Google reports people do searches for banks about 4x more than credit unions.

## Redemption

SNL reports that from Jul 1 through Oct 31, the total number of Small Business Lending Fund (SBLF) redemptions hit 23, bringing the total number of participants remaining down to 307 (from the original 332 funded).

## Social Banking

Research by Social Assurance of 3k bank and credit union Facebook pages from Jul 1 to Sep 30 finds there were 1.9mm interactions between financial institutions and consumers. That is about 633 per institution or roughly 7 per day per financial institution.

## Communication

Gallup finds the most common ways people talk and write about their banks is in person (80%), on the phone (11%), email (3%), online blog post (2%), Facebook (2%), Twitter (1%) and other social media (2%).

## Interesting

Isis, the mobile wallet launched by AT&T, T-Mobile and Verizon has officially launched. To use the Isis Mobile Wallet, people download an app, link to a payment card and then simply use their smartphone as a wallet at point of sale terminals when checking out.

## Spooky

Accenture reports up to 35% of bank market share in the US could be in play in the next 7Ys, as digital nonbanks gain traction. Accenture also predicts 15% to 25% of the 7,000 financial institutions operating in the US today could be consolidated over that same period.

## Satisfaction

An Accenture report finds 71% of people are satisfied with their primary bank and 68% said they would be extremely likely to recommend it to friends, family or coworkers. That said, the same survey found 26% of people said they only stayed with their bank because switching was a hassle.

## Settlement

JPMorgan has agreed to pay \$4.5B to settle investor claims related to mortgage backed securities issued by JP and Bear Stearns.

## Biggest

BlackRock is the world's largest money manager with \$4.1T in assets.

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