SoFi Could Make Big Money From Refinancing Student Debt

Social Finance, the online lending company also known as SoFi is an attractive investment opportunity if it goes public, according to Richard Bove, vice president of equity research at Rafferty Capital Markets, as the company stands to make big money by refinancing student debt.

SoFi is planning an initial public offering (IPO) to raise $500 million this year. The company's valuation could reach $3.5 billion. The company intends to file its prospectus confidentially during the second quarter, but the schedule could change depending on market conditions, according to a previous report from Bloomberg based on information from sources.

Last December, SoFi CEO Mike Cagney stated that the company might seek a larger IPO than its initial target of around $200 million to $250 million. According to him, the timing of the IPO depends on how fast they can expand SoFi's mortgage lending business.

"We want to get our mortgage business to the same place as our student loan business, [and] then we will be ready to go," said Cagney.
SoFi has a unique concept

In a note to investors, Bove stated that SoFi was established on a “relatively unique concept” (refinancing student debt for the upwardly mobile). He also noted that the company is offering a product, which is “actually a very good deal for the consumer.”

According to Bove, SoFi identified an attractive market for its loans. It is lending money to people (ages between 24 and 40 years old) with good jobs and relatively high wages.

The company is also targeting people with very high-level student debt. Bove noted that SoFi is hoping to cross-sell loans such as mortgages or additional consumer loans after developing a relationship with its clients.

“While the company’s target market maybe unique, what is even more unique is that this company offers the client a genuinely good deal,” said Bove. According to him, SoFi’s current clients have an average student debt of $77,000.

He explained that the debt of SoFi’s clients maybe composed of a variety of public and private loans. Bove said, “This is because when the client was a student, he or she may have taken out a different loan every year while in college and then more in graduate school.”

Bove emphasized that SoFi is willing to consolidate those loans and lower the rate meaningfully. He noted that the company’s average interest rate on student refinance loans is 4.75%, which is calculated as a spread to LIBOR.

SoFi has surprising record

According to Bove, SoFi underwrites every loan in a traditional way. The company claims that it a proprietary data base and unique algorithms. It is checking manually every piece of information it requires from a client.

Bove emphasized that SoFi has a super collection procedure. The company is collecting payments automatically from the checking account of its clients (93%). He also noted that SoFi made 27,000 loans over the short period since it started operating its business in 2011, and only two of the loans defaulted.

In addition, Bove noted that the top management of SoFi has a solid background, and the company claims to earn 2.5% to 3% in gross margins on its products.

“SoFi has a unique product set and a highly desirable market. If it chooses to make a public offering at some point, the stock is likely to be very attractive. This is a very exciting company,” said Bove.