



## Have a Spare Moment? Buy a New Car!

### Prime Credit is Easy Credit

*Segments of “the few” can be tremendously profitable niche targets for start-up firms offering unique packages/presentations of financial services products. Historical marketing barriers of segment and household identification combined with the expense of traditional marketing campaigns have been supplanted by precision database results combined with Internet-marketing messages. These new tools are available to small firms and can yield prime borrowing candidates to whom premium-priced products can be sold. The challenge for any company targeting prime credit borrowers is that their product must offer a truly superior customer service experience that is flawlessly executed.*

*Consumer credit offerings delivering that superior experience are well positioned to snare zero-risk credit buyers who would otherwise have borrowed from their banks. The banking industry must be alert not only to new competitors offering consumer credit, but to the changing consumer expectation base-lines those firms create.*

#### ***Mice That Roar***

Every great company and its game changing Big Idea seem to have the same creation myth featuring two scrappy guys, a garage and some very generous family investors.

It's challenging to keep track of those just-out-of-the-garage Big Ideas but some have the potential to be business disruptors and we'd like to use this Viewpoint to discuss one of those new companies and the danger it, or its peer group, may pose to the banking industry.

#### ***FirstAgain***

In 2006, Gary Miller and Dave Zeller, both former Ford Credit executives, launched their second consumer credit company, FirstAgain.

Their first company, PeopleFirst, had pioneered the blank check auto loan and then grown to be the country's largest online auto finance company before being acquired for \$200 million by Capital One in October 2001.

PeopleFirst made its founders rich, and (almost) as importantly, provided the seed idea for FirstAgain.

PeopleFirst was dedicated to creating a superior customer service experience for its auto borrowers but every time the DMV made an error processing a lien request, that great experience skidded to a halt. Also, the company had dozens of employees processing liens which added both cost and time to the loan funding process.

Arising from the PeopleFirst experience were two questions:

What if a lender, dealing only with superprime borrowers, simply eliminated the demand for collateral?

Instead of dealing with the DMV or having employees filing-refiling-and-unfiling lien documents, what if a loan were made that was both unsecured and completely paperless?

## ***Prime Borrowers Repay Money***

In an April 2008 conversation, Gary Miller told Mercator Advisory Group that the PeopleFirst experience made its owners realize that by targeting only superprime borrowers, they could create a unique consumer credit company. Incredibly, their big idea, their consumer lending redefining epiphany, was that borrowers who always repay money will continue to repay money on time and in full.

Gary and Dave's new start-up, FirstAgain, could eliminate the traditional demand for collateral and could move the entire loan application, approval and funding process online. And approval for even large dollar consumer loans (for boats or timeshares or college tuition) could be delivered within minutes.

At the end of the day, it does seem that consumer credit providers have similar lending processes that are not borrower-quality specific. Almost uniformly, borrowers of financial products have to jump through the same hoops. Credit card, auto loan and HELOC applications are identical and not all similarities are attributable to compliance with Fair Lending laws.

Lender differentiation can only be detected after the loan is approved. That's when most lenders can begin customizing interest rates and rewards programs and loan terms to the actual customer.

FirstAgain joins a select club of unsecured consumer credit products tailored to the superprime consumer. Other products, specifically in the credit card category, are also self-selected by the prime consumer and

are imbued with a premium experience from the first moment of contact between the potential customer and the financial services provider.

For instance, an online consumer, self-selecting for the \$250 a year American Express Platinum Card assumes she's having a great customer experience when she receives instant card approval. However, that customer service experience grinds to a halt when the approved applicant has to wait 7-10 days to receive the AmEx card in the mail.

## ***Lender Differentiation: Loan Application to Funding***

FirstAgain's fixed-rate unsecured loans, in amounts ranging from \$10,000 to \$100,000, can be approved and in the customer's bank account that same day, or at the latest, the next day.

The customers who have received the first \$100 million of loans from FirstAgain are the very customers most desired by banks. Unfortunately, tightening credit standards have corresponded with arduous credit processes and the very high-income, superprime customers to whom banks want to lend are put off by the borrowing experience banks now offer.

## ***Who are FirstAgain's Customers?***

The superprime customers taking out FirstAgain's competitively priced, large dollar loans share common characteristics -- they have five or more years of excellent credit from a variety of credit sources and a proven ability to save money over time.

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Gary and Dave told Mercator that FirstAgain does not approve loan applications relying exclusively on FICO scores. While a FICO score is included on the approval checklist, each FirstAgain loan application is reviewed by a human underwriter who may reject high FICO applicants while approving other applications with credit dings.

### ***Warning Shot to Bankers***

FirstAgain, with its high dollar, unsecured loans, is an important example of a new company targeting a low-risk, profitable and exceedingly attractive segment of the banking industry's credit business.

FirstAgain is not marketing to those barely on the radar of banking; rather it is winning the new and repeat business of the industry's best customers.

## **Mercator Conclusion**

We understand that it is both challenging and oftentimes frustrating to identify and follow the start-ups targeting retail banking. Some start-ups have used bill payment or high-interest certificates of deposit or specific payments instruments to jump start their relationship with bank customers. Many of these companies have tried to shut out traditional banks from emerging markets and opportunities rather than steal the industry's traditional business.

But a lending competitor like FirstAgain is a must to monitor – its market is the bread-and-butter of the banking industry and every loan it originates is a loan not funded by a bank and represents another banking customer suddenly vulnerable to the superior offerings of other nontraditional financial services providers.

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