

# LendIt Fintech



Welcome to the Fintech One-on-One Podcast, Episode No. 347. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Before we get started, I want to talk about the 10th Annual LendIt Fintech USA event. We are so excited to be back in the financial capital of the world, New York City, in person on May 25th and 26th. It feels like fintech is on fire right now with so much change happening and we'll be distilling all that for you at New York's biggest fintech event of the year. We have our best line-up of keynote speakers ever with leaders from many of the most successful fintechs and incumbent banks. This is shaping up to be our biggest event ever as sponsorship support is off the charts. You know, you need to be there so find out more and register at [lendit.com](http://lendit.com)

**Peter Renton:** Today on the show, I'm delighted to welcome Wendy Cai-Lee, she is the CEO and Founder of Piermont Bank. Now, Piermont Bank is a super interesting company, it's a new bank that had been around, they got their banking license in 2019. I wanted to get Wendy on because they're a really unique company, they were built from the ground up to be a Banking-as-a-Service bank and we talk about some of the thinking behind that and what it took to actually get a banking license, we go into that in some depth.

Wendy shares how she distinguishes between Banking-as-a-Service and embedded finance, we talk about the small to medium business segment and why it was important to serve them. We also talk about the landscape for Banking-as-a-Service today, some of the partners they work with, some of the fintech companies and she also talks about New York City and why it's a great place to set up a fintech bank and much more. It was a fascinating episode, hope you enjoy the show.

Welcome to the podcast, Wendy!

**Wendy Cai-Lee:** Thank you, glad to be here.

**Peter:** Okay. So, let's get started by giving the listeners a little bit of background about yourself. You've had an interesting career to date working with some of the biggest names in finance so tell us a little bit about some of the highlights of what you've done to date.

**Wendy:** This is my 26th year in banking so I'm currently the Founder and CEO of Piermont Bank. I started out my Wall Street career with Chemical Bank so that predates JP Morgan, Chase as you know it today. I spent most of my career as an investment banker actually buying/selling assets from Adidas shoes to cars as in Mercedes Benz, helping them buy companies/sell companies, but this is actually my second tour as an entrepreneur. So, my first startup was in 1997/1998 during the first dot com, raised \$12 Million from venture capitalists and

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sold the startup back to my investors and the investor actually took it IPO on the Hong Kong market.

**Peter:** Wow!

**Wendy:** Yes, I know. It's 20 years later, I launched Piermont so it's a bit of an unusual career where normally you see people, either have, you know, started their career with larger institutions or their entrepreneur, but I have done big banks, entrepreneur, startup going back to a very large company like a Deloitte for ten years only to start another bank 20 years later.

**Peter:** Right, right, okay. So, let's talk about that then let's talk about the starting of Piermont Bank, tell us a little bit about the founding story there.

**Wendy:** So, the genius of building Piermont was actually really, really simple, it wasn't anything like I had an epiphany or something, but it was really two things. One is seeing the impact fintechs were having on consumer banks and how quickly they were able to take market share from existing financial institutions and how the user experience was readily evolving. Secondly was my thinking they are thinking that if it wasn't going to happen or impact commercial banks, we'll be kidding ourself, right, so it's really a matter of when and how and secondly, it was about really seeing that banks, traditional banks, become less and less relevant to the demographic that we're trying to serve.

So, in my case, in the last ten years the specialty is around what we call SMB market, small to mid-sized companies and if you look at the commercial banking products and the way that...from a UX standpoint, it is just becoming less and less appealing and relevant to the audience. And so, those were the two main reasons, the driving reasons to building Piermont so basically, I ask myself if I have a blank slate, how would a commercial bank look today so that it is relevant, right, to that SMB demographic.

**Peter:** So then, you know, there's obviously a lot of ways you can start a bank, you could kind of start a neobank and use a partner. But what you did, you decided to actually get a banking license right off the bat. Tell us about the thinking behind that.

**Wendy:** As you probably can guess, that's much harder, right.

**Peter:** Yes.

**Wendy:** It's a lot more capital intensive, a lot more compliance intensive, etc. so the thinking really was that if I'm going to build something that's really able to be relevant, what's the most important thing? It's products, right, so if I don't have control over ability to actually develop banking products then my ability to really stay relevant and serve the end demographic it's going to be limited. So, I have to make sure that I find a banking partner, a regulator banking partner

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who's willing to develop products or support products in the way that I need that to be. I didn't I want to leave my fate, in another bank, sort of being in another person's hands, so to speak.

Secondly was cost of funding so, Peter, if you think about where we're headed, right, BaaS, we'll get to that later, Banking-as-a-Service or embedded finance, right, so to me BaaS and embedded finance are related, but they're not the same thing, people are using them interchangeably so, again, we'll get to that. To truly get to good Banking-as-a-Service or embedded finance is about lending. Right now, everything is still staying in the realm of cash management, payment solution, right.

Lending, especially when it comes to commercial lending, that's still the sweet spot for the banks, for the existing regular banks primarily because of the cost, cost of funds because once you're a regulator bank we're insured by the FDIC, the cost of funds is much cheaper than the neobanks' ability to actually structure these real credit products. So, those were the two main reasons why I said, okay, you know what, I will spend, make the investment, more time, stress as well as capital to get the charter first and build a true fintech bank, basically.

**Peter:** Right. And so, tell us a little bit about that process because I read somewhere that you were the first state chartered bank in New York for almost a decade. So, tell us a little bit about what that process was like.

**Wendy:** I don't recommend that for anyone (laughs), the process. Surprisingly, I will say that it depends on the regulatory agencies and depends on the teams that you're working with at that particular agency, you'll be surprised how supportive they can be. So, we actually received conditional approval for charter with the OCC, we received conditional approval from the FDIC, we end up at New York state because we end up with a team who really understands what the whole genesis of building Piermont meaning that, okay, here's the traditional banks and they do what they do, here are how the markets have evolved, right. So, instead of trying to figure out how to go regulate all these fintechs, let's figure out how we can support a charter bank to do what is needed to serve the clients so when they said that to me, I was like okay, we can do this.

So, we went with New York and they got us to opening in lightning speed basically, it was actually great. With that said, you do need actual banking experience to be able to go through that process because they require, for example, extent of number of policies so I remember when we went to get our charter, when we submitted an application it was 364 pages long. Now, Peter, you tell me which fintech actually put forward something to their investor or stakeholder that's 364 pages, right, no one is going to read it, but to get a charter, you need so many different types of policies in place, procedures and total cost so you do need that banking experience.

**Peter:** Right, right, okay. So, tell us a little bit about your product offerings, maybe you can describe the different products you offer.

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**Wendy:** As mentioned earlier, for us it's built to focus on the SMB demographic, small and mid-sized companies, whether they're fintech or not, that's our specialty. So, from cash management to payments to lending and lending is really our sweet spot, we know credit really, really well and I put together a team of bankers who's been doing various different types of industry lending for many, many years and that is so critical to be able to structure these products.

So, we don't do retail business actually so we focus on, like I said, only commercial banking products and we target...our specialty are the few different industry verticals so from real estate to fintech to tech in general to healthcare, healthtech so that's our specialty, but essentially anything that you can ask for or exist in commercial banking, we have it. So, we have a full banking charter no different from a B of A, we can even do trust business, if we so choose.

**Peter:** Okay. So, what you're focused on is really Banking-as-a-Service, why don't you talk about Banking-as-a-Service, how do you define it and maybe you can even talk about how you differentiate it from embedded finance. let's just start there.

**Wendy:** At Piermont, we look at Banking-as-a-Service as another delivery channel, another interface that we use to do customer acquisition and customer servicing so we can do it direct or we can do it through Banking-as-a-Service. In that regard, we have partners like Treasury Prime, like Unit, who was recently announced, where either the fintechs come to us or go to them, doesn't matter, we onboard the fintechs, we support the fintechs through that direct integration, so to speak, right, but we can also work with the fintechs directly, if they so choose. We have large clients like a Prime Trust who does not integrate through Treasury Prime or Unit, we process literally millions of transactions for them each month so to us, we are pretty agnostic when it comes to APIs because, you know, if you think about just that three-way relationship which is Banking-as-a-Service, right, the fintech, the API, the tech partner and the bank.

Every fintech has a different tech stack, does that make sense, it depends on their maturity so you have a tech.....I'm going to pick someone who we don't work with right now, but take a Robinhood or Chime, their tech stack is very different from someone who just came out of their beta so, therefore, they may or may not need additional layer in terms of a treasury finance unit. So, we choose to work with the best that's why we partner with those two so because they provide a different type of expertise so we're trying to do a completely API-agnostic offering to the fintech.

So, let's say, Peter, you have a fintech, depends on how well your tech stack is then we'll tell you what you need, you want Treasury Prime, you may need Unit, you may not need any one of them, right, because that's the most important thing I think for a fintech. At the end of the day, for them it's speed to scale, right, to get the market share, secondly, eventually it's to monetize that and then early on, even if they're not being asked to turn a profit very quickly is that the

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longer they can preserve their cash position, the more revenue they can generate, the most sustainable they can grow, right. So, if you don't need to have a revenue share structure, why would you put yourself in that position. So, providing that agnostic platform is, I should say, choices of the fintechs is important.

**Peter:** Right. right. So, do you also work potentially with other banks who don't have sophisticated, you know, technology, they want to maybe stand up some sort of SMB product that they don't have, is that sort of what you do as well?

**Wendy:** Yeah. So, on the lending side, we do so we are able to generate .....in 26 months, we have grown from zero to \$370 Million serving thousands of business enterprises. So, there are situations where the business, the commercial entity, is larger than others where they need a larger loan size so we actually support other banks by asking them to share. So, we'll take the lead, we'll do the origination and we'll let them come in and take a piece of it..

**Peter:** Okay, interesting, interesting. I think we're pretty clear about the Banking-as-a-Service piece. How do you differentiate that from embedded finance?

**Wendy:** Embedded finance is something that's been around for a long time. I think in today's fintech ecosystem, I would say differentiate Banking-as-a-Service to embedded finance is truly about financing, credit, lending, that's what we're looking at and Banking-as-a-Service today is primarily cash management meaning your checking account, your savings account, your payment solutions, your debit cards and credit cards. To get to truly embedded finance is figuring out how to do lending, how to support growth of these end customers to actually giving them financing products so whether that's term loans, lines of credit, lending for their receivables, right.

In these days, I think that the way more digital oriented companies, they don't carry inventories and their receivables the same way anymore so can banks or your partner banks create lending products that's reflective of your end audience, how they get paid, how they need to get paid and how they pay vendors so that's embedded finance. And then, ultimately, I think that for embedded finance to be successful, it's the ability to create and develop new products, new banking products and Banking-as-a-Service as we know it today, does not do that.

**Peter:** Right.

**Wendy:** Right now, it's about okay, you have..... in some cases, the banks are playing a pretty anonymous role, they're just lent a charter, they're lending your FDIC insurance, that's not really embedding finance into your system, that's just pass through I guess, Peter, that's one way to put it, right.

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**Peter:** There obviously is talk in Washington about that very model which is a topic for another day, but I want to talk about the typical loans that you're offering here because you're obviously working with a bunch of different clients here who have different requirements, like what is the typical loan size, what is the typical loan terms that you're dealing with here?

**Wendy:** It depends on the type of loans. So, we have your more traditional business like commercial real estate, we also provide lending to the fintech ecosystem so that's more working capital. We also do receivables lending, right, so let's say Peter, Inc. generates \$2 Million of receivables meaning that your client owes you \$2 Million a month. So, before you get all paid, can the bank extend you a line of credit against that so you get some cash in your hands to create or buy more inventory, as an example, and generate more business so that's receivables lending.

And further to that I think, especially in the fintech ecosystem, you need a bank who knows how to do cash flow lending. Essentially, it's not looking at history but looking forward, but what the business can generate so that all requires a lot of true credit experience to structure these products so we do all that so term loan, line of credit, cash secure, cash flow lending, receivables lending, lending against inventory .

**Peter:** Okay. Now, I just want to be clear you're not, like people are coming to Piermont Bank directly or are they, these are coming in through your clients. Is that correct?

**Wendy:** Yes, so it's both. So, we have bankers who are generating these relationships directly.

**Peter:** Okay.

**Wendy:** We also have referrals coming through our Banking-as-a-Service platform as well and then the fintechs that are our clients, the bank's clients or past clients. They themselves need also financing and capital The other thing we do is also we do capital core lines so we actually finance the private equity firms and the venture capital.

**Peter:** Interesting. So, the \$370 Million you referenced earlier, where are you getting the capital for that? Are you a deposit taking institution as well and you're attracting capital that way or is it through other sources?

**Wendy:** So, for a regulated banking institution there's capital which you generate, like fintechs we raise capital, right, so it's investors' money. The deposits are our liabilities basically so we also generate a lot of deposits, we're FDIC-insured and that's why I think early on when you and I discussed why did I go get a charter first. Getting the FDIC insurance allows me to generate a much more robust and cost-efficient deposit base so that I can lend more money out to small businesses.

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**Peter:** Okay, okay. And so, then the \$370 Million, is that your loan book today or like I'm trying to set a sense of the scale you guys are at, maybe talk about that and the size of the company employees-wise and that sort of thing.

**Wendy:** Going back to your other question, so total equity capital, we have raised over \$80 Million which is wonderful, that's how fintechs understand it, right, round A, round 2, right, series A, series B. The \$370 Million is what's the bank's assets is so that's a combination of loan portfolio as well as our deposit portfolio.

**Peter:** Right, okay. As far as the size of your team, can you give us some sense of that?

**Wendy:** It changes literally every day. So, we are about 35 as of this morning, we're looking to add another 12 people to the team this year.

**Peter:** Okay, excellent, excellent. I'd love to sort of step back and talk a little bit about the competitive landscape for Banking-as-a-Service because while you're somewhat unique, there are plenty of companies offering what they call Banking-as-a-Service, you've taken a slightly different approach to many really focusing on the SMB side, but tell us a little bit about how you view the competitive landscape.

**Wendy:** As of today, I don't know, I think you've got at least over 70 banks out there doing or dabbling in some sort of Banking-as-a-Service, but I would say that you probably can name about a handful literally, as in the fingers, (laughs) a handful of banks who can do Banking-as-a-Service really well meaning that does a main business, meaning they have transformed their existing bank to focus on Banking-as-a-Service. It's a meaningful portfolio and contributor to their net income.

Where Piermont differs is that we're literally the only bank that's built for this because all the other BaaS, so called BaaS, bank players out there, there's already an existing bank meaning they've been around for a long time. They were either at one time a savings & loan or a community bank where they pivoted to this business so when I started Piermont, we designed our tech stack, our process, our procedures. We, essentially, overhauled that to build it like a fintech so that we can run as fast as a fintech, as fast so we behave no different from the fintech clients, does that make sense, because we're one ourselves, but from a technical capability standpoint, we are a lot more efficient and we don't have those legacy burden.

So, really quick, Peter, is that you can go out and find a lot of good technology, you can go integrate with someone like a Treasury Prime or Unit, right, but if your deposit operations department, you've loan operations department, they're still the traditional bank. How fast do you think we'll go because you still them to put that deposit, you still need them to put the loan so being able to have a complete fresh design of how the product is delivered is the biggest differentiator.

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**Peter:** Right. Let's talk about that then, so the product being delivered, obviously, small business lending has made a fair bit of progress particularly in the last couple of years where obviously we all went through PPP and people realized, oh, you could actually do, generate a loan online, many banks and traditional lenders were very resistant to do. So, tell us a little bit about how you approached the experience that a loan applicant is going to go through and how you automate that process, what sort of approach to underwriting and that sort of thing.

**Wendy:** Well, we did a re-design before we even went to the application, it's really putting ourselves in the clients' shoes which is not hard because I always tell my team that this is one product that everyone is a customer, everyone is a user, right, so what don't you like about it which is the repeated ask of driver's license six times. Why, if I already have a checking account, why do you need my driver's license again. I know it's something that's very rudimentary, but that improves the speed of the process so that's one thing, really re-engineer the entire process and the user experience.

Secondly is actually designing the credit product itself by industry because every industry is different because we can call them also our business, but a small business in the import/export company, let's say a small business that manufactures your shirt versus a microphone, very, very different. They have different seasonality, they have different reliance in terms of vendors, suppliers so being able to structure credit products by industry, overlay the industry expertise is a driving success story here, right, so it makes it more, again, relevant to the small business.

**Peter:** So, you're based in New York, I'd love to kind of get your sense on, I mean, do you have a hybrid model when it comes to people working at an office or at home. Just talk about New York because I feel like New York City, people wrote off New York City at the start of the pandemic so New York City is done, it's never going to come back. The sense I'm getting from the people I speak to is it seems like New York City is actually coming back stronger than it was before, particularly when it comes to fintech, what's your thoughts on that?

**Wendy:** It is absolutely true so if you're sitting in my shoes or my equivalent, if you are looking to hire good talent, you are looking to do, you know, just over lending you'll know that New York has completely gone to pre-pandemic level in terms of resources and even rent so we're headquartering in midtown New York, Piermont itself, we have a hybrid model, it's permanent so it's not even oh, we'll do this for now and see what happens so it's Monday to Wednesday we're in the office, Thursdays and Fridays everyone has the choice of working remotely or they can come in. So, we have a decent population of what I call the "younger thinkers," especially on the Banking-as-a-Service side, our innovation banking, they live in the city, right, they're whole social life is in the city so they come into the office every day, very flexible.

We also have opened up recruiting in other geographic areas so we do understand, have seen that there's been migration that has taken place, right, people have a base at other large cities.

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We are open to hiring employees who physically do not reside in the New York area, but we haven't had issues because the talent is here, that goes back to I think part of your question is New York. We think for fintech, New York is the place to be because we have the banking talent, the financial services sector talent, right, the risk managers that you're looking for, the credit people you're looking for and I think it's really the hotbed if you're trying to create or launch a fintech. Now, if you're doing biotech, all-tech that's something else, right.

Ultimately, I think that, Peter, going back to some of the topics that we discussed earlier about differentiating BaaS and embedded finance, soon enough we will see some convergence that will take place, convergence between the fintech and the bank because it's not one to take over the other. It's really about finding..... I think running any good financial institution is finding the best formula into the man and machine, right, because there are certain things that are hard to algorithm, hard to digitize. For example, just the user experience, therefore, I think now as we see more and more convergence taking place you've got those takeaways, the fact that think about where you can find the best talent, financial services talent, New York.

**Peter:** The financial capital of the world, it's going to remain that way for the foreseeable future, I'm guessing. So, I wanted to ask about crypto, are any of your clients sort of asking about that? What are your thoughts about providing crypto-type services?

**Wendy:** So, we actually do have crypto clients, we have crypto clients that are direct as well as through Banking-as-a-Service. You know, honestly, that's one thing that I claim no expertise on, I think it's still truly evolving and the regulators are certainly paying close attention to it, right, from SEC to FINRA to OCC to FDIC, I think all the agencies are looking at how to best work with crypto businesses, right. Do you regulate them, how do you regulate them and what kind of guidelines you provide So, personal view is that it's not going anywhere, but what form or shape that it will not only stay, but actually scale and be sustainable, I think that's a question.

**Peter:** Yeah, yeah, for sure, okay. Let's wrap up with I'd love to kind of get your perspective on how do you sort of view Banking-as-a-Service and, you know, is this the way most banking will be done do you think in the long term? Maybe you could say, what's your vision for Piermont and what's your vision for Banking-as-a-Service in general?

**Wendy:** For Piermont, we pride ourself being the hybrid, right, being a challenger bank, a neobank, whatever you want to call us, with actual banking license. I told my team that can't you just try to fill a commercial bank like what TESLA has done for the automobile industry. Think about it, before TESLA came around, how automobile industry, how they're built, how they innovate, right. I used to go tot he Detroit Auto Show every January because GM and Ford were my clients when I was at Deloitte, every year you have prototypes, very cool stuff, but it's a cool design, may improve fuel consumption by a mile or two, perhaps I'm not giving them enough credit, but not until TESLA came around, how cars are marketed, sold, distributed, driven, it changed the whole thing. So, I keep encouraging and motivate my team is that keep thinking

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about we have a perfect platform, we started from scratch a blank slate, keep thinking about how we can drive that innovation in banking so that's Piermont, right.

In terms of Banking-as-a-Service, you know, we're on to I call BaaS 3.0 because the first generation of BaaS was the banks were completely anonymous, lend a charter then we got to BaaS to get to better payment solutions. I think the next generation of BaaS is about lending, it's about how do we get from BaaS to embedded finance.

**Peter:** Right, right, okay. We'll have to leave it there, Wendy, that's really interesting, it's a great story and I wish you all the best. Thanks for coming on the show.

**Wendy:** Thank you, Peter, thank you for having me.

**Peter:** You know, those of you who have been following the podcast for a while know that I'm a big fan of the lending space it's how I first got involved in fintech and I still really like to talk about it to this day and I've been reading this a bit lately where a lot of people think that lending is about to go through another kind of revolution. Wendy just pointed to it there with Banking-as-a-Service where there are those banks and fintech companies that really have an expertise here that are providing their expertise to those who don't have it, particularly in the small business space.

I feel like it's extraordinarily complicated to underwrite successfully and you're obviously seeing some banks that have done this over the years, but the thing that I always get back to is lending is extremely profitable if done well and I think we're going to go into this new age where I think lending, we're almost there, but all the lending is going to be done in a really sophisticated, electronic, online, mobile oriented way where all of the kind of backend will be automated and quick and this is really going to be really driven by a lot of these Banking-as-a-Service companies like Piermont.

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

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