On The Road With The Blue Lady

by Steve Brown

Americans have always had a love affair with their cars - they are a metaphor for freedom and rebellion. Furthermore, the amount of horsepower often determines the level of satisfaction. According to the US Bureau of Transportation, there is a median of 1.9 vehicles per household, although we find an average of 1.8 drivers in each household. Further, some 90% of the workforce commutes to work by car. Spending so much time in their cars means drivers get really familiar with them as well. Maybe that is why an AP-AOL poll found that 40% of drivers declare their car has a personality all its own. Further, 20% name their cars and some will use heroic personas like the Batmobile or terms of endearment like Nelly and Baby. The powder blue sports coupe cruising on the open road could be called Blue Lady and the big pickup with jacked up wheels could be called Dad's Dreamboat.

The automobile is so embedded in our lifestyle that the CFPB has decided it is time to monitor auto loans more closely. Financial institutions are already supervised, but now non-bank auto finance companies are under review. The CFPB just issued a final ruling which will take effect 60 days after being published that will cover 34 non-bank businesses. The CFPB is determined to look into companies that make, acquire or refinance 10,000 or more auto loans and leases a year, so that covers about 90% of non-bank loans and 7mm borrowers per year.

Certainly, some auto dealers over the years may have abused borrowers with the lure of "buy here, pay here" schemes. Along these lines, one AZ company was recently fined $8mm for making harassing debt collection calls and providing inaccurate credit information to credit reporting agencies. The dealer reportedly specifically targeted subprime borrowers who were happy just to get a loan. Those borrowers' troubles were just beginning though, as high interest rates and unethical repossession strategies followed. When the CFPB investigated, it found 45% of contracts were delinquent. In addition, collection employees were calling borrowers at their places of work multiple times a day and further harassing the references who had backed those customers when they applied for financing. Some cars were even repossessed even while the customer was current on the loan or agreed upon payment arrangements.

After reviewing all of this, the CFPB decided it had to stop. So, from now on non-bank auto finance companies must comply with Federal Consumer Financial laws, the Equal Credit Opportunity Act, Truth in Lending Act, the Consumer Leasing Act and Dodd Frank Act. Also, non-bank businesses must improve their marketing methods and deceptive messages are not acceptable. Loan terms must be easily understood, accurate information must be transmitted to credit reporting agencies and, last but not least consumers will have to be treated fairly when debts are being collected. Non-banks will be obliged to follow the same rules as banks, which will help level the playing field for all participants.

This is all good news for banks who have been doing auto loans the right way all along. Non-bank finance companies will discover that the CFPB means serious business and that also means both the Batmobile and the Blue Lady will not have a cloud of financial uncertainty following them around anymore.

BANK NEWS

Competition

Online payments company Square has launched a service that allows small businesses to instantly deposit payments right after ringing customers up for a fee of 1%.

Rate Hikes

The Wall Street Journal reports a Sep rate hike is now more likely as the liftoff date for rates, as economic conditions stabilize.

More Loans

SNL Financial reports bank securities portfolios decreased from 20.2% of assets at the end of 2014 to 19.8% as of the end of Q2, as median total loans increased from 62.6% of assets to 65.4% over the same period.

Regulation Impact

A report by PwC finds post crisis regulations have pushed banks to exit some lines of business, decreasing market liquidity and leading to a more fragile financial system.

Employees

An article in the Pacific Coast Business Times points out that there are key differences in the workplace between Millennials and Boomers. Millennials seek out a balance of work and life; seek flex time, job sharing and sabbaticals; feel they can work from anywhere given advances in technology; do not feel they should be evaluated on how, what or where they get the job done; and communicate more through texting and email than using the phone. Boomers meanwhile will typically work longer hours in the office; use the phone more to interact; believe in face to face engagement; and have more meetings with customers and employees.

Legal Change

Bankers should be aware CA has passed new statutory amendments that expand the definition of personal information. The changes could impact bankers in all states if this catches on, as business customers must handle personal information of customers more carefully by implementing and maintaining enhanced security procedures and must have contractual provisions in place when disclosing personal information to unaffiliated third parties. The changes are required by Jan 1 2016.

Rate Hikes

A Reuters poll of economists just published gives a 55% chance that the Fed will raise the Fed funds rate twice this year. By meeting, economists assigned a 60% probability for a Sep rate hike and an 85% probability by year-end.