Do People Need An Alternative To Banks?

by Steve Brown

We came across an article the other day whose title we will paraphrase as: Six Alternatives to Working with a Bank. Our question to such messages is first of all "why?" and next is the question of how valid is the advice? As we dug deeper into the article, there were a number of quotes by experts from an unfamiliar company, so we did an Internet search. We found the recommendations were actually from a private investment advisory firm that manages around $100mm in assets, smaller than most banks. That's not a particularly impressive credential although there was a list of television appearances where the principals have appeared as "recognized experts." If it's been on TV, then it must be true!

In any case, it's a good idea for community bankers to remain aware of new offerings in the world of banking services and to know what the "experts" are recommending (and whether they are truly experts). One complaint of the article above was that banks charge ATM fees, plus the article warned about overdraft protection on debit cards. There is nothing new about ATM fees, and overdraft protection is highly regulated, customers have to opt in, etc.

That left "cutting edge" recommendations including bitcoin (not practical for day-to-day business with 30% daily market value swings), credit unions (we imagine they charge ATM fees) and the WalMart Money Center (which charges fees to cash checks and load prepaid debit cards). Cutting edge?

Another suggestion was online short-term loan websites. These outfits claim to not be payday loan companies as they do not give out cash. Instead, they pay bills directly and interest rates are governed by the states in which they operate. Loan size is small (less than $200) and claims here are to "avoid costly bank late fees, overdraft charges and pricey loan rates". We dug into one of these websites and found the processing fee was $21. Further, if the 30-day advance was not paid off, then another $10 late fee was applied and so on. Odd, but it surely sounds like a payday loan to us, with a business plan based on the idea that the customer is unlikely to pay the loan balance back on time.

One fringe idea that doesn't suit the general population included launching local currencies (to encourage people to shop within their own town, but probably not kosher with the Fed and other regulators) and others. In this currency idea, a customer buys $1 of local money for 0.95 to spend in certain local businesses. Local currencies existed in the day before FDIC insurance, but this alternative seems viable only at the fringes.

Clearly our prejudice is that banking services should be provided by banks and that some of these alternatives make about as much sense as having a hole in one's head. Some "alternatives" are so out-there, that it's hard to imagine an appropriate use no matter how you look at them.

We are also continually puzzled by those who argue paying fees to banks is bad but then recommend paying 10x or 100x the amount in fees to some unregulated entity. That is spooky when you consider that many recommendations point people in risky directions that save them little or end up costing more.

For our discussion today we have picked on this one article, although this kind of advice is rampant. Clearly more education of the public about basic finance is necessary and somehow the idea has to be communicated that there is no such thing as a free lunch. It is truly amazing how great, great grandma's advice that if something seems too good to be true, it probably is too good to be true. This still rings true so many generations later. People like alternatives, but sometimes we really wonder why so many people seem to waste their time chasing rainbows.

BANK NEWS

Fed Speech

Fed Vice Chair Stanley Fischer commented that the U.S. and global recoveries have been "disappointing" so far and have "underperformed expectations".

Bank M&A

We sat in on a presentation from an M&A shop at a recent banking conference and thought we would share some tips you might not know. These included: acquiring banks only pay dollar for dollar for capital to assets in excess of 9% and when a bank buys another bank they typically expect to get cost savings of 20% to 30%.

Customer Happiness

If you want to keep customers happy, consider a survey by Dimensional Research found people said the main things that made their customer experience a bad one were: having to explain the problem to multiple people (72%), dealing with an unpleasant person (67%), taking too long to resolve the issue (65%) and not resolving the issue (51%). Maybe you want to test your customer facing team to see how well they do and refine interaction training as needed.

Consequences

GNMA is the latest mortgage agency to say it is becoming heavily reliant on nonbank mortgage companies to service its loans. The problem is that nonbanks carry lower capital levels than banks and may not be able to survive in stressful times. The change is due to new bank regulations that increase capital requirements, so banks are selling servicing rights and cutting back sharply in this area. At this point, GNMA reports nonbanks service 35% of their loans in June vs. 22% 3Ys ago.

GDP & Hike

The latest Wall Street Journal survey of major economists shows the group predicts the economy will grow at around a 3% rate in the second half of this year and a rate hike will occur in the first half of 2015.

Rate Hike Timing

CNBC reports Atlanta Fed President Lockhart sees mid 2015 "at the soonest" as to when the Fed "should be considering a rate move."