# Goldman Sachs Meets Main Street

● Its online lender Marcus aims to be a "teddy bear." But sometimes consumer borrowers end up in a hole they can't get out of

Kade Parker had never heard of Goldman Sachs Group Inc. in 2016, when a letter from the bank offering his wife a loan arrived at his house in Hornbeck, La. (population 480). The 27-year-old oil worker had recently taken a pay cut and needed to reduce his monthly credit card bills. After calling to make sure it wasn't a scam, he says he took out a loan for around $15,000. "We were trying to move some money around, make it easier on us," Parker says. "I told them the situation, they said no problem." Then he got laid off, and a year and a half later he filed for bankruptcy, listing more than $135,000 in unsecured debt, including 10 credit cards and loans from online lenders SoFi, Prosper, and Affirm.

The Goldman Sachs loan came from Marcus, the online banking business the company started in 2016. Marketing to regular people was a surprising shift for Goldman, whose bankers advise on giant corporate mergers, trade for hedge funds, and manage money for multimillionaires. But Marcus has already attracted 1.5 million customers and made $3 billion in loans. It markets itself with direct mail and jokey commercials that paint the company as the responsible alternative to credit cards. Onstage at a CB Insights conference on June 20, Harit Talwar, the former Discover Financial Services executive hired to run Marcus, was reminded that Goldman Sachs was once compared to a "vampire squid" for its financial crisis dealings. Talwar said he'd like Marcus to be called a "lovable teddy bear."

● Number of Marcus customers

**1.5m**

That's why analysts and investors were surprised in February when Goldman said in a financial disclosure that as many as 20 percent of Marcus borrowers at the end of last year had credit scores lower than 660, which would put them in the subprime category. A spokesman for Goldman says that about 15 percent of its loans are subprime and that many of those borrowers had higher credit scores when they applied. Other customers saw their scores rise. "It's not our role to be preachy, but it is also not our role to try and sell a drink at a bar to somebody who shouldn't be having the next drink," Talwar said at the conference.

Goldman Sachs doesn't disclose much information about Marcus's borrowers. But hundreds have filed for bankruptcy after taking Marcus loans, revealing details about their finances. They aren't a representative slice of Marcus borrowers. Unsurprisingly, since they're the ones who went bust, they're now deep in the red, often listing several credit cards, student loans, and debt to other online lenders. Some have payday loans. Those who filed for bankruptcy in April had an average of $83,500 in unsecured debt, almost twice their annual take-home pay. A handful had filed for bankruptcy before. One schoolteacher in Manassas, Va., appears to have had at least six credit cards and a loan from LendingClub Corp. for $18,750 when Goldman approved him for a $15,000 loan, according to his bankruptcy filing. A man in Springfield, Va., borrowed $34,634 from Discover, $13,691 from Goldman, and $33,354 from LendingClub on his way to incurring $203,757 in unsecured debt. His filing doesn't show the order of the loans. Goldman Sachs declines to say how many of its Marcus borrowers have gone bust. It projects credit losses of about 4 percent per year.

In a way, the company's foray into consumer lending is an opportunity created by the financial crisis. In 2008, a week after Lehman Brothers went under, Goldman became a full-fledged bank holding company so it could gain access to potential Federal Reserve funding that reassured investors. Since then, it's been taking in more deposits. The idea for Marcus came in 2014 at a meeting of the bank's top executives at the home of Gary Cohn, then Goldman's president. Online lenders were growing. Goldman's revenue was down from recent highs, and new regulations threatened to restrict the bank's profitable trading operations. Marcus was a way to put deposits to work. The bank says loans could grow to $13 billion within three years, adding $1 billion to its revenue.

The name Marcus, after one of the firm's founders, was picked to convey "humanity and personalization and freshness and energy," Talwar said at a conference last year. The real Marcus Goldman opened up shop in 1869 and walked the streets of New York in a top hat, buying notes, or IOUs, from merchants at less than their face value.

Marcus offers unsecured loans of $3,500 to $40,000 at rates of 7 percent to 25 percent. It doesn't charge origination fees or late fees. Its average loan is for $15,000 over four years with a 12 percent interest rate. Even with Marcus paying an above-average 1.8 percent interest rate to savers, that's a pretty good margin. Customers that *Bloomberg Businessweek* spoke with say they have no complaints, even if the loans didn't fix their financial problems. They say Marcus offered clear terms, sent money fast, and dealt with them politely. "We liked what we saw from them even though Goldman Sachs doesn't always have the best reputation, especially in middle-class America," says Joshua Fellows, 36, who was working at a mobile phone store in Columbus, Ohio, when he borrowed from Marcus. Fellows says his loan let him pay off some credit cards and owe Marcus $250 a month less, but that his bills were still too high, so he ran up his credit cards again.

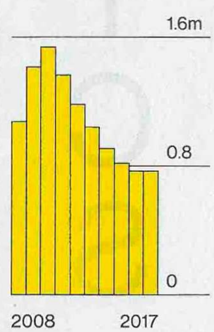
Today, bankruptcies in the U.S. are at a low ebb. Guy Moszkowski, director for research at Autonomous Research, says that when the economy goes bad, the companies that got into consumer lending most recently generally take the most losses. For example, American Express Co. launched its first credit card allowing customers to carry a balance in the late 1980s. The company said it did a lot of research, but when a recession hit in 1990, it faced more defaults than competitors. "I worry a little bit that Marcus is going to have higher credit costs than they might be bargaining for if we get a recession in the next three years," Moszkowski says.

Even if every Marcus borrower stopped paying his bills tomorrow, it wouldn't put Goldman at risk. At its current pace, the bank would earn the money back from other businesses in less than six months. By the time Goldman launched Marcus, there were already a lot of startups offering term loans to consumers—among them LendingClub, Prosper, SoFi, and Best Egg. Goldman has said it can undercut its competitors because as a bank it can use its cheap deposits to fund its loans. Talwar said at the conference in 2017 that Goldman lends only to those who can afford to make their payments on top of all of their existing debt, even if they intend to use the loan to pay off their cards.

Goldman Sachs has said it isn't forcing Marcus to grow as fast as it could and that it's comfortable with the risks it's taking. Chief Executive Officer Lloyd Blankfein said onstage at an event in June that if customers can't pay unsecured loans, Goldman eats the loss—there's no home to repossess. "We will be the ones that will suffer," he said. "If they don't pay us back, we will be the ones on TV you'll feel sorry for." *—Zeke Faux and Shahien Nasiripour, with Sridhar Natarajan*

THE BOTTOM LINE Goldman Sachs is a bastion of elite investment banking, but it's looking for growth by lending to middle-class people at an average rate of 12 percent.

● U.S. personal bankruptcy filings

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