

Lenders Tighten Approval Standards 2

THE WALL STREET JOURNAL.

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999 words

30 March 2020

The Wall Street Journal

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English

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Banks and financial-technology firms are starting to toughen approval standards for new loans to consumers and small businesses.

Large U.S. lenders including JPMorgan Chase & Co., Bank of America Corp., Capital One Financial Corp. and Santander Consumer USA Holdings Inc. are among the companies reviewing and revising certain lending criteria, according to people familiar with the matter. Planned moves include approving fewer consumers with lower credit scores, asking for more income documentation and placing lower spending limits on new credit cards.

American Express Co. has scaled back financing offers to small businesses, according to people familiar with the matter. Fintech lenders Square Inc. and On Deck Capital Inc. said this week they would do the same.

About half a dozen lenders that have found borrowers through Fundera Inc., an online marketplace for small-business loans, have paused new extensions of credit, said Fundera CEO Jared Hecht. "Lenders have zero idea how to assess risk in this environment," Mr. Hecht said. "There is no model that can predict today if I lend \$1, will I get paid back?"

Lenders are concerned that rising unemployment and a potential recession will send loan defaults soaring. The moves suggest at best a pause and at worst an end to six-plus years of a bull run in credit, where financial firms have been eager to lend and underwriting standards for credit cards, auto loans and personal loans have been relatively loose.

Lenders are scrutinizing applications for credit cards and personal loans in particular because consumers often turn to them when they are in a bind. They are usually unsecured, which means lenders have little recourse if a borrower defaults, and they can be the first loans people stop paying when money is tight.

Many lenders said they would work with existing borrowers who ask for help. Some lenders are increasing card spending limits or delaying due dates on loans.

But lenders are reluctant to take on additional risk from new customers.

"Even people who applied [for credit] in the last two weeks are more vulnerable [now] than when they applied," said Brian Riley, director of credit advisory services at Mercator Advisory Group.

Loan solicitations by email have dropped for credit cards and personal loans, according to market-research firm Competiscan. AmEx, Bank of America and JPMorgan have sent almost no card solicitations in more than a week.

The changes could be most painful for low-wage workers such as wait staff and hotel employees uncertain when their next paycheck will arrive. Some lenders say they have noticed consumers applying for credit at several financial institutions at around the same time, a sign consumers are reaching for credit lifelines while they can still get them.

To make matters worse, many Americans were overstretched before the pandemic, tapping credit cards, auto loans and student loans as costs soared over the past decade but incomes largely failed to keep pace.

LendingClub Corp., an online lender that is one of the largest providers of personal loans, said last week it would approve fewer loans from first-time applicants, require more verification of income and employment status, and reduce approval rates to "higher-risk borrower populations."

"Like many other businesses during this period, we are focused on retaining our best customers," the company said in a regulatory filing this month.

Small-business lenders also are getting stingier with credit. On Deck recently stopped making new loans to movie theaters, hotels and nightclubs. It also made other changes to "significantly tighten underwriting standards," the company said in a regulatory filing last week.

On Deck informed LD3 Inc., an auto-transport business in Berthoud, Colo., last week, that its \$35,000 line of credit with a 24.9% annual percentage rate had been suspended, said co-owner Debbie Coyle. LD3 had drawn on that line intermittently since 2017, letting On Deck recoup what it was owed from LD3's checking account every week, and had paid off all outstanding balances by early February.

On Deck asked LD3 on March 20 to submit three months of bank statements and a screenshot of its business transactions over the previous few weeks if it wanted On Deck to consider reopening the credit line, according to emails reviewed by The Wall Street Journal. On Deck told LD3 it had chosen to "mitigate risk exposure" to businesses that had little or no activity on their credit lines in the previous 30 days.

"The thing that's frustrating to me is the lack of support of small businesses that are hurting right now," said Ms. Coyle, 55 years old. "The whole point of having a credit line is to be able to use it when you need it."

Ms. Coyle hasn't submitted the extra documents to On Deck and said LD3 is weighing other options. Until the effects of the coronavirus on its business were clearer and the company had a better idea how the federal government would be aiding small businesses, LD3 didn't want to explore additional loans or lenders.

On Deck said it placed a "temporary hold" on LD3's credit line "in accordance with our disaster management procedures." "By submitting updated financial information, this hold can be removed, and we have discussed this with the customer who indicated they have no need for additional credit at this time," it said.

Square Capital, the lending arm of the payments processor run by Jack Dorsey, made loan offers to some small-business customers earlier this month but then didn't fund them when customers tried to activate them in recent days.

A Square Capital spokeswoman said loan offers are expiring sooner in light of more recent data the lender gleans from processing customers' payments.

At AmEx, many salespeople tasked with calling small businesses to offer cards have been told to stand down, according to people familiar with the matter. The company also has reduced its number of loan offers to small businesses.

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