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STRATEGY

Boosting Access to Consumer Credit

Fintech firms are often able to go to market with products that provide faster underwriting, data-driven credit models and direct-to-consumer distribution. Traditional banks, by contrast, are constrained by tighter regulations. Over the last decade, this has meant a pullback from unsecured consumer lending in particular. But, there is a way for banks to help bolster their consumer loan portfolios while mitigating some of the costs and risks.

Instead of trying to build a competing platform, banks could be better served by partnering with a online lender that already has the consumer lending expertise the financial institution is seeking to emulate. This can especially be true for small and midsize banks. BancAlliance, a network of community and regional banks, understands the nuances of these types of relationships given its partnership with Happen Bank (formerly LendingClub Bank). LendingClub was originally a peer-to-peer marketplace that connected borrowers to investors, but it has operated as a federally regulated, nationally chartered digital bank since 2021.

Under this model, banks purchase consumer loans originated through a digital marketplace bank, giving them access to a broad, potentially diversified pool of consumer credit. Many small and midsize institutions may struggle to originate unsecured personal loans at scale; the economics and operational demands often don't make sense. Given those realties, working with a digital-first lender can make sense if the partner has strong digital customer acquisition, advanced credit underwriting and marketplace distribution. By purchasing loans instead of originating them, banks can outsource borrower acquisition, much of the underwriting process and loan servicing while earning interest on the loans.

A partnership can also mean a portfolio construction advantage. An online marketplace bank may be able to draw upon years of performance data and a wide range of borrower inputs. These are capabilities that could be expensive or difficult for banks to replicate internally. Banks aren't locked into a one-size-fits-all approach, either. They can choose which credit grades to purchase, allowing them to construct portfolios that align with their own risk tolerance.

Yields are also an important driver. For banks managing excess liquidity, especially in lower rate environments, finding desired lending opportunities without stretching on risk or duration is a constant challenge. Consumer loans sourced through a partner may offer higher yields than more traditional liquidity outlets like Treasuries. For instance, a partnership with Happen Bank has given BancAlliance members a potential way to deploy capital more efficiently without overhauling their core business.

Just as important is the operational lift. Building a competitive digital lending platform from scratch requires meaningful investment in technology, compliance and marketing. By plugging into Happen Bank's infrastructure, and relying on BancAlliance for diligence and ongoing monitoring, banks can participate in the potential growth of online consumer lending without taking on that upfront burden. For smaller institutions, in particular, that can be a meaningful advantage.

The durability of the partnership between BancAlliance and Happen Bank — they began working together more than a decade ago — suggests that this type of model can work for the financial services industry. These relationships haven't always been known for longevity, especially in the early days of marketplace lending when questions around credit quality, regulation and funding stability were a central concern. Over time, however, loan performance has helped ease those concerns, and some platforms have established a partnership track record that has supported continued participation from banks.

As banks continue to navigate digital transformation, partnering with a digital-first bank is one way for institutions to gain access to a pipeline of consumer credit assets. When incentives are aligned and capabilities are complementary, these partnerships can become a core component of modern financial institutions.

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