

PITCHIT FINTECH STARTUPS PODCAST NO. 24-CARL-ALAIN MEMNON

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Todd Anderson: On Episode 24, I talk with Carl-Alain Memnon of Grain. Grain is a digital credit card for everyone, they provide a line of credit based on your cash flow, not your credit score. You know, I think that's the most interesting part about Grain is that they're trying take a different look at what the credit card and what credit means. For so long, credit, especially here in America, is based on your past behavior and essentially going into debt to build a credit profile.

I think the innovative thing that Grain is trying to do is A) they don't use credit scores and so they extend credit based upon the cash flow going in. And so, it's a responsible way for users to build a profile, whether they've had no profile, maybe they had some issues with their credit profile, but it's a really, really innovative way to re-look at the credit card.

And so, Carl and I get into the full product of Grain, kind of how the complexities of it work, who takes on the credit risk, how it works when using your debit card because they don't give you a physical card, the realities of raising money, the state of financial health and wellness in America and a whole lot more. So, I really hope you enjoy the show, on to Grain.

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Welcome to the podcast, Carl, how are you?

Carl-Alain Memnon: I am very well, Todd, how are you?

Todd: I am well. So, I'd like to start these episodes with... if you can just tell the audience a little bit about yourself, you know, where were you before Grain, kind of a little bit about the journey that brought you to where you are today with Grain.

Carl: So, I'm Carl, the Co-Founder and Chief Operating Officer of Grain. Before Grain, I worked at Goldman, Goldman Sachs, KCG and most recently General Counsel or Associate General Counsel at Virtu Financial, Virtu is a global market making and execution firm. During my time there, I mainly focused on securities, corporate finance, commercial transactions, things of that nature.

Todd: So, what brought you and the co-founders to the idea of Grain and why launch kind of when you all did?

Carl: Christian, who's the Chief Executive Officer/Co-Founder of Grain and I have actually known each other since we were kids, we grew up in Haiti together. And so, Christian called me one day back in 2017 and had this idea about Grain and thought it would be an interesting thing for us to work on together given my background and his.

In terms of the idea of where Grain came from, what we saw was an issue with systematic generational wealth and we really wanted to look into what were the underlying reasons, why there was the generational wealth problem and credit came up oftentimes as one of those issues, both in terms of our (inaudible) and our personal experience, right. We each had negative experience with respect to credit, one way or the other.

For example, myself, growing up in Haiti, coming here, creating a credit history was challenging and I wasn't able to get a credit card well into, you know, I think it was close to college maybe while I was in law school and that made it very challenging for me. And so, with that idea, we looked to see if we could expand the way people access credit and make it more equitable. Essentially, Grain will provide anyone with access to credit based on their current financial behavior, not on a number of ancillary factors that are currently used today.

Todd: Before we jump into the specifics of Grain, exactly what the product is, how'd you come to the name of Grain?

Carl: Grain has multiple meanings, but when we were looking at the credit system, what we wanted to do was innovate and essentially, that was going against the grain of what the credit system was, but that has evolved over time in terms of what we're actually doing for our customers which is helping them grow their financial profile grain by grain. And so, there's somewhat dual meanings to it, but the original was sort of go against the grain and innovate.

Todd: So, if you can, give the listeners an overview of exactly what the product is and the core target customer. I know, you said in your intro there, anyone can essentially access Grain and it'll look at your financial profile and give you credit based on that, but tell us a little bit about kind of the target customer.

Carl: I'll start with what Grain is. Grain is an alternative to the traditional credit card and it's designed to make credit more accessible for everyone. We provide a revolving line of credit that you can access

through your existing debit card without issuing a physical card. So, we leverage the user's primary checking account and the debit card that comes with that account. This approach empowers the customer to use what is needed day-to-day, right, so they're more responsible when it comes to using debit cards versus credit cards and this is shown by research, right, and we strive to do that, how people manage credit more responsibly, right. It gives them ownership of their credit and largely, their life because credit will permeate throughout various aspects of their life.

Todd: Practically speaking, you know, how does that work. Say, for example, I go to a store, I use my debit card, how does it work in the sense...take it from my checking account, take it from the revolving credit line, do I make that decision at the point of sale, kind of how does that practically work in terms of the card and the user's end?

Carl: The way you access your revolving line of credit is through the Grain application. So, you'll go into the application and say you want to withdraw \$100, that \$100 is transferred into that checking account and you can access it via your debit account. In terms of what are you going to do when you're at the point of sale, that's really a function of transfer timing. Right now, we leverage ACH and so the quickest is same day so not necessarily at the point of sale. In the near future, we're looking to implement RTP which will allow for the transfer to be in real-time so you would be able to access your line of credit in real-time at the point of sale.

Todd: And then, in terms of the risk of the extension of credit, is Grain holding the risk, do you work with a network of partner banks, one bank, you know, tell us a little bit about kind of the behind-the-scenes. Obviously, from the user point of view, they get the credit, they swipe the card, but how does some of the products work behind-the-scenes?

Carl: Grain is a software technology technique. At Grain, the credit we provide comes from community banks, actually, and it's very much aligned with our mission statement. We believe community banks have very similar values that align with our own and in doing so, we have a chance to help those community banks compete with the larger banks. Grain, essentially, serves as the digital piece of those community banks and we allow them to expand their customer base, their credit portfolio and their product offerings.

Todd: Something you said in your intro interested me and it's this, the concept of credit, especially here in the States, essentially the need to go into debt to build a credit profile and the concept of you having to borrow to then eventually, alright, I have a good enough FICO, I have a good enough whatever score. As someone who's obviously come here from a different country and had the issue of not being able to get credit until, you know, like you said in law school, the concept of a credit score, doesn't that need to be kind of re-worked for not only the 21st century, but putting people in debt just to give them more potential for debt in the future seems like an inequitable system, to say the least.

Carl: I agree 100%, I think I would take it a step further. I think the entire credit system in the way we look at provisioning credit needs to be changed. I think we look at it as behavior and that is indicative of past behavior, not current credit wherewithal, right, and the way we look at it is your credit

wherewithal, your checking, essentially, whether it's one account involves all accounts should very much inform your credit profile, right, they shouldn't be siloed.

Right now, it's almost counter intuitive to think that that's what we're doing now, right, you know, I can have a great credit score, but my spending and my income don't align with my credit card and that's how people fall into debt, right. What we do and that's why what we do is responsible, right, because we're looking at okay, what is your checking account, what is your financial wherewithal and provisioning credit based on that so in that way I think, fundamentally, we want to change the entire system.

Right now, we're just doing it with revolving lines of credit, right, but that can apply to any type of credit further to what I mentioned, credit permeates through our whole life, if you want a car, if you want a house. In my own experience as I alluded to earlier, I was renting an apartment, I did not have a sufficient credit history so I had to pay a huge security deposit on our rent. A few years later, the apartment was much more expensive, my security deposit was a fraction and that was the function of a couple of years of credit history. So, not having credit or not being able to access credit is expensive and it's expensive for the most marginalized, generally.

Todd: In terms of the types of people that are using Grain today, is it people that would normally not get approved for say a typical credit card, credit line, do you see kind of a mix of kind of people all across the credit spectrum. And do you guys check credit scores like is that part of the process and it's just one piece of it or do you not use credit scores in your system at all.

Carl: So, I'll start with the most important which is that we don't credit scores at all in reviewing somebody's, you know, credit limit or access to credit. In terms of our customers, really it ranges ...our core customer base, right now, are millennials, 25 to 34, specifically young professionals who make a good living, but might have had a mistake in the past that has affected their credit score. But, when we look at our customer base, we really see sort of three cohorts of use.

People who have never had a credit card, but are looking to build a line of credit, meaning that was where I was, right. I couldn't access credit and so this allows that user to access credit because at the same time in the background, we're reporting to the credit bureaus because we understand we have the function and these individuals need to function within the existing system while Grain works the changes. So, we report to the credit bureau, but we allow them to access it without consideration of that credit score.

And then, we have people who have poor credit scores, but good streams of income and they can't get access to lines of credit as a result of that past behavior. As we all know, there's a ton of reasons why someone may have poor credit history, it's not entirely their fault. Right now, it's because of the pandemic, a lot of folks suffering because of that, right. In years past, in decades past, it's been healthcare costs and that's a current issue right now and there's student debt as well. So, all of these reasons are sort of outside the control of those individuals, but don't really speak to their current

financial wherewithal or their willingness to pay and those are the two most important factors when it comes to credit.

And then, we have a third cohort which are people with great credit scores, great income, but have a fear of falling into debt. So, I alluded to that a little bit earlier when, you know, I talked about how credit cards will give somebody a line of credit independent of their income and their spending patterns and that's how people fall into debt, people who had those experiences and they can, you know, rehabilitated their credit score, you know, half grade incomes. But, they don't want to get another credit card because they know that it can be potentially predatory and fall into a trap, right, and so they'll come to Grain understanding that and they won't overspend. The line of credit they have will be something that is sustainable.

Todd: Is there a maximum, in terms of the credit line that you guys offer, is it kind of, alright, it's \$200 to 800, \$500 to 5,000? It sounds like it's in, you know, kind of not in the \$10,000, 20,000, 30,000 range, but it's more on the lower scale?

Carl: Yeah. I guess it's safe to say we certainly look to go through the \$10,000, \$20,000 rate. That's, you know, sort of lines of credit needed in those circumstances. As we expand our customer base, that's where we'll go, but currently, our maximum line is \$1,000 and our lowest line is \$150 fully secured. When we talk about our lowest limit, that means anybody can qualify for it so regardless of your credit history, right, and even if your income is not great, because we certainly still consider it even if it's not great. We'll give you the opportunity with a fully secured line because certainly we need to mitigate the risk, but with a fully secured line start building credit, right. \$150 is not a line, but it allows somebody to build that history and, of course, with credit limit increases and good past behavior that user will then be able to further build that history and graduate to higher lines.

Todd: Do you think with products like Grain, other products like Buy Now Pay Later, especially with the younger cohort of users thatI don't know if I should say this, traditional credit card end user is in trouble, but do you think that the younger generation is looking at credit differently than previous generations and that the concept of a credit card is changing and that it's not all about, alright, give them a credit card or two or three credit cards and it's \$10,000 lines, it's more...this is a small purchase, I'll credit that or this is a small line, I'll use that responsibly, like the concept of credit is changing versus maybe what we thought of credit previously.

Carl: I think that's accurate. I think, you know, when we look at millennials and GenZ, in particular, they're definitely a lot more savvy when it comes to credit, that's a function of more resources, but also a function of experience. The 2008 financial crisis had a lasting impact on those groups of people and it engendered a lot of distrust within the financial system and that's, you know, compounded by the student debt that they had at that time, right, and everything I mentioned before and so now when people look at credit, they're certainly more discerning. I think the issue that persists and that we're trying to resolve is that there aren't a lot of alternatives, we want to be the alternative to the traditional credit card. The market for the alternative already exists, right, and we just want to bring more people into that fold, the desire is there based on the experience.

Todd: In terms of financial health, inclusion, wellness, do you think that as an industry where.....you know, as an industry I mean fintech, you know, do you think we're at a place where finally we'll get to people who need it most. I've always thought fintech kind of went through one wave which was pre-COVID, the tools were created.

Well, to be honest, a lot of those tools were still being used by people with good incomes, people that have great jobs and it well "being democratized," it really wasn't. Then COVID happened and now a lot of those tools are being accessed by people who need them the most and so we're finally entering a period of real financial inclusion that we haven't yet seen before though fintech had this term of democratizing the access for a while.

Carl: I certainly agree that pre-COVID, a lot of the tools were built, the technologies existed. I think what COVID has sort of brought out is the necessity to innovate the system using those tools. The industry certainly has come a long way in its attempts in terms of financial inclusion and wellness, but it also has a long way to go I think and while the tools exist, the broader support for those products may not exist in the system, generally, right, you have to sort of push against the system to innovate, to bring financial inclusion to bear.

Ultimately, that's one of the reasons we created Grain, right, it was born out of the fact that credit is something that, right now, is not very inclusive, but all know from personal experience that it really is part of your general life and will affect your wellness. As a result of that, if it's not inclusive and affects your wellness then outside sort of the basic economic burden of not being able to access credit, your general wellness suffers, right, as your financial situation is dire because you can't access credit, you can't provide for your family, you can't build that future, you know, the American Dream is somewhat built on credit to a certain extent, right?

Todd: Oh, yeah. There are many things you can't do without credit. I mean, I wish we all could save money and just use cash all the time, but, ultimately, we have to buy cars, houses, we have to go to school and not all of that is sitting in the bank account.

Carl: Oh, yeah, absolutely. The American Dream is certainly on credit and if you can't access credit, you can't access the American Dream and that's one of the things that is key if you want to secure a home, a car, a whole of life's basic necessities and those things impact wellness.

Todd: Before I shift a little bit to the next part of our conversation, I just want to ask what was the best piece of advice you received, thus far, in terms of building Grain?

Carl: Hah! There's been a lot of great advice we received from mentors, but the one that speaks to me is one that I received from my Co-Founder. I come from New York Wall Street banking, I worked in a bank for services industry, he worked out here in California, in the Bay Area with fintechs and startups prior to Grain and one thing he told me coming out here, even in building this tool for financial services, he said, don't wear a suit (laughs) and that has always stuck with me. So, whenever I come out to

California, I don't wear a suit, I keep hearing him in my head giving me that advice, but we got a ton of good advice from a lot of great mentors.

Todd: So, I want to shift a little bit. You know, tell us how big is the team, do you guys have an office, still remote and how has the pandemic, in terms of the last year, impacted your team, the wellness, keeping people from kind of getting burnt out, just more personally about kind of team and how you've grown.

Carl: So, our team is a little over 30, right now, but we're growing quickly. In terms of the impact of COVID, outside of, you know, sort of how COVID has affected people generally in their personal lives, speaking strictly with respect to the company, COVID really hasn't impacted the company that much when it comes to the team, it's been quite the opposite. We were a small team before COVID and we've grown tremendously since, several times over. If anything in looking at COVID and the company, our focus has been to try to continue that company culture and foster that sense of community even though we're all remote.

Todd: Is it harder to do remote than say if you were all in office, whether one or two offices, is it harder to make that culture really apparent when you're hiring people through a Zoom or something like that. It takes a lot more intention, I would think, than accidentally in an office, right?

Carl: That's exactly right, it makes us more intention and so I wouldn't necessarily say it's a detriment, but it certainly highlights to us continuously that we have to make sure that we maintain our company culture, right. I think it's easy to perhaps get complacent when you're in an office about maintaining company culture as we grow, particularly as we grow quickly. Like I said, we're doubling every couple of months and so it has that, you know, you expand quickly, but it's difficult to maintain, but because we're remote, there has been tremendous focus on maintaining that company culture through events and on-sites and, you know, a ton of things that we do to keep our employees engaged.

Todd: Has one of the biggest benefits of, you know, being all remote is, you know that you can essentially hire anywhere?

Carl: It's certainly a benefit in some ways, but it certainly brings about its challenges. You know, when you hire anywhere you certainly get a good diversity of folks and I think that's definitely important when you're building a company and there's sort of these mundane practical concerns of registering and taxes in every state. It becomes something you just have to navigate, right, but certainly I would say the benefits of the diversity of folks from all around the country outweighs the somewhat mundane aspect of registering and navigating the different regulatory structures.

Todd: And so, right now, I'd probably say it's arguably the hottest time fintech has ever had in terms of fundraising standpoint. It seems like any two people can have a fintech idea and raise a lot of money though I know the realities of that aren't exactly that easy. You know, how has investor appetite been and what advice would you give to say a fellow founder that might be going through a fundraise, you

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know, any advice that you could give to them that they could take from stuff that you've learned since growing Grain.

Carl: Certainly, it's a hot category of fintech, but I think we need to be careful because the notion that anybody can walk into this category and be successful is just not true. I say that from experience being in the category and seeing, you know, different companies struggle, particularly this time. Moreover, investors are more discerning than ever and, you know, are savvy about who they choose to support. They're looking at the market trends, they're looking at business fundamentals, your unit economics. Those things remain important, notwithstanding the tremendous amount of opportunity that exist with fintech, you know, I wouldn't expect that it's easy for anybody to just get into.

In terms of advice, based on my experience, I think anybody looking to get into this space should focus on, you know, two of the things I alluded to look for which is really the foundation of your business, the concept of unit economics, the problem you're trying to solve as well, right. You can try to solve a problem, but if the foundation of how you're trying to solve that problem is not sound then you're not going to actually be able to solve that problem and that goes back to investors being discerning and that's what they try to flesh out, right.

And so, if I can give anybody advice trying to enter into the space, certainly identify the problem and that could potentially be the easiest part because we're all aware of the problems that exist and creating a solution that solves that problem in a sustainable and built on a good foundation is paramount.

Todd: So, we have just a few minutes left, I'd like to end with a little fun. Do you have a favorite book and then the last book that you read. If you happen to not be a big reader then maybe a favorite movie, favorite podcast, whatever media you might find is most interesting for you.

Carl: My favorite book is "The Great Gatsby" and the reason for that is because it's somewhat aspirational, right, and I think the idea of Grain and this mission that we're on is aspirational. That certainly remains one of my favorite books. If I had to say the last book that I'm talking about awhile, I think it would have to be "The Brief Wondrous Life of Oscar Wao" and that was a while ago, probably before law school. The thing about law school is you end up doing a lot of reading (both laughs) so it takes away from the time to read for fun.

Todd: Same with building a company. (laughs)

Carl: Nowadays, I read a lot of regulations, I can tell you all about regulation here. That's how I spend my time.

Todd: Your favorite sport or sports and teams that you root for.

Carl: I would say my favorite sports are basketball and football. I played basketball in high school and some in college. I started to get to football in the United States. My favorite team is the Giants and

incidentally, Tuesday was my birthday and my wife got me Giants tickets so I'm actually going to the Giants game on Sunday.

Todd: Yeah, against the Panthers.

Carl: Yes.

Todd: It's been a tough year for the Giants. (laughs)

Carl: That's why I seemed somewhat hesitant, but I'm going to go to the game on Sunday and I'm going to root for the G-men.

Todd: Final question, biggest inspiration in life.

Carl: There's probably two that's personally and there's from a business perspective. Personally, I'll have to say that's my Mom, she was incredibly business savvy and actually had a number of businesses as we were growing up. My father had a construction company, but my Mom had a market, she sold chickens wholesale, she had a lot of different things going on. And so, I really appreciated her business acumen even in sort of supporting my father's business.

From a sort of business perspective, I have to say Robert Smith is a big inspiration for me, you know, his journey and what he was able to accomplish.

Todd: Well, Carl, I greatly appreciate you coming on the show, give me a few minutes. I don't know if you want to tell the audience where they can find you or where they can find Grain, tell them a little bit about where they could find Grain and yourself.

Carl: Absolutely. Well, you can find Grain on the IOS Store, search for Grain or Grain Credit. Online, you can find us at www.trygrain.com and it'll give you a ton of information about Grain, what we do, how you can sign up.

Todd: Thank you again for coming on the show, I greatly appreciate your giving me a few minutes, I wish you and the team continued success and hopefully, we'll get you back sometime in the future.

Carl: Awesome, thanks for having me.

Todd: Yeah, thank you.

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