# PODCAST TRANSCRIPTION SESSION NO. 278-JAMES PARIS

Welcome to the Lend Academy Podcast, Episode No. 278, this is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

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**Peter Renton:** Today on the show, I am delighted to welcome James Paris, he is the CEO Of Avant. Now, Avant has been around for a long time, we've had Al Goldstein, the previous CEO and one of the co-founders on the show a couple of times, but James has been in the job for about a year now so I wanted to bring him on just to get an update on the business, what they're doing. They've expanded into some new areas, credit cards, we go into that in some depth, we talk about the impact of the pandemic, we talk about the capital market side of the business, also the Colorado decision early this year that have affirmed the bank partnership model that was really important, we talk about the financial health of their customers and much more. It was a fascinating interview, we hope you enjoy the show.

Welcome to the podcast, James!

**James Paris:** Peter, thank you, great to be here today.

**Peter:** Okay, my pleasure. So, you know, I'd like to get this thing started by giving the listeners a bit of background. You've got an interesting career to date, why don't you give the listeners some of the highlights before Avant.

**James;** Yeah, absolutely. So, maybe I'll start sort of how I got to Avant kind of in the shortest possible way which is that I knew the one of the original founders and CEO, Al Goldstein, for I guess probably 15 years at the point in time when I joined the company because for me, anyway, life came full circle. Al started out working for me in our Analyst Program at Deutsche Bank when he graduated University of Illinois and I had the pleasure of going back to work for him in the summer of 2015 at Avant.

So, I had been an attorney, I had been doing investment banking and specifically a lot of work around capital markets and funding transactions. So, when I originally came to Avant it was to help the business set up around capital and funding, including the equity raise that we did in the fall of 2015 and then putting together the programs that the company uses with credit facilities and securitizations and loan sales and then sort of went a handful of other directions after that around kind of broader strategic things we were working on.

**Peter:** Right, right, okay. So then, you've been in Avant.... you've sort of been in several different roles there over the years and I know you were also with a sister company, Amount, but why don't you tell us....how do you describe Avant today?

**James**: Yeah. I mean, happy to do that, I think it's a great question and maybe I'll touch a little bit on Amount too and give a little bit of history as well for folks. So, Avant was founded about seven and a half years ago, almost eight years ago now really with the mission of trying to supply responsible, transparent credit products to the near-prime, middle class consumer in the US. And, you know, this was back in sort of the early part of 2013, the financial crisis was still, you know, relatively close in historical proximity and what we were finding was just that banks that have traditionally been able to support these customer categories really were not. While we started to see others making inroads around prime consumers, we didn't see as much in the near prime space, in particular.

We like that because we thought that although the banks had a big problem with technology in terms of their ability to deliver things digitally, ultimately, they would be able to close that gap. We had a really tough time competing with their cost of capital even if we had great technology because it would be hard for us to compete with them around rates on credit products so, hence, our focus on the near-prime category. We also ....a little bit different from some others, we're focused on building our own balance sheet because we thought that would provide a lot of stability and consistency in times of either capital market disruption or broader economic disruption.

Well, certainly, we've seen quite a bit of....you know, in 2020, with COVID and, again, that's the strategy that we thought the near-prime space supported well because there's a bit more yield in that category with extra spread to fund yourself in the whole sub-capital markets. Along the way, as we were thinking about how to best serve customers in that category, we started to work and approach banks with the idea of partnering in different ways so that we could serve their near-prime customers because, of course, banks, you know, may have deposit customers ranging sort of the full gamut of the credit spectrum as opposed to just the prime and super prime that they wanted to lend to. So, when we were kind of engaged in a lot of those discussions, what we discovered was really the banks did want to be able to deliver that experience and those options to customers, but they wanted to be able to do it themselves.

That was really where the idea behind the Amount business started to take form which was the technology that we had developed within Avant which was really leading in terms of a number of things, not just underwriting but also around fraud prevention, account verification, all of the things that are required to be done from a legal and regulatory standpoint. We had, effectively, automated with proprietary technology that you could use across different categories of both products and for different categories of consumers. There was nothing that was sort of, you know, required the technology be applied in this near-prime category, it would effectively work across the board. And so, we started to build partnerships where we were putting together digital lending credit platforms on a customized basis for banks, a number of which can be publicly announced when Amount was still within the company, within Avant.

And then at the beginning of 2020, on January 1st, we spun Amount out as a separate business so Amount is a supplier to Avant of some of our back end core technology, the same way that they are for a number of banks like TD, PNC, Banco Popular, Regions Bank and a handful of others that have not been publicly announced yet. And so, you know, Avant today, back to the original question, so Amount is.....you know, we thought that in pursuing that strategy we'd give both businesses the opportunity to sort of achieve their potential because there's different considerations for both of the businesses so split them apart.

Today, Avant is really the consumer-facing credit business where we have a unsecure personal loan product which was sort of the original flagship product. We now have a second flagship product which looks like it's trending to be actually even quite a bit bigger than the loan product, which is our credit card product, where we've been in the market for nearly three years now and have over 300,000 active credit card customers on the platform.

Recently, we launched an auto product where we're offering loans secured by consumers' automobiles and we have a longer term strategy there of building that into kind of a multi-pronged auto product platform. In addition to that, we're making big investments in Point of Sale technology and product as well in partnership with Amount who's doing that with a number of other institutions as well.

So, a lot going on, but, effectively, we're the consumer-facing digital bank although we don't have deposits yet, that's another thing we're thinking hard about really for that near prime category. Just to kind of round out the summary, you know, we've done I think $7 or 8 Billion of unsecured personal loans. As I said, we have over 300,000 credit card customers, I think we'll originate about 240,000/250,000 in 2020 and aiming toward an increment of 400,000 for next year in 2021 and we've very excited about that growth, still very excited about our lending business as well. It is also growing, but not at the rate that the car business is.

**Peter:** Sure, sure. So, is the customer profile pretty similar for the cards and the loans?

**James:** Well, it's a little bit different, that's intentional. So, for the loan product, the weighted average FICO which is, although we don't use it in underwriting, is a good reference point that everybody's familiar with is about 650 and the weighted average for the card product is about 625. So, it's a slightly down market from the loan product and that was intentional because we saw an opportunity in the market where between kind of existing providers that sort of dabble in the near space as well as prime kind of pulling back. And then another group that's quite a bit further down the spectrum into the sub-prime category, we saw a lot of white space between those two products and so have positioned our product in that white space seeing a lot of growth and adaption and really excited about the direction where that's going.

In fact, this spring, kind of late Q1 early Q2, we feel like we got enough data and information that we'll be able to start cross selling the products effectively in both directions where a credit card customer that's, you know, maybe more than an emerging upwardly trending credit profile where we've got great data and their history with us with the credit card would be eligible for the loan products and vice versa. So, we're quite excited about the opportunity for cross selling the products and give our customers more of what they need.

**Peter:** Right, right, okay. Maybe we can just talk about 2020 for a while and just give us some perspective about how....what the arc of your experience has been, obviously, from pre-COVID, through COVID to today, just give us a bit of a rundown, both on the cards and the loan product, how has demand been, how has performance been, that sort of thing.

**James:** Yeah, sure. I'll just take them… start with loan and then talk about credit cards and then maybe a little bit on the overall business as well because, I think, like so many others we've been affected in a lot of ways beyond just sort of products and performance. But, on the loan side, demand was hit really hard out of the gates when COVID sort of first started to, you know, reveal how significant it was going to be back in early to mid-March where, you know, effectively as everyone knows, the country pretty rapidly started shutting down and, you know, people, consumers were really hunkered down. So, you know, for several months we saw savings rates much higher than what we would typically see and spending way, way down and that also translated because I think, in effect, if the consumer level....people's individual balance sheets, if you will, kind of got stronger because of that savings and spending dynamic.

The demand for loans fell pretty significantly, you know, our use case for why consumers borrow from us tends to range into a lot of different categories. It's not necessarily as simple as straight consolidation for customers in the near-prime category so some of its access to credit, some of its unexpected expenses that might be material, some of it, you know, may be more discretionary in nature so certainly we saw demand fall significantly for our near-prime category. It probably fell 70-ish% kind of out of the gates and we've seen that recover over the course of the summer and into the fall, but it's still, at least for us, remains fairly subdued. I'd say it's down at least 30/40% for our category of borrowers. So, we did a number of things along the way, both as it relates to tightening standards in the early days from an underwriting standpoint, all of which we've since effectively unwound and that's really due to performance which I'll touch on in a minute.

The other thing that we did very aggressively, very quickly was around making a variety of effectively treatments available to borrowers who were dealing with the hardships, including a newer option which became a primary option where we were able to customize a plan for a borrower based on sort of a specific hit to income level that they saw themselves affected with. And so, a number of things on the operational front that we did in order to sort of make borrowers very aware that they had options out there if they were dealing with any issues. And I think similar to many others in the lending space, you know, what we've seen since then has been extremely good delinquency performance and extremely good performance of borrowers that did take some form of treatment or plan, whether that was a forbearance plan or whether that ultimately was a more significant payment plan that resulted in the reduction of payments for them as a result of their hardship. So, we've seen this really, really strong adherence to these plans as well as very strong underlying delinquency performance for really the entire loan book.

So, as a result of that, the delinquency levels are really as low as they've been in years although, I think, we're starting to see with some of the broader economic data that I think the whole market's focused on that, you know, perhaps that will change as we get into 2021. I think a lot of that is going to depend on stimulus programs as well as the pace at which the various states and local areas open up and, you know, sort of ....I think, right now, with last week's job report, we were at something like 6.7% unemployment, still somewhere in the neighborhood of 10 million or so jobs lower than where we were in February before the pandemic hit. So, I think there some big questions about how that last, you know, few hundred basis points of full employment, you know, how long it takes to get there and how that plays out, but we saw really strong performance on the loan front.

On the credit card front, it's a little bit of different story from the standpoint that while we did see a little bit of a dip in demand for the first few weeks after COVID hit, it resumed pretty quickly. And so, we did see our level of issuance drop for a couple of months, but based on what we were seeing in terms of performance and all the indicators that we look at, we felt pretty good about the credit profiles and so we leaned in a little bit more on the credit cards side and had several months of record issuance and we were able to nearly make up what our original goal for the year had been which was 250,000 cards. I think we'll wind up being just a little bit short of that, but a lot of that sort of backend waited after we sort of stepped on the gas on the credit card side.

So, similarly, performance has really, really been strong, delinquencies are very, very low, I'd say card utilization is also a little bit lower which means that average balances, relative to size of lines, has come down from what we would typically see. But, that's also just very consistent with kind of a healthy individual balance sheet at the consumer level, meaning that they pay down debt levels of their own, including with the card product. So, we see a really, really healthy consumer, in general, and hope that that can continue, but, again, a lot of the broader national policies and state level policies are going to have a huge impact on how things play out in the broader economy and that'll affect our business, you know, as well, obviously.

**Peter:** Yeah, yeah, understood, understood. So, maybe we can talk about the capital markets side of business which I know you're very familiar with having that role previously. Who are you mainly using to fund the loans and the credit lines? I saw recently you extended your warehouse lines with JP Morgan and Waterfall, tell us a little bit about how that side of the business is going right now.

**James:** Yeah, sure. We have a few different credit facilities with different providers without necessarily naming them. I would say, we've got, you know, a mix of big banks and bankruptcy remote facilities, we've also got one with a large insurance company. All of our primary facilities we extended, effectively, during the pandemic, extended out the maturities and one of the cases we significantly increased the size and the facility because it's primarily financing the credit card business which, as I've mentioned, has been expanding very rapidly. So, we've been very pleased with our lenders and with the processes around extension and expansion there and we've been watching the capital markets very closely.

I think, clearly, there was a lot of disruption back in the spring and then, you know, as additional data became available across I think many, many lenders in different categories and, you know, the data sort of spoke for itself. I think the strength that we're seeing in the consumer is something that's been broadly seen. We've seen a pretty significant recovery in the capital markets so, you know, deals are getting done in our space, we have not done one recently in terms of the capital markets.

We did one back in late February/early March, sort of right as things were getting pretty wacky and because of our substantial balance sheet capital ourselves, cash and the facilities we have, we've got quite a bit of flexibility about when we come to market so we're sort of evaluating timing. I doubt we'll do something before the end of the year, but look to do something early in 2021, but the markets feel fine if we wanted to do something. We feel like the terms will be fine right now, it's just not the right time for us.

**Peter:** Right. What about the credit card side, are you going to go out and do a securitization there?

**James:** Yeah, I think we will. We haven't exactly nailed down the timing of one that will take place, but we've been contemplating that for many years. So, the financing structure that we have in place essentially contemplates that a typical kind of master trust structure that you often see in credit cards securitization in terms of being, you know, set up in a way to facilitate moving in that direction so that's something that I think we want to get a little bit more scale in the business, but It's something that I would expect . We'll probably do our maiden offering in 2021.

**Peter:** Right, right, okay. I want to switch gears a little bit and talk about the decision that happened in Colorado earlier this year that was.....you guys were part of that. Basically, the state of Colorado affirmed the banking partnership model. The OCC has since issued a final rule on True Lender so, maybe we can just start off with asking how has this impacted business since then?

**James:** Sure. I think it's a pretty big decision and fairly far reaching from the standpoint that the Colorado case or cases which involved both ourselves and Marlette in sort of independent cases, but effectively we were being worked through the system jointly which meant that we were coordinating to the extent that we could on some of the defense issues because it was the first time that a state had really alleged this True Lender issue in any cases that involved lenders that exclusively lent below 36%.

You know, historically, there had been a handful of these cases which all sort of revolved around deep, deep sub-prime lenders and I think largely players that were perceived to be weak on regulatory considerations or maybe not great actors, that kind of thing. You know, the doctrine around True Lender was probably extended a little bit because of some of those considerations, but it had never really been applied in a case like ours where we worked incredibly closely with our issuing bank partner around the bank's policies and the practices and services that we perform and it's highly structured and monitored which I think is fundamentally different than some of these other cases.

So, in any event, what happened was that the state of Colorado ultimately agreed with us as after I think about three and a half years proceeding with the litigation, we finally got into you know, very, I guess, deep aspects of the discovery there, including depositions and I think as Colorado better understood our business, I think they were in a position to support it from the standpoint of help to craft a safe harbor that they thought would protect consumers even in cases where it's above the state of Colorado's usury limits because they saw real benefits and they saw appropriate governance and controls on institutions involved, both the bank and a fintech like ourselves.

So, in fact, we actually had a study that demonstrated that consumers in New York, for example, where the Madden case had been decided and where a lot of fintech lenders pulled out after that decision that consumers in the state of New York were, essentially, forced to adapt or accept inferior credit products that were higher rate relative than what they were able to get when that market was available to them. I think Colorado found that to be pretty persuasive as well.

So, ultimately, really what they saw was that I think what we're doing, if done properly, is good for consumers because it's creating liquidity in these credit markets for middle class consumers that might have a harder time accessing it otherwise. So, that's, I think, why they were focused on it and why it's important is that it could be a roadmap that potentially other states could look to as well. It's much more detailed than the OCC's version of the final rule on True Lender, not to say that one's better or worse. I think the OCC's is far more simpler, but the standard that we agreed to with Colorado is one that we feel very comfortable about working within and one that we would happy to adopt more broadly as well.

It's, frankly, very close to what we had been doing historically. So, there's been a lot of uncertainty over the industry around these issues, both Madden and True Lender, and different times affecting sort of the liquidity within the industry from the standpoint of capital markets and lending. So, bringing clarity on that issue would be really helpful and important, we'll see if other states adopt it over time, but it's a good step in that direction for sure.

**Peter:** Yeah, yeah. We should point out too that the state of Colorado....I live in Colorado so I know it pretty well. You know, the Attorney General and the Governor of Colorado are both Democrats and, obviously, we've got a new Democrat administration in Washington ....sometimes I feel like this is a great case because.... there is a criticism of the bank partnership model because it's a way to circumvent, it’s a way to kind of charge high interest. I guess, I'm curious about how you think about it playing out on the national states given that....there is, definitely, a small position to it and not everyone agreed with what Colorado decided.

**James:** Yeah, that's true. I think that there's a lot more to come on these issues, I think it will be very interesting to see how the new administration chooses to handle it and sort of what happens from the standpoint of who's put in-charge of some of regulators like the OCC where I think we've probably seen the most innovation coming most recently. I think it's possible even that some of the rule making that's been done more recently could come back under review potentially which is another reason why I think the state decision to the extent....the OCC, you know, effectively pulls back on any of the guidance they've done within this area.

The state case in Colorado could be very helpful as something to point to and you're right about Colorado having a Democratic administration of it's own and I think it goes to the point that I was trying to make earlier that these products can be very helpful for the consumers and that there's really good data and information that demonstrates that. So, I think when you see the overall effect and the intention of the parties around this, you just got to make sure that there is appropriate governance and controls and that it's been done in an appropriate way from a regulatory standpoint that there is a way to have everybody win here is a good thing. And, I think that's what got recognized in Colorado. So, we're hopeful that that could be a roadmap.

**Peter**: Right, right, okay. I just want to pick up on one thing you said there. There's a lot of a knock on this whole model, the consumers are harmed and that this is not good for the consumer. You just said that you've got data that demonstrates that that's not the case, what kind of data do you have and are you sort of benchmarking the typical consumer as far as credit score or credit health, what do you have?

**James:** Well, specifically, what I was referring to is a study that was conducted by an economist named Michael Turner who's based in Columbia University. What he studied was this impact from Madden that happened in New York state versus what was happening in Colorado during the same timeframe and just a relative differences in access to credit sort of in those different states based on the prevailing sort of legal regime at that time where in New York these types of fintech partnerships were no longer occurring, but they had before. So, you have a pretty distinct data set where you could look at what was happening when that product was available, what was happening after it have been taken away.

What was very clear was, essentially, people within narrow credit score bands, you would see the cost of credit increase pretty materially for that credit band after that service with fintech being partnerships went away. And so, I think, that study is publicly available, was filed as part of the court case and it's pretty powerful in terms of what it shows, it's very clear and Dr. Turner is a very well-regarded independent economist, so I think that was pretty persuasive for Colorado.

In terms of what we do specifically, it's been a little while since I've looked at the data closely myself, but I know, historically, we have seen peoples' credit scores increasing over time as they're consistently making payments on our products. Certainly, part of what we try to do as a business is to continue to provide better products, lower cost products to customers when they've demonstrated the wherewithal that they should be eligible for that.

So, what that translates to in practice is that we're actually expending our credit card offering in terms of a range of card products, including one we have not launched yet, but which will have things like promotional periods with no interest, with rewards and cash back. They are more consistent with the higher credit spectrum than where we're at today with our card product, it's kind of around 625 FICO.

Similarly, on the loan side, you know, we have an active refinancing program where we...for customers that have demonstrated strong payment history, we're refinancing customers into lower rate loans on a proactive offering basis. So, things like that which....you know, small steps along the way, but make a big difference in people's lives. So, I think we'll continue to do those things and we're excited about the opportunities we think we have in the auto space to do some more things.

**Peter:** Okay. So, last question just on that. I mean, as we turn the page to 2021, what are the main opportunities you ate looking for? You mentioned auto, where do you see Avant moving in 2021.

**James:** Sure. There's a few things that we're most focused on. I've mentioned a couple of these, but....number one is continue to grow the credit card business. As I said, we're looking to do about 400,000 cards next year, a big part of that is going to be expanding into some new spaces from a customer standpoint. So, I mentioned moving up market with rewards and promotional offers. I think we'll also experiment a little bit further down the credit spectrum as well and we're looking at doing more underwriting in both loan and credit card for thin file customers.

So, I'd say number one is continue to push and grow the credit card business. Number two, I mentioned, we're going to be launching cross sell capability between those two products to where we're able to offer, you know, the other product, a loan to a card customer, a card to a loan customer. That's coming early in 2021 and then really making significant progress both on our auto product suite where ultimately we think it is a big opportunity in refinancing auto loans direct to consumer.

Also, Point of Sale is a big push for next year. So, we have a lot on our plates, there's a lot that we want to get done, but we're very excited about how the company is positioned. I think just on that point, Avant has been profitable now for a few years, kind of hovering right around break even and a lot of that being a function of growth because we do have our own balance sheet and some of the accounting around that. So, the company is in a good position from a capital and liquidity standpoint. We're still very cautious on the broader economy in what's happening at the consumer level. So, we're carefully watching that, but assuming things continue to play out pretty well, we're excited to see some pretty meaningful growth in both our card and loan business next year based on all these investments.

**Peter:** Okay, James, it's really fascinating chatting with you. Best of luck for next year and thanks for coming on the show.

**James:** Peter, it was my pleasure, thanks for having me.

**Peter:** Okay, see you.

**James:** Alright, take care.

**Peter:** Avant is, I think, a great example of a company that started in unsecured consumer loans and has expanded out into other areas. We talked about credit cards, they're becoming a decent-sized credit card provider, auto loans, obviously, James has talked about. What they're doing is they've got a certain customer they're trying to serve them in multiple ways and serving them with multiple financial products like traditional financial institutions.

I wrote about this a few weeks back where I really see a blurring of the lines between traditional financial institutions and fintechs that really.....it already started to happen, obviously, but fintechs are becoming diversified financial institutions and banks are becoming far more tech-enabled. James even teased that there might be bank offerings down the road, we didn't get a chance to chat about that, but that makes my point, they have their market, they've got multiple products and they really want to be able to serve this customer really well. I think that's what's successful fintechs will be doing this decade.

Anyway, before I sign off, I just want to wish everybody a Merry Christmas, Happy Hanukkah, however you celebrate the holidays. This is our last one before Christmas, thank you all so much, wishing you a safe and happy holiday season,

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

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