FINTECH ONE-ON-ONE PODCAST – BRAD STROH

Welcome to the Fintech One-on-One Podcast. This is Peter Renton, Chairman & Co-Founder of Fintech Nexus.

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Peter Renton: Today on the show, I'm delighted to welcome Brad Stroh, he is the Co-CEO & Co-Founder of Achieve, formerly known as Freedom Financial. So, I wanted to get Brad on the show because I think they have a really interesting story, Achieve, they are really one of the pioneers in the fintech space, started in 2002, that was like five years before Lending Club and they have carved out a real solid niche for themselves and they serve a variety of different consumers focused primarily on those that have experienced financial hardship, that are kind of outside of the mainstream prime consumer. And we talk about what is the challenges these consumers have, how Achieve helps them with the different products that they offer, they talk about their capital markets approach and his vision for the future. It was a fascinating discussion; hope you enjoy the show.

Welcome to the podcast, Brad.

Brad Stroh: Thanks, Peter, good to be with you.

Peter: Good to be with you. So, your career has been spent, the majority of it has been spent in this one company so what I'd like to do to start off with is to go back 20+ years before you founded Achieve or what became Achieve. Tell us a little bit about what you were trying to do there, and the thought process involved in the founding of the company.

Brad: It is funny, this is the vast majority of my career, 20+ years with Andrew Housser what's now Achieve. If I go back to kind of the founding story in the early 2000's, both Andrew and I'd come from the investing, venture capital, private equity world. We met at Stanford Business School, we were really committed to being entrepreneurs, to starting a business and a few things about what's evolved into Achieve, kind of there were foundational elements that have woven into our DNA even today. But the founding story really combines strategic thinking, a lot of luck and combining some of our kind of personal values and why we're such a mission-driven business all the way to today.

At Stanford Business School, you know, coming out of private equity, we were pretty adept at mapping industries, pattern recognition, economic models, identifying large TAMs, looking at where we thought there were underserved segments of categories of markets. We really got committed quickly to consumer finance as a massive industry, you know back then it was $13 Trillion, fast forward to today, you know, $17 Trillion of consumer debt. And we just fundamentally thought there were aspects of a huge market that were really inefficient, broken and now combining to our personal values and why we are such a mission-driven business. We saw this great opportunity to combine creating a valuable big business in a massive market with fundamentally changing people's lives who were underserved, didn't have advocates who were struggling and striving and that we thought we could create a mission-driven business around.

Candidly, in those early days, we didn't know what that would be and before, this is 2002, this was before lean startup methodology was a hot thing, before the concept of an MVP was even a concept. We bootstrapped the business from scratch by testing, learning, putting ads out online in the early days of Google. Some of our good friends from business school were some of the top people at Google back then and building data models before that was a cool thing, of learning what are the segments of consumers who were coming to us, what do they look like, what are their problem statements. And it clustered pretty quickly, Peter, into the super prime consumer who qualifies for conforming products, whether that's a conforming mortgage or student loans or personal loans or credit cards, pretty well served and effectively served. There's still a lot of inefficiency in our minds all the way to today in some of those markets.

The non-conforming consumer, whether that's FICO-impaired, whether that's high DTI, whether that's high LTV, whether that's someone who's been through a divorce or had a medical hardship, they were and still to this day largely are kicked out of the traditional financial services market. So, I'd say that was kind of a core opportunity we identified, it's just the size, the scale and how underserved those consumers were and the level of stress and distress that they have, I can go through a couple, just case studies of that, I'd say combined with…a couple of light bulbs went off for us where back then everyone from Stanford Business School wanted to go into venture which was our background, and we were looking to get out, ironically. They wanted to go into private equity hedge funds, nobody, you know, wanted to start a company and no one from Stanford Business School, Harvard Business School was going after what broadly is, you know, the underserved consumer finance industry.

Peter: Right.

Brad: To us that just looked like what a massive market with a great opportunity that connects to our personal values that we think we can build a big valuable, impactful business that makes a meaningful dent on the universe in consumer finance and it's just fundamentally as not attracting the best and the brightest people in the world. Now, you had a front row seat to the growth of fintech and the excitement of the influx of talent and dollars that did not exist back in that window of time, so we just saw a great opportunity.

I'd say one other variable is coming from venture and technology and I had been a venture and private equity investor primarily in technology, you know, from 1995 to 2000 which was a unique window of time. I did see the role of technology and data to disrupt legacy industries to improve the consumer experience and really to massively accelerate innovation and then the role of technology that can really disrupt big, sleepy industries.

Honestly, those things came together and Andrew and I just thought, this is it, we produced some cool search ads, we did for free a bunch of free consultations with consumers. Early on, we thought it was going to be more of a data play where we'd educate consumers around the information asymmetry that exists between the lenders or collection agencies or the banks and the individual consumer, it quickly turned into identifying the opportunity to productize, helping consumers deal with their most pressing problems around debt, and that was the early founding story.

Peter: Okay, that's fascinating. What's been interesting is, you know, you started in 2002 and that was before fintech was a thing and before even the pioneers of the online lending space getting going, you got a front row seat as well to seeing, you know, there was Prosper and Lending Club that came a few years after you, but I'm curious, like was this an online business from the get-go? You've seen the huge growth like a decade ago, there was a monstrous growth in online lending, was this always going to be online business?

Brad: What a great question that connects all the way to what I think is one of our core competencies today. Is no, it was not digital first largely because we didn't have the luxury of raising $80 Million (Peter laughs) within our company with a CTO and a chief data officer and a bunch of expensive VPs who bring in a digital-first approach. We, in a bootstrapped manner, brought what I would say the human touch which all the way to today is a 3,000-person company, we still are very human-centric, human touch-centric, but now layered on digital capabilities and personalization and more of a data-driven approach.

Those early days, we personally were connecting with consumers, building trust and advocacy for them and for their debt resolution plan or for their path forward for personal loans, specialty loans or to get them on the path to the brighter financial future that we saw. It really did start with the human touch which I think is the harder, more complex problem to solve and we started there first.

I'd also say from the early days, Peter, we always thought of ourselves as a consumer finance business, meaning consumer-first, financial services-driven, we never thought purely as…when fintech came in, which we still can have great debates around the level of tech versus fin in some of those early fintech entrants, we recognized some great opportunities and continued to be an underserved large TAM. But I do think we recognized the responsible credit approach to lending, the consumer-centric, consumer-first approach to solving problems that was missing from some of the early entrants in fintech, meaning we were human first, digital second.

Peter: Right, got you, interesting. So then, I want to go through the core product suite, if you will, just go through each component. You can let me know if there's something I'm missing here, but I want to start off in personal loans. I feel like that's something obviously a lot of competition there in the personal loans space today, what your loan terms and what is the differentiator for you in that business?

Brad: Yeah. A couple of things on the Achieve personal loan side of the business and I think we're differentiators. I think first is outside of that individual product category, Peter, is the platform and the multi-product suitability base enrollment for consumers where we're really trying to identify right product, right fit for the consumer. To us, that lets us personalize the individual product for the consumer, whether it's a home loan, whether it's a personal loan, whether it's a debt resolution program, whether it's a DIY debt plan for a consumer that they execute themselves.

That makes the personal loan category in our product differentiated because we don't have one hammer seeing everything as a nail, we've got personalization for every consumer. What that means for the PL side is as suitability-based underwriting, we can make the right credit decision for the right consumer, that's first and foremost, for us, that turns into better loan performance. We continue to be very successful with our loan performance and our long-term investors, we have our own credit hedge fund where we buy back our loans.

We were one of the first to have ever done that where we proved we want to own our loans and we believe in the credit performance of the consumers that we're underwriting, that was very innovative and differentiated early on. It really wove into the DNA of our company, responsible lending, responsible pricing, responsible credit decisions.

The other really big one is that back to the human touch, that started with the founding story, is we try to reach out and have a phone call and a personal contact with every borrower, that we understand their situation, we build understanding and trust, we connect them to our servicing platform, to dashboards, to tools and digital experiences that help empower them. But we fundamentally try to build a relationship with them, meaning if anything changes, if their financial situation changes, they know there's a human being in a personal company behind that loan that's willing to stand by them and be flexible and respond to their changing needs which allows our credit performance to be better.

We also introduced, in terms of specifics around the PL category, we were the first people to do, we pay off their debts directly with DirectPay complex, built our own tech stack and payments platform. We give them rate reductions for a bunch of specific nuances that we've identified in FICO and non-FICO based lending that I think are innovative resulting in a better consumer experience and then ultimately better credit performance for our borrowers.

Peter: Right, right, interesting. So then, I also noticed that you do home equity loans and to me it's a little bit away from sort of the core underserved population, I would imagine, but tell us a little bit about that product.

Brad: It's going to connect a lot to the evolution of Achieve which is consumer-driven insights that allows us to expand products and services to meet the needs of the consumer, not starting with technology or core hypothesis and then trying to overlay it to a consumer category. The catalyst for that which we've been in for several years, and we're really excited about the growth of that product, is we were seeing a tremendous volume of applicants for personal loans and for debt consolidation services where it's a consumer that just fell outside of a conforming bucket or they didn't want to touch there first, now that TAM is growing massively, you know, since the Fed rate increases in the past year, but they had relatively low LTVs.

From our credit team, we thought we could effectively credit underwrite those people to give them better terms, whether their rate or a much lower monthly payment. Our average home equity loan borrower is a $65,000 loan, 75% of the proceeds are typically debt consolidation, on average we are saving them $800 a month in monthly payments so significantly financial stress relieving for that product, but it came out of the insight that a bunch of these consumers are applying for the wrong product.

Why don't we introduce that product to this TAM and identify then back to suitability-based underwriting and standards a better product for the right fit for that consumer that helps meet them and path them on the way to paying off their debts, it is actually that category. So, non-super prime home equity loan borrowers is pretty underserved, Peter, going all the way back to the fallout from the GFC, that Figure is a great entrant and a worthy competitor. There's some new entrants coming in now from the PL and the mortgage space as those industries are getting disrupted, but I do think we've got differentiation there as well going back to the kind of the core DNA of our business.

Peter: Right. interesting. So, I also want to talk about debt relief. I think I read somewhere that Freedom Debt Relief is the biggest debt relief company in the country and I'd love to sort of talk about how that process works and maybe just explain what you're doing there.

Brad: So, that's Achieve Debt Resolution and that's the evolution of the Freedom Debt Relief product is that was one of our first products we launched in the early days when we recognized and kind of pivoted into that distressed consumer. Since inception, we've enrolled over $16 billion in debt into that product, on average we're saving them about half of what they owe. That's a distressed consumer, say 560/570 FICO, typically the root cause of the financial distress is divorce, medical hardship or loss of income.

When someone falls outside of the conveyor belt of consumer finance where they struggle, they can't sustain $30,000 of unsecured debt, at that point they're un-lendable. Creditors don't really know how to deal with them outside of running them through the collection mill and we've been a leader in that space from the start of helping identify that pocket of consumers, get them onto a monthly payment that they can afford so they can save up funds which then go towards settlements and resolutions on those debts, typically over a 3 to 5-year period of time at which point you see their financial rehabilitation, typically, they're over that financial hardship at some point during that debt resolution program.

For creditors which we consider as a key constituent partner of ours is it allows them to recover with more visibility, higher dollar amounts which from a ROI calculus for the original issuer or their collection agent proxy, much more efficiency, lower cost and a higher recovery. For a consumer, they have an advocate that they're not on their own trying to manage 11 individual accounts, they have someone who advocates on their behalf to manage through one payment the payoff of all of those debts through reduced balance settlements, a product that we're really proud of and we've been a leader from the start.

Peter: Right. So then, just so I'm clear, like you will sort of consolidate all of the debts, they might have 10/11 debts, whatever, and you bring them all together into one payment and then you go out and negotiate one-on-one with all of the different sort of companies that they owe money to, is that how it works?

Brad: That's largely correct, but the simplified notion is you give them a payment that they can afford into their own special purpose bank account. They save those funds up and then we go and we negotiate settlements with all those counterparties, could be the original issuer, could be a collection agency, could be a purchase pool of collections agency as well.

Going back to the sort of founding, you know, DNA of our business, what we really also recognize was we can reverse engineer with data science and models the collection models for all the issuers and then identify where the consumer could never do this to scale, just how incredibly increasing returns to scale of data were on this side of the business where you now recognize for every customer category, for every geo and every creditor what is the optimal point to settle on the efficient curve for each of those consumers. You bring the power of that aggregated data to every individual consumer, they benefit by being a part of that large ecosystem.

You fast forward to today, we're so large and it builds such great trust and relationships. A lot of the settlements are not individual negotiations at this point, there's a lot of big bulk data exchanges where we can exchange with the creditors themselves, make their collection process a lot more efficient allowing them to give transparency to the consumer, typically put their mind at ease that they're going to get repayment over a period of time and then allow us to negotiate settlements with their counter parties.

Peter: Got you got you, okay. Another piece is two, not one but two, consumer apps on the App Store, the GOOD app and then the Molo app, tell us a little bit about what you're doing there.

Brad: Yeah, we like our acronyms, obviously. (Peter laughs) To us, from the highest level, we recognize that we are the leader in consumer digital finance across helping people get out of debt. We wanted to have free and freemium services available to consumers and we wanted to have the leverage, the power of all the data we've had over 20 years to identify consumers and help them get on the path to better financial futures.

GOOD is Achieve Get Out Of Debt, that is that acronym, fundamentally, it's helping a consumer pull credit, identify their creditors, typically educate them of are you aware that your $22,000 of credit card debt where you're paying on average 27% APRs and you're only making minimum payments, that's going to cost you $112,000 over the next 17 years to repay. Let's look at your free cash flow and help you identify better self-serve ways on your own to repay that debt typically starting with an avalanche approach is let's try to allocate most of your cash flow as possible to your highest APR debt down until you've totally paid your debts off, that's the GOOD app.

Molo is a really inspired view, modern view of budgeting and that's Molo, Money Left Over, and that starts first and foremost a little bit less for the distressed debt-focused consumer, more towards, how do I optimize my cash flow and then how do I set up goals and a life plan, and a financial plan and then help me identify the best way to allocate that free cash flow, whether it's to pay off debt, which is a meaningful sub-set to the consumers or to save up for college, retirement, buy my dream home, buy a second home, whatever their personal goals are.

Now, you're connecting a life plan and a financial journey with their monthly cash flow and helping them really simplify the process of coming up with a plan. In both situations, Peter, we just recognize from our core platform, behavioral irrationalities are high in consumer finance, complexity is perceived high, how can we simplify this and help consumers just make better financial decisions, whether it's cash flow or debt paid out.

Peter: Got you and finally, there is Bills.com which I also believe is part of the Achieve family and that's Bills with an s, not Bill.com, Bills.com, how does that fit in?

Brad: So, Bills has always been a resource of tools, articles, content that lives outside of kind of the core ecosystem, but attaches to our core DNA of helping empower consumers to make better financial decisions, reviews, ratings, content, tools, all free services to consumers.

Peter: Got you, okay. So then, tell us about the rebrand, you were Freedom Financial for a long time, and I was tooling around online, I see that the Freedom brand is still around so tell us a little bit about the reason behind the rebrand and sort of where…is everything moving over to Achieve or sort of how the Freedom brand still fits in.

Brad: Super proud of the Freedom brand and the Freedom story. If I go back to 2002 and all the way back to the founding of the business, we got a lot of things right, core values, market opportunity, the product expansion. One thing that I was incredibly naive around was the value of a brand in the marketplace and a cohesive brand over time. We evolved our products and the launch of our products, consumer-first and product-centric, the Achieve pivot is we want to have a branded house with all of our products under one branded house, both for a unified view of the consumer but also to show up more coherently to the consumers that we serve so we can path them through our products under one branded house more effectively.

Yes, Peter, everything is going to be "Achieveified" and on the Achieve brand we're in the middle of that process right now, we waited way too long to really lean into brands and honestly, to tell our story more effectively, we're really excited about it. The team and 3,000-strong employees are excited to all wear the same T-shirt, have the same business card and I think it's more coherent for the consumers that we serve to show up more effectively as one brand.

Peter: Right, got you, got you, okay. So, I want to step back for a second and talk about sort of the core customer that you deal with. Can you maybe describe who they are and how they fall into debt oftentimes in an unmanageable debt burden, how does this happen in the first place?

Brad: So, we call our broad kind of 105 million underserved American households the struggling and striving population. The reality is most of the consistent theme is they're just struggling under the burden of the weight of a lot of debt. Really the distinction between struggling versus striving falls under their ability to repay and then the amount of options they have available to them. On the debt resolution side, it's surprisingly affluent consumer, typically 49 years old, household income close to $70,000 on average, dealing with $25,000 of credit card debt, meaningful chunk almost half own their own home, the cost of living is the burden that kind of catalyzes the problem.

And then the debt resolution consumer, they typically get spun out of and out of the financial services system in the inability to make payment because of medical hardship, divorce, loss of income or some other personal hardship at which point they can't keep up with their monthly payments and they fall off of the financial conveyor belt.

The personal loan consumer looks more prime so around a 700 FICO, dealing with under the weight of a lot of credit card debt, typically $25,000 to 30,000 of credit card debt but they don't have an affordability problem, they just have a cost of debt problem. And so, they're trying to enroll in a product that lowers the cost of debt repayment, and they don't struggle with the payment shock the debt resolution consumer has, typically then that's a 3 to 5-year duration loan, obviously unsecured on a personal loan product. The majority of those consumers are debt consolidated for all of that SoFi, Lending Club, Prosper, all of us who play in that space.

The home loan consumer falls a little bit in-between so definitionally, Achieve home loans, the HELOC product is a homeowner 100%, typically affluent, over $100,000 of income but struggling under the weight of a lot of credit card debt or debt, auto, student loan, mortgage and they're just trying to find a more efficient way to pay off their debt and frequently they are looking for payment relief. Like I mentioned earlier, on average, that consumer is saving $800 a month post debt consolidation into a HELOC, that product is exploding now because the lack of willingness rationally from the American homeowner to touch there first….

Peter: Right.

Brad: If you have a 2.9 or 3, in this market it makes no sense to refi your first into a 7 or a 6.5% first and so in which case, they're looking for personal loans which are more expensive or a HELOC which is a lower way to consolidate debt.

Peter: Right, right.

Brad: The root cause, by the way, Peter, for all three products is inflation, cost of living, healthcare, higher education, rent, homeownership, groceries, eggs. When inflation continues to outpace real wages, that affordability gap gets filled by the average American household with debt. The credit card is a highly inefficient financial instrument to finance short term debt problems, the problem is it escalates and now you see the compounding of debt problems on top of it.

Our mission is to help these people solve these complex debt problems and get back to, you know, a brighter financial future, whether that is an affordable product, whether that is in a secured loan product with real payment relief or for the distressed population in a debt resolution product.

Peter: So then have you seen increased demand because, obviously, inflation wasn't a problem for a long, long time and then the last 18 months it's become more of a problem, so have you seen more demand particularly maybe at the lower end of the spectrum credit quality wise because of inflation?

Brad: Yes, peak demand for our products right now due to affordability gap, record debt, I mean, the trillion in credit card debt, you've got $17 Trillion of consumer debt. At the same time that rates have risen so much, the affordability of that debt is at the lowest it's been in our lifetime, credit card interest rates are the highest they've been on recorded history on top of record debt, on top of record inflation, you know, in the past several decades so, yes, demand is high.

I would say this though, this is not just a distressed low income, you know, American household consumer issue. At some point, almost every American family who lives in the bottom 90% of wealth and income goes through some period of financial distress that can turn into financial trauma or just financial stress, whether again, medical, loss of income, divorce, some external factor hits you.

And unless you have a family member, a friend, someone that's willing to help support you through that period of stress, you really do need help. And, again, the financial services industry is not structured to adapt and to provide exemptions to consumers and exceptions to meet their personalized needs. We've always filled that gap, demand has always been high, it really is at peak demand right now, as stress on the US consumer is higher than we've ever seen.

Peter: Right, right. What's your view on financial literacy, you talked about some of the educational-type content that you put out there, you know, can we kind of educate ourselves into being more financially healthy?

Brad: I think behavioral changes are one. I think education is certainly a foundation element that's missing. We've lobbied very hard in the state of Arizona, we're really proud to have helped legislature in Arizona pass a bill that says, you must have basic financial literacy to graduate high school, we should have that at the federal level. You show up the first day of college and you get a Capital One card and a T-shirt and you're ill equipped to understand FICO scores, LTV, DTI, yield spread premium.

These are complex things, and you have some of the smartest minds in the world focused on getting people into debt and they on their own are trying to self-manage that without the tools and the capability unless they have a mentor, a parent, a neighbor, or some advocate that really help them manage through that. So, that is a foundational gap in many Americans of just dealing with financial decisions which are complex….

Peter: Right.

Brad: And in a rational way, so, yeah, that's one. The other is I just don't think that the way that a lot of banks and conforming financial products, frequently because of government intervention, where they set conforming loan limits for mortgages, they set definitions of student loan borrowing rates. And if you don't fit that box and people don't help educate you on where you are on that, right on the edge or well outside, and how to get yourself into the healthiest financial situation, we're just not constructed as a financial ecosystem to help lift those people up.

Peter: Right, right, okay. So, I want to talk about capital markets for a second and, you know, we did actually have Joe Toms on our podcast here about five years ago when he started working with you guys on the capital market side. I'll link to that episode in the show notes, but what I'm curious about is, I know you're active in the securitization markets, you've remained active when many of your competitors have kind of pulled back a little bit but tell us a little bit about your approach to capital markets and how you're funding these loans.

Brad: A couple of things, we remain very active in securitization markets, and I go back to the resiliency of our portfolio, back to our credit underwriting, unique insights and performance of our loans versus some other people who maybe chased volume or growth at the expense of, you know, loan portfolio resilience. And then we've done 15 securitizations, several billion dollars of issuances in terms of sources of capital, we have whole loan buyers, we have our own credit hedge fund, again, I think I stated earlier where we're buying back the loans that we originate.

We've got a pretty diverse set of warehouse lines across several partners where Silicon Valley Bank was one of them, we're happy to have stability in that ecosystem as well. What we're trying to do is have redundancy, never have a single point of failure and to remain active in several of the kind of capital markets outlets on the lending side.

Peter: So then, last question. You've got one of the largest, you know, lending operations in all of fintech, I'd love to get your sense on the vision, like you've been at this for more than 20 years, what's your vision for the future, where are you taking this?

Brad: I'd say, honestly we're just getting started, 20 years in. I think the original vision, it was originally called Freedom Financial Network, it's now called, you know, Achieve, is we really do want to lift people out of debt and I think we're really proud of what we've delivered and we're proud of the value and the consumers we've helped. I feel like we haven't made a big enough dent yet, we're still the tip of the iceberg. The debt problem in America is significant and a lot more people need our help so, for us, that's product expansion, that's pathing consumers through multiple products on the journey from heavily indebted negative cash flow to debt-free, wealth-building positive cash flow.

So, we've got a couple of exciting product innovations coming soon on the ability to now take that consumer back to really financially thriving, excited for that to launch in the next year or two and then continuing to deepen our impact in the underserved category of consumers who are struggling and striving to deal with debt. And, hopefully, Achieve is a household name, hopefully, we continue to be a great culture with a great team and we're all proud of who we work with and the mission that we serve and I think it's just a continued execution on the core mission that we launched, you know, in 2002.

Peter: Okay, Brad, we'll have to leave it there. Thank you so much, it's a great story, really glad we got to chat today and best of luck.

Brad: Great to be with you, Peter, thanks.

Peter: If you like the show, please go ahead and give it a review on the podcast platform of your choice and be sure to tell your friends and colleagues about it.

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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