

THE WALL STREET JOURNAL.

MONDAY, MARCH 14, 2016

© 2016 Dow Jones & Company, Inc. All Rights Reserved.

MONEY & INVESTING

The Coffee-Break Loan: Business Owners Promised Money in Five Minutes

With Silicon Valley nipping at their heels, banks are being forced to take a fresh look at conventional procedures

By RUTH SIMON

In the race to shrink application times for small-business loans, Eastern Bank has a new entry: less than five minutes.

The Boston-based mutual savings bank used to take three or four weeks to process loan requests as employees gathered information, ticked off long checklists and filled out dozens of data fields from paper forms.

It now doles out loans of up to \$100,000 in a fraction of that time. The speed is possible because the 198-year-old institution has spent millions of dollars in recent years to automate the process and does more of the work in advance.

The move includes an element of marketing and won't be for everyone. For now, it is only available for smaller loans and existing customers, whose history is readily available.

Still, it shows how a new crop of speedier, tech-savvy competitors from Silicon Valley is forcing banks to take a fresh look at conventional procedures and be more aggressive about pleasing customers. Long wait times and cumbersome applications are big sources of aggravation for many small-business owners seeking bank financing.



SIMON SIMARD FOR THE WALL STREET JOURNAL

Oyster farmer Don Wilkinson, left, and Fred Clancy haul an oyster tray in Massachusetts's Plymouth Bay. Last year, Mr. Wilkinson took out a \$10,000 loan from Eastern Bank under an automated system that offers loans of up to \$100,000, often within minutes.

"It is pretty rare for a customer to need the money in five minutes," said Dan O'Malley, who leads the bank's technology arm, known as Eastern Labs. But a swift approval, he said, "sends a signal to the customer that we value their time."

Other banks worried about losing business to faster lenders also are working to speed up loan approvals. J.P. Morgan Chase & Co. recently signed a deal with online lender On Deck Capital Inc.

to provide small-business loan approvals in minutes and funding the same or next business day. Bank of America Corp. began offering a new streamlined line of credit last summer that shaves about two weeks off its typical three-week process.

The emergence of superfast loan approvals, however, has raised concerns about reckless borrowing and lending.

Speedy loan approvals are a plus for small-business owners, but serving customers

"is not just a matter of a quick turnaround" but also whether the loan is the right fit, said Karen Mills, former head of the U.S. Small Business Administration. If a loan is "either too expensive, too much money or too little money, or you don't have a path to repay, it is likely to result in a bad outcome."

A decade ago, Bank of America and others suffered rising defaults after setting aside traditional underwriting methods and relying heavily

(over please)

THE PUBLISHER'S SALE OF THIS REPRINT DOES NOT CONSTITUTE OR IMPLY ANY ENDORSEMENT OR SPONSORSHIP OF ANY PRODUCT, SERVICE, COMPANY OR ORGANIZATION.
Custom Reprints 800.843.0008 www.djreprints.com DO NOT EDIT OR ALTER REPRINT/REPRODUCTIONS NOT PERMITTED 51792



Don Wilkinson's oysters. Mr. Wilkinson filled out a loan application in five minutes at Eastern Bank.

on personal credit scores in an effort to make faster small-business loans.

Bank of America said its new program is aimed at existing small-business customers that the bank already knows well. "We are committed to growing responsibly and have strengthened our risk framework significantly since the Great Recession," a Bank of America spokesman said.

A J.P. Morgan spokeswoman said the bank plans to maintain its existing credit standards but will leverage technology to gather information that will allow it to say yes to small-business owners more quickly and more often.

Quicken Loans Inc. recently came under fire for a Super Bowl ad promoting a "Rocket Mortgage" that allows borrowers to quickly apply for a home loan on their mobile phone. The Consumer Financial Protection Bureau warned the public on Twitter that day after the ad aired that

borrowers shouldn't rush into a big loan.

Bill Emerson, Quicken Loans' chief executive, said the Detroit-based lender has maintained its underwriting standards and is trying to reduce a 30- to 45-day process to two weeks. "I don't see how it could lead to irresponsible borrowing, because if you don't qualify, you don't get the loan," Mr. Emerson said.

Officials at Eastern, which has \$9.6 billion in assets, said many borrowers receiving the bank's new loan would have otherwise turned to online lenders that promise speedy approvals but at a higher cost. Current rates on the Eastern loans made under the new program are 6.99% to 9.99%. Rates for online loans are often 50% or more.

"If we don't pay attention to where the industry is headed, we will be left behind," said Chief Executive Richard Holbrook, who took the top job in 2007 and in the 1990s worked as chief finan-

cial officer for a failed biotech startup.

The bank is investing 1% of revenue, or about \$4 million, annually in Eastern Labs. The nearly \$10 million spent to date has held down profits, but Eastern hopes to sell more loans to small businesses and offer its technology to other lenders.

To speed approvals, Eastern came up with an automated process for gathering most of the underwriting information it would need ahead of time, for instance, bank records, current and past loans, industry sector and years of operation.

The bank scrapped requests for information that it didn't use in vetting loans, such as a list of the business owner's personal assets and liabilities. The 55 requests for information on the old form have been replaced by eight. They include contact information, annual sales, loan amount requested and Social Security number. The borrower also

agrees to have Eastern review the borrower's personal credit report.

Automation has allowed Eastern to review that information instantly, while scrapping tasks that took up bankers' time: filling out 58 fields of information on a computer from paper applications, completing a checklist of 19 items, and printing out 10 additional forms to forward to loan processing.

The bank's technology team planned a test of the offer in late 2014. But some Eastern bankers initially balked, saying borrowers shouldn't be selected randomly but needed to be screened in advance. Ultimately, 600 customers got offers and 36 signed up. Of those, one has fallen behind on loan payments, slightly higher than the normal annual delinquency rate of less than 2%.

Don Wilkinson, owner of Ichabod Flat Oysters in Plymouth, Mass., was among the early borrowers. A retired school counselor who now works as an oyster farmer, Mr. Wilkinson last May took out a five-year, \$10,000 loan at 5.9% to pay for seasonal expenses like oyster seeds.

"It was very efficient," said Mr. Wilkinson, who spent less than five minutes on the application and had the money the next day.

As the bank has expanded the program, it now funds loans in as little as 30 seconds after the customer hits the button. Those who apply after 8 p.m. have to wait until the next business day.

In a few weeks, Eastern plans to roll out fast approvals to new customers who come in looking for a loan. The process, which includes opening a checking account, will take about 20 minutes.