Lending Times

The Largest Marketplace Lender by Revenue, Elevate Credit

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By George Popescu – October 6, 2016

In its first year of operation, Elevate generated $70 million in revenue and in the span of two years revenue soared to $400 million and have already crossed the $525 million mark this year. In terms of revenue, Elevate is bigger than LC and Prosper. So far $3.1billion worth loans have been originated from 1.4 million consumers.

Elevate vs Lending Club and Prosper

For past few years, slow macroeconomic trends and recent financial crisis have resulted in a new middle class which is struggling financially. Average savings is less than $400 and half of the American population comes under this segment. Over two-thirds of Americans have a FICO score which is less than 700. This class has immediate credit needs and has very limited options to borrow money.

Banks refrain from lending to this massive segment and even online lenders like Lending Club and Prosper focus on providing loans to prime and super prime Americans.

This leaves the middle-class with few alternatives but to depend on usurious payday lenders, title loans, and similar lending traps.

Company history

To tap this huge potential market, Elevate was launched in 2014 as an independent spin-off from another fintech ThinkFinance. The parent company is a leading developer of next-generation online financial products for underbanked consumers.

In a sign of how important Elevate is, the founder and CEO of ThinkFinance - Ken Rees shifted to Elevate to helm the operations.

Elevate received an additional $100 million in debt financing in July 2016 which brought the total to $545 million in debt financing from Victory Park Capital. Its primary investors are TCV ventures and Sequoia who previously also invested in ThinkFinance. It plans to use the new funding to expand and lend to customers with even lower credit score. It currently operates in the US and the UK.

Fort Worth-headquartered Elevate has been an instant hit among the masses and has been able to achieve astronomical growth, mainly because of its innovative product line and focusing on an unserved segment of the population. .

Products

Its products are focused towards people who are in need of instant cash to people who need money for long-term purposes like opening a business.

- Rise: is a state licensed online unsecured loan, designed keeping in mind customer needs. Rise is targeted at financial progression. The company also offers free credit monitoring. Average APR is 150% and over the time rate drops based on successful repayment.

- Elastic: serves the customers living paycheck to paycheck; its main purpose is to provide financial stability to the customer. Elastic provides bank issued line of credit and customer will only be charged when funds are drawn. So the startup acts a marketplace and banks are the direct lenders to the customer.

- Sunny: provides customized loans to the borrowers in England. The customer can pay back as soon as they can, there is no penalties for early repayment, and is completely free of any fees.

With the emergence of new players, the size of the prime market borrowers has shrunk and moreover it needs a massive influx of cash to start a lending house catering to prime borrowers. This has led Elevate to focus on the sub-prime middle-class consumers. 80 percent of its clients have attended college, make $48,000 on an average every year, 45% of them own their own home and their FICO score ranges from 575-650. 50% of its customers come from direct mail and others through TV commercials, affiliate programs with other large marketplace lenders and digital campaigns.

Controversial APR

In terms of loan APR, it wants to lower the rate as well as wants to give financial stability to its client. APR charged by Elevate is 150% for first-time borrowers, drops by 50% after 24 months, and falls to a fixed 36% after 36 months.

Considering payday loans charge 500-600%, APR charged by Elevate sounds relatively tame in comparison. Elastic`s effective APR is approximately 85% as compared to overdraft which has an effective APR of 3520%(according to FDIC), Direct Deposit Advance products have effective APR greater than 400% and even subprime credit cards have effective APR in excess of 36%.

Considering FDIC is in favor of serving nonprime consumers and has always urged the banks to do so, Elastic is the most radical and best-priced product of its kind in this category. All the products have been developed in line with state and federal law.

Along with this, it is one of the few companies who report regularly to credit bureaus and provide free credit monitoring to its clients and constantly tries to improve the financial well-being of its customers. Loan period usually ranges from 1 to 2 years and the average term is 14 months. With its target market being subprime borrowers, there are bound to be defaults but Elevate feels it loss rate is manageable

The IPO

The IPO scenario has been tremulous in the US stock markets. Fintech companies have been severely punished especially due to the accounting shenanigans in Lending Club. Elevate has been considering an IPO for quite some time but will only start on this path when it is sure that the market would be conducive to consider its business prospects favorably and analyze it independently from the missteps of other fintech companies.

Elevate will leverage the emergence of new technologies and analytic techniques to evaluate individual credit health minutely. This should help in adding value in the nonprime category and will allow the company to capture a substantial pie of potential borrowers.

The startup is constantly looking for new developments to make the process easier and affordable for the masses.

Since 2013, it has managed to bring down its APR by 40% and it has also decided to keep its EBITDA under 20%. It will try to push down the rates further, to create a competitive advantage over its rivals.

44% of the US population is non-prime which is larger than prime population and median household income has gone down by 6.5% from 2007 to 2014, pointing out the growing need for non-prime lending. With the launch of innovative products and massive funding flowing into the company, Elevate is sure to reach new heights in coming years.

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