Cleaning Up The Loan Portfolio

by Steve Brown

We have to say one of the grossest jobs is probably being a restroom attendant. After all, bathrooms generally stink and people can be strange. In addition to that, research by Michigan State University finds only 5% of people properly wash their hands long enough to kill infection-causing germs and bacteria. That is just gross, so to improve you need to wet your hands with clean running water, apply soap, rub them together to get lather, wash front and back of hands as well as between fingers and under the nails. Do this for a full 20 seconds (singing the Happy Birthday twice) and you can are now clean. Perhaps the worst thing of all - about 10% of people simply walked out of the restroom without washing their hands at all - nasty.

In the banking industry, things have become nasty around energy lending and now the retail sector seems destined for ongoing pressure as well. When gas prices at the pump went down, the energy industry explorers took a nosedive and banks with high exposures were hit. Now that massive retail closures are occurring, banks may start to feel similar reverberations.

The bottom line is that consumer behavior toward brick and mortar shops is clearly shifting rapidly. It is easier to compare and shop for products online and free shipping is everywhere. In fact, the latest figures show e-commerce hitting $105.7B in 1Q17, which is a 14.7% YoY increase to 1Q16.

As a result of this striking trend, retailers are suffering and store closures are multiplying. Some of the names include: American Apparel, Rue 21, Sears, J.C. Penney, and Payless Shoes to name a few. Experts of the think tank Fung Global Retail Tech counted 3,658 store closures YTD, an increase of 119% YoY.

Should community banks worry about this? After all, many of these big chains and their shopping centers are usually serviced by big banks. Wells Fargo for example recently revealed it had 31 such loans on its books totaling more than $10B.

On the other hand, community banks could see risk because their customers, small shop owners and retailers are also suffering. When an anchor leaves a shopping mall, traffic slows down and mom and pop stores can quickly lose customers too.

Knowing this, community banks would be prudent to review their loan portfolios for susceptible retailers. If you do have customers that could be impacted by this trend, there may still be options. Prompting a discussion with your customers may shed some light on any upcoming marketing plans or new selling strategies to possibly hold your worries at bay for a bit. Certainly, if your customer has an online presence as well, that will help to keep their business going and on more solid ground.

Another thing to remember is that some shopping malls and stores are better positioned than others. Off-price stores with their promise to provide great value at discount prices still resonate with customers. There may also be some realistic options to avoid future trouble, such as extending debt repayments or renegotiating loans.

Not all retailers are in trouble and some online players like Amazon are reportedly looking to soak up some of the mall spaces for distribution hubs so all is not lost. It is tougher to wash a troubled customer out of your bank once the problem grows, so perhaps retail is one sector where additional focus could be wise.

BANK NEWS

How Use

An FTC study that looked at how hacked consumer data is used finds the top categories based on number of charges are: retailers (37%), unknown (18%), gaming (13%), entertainment (9%), electronic payment service (8%), online tools (5%) and food (3%).

Vendor Practices

Fed research indicates some best practices bankers should use around third party vendors include: conducting thorough due diligence (reference checks, financial review, background checks of principals); prepare a detailed risk assessment; ensure the contract includes expectations around compliance with laws/regulations (include specific terms based on risk assessment, include ability to request proof of compliance, vendor audits); comprehensive monitoring (monitoring frequency and depth should be based on risk assessment); training (be sure to train anyone that is monitoring vendors to make sure they understand risks and receive regulatory updates); track consumer complaints; board updates (ensure the board receives due diligence, monitoring reports and training).

Surge Takeaway

Research by the Information Security Media Group on ransomware finds the biggest takeaway from the ransomware surge in 2016 is: users remain the single weakest link in the security chain (44%), ransomware is evolving in menacing new ways (21%), enterprises must assume malware is already within their perimeters (14%), threat actors are changing their tactics (14%) and enterprise defenses are even worse than they thought (6%).

Purchase Methods

Fed research finds people who are fully banked say the primary ways they would make a $10 purchase at a local store are: debit or prepaid card (37%), cash (33%) and credit card (29%).

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