LEND ACADEMY

PODCAST TRANSCRIPTION SESSION NO. 223 - STEVE HOKE

Welcome to the Lend Academy Podcast, Episode No. 223, this is your host, Peter Renton, Founder of Lend Academy and Co-Founder of the LendIt Fintech Conference.

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Today's episode is sponsored by LendIt Fintech USA, the world's largest fintech event dedicated to lending and digital banking. It's happening on May 13th and 14th, 2020, at the Javits Center in New York. Lending and banking are converging and LendIt Fintech immerses you in the most important trends of the day. Meet the people who matter, learn from the experts and get business done. LendIt Fintech, lending and banking connected. Go to lendit.com/usa to register.

Peter Renton: Today on the show, I am delighted to welcome Steve Hoke, he is the General Manager of Mortgage and Commercial Lending at Finastra. Now, Finastra has only been around a couple of years, but the companies that formed Finastra have both been around for decades, or in the case of D+H over a century. But, Finastra is really supplying the banks with critical software around their business, they have over 9,000 customers.

I wanted to get Steve on the show to talk about the changes that are happening in both mortgage lending and in commercial lending, we go into some detail about both of those and we talk about what banks want, what the banks' customers want when it comes to, a digital experience, when it comes to more efficiencies in this process.

Steve also looks into his crystal bowl and tells us where this is all going, what kind of end game is going to happen in the mortgage lending and commercial lending space when it comes to digitization. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Steve!

Steve Hoke: Hey, thanks for having me, it's great to be here.

Peter: Okay, so I'd like to get this thing started by giving the listeners a little bit of background. You've had a pretty interesting career to date, if you could maybe touch on some of the highlights before Finastra.

Steve: Yeah, so I've been in the financial services space for ...going on 20 plus years. I don't want to get too high in those numbers, but over 20 years of experience in financial services, done a lot in the last 15 years, in and around the lending space, particularly working closely in the credit union space. I am now with Finastra, I've been with Finastra for about three years and I'm Manager of Mortgage and Commercial Lending businesses.

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Peter: Okay. So, tell us a little bit about Finastra because it's not a brand that's been around that long. I know there was a merger and you had D+H, I believe, beforehand. So, why don't you just tell us a little bit about how Finastra came to be.

Steve: Sure. So, I've been ....like you said, I've been with the company for a little over three years now and about six months into my employment with D+H, we were a publicly traded company that was acquired by a private equity firm based in Texas called Vista Partners. Vista owned another company in their portfolio called Misys which was headquartered in London and had very complimentary products serving very complimentary geographies, but not overlapping. So, they primarily served European, Asian and African markets and D+H was largely focused in the North American market.

So, Vista saw an opportunity to put these two companies together and create a global brand around this company called Finastra. So, we're about 10,000 employees, about $2 Billion in revenue and clients all over the world.

Peter: Okay, and what is the breadth of products that you guys offer?

Steve: When you look at all the functions of a financial institution, a bank, credit union, we offer a full range of products. So, in the North American markets, you know, we have lending products, core banking, digital, mine banking assets, we do large syndicated commercial lending, we have treasury and capital management products, investment products, payment products, so really the full gamut of things that a financial services firm would need from a provider like Finastra.

Peter: Right, right, okay. So, you're running the Mortgage and Commercial Lending products, just tell us a little bit about your domain, specifically.

Steve: Yeah. So, Finastra has a number of different lines of businesses typically centered around those products somewhat uniquely in the North American market. We have a segment of our business that we call the North American Community Market segment. So, we're focused in on banks and credit unions, to assets typically around, you know, call it $10/20/30 Billion is kind of our sweet spot, $30 Billion and below and we serve those institutions with a number of products.

So, that could be a core banking system, our flagship product there is Phoenix; we have, as I said earlier, a digital banking product, Malauzai, that we acquired into the Finastra family a little over a year ago, so providing online banking tools for banks and credit unions that attach to the core banking solution.

And then on the lending side, we have a full suite of lending products, so we have a Point of Sale solution called Mortgagebot POS, so when you go to a bank or credit union website and apply for a mortgage that front end application is provided by a third party. We're proud to hold 1,400 clients, customers of our Mortgagebot Point of Sale platform that's been in the market for

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20 plus years, and then we also behind that have Mortgagebot, loan origination system which is the LOS, the workflow tool that the financial institution uses to close and fund a mortgage.

And then, when you go across the different loan types, so consumer lending, we have the equivalent kind of solutions online, loan applications for a car loan, credit card, and a consumer loan origination system behind that. We have a commercial loan origination system called CreditQuest, and then we, of course, wrap all that in our compliance products that we have and market them. The flagship there is LaserPro, our compliant loan document solution.

Peter: Okay, so then I wanted to dig into some depth into the mortgage lending systems and the commercial lending side, but before I do that, maybe we could just step back for a second. Tell us your perspective on how lending is changing. Obviously, you say been in financial services for two decades ago, it was very different to what it is like today. How much of what you're really focused on now is sort of a digital experience for the consumer and how is that changing?

Steve: Yeah, I'll even step back just a little bit and talk about the overall digital journey for financial institutions and it's evolved a lot over the last 15/20 years. So, you know, they rightfully started their journey with simple transactions that were high volume, repeatable, and so think about the digital banking experience.

I want to login, I want to see my checking, or savings account and I want to, maybe, transfer some money. Institutions have to do that all day long and consumers were looking for digital tools to do that, so they opened up the digital banking environment to do that. And then, they moved up to slightly more complicated transactions, but still high volume, so we saw where they started on the lending side was consumer transactions.

Think credit card, we get a lot of credit card transactions, those are fairly straightforward types of loan transactions and you do those at scale and you do those quickly. So, we saw the kind of a next logical place was credit cards, then consumer lending, and you get into car loans, still high volume. It's a little bit more complicated, a little more work to process that loan type, but slowly that will down line into a digital experience, and now, I think, you're seeing a broader embrace of mortgage and then, I think, the really complicated still transaction where there's lower volume is the commercial loan transaction.

So, it's definitely been a journey and, I think, they've approached it in a real logical way in terms of where can we have the most banks for our book, simple, straightforward, high volume transactions that may have been moving through the suite of their solutions over time.

Peter: Okay, so let's talk about.....a complicated transaction is a residential mortgage, it's usually the biggest transaction anyone ever does in their lives. It's been a few years since I've done one, but I've had friends who recently moved, it was surprising to me to learn that their experience.....sure, they're sending PDF's, instead of having to do signatures.

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They did have a closing document where they actually had to sign…. this closing session, they had to sign their name a hundred times. So, it's still, today...towards the end of 2019, we're still at a.....in a mortgage experience, it's evolving, but it still seems rooted in the 20th century, as far as user experience goes, so why do you think it's been so slow to really fully move to a digital experience?

Steve: Well, as we talk about it. It's a complicated transaction and it's complicated because you have so many different parties involved in a transaction. It's not just a straightforward transaction between a borrower and the financial institution, you have to include appraisal companies, you have to include mortgage service providers to get, you know, MI or flood, and then you have closing companies and different interested parties, real estate agents. There are a lot of people involved so you have a lot of complexity in that regard and then the data complexity as well is high on a mortgage transaction.

You know, think about all the information that you need to know about that borrower in order to comfortably make a good decision that's good for the financial institution and, frankly, good for the borrower as well to make sure that, hey, as a financial institution I am doing a responsible thing and getting the right kind of loan product for the borrower, so I need the right kind of information or help them make a good decision and for the borrower to feel good about their transaction.

So, I think, at its root, it's a complicated transaction, but you look at it, you're right, you’re leaning on all conventions to collect that data and you see steps towards progress though. So, Fannie and Freddie, they want certainty solution where if a borrower is able to electronically verify their employment history through services like the work number, they can easily collect that data and pass it along to Fannie or Freddie and at that point, no further information is needed to validate the employment history. You don't need to submit the last three W-2's.

So, there are pieces of that puzzle that are becoming more straightforward and easier to collect that data about a borrower so that you don't have the burden of scanning and uploading all those electronic documents. But, because of all the parties involved and all the data requirements that each one has that could put it in process, it's going to take time to chip away and continue to find the little pockets of efficiency that you can add into the transaction.

Peter: Right. So, you think.....are we still in the first inning when it comes to.....if it's a nine inning game here for the game, the end point being a complete digital process for the majority of borrowers, what inning are we in?

Steve: Yeah, I would say we're certainly, you know, in the first couple of innings. I might go a little further than the first inning, I might say the second, or top of the third. It's getting better, but there's still a lot of, you know, there’s complexity and there's comfort too. The borrower has to be comfortable sharing information in different ways as well, and so one of the ways that you can collect income and assets to access the information about the borrowers for them to give

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you their logins, the passwords to their banks accounts, or accounts that they hold in other institutions during the application process.

So, borrowers sitting there, staring at their screen saying, do I trust this institution enough and are they going to be able to be responsible with my login and password to go to scrape the information out and complete this profile of my assets that I have that I am applying towards this loan. And so, part of it is complex and part of it is this comfort and people getting more comfortable with digital tools.

Peter: Sure, sure that makes sense. Obviously, with today's generation that's becoming primary home buyers in the next decade, we're going to see a lot more comfort from that end, I would expect. So, what is Finastra's.....do you have a digital end-to-end solution that you can revive to community banks and what have you, and credit unions....what exactly is your offering?

Steve: Yeah. So, I kind of touched on the overall tool set that we offer at the top. So, we have our online application and you think that's a fairly straightforward thing...oh, I just fill out a form and I submit it, but there's still a lot inside that application. So, we have things like I talked about, the ability to do....the day one certainty pieces with the income and asset verification. So, we can collect that information up front and no further documentation is required.

Inside our Point of Sale solution, we can also offer the three-day disclosures and so when somebody fills out an application, selects the product and things like that, they can see all information and get the disclosures supporting of that so that it does not have to go back to the financial institution for review and then approval and then sending out disclosures. The system can automatically generate those upfront disclosures that are necessary.

And then, we also have the loan origination system behind the scene so all that data that's collected is integrated into the loan origination system so it all passes. If a credit report is pulled in during the Point of Sale process, the complete credit report is passed over to the LOS. Any documents or images that might be uploaded by the borrower as part of the transaction so you choose and attach forms....if those things are still being required, those things can all be automatically transmitted and indexed in the loan origination system so the processor can quickly see that those are there and note that those conditions have been satisfied.

And, we also have the ability to do the document packages on the back end through partners like DocMagic and DocMagic is given extent for them to the E-Close space with some of their capabilities, so there's a lot that we provide in-house and where we go beyond. We have partners who we rely on and help kind of build some of those gaps. So, we can take it where different municipalities allow things like e-notaries, we can enable e-notaries to get the signing event completed for mortgage. So, there is a lot that we can do with the digital mortgage experience from the products and solutions and integrations that we have at Finastra.

Peter: Right, okay. So then, when you're talking with your customers, what are they really asking for that you don't have right now. What are the, you know, is it more...digital user

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experience is faster processing, a more flexible origination, I mean, what are the things that the banks out there really want today?

Steve: Yeah. So, with the Great Recession and fallout from that, there was, obviously, a lot of forced correction on the regulatory environment and, so there was a point where institutions were extremely focused on making sure that process was compliant. That was their first concern and we've done a great job, I think, at Finastra delivering on commitment to compliance and delivering compliance solutions. And, I think our clients had started to internalize the compliance requirements in today's environment and, now, they're turning to what is a very tight margin environment on their loan, so what they're lending at and what they're managing on these particular loans.

The margins are very tight so they're looking for efficiency in the process. We're going to squeeze out, you know, automated step in the process so that they can continue to drive down the time of funding, reduce the number of days in the cycle and drive out people having to handle data, or documents, or information and letting the system automate those steps.

So, we're working closer with clients to talk about how can we drive efficiency in the process, what kind of things can we do to, you know, have those integrations to enable some of those digital processes, or how can we automate the work flow to make that process as straightforward as possible for the maximum number of situations that they might encounter.

Peter: Okay, so then, I'm assuming you keep up to date with all the fintech players in the space. We've had people from.....we had the CEOs of Blend and Better, we haven't had Roostify yet, but we will.....like those sort of companies, these are focused just on typically the residential mortgage market for providing full banks to help make it more efficient. How do you view those companies, like do you see them as competitors? Obviously, you're a much bigger organization than any of those companies I've mentioned, but just a bit curious to see what your take is on those new players.

Steve: Yeah. You know, I think for a lot of entrants in the market, that Point of Sale experience is the easier place to start. You know, you can build a solution and scale it and I think Blend, Roostify and others have good products. Where we're focused is on that vertical integration, the Point of Sale solution, and the loan origination system. Those providers, no disrespect to them, they do what they do well, but they rely on the LOS and a number of different integration solutions in order to make happen what they deliver.

We can integrate the Point of Sale solution with other LOS's, but I think we offer the best experience, most compelling experiences where we're vertically integrated between the POS and the LOS together, where we can really make sure the data flows as seamlessly as possible that, you know, things around status notifications, status finding conditions on the loan, that kind of thing we do really well and that we're controlling kind of the full stock of the experience. So, things like the 3-day disclosures at the end of the application, we're able to do that because of the data that we have in both systems and that for us is a competitive advantage.

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Peter: So then, as you look at your product roadmap and I don't know how far you go out, but I'm wondering, where are we going here? Do you think in ten years time people buying a home will be all done on a mobile phone? It will be very, very fast. Do you think there will still be some kind of blend of maybe mobile with, you know, maybe even a physical branch visit, or a video conference call, that sort of thing, where do you see this market going?

Steve: Yeah. I think that, you know, when you say ten years out, it's too tricky to project out. You see all this kind of incremental year over year improvement and ten years later, you look backward, you're like, wow, the world is really different. I think from a consumer/borrower perspective, I think that the ability to leverage different sources of data to streamline the application process is going to change a lot.

So, like I said earlier, we're just starting to see some of that, but really creative uses and sources of data to simplify the application process so that you can take something that may be a 10/15-minute activity down to less than a minute activity to say I want to apply for a mortgage and the system just knows where to go because it knows enough about who you are to go grab that data and complete the application, or submit the data on your behalf.

You know, certainly, on the processing side of it, I think there's going to be a lot of drive to apply1 Artificial Intelligence, machine learning to try and drive scenarios and performance and efficiency to the process. So, they know that these conditions have happened, you know, a hundred thousand other times and they see it again, the system knows how to automate certain steps and make certain requests of other systems for information and you try and drive efficiency together with the process. So, I think, automating business rules and logic-driven kind of decisions are going to be really central to the processing of a mortgage to simply the experience and drive down that cycle time as fast as possible.

And lastly, I think, you know, those third party sources that I talked about, you know, something like an appraisal could change dramatically over the next ten years, in terms of how you value a whole.....are there sources of data and information that exist that don't require somebody to go out and physically appraise the property because you can tap into other data sources in order to do that. So, I think, there's a lot of disruption that could happen over the next ten years in the process.

Peter: Right, okay, that makes sense. So, I want to switch gears to commercial lending because I know this is your other area and it's an area that I find fascinating, Obviously, there are some overlap, I mean, process-wise. A lot of times, a commercial loan has collateral, often a physical property backing the loan, but, you know, it's another area that's complicated, it's been slow to move to digital, but there seems to be progress being made. Why don't you just give us the lay of the land in commercial lending today when it comes to applying digital user experience to it.

Steve: Yeah, I would say, you know, you use your baseball analogy, I would definitely say we may just have started the first inning on commercial lending. It's so critical that so many community banks and credit unions in our markets that we serve.....there are so many

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community banks who are built on commercial lending, you know, relationship-based lending with the entities out there, local markets and those are long entrenched established relationships and migrating those things online and changing those relationships to be electronic relationships has been a slow moving process.

So, there are tools that enable a commercial entity to go apply online, you know, it's a basic loan request that you can attach documents that might support it, but, you know, there's still so much due diligence and unpacking of entity information, things like that. It's still fairly complicated for a brand new commercial relationship to be a completely digital one because of the complexity of those homes.

From a back office processing, you still have, you know, your classic credit committees and people doing the credit memos, the underwriting process. You know, there is so much that makes each loan unique, the financial circumstances of that that it's harder to automate the processing of those loans because the information varies from borrower to borrower so dramatically and the type of loan product that may be presented varies and the risk associated with those things. It's a really different beast than something like a mortgage.

Peter: Sure, sure, that makes sense. So then, like your customers, the community banks and some of the larger banks, I mean, are you really focused on sort of what I would call the middle market, $500,000 to $50 Million loans, is that sort of the core? Do your systems also help them with doing small business loans, what's sort of the range?

Steve: Yeah. You know, there is a continuum from the individual who's applying and using their personal credit as the leverage for that particular loan, and then you have those where you have multi-party entities. Which system and where they go for those kind of things does get a little grey sometimes.

Sometimes, financial institutions want to do some of those smaller individual proprietor loans on their consumer system, sometimes they end up in the commercial system, but when you're talking about true commercial lending, as you described it, that middle market kind of thing, that's where our product, CreditQuest, is really well tuned, kind of those multi-party entity kind of commercial loan relationships.

Certainly, we can do the smaller ones, but it really goes down to the institution of preference. Do they view that as a consumer loan that happens to be funding a business transaction, or do they want to kind of treat that as a commercial even at the smallest level, so there's a lot of variation on how our financial institution clients approach those types of loans.

Peter: Right, right. I'll ask sort of a similar question that I asked about mortgage lending is, what do your bank customers want to hear because, I imagine, everyone, every loan is so bespoke because every business looks very different. Is it really more of data gathering, is it loan origination kind of ....what do they really want today to help them improve their efficiency in this process?

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Steve: Yeah, I think it does come down to the borrower interaction and so having good online tools to be able to apply for a loan and then be able to share the financial data with the financial institution, so being able to extract data out of an accounting system, pass that information to the FI and be able to load that then into their commercial loan origination system and just make that process easier.

You know, even the covenants associated with the loan want that on the books. Annually, they may be required to share that information, how do they gather that information kind of quickly, seamlessly and as painlessly as possible for the borrowers to complete that request. So, it's really around, I think, the borrower experience that our clients are telling us. That's what they're looking for us to provide solutions.

Peter: Right, right, okay, fair enough. I want to switch gears a little bit. I was listening to a podcast where you were being interviewed a few months ago, where you were talking about the importance of maintaining a physical presence. We've just been talking about digital this entire interview, so far, and you will make the argument that physical presence is still so important. So, given that we know we're all moving towards a more digital world, what's the argument then for your customers maintaining, you know, the banks maintaining a physical presence in their communities.

Steve: Well, you know, I often talk about this because people so often look at "traditional businesses" as a traditional retailer, or a traditional financial institution, they talk about the age of digital and the marks of digital and everything is going online, but, I think, it's often under reported, the view that digital is also going more traditional.

My example I like to use is Warby Parker. Warby Parker started as an online glasses retailer, you go to their website, you order five pairs of frames, they send them to your house, you try them on, you pick the frames you like, send it back and some number of days later, they send you a pair of glasses and it's done.

That sounds great, right, but Warby Parker has realized that, I think, they've reached a certain amount of organic volume online and if they want to continue to scale and grow, they've got to get out into the communities where people are shopping and offering those solutions to people in a traditional retail environment.

And so, I was just talking about this when I was down in Chicago a few weeks ago, and within a seven-mile radius there were like four/five Warby Parker glasses retail stores. And so, there's this convention, or these beliefs that everything is going to go digital and that retail is entirely doomed. I don't buy into that narrative that everything is a completely digital experience, I think there has to be a good balance between both.

People are always going to want that convenience of being able to go somewhere and get a great service experience and that's why I think....I don't think that it will always be at a scale and the answer for financial institutions to grow is always to open another branch. They can be more strategic about where they have branches, but I think branches and a physical presence are a

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great asset to serve the local community, to have the relationships and to be able to provide a great experience that represents the brand of that financial institution.

You know, I think that quick loans are out there.....you know, could open up rocket mortgage stores just because, I think, it's a way for them to continue to try and get share of those transactions via the online environment. So, it wouldn't surprise me to see non-traditional financial institutions have a physical presence somewhere in the next five or ten years because they need to scale.

Peter: Yeah, yeah, right, fair enough. So, conversely, you spend most of your day talking about digital tools, I imagine, and you've said that the banks, they are commercializing, they want a better digital experience, same with consumers in the mortgage space. So, when there isn't this physical face-to-face transaction, or face-to-face interactions to close a deal or whatever, when it's purely digital then what do you say to your customers about how they can really ....maybe not mimic, but, certainly, move towards a more personal, less kind of purely digital experience when you're operating just in the digital environment?

Steve: Yeah, a digital transaction...even if you never talk to someone, or never experience that in an institution, it's still a manifestation, or a representation of what that brand of that institution is all about. I took out a car loan recently with my daughter and it was an entirely digital transaction from kind of beginning to end, but it still made me have an association/affiliation and a fondness for the institution that I was borrowing from, that's where I have my checking/savings account and it was a great experience being able to do those things digitally.

It made me feel like, hey, this institution has figured out this part of the process and gave me confidence in the institution. So, something that is seen as inhuman created a more human feeling about the institution because of the positive digital experience I had.

Peter: Right, right, okay. So, we're almost out of time, but before I let you go, one last question. You've been in this business for a while now, you've talked about it, it's hard to sort of think about what happens in ten years time, or look at how far we've gone in the last ten years, but when do you think it will be 100% digital experience, potentially with maybe an option to have some kind of physical kind of interaction, any kind of transaction, whether it's a complicated commercial transaction, or applying for a mortgage. When do you think that's going to be 100% digital?

Steve: I don't know that it ever will be and, you know, part of it, especially when you talk about something like a mortgage, and you said it at the top. It's a scary transaction because it's probably the largest financial transaction many people would make in their lives, right. We've seen data and studies that show that repeat home buyers, or people who have purchased a home multiple times want fast, digital experiences.

People who are first time home buyers, you know, at our time that happens to be millennials now, still want to have the comfort of being able to talk to someone who understands, and I

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think there's always space for that kind of conversation to be not a digital one. I believe that much of it that can be done digitally will be done digitally.

So, I'm not trying to advocate that everybody should go and open a blockbuster store, right, I think that a lot of things are going to be digital, but I just think that the ability to have a human interaction to get that comfort on a transaction, or to ask a benign question and just know that you've got an answer that you feel good about always leaves a little space for a non-digital experience. But, certainly, the pain of getting the data exchange and the nuts and bolts of the transaction as quickly as it can get there, that's what consumers want.

Peter: Right, right. Well, you make some very good points there, Steve. It really is interesting, it's going to be interesting to see how it plays out, but, as you say, it's not so much.....a first time home buyer is going to want to have....they want someone to talk to, whereas, someone who's doing it for the fourth time, just let me get this done over with. Yeah, that makes sense.

Okay, anyway, I really appreciate your coming on the show today, Steve, thanks a lot.

Steve: Thank you, it's been my pleasure.

Peter: Okay, see you.

Steve: Bye.

Peter: You know, I think Steve makes a very good point there towards the end where he talks about .....that some people, even people who'll spend their entire day on their phones and they're used to digital experience in pretty much everything, you know, they're going to buy their first house and take a loan out several times larger than their annual income.

They're going to be a little bit tentative about that, they're going to want someone often to hold their hand, whereas, maybe someone who has done it three, or four times will be satisfied with a 100% digital experience from start to finish, make it as efficient and quick as possible.

So, there clearly is room for this non-digital, or maybe it's just a more sort of interactive experience when it comes to taking out a mortgage and taking out a large commercial loan for that matter. So, it's not all just about how can we digitize, how can we make this a better digital experience; it's about looking at the overall experience, what the customer wants and how to deliver on exactly that.

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

Today's episode was sponsored by LendIt Fintech USA, the world's largest fintech event dedicated to lending and digital banking. It's happening on May 13th and 14th, 2020, at the Javits Center in New York. Lending and banking are converging and LendIt Fintech immerses you in the most important trends of the day. Meet the people who matter, learn from the experts

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