

## The Spooky Truth About Unregulated Business

by [Steve Brown](#)

Taxi drivers the world over are preparing for the zombie apocalypse. There have been sizeable demonstrations in numerous cities as drivers do not think they are being adequately protected by their municipal governments from invading hordes of flesh-eating beings. We are not talking about real zombies, those walking corpses found in legends and Night of the Living Dead movies. We are talking about unregulated app-driven rideshare services which are becoming increasingly popular. The primary providers are Uber and its competitor Lyft, with its big furry pink moustaches. It is a classic struggle between a longstanding regulatory tradition and technological disruption.

Here's how it works: perspective riders register and have an app on their smartphone which allows them to request a ride using the GPS locator on their phone. Credit card information is taken at registration, the price is determined ahead of time by the company and no gratuity is expected. It sounds like a pretty sweet deal except that while drivers are screened by their employers, they are generally not licensed cabbies.

There are many similarities to the non-bank entities in the banking business, in both the payment and lending space. Non-bank consumer lenders such as payday and auto title loan companies are often of questionable quality. Of even more concern is the small business arena. Startups or smaller businesses may end up working with internet-based lenders, which claim advanced analytics for evaluating cash flow and collateral allows them to take on riskier loans. But many of these lenders follow the same path as the payday companies with short term installment loans designed from inception to go delinquent and capture fees. Payday loans are at least coming under scrutiny from the CFPB, but business loans pretty much remain untouched. Remember that usury laws don't apply to business loans.

The SBA's blog site discusses non-bank lenders and some points borrowers should consider before using one. The SBA warns that non-bank lenders charge higher rates and have different loan conditions than traditional lenders. The SBA also warns that non-banks are not subject to the same regulatory requirements so borrowers may be subject to different disbursement timelines and loan terms. Finally, non-bank business lenders are likely less well-known, so borrowers should do careful research, as recourse when something goes wrong may be difficult or impossible to obtain.

Banks should recommend that customers tread carefully before walking down the path of unregulated financial service providers. Customers most often end up paying higher fees and interest by doing business outside the regulated space designed to protect them. Banks have to adapt to customer needs too. If customers expect shorter approval times and online loan applications and other conveniences that come naturally to internet-based company enterprises, banks need to provide them.

DeSoto Cabs in San Francisco is addressing the rideshare issue by offering a smartphone app to summon a cab in the city. Taxi companies, like banks, need to adapt or they will become quaint anachronisms. We welcome the taxi app as we have spent some desperate times trying to find a taxi, particularly in San Francisco. In the end, just like we wouldn't want to trust our money to an institution without regulations or insurance, we don't really want to ride with drivers who don't hold a

commercial driver's license and may not be adequately insured, even if it costs a little more. Your banking customers should consider the same when choosing a financial service provider.

## **BANK NEWS**

### **M&A**

Wesbanco Bank (\$6.3B, WV) said it will acquire ESB Bank (\$1.9B, PA) for about \$324mm in cash and equity or roughly 1.9x tangible book.

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S&T Bank (\$4.8B, PA) will acquire Integrity Bank (\$812mm, PA) for about \$155mm in cash and equity.

### **M&A**

Pacific Commerce Bank (\$207mm, CA) will acquire Vibra Bank (\$151mm, CA) for a reported 1.2x tangible book.

### **Hack Attack**

The mobile payment competitor to Apple Pay called Merchant Customer Exchange warned its retailers that its program had been hacked and email addresses of users had been stolen.

### **Merger Lawsuits**

Information from law firm Vorys, Sater, Seymour and Pease finds in 2013 94% of M&A deals (valued at \$500mm or more) have been challenged as "strike" lawsuits aimed to capture a quick private settlement less than the defendant's legal costs have soared. The number compares to 53% back in 2007.

### **Q3 GDP**

Growth climbed to 3.5% during the quarter vs. market expectations of 3.0%. This is good news for banks, as it reflects increased lending opportunity.

### **More Fines**

The NY Times reports prosecutors are reopening investigations into certain large bank settlements amid allegations that some played down the scope of their wrongdoing and others have violated the terms of their settlement agreements.

### **Crackdown**

Bloomberg reports Attorney General Eric Holder says he has ongoing investigations underway that could result in individual prosecutions for bankers for their roles in the 2008 financial crisis.

### **More Prepaid**

The FDIC reports only 7.7% of US households had no account at an FDIC insured institution in 2013 vs. 8.2% in 2011 (down 6%). In addition, about 27.1% of the unbanked said that they used prepaid debit cards in 2013 vs. 17.8% in 2011 (up 52%).

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