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Online Lender Elevate Credit Sees No First-Quarter Slump

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By Telis Demos and Peter Rudegeair – June 2, 2016

Online lender Elevate Credit Inc., which delayed a planned January initial public offering, grew its lending by 80% in the first quarter from last year, according to the company.

Loans grew to $189 million in the three months through March, from $105 million a year before, said the company, which is focused on loans to people with spotty or limited credit histories.

But that was down from $251 million in loans in the fourth quarter. Elevate Chief Executive Ken Rees attributed the quarterly decline to people getting tax refunds in the first quarter and using them to pay off debt.

Mr. Rees said that Elevate was able to weather the broader funding problems experienced so far this year by online lenders such as LendingClub Corp. , whose CEO resigned in May, and Prosper Marketplace Inc.

Unlike those online lenders, Elevate uses its own capital to acquire loans rather than immediately selling them to investors. The company also expanded on its existing credit line from Chicago-based asset manager Victory Park Capital during the first quarter.

“We’re still on track for the year as expected,” said Mr. Rees. “We aren’t seeing any shortage in financing.”

Elevate bills its loans as alternatives for people who seek storefront payday loans, for which the Consumer Financial Protection Bureau on Thursday proposed a complex set of new requirements. Elevate’s loans are paid off in monthly installments rather than in one lump sum at the end of the term, as a payday loan is typically repaid.

The proposals include mandating that lenders assess a borrower’s ability to repay and limiting the ability of lenders to offer loans to repay unpaid loans.

It isn’t yet certain how the CFPB’s efforts will impact online, venture-funded firms such as Elevate and Flurish Inc., known as LendUp, that aim to supplant traditional payday loans.

Mr. Rees said that Elevate already followed many of the new CFPB practices, and welcomed the new rules. “We believe the rules will help both consumers and the industry by eradicating bad products, bad practices and bad actors and by creating regulatory clarity,” he said in an email.

Some of Elevate's loans have annual percentage rates, known as APR, as high as 365%, according to public filings. Mr. Rees said that its average rates were dropping, which he said was a contrast to sites such as LendingClub and Prosper, which have been raising rates in part to entice investors.

He said Elevate's average APR was 153% in the first quarter, down from 251% in 2013. "The issues that are impacting marketplace lenders are helping us out," he said.

Still, firms like Elevate and LendUp may be impacted by moves to limit short-term lending. Both firms were critical of a recent move by Google to bar paid ads by payday lenders, arguing they would be affected even though they offered safer alternatives.

"While we are still reviewing the full [CFPB] proposal…we fully support the intent of the newly released industry rules," LendUp CEO and co-founder Sasha Orloff said in a statement.

Elevate said that revenue and profit were also rising. Revenue in the first quarter was $131 million, up from $90 million a year before. Net income was $6 million, up from $1 million in the same period last year.

Mr. Rees didn't give a definitive timeline for the return of Elevate's IPO, which remains filed with the Securities and Exchange Commission.

"Unfortunately there have still been very few successful technology IPOs in 2016," he said in an email. "We are continuing to monitor market conditions."

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