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Banks Loosen Purse Strings

U.S. banks are expanding their loans to consumers for the first time since the credit crisis erupted, as lending standards begin to loosen and demand for new loans edges higher.

J.P. Morgan Chase & Co., which Friday posted a 47% profit jump for its fourth quarter, said its total loans increased 6% since the end of September. While most of the loan growth came from loans to businesses, the nation's No. 2 bank by assets said total credit-card balances rose for the first time in two years.

Consumers were more willing to pull out their plastic. Credit-card usage was up 10% year-over-year. The bank issued 3.4 million new credit cards in the fourth quarter, up 4% from the same period a year earlier.

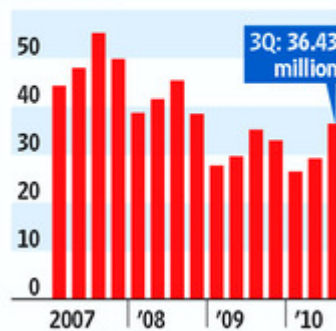
"We see the consumer is getting stronger," said J.P. Morgan Chairman James Dimon. He added that many Americans are still saving and paying down their debts, which he said will make them better borrowers.

The New York bank's profit surge and optimism that more consumers and businesses are looking for loans triggered a rally Friday in financial stocks. That helped push the Dow Jones Industrial Average to its highest level since June 2008. The Dow, which includes J.P. Morgan shares, rose 55.48 points, or 0.47%, to 11787.28, finishing the week up nearly 1%. It was the bellwether average's

seventh weekly gain in a row, during which it has gained 6%.

Signs of a lending rebound in business loans already were evident at some big U.S. banks, and Mr. Dimon cited "fairly broad-based strength across corporate, middle market, even small business." But consumer lending has lagged behind because of unemployment, foreclosures and the reluctance of many Americans to go deeper into debt.

Lending Rebound
Consumer-loan originations
excluding first mortgages,
in millions



Sources: Equifax, Moody's Analytics

Now, the economy is gaining momentum, as shown by the Commerce Department's report Friday that consumers spent more for the sixth straight month. That means profit-hungry



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bankers are growing more eager to make new loans, especially to borrowers with strong credit histories.

When other banks post earnings in the coming week, many analysts expect more evidence that at least the healthiest lenders are shifting focus from grappling with troubled loans to making new ones. That would be bullish for many sectors of the economy, such as auto dealers, retailers and home builders.

"The rapid decline in job losses has made everyone more comfortable to lend," said Roger Hochschild, president of Discover Financial Services. The credit-card issuer expects higher account balances, newly opened accounts and balance transfers on cards wooed away from rival issuers to result in "modest" growth in Discover's overall credit-card portfolio in the second half of 2011.

New-loan growth has "been slow and sluggish" but is approaching a level that will be strong enough to offset borrowers who are paying down debts, said Charles Kim, chief financial officer at Commerce Bancshares Inc. On Thursday, the regional bank in Kansas City, Mo., posted a 25% profit jump from the year-ago quarter. Home-equity and installment loans are increasing, and credit-card volume grew because of "better-than-expected spending," Mr. Kim added.

In the third quarter, lenders made more than 36 million consumer loans, up 3.7% from a year earlier, according to Equifax Inc. and Moody's Analytics. That was the first year-over-year gain since the crisis began. Consumer-loan originations are expected to climb 5.9% this year, much higher than the slim 1.1% increase in 2010. Still, the amount of available new credit is just half of its prerecession level, according to the latest figures from Equifax.

The totals include bank-issued and retail credit cards, auto loans, consumer-finance loans, home-equity lending and student loans. The totals exclude mortgages, partly because home-loan volume is driven by refinancing.

The consumer-loan uptick is most pronounced in the auto sector, where the dollar value of loans

originated last year topped the 2009 total, Equifax estimates. The percentage of auto-loan applications by prime borrowers that were approved rose to 91% in December from 82% a year earlier, said CNW Research. Among so-called near-prime borrowers with credit scores of 620 to 749, the approval rate jumped to 83% from 70%. In addition, down-payment requirements have loosened, and "there are plenty of resources for financing," said John McEleney, president of McEleney Chevrolet and McEleney Toyota in Clinton, Iowa.

Robyn Crouse, who lives in Clinton and works at a call center, financed her recent purchase of a 2008 Toyota Corolla with a loan from a credit union that offered a 5.99% interest rate and \$500 down payment. A year ago, she couldn't get a loan from a local bank, because it considered her too risky and said she didn't have enough of a credit history. "It was a whole different experience" this time, she said.

At J.P. Morgan, auto-loan originations fell 19% year-over-year, due to more competition.

Credit-card companies, which had reined in their pitches because of higher loan losses and new regulations, are now also stepping up their marketing. In the fourth quarter, direct-mail solicitations doubled from a year earlier, according to Synovate, a unit of Aegis Group PLC.

"It's not just the super-prime" borrowers who are being barraged with new offers, said Anuj Shahani, director of Synovate's Competitive Tracking Services. Mailings to subprime borrowers surged 90%.

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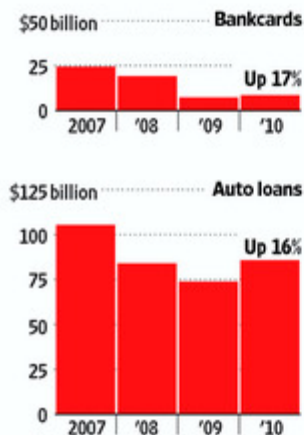
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Consumer Credit Begins to Rebound

New credit to consumers is rising again...

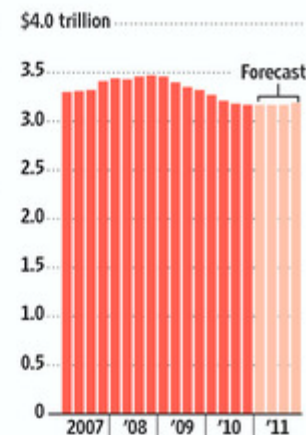
New loan originations, as of the third quarter of each year



Sources: Equifax, Moody's Analytics

...but a rebound could take some time

Consumer loans outstanding, excluding first mortgages, actual and forecast



maximum amount of a home's value that can be financed to 90% from 80%.

Some borrowers are using home-equity loans for home improvements, to avoid mortgage insurance or to escape the higher interest rates charged on jumbo mortgages. Jumbo loans are too big for government backing.

Beth and Sean Smith took out a home-equity line of credit this month to help finance the purchase of a 4,000 square-foot, four-bedroom home in Indianapolis. "It gave us the flexibility we needed to get into a house that we couldn't have afforded if we didn't do that," Ms. Smith said.

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Some of those offers are starting to pay off for card issuers. In October, the latest month for which figures are available, banks issued 3.3 million new credit cards, up 21% from October 2009, according to Equifax.

And while many borrowers continue to pay down debt, credit-card balances have also begun to rebound. Bank of America CEO Brian Moynihan told analysts last month that industrywide, credit-card holders who carry balances "have actually started to borrow just a little bit more: not a lot, but 3% or 5%."

At Discover, customers who revolve their credit-card balances increased their spending in September, October and November. Barclays Capital estimates that loans will grow by 2% this year at American Express Co. and 5% at Discover and Capital One Financial Corp.

Home-equity lending, which dried up when home prices fell, is on the comeback trail. Originations of home-equity lines increased in October, the first monthly gain since the mortgage crisis, Equifax said. Terms for home-equity loans have loosened in recent weeks, said Stephen Calk, chairman and CEO of mortgage banker Chicago Bancorp. Some small banks have raised the

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