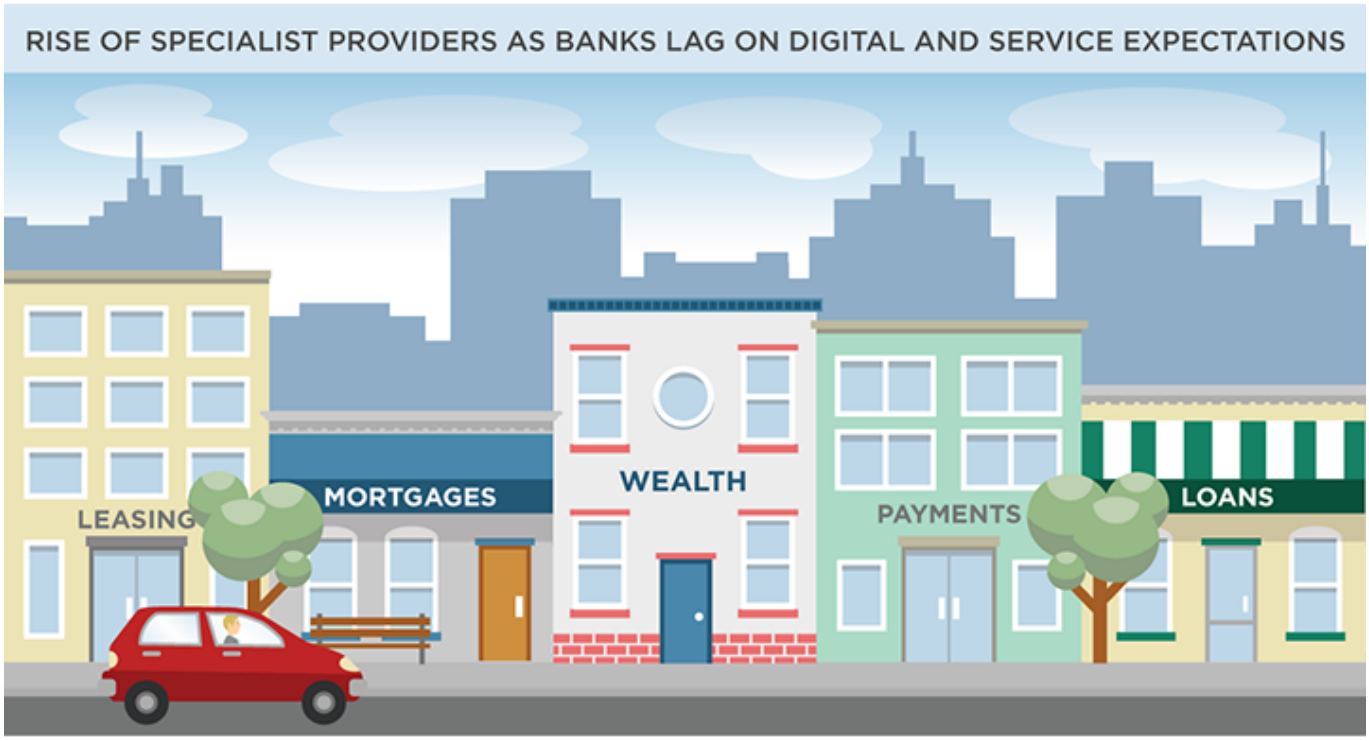
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Consolidation Looming for Nonbanks?

September 26, 2016

Nonbanks have achieved success by leveraging sophisticated technology and innovative business models. But some of their success must be attributed to their regulatory advantage over traditional banks in laws, enforcement or both. We expect regulators to act on the issue—eventually.

This action will likely mark the high-water point for nonbanks and the start of a period of consolidation. At that point major banks will more rapidly acquire nonbank lenders and fintech service providers for their assets, capabilities, technology platforms, and cultures of innovation.



Bottom Line

Nonbanks are likely to continue winning market share until regulators level the playing field. As of now, critical elements of the nonbank lending industry remain untested, including the algorithms that drive lending decisions and the loan portfolios these decisions create.

A significant increase in default rates or a major downturn in the U.S. economy will represent the first true test of this new and largely unregulated part of the banking system.

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