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Welcome to the Fintech One-on-One Podcast, Episode No. 311. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Peter Renton: Today on the show, I'm delighted to welcome Adena Hefets, she is the CEO and Founder of Divvy Homes, not to be confused with Divvy the expense management company bought by Bill.com, they have nothing at all to do with each other. So, Divvy Homes is really interesting to me because they've created a new model, a new way to buy a home, to acquire your own home and it's quite creative and I think it's great.

The mortgage industry is, you know a century or more older and there are still new ways of approaching home ownership and we get into that in some depth here. We talk about the details of their model, we talk about the types of people that are coming, how they approach underwriting, how the economics works, how they have been impacted by the crazy run-up in real estate prices. We talk about capital markets and obstacles for growth and much more. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Adena!

Adena Hefets: Thank you for having me, I'm excited to be here.

Peter: Okay, my pleasure. So, I like to get these things started by giving the listeners some background about yourself. You've worked for some big names in traditional finance and big names in fintech and VCs so why don't you give us some of the highlights of what you've done in your career to date.

Adena: Sure. So, I started out in investment banking, I worked for Merrill Lynch and then got acquired and then I worked for Bank of America Merrill Lynch and that was in 2009 so the exact wrong time to be in the banking industry and then went over for TPG and did large cap acquisitions, TPG is a private equity firm based here on the west coast and then ended up after that going to Square pretty early on. I started out working for the CFO there, Sarah Friar, and was kind of her analyst for a little while and then started a project where we gave out loans to merchants which was called Square Capital. So, built that from the ground up with a team of five people and had this amazing time. Then I went to business school and then worked in venture capital at DFJ and founded Divvy about four years ago.

Peter: Okay. So, let's just talk about that, what was the aha moment or what was the.... tell us the founding story of Divvy.

Adena: I kept looking at this chart of the rate of home ownership and I just saw it falling off of a cliff and when you overlay that with the Mortgage Availability Index, you just saw that mortgages

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weren't readily available, which kind of made sense, right. 1980s, interest rates were super high, the government wanted to encourage people to access home ownership and so they, basically, loosened underwriting requirements. So, if it felt like your parents' generation, it was easy for them to get a mortgage and that's because it was much easier actually then, but mortgages were given out a little too willy-nilly and as a result it led to the global financial crisis and then the underwriting was really tightened after that point.

So, we just saw that access to home ownerships really fell off the cliff and I started thinking about how can we change this. So, you basically like.....aren't going to extend credit to someone who the government doesn't think that's appropriate so that might be the case, but you can create a synthetic mortgage product, you can create something that thinks, feels, acts like a mortgage, but isn't actually extending credit. And so I came up with this idea of finding people who would want to otherwise be home owners who couldn't access a mortgage and instead of extending them credit, actually just creating a rental product that acted like a synthetic mortgage in some ways.

So, instead of saying you're going to pay interest plus principal, you now just said...okay, instead you're going rent plus build equity in the property, right, and it acted a lot like mortgage would act, but, actually it wasn't, in any way, extending credit and meant it wouldn't take foreclosure risk. Ultimately, if they weren't able to make their payments, Divvy wouldn't have to go through a foreclosure and instead, we would just obviously have to process an eviction or something like that, but it wouldn't take as much risk.

As a result, you can offer this to a wider group of people so this was really the idea behind it. At first, I just thought it was like a cool or catchy idea and it was like well okay, let me see if I can make this work and then we ended up actually launching it and it's been quite successful. So, it kind of started out more like a oh, there's a puzzle and I can help solve this and then actually ended up growing quite a bit into what's a pretty big business.

Peter: Right, okay. So, we'll delve into the details in a little bit, but before I do, I want take a step back and just sort ofI'd love to get your perspective on the housing market in general today. It's obviously....these are not normal times, we've had a pretty significant run-up in prices, it's been in the press, all over the press for the last few months that there aren't houses to go around so just give us your take on the housing market today.

Adena: So, it's so interesting because every round of funding that I previously raised from venture capitalists, the number one question we always get is what happens if there is a downturn in the housing market and not one person asked me what if the exact opposite happens, right. (both laugh) What if the market becomes so overheated that there's no inventory to buy or prices skyrocket and it reminds me always that it's the unknown unknowns that are the biggest things that end up getting you over time and not the known unknowns.

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So, it's kind of a separate topic, but the housing market today is quite a bit different than what I thought it would be and I think that we've learned a lot during the global financial crisis that caused the government to act in a very different way during this period of COVID than they had previously.

What I mean by that is during COVID there were a couple of different factors that came into play.

One, more people wanted access to single family homes, right, no one wanted to be like in a studio apartment so people were falling more towards single family homes with more space, bigger backyard, an office, all of that stuff. I mean, other side of it, on the supply side, what we saw is that supply really got constrained in a way that was quite different than we had seen in previous situations. And so, what had happened was essentially folks didn't want to move, no one wanted to sell their house during the pandemic so there were less homes that were actually put up for sale.

The second part of that actually was that the government acted in a very different way than it had historically and what I mean by that is the government didn't allow evictions, they're not allowing foreclosures and they're helping provide a lot more rental assistance. So, in the last financial crisis, the market got flooded with a ton of inventory because there were mass foreclosures that happened. This time, the government said, we're going to put \$47 Billion of, you know, money against helping provide assistance to these large packages to help support the economy. As a result, we haven't seen a supply flood on the market in the form of evictions or foreclosures and, in fact, more people are actually staying in their homes because there's enough rental support or aid or payment plans that are helping boost the market.

Peter: Interesting, interesting. Anyway, I want to dig in now to the Divvy offering. I'd love you to explain how it works, maybe you could give us an example and just get into some of the details.

Adena: The industry categorization is rent-to-own, that's the industry and I would say that it has a pretty predatory history and the history that, you know, I think we need to acknowledge, but also not necessarily something that we want to stick with, something that we definitely want to change and be quite a bit different. So, the way that Divvy works which is different from this historical industry is we let our customers pick out a home, will buy them on their behalf so let's say you wanted to go out shopping, get this client to this website, we say, great, you're approved to buy a \$350,000 house in Dallas, Texas, you go out shopping and find a house that you want.

There is no pre-set inventory, it is any house, we have some constraints on don't be more than two acres because we're not buying farms here, we are buying single family homes, but go shopping for homes that's \$350,000, find one that you really like, you pick it out and before you end up moving in, we'll put out an all-cash offer for you. The offer is, generally, very clean and

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what I mean by that is it is a two-week closing, generally, there are no appraisal contingencies, it's an all-cash quick close offer. We'll take care of inspection for you, we'll help support you through the entire process up until closing, you'll contribute either 1 or 2% down payment and that's your initial equity skin in the game, that is your ownership.

So, you start off owning let's say 2%, Divvy owns 98%. Then when you move in, you pay one monthly amount, it's part rent and part equity. The equity builds up your ownership and house so let's say after you pay your first month you own 2.25%, the next month you'll own 2.5% and we'll let you build up anywhere to 5 to 10% over the course of three years. At any point in time, you can purchase the house fully from Divvy and roll your equity on to a mortgage. So, it is the same thing as a mortgage where you put a down payment and then you can pay principal and interest and you can always refinance that mortgage, right. So, it's the same thing just paralleled, but instead of paying interest, you're paying rent.

Peter: And the rent is paid to Divvy, right, I presume. Does the IRS consider this a rent payment and not a mortgage payment, I presume.

Adena: Exactly. So, it is a rent payment and so the trade that we make with the tenant is our belief...is that this tenant is going to take better care of the home because they ultimately want to be the homeowner, because they have equity skin in the game, right, which means that we're going to have less turnover, less maintenance cost than the traditional rental portfolio and as a result, we're letting them buy into the upside.

We're giving them the benefit of appreciation that normally landlords don't give their renters and so that's the trade. So, we let you pick out a house, we let you build in the house, you get your appreciation, your 2% is still 2% even if the home appreciates, right, that tenant does a first deal and our trade is that you're going to turnover less frequently than a traditional rental customer.

Peter: Okay, okay, that makes sense. So then, are these first-time home buyers? I imagine it skews to a pretty young population, but give us a sense of who is coming to Divvy for this kind of offer.

Adena: So, it actually varies quite a bit. I think that age-wise, we have some folks who are using Divvy who are 25, getting married, purchasing a first home. We also have folks who maybe, you know, had a credit hiccup during the last global financial crisis and are trying to move back into home ownership later on in life. I'd say, the better way to look at this is more by work characteristics.

Our biggest segment of customers is actually healthcare workers, so nurses, X-ray techs and if you think about it, people with large amounts of student debt, that's the biggest area. The second one are educators, so think teachers and that's usually a down payment issue and the

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third area, we call it logistic workers which is probably, I'd say, 1099 workers so truck drivers, Uber, Instacart delivery folks and that has to do with inconsistent income.

All of this makes it nearly impossible to actually get a mortgage and I tell this story, but I can't get approved today for traditional mortgage which is crazy, right. And the reason why I can't is because I'm a founder and traditionally founders don't pay themselves that much so as a result, no matter how much I've saved up or have in my bank account, I don't have the income that is required to get a mortgage which is insane, right.

And so, I think that what people don't get is that mortgages were created in the 1940's, right, it was a post-world war project that was let's try to create access to home ownership and I mean this in mass scale. They were, obviously, bank mortgages, but this is like, you know, Fannie Mae being created and there was a underwriting box that was created during that time which largely hasn't changed. The reason why it hasn't changed is because mortgage backed securities market, right, it's a mass market that any little change is actually just have severe impacts and the last time we tried to make some adjustments, it led to a global financial crisis. So, I think the government sponsored entities (GSEs) are basically staying away from making changes to the mortgage underwriting box. While that's unfortunate for access to home ownership, it also just creates these opportunities for startups to actually innovate on the way that we access home ownership.

Peter: Right, right. So, let's talk about underwriting for a second because I'd love to get your take on how.....like if someone comes to Divvy, how do you underwrite them? Is this something that....what's your approval percentage, is this a real kind of option for even those with lower incomes?

Adena: Yeah. So, what we're trying to focus on is what is the amount that they can comfortably pay every month and not feel overstretched and still be able to afford a home. And so, the underwriting process really gets at the question of how much can you afford on a monthly basis, show us your financial profile and we'll come to a conclusion for you. And so, I try to make it as simple as possible like I'm always talking to our product team and I'm like less requirements, less requirements, make this simpler, cleaner, easier, faster, but there's still a level of diligence that we want to do so that we can make an appropriate recommendation for you.

So, the first thing that we look at is your credit profile so we'll take a look and say, okay, what is your credit obligation, what is your monthly debt payment and then we'll ask for recent pay stubs so we can see what your income is like. We'll also let you connect through Plaid or do some things like that and make it, obviously, quite a bit easier and from that we deduce basically how much can you pay on a monthly basis and what does that translate into in terms of home price.

Peter: Okay.

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Adena: From that, we kind of come to a budget, you know, we're constantly iterating. I think our goal is we want to provide this to as many people as possible, but we want to provide in a way that's safe and healthy for them, right, and not overextending our customers in any way.

Peter: So, you'll underwrite, I mean, you'll say, okay, you can afford a house up to \$200,000 or up to \$300,000, you give them a limit, right, and make them go out and shop like a cash buyer and shop around.

Adena: Exactly. In fact, our offer is better than had they gotten conventional financing, right, because conventional financing will come like contingencies that they no longer have. So, we actually let our customers compete with other institutions which is really interesting because we are taking people who traditionally maybe would have gotten an FHA mortgage wouldn't have had a super competitive bid and we're turning them into the most competitive bid possible and making them go up against the Opendoors, the Invitation Homes, the American Homes 4 Rents of the world and we can bid just as aggressively for them.

Peter: I can see these people who can't afford a home suddenly can go out and do an all-cash offer, that's got a feel good from their perspective. So then, how does the economics work, I mean, what are doing as far as like as far as fees go, how are you making money and are you sharing the run-up if the price of the home goes up. I know you said that 2.5% is 2.5% so it sounds like you're getting some of the upside potentially and obviously potential downside in the value of the home, is that correct?

Adena: We make money off of rent. I love to be super transparent about that which is the rent portion is what our revenue is and our bet is that our gross profit margins will be higher because we will have lower turnover and lower maintenance cost. And so, that is how we make money, there are no fees like there is no application fees, there's no fees along the way, it is purely just rent and we make a higher gross profit margin because we have less turnover which results in less cost.

Now, on the appreciation side, we lock-in a buy-back price upfront so just choose easy numbers. Let's say we're buying a \$100,000 house, on average our buy-back price, so the price of which the tenant can exercise their right to buy-back a home, averages about 3% appreciation a year so call it 10% so your buy-back price would be locked-in at \$110,000. That means that the max guarantee that Divvy can make off of the appreciation and the tenant buying back the house is that \$110,000 appreciation, right, so \$10,000 increase. Now, what we have seen, and you'll know this, is that home prices have increased almost 20%.

Peter: Right.

Adena: Right. And so, what that means is that they have a call option, they can buy this house at a cheaper price than likely what it's trading at today. And so, that means that if the customer,

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if they want the house, they can exercise the right to buy, pay a cheaper price than what they would be able to buy it at in the future. So, that's an added benefit that our customers don't often think about which is they're locking in the price of the home today while they build equity and they don't have to wait as the home continues to appreciate and gets out of their reach. Now, I want to be transparent, none of our customers are thinking about, oh, I've a call option that's in the.....that's just not how consumers think about these sort of things.

What they think is that I have a home, I love the home and I want to make it mine and so while the payments feel affordable when I ultimately roll into mortgage, this feels good. Or, they'll say, even if they have a buy-out right at \$110,000, the house now has appreciated a ton and is worth \$150,000. They may say, I don't like my neighbor, they have ten pimples, I don't want to buy this house and they've a right to walk away, right, more cash amount for their equity. Now, that's illogical, you might be like why don't they just buy it and sell the next day and make a \$40,000 gain because that's a headache because consumers don't always think like that, right. That takes time, but that is their option and they 100% can do that.

Peter: Right, okay, that's really interesting. So then, is the rent they're paying to you, the rent and the principal component, like are they paying market rate rent and they're paying extra for equity or how does that work?

Adena: So, let's say typical market rate rent is \$1,000 a month, if you're paying about \$1,000 a month, given where mortgage rates are, you might be paying \$600 of mortgage payments, but what tenants don't know or realizes is that you also pay taxes, insurance and other costs to the house so net net, the house will maybe cost you \$800 a month if you were actually own it. Rent is let's say \$1,000 a month, Divvy actually only charges rent on the proportion that the customer owns, we don't advertise this because it gets really confusing.

Let's say you put 2% down and the rent only actually charges 98%, right, because you own 2%, Divvy owns 98% times market rate rent which will be \$980 a month, right. But then on top of that you're building equity and so the equity component it might be like \$200 a month. So, you'll pay something like \$1,180, but \$200 is actually equity that you're building and the rent might actually be slightly below, but kind of roughly actual market rent rate is. Does that make sense?

Peter: Yeah, yeah, that makes sense.

Adena: All these details, though, like are things that we never tell our customers. The way we've built Divvy is do right by the customer like I sat there and I said I wouldn't want to pay rent on the portion that I own as I'm building equity to the property, right, because I own that, why would I pay you rent for it. And so, I made sure that the model was really fair in that way, but it gets confusing to explain all these in super great details so we don't always advertise these features, but we'd like to establish a brand and a reputation that really says we're going to do

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right by you and you trust us that we are making these decisions in a way that, hopefully, if you did understand all of the nitty gritty details would feel really good for you.

Peter: Right, right, got it, got it. Okay, I'd love to get your perspective on the....we touched on this, but the last 18 months have been a little crazy in the real estate market, you talked about shortage of homes on the market, but what has that done? I'm curious really more from the demand side of your business, are more people now looking at your model seriously than they were 18 months ago?

Adena: Yeah. Demand has been tremendous over the last couple of months. You know, since COVID started demand has really skyrocketed so I would say when COVID started, rates started dropping and a really interesting fact that most people don't actually think about is that when rates dropped everyone assumed that everyone thereby can get a mortgage, right. Rates dropped, everyone should go get a mortgage.

Well, the truth of the matter is when rates drop, it actually helps, more than anything, refinancing actively which is surprising that most people don't think about it. It actually means that if you own a home, you go out and refinance that property, right, which means that your payment, all of a sudden, becomes cheaper and you're, actually, less likely to move as a result of that. And when mortgage originators or brokers have the ability to take on refinance volume, they actually don't take on new mortgage originations as much.

Now, why is that? Because refinance volumes they make great fees on and it's a lot less work, they don't have to go to the appraisal, they don't have to deal with underwriting you, they don't have to take risks, you've been living in that house, you've been paying consistently, it's great business for them, right. And so, what actually happened during COVID was everyone went out, rates dropped, everyone went out and they refinanced their property and then, actually, being a first time home buyer, a new home purchaser, it was actually more challenging to get a mortgage.

And so, what we've seen is that as a result, more people turned to alternative options to be able to purchase a home which included Divvy Homes. So, Divvy has become just tremendously more popular, especially during COVID, and also because more people actually want to purchase a home, right, more people want the space, more people need a backyard and more people need an office, right. And so, that's also another push that has driven up demand.

Peter: Right, right. So, how are you getting the word out? You know, I feel like you basically have to educate the market in some ways because this is not a product where there's a hundred different alternatives doing the same thing, you've really created, in many ways, a brand new product of a way to buy a house. I mean, are you working with the realtor community mainly or are you going direct to consumer and what sort of role does education play in this?

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Adena: So, education is super important. I mean, I'd, actually, probably say that that's been the biggest challenge for Divvy to date.

Peter: Right.

Adena: Right, and so if you were to go and get a mortgage, you know, like I want to buy a house, I want to get a mortgage on it, you Google Mortgage Calculator and you try to figure out what your payments are. It is super confusing, even with mortgages which have been around for a hundred years, to figure out what your payments are...you know, is it a 7/1 ARM, a 5/1 ARM, a 10-year fixed, 15, 30-year fixed like payments vary so much and now on top of it, you're like, okay, why don't we go with Divvy to actually figure out what your payments are going to be at different home prices, requires a Divvy Calculator which we have to create, right.

And then, people are like well look, I know traditional mortgages, what happens when a pipe bursts, who covers that cost? Now, the answer is Divvy covers that cost and we will take care of performing the maintenance and repair for you, but all these little things, the market just doesn't know. And so, we're actually having to invest a lot in making sure that we educate customers on this being an option.

To the point you said earlier, the biggest way that we are doing this is through the realtor community.

Our view is that it is really hard to communicate this building a company in San Francisco and so as a result, we really rely heavily on realtors who are on the ground to partner with us and help educate those consumers. So, we spend a lot of time doing full-on webinars to entire brokerages, we actually have an agent success team so they'll each get an account executive that will help educate the agent. Our view is if we educate the agent once, they can then serve a bunch of customers rather than having to educate every single customer one by one. And so, we really focus on building out an agent community to help drive education.

Peter: And so, from the agent's perspective, a buyer comes along to them and they look and say, well, you can't really afford the house you want because you don't have enough down payment, for example. How does that help them to go to Divvy, I mean, are you reimbursing the agent on buyer's commission even though you're the one buying?

Adena: So, what happens is this, someone comes to them and they're like I found a house, I really love it. The agent goes, great, are you preapproved for a mortgage and the customer says, not yet, I don't know, I have like \$5,000/\$10,000 saved up. The agent goes, that's great, but that's not going to be enough, right, that's not going to be enough for this house and even if we go through a mortgage approval process, that could take months, right, and you're going to lose out on this house. And they say, well, I have two options; I can either let this

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customer....well, maybe three options, I can let this customer apply for a mortgage and we'll see what happens in six months from now, but I might lose the customer.

Two, I can have them become a rental customer where I will get one month's rent as the commission or three, I can send them to Divvy. If I send them to Divvy, Divvy will underwrite them in less than 24 hours, Divvy will be an all-cash/quick-close offer and the agent keeps the full commission, they keep the full buying agent commission. And so, in their head they're like, wow, I just took a customer who, at best, maybe would have been a home buyer six months from now or maybe would have been a renter today and now, I've just turned them into the best possible customer, an all-cash bidder instantly in 24 hours....I mean we will get to them in less than that, it is a 30-minute underwriting process, but we say, give us up to 24 hours just in case it is more complex to underwrite.

And so, for the agent, I mean, this is amazing, you just went from, you know, maybe being able to do, call it three to four closings a month because they take a ton of work to now actually being able to close eight to ten a month, right, because Divvy actually takes care of the inspection for you, we'll take care of closing, right. It's just an easier transaction for the realtor.

Peter: Interesting, interesting. So, I can see how they could jump on that. So then, what geographies are you operating in, are you focusing on certain areas?

Adena: So, we have operations in 16 markets, I don't know if I can name them all, but Atlanta, Cleveland, Dallas, Houston, a lot of Florida markets, Tampa, Orlando, but it's kind of tier two market. What we generally look for in terms of the geographies that we operate in is what's the average home price in the area.

It really would be very tough for us to operate in some places like San Francisco because the average home price is really high which means the number of ultimate customers we can serve could just be a lot of long work and the economics are just tougher in places like San Francisco. And so, we're really targeting this sort of tier two cities where we feel like access to home ownership has been harder to come by and where the average home price kind of falls in the, call it \$100,000 to \$400,000 average.

Peter: Got you, okay.

Adena: Those listeners who may be able to like can you get a house for \$400,000, I promise you that the houses we're buying in Atlanta for \$300,000/\$350,000 are way nicer than the house I'm living in in the Bay Area.

Peter: Right.

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Adena: They're like five-bedroom and five bath....I don't even know this existed yet they're awesome homes.

Peter: Yes, yes. I know that there are plenty of markets where \$100,000 even could get you a reasonably nice home.

Adena: I always joke I'm going to retire at Cleveland, Ohio (laughs) so you think it's a joke, but you think it's the most beautiful house for \$150,000.

Peter: Yeah, yeah. My wife is from Cleveland and she has lots of family there still, it's an underrated city in many ways. Anyway, I'd love to get a sense of the scale you guys are at, I mean, how many transactions are you doing a month, can you give us some sense there?

Adena: So, we don't publicly release the number of homes we all own up, all that is public data because we have to record deeds and things like that. Today, we are serving, I would say, tens of thousands of customers a month are applying and ultimately right now, we have thousands of homes. And so, generally, what we're bidding on is close to, I'd say, over a thousand homes a month we're bidding on and then, ultimately, some of those get accepted and some of those don't get accepted.

Peter: Right, right, got you.

Adena: And, by the way, the largest single family rental company is Invitation Homes, they're a \$20 Billion enterprise company and I think that they bought, the last couple of years, maybe 2,000 homes net total. So, if you do that divided by 12 months, right, basis, we are buying at the scale of ...if not greater than some of the largest players in the space.

Peter: Interesting, interesting. So then, you have a pretty capital intensive business.

Adena: Yes. (laughs)

Peter: You've really got to get access to the capital markets at a pretty grand scale so tell us about your fundraising journey, particularly on the debt perspective and maybe also from the equity perspective.

Adena: So, it's interesting, when I founded Divvy, yes, this is going to be super capital intensive, but when you just started like I'm just going to get the first hundred homes done. And so, at first like, okay, that's not that big of a deal and then in your head you do the math. Well, if this ever gets really big, I mean, I'm going to need billions of dollars of debt to make this happen, alright, that's a problem for another day like let's try to just first like, you know, make it to the first hundred homes and we made it to the first hundred homes and it's like make it to the first thousand homes.

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And now, you're like at the....oh man, we're going to need a lot of money to keep making this happen so I'm really fortunate that I've hired the most amazing team. We have a CFO, his name is Tom, and he runs all of capital markets and we have awesome partners on the capital markets side. So, we started out, our first debt facility was with Cross River Bank, the next one was with Goldman Sachs and Moore Capital, the next one was with....Lever-Max came in.

And so, we basically go on, we raise these large debt facilities that help us finance and purchase up the homes. We really look for debt partners who are going to make good long-term investors and for us, that's really understanding the mission and the value proposition and how serving our customers first ultimately results in better outcomes, you know, stronger tenants who end up actually caring about the house and that ultimately results in better returns for them overall. So, we like to find debt providers who are aligned with our mission and values, first and foremost.

Peter: Right, right. What about the equity perspective, how have you raised capital to run the business?

Adena: We've had to raise a decent amount. Right now, we lever our houses almost 95% so we end up only having to put in 5% of the home value out of our equity dollars so we've gone out and we had to raise capital throughout this whole process. We raised a seed, Series A, Series B, Series C, we have raised hundreds of millions of dollars in terms of equity capital, I think in the same way we look for venture capitalists who also see the mission and values of the company, but also the tremendous potential.

I think that our investors, across-the-board, all believe that this is going to be the way that the majority of America finances their home purchase or moves into home ownership over time. Mortgages are becoming unattainable and we need other options. And so, we raised a decent amount of capital on both the equity and debt side and we're really fortunate to have amazing investors who understand the mission and the growth potential.

Peter: Okay. So then, we're running out of time, but a couple of more questions I want to get to. What do you say is the biggest obstacle for growth right now? You say that, you know, this is way the majority of Americans will buy their first home, right, but you're a long way away from that so what's the biggest obstacle for growth?

Adena: You know, I didn't think four years ago we'd be where we are today. What we were saying then was we just need to get the first ten homes, close the first hundred homes and now, we're thinking in such grand scale. You know, we did a little chart of how long it took us to get to our first thousand homes to the next thousand and the next thousand and you just saw the timeline. It took us like, you know, over a year to get to that first one and then after that, right, it goes down in terms of months and so I'd say, we're growing at a faster clip than ever before.

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The biggest thing, right now, that's holding us back, I'd say, is lack of inventory. We've a lot of customers who are trying to buy a home right now, that thing said, we're working on overcoming that by structuring partnerships with folks who could provide inventory for our customers more readily. And so, look I think that we're in an interesting time where this is very unique to the market today, but I don't think that necessarily this will last forever. I think it's going to last for a little while, but not forever and so I'd say just like when we started out, our biggest hurdle was access to debt capital, right, because starting out...you're a startup, right, and that became the thing that I had to overcome. I overcame it, right.

And just like we're going to make it through this inventory shortage, right, and we're going to come out the other side and become stronger for it. Actually, it's really interesting because as these little challenges present themselves, road bumps, right, you learn how to overcome them and it makes you as an org stronger than you were before and also more agile. All of a sudden there's a problem, you're like huh, I never thought this would be a problem, how do I overcome it, right, and I think that that's part of growing up as a company.

Peter: Yeah, yeah, understood. So then, last question. You have one product, right, and the market is huge, are you sticking to this one product and trying to roll it out in...there are huge numbers of markets tier two-type cities in this country? So, what is the vision ultimately?

Adena: Yeah. So, there's probably two parts to it. There's our core product today which is our Rent-to-Own product and the vision there is to expand on it, both in terms of product offering and geographic footprint. On the product offering side, we started out offering a pretty rigid product which is put 2% down, build a 10% equity over the course of three years and we started to change that over time. You have a slightly higher FICO, we'll let you build only 5% because we think you can get a lower down payment mortgage, right, and so we started to change the builds.

What I ultimately want to get to is you can come to us, Peter, and you can say, actually, I want to start off putting 5% down, I really want to build a 7.5% because I know that I can get a mortgage with that down payment and I want to do it and instead of a three-year fixed period, I want to do it over a five-year period, right. And so, we want to make it so the product is completely customizable to the individual and that's what we're ultimately getting at. That is a lot of education, a lot of building, I mean, that's going to take time.

In addition to that, on the footprint side, we want to eventually be offered nationwide. I want to have a product someday that can be offered to everyone, that's going to take a little while to get to, but we're slowly building towards that. And so, that's on the core business.

I think on the other side we call it ancillary services which are really interesting is starting to verticalize more. What I mean by that is today we use third party realtors, we use third party title,

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escrow and closing agents, we use third parties when the customer is ready to buy-back the property to refer them to a mortgage provider, if they need a mortgage provider.

In the future, we want to bring this in-house, we want to be able to offer everything to our customers and that is the goal, that is what we're trying to achieve. I think that at the heart of what we're doing, Peter, it is providing access to home ownership. I want to provide the on-ramp and provide all the supportive services that lets you go from being a renter to ultimately being an owner.

Peter: Right. Well, it is the American Dream, right, and it's great that you have created this product that I think is serving thousands of people right now who are probably very, very happy that they are in the house that they want and they've had no other alternatives. Anyway, Adena, thank you very much for coming on the show, best of luck to you and look forward to following your progress.

Adena: Thank you, Peter.

Peter: Okay, see you.

You can probably tell I'm a big fan of what Adena and her team are doing at Divvy Homes, I think it's something that is needed. If you look at historically wealth creation, there has been a huge amount of wealth creation that has happened via the housing market. It's getting harder and harder for people to get into their own homes and what Divvy is providing is an on-ramp. I could see, I was just chatting afterwards, I could really see how this becomes...there, obviously, will be competitors eventually if it becomes a massive market, but I can easily see how this becomes sort of the default way that first-time homeowners get into their home.

Obviously, there'll be some who will be able to afford a 10% down payment, but a vast majority of people when they're starting out simply can't do that and they don't really want to rent and this provides that option. I can't imagine this not becoming a very large industry over time.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

(music)