Fintech Consolidation and Banks
by Charles B. Wendel

For as long as Fintech lenders have existed, traditional bankers have said, "Wait until there is a recession," suggesting that many of these lenders would face credit problems and disappear. They may have been right.

This Tuesday Enova International, what I would term a subprime consumer land and business lender, operating in the U.S. and Brazil "announced that they have entered into a definitive agreement under which Enova will acquire all outstanding shares of OnDeck in a cash and stock transaction valued at approximately $90 million. The implied price of $1.38 per OnDeck share reflects a 43.6% premium to its 90-day volume weighted average price and a 90.4% premium based on the closing price of $0.73 per OnDeck share on July 27, 2020."

As of Tuesday, On Deck's stock price was 83 cents. On December 31, 2014 its stock price was $22.43. On Deck will likely make a good Harvard Business School case study.

On the consumer side, on the same day, Oportun, described in the *Texas Tribune* as "a Silicon Valley-based installment lender that caters to Latino immigrants," announced as reported in the *American Banker* that it decided to dismiss all pending collections cases and suspend filings of new cases because of the economic toll COVID-19 has taken, particularly on low-income communities**.** Many of its borrowers are from low-income, underserved communities that have been hit hard by the pandemic. When it does eventually resume collections, it will file about 60% fewer cases, CEO Raul Vazquez told American Banker in an interview Tuesday. He acknowledged that the decisions to suspend collections and cap rates would pose challenges in the short-term but said they will ultimately build loyalty among Oportun's customer base."

The company's CEO\ described these moves as "really good changes for our business." Really?

A financial tsunami may be hitting many Fintech lenders, lenders that presented themselves to the investment community as high growth. Why?

- Some of their borrowers are on the ropes
- Growth is gone, as new borrowers are either not credit worthy, do not exist, or are PPP dependent
- Operating expenses are high both due to technology costs but more due to the cost of origination
- Single product companies may lack sufficient scale
- PE investors are impatient and may be unwilling to invest further
- Funding may be difficult to obtain
- Experience in managing through a crisis of this proportion does not exist within these players

A few months ago I had a call with former Fintech client who was trying to determine his path forward. We discussed several options, all of which were battered away by the company's head. At the end of the call all we could agree on was the need to hunker down, reduce costs and pursue a “batten down the hatches” mentality. That’s not the hedgehog-like response I usually suggest, but in this case his degrees of freedom were few.

The Fintechs that are likely to remain set their survival path not months but years ago. They added products to diversify risk and build their revenue streams; they became a platform provider to banks wishing to “rent” their technology rather than build it themselves; they sold before March.

Just as many banks need to look in the mirror, admit that they lack capabilities to survive the current crisis and look for a partner, so too do Fintechs need to determine their best path forward. Most banks still possess a value that is attractive to others: they may be a good a source of deposits (deposit strength will become important again); they may offer a new territory or state to a bank that wishes to expand; some will have product capabilities or specialties that the acquiring bank can leverage to grow. Fintechs may need to find business partners that value their technology, the business systems they have developed, and/or the quality of their leadership. Fintechs currently working with banks and credit unions should look to their current clients as the most likely acquiror.

Until the past year hundreds of small business and consumer Fintech lenders operated. By the end of the year, the number will be dramatically lower. Those that remain, however, will be well positioned to grow quality volume as the economy returns to something approximating normal. But, there will be lots of red ink and blood on the streets until we get to that point.

Using virtual meeting technology, FIC works with its clients on these and related issues. Because of continued uncertainty, banks, credit unions, and Fintechs need to focus on the future as they manage current portfolios and changing customer expectations.