



PODCAST TRANSCRIPTION SESSION NO. 227 - MIKE BUTLER

Welcome to the Lend Academy Podcast, Episode No. 227, this is your host, Peter Renton, Founder of Lend Academy and Co-Founder of the LendIt Fintech Conference.

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Peter Renton: Today on the show, I am delighted to welcome Mike Butler, he is the President and CEO of Radius Bank. Now, Radius Bank is a very interesting operation. When Mike joined as CEO back in 2008, they were a small community bank with a handful of branches; now, they are one of the leading digital only banks in the country and it's really a fascinating story to unpack, how that has come to a reality.

So, we talk with Mike about the decision to become digital only, how he's been able to sort of develop this with a pretty...without really an engineering team which is a fascinating all in of itself. We also talk about the partnerships, some of the recent ones they have penned and how they approach Banking-as-a-Services, in general, and we talk about Mike's reports on the digital banking space that is all of a sudden very hot, one of the hottest areas of fintech. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Mike!

Mike Butler: Well, thanks for having me, Peter, much appreciated.

Peter: My pleasure. So, I'd like to get this thing started by giving the listeners some background. We know you've been with Radius Bank for many, many years, but what did you do before that?

Mike: I'm a pretty traditional banker, Peter. Out of college, joined a management training program with KeyCorp. We started out with \$4 Billion, and when I left we were over \$100 Billion, did a lot of different things while I was there, had the opportunity to participate in some M&A activity in a fairly big credit group and ran two lines of business before I left, and that was then, what was it, 2008, when I joined Radius Bank.

Peter: Okay. So, what was behind that decision then? Obviously, you've gone from a pretty decent sized bank into a very small community bank, what was the thinking behind that transition?



Mike: Well, I think, a couple of things. You know, one is probably...I easily would there was transition happening inside Key and there was a leadership change and obviously, there was going to be a new CEO for the next year ten years, or so, so it was a good time to pause and think.

I think there was a bit of an edge from my perspective to see if I could leverage some of the things I've tried to learn over my years and kind of see if I could find myself in a CEO role. You know, we all say that nobody really drives culture other than the CEO, so a chance for me to do that. So, I took the opportunity to look around and see what other opportunities there might be out there for me.

Peter: Okay. So, maybe you could just describe a little bit about Radius Bank and what it was like when you joined the bank in 2008.

Mike: Well, you know, Radius was a fairly traditional community bank, but one in which it was truly seeking kind of a strategic direction. That's what was most intriguing to me. It had kind of just been a marginal performer and was looking for some leadership to come in and give it some direction.

As we talked, we talked a lot about what the future of the industry was going to be like and, you know, the role of branches and deposit gathering and I think it was an opportunity for me to kind of take that vision and try and execute it inside Radius Bank. But, we were a nine/seven-branch company, did a lot of commercial real estate very locally, you know a pretty traditional community bank.

Peter: So then, when you took over did you....I mean, you're famously now.....I think it was 2012, or thereabouts, you can correct me if I'm wrong, where you decided that you would do away with branches you had. Was that your intention always going into this job, or was this something that sort of evolved over time?

Mike: Well, the intention was to, and as it is today, still remains is how you replace the branch network as a place to acquire and manage consumers and small business deposits. That was always the objective and I think.....remember in 2008, there was some pretty significant economic downturn that was occurring.

So, what we did first was we stabilized the company and we started to implement some of the thoughts and ideas on how we might emerge as more of a virtual bank and that was in 2012 where we said, okay, we're going to go there, we're going to be all in on the concept of generating deposits and, you know, managing clients through a virtual network.

Peter: I mean, what was that decision like back then because really you were a bit of a groundbreaker. It's not like many other community banks were treading down the same path, was it a really difficult thing to get by in from everybody?



Mike: Oh yeah, I mean, for sure, there's no doubt about it. I think the....you know, what I like to say is there wasn't really....I think everybody's vision still was, you know, and still is today and it's getting clearer and clearer that virtual or digital banking will become a much bigger part of the industry, less clear back in 2012, fewer people willing to take the gamble. So, I think, you know, you needed this kind of conviction to the vision and you needed some courage that you were going to be able to execute against that.

You have to start to surround yourself with people who had the same vision and courage to get that done and that's a bit of a daunting task because, I think, as you know a lot of industries and sometimes more in banking is that people are a little bit more willing to hold on to the status quo than they are to kind of embrace the future which is okay. I get it, I'm not complaining, but what we had to do was start to transform the culture of the board and the organization kind of simultaneously.

You know, one of the things that I did make a fairly big decision on is by closing all the branches. We basically had no backdrop, there was no oh, let's try this and if we can do some things virtually while simultaneously, you know, keeping the branches open. One of the things that I would say gave us what I thought was a cultural competitive advantage is the kind of bridge was gone behind you, there was only one place to move and that was forward.

Peter: Right.

Mike: So we were forced to kind of keep moving in that direction.

Peter: So then, like I imagine the culture is very, very different now than it was ten years ago, tell us a little bit about what it's like today.

Mike: So, you know, right from the top we recapitalized in 2016 and we had the opportunity to bring in a new board. The new board contained some of our equity investors who are absolutely believers in the vision as well as people in the industry that are a part of this technological change versus some traditional bank boards and as importantly, the people that we brought in have a much....you know, we used to say in the industry that you should hire bankers first and you can kind of teach them stuff from there.

What we had said is, we're going to hire non-bankers and we're going to try and teach them what parts of the banking model we still need to keep. And that created this whole frost of every time you add a person to the team that has a different view about, or their view is about the future of digital banking not how to transform a branch, so a very big part of what we've been able to do is all of the people and the way we go about doing business inside the company. You know, we'd like to say that we're much of a business than we are a bank, we'd like to say we're much more of a technology company than we are even a business.

So, a very agile mindset that started with kind of the project management group where it usually starts, but we kind of like saw how cool this agile kind of environment worked and we all said to ourselves, we're going to kind of embrace that in how we approach all of our business



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challenges day in and day out. We've kind of broken down traditional hierarchy inside the company and the bureaucracy sometimes that exists and we've gone to majority of cross functional teams and everybody has cross functional goals to kind of make sure we get projects done.

So, a whole bunch of really fun stuff and I think the culture of the company is also one in which we kind of say to ourselves we treat people like adults and a very open environment for people and we think that creates a very high performing work culture.

Peter: Sure. So, let's talk about the bank itself. You know, we're now looking at Radius Bank and reading about you over the years. You really have a couple of separate businesses, it feels like, or business lines, shall we say. I mean, you've got the traditional bank that still has the deposits and lending and you also have this sort of Banking-as-a-Service type operation, but rather than me describe it, why don't you describe how the bank operates today different product lines.

Mike: Yeah, so, we've kind of started from the very start. Strategically, our mission was to be a kind of forward looking financial services company with a very sharp focus on deposit gathering liability side of the bank and focused on finding and sourcing deposits and managing deposits, or relationships under retail and small business side without a brand network driven by technology.

And also, we felt like and still feel like we have a competitive advantage over several organizations that do generate deposits digitally, the neo banks, because we've got a fairly sophisticated asset generating side to our balance sheet as well. And that's driven by the same kind of culture that we talked about on the liability side in which we want to have very niche-like businesses which we can kind of provide a high degree of service to our clients, get paid accordingly, but those niches would be different than what you would generally see inside community banking.

We do equipment finance, we do SBA lending, we do some high net worth lending, so all of those would be designed to say, okay, you know, if you thought about kind of the technology, the fintech world and the emergence of specialty firms that offer some of these lending products, we tried to set up kind of like niche businesses in accordance with that as well.

And then along the way, we've developed this kind of what I call Banking-as-a-Service, but that really emanated from our commitment to our core business of deposit gathering absent to branches. So, we only do Banking-as-a-Service because we feel like we're very good at gathering deposits and serving our clients from a technology perspective.

We've done that through partnerships with fintechs so we know how to work in the fintech environment and we're fairly kind of optimistic about fintechs in general and that there will be and continue to be disruption and we think there's ways for us to partner with that rather than ignore it and that's where Banking-as-a-Service kind of evolved.



Peter: So, as I hear you talk, I would expect that you would have a large engineering team in-house to sort of help you with this, but I was,you know, at LendIt this year, I went back and re-listened to the session you did and you mentioned that you actually don't have an engineering team at all. So, just tell us a little bit about that and how you can be an online bank and offering Banking-as-a-Service and not have a big engineering team.

Mike: Yeah. Well, I would say that some of my employees will probably take exception to not having a kind of engineer mindsets around here, so we've hired a whole bunch ofthat do have an engineer mindset, but we don't really have our own engineering team and that was another decision we made a while ago. We felt if the disruption that was going to come from the fintech environment was real then that sector would have the best engineers and the best ability to deliver superior product service and we would build it in inside a financial services company.

So, we made this decision that we were going to partner rather than develop our own and that has served us really, really well because what you find is the fintechs that we've leveraged along the way to redo our technology stack have benefitted from our relationship nicely. We have this well, right, so we've also made strategic investments.

So, making a strategic investment in a fintech partner is also another way to kind of stay close to a partner without having an engineering team in and of itself inside the bank. So, we kind of have liked that model and we've done things with companies like MANTL and Narmi and Alloy who are experts in their field and we've put those companies together in our platform to create this outstanding experience.

Peter: Interesting, that's super interesting, not a typical way to go about that. So then, like with the products you're offering, you talked about equipment finance, SBA lending, I presume...actually, you can tell me, this has to be a digital experience because you don't have a branch people to walk into, so are you plugging in other fintechs into helping you do those kinds of things as well?

Mike: We're beginning to, but I would say that on the traditional lending side in places like equipment leasing and government guarantee through SBA lending, technology is less of a, what I would call, demand pull from the client's perspective. It's at a different place and it is on the consumer and small business front, so we started to take a look at those businesses, but most of our technology and our technology platform changes have been on the consumer deposit gathering side.

Peter: Right, right, got it. So then, I want to talk about some of the partnerships you've had recently. One of them was just last week, as we're recording this. I read about you partnering with NerdWallet. We've had Tim Chen on the show earlier this year actually and really doing a phenomenal job in sort of the personal financial management and advice, that sort of thing, but they didn't have a savings product until launching with you guys. So, maybe talk about that one, maybe talk about one, or two others, but how did that come about and what do you expect to get out of this NerdWallet relationship?



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Mike: So, you know, our philosophy on partnerships is kind of simple and straightforward, but, you know, we choose partners that we think would benefit from a relationship with a financial services company like Radius and that their clients would benefit, right, so, there has to be a real partnership opportunity associated with it. We want to work with great companies that have this kind of high level of commitment for customer service that respect the regulatory environment and that whose business model we think can be disruptive down the road.

So, we talked to a lot of companies and NerdWallet is one that we've had a relationship with for years, a little bit more as an advertiser, but, over the years, we've developed this kind of mutual respect for each other and I think as part of NerdWallet's.....I mean, NerdWallet has a wonderful brand, right, a great brand. And as they think about how they can expand the brand and what they do, they kind of came up with this concept of, gee, should we own a savings account, should we maybe own a checking account down the road and if so, we'd like to partner with a company like Radius that we know can deliver us that outstanding customer experience, so we did that.

And now, NerdWallet clients who follow that brand and have developed a deep respect for it can open up a NerdWallet savings account which is powered by Radius Bank. So, it's a great opportunity for NerdWallet to provide a superior product to their client base and an opportunity for us to stake our savings account and supply it into the NerdWallet ecosystem.

Peter: Right, right. And so, was that the same thinking....obviously, that's on the consumer side and we read early this year about Brex, your partnership there. They've now got a bank account offering for small businesses, a Brex Cash, I think, they call it. So, was the thinking behind that partnership similar to what you just said for NerdWallet?

Mike: Yeah, I think that Brex is another outstanding company leaders and brand that's been built in a fairly short time with a outstanding product behind it. We felt very strongly that this was a marketplace, that small business marketplace, you heard me mention a couple of times where we want to be and we think technology will play a bigger and bigger role and the opportunity to see that Brex would be able to serve their clients in a much different way with a Brex Cash type account.

Experience could be as good as it is for our clients, and, yeah, what a great opportunity for us to partner with them. That's, frankly....the Brex Cash account is going to evolve as 2020 rolls out into even a better product offering. There's years ahead of great opportunities with Brex and Radius, for sure.

Peter: Right, right. Just on that, you go to your website and you look at personal loans, you've got credit cards, student loans, mortgages, etc. and you click on personal loans and it sounds like you've got a partnership with Credible there. You know, Stephen Dash has been on the show as well, we know Credible quite well, is the whole idea there again was to offer these solutions through this partnering.



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Tell us.....the first time you actually got on my radar was when you had a partnership with Prosper many years ago for personal loans, but is the whole idea there towhere you can't kind of have your own product, or you don't want to have your own product to partner with companies like Credible?

Mike: Yeah, I think you've said that right. Peter, I think the idea is we want to be honest where we're really good, stay focused on where we're really good and that, we believe, is in several of our products that we offer today on the loan side for more of the commercial relationship in these businesses, and consumer deposit gathering. That's what we do really well and Credible and team do a really nice job on the loan refi and origination side.

And, again, we like to work with high quality companies that tend to operate in the same space that we operate in and that is, you know, a kind of broad segment of technofiles, people who like to do business on their devices. So, we kind of fell in love with those guys, they hit it off with us, and so we say, yeah, let's get into our marketplace and find a way for us to kind of make our clients' life a little bit better by saying, here's a topnotch, high-end provider of a solution for one of my clients and I don't have any problem with matching them up because they're very good at what they do.

Peter: Right. So, tell us a little bit about that marketplace concept then that you've got because, obviously, you don't just have Credible. I know you've got Lemonade and Ladder and Billshark, it's on your website right now, so is the whole idea here really just to...tell us what the idea is with the marketplace?

Mike: Yeah, I mean, I think it goes back to the whole concept of what do you want your financial services company to do for you, right. So, we had this kind of comment/notion for the last five/six years, we need to improve the financial health of our customers, right. How can I make their lives better, how can I make, you know, personal finance, or business finance, or their business run better, and how can I help them every single day.

And so, the idea is that well, teasers, there are some really great fintechs out there that can help do that and maybe if we can take those select few that we think can make our clients day and finance better then let's give them access to it in an easy place like our marketplace. So, it's all about trying to improve the financial health, or ease of our clients.

Peter: Okay, that makes sense. So, I want to switch gears a little bit and talk about the digital banking space overall because during the last 12 to 18 months, there's been a lot of movement here. You're a pioneer now in the space and you see companies like Chime just this month raise a massive amount of money at a massive valuation and they're attracting millions of people, what so you think....so, from your perspective, you've been doing this for many years and then suddenly you see all these challengers coming up with venture capital money being thrown around pretty openly. What's your thoughts on all of that?



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Mike: Yeah. Well, I think the first thing I would say is it continues to validate our vision and the hard work that we've put in to building the platform like we have. So, we're excited to see smart investors invest in companies like Chime and Varo and others because it validates what we've been doing, so it's all good. We're really not a company that's scared of competition, so I think it's better to have people out there doing this. We would welcome anybody that compare our product set to either Chime, or Varo, we do it all the time to make sure we stay in an industry leading.

Competition is good, competition is healthy, so that's all good, but we also feel like there's some interesting differential that we draw and I would call it maybe, I hate to use the term, but maybe our maturity and where we are today and our work and that that is.....you know, there has to be a path to profitability, so I think that today, because we understand our balance sheet and we understand how to use our deposits, that we have a very clear path and we are a very profitable company.

We're profitable, we're very profitable, so we've been able to do that, build this industry leading platform and do it in a way that we have been able to be very profitable. I think those companies will get there and as they always do, or most of them do, but we feel like we've got a fairly good head start on that final part of it and that is at the end of the day, there has to be profitability.

Peter: Right, right. So, you think the fact thatI imagine you're not attracting millions of customers a year, new customers.....I mean, it sounds like what you're saying is this is a good thing for the industry even though you can't sort of keep up with these companies on a customer acquisition type operation, right?

Mike: Well, we could, but (Mike and Peter laugh) we need to.....I think you need to...quality versus quantity is something that we have preached for the last two years. We think the quality of the client that we onboard is very, very important for us. We aren't just chasing numbers. I think we've had a lot of learnings around that, so we like where we are and we like the quality of the clients that we continue to onboard.

Peter: So, beyond the partnerships you've already talked about, where do you actually find these quality clients?

Mike: Yeah, I think that's the final frontier here for us and the whole world and that is kind of this, you know, we call it the digital marketing challenge. You know, finding clients to open checking accounts when you had to go to a branch and it was open from 9:00 to 3:00 and people waited in line to open up a checking account, well, those days are over and so the question is, where do you find these clients virtually and what type of marketing are you doing to be able to get that right client in the door, the quality client that you want, and that's more than just search engine optimization and things like that.

They're surely a part of it, but it is now becoming a much more, I guess, sophisticated environment that's coming from other sectors that have been in the e-commerce world for much longer. I mean, we are neophytes as an industry in the e-commerce world of marketing, but



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we're starting to see that kind of pick up some steam, and, frankly, that would be where our focus is over the next, you know, we think 12 to 18 months is kind of improving the effectiveness of our digital market.

Peter: Right, right, okay. So, do you think....I'm talking of the community banking landscape where there still a lot of small community banks with, you know, a handful of branches. Many of them are struggling in the digital world. Do you still think there is a role for these small branch-based community banks well into the future?

Mike: Well, you know, I'm not sure I'm the astute visionary there to opine on that. I think everybody's strategy is good and you can execute against it. I think it's going to be a challenge for smaller branch-based community banks to grow, I think that's just a natural. You don't have to be an Einstein to figure that out, I think it's going to be hard.

The natural demographics of it make it really challenging, you know, whether or not we need storefronts, in general, is probably more of a question of how e-commerce and other industries has evolved and what models work out there. But, I do think as we look at the changing demographics and the changing consumer behaviors and our ability to kind of deliver all of the products that you get from a branch, you know, via your device, I think it's a hard road to be honest with you.

Peter: Right, right. Okay then, we're running out of time. Last question, what are you working on, what does the future hold for Radius Bank?

Mike: Yeah, I think, for Radius there will be two things that I will tell you. One is we're going to continue on this digital marketing kind of journey. I think you'll hear more from us about some of the great stuff that we could do with that. We're going to be a little bit more of pioneers in that and we are reading playbooks so that's going to be interesting.

I think the second thing you'll hear a lot more from us is on the SMB side, small business side, where, I think, we've launched out business account. We're starting to market it much more effectively and I think in both partnerships and marketplace, you'll hear more from us in that segment. We love that as a technology demand poll segment next, and we'll continue to announce more partnerships. I think the fintech world is doing great, it's changed, it's been disruptive and we think there's opportunities for us to participate even more.

Peter: Okay, well I look forward to it. It's been a fascinating story watching this all unfold and how you've really....you sort of created a way for ...not every community bank can do this, but, certainly, you've managed to come out the other side doing well. I appreciate your coming on the show today, Mike.

Mike: Thank you for all the nice things you've said, Peter.



Peter: Okay, my pleasure. See you later.

Mike: Okay.

Peter: You know, it's interesting as we discussed, there's so much money flowing into these digital banking startups beyond Chime and Varo, as we talked, there's dozens, it seems like, of these new digital banks that are attracting capital. As Mike points out, the big differentiator that they have to hang their hat on is that they are profitable because many of these companies that are in this space are nowhere near profitability. Some have even said, one has famously said that profitability is not on their agenda anytime soon.

Bottom line is you can't keep raising money forever. There are going to be, I'm convinced, many of these companies that are going to do very, very well and there's going to be several that just flame out because they can't get to profitability of pathway to profitability quickly enough. So, Radius is already there, obviously, they're not resting on their laurels and they're trying to keep growing, but they are, I think, a force to be reckoned with in the digital banking space.

Anyway on that note, before I sign off, I would like to say thank you to all the listeners, thank you to everybody who has listened to the podcast this year. I think we've had some fascinating guests, it's been a really rewarding year from my perspective. I'd like to wish you all the best for the holidays and we'll be back bigger and better than ever in the new year. Thank you very much for listening. Bye.

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