

Varo's small-dollar loan updates include underwriting that could enrich future products

Article

The news: Varo will make several updates to its small-dollar loan offering, **Varo Advance**, that range from **changing the fees charged** to **revamped underwriting** for borrowers. The US

neobank, which announced the changes in an email for customers, said that they would kick in on October 1, 2021.

More on this: The existing fee structure for borrowers is **\$3.00 for a \$50.00 advance, \$4.00 for a \$75.00 advance, and \$5.00 for a \$100.00 advance.** Under the [new fee system](#):

- Borrowers will **no longer be capped at \$100.00 advances.** They will pay **\$0.50 coupled with 4.7% of their principal amount, with the figure rounded to the closest \$0.50.**
- Advances of just **\$20 will remain exempt** from the fees.

Varo Advance users who don't repay their loans still **won't take hits to their credit** and are **just locked out** of borrowing further, [per](#) Banking Dive.

Varo also announced that it will incorporate its borrowers' **linked bank accounts** into its underwriting process for the loans. The addition will let Varo examine outside data such as **direct deposit records and transaction histories.**

These are substantial changes for a product that was only [announced](#) in October 2020.

- At that time, the company touted Varo Advance as a way to help people who need short-term liquidity assistance and as an alternative to making overdrafts on their accounts.
- The product's rollout came just months after top US banking regulators, including the Federal Reserve and the FDIC, [urged financial institutions](#) to make small-dollar loans available to aid borrowers amid the coronavirus pandemic.

The opportunity: The revamps to Varo Advance give the neobank two key shots at supporting its lending operations:

- Incorporating linked accounts lets Varo test a new way of collecting data to inform its underwriting. If the process works well for small-dollar loans, Varo could incorporate it into an array of potential lending products, such as **credit cards, mortgages, or auto loans.**
- Lifting the \$100.00 borrowing cap on advances gives Varo more flexibility to work with borrowers. This may include people who don't use the neobank but need a forgiving short-term loan, and existing customers who may need to borrow more than a \$100 limit to cover their short-term costs.

Neobank Account Holders, by Company

US, 2021, millions

Aspiration

3.0

Chime

13.1

Current

4.0

Varo

2.7

Other Neobank Account Holders

2.5

Total

20.2

Source: eMarketer, May 2021

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