

Scratching Beneath The Surface

by [Steve Brown](#)

Most of us are aware of the predatory nature of payday loan companies and the damage that they can do to cash-strapped individuals who often end up in an ever-increasing morass of debt. We welcome the CFPB attacking the most blatant practices of shady operators, not only from social conscience but also because they ultimately add to the image problems of the entire financial industry.

There are also firms that make short term commercial loans. As bankers, we know there are business borrowers who don't qualify for a bank loan with the more stringent lending requirements of the post-financial crisis world. So what kind of organizations do this kind of lending and are they bad news or just businesses providing a necessary service? We took a look at one such firm, OnDeck, as they have been getting quite a bit of press lately. On their web site we found references from the Better Business Bureau and that the company is backed by Google Ventures. This doesn't look like Honest Bob's Easy Terms Payday Loans.

Broadening our review to the online commercial lending space at large, we find many of these companies boast cutting-edge analytics and software, which allows them to make loans that banks might consider too risky. They are clearly paying themselves well for taking on the risk, but these are loans to businesses that probably don't qualify for a bank loan, so are they really competition to banks?

For some community banks, the answer is probably yes, as can be seen in a recent Coleman Report. It tracks the SBA loan industry and the report finds there has been a significant decline in the volume of SBA loans under \$150,000 and that the average SBA loan size has increased. This likely indicates smaller loans may be going online into these portals vs. historical channels.

Many of these companies are also quick to exploit the message that customers should not use banks. Among testimonials we found there was a story of a small company that was in danger of being shut down if they couldn't immediately repay a \$50,000 loan - even though they had never been late on a payment. The conclusion of the article quoted the OnDeck CEO who said, "The banks have failed Main Street businesses." While he is certainly promoting his business in saying that, we think it ignores the great work done by community banks in supporting small business owners over the years.

Consider as well that there are problems with these commercial lenders themselves. Many rely upon loan brokers to channel customers to their products and of course the brokers are paid a commission. From what we found, the commissions are generally in the range of 15% to 17%. Given that most of the loans currently flowing through these portals are short term (generally 6 months) and that this commission is on top of a typical interest rate of 15% to 20%, the annualized rate jumps.

Compounding these issues, we would expect quite often borrowers probably can't pay the loan back in six months so it ends up extending for another term. Given private lenders making commercial loans are not subject to usury laws, it is also all perfectly legal.

Many of these commercial online portals are just beginning to dip into small business lending so there is much more yet to come on this subject in the future. In the meantime, we will just have to wait and

see how it all works out and where they eventually end up.

BANK NEWS

M&A

TS Banking Group (IA), a newly formed joint venture between Treynor Bancshares (\$286mm, IA) and TS Contrarian Bancshares (IA) designed to acquire community banks in the Midwest will acquire The Bank of Tioga (\$140mm, ND) for an undisclosed sum.

M&A

Better Banks (\$246mm, IL) will acquire First National Bank of Chillicothe (\$67mm, IL) for an undisclosed sum.

M&A

The Stockton National Bank (\$112mm, KS) will acquire First Security Bank & Trust Co. (\$63mm, KS) for about 1.0x book at closing date plus an additional \$1.5mm.

Branch Purchase

Platte Valley Bank (\$236mm, WY) will acquire a branch (including all deposits and loans) from Buffalo Federal Savings Bank (\$121mm, WY) for an undisclosed sum.

Good News

The FOMC may finally be in for some good news, as the Senate has cleared Fed Vice Chairman nominee Stanley Fischer on procedural matters and he now is expected to easily win approval. That means he could join the FOMC in this role within a few days.

Huge Fine

Credit Suisse Group has pled guilty to conspiring to aid tax evasion and agreed to pay \$2.6B in fines to settle with the Department of Justice and bank regulatory agencies.

Another Huge Fine

Bloomberg reports regulators are seeking \$5B in fines from BNP Paribas related to violations of U.S. sanctions.

Charges Filed

European regulators have filed charges against Cr?dit Agricole, HSBC and JPMorgan for operating an illegal cartel designed to rig interest rates.

Economic Growth

New York Fed President Dudley said he expects the economy will get back to a 3% growth rate over the rest of this year and will see further strength in 2015.

Cyber Risk

Research by the Ponemon Institute finds the biggest U.S. banks lost an average of \$23.6mm to cyber attacks in 2013.

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