Banking

SoftBank-Backed Lender Cuts Off Businesses as Cash Needs Mount

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- **Small-business lender Kabbage said to slash credit lines to $0**
- **Online lender raised $250 million from SoftBank in 2017**

Kabbage Inc., an online lender backed by SoftBank Group Corp., cut off credit to its small-business clients

Online lenders have spent years touting themselves as the opposite of banks. But as the coronavirus pandemic ravages cities across the U.S., they've turned to a playbook that banks used during the last financial crisis more than a decade ago: reducing access to credit when the economy is contracting. Other lenders, including On Deck Capital Inc. and Fundbox Inc., have also tightened their underwriting standards or limited lines of credit.

"They've left me high and dry when I needed them the most," said Rob Jacques, co-founder of theCodery, a software consulting company in Petaluma, California. He said he was particularly galled to be cut off without notice because until recently Kabbage called him every day asking him to borrow more money.

Furloughed Workers

Kabbage, based in Atlanta, says it has loaned more than $9 billion to thousands of small businesses since it was founded in 2009. The company furloughed hundreds of its workers this week as it contends with a slowdown in spending at small businesses, which have suffered as consumers nationwide have been ordered to stay inside to slow the spread of the deadly coronavirus pandemic.

Kabbage is now trying to position itself as a middleman that will connect people with loans from the Small Business Administration. It has also started a website to help small businesses sell gift certificates to consumers.

"Like many other fintechs, we have temporarily adjusted our lines of credit and are focused on supporting the SBA's Paycheck Protection Program," Paul Bernardini, a spokesman for Kabbage, said in a statement. "Just as manufacturers have retooled their processes to build ventilators and masks, we're doing the same to reallocate our resources to respond to the national emergency and provide financial products that small businesses need most."

Rob Frohwein, Kabbage's chief executive officer, put it differently in an email to employees on Friday, when he said the company would temporarily stop making loans.

"As of last night, all lending has been turned off," Frohwein wrote.

Kabbage in 2017 raised $250 million from SoftBank. Other SoftBank Vision Fund portfolio companies -- including Indian startup Oyo Hotel, co-working giant WeWork and real estate brokerage Compass -- have axed staff in recent weeks.

Credit Reductions

The credit reductions come at a dire time for restaurants and shops across the country. In normal times, small businesses have about a month of cash on hand, according to a 2016 study by JPMorgan Chase & Co. That means they're particularly vulnerable as major cities across the country continue to expand shelter-in-place orders.

On Deck began putting holds on customers' ability to draw on their lines of credit if they hadn't done so in the last 30 days. Customers affected by the holds have been asked to send the company recent bank statements to have the holds lifted. Jim Larkin, a spokesman for On Deck, said the firm will "continue to serve and support our existing customers and are selectively lending to new customers."

Fundbox, a venture-capital backed small-business lender based in San Francisco, has also limited some customers' ability to draw on their credit lines.

"Like many companies that serve small businesses, we've had to make changes that have affected some of our customers," Tim Donovan, a spokesman for Fundbox, said in emailed statement. "While these decisions have not been easy, it will allow us to continue to serve the majority of our small-business customers now and in the future."

Kabbage customers who called to ask what happened were told that their accounts were under review. An employee at Kabbage, who asked for anonymity to protect their job, said that customer-service agents were instructed not to tell borrowers that the company had suspended credit lines across the board.

Michael Figueroa, a security contractor in Fort Lauderdale, Florida, said the representative he talked with was apologetic. "Hey, I don't even know if I'm going to be working here tomorrow," he recalled the agent saying.

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