

Avant broadens its digital banking capabilities with challenger acquisition

Article



The US-based online lender is acquiring Zero Financial and its challenger brand, Level, in a mixed cash-stock transaction, [per](#) TechCrunch. No other financial terms have been disclosed. The deal will enable Avant to offer a comprehensive suite of banking products, including deposits, personal loans, credit cards, and auto loans.

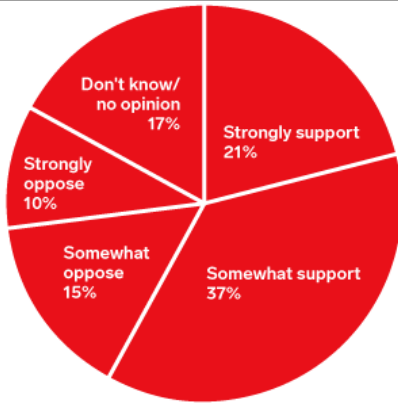
Avant is following the lead of other alternative lenders that have tied up with banks to increase profitability or expand into new credit products. Here are two examples:

- **LendingClub's recent acquisition significantly reduced its cost of funds.** By **buying** Radius Bank, the alt lender **reduced** its borrowing costs by 90% from the previous year. Avant's savings from the Zero purchase will likely be smaller, given it will still be paying fees to a partner bank, but broadening its deposit base could still have a meaningful impact on loan profitability. And should it pursue a national banking charter, Avant would be able to drop the middleman, expanding its margins even further.
- **SoFi's forthcoming transaction allows it to offer new lending products.** The online lender's recent **purchase** of Golden Pacific Bancorp is already enabling it to expand its credit solutions into new areas: SoFi launched its first-ever credit card alongside the acquisition and subsequently **added** auto refinancing to its growing lineup. Avant can similarly broaden its repertoire based on new insights from existing Zero customers. Leveraging this data to push into areas like mortgage or auto lending could be significant profit drivers for Avant.

The alt lender's AI-powered approach and focus on underserved consumers could allow it to carve out a lucrative niche in the banking space. Avant's lending solution is powered by a robust AI infrastructure that enables it to look beyond a customer's credit score. Acquiring Zero gives Avant a window into new factors that can strengthen its model, including data on customer cash flow, spending, and bill payment. Historically, the online lender has **served** middle-income borrowers, and Zero seems to be **following** that ethos. Other challengers within the space have a more affluent or broad focus, and could be overlooking the customers Avant is targeting. By bolstering its underwriting ability, the alt lender will be able to better serve US consumers whose credit histories have long precluded them from accessing lending products that could better their financial standing.

How US Adults Feel About Lenders Taking Their Credit History into Consideration for Loan Pricing, July 2020

% of respondents



Source: Online Lenders Alliance, "Setting Prices For Loans Polling Presentation" conducted by Morning Consult, July 10, 2020

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