Welcome to the Fintech One-on-One Podcast, Episode No. 312. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Peter Renton: Today on the show, I'm delighted to welcome Dan Snyder, he is the CEO and Co-Founder of Lower.com. Now, Lower is a really interesting company, they've been flying under the radar until recently, but they've actually built a really successful real estate lending business and they've done this really in a way that is unusual for fintech companies so far as they have just bootstrapped this, they haven't raised outside capital until recently.

They raised a $100M Series A led by Excel and we talk about that in some depth, we talk about why they went and did that, how they were able to build a company in a bootstrapped fashion in today's… certainly not the norm in fintech. We talk about how their approach to the market differs from others, how their underwriting works and much more. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Dan!

Dan Snyder: Yeah, thanks for having me.

Peter: My pleasure. So, let's kick it off with a little bit of background about yourself. Why don't you give the listeners some of the highlights of your career to date before you started Lower.

Dan: Since 7th grade, I had dreamed of being a lawyer. (Peter laughs) My Mom's a real estate attorney who owned a title company and so I was like my dream and ended up thinking up a little bit of a left turn/right turn and ended up in the mortgage business. It's not something that I don't think anyone really dreams of being in and then yet though, now, it's like the greatest career and one of the greatest causes I think period.

So, I didn't go to law school, ended up working at Wells Fargo, worked up the ranks there a little bit and doing like sales finance and same as cash financing for like jewelry stores, what have you. I bought my first house when I was 22 or 23, it was like a fixer upper, downtown Columbus, Ohio and met my wife three years/four years later, sold the home and ended up having over $100,000 in equity in that house and that's what kind of really spurred my interest in the home mortgage space and how I ended up co-founding what is now Homeside, I guess, in 2014, just like that, crazy wealth appreciation.

Peter: Right, right, understood. So, tell us about the founding story of Homeside and then what you decided to do and launch Lower and how those two sort of fit together.

Dan: I was like leading the Lending Division of a small depository bank, we've grown that bank to a billion dollars or so in loan buying and we wanted to continue the offer best-in-class product and yet what we found was that banks, they weren't completely and relentlessly focused on that mortgage experience.

So, started Homeside in 2014 with a couple of co-founders with the idea of building a NextGen bank for mortgages that blended like technology enhancing, that was our bet. It was like how can we create a great platform for folks to connect into that were sick of working at a bank maybe and we started in 2014 and just grew rapidly across the country. We were able to like bring in great, you know, experienced folks that had contingencies of business, had partners with realtors or builders and they've plugged into Homeside and really, you know, serving grew that business.

And then in 2018, there was such a growing need for a complete digital experience so we went to the drawing board and that's when we created Lower. Lower is meant to be that kind of pure play digital experience. I think we catered towards that millennial, late stage millennial, to the GenZ and getting them into that home ownership journey, but anybody that watches like streaming video or doesn't want to go maybe the traditional path can also enjoy a digital experience. You know, one thing led to another and now, with our recent funding round, it kind of sits on the landscape of Lower Corporation in that we've got a direct to consumer channel that is the digital experience.

We have our channel partner network where Homeside is the largest of those brands and so what we found is that Homeside is a brand and then we've got 18 other brands of our retail channel partners that we've been able to bring in and we continue to expand that and then, of course, our whole ecosystem of other products. We're really trying to approach it as whenever the customer wants to interact in order to get a home, we want to be there for them.

Peter: Right, that makes sense. So then, before we dig into all of that, let's take a step back and I'd love to get your perspective on the US housing market right now. It, obviously, had a pretty crazy 18 months or so. Where do we stand right now and what's your view as far as home ownership and the challenges there?

Dan: You know, obviously, I'm bullish on the housing market and I have been. I mean, it's really….I think if you've been dialed into this like you have, you've seen that….I mean, there was demand for home ownership for years and the cost of home ownership continued to rise in over the course of….go back to home appreciation, we've had consistent appreciation for decades with a couple of blips, in a way a couple of blips.

Now, we're seeing this awakening, if you will, the pandemic caused a great migration where folks from New York, California….now you can work anywhere you want, you can live anywhere you want. And so, if you're living in California, New York with high appreciation, you come into

Columbus, Ohio and, all of a sudden, a $500,000 house is isn't expensive to you. It started to block the first-time homeowner zone like one of the folks in my neighborhood have relocated from higher net worth areas, if you will, so I think it's created this inventory crunch.

Average price now is what…in some markets, it's increased 44% if you look at like Austin, Texas or Nashville. Even in Cleveland, it's gone up significantly, you know, from where it normally would be and I think it's blocking a lot of people. It sets up really well for folks like us because, you know, the traditional mortgage lender or bank is they're really there for you in that moment of transaction and that's a weekend, we play on that.

Also, when customers come in to a Lower account, they can start with a savings account, they can put a goal in place and so maybe they have to rent for the next couple of years, at least we're trying to get them on that path so that when inventory frees up, which I think it's going to because….even though builders right now are going to build a catch us up independently. I do think there's….whether it's the forbearance restrictions being lifted, foreclosure moratoriums being lifted, I think there's going to be some inventory that's going to come out during the rest of the year. You know, I think you'll have more activity in the home purchase space towards the second half than you saw on the first half. everything has been really gridlocked.

Peter: Makes sense, okay. So, let's dig into Lower and you've just touched on it just there. I'm on your website right now and I see you've got like four tiles; Finance, Save, Buy/Sell which is one tile, Insure. When I first sort of went to your website, I expected, you know, the real focus on the Finance, but it seems like you've got like four different streams here. Tell us a little more about the suite of products and why go beyond just the financing product.

Dan: Clearly, our core product is our Home Finance, but with the various entry being so high, we wanted to really provide more of a holistic approach and for a number of reasons. Number One, if we really want to provide, as much as possible, no dead ends so that if a consumer came through and they're interested in home ownership and they couldn't buy that house or couldn't put a down payment together, you name it, maybe their credit scores aren't enough, that we would be able to keep them in our ecosystem so that when the time is right they would think of us.

The second thing is on the cost side. It's unrealistic to be lowest priced in the moment every single minute, but we can aim to be a lower price and give great service if we're capturing more wallet share of the customer and you've seen folks do this. You've seen like SoFi do this and some other folks that we really have a lot of respect for, but our focus is only on that home like on the home ownership journey. We're not trying to get into investments, we're not trying to get into life insurance; we're really singularly focused on, okay, lightweight, download our app, go one our site, what's your credit score, okay, that's good, what do you have in savings. If you have everything, great, we'll help you do the loan; if you don't, let's help you save a few bucks. I mean, like it's a novel concept and yet not very many people do it.

Peter: Yeah, that's really true. So then, you mentioned it, I want to go into like this combination of tech and personal approach, tech and a handshake, whatever. Tell us a little bit about how you're approaching that, particularly when it comes to underwriting. Are you trying to build a human interaction into the underwriting process itself or how does that work?

Dan: I think that you're starting to see a lot of innovation in the space, in mortgage specifically, and yet there's still such apprehension to embrace it and so that's what we try to attack this probably old guard mentality that you still have to have a whole team of people around making sure that the appraisal is sound appraisal when there's data, it takes out any sort of bias at all. Same thing with underwriting, I mean, if you look at …..I just literally was looking at this 680 credit score and above in our portfolio, 45 people defaulted out of 5,514 people.

Peter: Less than 1%, yeah, 1%.

Dan: So, it's like we're creating algorithms and other technology to pair with our expert underwriters and team to just make smarter decisions faster, help enable human beings to do more work. I think we're up to now almost 2,000 team members and they're amazing and our goal is to empower them to build a new one and you can do that with technology. That's what we really embrace and it's one of the reasons why we've grown so quickly.

Peter: Like I'd love to get a sense of the data that's part of the underwriting process. You have technology for your people, but what about technology in the actual underwriting process and accessing different data sources, can you touch on that?

Dan: We have a custom proprietary application, we call Personal (inaudible). You come through our application and where we get 85% fill rate, where the industry standard is more like 45%, customers will provide the information and behind-the-scenes we can link your bank account, whether it's with Plaid or you name it, there's a whole host of data and APIs that will connect us to data without having to bother you for the information. We can get your employment information, we can get you verified, every single thing we need to make it smooth and then what we do is we insert in a human touch point when necessary and when it's more efficient.

So, a 15-minute chat with you or with the first-time home buyer or a first-time investor, you name it, right, we're buying the investment property, one of our loan advisors, they don't have to spend time getting all of your employment data, they can spend more time understanding your goals and needs just as a human being and whether it's how long you plan on living in the house, you know, what your current life cycle is like and then we go back to the tech.

We have a document upload tool that is easy to use, it's super secure, it streamlines the most arduous of process, it will normally cause friction at a…maybe your traditional place. That's how we think about it and we continue to double down to create the best product for a mortgage experience. And then also, when we do have a conversation over the phone, text, email, what have you, it's the staff that, right now, AI or machine learning or technology just can't quite pick up. These are the risks of buying a duplex, this is the risk of …you have a private road, this is what that means. It's hard to solve for everything, that's where we've seen a good balance of tech and people.

The reviews speak for themselves, I mean, we've got 17,000, 18,000 5-start reviews more than most other lenders out here, no matter when they started. That's how we measure our success, is our customer satisfaction, it's not an award we apply for. It's no different from a 5-star hotel getting Tripadvisor reviews like I'm only leaving a review for a restaurant or a hotel if they blow me away, because it is a pain and that's the same thing we treat here like if you're going to leave us a review on Zilla, you've got to go and create your own account, you have to register your account, then you have to go and find the account and you have to put some comments down. So, we feel like if we're going above and beyond for a consumer at the right points, making an easy experience then we'll continue to keep doubling down and making the tech work and human element work.

Peter: So, on that, though**,** you talk to other CEOs of some of the, you know, digital lenders, some of the traditional lenders as well, they talk of similar type thing about how their tech is streamlined and how their customers are really satisfied. I mean, there's obviously some very, very big players in the space, some of them have gone public in the last few months and others that are going, but, you know, I can see how you differentiate yourself from the traditional lenders because they still have, for the most part, a pretty clunky experience, but there are digital lenders out there that are bringing a streamlined kind of processing play here. How do you differentiate between those companies?

Dan: Someone asked me once like there seems like a lot of noise right now, just like you said. I think what we're seeing is that….like what's happened in maybe some of the neobanking with Chime or Monzo or investments with Robinhood, you're starting to see more entrants into this on the lending space. And so, there are very few full stack digital lenders like Lower where we are the…from originator to…we service 94% of our loans, there's a couple of others out there.

So, I think from a differentiation, what we work on is to make sure that we're not just doing tech for tech's sake, if that makes sense, like there's a lot of talk and yet I'm patrolling the floor myself and making sure that it is really working. You don't want to have an API that connects and does digital employment verification if it doesn't work or you don't layer-in the OCR technology to read self-employment documents if you don't trust the data and it doesn't work.

And so, we're both building our own, we're buying some, we're partnering, we're testing and we're not afraid to tear it down if it's not working. I think that's ultimately not necessarily the flashiest thing, it's just starting to work for us then all we'll do is we'll say, you know what, our document upload tool is best-in-class in this, our application is best-in-class.

As an example, like Blend, which we've used in the past which is a great product, it's just not as good as what we've got. And so, I think that's where we start differentiating is in that letting the consumer tell us the idea was good, it just didn't resonate like the idea that I could just load up my tax returns and you would verify my income, it didn't really work so I had to go and enter in 75 more data points so let's replace it with something different. That's how we keep doing it, that's going to be the winning formula, our growth going up, our reviews going up, our word-of-mouth and referrals from other customers are happy from the experience improving, that's our scoreboard.

Peter: Right, right. The one thing that was also interesting, I think, about you guys when looking at others in the space is that you've really bootstrapped your company here. I mean, you see others raising massive rounds and you went out and raised a sizable Series A, but it was your first fundraise. And so, tell us a little bit about the approach there, why bootstrap, why not go out and make a big splash with the multiple large funding rounds?

Dan: Fundamentally, my founders and I were interested in building this a great business that was fun to work for and challenged our team members and profitable along the way. There was a never a need necessarily until we had the platform built, we were well beyond proof of concept and now it's kind of a cliche, you know, pouring gasoline on fire, that's really….you think some jet fuel was what we needed because you're right, there's other competitors to us. There's only a handful of digital lenders out there like us and some of them have raised more money than we've ever spent in seven years.

Peter: Right.

Dan: And so, you know, we raised $100 Million that'll allow us to make big investments into furthering the technology because it's not cheap, it's really not. It'll allow us to invest in our servicing platform, but we plan on bringing the entire thing in-house where a lot of large lenders don't do that, they'll outsource the servicing. We feel like it's a huge opportunity for us to create the best servicing experience which is there for the customers we interact with every month. Instead of using a sub-servicer out there, that's a big investment, and then I also think that candidly…..and that's the reason why we picked Accel is that they're not just a tertiary, they're a blue chip VC, they pick winners, they're not only big from a capital perspective, they know how to take bootstrapped companies public, take them to the next level.

You've seen it with lots of their companies across multiple verticals and that's what we're excited for, I mean, we're a rapidly growing fintech, but we've never taken any money and we're based in Columbus, Ohio so they're just two big knocks. You know, I love Columbus and I love that we've grown it profitably, but, you know, we were able to bring on a minority partner with their strength, I mean, it's going to be really fun.

Peter: I hear that Columbus is becoming a little bit of a tech hub, even a fintech hub these days.

Dan: Absolutely. We almost lost our soccer team to Austin, which is like the Columbus competitor in that space and we were able to save the team and we named the field.

Peter: Yeah. Tell us a little bit about that, that was a surprise. I wasn't expecting you guys to have the naming rights to a major league soccer stadium in Columbus so tell us a little bit about why you did that. Obviously, it's not cheap and what are you hoping to get out of it?

Dan: From a direct-to-consumer perspective, we have to be able to scale centrally as much as possible. So, it really …….getting the word out, the awareness out was important so there's an awareness factor. Then there's a opportunity like how often, it's a once every, I don't know, 10/20 years, maybe never that you get an opportunity to not only name a stadium in your headquarters location. but it was right downtown where tons of our employees all live, great ownership team that own the Browns and the Haslam Group and kind of, you know, I didn't think we had a shot. These are things the normally a company like us get the opportunity to do, it's usually your big, publicly traded company, you know, the utility company or something and so for us to be able to actually compete and win and get that was awesome.

It's been great, so far, I mean, Columbus is a hot market, in general, in housing and so our goal is to be the….not just be a little tertiary player in our home market, but really kind of gain market share which we're already seeing a huge spike in consumer awareness and application just here in our hometown which is really cool.

Peter: Yeah, it is cool. So, I'd love to get a sense of the growth that you've experienced over the last 18 months, since the start of the pandemic. Can you give us some sense of the scale you're at today and how you've grown over the last 18 months?

Dan: We've been steadily growing, if not like doubling year over year. We did right around $300 Million revenue last year, we plan on doubling it; $5 Billion in loan volume, we should come in $9 or $10 Billion or so this year. That's before the funding, that's before any sort of …not that the soccer stadium is going to catapult our growth nationally, but I do think it will help us attain talent more efficiently locally. I think that our partnership with Accel helped us obtain tech talent nationally like I'm already seeing…..I didn't used to be able to pick up the phone and instantly get a call with a top CTO at a tech firm in Cupertino and now I can and that's the power you get from these types of partnerships with a firm like Accel.

So, we're already doubling and I think that this next year, next six months and beyond, our plan is to really double down on the tech in experience for our mortgage product and then further build out our ancillary products to help with that. So, our real estate referral platform, our insurance marketplace and then I'd love to rush it up, our home fund match for our savings and our APY to help people save more and give them a reason to save more money because our goal long term, candidly, is to help people save money and hope that we do a good enough job and they become a client and do a mortgage with us, right. So, you know, our aim is to create more brand awareness, rise up our brand throughout the country.

Peter: Right. So, what about the funding side of the business, I mean, how are you funding these loans? Are you securitizing, you holding these on balance sheet, are you selling them right away, how are you funding the large number of loans you're doing?

Dan: We have a number of warehouse bank providers that help facilitate the funding of the loans, 95% of our loans are going direct to Fannie or Freddie or we're securitizing, we're retaining 90 to 95% of our loans in our servicing portfolio. You couldn't have a better time to do that, the quality of loans is just off-the-charts and it gives us a lot more control over the customer. We're a full soup to nuts, we do everything from attract the customer, originate, underwrite, close, fund, service, the whole stack. We already have a strong balance sheet, but, you know, you add another $100 Million to that, it's even stronger, we have more.

Peter: (laughs) Yes, indeed. So, what about attracting customers, I mean, you talked about the 18 channel partners that you have, you obviously have a direct-to-consumer business, tell us a little bit about what are the ways that you're bringing the customer in the door.

Dan: I think, traditionally, people focus on let's see if we can compete in the moment for the customer that's going to Zillow or LendingTree or Bankrate or these aggregators and we do attract and go and compete in those sites and we do really well. I think that Lower as the ecosystem, it's a 5-letter URL, we rank high when customers are searching for lower mortgage rates, lower insurance rates, you name it, we get a lot of people coming into our funnel and then we're capturing them within our ecosystem and incubating them as a systemic step until they're ready to buy a house or if they're ready to buy a house or helping them to buy a house.

I mean, right now, I think a lot of our consumers, just anecdotally, are having a lot of fatigue, I mean, it's not uncommon where customers have ……..they're placing 15, 20, 30 offers on a property before they land one. I remember going through this, maybe a few years ago, maybe five years ago and I remember losing out once and my wife and I were like devastated. I couldn't imagine, once you're in the double digits, like you just say the heck with it, let's just rent for another year and I think that's definitely a risk. More than interest rates, inventory is ….there's a concern in inventory right now period.

Peter: So, we're running out of time and I want to get to a couple of more things. Firstly, even now that an outside investor…mind you, a blue chip one as you mentioned Accel, what is the thought process around going to the public markets. Some of the biggest, particularly the digital-type real estate lenders in the country have all gone public recently, what's your attitude there? Is this something for next year or for way down the track?

Dan: If you look at some of the other companies from a revenue and profit perspective, we're to the size where we could maybe economically go public, but from a like a need, we don't have a capital need and from a professional maturity of a company, we're not ready yet. I mean, think that's one the things where….. we are very entrepreneurial, we bootstrapped this company, we've got a great team, but we've never even had an institutional partner, let alone the public market scrutiny that would come with that. So, we're going to kind of walk before we run there and we don't even have like, you know, like a formal board until now. (laughs)

Peter: (laughs) Right.

Dan: So, we're all experiencing this thing for the first time and that's one of the things where Accel's been great like a lot of my other CEO friends of mine, you're going to watch out for these guys, you know, I will watch out for the company. As long as we have a great performing company, there will be no worries. And also, like we went in this, you know, have really kept doubling down on customer experience, double down on our team, keep being the best place to work, make sure all of that is shored up and have a long-term view. Here's the 10-year plan, let's get to a billion in revenue, let's get to a $3 Billion revenue, let's help out more homeowners across the country create wealth through home ownership than any other place and then everything will work itself out.

It's no different than this, I mean, we never sought out a $100 Million check, we just built a good company with a good platform and some aspiration, I think, I mean, that's all it came down to at the end it's interesting. Right before the deal closed, Excel had asked like are you sure you're ready? I'm like, oh yeah, we've been through all this due diligence, oh my God, and I'm ready. No, no, no, are you ready to go and like legitimately compete against Rocket because that's what we want to do.

Peter: Right.

Dan: I mean, giddyup! Yeah, that's what we want to do. I mean, we've got such an amazing team, we have been talking to them about this like build your career here, we're going to the moon, that's where we're going, but we can't just do it all….you know, my founders, Dan's money and my other founders. It's like if we needed some institutional horsepower behind us that have seen and helped with the company….that's why we're so excited about the time horizon that we're on now. We are a platform.

Peter: Right, right. You've touched on it, but I'd love just to end with teasing out the vision of what you have for Lower and, you know, looking a decade or even two decades down the track, what do you want to build here?

Dan: Number one, we want to build a sustainable company, obviously, but we want to be the first look when consumers go to buy a house one day, Lower is the first one. We're instantly approving people, we have the data, there shouldn't really be an application process, there should be an opt-in if you're interested and here's your limit. I think there's a whole bunch of other verticals that we can explore to unlock home ownership by offering Mortgage as a Service. We're working on that right now where other popular brands can ….no different than the big rise in credit cards, everyone's offering a credit card now. Instead of getting people more debt, I've got a huge fund of giving them the opposite; how about some assets, how about some wealth creation.

If you can spend money on a $200 a month apartment or $2,000 a month apartment, like a lot of our employees do, it's not that much more and sometimes even less to own a home, but we have to make it easier and the odds of making Lower a household name in the next two years is unrealistic, but over the next ten, yes, it could happen. And I think by us just connecting into the pipeline of customers looking to buy a house, that's what we're going to be aiming for, to be number one. So, ten years from now, you dig Columbus, Ohio, you know, there's Ohio State/Michigan rivalries, you know….

Peter: Right.

Dan: Rocket's up in Michigan, I woudn't try to overtake them.

Peter: (laughs) Right. Well, that's great aspiration and I'll be following that with great interest. Anyway, Dan, really appreciate your coming on the show today.

Dan: Thank you very much, appreciate it.

Peter: Okay, see you.

Dan: Bye.

Peter: You know, I love the innovation that we're seeing in the mortgage lending business. I feel there's still a long way to go to create a completely digital mortgage experience, we're not quite there yet. Companies like Lower are really raising the bar when it comes to mortgage lending and the expectations of consumers. I feel like fintech has changed the game here dramatically and many of the mortgage lenders, the leading mortgage lenders now in the country, are fintech lenders.

The banks, obviously some of the very largest banks still have substantial mortgage businesses, but we're seeing more and more…if you look at the top ten, top 20 lenders you'll see more and more of them have had fintech roots. That's only going to become more so as time goes on.

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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