Welcome to the Fintech One-on-One Podcast, Episode No. 379. This is your host, Peter Renton, Chairman & Co-Founder of Fintech Nexus.

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Peter Renton: Today on the show, I am delighted to welcome Brock Blake and Denada Ramnishta, they are with Lendio, Brock is the CEO & Founder and Denada is the Chief Strategy Officer. I wanted to get them on the show because I feel like they've done some really interesting work when it comes to small business lending. Lendio has been a leader for some time and now they're taking it to the next level. We talk about the PPP and how that has changed small business lending and really enabled this kind of new era to happen.

They introduce this new concept of the three capital C's, we talk about that in some depth, we also talk about the small business owner and what options they have and how they go about the process of deciding what type of financing to get and we talk about real-time, real-time access to data, real-time capital and it's I think a really exciting concept and one that I'm really bullish on. Anyway, it was a fascinating discussion, hope you enjoy the show.

Welcome to the podcast, Brock and Denada!

Brock Blake: Thanks, Peter, it's always good to be with you and always to share a stage for the podcast with Denada, whatever it might be.

Denada Ramnishta: (laughs) Well, thanks to both of you, looking forward to this conversation.

Peter: Yeah, welcome back because Brock, you've been on the podcast before. Denada, it's your first time so thank you. Let's kick it off just by giving the listeners a little bit of background about yourself. Let's start with you, Denada, I first met you when you were at American Express a few years back so why don't you give us some of the highlights and what you've done in your career to date.

Denada: Believe it not, I can now consider myself a veteran of the fintech space.

Peter: Oh, I think that's fair, yeah.

Denada: I must have started when I was a teenager, right,

Peter: Yeah, right.

Denada: (laughs) Exactly. But I have been in the fintech space now for over ten years, right, so soon when fintech sort of was born starting with American Express when they first launched and began the journey to create non-card landing so from that inception and joined Lendio six years ago in this endeavor to support the journey of small business and lead strategic partnerships.

Through this journey, I've had the privilege to wear many hats within the company, but, ultimately, the nice thing about Lendio is that there is one thing that defines all of our job responsibilities and that is to solve for the small business owners and be able to fuel them so they can reach their dream of entrepreneurship by access to capital. So, my recent responsibility is being the Chief Growth Officer of Lendio and looking at opportunities of how we continue to extend our mission via strategic partnerships via the referral partners, financial institutions so we can continue our mission
to fuel the American Dream and fuel small business.

Peter: Okay. We're going to get into all that in a little bit, but Brock, why don't you give us a little history and background on you.

Brock: Co-Founder & CEO of Lendio, you know, really started in entrepreneurship right out of school, won an entrepreneurial competition, won $50,000, started a business that was helping business owners connect to angel investors and VCs, made every mistake in the book. It was a really, really challenging visit, but what we learned from that is that the demand for capital is high from small businesses, we just were going about it the wrong way. So, we kind of used those learnings to launch Lendio in 2011 and I can't even believe that to say, you know, we're 11 years into this journey and love where we're at, we've got... not only have we accomplished some amazing things, but we've got a bright future ahead of us.

Peter: Right, right, okay. So, how do you describe Lendio today for someone who doesn't know about you guys.

Brock: It's a financial ecosystem, financial platform for small businesses and the lenders that provide the capital. We think about those two customers. For the business owner, we envision a world where small businesses survive and thrive and we make it easier for them to get access to capital, we envision a world where business owners never has to go and actually fill out a loan application again, where they always kind of have this ongoing, what we call "always on application," in a world where lenders can efficiently, through technology, offer loans to small businesses and they can reduce the customer acquisition cost and things like that. So, we're trying to bring this world together and make it more efficient, there's a lot of different players that are part of that kind of platform where a lot of that happens. We have connection points to those two different players as the way people should think about Lendio.

Peter: Right, right, okay. So, I want to get your sense on… now that we're removed from Paycheck Protection Program was a huge deal. Brock, you were really active in very early days in that program, Lendio was highly active, but now we're, you know, over a year removed from the end of it all and I'd be curious to see with this distance now that we have, how do you think the PPP, how do you think it's really changed small business lending in this country.

Brock: Yeah. I mean, I'll start and then Denada, I'd love for you to jump in as well so I think we look at it from two different perspectives. From the business owner perspective, prior to the pandemic, I think there are some reticence around getting a loan, like it was like a negative connotation that they needed a loan or is bad and I think the Paycheck Protection Program and this whole SMB lending being kind of center stage makes it, you know, a little bit more acceptable. So, from that perspective, I think there are some positives, some of the negatives from the small business owner perspective is that the idea that money is free, that I can get a Paycheck Protection loan, I can get it forgiven and I don't, you know, ever have to pay that back so, you know, there are some learning curves that you're going through from that perspective.

I think the area that I'm most excited about from the growth of SMB lending is what's happened on the banking side, because banks, prior to the pandemic, they were focused on loans greater than a million dollars. They couldn't profitably underwrite a loan that was $50,000 because they have these manual underwriting processes and committees and what not and we all know that, but during the pandemic their branches were closed and I mean, the government really forced banks to focus on smaller customers. This was one of the banner flags that we were carrying as well, the underserved, the true small businesses needed to get more attention during the pandemic and that actually happened.

Most banks were able to do two things, they basically offered small PPP loans and they were able to offer loans without going into the branch, whether it was done through email or online or whatever and because of that, banks got a taste of online lending, they got a taste of these smaller loan customers and I think they liked it. Coming out of it, I think that coming out of the pandemic you got banks that are in a very different mindset than they were before, they always talked about going digital, but now, they're embracing it, now they're seeking it, now they're looking for partnership opportunities. We've been talking about this evolution for a long time, I do think that it will accelerate it on the banking side and the winner will be the small business owner.

Peter: Denada?

Denada: And with that, we've got to learn each side of the equations, you've got the banks and you've got the fintech. There was some sense at some point in the journey that there was some type of rivalry, right, that somehow we were going to eat each other's lunch and the Paycheck Protection Program, what it showed is that actually there is an opportunity for each side to hone-in on it's strengths and collaborate in order to perpetuate the mission of small business and together, you know, come out the other end and fuel small business. And that process being forced into those solutions together did teach us to hone-in on our strength and continue that culture of collaboration forward.

Peter: Right, right. From my perspective, I feel like the PPP showed that fintech really had come of age in a way that it hadn't before. I don't think people really appreciated the advances that we had, I mean, obviously, there was some fraud in the program, there's going to be fraud in any government program, but it did so much good and it showed that government and banks and fintechs together can really come together and work as a team to help small business.

I've been a small business owner my entire career so I'm very passionate about small business as well and we were a recipient of the PPP and it was a godsend for us. So, a lot of businesses had an influx of cash, many didn't need it, but are we back to like 2019 where demand for capital is back to where it was or is there still some sort of dislocation in the process that's come out of the PPP, what's the status of business lending today?

Brock: You know, the demand for capital is as high as I've seen it, especially recent, we have a lot of business owners and I think a part of that is some uncertainty in the market. You know, are rates are going to keep going up, how's that going to affect business, is there a looming recession coming. You know, I think some of them get capital before you need it is happening and I also think that coming out of the pandemic you've got lenders that are eager to put capital to work and are looking to continue to grow and get back to pre-pandemic levels. And so, you've got this perfect storm where I don't feel like, you know, you look at some of the consumer and mortgage and auto and other loans where they're seeing some softening and they're seeing some reduction in the volume and other things like that, we're not seeing that in small business.

This last quarter was a phenomenal quarter as far as the volume that we've done, high water marks, you know, Lendio being funded even pre-pandemic and what not. The other kind of interesting aspect of the market as we look at it today is there's this blending of players who offers capital, I mean, no one knows this better than Denada, she's leading kind of as our Chief Growth Officer, this division we call Partner Solutions. You know, we used to talk about partners which would be people that would send us small business referrals and we used to say lenders, those that would lend capital. Well now, they're all under this umbrella of partners and the reason why is because a lot of the partners are actually lending capital and a lot of the lenders are actually referring their clients and their turn downs

I mean, the window of who those customers are, whether it be, you've got the Stripes and the QuickBooks Capital and the Square Capital and all of these where there's just embedded finance, embedded lending, it's so hot right now as far as hey, let's take that customer's data and leverage it to provide a great lending experience and proactively underwrite these customers and the loans the need. It's an exciting time and we could talk about, you know, the risk that exists or where we think the market's going, but right now, there's just a lot of energy in the market that we feel.

Peter: I want to get back to the session you had at our big event at Fintech Nexus USA a couple of months ago, very entertaining session which I will link to in the show notes, Denada you introduced a new concept and this was new to me, the idea of the three capital C's because you talked about the five C's of lending, but what are the three capital C's?

Denada: Thanks for asking that because at Lendio we can't stop talking about that notion. Look, Brock noted how traditionally small business lending has been overlooked because financial institutions applied the same measures that they would apply, frankly, to medium and commercial loans into small business loans. We know that that process is indeed inefficient and it didn't necessarily support this notion for traditional financial institutions to invest in small business lending. Often, traditional financial institutions saw small business lending as something that they had to do, right, it's overly costly to issue a $50,000 loan, an $80,000 loan given that same process that one would apply for higher loan sizes. So, the notion of shifting the traditional five C's of underwriting to look at character, that makes me actually cringe just thinking of no, no, no…I'm looking at the small business from the character perspective.

What does that even mean, especially in light of wanting to reduce bias in underwriting, right. So, at Lendio, we are thinking about the concept and pushing the concept that is the three capital C's that should indeed overshadow really the five C's traditionally applied in underwriting. Those three capital C's are Connectivity to Data, the very importance of pulling information and data about small businesses and isn't just about the historical performance. It's holistic data that allows us predictive behavior, it's Correlation of that data, right, we apply technology to correlate pieces of information together and ultimately, Categorization or I should say Categorization first and then Correlation, right, so there's this discipline of Connectivity to Data, Categorization of Data and ultimately, Correlation of that data that should enable how we underwrite small businesses.

And really when you look at sort of, in raw layman's terms, that is indeed applying true AI to small business underwriting, allowing data, not only to assess historical information on a small business, but also develop predictive behavior on where that small business will go based on decisions that have occurred in that small business process, right. So, it's this notion that we enable the data to be able to allow for decisioning in small business underwriting versus getting to nuances of character. What happens to small businesses who have thinner files, right, they still have the ability to access capital, they should have the ability to access capital and by leveraging data appropriately we can enable that while still managing risk appropriately because that's also very important.

Brock: Those that will benefit the most from this will be those that are underserved today, minority-owned businesses, women-owned businesses and others, it wasn't intentional. I don't want to demonize banks or others that were underwriting based off of, you know, this character, but you can just look at the data and they're underserved comparatively. When you evaluate a business based off of data points that are like what is the true health of that business, what is the probability of payback, that removes some of those other demographic or biased information then what we believe is and will continue to happen is some of the underserved small businesses will be on an even plain.

Peter: Okay. Can I get a sense then of what data you're talking about, are you talking about accounting data, inventory data, what are you thinking about?

Denada: When we reference data, it's really every element that enables us to predict the health of the small business forward. So, as I noted, traditionally, it has been the historical cash flow data alone that would enable predictive outcomes of hey, if financial institutions would underwrite a particular business. Now, we're pulling data such as what type of decision is the small business owner making relating to the business, what percent is their rent as a portion of the revenue that they generate and what does that collectively say, what has that shown to say holistically within the segment that they operate in, right.

So, if you have a hair salon that spends X% on rent in a particular geography as a percent of revenue, is that co-related to a particular outcome. So, it's really assessing the small business not just on historical, but their future potential, right, so every element of data becomes important. But small businesses aren't scrutinized on a particular one variable and be left out of their ability to access capital and grow their business, right. It is this holistic approach by looking at a multitude of data and how it co-relates together that then we enable them to have a better chance at access to capital versus being knocked out because of one particular variant.

Brock: Let's take that one step further. She talked about Categorization, like we used to look at bank data just raw, like okay, what's your average daily balance and let's underwrite based off that, but now, can you take the raw transaction data and can we start using machine learning, can you take it in and identify what is a balance sheet item versus what is a profit & loss item, you know, what is truly revenue, what is expense. And if you look at enough bank raw transaction data, auto categorize that and now we can start to, like you say, percentage of rent or percentage versus payroll, we want data from any source we could possibly get, right, whether it's payroll data, whether it's bank data, whether it's from their bookkeeping data, other things like that. But it's taking the raw data and doing something with it to make smarter decisions and then correlate them together, piece them together in ways to be able to evaluate that application.

Peter: So, what you're saying, are you guys creating like your own next generation underwriting engine, is that what you're doing?

Brock: We have the product that we now offer to banks that we co-access and right now, we're in kind of beta, we're not in stealth mode, but we haven't shouted from the rooftops yet because, you know, we're still on beta and the beta customers are traditional banks and we love it because it's such a different mindset now than it was pre-pandemic, they're like welcoming this. So, what we're doing is we're taking their credit policy and their underwriting, like what do they traditionally look at which was kind of algorithmic, A+B=C, well, let's adopt that and then put that on steroids.

We're going to pull in LexisNexis and Dun & Bradstreet and bank data and all of these are only available because now, we have open data, all these infrastructure players that let us go out, connect all these data sources that we didn't have access to a few years ago. We pull all that, we do a bunch of correlation, is this business owner on the public search records, do they match. The answer to your question is yes, but we'll start shouting from the rooftops and make it a much bigger deal come this fall.

Denada: What I would add to that, Peter, is Lendio also has the opportunity and the responsibility…well, first of all, we have to acknowledge we've been operating for 11 years in the intersection of connecting small businesses to sources of capital so in addition to sort of looking at how financial institutions underwrite and adopting that into the rules engine, we have the opportunity to offer those financial institutions the data, the information around small business behavior because we do now have the stored historical data across all different loan producers within Lendio.

Peter: Yeah, you're right.

Denada: And I don't know what other financial institution does have that rich data across so many varied products and across various lenders like Lendio does. So, again, I say that it's an opportunity but also a responsibility to then make something do with that data and offer it to our bank customers to enrich the way that they decision, right. We do believe financial institutions have been doing business lending proper and in a certain way, but there's always an opportunity to take new information over 11 years that Lendio being at that intersection and enrich that process that they currently deploy.

Brock: One thing I'd add to that is that banks historically haven't been able to compete, they can't compete with OnDeck, they can't compete with Enova and Kabbage and American Express, they didn't have the technology, they didn't have the sophistication, they didn't have the underwriting capabilities to compete. They might be able to offer a lower cost of capital, but, you know, when it takes six to eight weeks to underwrite that process…..so now, what we have the ability to do is we have the ability to help them compete or deploy capital in an efficient manner through technology and then the differentiators that we have a market. Let's give you the technology and then let's send you new customers, I mean, the fact that we can kind of do both together is a unique kind of differentiator for us where it's not just the SaaS technology platform or it's not just customer, we can do both.

Peter: Right, right. So, I want to actually go back to the small business side of things because there are so many different options for small business credit, like there's a term loan, there's a credit card, there's merchant cash advance, there's factoring, asset-backed lending, there's all sorts of different types of products. Obviously, the average small business owner is not a sophisticated financial analyst, what are you doing on that perspective, like when a small business comes to Lendio and say, we need money, do you point them in a certain direction or how does that work?

Brock: So, business owners, they don't come in knowing what product they need or want, they come in and they say, I need $70,000. We use that information and we now have done hundreds of thousands of loans, over $13 Billion in loans across every industry, every geography, every category, we know which borrowers are getting approved and declined. So, that's part of our secret sauce is to be able know when a borrower comes in what data we're gathering from them and we compare them to businesses that have come in before.

Let's say a restaurant in Texas, we can look at the last 500 restaurants in Texas that have been funded and we can say, okay, when they were offered across all these loan products and loan categories, when they were offered a bunch of different loan products, which offer did they select the most. And what we think about is if they have options and they choose one product more so than others then that's probably the preferred product and the best fit for them and if they meet that criteria then they are going to rank the highest on our list and then we'll rank it lower as we go on.

So, we're always optimizing for likelihood to accept the offer and then we're comparing it against other businesses that are lookalikes, right, by time in business, by industry, by geography, other things like that. So, a core part of our promise is options, that they have three/four options to be able to choose from, that there's speed, that it happens quickly, there's a trust to the experience that we're going to deliver to them the best opportunities that we have available for them. Our system, our technology is optimized to give them the best product and then kind of guide them through that experience.

Peter: You mentioned at the start and I know you talked about it in your session at our event, is this sort of on-demand loans where you don't have to actually fill out an application, the software that you're using knows that you're going to be running short of capital in two months time, how close is that to reality today?

Brock: There's two things that have to happen. So, the technology exists, we're able to do that for our small business owners, you have to get access to streaming data, you have to get permission from the customer to give you access to streaming data which means you have to add value to them so they're saying oh yeah, I'm willing to give them access to the streaming data. We made the acquisition a few years ago, we called our "Sunrise" product which is this full pledged accounting/bookkeeping cash flow management tool that syncs to their bank account every day with those customers that we have, you know, access to their bank data regularly and their invoice data, their APAR data, we have the ability to alert them when cash is low or we could forecast out for them when they're going to need a loan, we can give them alerts.

So, we just did this last week, we actually……Sunrise was a separate product with Lendio, we had a like leave Lendio, go sign up in Sunrise and what not, we actually just brought those two pieces together so your capital experience and your financial cash flow management experience is now one under Lendio so every business owner that signs up now gets access to both those tools. So now, it's becoming a reality at a much bigger scale than what it's been through before because not everyone went to our Sunrise product, if that makes sense.

Peter: Got it, got it, okay. So, let's talk about the banks you're working with. I mean, you talked about the changes that the PPP brought as far as mindset for banks, particularly the smaller banks, I imagine, but they really have great internal IT capabilities. Are you able to work with all different kinds of banks?

Denada: You are correct, but the way that we've attempted to solve with our Axis platform for financial institutions, like Brock mentioned, we are in beta phase with two of the traditional financial institutions specific with access is to enable those banks with little effort to integrate with access. When I say little, it's in context, right, there's still a process by which we have exchanged information and API connectivity, we help them with all of that, but the heavy lifting doesn't really lie on the FI side so we've taken and solved for that integration to be as seamless as possible because we do recognize they don't have a staff of engineers on the other side to be able to solve for it. So, that's the approach that we've taken and frankly, part of our rollout around having multiple betas is to ensure that when we go to general market that we're ready for that integration to be seamless, right. We're attempting to solve for it because we recognize it is a hindrance to the process.

The other part in working with financial institutions, traditional financial institutions, that we have to recognize in our hurdle that we're collaborating on is ensuring that we get regulators on board as well, right. As you know, regulators, they all mean well, they want to ensure that they're protecting small business, but sometimes regulator expectations does hinder financial institutions in the way that they behave.

So, we're working very closely with them to make sure that we're getting regulators on board to say we're all on the same side here, we're trying to solve to ensure that we get capital to Main Street America. So, those are the issues, there's the technological issue and then there is the portion of getting the regulators on board and generating comfort there and then the great opportunity then is clearly seen especially by the small community banks who want to deploy capital in their local communities. They see the potential for growth via injection of technology in the process.

Peter: Yeah, that's correct because that's still so important. A lot of small businesses like to bank with their local community bank or credit union, that's a really big driving force for many small businesses. So, we're almost running out of time, but a couple of topics I want to get to and that is, you know, we've lived through this multi-year period of low interest rates, I mean, I should go back to like 2008 and we've moved through like 14 years of abnormally low interest rates. Now, rate are higher than they have been, how is that kind of impacting, you know, access to capital for small businesses. Are some them being priced out or what's the state of play there?

Brock: The most important thing on small business and the rates, we get this question all the time, is that the small business rate are not tied as closely or directly correlated to like the consumer mortgage rates so it's not like this evolution, like that changes every single month based off of Fed rates. Small business, most banks have already priced in margin so they're already started. Even when the rates were very low, they were going to be higher than a mortgage or auto or consumer loan and what that means is they don't fluctuate that much either. If the rates go up a little bit, it's not going to have a significant impact on what the banks are going to do because they already have built-in margin, they have to, they have to be on the price that in.

For our fintech lenders, you know, a lot of times their capital is coming through warehouse lines, they are negotiated over many years and maybe tied to a prime rate or a thing like that, it may be the difference between 16.5% rate versus a 17% rate. It's not enough to influence the borrowing behavior enough when they're making out such an important ROI decision so the rates are something that we're watching now. If there's significant impact as far as the doubling or, you know, other things like that then I think it would have a negative impact on borrowing, but as we see it right now, like I said at the beginning, the demand for capital is high, supply for capital is high and we're not seeing that kind of one-for-one change as we do in some in some of that consumer side.

Peter: Right, right, okay. So, I'd like to close with each of you answering this question, if I could, what are you most excited about when it comes to the future of small business in this country? Denada, I'll start with you.

Denada: You're starting with me, but I am going to steal this from what Brock shared at the last LendIt Conference.

Peter: Okay.

Denada: I love the journey that we at Lendio believe small business lending will evolve to in the very near future and that is the journey going from this notion of how we used to use map quest to get from one place to the other to now the evolution in the ways small business lending will be enabled with real-time data and a very slick customer experience to enable small businesses to focus more on what they do best which is run the small businesses and their ability to view access to capital as a real-time sort of notion, right.

At any point in time, they can see what their eligibility is based on data and information that will be integrated. That will be a game changer and that gets me uber excited about the future of small business and frankly, what that will translate to is the future of our economy because, you know, we keep talking about it, but ultimately, small business is indeed what fuels economies so I am excited. The other thing is, we're not going to forget about small business anymore, there is a spotlight in it and it's not going away and I'm stoked about it and I'm stoked that we at Lendio get to participate in shining that light and solving for it.

Peter: Okay, Brock, last word.

Brock: I would echo what Denada had said, but I would add to it. I feel like since 2008, so much of kind of this advancement of lending has all happened outside the banks. Banks have provided warehouse lines and capital and, you know, but they actually haven't really embraced online lending the way that they could, whether it's technology and there's a lot of reasons why. I think that in three to five years from now you're going to have every bank in America that offers small business, they're going to have a similar experience to what you would have today if you went to any one of the fintech lenders.

I really truly believe it's finally, though we've been talking about this for a long time, it's finally the moment for banks who will embrace that and I think it required PPPs for this to happen because they were forced to. They literally had no other options but to accept it and because of that they're like okay, it's not so bad, we can do this, you know, this is good for us. So, I'm super excited when a business owner can have that type of experience from every bank in America, now I have options across every loan product and lower capital and it's just good for the small business, like we're thrilled to be a player in it and participate in that investment and the innovation that's occurring.

Peter: Okay, we'll have to leave it there. Brock and Denada, it's always so much fun to chat with you guys, so thanks for coming on the show today.

Brock: Thanks for having us, Peter.

Denada: Thank you.

Peter: You know, listening to Denada and Brock chat there, I mean, it still feels logical to me that of course, we should be using real-time data, we should be going from the old Mapquest of 20 years ago to Waze today where it's pulling in real-time data, it's reacting you if there are problems and that's kind of how access to capital should be. As we say, we're not far off, I mean, I feel like being a small business owner today is easier than it was ten years ago, there's a lot more availability of services and tools, what have you and capital and boy, when you look through the next five years, next three to five years, it is going to get even more interesting and I think the small business owner is going to be the winner.

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

(music)