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Myths Abound About Nonprime Consumers

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To best serve nonprime consumers, you first have to understand who they are and then design products that meet their needs, Elevate's Center for the New Middle Class executive director Jonathan Walker said.

Elevate's Center for the New Middle Class researches consumer behavior to identify the precise needs of Americans who are nonprime, with the goal of creating dialogue and cooperation between policymakers, consumer advocates, the public and other stakeholders.

"There's been a lot of misunderstanding about who the nonprime consumer is," Mr. Walker began.

Those misunderstandings were the focus of one of the Center's first research efforts, Mr. Walker said. They set out to see how accurate the stereotypes of Americans who are nonprime, that they are lazy, uninformed and careless, actually are.

"What we found is that is absolutely not the case," Mr.Walker said.

Americans who are nonprime are very conscious about their finances. One in seven have more than one job. They check their bank accounts an average of 22 times per month compared to 15 times for Americans with prime credit scores and check their credit scores 11 times per year, three times more than those with prime scores.

"They tend to be very conscientious because that's how they get by," Mr.Walker explained.
That lack of access to readily available credit that is also affordable hits hard when there is an unexpected expense like a car repair, Mr. Walker said. Easy to say borrow the money from someone you know, but what happens if they are all in the same boat?

"Telling nonprime consumers to borrow from friends is like telling an orphan to get their dad to take them to the fair," Mr. Walker said.

Mr. Walker said the Center for the New Middle Class' current focus is more on credit inequality than income inequality. Many Elevate customers actually have decent incomes but have no access to affordable credit, so when that car bill comes they have no choice but to seek out high cost alternative products.

Another common issue for people with nonprime credit scores is income fluctuation, Mr. Walker said. As fewer service jobs are full-time, workers have to cobble together multiple weekly jobs to survive. Should one of those jobs be lost or see a drop in hours, a once manageable expense becomes a challenge.

Elevate is a leader in serving this cohort, but more players need to develop strong underwriting models in order to properly serve them. Companies offering payroll deduction plans to cover student loan and medical debt have appeared, but have yet to prove over the long-term if they can maintain profitability in their respective niches, Mr. Walker said.

In the United States Elevate offers a pair of products to serve people with nonprime credit scores, Mr. Walker said. Rise is a state-licensed online secured loan with quick approval, declining rates on future loans, flexible terms and free credit score monitoring. Payments are reported to credit bureaus to help improve credit scores. Elastic is a bank-issued line of credit that has no costs until accessed and offers flexible terms and free financial literacy courses.

Those courses and declining rates are important and deliberate components of Elevate's makeup, Mr. Walker said, while adding that Elevate caps their EBITDA at 20 per cent with the savings passed on to consumers in the form of lower rates.

"One of the things that is really important to Elevate as a company is not only are we trying to solve the immediate problem people have for financing but it really is part of our DNA to help the customers be better off than they were before," Mr.Walker said.

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