Star-Telegram

Fort Worth firm leads new pack of online subprime lenders

Star-Telegram Washington Bureau
By Lindsay Wise - March 13, 2015

The black-and-white commercial follows a sweaty Sylvester Stallone on his iconic training run through Philadelphia as Rocky, America's favorite underdog.

"Every day is a fight to beat the odds, to get ahead of what life throws at you," intones a deep-voiced announcer as the Rocky theme music plays and Stallone, playing the boxer in the 1979 movie Rocky II, jabs the air with his fist. "Now there's a new way to borrow the money you need fast — without having to use a payday loan."

It's an ad for RISE, an online installment loan that markets itself as a kinder, gentler alternative to payday loans.

Consumer advocates say borrowers shouldn't necessarily buy the hype, warning that an unaffordable installment loan is just as dangerous as any other short-term loan. But the company's top executive says the loans are designed to help people with limited or subprime credit histories.

"We licensed the soundtrack of Rocky because we're trying to highlight the idea of a financial comeback for our customers," said Ken Rees, chief executive officer of Elevate, the Fort Worth-based company that launched RISE a year and a half ago.

Now available in 15 states — including Missouri, California and Texas — RISE has issued almost half a billion dollars in loans to more than 168,000 customers. The company expects to expand its services to Kansas and Virginia later this year.

Small-dollar installment loans such as RISE are growing in popularity — especially online, where companies such as Elevate are pioneering the use of big data and analytics to offer borrowers flexible payment schedules or lower rates for paying on time.

They're looking to elbow out brick-and-mortar payday lenders, who've seen loan volumes drop in recent years as states tightened laws intended to restrict or ban payday storefronts.

Borrowers have longer to repay RISE installment loans, which typically range from $500 to $5,000. But they can still be very costly.

A $1,000 RISE loan in Missouri, for example, could wind up costing more than $3,100 to repay in 24 biweekly installments of $132.56, according to a standard payment schedule posted on RISE's website. That's an annual interest rate of 324 percent.

The interest rate for a typical payday loan is about 400 percent, according to the Consumer Financial Protection Bureau, a federal watchdog agency. Annual interest rates on credit cards run from about 12 percent to 30 percent.

Consumer advocates warn that installment loans aren't necessarily safer than payday loans. And they caution borrowing money online carries extra risks.

"A triple-digit loan is still a triple-digit loan," said Lauren Saunders, associate director of the National Consumer Law Center, a nonprofit advocacy group. "Even if it's slightly cheaper than a traditional payday loan, it's still unaffordable."

In a study last year, the center evaluated RISE and six other loan products that used big-data underwriting and portrayed themselves as alternatives to payday lending. The study found that some of the loans' features were "arguably less bad than those offered by traditional payday lenders" but the products still failed to qualify as "genuine, better alternatives."

Consumerist, a consumer affairs blog published by a nonprofit subsidiary of Consumer Reports, was more blunt, describing RISE as a "payday wolf in Rocky's sweatshirt."

While getting a loan on the Internet might be more convenient than a trip to a store, borrowers should be careful about giving online lenders direct access to their bank accounts, said Ed Mierzwinski, consumer program director for U.S. PIRG, an advocacy group.

Allowing a lender to withdraw payments automatically can lead to exorbitant overdraft fees on top of the already high interest rates, Mierzwinski said.

"Online lenders are worse than storefront lenders because they have their electronic hand in your bank account all the time, and that is a tremendous competitive advantage over you," he said.

Rees said RISE offered credit for borrowers in need of emergency cash who weren't being served by the mainstream banking system.

He describes RISE's customer base as the new middle class; they often have FICO credit scores between 650 and 550 and fairly low savings. They skew more female than male, and most have at least some college education, Rees said. More than half are 25 to 44 years old.

RISE's underwriting process fills a need for these customers, Rees said, by taking into account not only traditional credit scores but also third-party data, such as whether a customer has a cellphone account or pays rent and utilities on time. Web browsing history and social media profiles come into play, too.

The lack of a social media account, for example, is considered a red flag.

"If you're dealing with a customer that doesn't seem to have any social media footprint, that's just as concerning as the customer whose date of birth doesn't match his credit report," Rees said.

A customer's website activity also can help RISE determine fraud or credit risk, he said.

"If we see a customer who comes directly to our site and spends 30 seconds filling out an application, that looks a little less thoughtful to us than a customer who spends 20 or 30 minutes [on the site] to make sure the product is really for them," he said.

If borrowers record successful payment histories over time, RISE will give them discounts on their loans, with the goal of getting all customers down to a 36 percent interest rate, Rees said.
As their loan volume increases, Elevate and other online lenders are waiting anxiously for the Consumer

Financial Protection Bureau to issue regulations for the payday lending market later this year, concerned that the new rules might hinder their operations.

Consumer advocates are urging the bureau to include installment loans under the new rule. They also want to bureau to require documentation of income and expenses as proof of a borrower's ability to repay, and to separate access to a borrower's bank account from the repayment of a loan, in order to ensure that electronic payment methods don't become a collection method for the lender.

Rees said his company had been working closely with consumer groups, legislators and the consumer bureau to find "common ground" on the regulations.

Elevate spent $210,000 last year to lobby the federal government on financial legislation and online lending issues, according to Senate financial disclosure records.

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