Bankers, Ready for the Pitchforks?

by Charles B. Wendel

Bank "Linked In" posts often begin "We're so proud that…" followed by the announcement of a community investment or CRA related action. Understandably, senior management has been communicating what they are doing for their communities and lower income groups as financial institutions scramble to respond to the current political environment and avoid becoming a target of protests and social activists. But, how many FIs are doing more than just throwing money at a problem they hope they can pay to go away? How can banks maintain good returns while addressing what promises to be increasing demands?

A CNBC article suggests what banks may be up against. On July 4th its website ran an article titled, **"**Where you bank can make a big difference for racial justice**."** Bluntly, the report beats up on banks and, whether valid or not, indicates how many Americans view them. Banks must proactively address these concerns if they want to avoid more operating restrictions, pushed by community groups and possibly required by a new administration.

The news article, not labeled an opinion piece, states: **"**Communities of color have historically been under-served by banks: 14% of Black households and 10% of Hispanics had no bank accounts in 2019, according to the Federal Reserve. For comparison, just 3% of White households are unbanked." The article quotes the assertion of Credit Union National Association that more than 17% of credit union members are Black, compared with around 13% of bank customers. Articles elsewhere have mentioned the $11B+ in fees banks generate from overdrafts and the concentration of 84% of those fees in 9% of customers, many, if not most, from lower-income groups

This same article goes on to quote a Stanford Institute study that "Amid the public health crisis, the number of working black business owners is down more than 40%" ..."One survey found that just 1 in 10 Black or Latinx small business owners received the assistance they requested under the government stimulus package." In other articles interviewees mention banks as part of the problem despite the great efforts of many banks.

A spokesperson for the Center for Responsible Lending pointedly states that borrowers should avoid banks for borrowings when they can. "See who offers you the best interest rate," she said. "If the credit union and large bank are offering the same thing, going with the credit union will mean the interest you're paying back will go toward their revenue instead of a large bank."

While bankers may view the article as slanted, it goes on to suggests depositors place funds outside the banking industry: "With all the racial problems going on, right now is the perfect time for people to open up an account at a community development bank or credit union," said John Holdsclaw, board chair of the Coalition of Community Development Financial Institutions. The article states that 1/3 of CDFIs are headed by minorities.

In summary, what is being said here is that banks don't serve the neediest. They are at a minimum non-caring or at worst bad; credit unions and CDFIs are good.

When CNBC, not known for its radical positions, swipes at banks how long before a brighter spotlight shines on the industry? Today, banks will likely respond like a deer in the headlights to these issues despite CRA compliance and millions of dollars in grants awarded. Most banks don't have to.

The top 20 fee-charging banks were responsible for $9.2 billion or 79 percent of the overdraft/NSF revenue. That means 5,000 or more banks share the other $2-3B. And, while many of the largest banks have altered these fees for a bit, to our knowledge none has introduced a change in continuing them.

Some banks have become hooked on those fees and high credit card rates; they may have a big earnings problem coming soon. Over the next few years, both those revenue streams may disappear or be curtailed as these areas receive more publicity, and populist politicians see an opportunity to score points with voters. How can those banks that generate big overdraft fees and credit card revenues from the poorest position themselves as companies that serve a public good? In fact, despite their PR machines many cannot, but that leaves the other 5,000, banks many of which serve their community with great effort and dedication.

Banks that can demonstrate how they serve their communities need to separate themselves from the exploiters of the poor by detailing their actions and where their revenues come and do not come from. In the 2008-2009 period all banks suffered from being painted with the same negative brush when a relative handful of bigger players put our economy in jeopardy. This time the anger aimed at those banks that rely on the poor may be much greater. Community banks, in particular, need to prove their value and not be lumped in with others.

Three questions for your next security analyst or Board meeting:

1. How much in dollars and percent of profitability does you bank make from overdraft fees, credit card interest, and other charges from people who earn less than $50,000?
2. Is that sustainable if Elizabeth Warren becomes Secretary of the Treasury?
3. Are your current practices ethical? Always a good test: could your practices withstand a media assault?

If you have a good story to tell, tell it. If not, take remedial steps now. Short-term revenue cuts present a better option than facing a storm of criticism from multiple sources.

Last week, an article appeared with the headline, "Protestors with Pitchforks Decry Income Inequality, Marched around Rich Hamptons Estates." The good news is that the pitchforks were plastic. The bad news may be that the pitchforks were plastic *this* time.

Using virtual meeting technology, we have been working on these and related issues. Because of continued uncertainty, banks and credit unions need to focus on the future as they manage current portfolios and changing customer expectations.