

## And the Winner Is...

by Charles B. Wendel

In a recent conversation a colleague asked, “What do you think will be the impact of the election on regional banks?” Of course the most accurate answer is, “It depends.” It depends on which party wins which offices and the quality of bank we are talking about.

**Worst case scenario.** Regional and big banks should expect some days of reckoning if Democrats sweep the Presidency, Senate, and House. But, these banks have brought it upon themselves. How? By their actions.

*Reduced overdraft fees are likely.* The other day someone mentioned a Midwest regional bank where 19% of revenues in its most recent quarter resulted from overdraft fees. It has been demonstrated that the poorest pay these fees as they try to balance limited cash with bills due.

*Lower credit card rates.* 20-30% rates can be paid by the poorest, this in a 1% cost of funds environment for many banks. That’s despicable.

*Branch closings.* After overexpanding the number of branches, banks are now closing branches, leaving some neighborhoods with no local banking options. It may not be so easy to abandon neighborhoods in the future.

*CRA.* More and tougher requirements will be coming.

*Regulations.* Increased costs are tied to more rules.

There is nothing wrong with making a profit, but exploiting those with few options grates even many Republicans.

Bankers should fear no words more than, “I am proud to announce the next Secretary of the Treasury, Elizabeth Warren!” Unfortunately, many customers would cheer this announcement that would send many bankers to the bar or retirement.

That said, a friend mentioned that the last time Democrats controlled all three offices they didn’t accomplish all that much, but I would not bet on the same situation, given that voters of both parties feel exploited by banks.

**Not so bad scenario.** Assuming a Republican Senate, for example, regional banks still face an upward climb:

- Net interest margins will be squeezed for many (no matter who wins)
- Losses and delinquencies will increase ( no matter who wins)
- Increased success by Fintechs and POS lenders (ditto)
- “Looser” CRA requirements
- Overall less regulation

**No matter who wins.** For many community and regional banks we see a future that is mediocre at best. I would bet that no matter a politician’s words the future is tough for all but the biggest banks and the best regionals. Big banks will be protected by their market power and political contributions and pull. Top regionals operate with a niche focus, targeted segmentation, and a relationship management approach that distinguishes them from others.

Sadly, the big winners may be investment bankers, all too eager to swoop down like birds of prey to create a deal that benefits them, no matter what.

BTW, customers like you and me will continue to win. My Peloton, no interest financing, so too my Smart TV, my Volvo with zero down payment and an interest rate below 2%.

And, I do know the winner. I just hope my word count limit does not kick in. THE WINNER IS...

Darn. Out of space.

Next time, then.