bank innovation

Alternative Lending Is in Trouble? No One Told Elevate

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By Philip Ryan – September 27, 2016

It's been a brutal year for the alternative lending industry. Scandals, staff cuts, rate hikes, and recently a Lending Club investment posted its first negative return in five years this August.

But the alternative lender Elevate, a subprime specialist, is continuing to advance toward its IPO, and recently celebrated the hiring of its 500th employee. Elevate's employee count has grown 40% over the last two years, while revenue grew at 365% in the same period, according to a company press release.

Elevate was spun off from the lender Think Finance in 2014, but the team has been together since 2001. Elevate has originated more than $3 billion in loans to 1.4 million borrowers. Victory Park Capital, a major player in the credit facility space for alternative lenders, is one of its primary funding sources.

Elevate helps customers who might otherwise opt for payday loans and who are decidedly unattractive to banks. They carry higher default risk, but Elevate prices them accordingly and has so far met with approval from regulators.

"Fintech is supposed to be about disruption," CEO Ken Rees said, "but it's been focused on pushing more money to happily served customers. Meanwhile 60% of Americans, 160 million people, lack access to credit through traditional means."

500 employees is a lot, especially when Elevate's considerable outsourcing is taken into account. 'We're a heavy outsourcer," Rees said. "We have internal staff focused on the most important stuff. We outsource customer service."

Elevate's riskier customers do not give Rees pause when facing economic downturns. "Our loss rates are incredibly flat," Rees said. "Something about our customer base is always recessionary." Ups and downs matter less when you have no savings anyway, Rees said, and consequently a volatile business cycle that might shake up those with more assets is felt less farther down the credit spectrum, according to Rees.

Furthermore, credit downturns are helpful to Elevate because it puts more borrowers in their sweet spot. "We saw higher credit quality during the recession because prime lenders pulled back," Rees said. "All the banks in 2007, 2008, pulled back credit."

Elevate is expected to follow Lending Club into the realm of publicly traded companies in 2017.

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