

LendIt Fintech



Welcome to the LendIt Fintech One-on-One Podcast, Episode No. 343. 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 will 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 back Tom Burnside, he is the CEO and Co-Founder of LendingPoint. Now, Lending Point is an interesting company, they've been around about seven years, they're growing fast, they got to profitability quicker than most fintech lenders, if not all. They also had I think a really interesting story around the pandemic and how they bounced back quicker than most.

We go into also their Money On Demand ecosystem which I think is really interesting where borrowers get their money instantly, literally instantly, so they can spend the money at the point of sale or wherever. They're one of the few consumer lenders that have expanded into small business and we talk about what's involved there and why they did that. Tom provides his perspective on getting a banking license, he also talks about when and if they'll do an IPO and much more. It was a fascinating interview, hope you enjoy the show.

Welcome back to the podcast, Tom!

Tom Burnside: Hi, how are you?

Peter: Doing great, great to have you on. So, let's get right into it, we had you on I think four years ago/three and a half/four years ago and great to have you back, but a lot has changed since 2018, right. So, maybe let's start off with how do you describe LendingPoint today?

Tom: We are a full spectrum lender that uses a platform to deliver three products to the marketplace, direct to consumer, point of sale products as well as our SMB e-commerce platform. We're full spectrum credit, we go from 550 to 850, we are able to deliver, you know, products throughout somebody's financial journey, we're funded by multiple sources, everything from platform to ABS markets to on-balance sheet type lending so have very diversified funding platforms. So, we basically are able to meet people where they're at in their financial journey, that's a very open...I think we're the largest TAMs that are probably your total addressable

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markets out there today with widest credit spectrum and we've really enjoyed kind of being in that position.

Peter: Right, right. So, what would you say, given the last two to three years with all the changes that have happened, what have you changed at LendingPoint? What are some of the new developments you could share?

Tom: We've really been working to continue to build out our ecosystem and in our ecosystem is really where we're acquiring as many customers as we can through one of those three products or platforms we spoke about. Being able to get that information into a single database so we can get buying signals and marketing signals and credit signals shared across the products, be able to cross sell to our customers in all those products and we see a lot of great activity there and then, lastly is, we're working very hard on the mobile app to continue to evolve it and allowed to be kind of the data in every platform.

You know, 74% of our customers today come to us through a mobile app and this is an opportunity for us to message them and tell them a little bit about other products and services that are available to them and we found that to be a very effective tool. About 25% of our base last year was customers that were buying another product or renewing one of the products they already had.

Peter: Okay, okay. So then, let's talk about point of sale and the buy now, pay later explosion that...you guys were early I think to recognize the potential of the point of sale and how have you ridden the wave of interest in that kind of financing over the last couple of years?

Tom: We find this to be a really great opportunity. We spoke about e-commerce a little bit earlier and that's really the compliment to point of sale because what we're seeing is we're helping small businesses with working capital and we're helping them on the other side to finance transactions or buyers, right, that have come in. So, we kind of find ourselves in the middle of commerce here and this has been great for us. We were really the first, we offered what we call the Sack product which is a great uncle, if it were, to buy now, pay later, it's just on bigger transactions. So, when you think about it, somebody has four months, six months, eight months, twelve months to pay back and if they don't, they simply convert into a more traditional term loan.

What that does is it allows them to pay as they can afford it so it does not kind of force them into a bad position trying to pay all back within a 4-month period of time and roughly, 40% of customers will transition into a more of a term note. So, they have an opportunity to pay back right away if they want or they can move it more into a term note if they find it's not as affordable as they initially thought and it also allows us to finance a bigger type of transactions as well, right. So, we're not going to allow a \$100 purses. but we are doing a lot of air conditionings in, you know, car repair and things of that sort that are \$500 or greater, alignment of teeth, all those

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type of things. The Sack product or the buy now, pay later product allows them to finance something and if it's unaffordable, they can move into a term note.

Peter: Right, right, got it, got it. And there's not many consumer lenders that have expanded into business lending and I know that this has been probably, I don't know, a year or two now when you first....we heard about the e-commerce kind of offering that you guys...I think it was with eBay, I don't know if that was your very first foray, but tell us a little bit about the thinking behind that and why expand that way?

Tom: We have a point of view here. Our point of view is it's going to be difficult to be a monoline product in the space so what we need to do is today, if you kind of looked at our business, you know, some channels we see 60% of the customers we see that will apply today have applied somewhere in the last year with us. And so, we really are certain to focus more on the ecosystem and on the experience of the customer and meeting more of them wherever they're at in the financial journey so the more we can diversify our products that we can serve our customer with, the better it is.

Now, go a little bit further than that, when we can help somebody at a small business with financing consumers, we can also then help them with working capital needed to replenish stocks, things of that sort. So, that working capital element, we kind of understand their health because we're already there helping them finance and now it allows us to give them working capital at the same time, we found that to be very effective.

Peter: So then, does that mean you're focusing on those people that you're providing the capital for their customers and then you can provide capital to the business itself, is that the focus?

Tom: It's a little bit of both. In the case of eBay, we're really just financing the sellers right at the moment and that particular case. What's interesting in that particular relationship is we're embedded in the transaction so we get a lot of information, it's a co-brand with eBay, but that information comes directly to us real-time. So, once the customer says click, I'd like to have, whatever that transaction is, we can pre-approve them. If they say, hey, I want to apply for the first time, it sends all the information to us and we can make a transaction happen in five seconds and two or three hours later, they have their money.

So, in that particular case, we're really helping them, but now, we're working on the other side of the transaction as well, as well as we do with dentists and others, we're helping them say look, you know, now allows to help you finance your consumer as well. You know, you've trusted us here, trust us in financing your consumer as well.

Peter: That really is an interesting way to kind of play it, I think, and then as far as expertise.....I know that a lot of your management team had streamed into American Express, I mean, do you have to leverage outside experience or you find you had all that experience in-house?

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Tom: I think we're lucky enough to have all those expertise in-house. I think what's different maybe in this environment is now that there's an opportunity with a lot more information available through APIs and through be kind of embedded in these transactions, what it's allowed us to do is to be the fastest for an approval for a small business loan that's out there so if they need working capital, we can do it in seconds. You know, in my very early builds of a small lender, that would take us a day, that's no longer the case, right, so I think the customer experience has gotten a lot better not just based on the knowledge of the team, but also just based on the information available to us now.

Peter: Right, right. I see on your website, you've got like a white label system, is that what you're talking about with the small business offering it to their consumers? What is the white label system you refer to?

Tom: So, we don't have sales people out selling into small business, what we are is embedding ourselves in networks or systems like eBay that already have the knowledge, already have a captured base of customers and from that, we just get a lot more information and a much better, smoother experience. Yeah, we're really focused on that right at the moment and, you know, we'll continue to branch that out, probably more in 2023 than in 2022.

Peter: Right, right, I've got it, got it. So then, what about underwriting, I noticed again on your website you talk about AI-driven platform. You know, when we chatted in the past, you talked about your sort of more sophisticated approach to underwriting, maybe you can just describe a little bit of what you're doing and what you're doing that's different to others.

Tom: If you go to the ABS markets and you can look at whatever tranche of FICOs that we're selling at that pick or point or we're moving into the ABS market, our performance has been really, really good. We've done billions of dollars into the marketplace, our ratings continue to go up, all grades now are investment grade and so we're really very proud of that. That's really driven by AI out of our credit model, but, you know, I've got to tell you, Peter, I think that's table stakes nowadays. The AI for credit is interesting and you've got to do it really, really well and a lot of times, it just shows up in the public markets on these ABS's. What we're more focused on the AI side right at the moment, it's really more on the marketing side.

From a marketing side, we know what else is in their wallet so we know other products to complement the customer with, we know kind of when they're going to buy. You know, based on their life journey, what type of products are they going to need, but we also know what type of product to deliver to them to get a yes and so, we're really spending. Yeah, we have about 10 deciles of credit, we have about 20 deciles of pricing for customers and that's so we can get the right product in front of the customer at the right time so they can say yes to us. A lot of our AI, a lot of our knowledge now is really moving more toward the marketing side of it. I mean, we still continue to do these table stakes of the AI's credit and the credit models continue to evolve, but

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the real focus is really going to be making sure that we get the right product in front of the customer at the right time.

Peter: Right, right, interesting. And then one of the things that I want to bring up is this interesting idea that you have called Money On Demand ecosystem. You know, the Money On Demand piece is something that's sort of heard, sort of movement into that instant kind of financing type arrangement so what do you mean by creating a Money On Demand ecosystem?

Tom: There's a couple of places that Money On Demand makes sense, right. One, if it's an existing customer, every month we will do a soft pull or re-underwrite the customer every month, we know how much money is available to them if they want to take it. So, we can message them, they can click and say yes, please deposit the money to our account, that's all a mojo experience, you know, and they'll have the money now in their account instantly so they're standing in front of something, right. If you're standing in front of something that want to buy something, we want to make Money On Demand. We believe that our ability to use the AI, machine learning, all those buzz words that you hear out there, how do you make it meaningful to the customer?

We developed Money on Demand which is when they need money, we already know what we can do for them and deliver it. Now, what we're doing is we're delivering it to a virtual card, right, so what that does is once we push it out onto the mobile experience, if they're on the mobile with us, we deliver it into a virtual card, the virtual card tap and go so that makes Money on Demand.

Now, there's the other side of it, now here's a customer that's coming in for the first time to a merchant, they can click the QR code, upload to the app, get approved and have the money downloaded onto a virtual card instantly while they're standing in front of the customer and then tap and go. We think about the ecosystem that we're trying to develop, it's really trying to make it very easy for the customer to access A) because we already know or B) is because you're standing and you have a purchase you'd like to make.

Peter: Right, right. So, is that done through like the Visa Direct, like push payment rails, how are you getting the money instantly?

Tom: We're using a company, by the name of Extend, right at the moment, that allows us to create that virtual card through Mastercard rail is what we're using.

Peter: Okay, interesting, interesting. I think that's really cool because in fintech we should be doing things instantly. I'm really pleased to hear what the developments you got there. So, let's step back and sort of talk about the pandemic, I mean, we're now two years really almost from the beginning, what were the early days of the pandemic like? It sounds like you guys recovered pretty well, but take us through sort of that journey.

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Tom: During the early part of 2020, we're all kind of looking at each other not really knowing what to expect, right, we buttoned up for about a quarter. You know, we were very focused on what was going on out there, we want to make sure that we had an understanding of what was going to happen with credit, what kind of deterioration we're going to see, what kind of loss or variants we're going to see.

What we all did was we let the data kind of lead the conversation for us and while all the markets dried up for a little while there, we continued to fund. I think we were one of the first ones to come back which really allowed us to grow and we still grew in 2020, we still made profit in 2020 when everybody else was really pretty tight, but we let the data kind of lead us when was the right time to re-enter back in the marketplace and start doing the fundings again. And so, you really see us grow, kind of 3rd and 4th quarter we really started to accelerate again which gave us, you know, amazing momentum into 2021.

The second thing is I think that the loss severity was not as high as everybody, at least initially, predicted, right, but you can't get drunk on that because now your 2020 portfolio originated, plays into 2021 when credit's a little tighter, you would expect for it to go back to more kind of normal 2018, 2019 type of behavior as in 2022 and beyond. So, even through that figure process we continued to underwrite the loss rates as if they would be a 2018 or 2019 type of loss rate so that's also allowed us to have, you know, some great margins and an amazing year in 2021.

Peter: What sort of growth did you do last year?

Tom: So, you know, last year, revenue grew by 152%, we grew 136% in our funding, right, originations, net income grew by 158% so we saw some really nice scale in the business overall. The big question about, you know, fintech has always been is it sustainable, is it predictable and is it scalable, right, and I really think this year, 2021 specifically, was a year for us to say yes, all those things were possible, right, so you can grow really fast, you can create profits and make very predictive kind of outcomes. You know, the biggest question that everybody has is that if you grow real fast, do you get the scale you're expected and do you get the predictive kind of outcomes from credit and in all those categories, I think we soundly were able to answer those questions. So, for me, it was a great year for us just to be able to answer those questions as we continue our growth.

Peter: Right, right, So many others in the fintech space, some of the lenders are talking about or have applied or have even achieved a banking license so where are you on that? Do you feel like, you know, you're obviously working with bank partners, do you feel like that's a place you want to go?

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Tom: I would never say never (Peter laughs), but I don't think, right at the moment, we have made that. I mean, I can use through our mobile app, I can see us using deposits and others which are conversations we're having, but it may not be on our license, it may be just simply a way of us accommodating the services that help accommodate our customer right on their journey, but, you know, there's a few issues with becoming a bank. One of them is you tend to trade around two and a half times book value, that's not always wonderful, right, then you also have this issue of the kind of under the near prime space, how much of it can be on your book so there is some concentration limits there so we keep people out from fully serving that part of the marketplace and so I think we evaluate this.

The good news is, right now, there's a high demand in the marketplace for our paper, we are five times oversubscribed, we've already done \$450 Million this year of ABS's and so there is a high demand there for our paper so if we want to keep more of it off-balance sheet or on-balance sheet or forward flows or, you know, platform revenue, we have all those options available to us so we continue to evaluate it. Right now, it's not in our immediate priorities.

Peter: Right, right. So, on that capital markets piece, you said you've been really active in the ABS markets, you obviously said you've done really well there, but are you attracting new investors, you said five times oversubscribed. I mean, is this people kind of re-upping that have invested many times, are you attracting new investors. What's the mix that's happening there?

Tom: We probably had 15 to 20 investors that were on our ABS's in 2020 and the early part of kind of 2021. When we started to see the upgrades and we started to see all of the paper being investment grade paper, they've really started tracking so we're probably triple now the number of investors that are in our warehouses or in our ABS's that are out there. Now, we're also doing forward flow and platform originations with credit unions and banks and things of that sort.

What the nice part of that is the customer, at the end of the day, does diversity if it were in the kind of funding platforms allows us to kind of meet the price in the marketplace, wherever it might be, it's been driving down cost so the more people that participate, the more your cost goes down, but we can also pass that through backdoor customers. It almost makes us in a place, right now, where we almost have unlimited growth, it's really kind of helped to us to create the demand and get it out to the marketplace, but the foundation is built for, you know, continual strong growth.

Peter: You know, there's a lot of people coming back in the fintech lending space. I've heard others say there's a lot of demand out there from investors for this paper which is great for the industry. So, I'm curious about, you're profitable, you're growing fast, it seems to me the next logical question is when do you guys go public then?

Tom: We continue to evaluate that. I tell you, the market over the last couple of months has been a bit choppy.

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Peter: Yeah, sure, but 2021 was good. (laughs)

Tom: Yeah, 2021 was good, but it was a great growth year for us as well. So, the challenges, you never really want to go public if you're not going to credit for all the growth, especially if you've grown at 110 +%, 2021 wasn't really kind of our year to do that. I think that we've gone to Ernst & Young, we've done our two years audits, we've finished our Sack too, we're ready. We'll time the market, when the market's ready, we'll be ready to go and we have a little bit of a unique story. Our story has been easy to read, we have high growth, a very diversified TAM, lots of different products, very profitable so our story plays, the question is, when is the right valuation. You know, the interesting thing is when you're making money, you don't really have a need to go or raise a bunch of money without reason.

Peter: Sure.

Tom: You know, we have the luxury of it at this point to time the market.

Peter: Yeah and you guys also didn't go out and raise like Series A,B,C,D,E like some of the others. It feels like you have gone out I think to the equity markets, you know, to this venture capital community, but what....seems like you've raised less venture I think than most, what's going on there?

Tom: We've only raised a little over \$300 Million.

Peter: Right.

Tom: Out of that, it was mostly friends and family. We brought in Warburg in 2020, during the middle of the pandemic and they have been amazing partners in this particular mix, you know, they're very helpful, helped us on our journey, gave us points of view of the market so we've really appreciated that, but, we find ourselves in an interesting place, we own a lot of more of the company than most companies do at this stage.

Peter: Right.

Tom: That's a very interesting place to be at, right, it, you know, kind of this stage in our journey and our investors are patient. What we have been able to do is, you know, we've got about \$2.5 Billion or so in the market right now that we've been able to generate on less than \$300 Million starting from scratch. So, that's not something that's done in the marketplace and a lot of it comes from experience like the team is a very experienced team, they understood the markets, they had the connectivity, they understood how to kind of get us to this place, you know, like a lot of credit goes to the team.

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Peter: Right, right, got it. So then, can we take a step back for a minute and just talk about sort of the fintech lending space today, I mean, I would argue it's a fairly mature space within technology and certainly within finance, when you look at the fintech lending space, I mean, what do you see, what are your thoughts on the state of fintech lending today?

Tom: The number of repeat customers that we're seeing, Peter, we need to be able to take care of our customers and we've got to meet them wherever they're at in their journey because you're going to see them multiple times over a 10-year span. I also don't believe that fintech is going to be able to stand solely on one product, you can't be a monoline product, you've got to be able to serve with other products that meet the customer wherever they're at in their financial journey.

So, if you see somebody very early, you see somebody later on in their financial journey, they have different needs and different reasons for it. So, we first went into the marketplace and just said hey, we use a company called Ogilvey so look, help us understand our customers' financial journey and what we heard and what we saw was a lot of overlap between products and the permission to be able to give the customer other products if they trusted you for one product.

So, I think all of us in the fintech space, we're going to have to embrace the customer and if we want to be their trusted advisor for life in their financial journey then we need to find more ways to keep them on, we've got to find more ways to message them, we've got to find more ways to provide services that may or may not make money for you, but allows you to keep a continuity of the relationship over a longer period of time. Companies like SoFi have already started down this journey as well where they're offering other products, but we think what we do and may be a little bit different is because of how we're, you know, structured at the moment, because we're not a bank, we have the ability to meet people much earlier in their journey and hopefully, be able to retain them over a longer period of time.

Peter: You have a broad credit spectrum that you said so are you seeing people kind of graduate from like a low 600 to 700 or higher, what are you seeing in your customer base?

Tom: There's a couple of things that we watch in our customer journey. One of them is it's not unusual for somebody to come through a fertility clinic, a point of sale and end up needing a home improvement so we kind of see them on both sides of the transaction, but it's also not unusual for the point of sale...tends to really focus on a much younger population and then the question is, can you move them up the journey that they trusted you for that transaction, can you move them into a direct-to-consumer personal loan and outside of a very specific needs-based type product and we're starting to see that.

We're starting to see them move up, you know, and take other products from us that are available to them or even if they said they are on the seller side then we can say, hey, there's money available to you for working capital. All of those kind of things come together right at the

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moment. We're early on the journey here on the point of sale, you know, and you kind of think about the business, we've been in business for seven years now, we definitely are seeing people graduate from a FICO perspective. As they become stronger, we're seeing them graduate up in grades and when we renew them, we give them that opportunity to have a better product so that's really creating some real stickiness there.

Peter: Right, right. So then, is the vision for you guys...are going to be adding more lending products? I mean, your name is LendingPoint so I don't know if you are going to go into wealth management or stock trading like some of the aforementioned, SoFi for example, but do you want to have a complete suite of lending products, where are you at where that's concerned?

Tom: The LendingPoint brand has done very well for us in the lending space, but I do think you'll see other names coming out of the corporation for other products and things that we do. You know, the mobile experience will be different, you'll see other things going on inside the organization, they are more services related, we have a lot of information on our customer, we have a lot of information we can share on somebody's financial health and kind of how they index against everything else that's going on in their life proxy, if it were. So, there's a lot of information we could share and I don't know that all the products I've mentioned, but I don't think all the products are going to be profit products. You know, some of the services are going to simply give reason for them to come back, continue to engage with us so that we do have an opportunity to sell them other products in their journey.

Peter: Right, right, okay. So then, let's look ahead to this year and then what's on tap for LendingPoint in 2022?

Tom: You know, look there's a few things that are on tap for 2022, this will be our third year or profitability, you know, we'll have another 50% growth or so in profitability this year, you know, our portfolios continue to grow strongly, we're originating right about \$4 Billion this year if we could withstand the pace right now that ...higher than that, but, you know, that's what we are projecting right at the moment.

We are also continuing to focus on the delivery platform of the (garbled), we've stopped to full team there to continue to make sure that's best-of-class that's in the marketplace because we really see that as our way of connecting to the customer. We're digesting some of the Ogilvy study right at the moment to see what other products, property and acquisition or so in our future now as we kind of view other products that we need that will help us kind of round out the journey and we're doubling down on point of sale. Point of sale and the e-commerce space, you'll see a lot more growth from us this year.

Peter: Right, okay. Well, best of luck, Tom, it's always great to chat with you. Thanks so much for coming on the show today.

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Tom: Thank you so much, Peter, appreciate your time.

Peter: So many interesting parts of that interview, but I want to just go back to one thing that Tom talked about and that's this Money On Demand ecosystem and using the instant payment rails that ...both Visa and Mastercard have options to do that today and other services as well now, you know, we talked about this for many years in fintech and now it's great to see it really come to fruition.

When you apply for a loan and even when you get accepted for a loan, oftentimes you have to wait 24 hours, sometimes 48 hours and that can be infuriating and I feel like we're moving now and it's going to become table stakes very soon where once you have been approved, the money is in your account literally within 30 seconds and that I see all lending going that way because certainly some of the more advanced ones are doing so now as LendingPoint pointed out, but soon that will be how all monies are transmitted to borrowers and I think that's going to be a good thing.

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

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Before we go, 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 will 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