Welcome to the Fintech One-on-One Podcast, Episode No. 355. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

(music)

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

Peter Renton: Today on the show, I'm delighted to welcome Luvleen Sidhu, she is the CEO and Founder of BM Technologies, formerly known as BankMobile and Luvleen is also the current winner of the Fintech Woman of the Year Award at the LendIt Fintech awards. I wanted to get Luvleen on because they have had just a really amazingly busy last year or two, you know, they spun out from Customers Bank, they then went public, they're now in the process of buying a bank so it has been quite a journey which we get into each one of those things in some depth.

We also talk about the bank partnership model and why some fintechs are going the acquisition route and some are going maintaining the partnership route, we talk about Banking-as-a-Service specifically, she gives us on update on the T-Mobile partnership which was pretty groundbreaking and what other types of companies she thinks will be suitable to go a similar route and we talk about their college business, college student business which seems to be growing really well. It was a fascinating episode, hope you enjoy the show.

Welcome back to the podcast, Luvleen!

Luvleen Sidhu: Hey, Peter, good to be back, thank you.

Peter: Okay, my pleasure. So, you know, it's been about three years since we chatted, but why don't we get started by giving the listeners sort of an explanation of what is the core business of BM Technologies. Take us through the different verticals that you operate in.

Luvleen: Sure, happy to do that. You know, thanks, Peter also, it was great being at your conference in Miami earlier this year, really appreciate the honor of Fintech Woman of the Year, it was such a delight and awesome conference. Thank you so much and I'm so happy to be a part of LendIt.

Peter: We're happy to have you.

Luvleen: Thank you. So, about BM Technologies, we are one of the largest digital banking platforms and one of the largest Banking-as-a-Service providers in the country today. We really had the privilege of a lot of, you know, milestones last year where we were one of the first neobanking fintechs to go public, we are one of the first that has a profitable business model and are now one of the first really to really embrace a bank charter and become a true fintech bank and happy to talk more about that and I think in and around that if it's of interest during this conversation. You know, at the forefront those are some of the milestones in banks with evolution points actually in the last 12 months of where we've been and where we are now and today, it's really leading into that profitable business model, most foundationally is this idea of being able to build a business model around how do you get high volume customer acquisition at very low cost.

So today, we're acquiring bank customers at significantly actually less than $10 and so in a market where customer acquisition is so costly, you know, that is a huge competitive edge that we have been able to crack and we do that, you're absolutely right, in three main verticals today at a very high level.

The first vertical is our higher education vertical which is us working with and contracting with over 750 colleges and universities across the country. We solve a pain point for them and what that pain point is that they're disbursing billions of dollars a year in financial aid refunds, we help take that headache over for them and in return, we get to really communicate with their students, do they want to receive that money, is it an existing bank account or do they have interest in opening a very competitively positioned BankMobile checking account. Through that vertical today, we're opening several hundred thousand accounts in a very attractive student demographic and our strategy there is really to build a customer for life.

Our second vertical is Banking-as-a-Service and so, you know, we've invested a lot in our own API-based, cloud-based digital banking platform and in a Banking-as-a-Service world, you've talked I'm sure a lot about it in the podcast, embedded finance has become, you know, much more of an attractive business model and we're equipped with the technology that we built to be able to enable brands and other fintechs to be able to launch financial services products through an API-based approach or a white label user interface. We also, unlike a lot of technology providers, we were a bank for seven years prior to going public last year and becoming a fintech. And so, we have the banking operations, the compliance, the KYC, BSA, the fraud, the debit card issuance, the core processor etc., under our umbrella so we're a very uniquely positioned within the BaaS landscape where we not only provide very cutting-edge technology to enable these brands, but also the program management and back office work of launching these types of complicated programs.

And lastly, our third vertical is niche direct-to-consumer, it's this idea that there are different consumer groups that may be underrepresented today. We've seen some neo challenger banks go after certain demographics, whether it's LGBTQ, musicians, gig workers, minority groups, etc., but we still think there's untapped segments to be served and that is our most nascent third vertical that we're growing to build.

Peter: I want to dig into those in a little bit, but before I do, you alluded to the milestones right at the beginning there and I want to actually go through some of these. I think you've had a very interesting journey the last couple of years and maybe we could start off with you said that, you know, you were incubated inside Customers Bank and I guess the first question really is, why did you want to spin out from that, what was the reasoning?

Luvleen: Yeah. I mean, sometimes we look back and we said in a perfect world it would have been wonderful to continue that relationship, it was definitely a very positive one, we're forever grateful Customers Bank did incubate us and really under their umbrella we were able to grow into what we are today. The real impetus was a couple of folds so one is Customers Bank main core strategy was really deviating from a consumer strategy. They are commercially-focused and we weren't in the purview of their main core strategy and so it really became inevitable at some point that we would have to part ways and that they could focus on their main core strategy.

Number two is there are advantages in our business model to be under $10 Billion in assets and to be able to have that sort of more scalable, nimble, smaller bank feel as well and Customers Bank is $20+ Billion in assets. And so, there was a natural sort of desire for us to have more flexibility in being smaller in scale and to be more nimble and to really get the advantages of that as well. That was another impetus for parting ways and going in our own direction.

Peter: Right, that's understood. But then, you spun off from Customers Bank and then very, very soon after you decided to go public via SPAC, tell us why did you want to do that so soon?

Luvleen: Well, I think that going back to your previous question which is, you know, why did you even divest, right. So, kind of knowing that that our plan was to divest the business for our own personal company growth trajectories, it was more of an alignment to go separately. Then knowing that, we had a couple of options and we did explore a multitude of different options, strategic options, as well as, you know going public. We weighed a lot of options, we actually had a lot of different opportunities. COVID hit during that time, the world changed a little bit as well, the opportunity that we felt, you know, was best for accomplishing our goals was the SPAC direction and so, you know, SPACs during 2020 had a wild ride and it was also the new fun and exciting thing to take advantage of, quite frankly, and we were able to ride on that momentum.

But, what was so awesome about it was that, you know, SPACs have gotten a bad name for themselves and really because a lot of them were able to go public without having the fundamentals in place, the profitability in place and it was more about projections. For most IPOs, you can't share projections, in the SPACs you can and I think that people got really excited about, you know, what became a bubble. Fortunately, for BM Technologies is that we have exceeded our expectations and the guidance that we put out as a company and as a research analyst so a lot of the concerns about SPACs really, you know, we're one of the best performing SPACs of last year. And so, it was a great vehicle for us, it was the right timing, we were able to have a pipe investor do a $20 Million raise on the top of the SPAC which adds credibility, etc. and it was good timing, things fell into place and that's how we chose to pursue, you know, our divestiture plans.

Peter: Okay. So, how's it been, I mean, you've got a handful of quarters now where you're reporting your earnings. Apart from that where you obviously have to have this quarterly reporting cycle as a public company, has anything else changed in the business as a consequence of you becoming public?

Luvleen: I think that as a public company, you get more sort of awareness so I think it builds a cloud of credibility as well in some ways and so I think that that's been helpful just in terms of brand awareness and potential companies knowing about us for partnership, for best opportunities so I think that's one. Number two, I'd say, is just having access to capital much more readily is a huge benefit and that's what, you know, public company currency provides. I would say third is just as we talked about it, the Great Resignation as a country, right. There's been so much attrition, I think it's more and more important for companies to create great workplaces, but also to have the currency to be able to retain and attract good talent and I think having good access to public markets really helped us in that way as well. So, those are a couple of things.

Peter: Makes sense, So then, you also had a big announcement here fairly recently talking about buying a bank. You started off as a bank, you'd spun off and now you're acquiring a bank, First Sound Bank in Seattle, so two questions on that. Why buy a bank at all when you were part of a bank originally and what attracted you to that particular bank?

Luvleen: Number one, I think people get confused by the fact that we did sort of leave a bank, as you said, and then within not even a year went and merged with a bank or announced the merger, we're going through the regulatory approval process, it's because, Peter, our conviction in the hybrid approach between a fintech and a charter hadn't changed. We spoke earlier on in the conversation what was the impetus for the divestiture, it really had nothing to do with our conviction around the combination or the vertical integration or to turn into a fintech, So, that really didn't change, we had really divested for other reasons and so it was one of our first priorities to go back to the operating model which we think is the strongest for the business model that we have and to us that's having a charter.

I can't talk more about why specifically, but to answer your second question, we did a nationwide search for the right bank partner and it's really a sweet spot that you have to define, find the right partner and First Sound Bank we're like thrilled to have found that partnership. I think it's a diamond in the rough for us in terms of just meeting of the minds, the CEO, Marty

Steele, have a lot of respect for, what we have to be able to work together to be successful in our proforma bank.

He's someone that we can definitely see eye-to-eye, we have the same similar vision for fintech and a charter combination, they're actually in the backyard of our largest client, T-Mobile in Seattle. They're the right sort of sweet spot size for us where, you know, we didn't have a heavy balance sheet, but really could build that bank from the ground up. They had great asset quality, they're profitable, they have good regulatory relationships in standing so there were many reasons that we found First Sound Bank attractive and we're really grateful for that partnership.

Peter: Right. And so, you're based in Philadelphia, right, and they're in Seattle so, obviously, you've got a bit of geographical, you know, space between you, I don't know how many branches they have, but it's a small community bank. Are you going to continue to operate that or what are you going to do differently once this deal closes?

Luvleen: Yeah, So, First Sound Bank actually, they're a $150 Million or so in assets, they actually have only one branch so they're not a branch-heavy model. The whole thing is about really a national digital strategy and so wherever it's headquartered is less important, it's more important from a CRA standpoint. So, from a regulatory standpoint it's to make sure that we're abiding by guidelines and making sure its CRA responsibilities are met, that's going to be a priority in the Seattle region. But other than that, you know, this is a digital strategy and being able to have that charter where we can now deploy the deposits that we're so good at gathering in a low cost way and to be able to deploy them in earning assets is one of the biggest things that the charter provides.

Peter: Okay, So, there's obviously some fintechs now that have bought banks, not many, but there are some and then you've also got plenty of others who said they're not really interested, they're just going to maintain their bank partner relationships they've had for a while. So, it seems like that's becoming two different types of approaches here, what do you think...what's the differentiator between the two different approaches, do you think?

Luvleen: I think it's a really good question and I think philosophically you're absolutely right, there's two different camps exist and we're obviously on one side of it. I think for those that really grew up in a tech strict standpoint and don't have the banking sort of background and experience, I want to stay tech because, I'm not going to lie, B2 Bank (?) is .....(Peter laughs)

Peter: Right.

Luvleen: ...but if you have experience and you have the people that know how to navigate within that regulatory environment, it's a competitive edge, in my opinion. And so, I can understand why those that aren't familiar with operating in that model just don't want to go there and I think that they have to just build their business models on scale. A lot of them are choosing to go global because you have to make up for those economics some way and a lot of them have to do it by really trying to outgrow and have that scale in growing globally.

Peter: Right, right, got it, okay. You reported earnings just a few days ago, we're recording this on April 11th, I wonder if you could just take us through some of the highlights from your earnings report. That was for the calendar year 2021, I believe, so what are some of the highlights you can share?

Luvleen: We're super proud, we're super excited we had a stellar year, we had record results for the 4th quarter, record results for the full year, we grew EBITDA by over 600%, we grew our revenue by over 40%, we grew our deposits by over a billion dollars which equated to over 100% growth. So, overall, it was in our customer sort of acquisition cost remained low and our revenue per account on an annual basis which is over, you know, $180 per active account. So, our metrics continue to be very strong, strong deposit growth, strong spend growth, strong customer acquisition growth, etc. and so we're very proud of the year with that.

This was just one year out of ...we're building something, we're building something for the future, we're building ourselves into a true fintech bank and one of the most competitive Banking-as-a-Service providers and being a chartered institution opens up a lot more doors for us to become an asset generator, to be able to offer new products and services so I'd say this is really just the beginning for us, but I am very proud of the team and what we were able to create over the last year.

Peter: Right, great. So, I want to switch gears and talk about Banking-as-a-Service for a little bit, particularly the Banking-as-a-Service for brands. Maybe let's start off with an update on the T-Mobile partnership because I mean, that's been around now for a few years, I believe. When you first announced it, I was kind of curious, T-Mobile, really, why on earth would they want to be opening up bank accounts. So, take us through, how can you update us on that partnership?

Luvleen: I think a lot of people were scratching their heads (Peter laughs) when we launched this and to be honest, like we saw the reasons why it could be compelling because we were in the weeds of it, we had strategy discussions, we had the relationships there at T-Mobile, we had gone through the RP process, we had more insight, but at the end of the day, it was an unproven model, right, and we've been really lucky at how successful it's been.

I think it provides confidence to the greater Banking-as-a-Service sort of segment to be able to look at our T-Mobile sort of case study, you could say, and I think it's encouraging other brands to start offering what we're doing today. You know, T-Mobile is a public company, I talked about it in our earnings, you know, in our earnings call as well where they fall into what we call our New Business Segment because, you know, we need to respect that they're a public company and cannot give direct sort of numbers, etc., but I can talk about our new business vertical which could be a proxy for the T-Mobile sort of side of our business.

Over the last, you know, two and a half years or so, three years, we've been able to grow that new business vertical. We're at about $1.3 Billion in deposit, you know, our average balances are at 10,000+ which is insane, about 18 to 20% of the portfolio we have active users or transactors and this means that they are transacting at least five times a month and they are direct depositors. This 18 to 20% of this portfolio that's active, their average balances are, you know, around $4,000 and they are on an annualized basis spending $17,000 a year so this is a very, very dedicated and loyal, engaged customer segment.

And so, you know, again, it's new business vertical as a proxy for T-Mobile and so these are good sort of round numbers for you to see how that portfolio is really performing. The opportunity is like became bigger than we thought because T-Mobile is T-Mobile when we launched and it became T-Mobile + Sprint soon after which opened up a new opportunity for us. Within T-Mobile there's also the Metro Group that we've also rolled out since we started this relationship and so a lot of great momentum building within different channels within T-Mobile building out the product set.

Earlier this year, we launched on top of the checking account that we have with T-Mobile, we launched a savings account, we launched a really attractive feature called True Name by Mastercard which allows people, you know, as the world is changing we're becoming more inclusive, we're becoming more mindful of this, it allows T-Mobile Money customers to be able to put their identified name, the name that they identify with on their card, etc. and that's just one of the awesome roadmap that we have planned for this year for the T-Mobile Money product.

Peter: Right. So, I'm curious about sort of the whole like these non-bank brands, there's been a movement, you were really a trailblazer, but now, there's more companies focusing on this, more companies talking about it, this sort of you know, Banking-as-a-Service for brands, I'd love to get a sense of what type of brand do you think, I mean, obviously you've got a pretty large national brand to even consider this, I imagine, but who's the best for this type of relationship?

Luvleen: The way we think about it, you know, I think you can finally go, there's some Banking-as-a-Service providers they go really small and it's like hey, if you want to be this like sandbox access, you're a really small fintech, you have ten customers right now, you can go use our APIs and launch this, that's not what we view as an ideal customer for us. For us, we are looking at scale, for us, we're not going to have ten different players a year, you know, we're going to have one meaningful, significant player every 12 to 18 months is really what we're aspiring for.

What we look for in a partner is, I would say, three-fold so one, it's a brand that has trust built-in, it has emotional connection built-in, there's loyalty built-in and we're able to leverage them. Number two that there's access to a scaled customer base so in the millions is the hope are the type of partners that we work with. And third, ah is it nice to have which is, is there some sort of transactional relationship that exists between that brand and their customers so that when you interject a bank account, it actually helps make something more seamless in an ecosystem that is already in flow and already happening, but it becomes a new payment mechanism, a new value-add and there's seamless experience. So, those are kind of the three things that we typically want to look for.

Peter: And so then, when someone is sort of accessing the app, maybe you can just use T-Mobile as an example since it actually is in market, is branded T-Mobile Money right, I mean, how, like I'm just thinking, they have a loyalty with their customer base, how does that actually work when I load up the app, they're viewing their bank account, where's your brand and where it T-Mobile's brand?

Luvleen: So, I think from a direct-to-consumer brand building, that's not our priority. You know, our priority is to really put the brand forward, but where our priority becomes from a regulatory standpoint is that we service these accounts and so the customer really can't have any confusion, otherwise, it can become a UDAAP issue, etc. with banking. And so, our obligation is to make sure that the customer knows who's the sponsor bank behind this and who is servicing these accounts and so that's where our brand will show up. So, every time you kind of see the FDIC accounts held at Customers Bank, you'll see BMTX mentioned too so people know that we service the accounts and we're powering the technology.

Peter: Right. I presume the intention is to move those from Customers Bank to...when you have the new banking entity under the one umbrella, is that or you're just going to do that going forward for new customers.

Luvleen: So, you know, being intent is that over time we do bring over the deposits that we already have and we do it in a prudent way and we do it at a pace that, you know, the regulators are blessing, we will have to do a capital raise simultaneous with moving over the deposits because, as you know, at a bank you need to have strong capital ratios. And so, that would be a process that doesn't happen overnight, but our intent is that pretty quickly we're able to eventually move those deposits over to our own balance sheet and then have net new deposit acquisition originate from our new charter.

Peter: Okay, okay, it's cool. So then, I want to talk about the college student offering, it's another really interesting thing I know you guys do. Not many companies are focusing on this demographic besides all the banks that's still trying to sign people up when they come on campus, but I'm curious about, like how do you grow this business and is this just a one college at a time type sign-up process that you're...you know, because every college is going to be a little bit different, how are you growing it?

Luvleen: Yeah. So, our main touch point to customers or to potential student customers is to the college/university relationships that we build. So, as I said before, we have about 750 universities that we contractually have relationships with today, they do take time to build. Last year, we built 16 new college relationships and so you can kind of see the pace at which you grow, when you grow there's a lot of stickiness. We have 99% retention rate with our colleges and universities here year-over-year so once we've built that relationship we're able to show our value and able to keep them.

How do we grow these relationships? We have a sales force that is really focused on the higher education landscape and they have relationships and we go out there and, again, we help these colleges and universities save about $150,000 to $250,000 a year so a quarter of a million dollars and we are able to do things in a very compliant way to serve their students better and potentially offer them a bank account. For underserved demographics that's on track of an attractive thing to be able to do. And so, that's how we're building out the funnel and we do have the greatest market share today, we have about a third of the market, a third of the schools or one in every three college students goes to one of the schools that we do business with, but it is slow and steady growth.

Peter: Right. I imagine, I mean, because you've had this product for a little while so there's, you know, students that are graduating, going out into the workforce, are you finding that the retention maintains once they have that tie to the college sort of removed?

Luvleen: Yeah. No, retention is a huge focus of ours, we definitely have seen retention improve over time. I did mention this on our last earnings call where I also see that business significant opportunity for improvement or two which is just icing on the cake. You know, this higher vertical for us is already profitable on a standalone basis and so it's really truly icing on the cake to be able to retain these customers even more than we do today, Part of our strategy of doing that is to be able to offer more products and more services to these students so they see even more value as they un-enroll or graduate into different segments of life and that's what we're investing in now.

Peter: Right, right, got it, okay. We haven't mentioned crypto yet and obviously if you're dealing with college students there's a lot of them that are talking about it. Have you had incoming demand for crypto services, I mean, what are you guys planning with crypto?

Luvleen: There's no denying it. So, one in five Americans today owns Bitcoin, I think Americans are starting to think about, in general, how can they incorporate crypto in their overall financial planning and our students are no different. Our overall customers, whether they come in on T-Mobile, etc. are no different and so our priority is really to, over time, not just crypto, but really build an overall digital banking platform where you have a lot of products and services that these customers would value over their life cycle, whether that's banking, more lending products, more advice-driven products, more products around investing, insurance and as you mentioned, crypto.

So, what are our plans? It's on our roadmap, we want to make sure as we're going through the regulatory process that we feel that the regulators understand why we want to eventually play in this space, why it's to value to our customers, how can we make sure we're educating our customers so that they make the most prudent decisions. And I think, you know, that's equally as important to us as we become a bank is managing consumer demand and products that they want with also the regulatory environment and making sure that we roll them out in a safe, secure way for our customers.

Peter: Right, right, okay. So, last question then, we talked about a lot of things that you guys are working on, what do you view as the most exciting opportunity for BMTX going forward?

Luvleen: There's so many things, as I said. In one year, we were able to crash course, you know, so many things that I can't even imagine what we have, you know, in store for us over the coming years. I've said it since the beginning, since we've gone public, you know, we're a mission-driven company, we really want to create a digital banking platform and a financial experience that is around affordability, transparency, more consumer-friendly products and that's at the heart of what we do, but we're also in the business of building. You know, our goal is that we're able to create a business that is $500 Million to a Billion dollars in valuation over the next three to five years and so to do that we have to continue to grow, we're growing through becoming a fintech bank adding on that asset generation component that can also be new products and services that we're offering to our customers.

Number two is to continue to build our Banking-as-a-Service platform, you know, with our existing relationships, bringing new relationships on and I'm really excited about what we have in store this year for that. Three are student customers, as you said, right, it's about focusing on engagement and retention. We think we're really early innings of what we can do there which provides huge opportunities for growth for us as well and the last point is to become a truly comprehensive digital banking platform where a consumer can go and feel like their banking needs are met from banking, to lending, to investing, insurance, crypto and advice. So, a lot in store for us, but at the end of the day, it's an alignment with our mission and with our growth and our strategy.

Peter: Okay, we'll have to leave it there. Well, best of luck, Luvleen, it's always great chatting with you and thanks again for coming on the show.

Luvleen: Thank you, Peter, so happy to be here.

Peter: I want to go back to that point that we were discussing about, whether fintechs are buying banks versus just maintaining their existing bank partnership and it seems to me that fintechs that are looking to have a major national scale, that really are looking into millions of customers, I just feel like it's inevitable that they're eventually going to have a banking license themselves, whether it's through acquisition or applying for a bank.

Their economics are so much better that way and we particularly….once they go public, I could really see some pressure down the road, we saw it with Lending Club, they've gone and acquired a bank and really have turned the economics of the business around and becoming very profitable so I can see that that's something. Obviously, Luvleen believes it's important to have a banking license and own a bank so I just feel that we could go five years down the road and all the major fintechs, I believe, are going to have a banking license. We'll see if I'm right.

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

(music)