Case Study

SoLo Funds

The fastest-growing fintech no one has heard about.

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SoLo Funds: the fastest-growing fintech no one has heard about, according to founder Travis Holoway

Travis Holoway calls his company, SoLo Funds, “the fastest-growing fintech no one has heard about.” In some ways, that may be true: the company, which Holoway founded with Rodney Williams in 2018 provides a peer-to-peer platform for requesting, lending and repaying small-dollar loans, operates outside traditional marketing channels. Their ads are not on Instagram, or between Spotify songs, nor are they clickable while binging something on Netflix.

But word is spreading fast – and organically -- within its target audience: people who need a few hundred to few thousand dollars for personal expenses and lenders who don’t make enough to be sought-after by large investment firms.

At the root of SoLo’s success is a deep understanding of this customer, and a desire to build a platform that doesn’t just fulfill their immediate financial goals, but also creates a track record over time that can help both borrowers and investors build their financial futures.

“They want to take part in this financial collaboration, they want to be respectful to others and both sides feel like this is an equitable way to either give back or get an opportunity and access, but also give back later,” Holoway said. “The best stories are borrowers who come here and then come back as lenders later on.”

The Beginning

Before founding SoLo, Holoway worked as a financial advisor at Northwestern Mutual in New York, later becoming director of training and development. Rodney Williams, his friend and SoLo co-founder whom he met while both were living in Cincinnati a decade ago, worked in the marketing department of Procter & Gamble before leaving to found Lisnr, an ultrasonic payment authentication platform. The two had friends in common, who started approaching them for small-dollar loans.

“The loans were for really basic necessities – food, rent, gas, car payments and car problems,” Holoway told The Plug . “We realized they were asking because there is such a lack of resources for small-dollar loans. Banks don’t play in that space; you can’t walk into a bank and get $50 for gas.”

A 2019 report from the Federal Reserve found that, even when unemployment rates were at their lowest point in 50 years, 40 percent of Americans said they would struggle to pay a $400 emergency expense. Nearly 20 percent were not paying their bills in full every month.

Anyone who has ever asked or been asked for money knows that keeping that kind of loan between friends or family can put stress on the relationship. The asker feels embarrassed, the person with the money feels conflicted. Holoway and Williams knew that if they said no, their friends or family members would likely end up getting a check advance or a payday loan, which can have interest rates of more than 600 percent .

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Just as traditional financial solutions overlook small-dollar loans, traditional investment vehicles don’t have much use for smaller-dollar investors as most don’t have enough assets to make it worth their while.

While working in finance, Holoway had the realization that his father, who worked at General Electric for 37 years and had discretionary capital that could be directed into investments, wouldn’t make the cut to be a target client for Holoway’s firm.

“Many of those people also just don’t know how to invest in a traditional market,” Holoway said. . “But they understand the needs people have and they want to make a positive impact.”

What both groups needed, Holoway and Williams realized, was a vehicle for these transactions with a seamless structure and clear, affordable terms. As Holoway said at the company’s launch in 2018, “This is the right product at the right time created by a team working to do the right thing.”

How it Works

SoLo calls itself "the community bank redefined." The company facilitates personal loans to users in the U.S. through a peer-to-peer platform on a mobile app. After downloading the app, buyers and lenders create an account, provide a photo of the front and back of an ID card, enter their social security number and are then invited to take a tutorial for using the platform.

The user base is strongly powered by world-of-mouth – about 65 percent of app store downloads come from direct search, according to Holoway. Those requesting a loan are asked for the amount of the ask, the reason for it, and a payback date and the "tip" or amount of return for the lender. Borrowers are also asked to link their bank account to the app.

Based on the information they provide, borrowers are assigned a SoLo Score – the higher the score, the more likely a lender will fund the loan. The app doesn't require borrowers to go through a FICO score review, but assigns the SoLo Score based on a proprietary combination of cash flow and social media data. Borrowers can increase their score and borrowing limit by paying back loans on time. Holoway says one of the company's goals is to find ways that customers can leverage a high SoLo Score to become more attractive to traditional financial institutions.

Each loan request also lists a "donation" or payment to SoLo, starting at 7 percent or $3.50 for a new borrower seeking a $50 loan. The donation is paid by the lender at the time the lender funds the loan, but is reimbursed to the lender when the borrower pays the loan. Loan amounts range from $50 to $1,000; the average loan is $200, with borrowers requesting funds for rent, car payments, medical bills, gas, groceries, oil changes, "just a quick infusion," or "to feed my kids until payday."

Lenders see the borrowers loan history on the platform, including whether repayment came in late or on time. Returns on investment, i.e. interest ranges from 3-10 percent, and SoLo is able to transfer money to borrowers within minutes.

In November, Holoway told ThePlug the app has garnered more than 400,000 downloads and has facilitated an average of $1 million in transactions per month.

"We are matching loans in an hour, which is unprecedented in peer-to-peer lending," Holoway said in a February interview with TechCrunch. "For the borrowers, it is a personal experience going on the platform, requesting a loan and having a stranger fund it. It feels personal to them that someone chose them, so they want to pay it back because they don't want to burn a bridge on this platform."

By the Numbers

Holoway and Williams began developing SoLo in 2016 in New York, officially launching on iOS on April 2, 2018, and then on Android a month later. SoLo graduated from the Lumos accelerator in Columbus, Ohio, and relocated to Cincinnati after being accepted into the Hillman Accelerator.

At its launch, SoLo had raised $1.2 million in seed funding from lead investor Rich Dennis, founder of Sundial Brands and owner of Essence magazine, in addition to Qey Capital, Jumpstart Inc., Queen City Angels and Monique Idlett-Mosely. In July 2018, SoLo was accepted into Techstars Kansas City. The company relocated to Los Angeles in early 2019, by then having facilitated more than 10,000 loans and raised more than $3 million.

The company completed a $10 million Series A round led by ACME Capital earlier this year. Impact America Fund, Techstars, Endeavor Catalyst and CEAS Investments also participated in the Series A. SoLo has raised $12 million to date, including $2.8 million in seed funding and a series of convertible notes from other investors.

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ACME Capital partner Brian Yee told Crunchbase that he was attracted to SoLo due to its “amazing” mission.

“When I started playing around with SoLo it resonated with me,” Yee said. “It is still raw, but I am always checking the application to see if there is an interesting loan I can fund. I can’t think of another company solution that solves aspects for every constituent: for the lender to lend on his or her own terms, and for the borrower to set the loan.”

The company has also been strategic about leveraging partnerships. In June, SoLo launched an initiative with Kiva, which allows people to lend money to entrepreneurs in 77 countries. Kiva will now refer people seeking personal loans to SoLo, while SoLo will do the same for users on its platform who are seeking larger-sized business loans.

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Countries

SoLo is also part of Visa’s Fast Track program, which allows the company to use Visa Direct real-time payment service to give borrowers access to their loan money in seconds. Holoway said the partnership also offers the potential for SoLo to offer card issuance and other products in the future.

“It’s allowing users to get more access to funds and different access to funds – it’s a strategic relationship that makes a ton of sense for us,” Holoway said.

The Market

In survey after survey, millions of Americans say they live paycheck-to-paycheck, with one 2017 CareerBuilder report putting the number as high as 78 percent. For these households, one bad week financially can create financial implications that reverberate for months: an unexpected change in job status, a medical emergency or a string of home repairs can wreck someone's finances for decades or even a lifetime.

For many of these Americans, the traditional financial system is out of reach. According to a 2017 study by the FDIC, approximately 63 million people in the U.S. country are either unbanked or underbanked. That means they often struggle to find a place to cash or deposit a check, may be shut out of retailers who don't accept cash, can't apply for credit and wouldn't be considered viable candidates for any type of loan. Instead they may rely on check cashing places, payday loans and other financial products that often put the customer deeper in the hole.

These trends are part of what has fueled the growth of alternatives, including crowdfunding sites like Kickstarter or GoFundMe, where the end user gets to keep the funds given to them by others for business or personal needs. IBISWorld estimates that peer-to-peer lending is a $870 million market in the U.S. that is expected to increase by 6.3 percent in 2021.

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The Turning Point

SoLo fast-tracked its growth by taking a big risk. Starting in the fall of 2019, the company spent six months rebuilding the product from the ground up, creating a simpler sign-up process and an infrastructure that would make it easier to scale. Most importantly, SoLo introduced a lender protection product that investors can use to shield themselves against potential losses if a borrower fails to repay the loan.Investors opt in by paying a small insurance fee per transaction with a borrower. For 5% of the original loan principal, investors can add additional security in the event the borrower defaults.

Holoway said the introduction of the product paved the way for exponential growth by changing the way investors viewed the company's role in the process.

"From some of our members' perspective, we didn't have any skin in the game before; people didn't understand that we would be negatively impacted if loans didn't perform in a certain way," Holoway said. "Releasing that feature shows we're in this together; we're willing to bet this individual is more creditworthy than traditional institutions have deemed them and we're willing to put our money where our mouth is."

As part of the rollout, SoLo went dark between mid-March and mid-April of last year, facilitating zero new loans while it perfected the new insurance product and user experience.

"We took revenue down to virtually nothing," Holoway said. "It showed how resilient the platform is. We didn't know if people would come back to that," he continued"When you're using something, and it goes away for 30 days it's easy for people to move onto something else. But what we saw on April 15, was people came right back."

SoLo experienced 40 percent month-over-month growth for the first six months after the relaunch, according to Holoway, even though the company's marketing spend is minimal (so minimal, Holoway said, that any member of his team could cover it out of their own pockets.)

"The experience showed us that product-market fit is here and this is the time for us to really turn it on and grow," he said.

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How SoLo Thinks Differently

Although SoLo had been working on the insurance product and other changes for months before early spring 2020, Holoway notes that the timing was on the company's side. –

When SoLo relaunched last April, much of the U.S. was going into lockdown due to the onset of the COVID-19 pandemic. Unemployment skyrocketed and so did uncertainty; there was no way to predict (and despite the development of highly effective vaccines, for many industries, there is still no way to know) when we will be back to "business as usual," or what that will even look like.

"It took the government six months between last June and December to get people another $600 [in stimulus payments,]" Holoway said. "Think about how many times during that period people needed that extra $300-$400, and they couldn't depend on the government. Instead they came to SoLo so they didn't have to go without getting their car fixed and buying groceries."

During the pandemic, lower-income people have been more likely to to lose their employment or income.But Holoway rejected the idea that it was COVID-19 alone that propelled SoLo to its current level of success.

"The thing is, it's always been this bad. The individual who has been largely affected by the pandemic is more of the essential workers, the person who works in retail or hospitality," he said. "People who make $150,000-$200,000, who work at tech companies, most of them are still gainfully employed and didn't miss a beat. I can prove that by looking at the red-hot real estate market right now."

While COVID-19 definitely wasn't a hindrance to SoLo's business, Holoway credits the company's growth to creating a lending community that takes a holistic approach to the challenges that its borrowers and investors face in interacting with traditional financial institutions.

"The underbanked demographic is much more creditworthy than traditional institutions have given them credit for," Holoway said. "There is a tremendous emphasis put on the FICO score, but the FICO score is broken. There is such a lag effect in it reflecting what's really going on in someone's life."

Holoway said borrowers on SoLo typically make about $35,000-$50,00 annually and live in large metro areas where the cost of living tends to be higher. About half of borrowers are college educated.

"A lot of them are women and have children and are a member of a minority group. But about 51 percent are white males," Holoway said. "Those demographics were actually pretty shocking to me, I didn't necessarily think they would look that way."

Lenders typically make $75,000-$100,000 a year and "there are financial analysts, but they're also welders, electricians – individuals who make a good living but may not get the attention of an advisor from Goldman Sachs," Holoway said.

"These are the individuals who are now on Robinhood and being creative and looking for investment opportunities. But they're also on SoLo looking for an opportunity to have that positive social impact and give back; we've also got a lot of ministers and pastors on our network."

Holoway told Crunchbase in February that about half of all loans are made by what he called "power lenders", or repeat lenders; the rest come from occasional users.

What unites both borrowers and lenders together, he said, is "they want to be part of a community."