PROFILES IN INNOVATION:

Spreading Fintech Solutions into New Crucial Sectors

During FinLab’s Fourth Year

January 2019
The Financial Solutions Lab (FinLab) is a $30 million, five-year initiative managed by the Financial Health Network with founding partner JPMorgan Chase & Co. The Lab seeks to identify, test, and bring to scale promising innovations that help Americans increase savings, improve credit, and build assets. Lab participants share a relentless focus on building products that will improve the financial health of Americans. The Lab provides capital, national partnership opportunities, industry expertise, mentorship, and cutting-edge consumer and design insights necessary to build the next generation of leading financial products and services.

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The fintech industry has matured significantly since the Center for Financial Services Innovation launched the FinLab initiative in 2015.

Now in its fourth year, the $30 million, five-year program with founding partner JPMorgan Chase & Co. supports fintech companies working to help millions of Americans manage their financial lives more effectively. This year’s cohort of eight reflects a growing sophistication in the industry. These are companies simplifying complex systems, using big data to create new underwriting models, and developing solutions that give consumers, particularly the underserved, better ways to reach and maintain financial health.

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While the fintech industry has seen tremendous growth over the years, consumers continue to face serious challenges in their financial lives, making industry innovation all the more urgent. Forty-five million Americans today are still considered “unscorable” by the Consumer Financial Protection Bureau because they either have little or no credit history, or their credit data is too outdated to qualify for a FICO score. What’s more, just 28 percent of Americans are Financially Healthy, leaving the majority in need of more effective solutions to manage their money.

To help solve these challenges, this year’s FinLab companies reflect a more holistic approach to financial health. This group tackles issues across a range of sectors to ultimately improve the financial health of people who need it most. The sectors they fall across include employee benefits, healthcare, life insurance, and education – representing just how diverse and far-reaching fintech can be in its approach to creating solutions.

By venturing beyond the traditional fintech focus, this group demonstrates how thinking outside the box allows for crucial innovation. How can we combine prize-linked saving and mobile gaming to improve people’s financial lives? What tech tools can enable kids to save for their future? How can we transform notoriously complex systems, like student debt repayment, pretax benefits, and the reselling of life insurance, into elegant solutions for consumers? How can we build new underwriting models using non-traditional data?

With access to an incredible amount of consumer data, fintech companies are developing new effective ways of establishing creditworthiness using non-traditional data sources, rather than relying exclusively on FICO scores. Using big data to create new underwriting models gives traditionally underbanked consumers access to sources of credit previously closed off to them. For example, Petal offers a no-fee credit card with no credit score required. By underwriting based on a person’s cash flow – their history of income and expenses – and other data, Petal is able to offer credit cards to thin-file and no-file borrowers with APRs and credit limits normally reserved for those with prime credit scores.

“In the world of data-driven decision making, we’re able to harness data to make more holistic financial decisions,” Petal co-founder Jason Gross says. “A credit report doesn’t tell you whether your consumer can pay off a loan. We are pioneering technology that looks at the full picture.”

Another innovative company using non-traditional data to underwrite for underserved consumers is Sixup, which provides student loans to high-achieving, low-income students with little to no credit history – funding the gap between a student’s financial aid package and the cost of college attendance. Unlike traditional student loan underwriters, Sixup doesn’t require a credit score, credit history, or a cosigner. Through its proprietary outcomes-based credit model, Sixup uses predictive data, including student academic and financial information, to identify students who will repay their loans as reliably as borrowers with prime credit scores, creating a new asset class they call FuturePrime™.

Research has continuously shown it’s much more effective to build technology around consumer behaviors than to attempt to alter those behaviors to fit the technology. This year, companies are showing that a focus on behavioral design can help to change the outcomes and lives of consumers in the long run. For example, Goalsetter, a gift-giving, savings, and financial education platform for children, incorporates simple features like rounding up, which enables parents to round debit purchases to the nearest dollar and automatically transfer the spare change toward their child’s savings goals. FutureFuel.io, which provides an array of student debt-focused benefits, also allows participants to automatically contribute spare change, but in this case, to pay off student debt – a simple feature that can shave years off of debt repayment.

Creating new ways for consumers to save using technology built around existing behavior is also something WinWin is tackling. Given that 193 million Americans play mobile games on their phones, WinWin helps users save small amounts of money through prizes and gamification.
3. Streamlining complex systems

Perhaps most exciting in the industry are the ways in which startups are harnessing technology to transform complicated systems. Through a combination of artificial intelligence (AI) and machine learning, strategic industry partnerships, and thoughtful design, companies are simplifying processes that have been notoriously challenging and expensive for consumers to navigate.

With an incredible amount of potential to harness data and automate systems, AI is being applied increasingly across the fintech industry to simplify complex financial systems. Resolve demonstrates the need to balance that fine line between automation and human interaction in fintech innovation. Its product uses AI to help determine the best course of action for users in financial distress, but its user experience also includes touchpoints with human “debt coaches” to answer questions and guide users through the process. Similarly, Mason Finance, whose first product is modernizing the life settlement market (the sale of a life insurance policy to a third party), is using digital processes and automation to cut out middlemen and drastically reduce the time and expense of selling a life insurance policy.

Alice is another great example of this trend. Its product drastically simplifies the process for employees to enroll in and use pretax benefits, transforming the countless forms and decisions typically required into an easy, intuitive user experience.

As this year’s cohort demonstrates, building solutions across sectors outside of traditional finance empowers consumers to live healthier financial lives. It’s these innovations happening in adjacent industries that CFSI sees as the next frontier in helping struggling consumers improve their financial health.
Pretax spending for childcare, commuting and other essential life expenses has been around a long time, but what’s been missing is an easy and automated way for people and their employers to actually take advantage of those benefits. With their company, Alice, Avi Karnani and Paul Barnes-Hoggett have built a software that automates and streamlines the otherwise logistical mess of paperwork and complicated steps that have kept people from taking full advantage of pretax spending.

Their inspiration for Alice, which launched in 2016 and now works with hundreds of companies across the U.S., started in 2014 when Karnani and Barnes-Hoggett were fellows at the Robin Hood Foundation. There, they dug deep into the financial challenges low-income New Yorkers face.

"Most tech founders tend to be affluent white men and certainly aren’t $400 away from financial instability, which 40 percent of Americans are," Karnani says.

From that work, Karnani and Barnes-Hoggett learned that a million and a half New Yorkers working hourly jobs purchase seven-day metro cards rather than monthly subway passes, though a monthly pass offers significant savings for commuters. For many, buying a weekly pass is the only option because they are paid just enough each week to cover the expense. In the long term, low-wage earning commuters end up paying 15 percent more than those who can afford monthly cards, or an additional $125 a year on public transportation.

"The difference between a poor person and an affluent person’s subway card takes $200 million a year from poor communities," Karnani says.

Software That’s Boosting Employee Paychecks When They Make Everyday Purchases

Alice automates pretax spending so that employees take home more money on payday
There had to be a way to give low-income commuters access to this financial incentive. Karnani and Barnes-Hoggett decided to create a simple way for people to apply via text message for a 30-day loan on a monthly MetroCard. They bought thousands of dollars worth of monthly subway cards and mailed them to participants, hoping to learn a lot about small-dollar lending at the expense of losing much of this money through unpaid loans. But what they discovered surprised them: The repayment rate for participants in their MetroCard experiment was 97 percent.

“We are living stably and raising their families, but they don’t have a cushion in case of emergency,” Karnani says. “The products available to them don’t help them do that. Here is clearly where a financial solution doesn’t exist.”

That same year, they started getting calls from companies across New York interested in offering commuter benefits to their employees. This was around the time New York City made it a requirement for employers to offer commuter benefits to their workers. Suddenly, Alice had major interest from companies of all sizes eager to figure out an easy way to offer this new benefit to their employees.

Alice enables employees to safely link to their credit or debit account so that the software can automatically flag expenses that qualify for pretaxable income like childcare or ridesharing services. Alice is then able to process and apply this spending information to shield employees’ income from payroll and income taxes, resulting in more take-home pay. For example, pretaxable income expenses like dropping your kids off at daycare or covering the cost of a high healthcare deductible could now be factored into and applied to paychecks, resulting in direct savings.

“We built Alice so that you get a text message every month that tells you how much you’ve saved in pretax spending,” Karnani says. “On payday, you get a text that says for example, that you will get $51 extra dollars on your paycheck.”

Alice then enables users to choose what they want to do with this new extra income – apply it toward savings, use it toward credit card debt, or keep it in their take-home paycheck total.

Participating in CFSI’s FinLab cohort enabled Alice to see the bigger picture of how this kind of savings can impact people’s financial lives.

“The FinLab knows so much about applying the technology of finance to help people solve everyday problems,” Karnani says.
When Laurel Taylor got into business school at Massachusetts Institute of Technology in 2013, she’d realized a longtime dream of hers. Then the reality of figuring out how to pay for it set in. Despite having more than 10 years of work experience, including working at the tech giant Google, and a credit score over 800, when Taylor applied for student loans, she was hit with a 9 percent interest rate. If she had excellent credit and was still getting slammed with such high rates, what was happening to everyone else out there trying to pay for school?

“This is very personal to me. The catalyst for starting FutureFuel was my own journey taking out a tremendous amount of student debt,” Taylor says.

People with student debt are two-thirds more likely to withdraw from their 401(k). What’s more, the average student loan takes 17 to 20 years to pay off.

“Today’s generation is not thinking about a 401(k). They are overwhelmed by their student loans,” Taylor says. “It’s like pouring money down a black hole without any understanding how it’s moving the needle.”

Her company, FutureFuel.io, aims to transform that experience, reimagining what it means for employers to offer student debt repayment benefits. Taylor wanted to create a way for companies to offer student debt repayment as

Transforming Student Debt Payment Into an Easy-to-Use Employee Perk

FutureFuel.io has created a platform employers can use to offer student debt repayment alongside 401(k)s and other benefits.
a transparent and user-friendly perk to help recruit and retain employees. Her challenge: How to make something awful into something awesome.

“When we speak with users, they talk about their debt as stages of grief. It’s intense,” Taylor says.

FutureFuel started as a marketplace connecting computer science graduates with employers offering student debt repayment. But after six months, Taylor decided to shift the focus from a consumer-facing marketplace and instead build an enterprise SaaS platform to scale student debt relief as a new normal.

“I knew from the traction that it was going to be an enormous market,” she says. “As we looked at democratizing the benefit, the way to scale was to enable employers at large to have student debt-centric offerings right alongside their 401(k).”

Her goal was to build a platform that employers could “plug and play” that would make it easy for them to offer employee benefits around student loan debt. To do this, the company had to figure out a way to simplify a notoriously archaic and obtuse debt repayment process with a legacy structure that Taylor likens to a hospital system.

“You enter into the first floor and you keep walking and all of a sudden you’re on the third floor. It’s a bit of a Frankenstein,” she says. “A lot of the challenge with the overall space is that its infrastructure is largely outdated and users are super confused as to what they owe, how much they owe, and when it will all be over.”

Taylor needed to figure out how to create a B2B2C experience that overhauled the frustrations so deeply linked with student loans.

“You get your cup of coffee in the morning, and we take your spare change. That extra $20 a month could mean five years off a loan,” Taylor says.

“A lot of that complexity on the back end has to be reduced to a very elegant user experience,” she says.

To do this, FutureFuel processes payments for employers, partnering with Quovo, a data aggregation company that made it possible to operationalize the benefit for employers. Because most people have a handful of simultaneous student loans to pay off, confusion, lost payments, and mismanagement are rampant in the industry.

“We use financial technology to validate that the loan exists, the total outstanding balance, the interest rate, and all of the employee’s payment behavior,” Taylor says. “Sending the payment and seeing that payment hit is a very closed-loop capability. We’ve had to work around that system to let employees know their payments were made.”

One of the company’s major recent platform launches was for a product called Roll Up, which Taylor likens to a kind of Google Flights for student loans. The platform aggregates all of your loans, telling you what your payout horizon for them is and which payments to make first.

Another feature called Roundup allows users to round their spare change to the nearest dollar for each purchase and contribute that toward student loan payments.

“You get your cup of coffee in the morning, and we take your spare change. That extra $20 a month could mean five years off a loan,” Taylor says.
The average American kid gets $6,617 in toys by the age of 12, but 70 percent of high school-aged kids do not keep track of their spending, according to research by the Toy Industry Association, Junior Achievement, and Allstate Insurance. What’s more, only seven states across the U.S. require students to learn financial literacy in high school, leaving most teens without a sense of money management heading into college and beyond.

“We’re not doing a good job teaching our kids how to save instead of spend,” says Tanya Van Court, founder of Goalsetter, a virtual platform that gives kids and their parents the tools to start saving and setting financial goals from an early age.

It’s not just the responsible thing to do, Van Court says. Giving kids the tools to start saving early fundamentally changes their outcomes in life. Kids with savings accounts in their names are six times more likely to go to college, according to research out of Washington University in St. Louis.

“The simple fact that they are saving changes their financial outcomes in life,” Van Court says.

Having never been taught money management herself while growing up, Van Court learned about it the hard way, by losing all her savings – a million dollars in investment money – during the tech bubble burst in 2000.

These days, Van Court has started teaching her own daughter about smart money choices from an early age. For her ninth birthday, Van Court’s daughter surprised her by asking for an investment account instead of toys or clothes as a gift.
“Millennials save more and earlier than any generation before them, because they grew up through the Great Recession,” she says. “They are the right demographic to help their kids learn about saving early.”

“What’s more, Van Court began to see that millennial parents, in particular, value experiences over things. She took a cue from other fintech products in the marketplace like Zola and HoneyFund that reflect a millennial focus on experiences.

“Millennials save more and earlier than any generation before them, because they grew up through the Great Recession,” she says. “They are the right demographic to help their kids learn about saving early.”

To do this, Goalsetter started with a simple gift-giving site powered through PayPal, where parents and relatives could make financial gifts to kids. In 2017, Goalsetter relaunched with an independent online platform where kids and teens learn about financial planning through tools like an urban financial dictionary that includes 50 terms told through the language of hip-hop artists. Compound interest, for example, is explained by 2Pac’s lyrics: “I’m trying to make a dollar out of 15 cents.”

But Goalsetter is more than just a teaching tool. The platform enables parents to autosave via an FDIC-insured savings account as well as the ability to “round up” debit card swipes and purchases, contributing spare change to their kids’ goals. In addition, kids can earn allowance money, which can then be transferred to their goals. Even family and friends can contribute by purchasing “GoalCards” instead of gift cards for birthdays and holidays.

“We often think adults are the only ones who are goal-oriented,” she says. “It doesn’t matter if they are saving for sneakers, an Xbox, or a new iPhone, if you establish that habit for kids at 8, they are going to retain that habit at 28.”
Aging Americans are a growing population, making financial struggles in retirement an ever-pressing issue. Nearly half of Americans have no retirement account savings at all, according to Economic Policy Institute data. At the same time, every year Americans over the age of 65 lose $140 billion a year in lapsed life insurance. The main culprit? Expensive premium payments they can’t keep up with.

For Felix Steinmeyer and Charles Mourani, co-founders of Mason Finance, Inc., a licensed life settlement buyer, the widespread issue facing aging Americans represented a massive unmet market need. Steinmeyer and Mourani, who met while studying at Stanford University, first started working together on a very different business plan two years ago. They created an online platform where people could resell their jewelry and quickly discovered that older women were the main demographic they attracted to their platform.

“There are a lot of misconceptions about seniors. They are extremely good online. Seniors value a good experience, and they are some of the most serious customers you can have,” Steinmeyer says.

If seniors were going online to make some extra cash, what other ways could technology reach them that would make a real difference in their financial relief through simplified life settlements.
financial lives? In their research, Steinmeyer and Mourani realized just how much money people were losing on lapsed life insurance policies. What if they could create an easy and automated way for people to take advantage of life settlements that allowed them to access cash quickly and safely?

A life settlement allows you to sell your life insurance policy to a third-party investor for a lump sum in cash. As a result, the investor becomes responsible for paying your monthly premiums and becomes the beneficiary of the policy once you die. While not a new practice, getting a life settlement has long been a tedious and expensive process, involving a number of third-party players, lots of time, and lost money.

“When there is a sudden expense, insurance premiums fall on the back burner,” Steinmeyer says. “People don’t realize these policies can be exchanged on the secondary market for a lot of value.”

The average amount people get for their policy in a life settlement is 25 percent its face value, which can amount to thousands of dollars for seniors who have been paying life insurance premiums for years. For anyone over the age of 65 struggling with life insurance premium payments or facing a sudden big expense, a life settlement creates access to money without having to sell your home or fall into financial ruin.

“Anybody who is faced with a big unexpected expense should consider selling,” Steinmeyer says.

Often what people don’t realize until it’s too late is that when they lapse on their policy, they not only lose their life insurance coverage, but also lose all the premiums they paid over the years. That is where life settlements come in.

“If you sell your policy, you get a lump sum of money for the premiums you already paid and you no longer need to pay them each month,” Steinmeyer says.

To make this possible, Mason Finance had to figure out a way to streamline the process of selling policies through automation and get the proper licensing to be able to complete those transactions themselves. Traditionally, people looking to sell their policies need to deal with a slew of middlemen, each of who takes a cut along the way. What’s more, the process can take up to six months to complete, involving around 100 different touchpoints, Steinmeyer says.

To simplify the process, Mason Finance collects all the necessary information and manages it online.

“It’s about digitizing what was before a much lengthier process,” he says.

When seniors visit the Mason Finance website, they go through an estimator to help determine whether their life insurance policy is likely to have value or not and if so, how much. They then complete a 15-minute health quiz. Once the necessary information is gathered, Mason Finance sends each person’s information to institutional investors to find out how much their plans are worth. After passing that information to consumers, those who are interested can complete the sales transaction through the website and have their money wired directly to them. By digitizing and consolidating the process, Mason Finance is able to significantly shorten the turnaround time.

“It can take as long as two months or as little as a day,” Steinmeyer says.

The main purchasers of these policies are large institutional investors who bundle multiple policies and pay their premiums moving forward. For investors, the life settlement investment comes with attractive returns.

“We had a lot of interest from investors. A lot of people see the magnitude of the problem and the opportunity,” Steinmeyer says. “A lot of people care about the larger meaning and impact this business will have on seniors.”
A New Type of Credit Card for the Millions of Americans Without a Credit Score

Petal uses cashflow underwriting to qualify people for its no-fee credit card

With 45 million adults in the U.S. lacking a credit record entirely, according to the Consumer Financial Protection Bureau, and another 20 to 40 million without enough credit bureau data to generate a score, the credit marketplace has long been ripe for a solution for underserved consumers.

“You need a credit score to finance a car, purchase a home, and get a credit card without subprime interest rates,” says Jason Gross, co-founder of the fintech credit card company Petal.

“The cost of a low or no credit score over the course of a consumer’s life is estimated to be more than $250,000 in fees and interest.”

It’s this unmet market need that inspired Gross and his co-founders – Andrew Endicott, David Ehrich, and Jack Arenas – to create a credit card that uses alternative financial data besides credit scores to determine eligibility and rates. Using data analytics and machine learning, Petal assesses a variety of other financial indicators, including savings, monthly income, and past payments on expenses.

The seed for this idea goes back to one of the company’s founding advisors, Berk Ustun, who was studying for his Ph.D. in machine learning at the Massachusetts Institute of Technology in 2015. Ustun, who had moved from Turkey to go to school, was faced with a challenge many international students experience when trying to set himself up to live in the U.S. He wasn’t able to open a credit card or sign a residential lease without an existing U.S. credit score. But that didn’t mean he had no history of responsible borrowing and spending to show for himself.
“All you need is a bank account history,” Gross says. “For tens of millions of young people who have a debit card but haven’t opened a credit card, we are a great option.”

“We started talking about Berk’s personal experience trying to access the credit system,” Gross says. “The research he was doing at MIT involved using large data sets to make better predictive models through machine learning and data intelligence.”

What if this model of machine learning could be used to create a new way for people’s credit history to be assessed more accurately, more broadly, and in real time? In 2015, Gross and his co-founders started working with Ustun’s research to figure out how they might create a new way of determining creditworthiness.

Their card, Petal, which came out in beta at the end of 2017, officially launched as a Visa card in October 2018. It works by predicting credit behavior using a variety of data sets and machine learning methods to analyze a person’s financial data.

“What we are talking about is your basic financial data that describes your day-to-day ability to pay your bills and meet your financial obligations,” Gross says. “In this country, we’ve become so ingrained in the credit score as the only factor that it’s very easy to forget these other things.”

Petal analyzes bank account data to qualify users for its card. After Petal syncs with your bank account, it uses an automated credit process to determine your card eligibility.

“All you need is a bank account history,” Gross says. “For tens of millions of young people who have a debit card but haven’t opened a credit card, we are a great option.”

Also crucial to the business – the card has no fees of any kind, meaning no maintenance fees, late fees, overlimit fees, or high interest rates. Petal reports to all three credit bureaus and acts as a digital finance tool by showing users all of their accounts in one place and allowing them to receive smart reminders and automate their payments. Rather than offering annual percentage rates, like most credit cards do, it presents users with actual dollar amounts on how much they’ll owe, so that they can make better borrowing decisions.

Like other traditional cards, Petal makes money by charging merchants a percentage fee on each transaction and charging borrowers interest – though its rates are lower than traditional cards available to underbanked consumers.

To make this digital tool possible, Petal had to partner with a number of key players, including an issuing bank, the Visa card network, a payments processor, and investors willing to fund the credit card loans.

“It took years to develop those partnerships,” Gross says. “There’s been this tremendous word-of-mouth interest in what we are doing. That’s a real signal that this product is meeting a need.”
A Platform Offering Free, Personalized Debt Relief Guidance

Resolve is an automated financial platform with customized plans for consumers looking to get out of debt.

After a decade working in investment banking and private equity, Alex Mooradian was ready to start his own business. The research he kept coming across suggested that while many Americans were in financial distress, few were doing something about it. Mooradian wanted to create a fintech solution to answer the fundamental question: How do we help the average American with their financial life?

He began talking with bankruptcy attorneys, hoping to learn more about debt repair. The more he learned about the options out there, the more certain he felt that the marketplace needed a solution besides the predatory services being offered.

“When people search ‘help with my debt’ on Google, they’re served a ton of ads,” Mooradian says. “There are a lot of websites that look like independent reviews that are actually marketers. They get consumers to give up personal information that they then sell to other companies.”

But one useful online resource Mooradian stumbled on was Consumer Recovery Network, a website run by a debt coach in Idaho named Michael Bovee.

“When I found Michael’s site, it became my textbook on the industry,” says Mooradian, who emailed Bovee at the start of 2017, hoping to pick his brain on the topic.
After an initial call, Bovee suggested Mooradian listen in on some of the one-on-one conversations he was having with consumers about their debt issues. On those calls, he heard stories about sudden illnesses, vanishing spouses, and people who made myriad poor financial decisions.

“I got a really good sense of who these people were and heard some really heartbreaking stories,” Mooradian says. “I also started to hear a pattern in how Michael was diagnosing the problem and the math he used to figure out how to help each person.”

What if they could take Bovee’s decade of expertise in helping people manage their debt and build a software that walks them through an automated version of the same process? To test out how people might react to an automated service, they put a chatbot on Bovee’s website that helped consumers navigate a mathematical decision tree.

“People kept thinking it was a human being and asking questions the chatbot couldn’t answer,” Mooradian says.

In July 2017, Mooradian and Bovee took the chatbot a step further, creating a series of forms where consumers provided crucial financial information on their debts, income, and financial goals. They used the information provided by each person to build out potential plans on Excel spreadsheets.

Resolve is working on integrating with one of the credit bureaus to enable the software to pull credit data directly for each person, further automating the process. One of the most crucial aspects of the product, Mooradian says, is that it’s not simply about helping consumers figure out what to do, but also automates the process of how to take those action steps.

“By automating a lot of the guidance through the debt relief journey, we are able to help people get out debt faster,” Mooradian says.

Resolve launched the first version of its product in July 2017, and since then, more than 20,000 people have gone through the software.

“That represents about $250 million worth of distressed debt,” Mooradian says.

Ensuring the company was aligned with resources that help low-income and underbanked consumers improve their financial situation has been a crucial piece of the process throughout.

“The FinLab is a great example of companies using tech to disrupt the traditional financial industry with the goal of positively impacting people’s lives,” Mooradian says. “In the end, the combination of technology and being the good guys is what’s really going to disrupt the space.”

Slowly but surely, we started using software to automate these plans,” says Mooradian. “We are turning a human process into a machine process.”

The goal of Resolve is to offer free, unbiased advice to consumers looking for debt counseling. The platform asks the user a series of income and financial questions online, and the data gathered is used to evaluate whether bankruptcy, debt payment, or debt settlement might be the best option for this person to take, given their situation.

“We compare those three things to each other and make it really easy for a consumer to make the decision that is right for them,” Mooradian says.

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Sixup estimates, through NCES aggregate data, that for 7 million college-aged kids across the U.S., the gap between what they’re able to pay in tuition and what they owe ranges anywhere between $5,000 to $15,000 a year. This whopping $35 billion to $135 billion underfunding gap often forces low-income, high-achieving students to forgo attending their dream schools in favor of less expensive, lower-tier schools. While costing less in the short term, the choice to attend institutions with lower outcomes is one these students will pay for over the course of their lives.

“The system is broken; it wasn’t designed with these students in mind. They’ve worked hard, they’ve beat the odds, but they’re getting left behind,” says Sunwoo Hwang, founder of Sixup, a fintech company aiming to offer an alternative approach to the issue of underfunding for low-income students. “Our students are eager for access to responsible, affordable loans that will allow them to attend their ‘dream’ and more selective schools and relieve them of the financial stress that often means their grades suffer, or they miss invaluable summer internship opportunities, from having to work multiple jobs to put themselves through school.”

Hwang knows the predicament these students face all too well. The first in his family to go to college, even with the help of financial aid, Hwang was short $12,000 a year on his tuition. As a result, he had to choose to either forgo the opportunity to attend Northwestern or defer enrollment for a year and work nine different jobs to get himself through school. He chose the latter, and although he graduated in 1995, he had to sacrifice internships and studying abroad, experiences that helped his peers land jobs when they graduated.
More than 20 years later, Hwang wants to help repair the badly broken system so that students can attend the schools that will bring the brightest futures and actually enjoy their time there without having to stress about the financial burden. To do this, he’s created Sixup, which aims to close the underfunding gap by creating a new asset class that benefits both investors and students financially through impact investing. Sixup has trademarked a term for this model: Upmatching.

“Banks won’t lend to low-income students commonly defined as ‘thin-file’ in the capital markets, since they lack a cosigner and minimum FICO. It took a while for sophisticated credit and institutional investors to hop on board,” Hwang says. “There has been a systemic ‘subprime’ stigma with low-income students, even high performers. But once they were able to appreciate Sixup’s alternative credit model and that Sixup was identifying investment-worthy students that were ‘FuturePrime,’ they started investing and helping us get to market.”

Thus, Sixup has created a new lending and credit model that doesn’t require a cosigner or FICO, and underwrites based on student achievement and educational outcomes. It therefore identifies underbanked and undervalued borrowers into a new asset class Sixup refers to as FuturePrime, when they would otherwise be categorized as subprime. To do this, Hwang and his team created a credit model from scratch.

“We had to build algorithms and regression models based on performance of students.”

The central question Sixup is aiming to answer: What if students could be given opportunity, not based on their access to a cosigner with a good credit score, but on their academic promise? To do this, Sixup had to figure out a way to tweak the existing financial model so that it could properly match capital with borrowers.

“Low and moderate income populations are underserved by banks. And why only focus on the Ivy League? What about kids going to Main Street schools?” Hwang says.

Sixup had to build relationships with key external partners who could help connect them with low-income high-achieving students – community organizations, federal outreach and student service programs, charter schools, and colleges’ financial aid offices that are focused on working with this population.

“Their commitment to this social impact is at the forefront of why these partnerships were realized so quickly. And Sixup has broken the mold to become the first student lender with a CDFI designation, opening up an entirely new asset class for impact investments by banks through the Community Reinvestment Act. Because investors are betting on students’ performance, it’s important for Sixup to make sure their borrowers are set up to succeed as best as possible. To do this, the company offers wraparound support, including a job match program that helps pair students to summer internships, a credit boost program focused on helping students start building good credit behavior, and an online tutoring program to help support students in their academics.

“We are taking a bet on students’ performance, so our success is aligned with their success,” Hwang says. “That changes the whole relationship with our borrower.”

Based on students’ merit. Sixup lenders include a range of debt investors, from foundations including Rockefeller, Kellogg, and Jack Kent Cooke to banks that include the likes of Goldman Sachs. These financial partners believe what Sixup believes: High-achieving, low-income students can be as successful as any other student group if they are afforded the same opportunities and resources to take advantage of them in higher education. Their commitment to this social impact is at the forefront of why these partnerships were realized so quickly. And Sixup has broken the mold to become the first student lender with a CDFI designation, opening up an entirely new asset class for impact investments by banks through the Community Reinvestment Act.

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In the U.S. alone, 193 million people play mobile games, with 56 percent of them playing more than 10 times a week, according to 2018 mobile gaming data. It’s an obsession apps like Candy Crush and Angry Birds have capitalized on, but what about using some of that screen time and energy toward saving money? This is a question that David Ronick began to seriously consider in 2017 when he launched the app WinWin Saving.

WinWin wasn’t Ronick’s first fintech startup. In 2014, he founded an app called Stash to help young people learn about and start investing on their phones. But he was interested in also figuring out a way to help people start saving money in the first place.

A few years later, while reading an article called in The Atlantic called “How to Trick People into Saving Money,” Ronick came across research on prize-linked savings.

“It was the first time that I had heard of this concept,” Ronick says. “Instead of getting the certainty of saving interest, people are interested in getting everybody’s interest.”

Case in point: Americans spend nearly $80 million a year on lottery tickets, according to Census data.

“We love to win,” Ronick says. “Saving requires the discipline to do something today that will pay off down the line. WinWin is reimagining the lottery as a mobile game that adds to your savings.”
To do this, the app marries game playing with savings by rewarding users who transfer money into their WinWin account with the chance to play a game for prizes ranging from five cents to $1,000.

“When you play WinWin, you open an FDIC-insured savings account. The cash goes instantly into your savings account, and we encourage you to keep money saved rather than take it out and spend it,” he says.

Ronick started working on the idea for WinWin in 2017 and officially launched it in the app store on iOS in March 2018. In designing WinWin, he took inspiration from the addictive quality of lottery scratch-off tickets.

“A scratch-off is a very antiquated idea. The money you spend on the ticket, you aren't getting back,” he says. “It's not good for you at all, but people love to do it.”

Similarly, WinWin users contribute a dollar to their savings account in order to play one of seven games in the app, including Pinball, Break, and Word Finder. While users have the chance to play to win more money each time they deposit a dollar in their savings account, they aren't able to take that money out to play.

“We try to give you incentives to save,” Ronick says.

To establish WinWin as a legitimate financial tool for consumers, the company had to navigate laws relating to sweepstakes, online gambling, and banking.

“We have to walk a very fine line in how to make all of those things fit,” Ronick says. “We needed to understand banking operations and build the ability to move money around.”

While the winning money now comes from the company’s operations budget, WinWin is exploring opportunities to offer company-sponsored prizes. And while WinWin is designed to encourage people to save, Ronick was surprised to learn that 70 percent of the app’s users have played the lottery in the last 30 days.

People have got certain behaviors, and you can’t push them to stop,” he says. “It’s better to lean into those behaviors, rather than try to stop them.”

As the app expands, Ronick plans to figure out ways to use gamification to contribute to savings, including creating a saving leaderboard that allows users to rank and compete based on the amount they are saving.

“If you can give people a moment in their day to feel positive and optimistic about money, that’s a good thing,” he says. “You can take something that’s often a bummer for people and make it fun and exciting, while also encouraging them to save.”

People have got certain behaviors, and you can’t push them to stop,” he says. “It’s better to lean into those behaviors, rather than try to stop them.”