IPO on horizon, subprime lending startup Elevate adds $545M in credit from Victory Park Capital

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By John Mannes – July 26, 2016

With an IPO on the horizon, subprime lender Elevate will have an additional $545 million credit faculty to support its growing customers.
Elevate's niche right now is providing loans to borrowers with creditscores between 575 and 625. As the company expands, it wants to provide loans to customers with even lower credit-scores.

Ken Rees, CEO of Elevate, is quick to note that 65 percent of Americans are underserved as a result of their low credit-scores. With additional lending data, it might just be possible to underwrite loans with confidence for these underserved customers. Previously, customers of Elevate would have been forced to take title or payday loans.

"20 percent of all title loans result in the customer losing their car," noted Rees.

Elevate's revenue run rate is hovering around $500 million even while average customer APR has been falling. The company has seen an 80 percent growth in loans outstanding over the last year, while charge-off rates have decreased from 17-20 percent in early 2014 to 10-15 percent today. Charge-off rates monitor loans that a company feels it can't collect.

This news should help to ease analysts fears about predatory lending in the subprime space. Rees' previous company, Think Finance, backed by Sequoia and TCV, got itself into legal troubles last year and was accused of racketeering and the collection of unlawful debt.

There are two key differences between Elevate and its predecessor Think Finance. First, Think Finance's model was based on both direct to consumer and licensing to third party lenders. Payday lender Plain Green, LLC, named in the lawsuit as the originator of the bad loans, was a licensed third party lender with Think Finance. Elevate operates solely with a direct to consumer model. Second, Elevate has implemented sustainable lending practices in an effort to increase its borrowers financial health.

Elevate rewards borrowers for watching financial literacy videos with better interest rates on products like RISE that are targeted at financial progression. The company also offers free credit monitoring. The average weighted APR for RISE is a hefty 160 percent, but it's relatively tame next to a traditional 500 percent APR payday loan. RISE loans drop by 50 percent APR after 24 months, and fall to a fixed 36 percent APR by 36 months.

Lending products Elastic and Sunny serve borrowers living paycheck to paycheck and in the UK respectively. Elastic is also built about pillars of financial sustainability. Borrowers also get access to financial literacy materials and are only charged when they draw funds.

Over 65 percent of Elevate borrowers have experienced a rate reduction. All of these lending practices have improved customer retention for the company, 60 percent of Elevate borrowers who payoff their loan will get another. Typically these new loans will be granted at even lower interest rates.

Elevate had previously considered an IPO but was forced to push-back. The stock market has been rather fintech-phobic in recent months. Lending Club, a peer to peer lending platform, has been the poster-child of the risk inherent in lending startups.

Rees doesn't think it's wise to compare his company to Lending Club. Elevate and its 400 employees have been functioning much like a public company, releasing regular information disclosures for almost a year.

"The main thing that the IPO does for us is reduce our reliance on debt financing," added Rees. "Victory Park Capital has been a terrific partner but that debt isn't free. Raising money in an IPO will support growth and drive down our cost of capital."

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