Welcome to the Fintech One-on-One Podcast, Episode No. 303. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Before we start this episode, I want to tell you about a brand new event from LendIt Fintech, Fintech Nexus, the Dealmaker Summit will be the first major in-person fintech event of the past 18 months, a hand-curated audience of venture capitalists, bankers, fintechs and debt investors will be meeting face-to-face at an event 100% focused on doing deals. It will be happening in Miami on September 1st and 2nd. You can apply to join and find out more at lendit.com

Peter Renton: Today on the show, I'm delighted to welcome Steve Muszynski, he is the CEO and Founder of Splash Financial. Now, Splash is a really interesting company, they have created a loan marketplace unlike pretty much anything that's out there. They are focused on the student loan refi market right now and they work with banks and credit unions and they integrate tightly with these lenders in an interesting way which we get into in some depth. We also talk about their underwriting and how they're applying automation to be able to automate many loans, we talk about the different ways they work with these community banks, we talk about their big funding round that they just closed and much more. It was a fascinating interview, we hope you enjoy the show.

Welcome to the podcast, Steve!

Steve Muszynski: Thanks, Peter, really excited to share our story.

Peter: Okay. Well, let's get started by just giving some background to the listeners. Why don't you give them some of the highlights of what you did before Splash.

Steve: Yeah. So, I am proof point that you don't have to have experience in the space to start a company. So, yeah, I graduated from Ohio State in 2011 from their Honors Business Program and I went to work for GE in their Financial Management Program which is training business line CFOs to run different components so I was in the energy sector.

When I went to Ohio State, I had a student loan, my parents took out a loan for me, a lot of my friends had some loan debt and it really was around the concept of the government was charging people 7/8/9% in interest rates on their loans. The idea for Splash was trying to figure out a way to privatize a portion of the market to help people not have to get stuck in so much debt, but I knew nothing about the space so diving in, you know, definitely was a challenge.

Peter: So, obviously, when you started doing your research, you would have found companies like SoFi, they have already been doing this, they really started the refinancing movement certainly in the last decade so what was it that sort of.....tell us about what you wanted to do seeing that there were others out there, what did you want to do differently?

Steve: Yeah. This was 2013, so that time SoFi was not really doing refinancing, SoFi was still running their model of connecting alumni at colleges to undergraduates to finance their social financial loan which was the name SoFi. Because after Splash and at that time it was actually a company called Lendulink and eventually it migrated into Splash, was trying to help parents save more for their child's college education and so trying to help people not have to take out this much debt.

We were utilizing deposit data that they would save in banks and credit unions to create better analytics around a student loan so if they needed to borrow for the child instead of going to the government's Parent PLUS Loan Program, they could take out a loan with their private bank or credit union that would leverage their deposit history and know that they were a good risk to lend to. In theory, that would allow the private lenders to offer a better rate than the government.

Peter: Right, right. So, you started doing that, but when did you.....tell us a little bit about the history then of Splash. When you pivoted, I know it used to be called GradSchoolLoans, I think, and you're focusing on like medical students, but tell us a little bit about the history there.

Steve: So, we went through a couple of paths with the company and the initial concept holds a lot of merit. There are some challenges with the model that you learn when you're a first time founder and I think a lot of times you really need to be willing to pivot and be open to market feedback and it was very challenging since one of the issues with the original product was that banks and credit unions need to reserve capital the minute that they approve someone for a loan. So, if you're a parent and you're saving for your child and your child is in sophomore/junior year high school and the bank says great, you're going to be approved for this loan so you know that you don't have to go to the government anymore.

The minute that happens, even if you don't end up taking that loan in the future, the bank needs to reserve capital against it. And so, the unit economics just did not work on that part and as we were working on it we realized that SoFi had navigated to the student loan refi space which was a very hot sector. We saw an opportunity to help a lot of my friends that were in medical school, had just graduated and started residency. The unique element of these professionals, these doctors is that they don't make very much money, but they have a ton of debt. They might make $60,000 and have $250,000 in debt. At this time, SoFi actually did not have a product for medical residents and fellows so Splash was one of the first companies to launch a product to help these doctors refinance their student loans to further payment while they're in training.

Three months after launching that, SoFi rolled out a competitor product and so this was actually really a good thing for us because it helped us really take a look in the mirror and think about the bigger picture of why do we exist as a company and what value are we trying to bring into the world and this was how we really came up with the evolution of Splash, this was back in 2017 and this really started the ideation phase of where we're today. We wanted to marry banks and credit union capital..

The community banks and credit unions are not necessarily the top tier banks that have all the technology as a major investment, but the ones that are unable participate in the digital infrastructure and digital ecosystem. Let's try to marry those financial institutions with the traditional marketplace model in order to help consumers win and gain access to lower rates, better experience and so that's what we were really set up to do in 2017.

I think we've succeeded in a large degree at this point and we're always trying to push the envelope, but we've definitely allowed for billions of loans to be financed by lenders that consumers wouldn't have known existed without Splash. That via our automated lending platform has helped make the process incredibly easy for consumers, it helps banks and credit unions gain access to new customers and I think it's really been a win for everyone, but it's definitely been a non-linear journey in trying to figure out product market fit.

Peter: Right, right, understood, understood. So, maybe you can describe the marketplace a bit more detailed and also tell us how you're different from other student loan marketplaces. We know certainly there are others out there so tell us a little bit about that.

Steve: Yeah. So, we loved the marketplace model, I think the companies out there are doing a great job, there's been a lot of innovation over the last few years that allows consumers to follow one format and access to a network of lenders with a soft credit pull and get real offers. I think that's a major evolution since the click outs where you have to land on a page, click on an offer, go through a hard pull, go back to the page, you do the same thing ten times over. And so, the unique element of Splash is we do that too.

You come to Splash, you fill a form, gain access to a network of lenders with real offers, but we go a step further and owning more of the tech process and really working maniacally to add more lenders into the market that don't exist today and that's I think is where there's a clear differentiation. A lot of marketplaces are repurposing existing offers from…it could be a lender, it could be from a bank that has a savings account or a credit card or whatever it might be, but they're repurposing offers. At Splash, we build the technology to allow banks and credit unions to launch a product and that allows for us to have a better access to credit, better ability to approve people and traditionally lower rates.

Peter: Okay. So then, how does it work because most.....I imagine every bank and credit union is going to be slightly different with what they want. Some of them are going to have a pretty similar credit box, I would think, but how is it with having, you know, a dozen or more banks and credit unions....I mean, how is it helpful, I mean, are they all different or tell us a little bit about the requirements that your investors have.

Steve: Yeah. They actually are all different, everyone looks at credit a little differently and while it may be nuanced or slight, every differential allows for a better ability to approve or price. So, we have some partners that are willing to go lower on FICO depending on other criteria, we have other lenders that are willing to go higher on debt to income based on certain criteria. It could be degree, it could be, you know, major ...many different credit aspects, but when you add up all these different ones, you are able to approve more people.

There are lenders in the markets, not just on Splash, but everywhere that have very small...school lists and so the consumer doesn't know this. You might be sitting there with an 825 FICO and you go to one particular lender and you might get denied because the school that you graduated from is not a school that they accept. And so, when you just look at things like that by going to a marketplace like Splash has, you can just gain access to many different credit boxes, pricing guides and things like that. So, I would say they do price differently to provide coverage to more consumers.

Peter: Okay. So then, do you work with any school if someone is going to a four-year school, I mean, what are the limitations there?

Steve: We work with any school, so as long as you've graduated and we're working on expanding our model today to allow for refinancing if you haven't graduated. That's something that we really find important to provide greater access to credit because that's one of the things that we really care about as a company, but today, you have to have graduated from your degree. It could be a two-year program, it could be a four-year program so, you know, it doesn't even necessarily only have to be a four-year.

We even can do for profit schools which a lot of lenders shy away from. I think that there are some major challenges in higher education obviously in pushing people towards for profit schools and the amount of people that maybe don't graduate and get stuck in a debt cycle. But, if you graduate from one of these programs why should you be stuck with a private loan that you took out originally that's 11/12%. You know, it was really important to us to try to figure out some solutions helping these people refinance to a rate that could be 4% range as an example. So, that was important to us and so we have that option as well.

Peter: So, you're focused on bringing in new lenders, I mean, do you also work with lenders? I imagine there are some that would have an existing program or do you really shy away from them, what's the mix like there?

Steve: Yeah. We work with them as well. The way we think about it is trying to serve the consumers as best we can and a lot of marketplaces really shy away from bringing on some of the largest lenders due to the fees that these lenders might pay which is kind of ridiculous when you think about it. But, it makes sense from a business perspective, it's kind of frustrating from a consumer perspective that you go to a place and you say, hey, I want access to the market and now you don't gain access to the market because of a fee negotiation issue with the platform and the lender. So, we really try our best to bring on as many partners as possible and to make it work for everybody.

We kind of break our partners up into something we call an API Partner and a Full Platform partner. The Full Platform is going to be running on Splash's loan origination system which we're focused on automated loans trying to make loans without human intervention and doing it as quickly as possible. We have a very robust underwriting and credit team that works on behalf of our bank and credit union partners, but the API Partners are really the ones that you just mentioned.

If you have an existing product and you have the ability to pass over your rates, we will enter a consumer wanted information on Splash, we'll send you information, you will send us back your rates and in many instances those will be the rates that are presented to the consumer and the consumer could possibly finish that application on that lender's website. And so, we really try to marry the best of both worlds.

Peter: Okay. So then, are you able to.....I know that is the model most marketplaces go to, at some point in time, they hand it over to the lender's website. Are you also able to sort of complete an application just on Splash and how does that work?

Steve: Yes. So, for people that are fully integrated into our full tech stack with our automated lending platform, we would do everything for them so it's a complete service. We will even do a loan disbursement files onboard the loan on their servicing system. So, we do everything, we approve, right now, about 2/3 of our loans inside of 24 hours, we have a subset of that that are approved inside an hour and a subset of that are approved in just minutes. We're working to approve loans instantly and so that's the focus for this year, is to actually allow us to be able to approve loans in seconds for lenders that are fully embedded in our technology.

Peter: Right, right, got it. So, can you give us some names here. When I was doing some research here I noticed you had Penfed. There was some news out about them, they were a major partner of yours. It was a couple of years ago now that I saw it, but can you tell us some of the lenders who you're working with?

Steve: Sure, yeah. So, Penfed has been a great partner of ours, First Tech Federal Credit Union, we work with Teachers Credit Federal Union, we also work with a few banks, Fulton Bank, Westfield Bank and we're continuing to bring on additional lending partners that are in the pipeline, but, right now, we're able to provide some amazing rates from these partners. The way that they think about it is, and this is I think important, bank and credit unions just have a capital advantage when you think of their cost of capital and community banks and credit unions, especially, are struggling to gain access to millennials and GenZ.

Peter: Right.

Steve: When you combine those two items and the overall fight right now for consumers when you're looking at neobanks and fintechs and then you're looking at the competition going on between them and banks and credit unions, a lot of these small institutions have been completely left out. And so, Splash, we kind of can act as that access point, the technology platform that bridges the gap and provides an access to these consumer segments and when you combine that with their cost of capital advantage they will offer incredibly low rates. And so, that's where our focus is primarily as a company continuing to add on more of these partners and really being that access point that's the fintech that's working on behalf of the banks and credit unions to help them gain access and scale, that's really where we want to play.

Peter: Right, right, okay, okay, that makes sense. So then, can we talk a little bit about the loans themselves. I mean, obviously, you work with a bunch of different lenders, everyone's is going to have slightly different rates and credit box, like you said, but what's the range what's sort of the typical rate and loan term that you're underwriting.

Steve: Yeah. So, the general range and obviously, this is specific to the month and time because it's highly interest rates-sensitive, so rates right now are at all time lows, there's been some mass competition that actually has a couple of components going on.

You have COVID and the mass reduction in interest rates that occurred as a result of that, that drove the LIBOR rate down and essentially cost of funds for many lenders are so low so rates are at an all time low. But, many people have seen rates kind of go up since then and in most asset classes when you look at mortgage and others, I mean, rates have picked up. Student loans refi have not and that's because the government right now has a policy that has paused federal student loan payments and reduced interest rates to 0%, a bit of a payment holiday, due to the challenges that COVID has caused to wave the market, especially for people searching out their first time job. That's set to expire at the end of September.

So, essentially, you have a massive TAM reduction where you might have $1.7 Trillion in student loans and maybe $500 Billion are really good credit so they would get a great rate at a refi company, but only $100 Billion of those are private student loans. So, if you think about it, the Total Addressable Market is 20% of the size so it's a bit of a food fight right now with all lenders trying to gain access to the remaining customers that are looking to refinance. That's driven some major rate compression so we're seeing average rates in the threes right now, fixed, I mean, it is very low.

Peter: Just like a mortgage.

Steve: It is like a mortgage, we are seeing like the low rate fix for us right now is .....this is a point in time, this is May of 2021. Peter I don't know how you want to deal with the time, you know.

Peter: It's okay, May 2021, that's fine.

Steve: Yes. So, this is May of 2021 so the low rate on our platform is 2.54% fixed, this is lower than a mortgage that you would get and that's crazy because it's unsecured consumer credit...the terms range on our platform from 5 years to 25 years in payback and, you know, you have many options in between those, but the rates are just incredibly low. That's great, we get reviews all the time, people that say they dropped the rate from 10% to 3% or 11% to 4% and the amount of money and let's call it a $100K loan is staggering.

Peter: Oh, yeah.

Steve: Like you can compound that and figure it on, you're saving that person $30/40/50 maybe $100K beyond the loan term, that is a life changing amount of money. So, that's why a marketplace...it is not just Splash, there are dozens of marketplaces I think out there as well are important to allow people to actually compare offers because, you know, that person might have gotten denied, but they just went to one lender and given up and saddled with this debt so that's why marketplace is in general really important.

Peter: Yeah, yeah, for sure. So, I want to spend a second, if we could, on your underwriting. You mentioned that you're trying to move towards, you know, instant underwriting, but maybe you could tell us a little bit about how your underwriting process works now, what kind of data you are using and how you're trying to move towards automated.

Steve: Yeah. So, every lender has a different credit underwriting, right, so we essentially underwrite on behalf of them with many different data points. So, depending on the data points that they have, they could or could not allow for an automated writing process. We are trying to move as much to auto underwriting as possible, but, essentially, underwriting is a series of rules, right, so that you're doing is whether a human deposit for the most part or whether a computer does it.

It's just a checklist and a guidance making sure that things are done properly. So, as the technology has evolved and companies like Plaid and others have really provided greater access to what we call first party data or real-time data you can actually reduce fraud by tapping into some of the data system, not ask for a pay stub or not ask for a diploma which all it takes is some really good Photoshop skills to be able to fudge that, but working with backend data system or real-time info will allow for automation.

So, right now, our loans really have an auto assist, a lot of the backend is automated, we just have humans that double check everything until we can confirm that we feel confident in the models and the process that there's not going to be a loan that slips through that really should have gotten a different rate or something like that. It is, obviously, on behalf of our lending partners, that's pretty important. Right now, we have an auto assist for a lot on the backend, it actually is very automated.

Peter: Right. So, for those banks and credit unions that really....you have your loan origination system they're using, I mean, I imagine then that you have their complete credit box, you have ...like you're doing...you're not going back out to the lender for approval or do you know this is approved.

Steve: We know and that was a really important part of the model because there are systems that require you to go back out to the lender. A lot of these community banks or credit unions are...they don't have tons of resources and so an instantaneous timeline is not realistic and so that was very important for us to try to continuously build the process where the lenders trust us to underwrite as a vendor, you know, and we are an extension of their in-house underwriting team.

Peter: Right.

Steve: And they trust us and give us the credit box.

Peter: That's really interesting because then you could....you're not sort of hamstrung or limited, shall we say, to the tech expertise of the community bank or credit union, also that they're going to tag some, but you also have some so you don't need to do like a full scale integration if you were to serve almost taking their underwriting team for the refi, for the student loans anyway and bring them over to you. So, I could see how your addressable market of possible community banks is probably pretty large, right.

Steve: Exactly and that's the amazing part of what we're doing. We believe that we're taking offline traditional lenders and moving them into the digital age via our platform because you don't have to invest the resources internally as a credit union or community bank where you have limited budget, you have limited bodies and this could go on a two-year roadmap, you know, if you didn't have someone like Splash that could get live in 60 days. So, you know, this provides a tremendous opportunity to scale an asset category that you want to participate in.

Peter: Right, right, that makes sense. So then, what is your business model exactly. I mean, is this like a SaaS-type model where you're doing like a monthly subscription or you're taking underwriting fee or is there a combination? How does it work?

Steve: Yeah. We take a loan processing fee and then sort of a lead gen fee as you think about the two business models combined, you really have your lead gen and then you have your backend underwriting processing so we combine those two. There are elements of SaaS to it, but I tend to think of SaaS in a very specific way which is a perceived license for, you know, a monthly subscription fee or something like that and we really stayed away from those types of models because it allows.....the way we structure today has better alignment where we can grow on the frontend consumer acquisition side and grow our revenue as a company while also hitting what the banks and credit unions want. Whereas if you have a misalignment and you're charging a perceived or a monthly subscription you're going to start getting out of whack on the revenue model. So, that's why we like sort of aligning what we are looking for.

Peter: So, even though you have your own ....like they're running on your software their loan origination system it's still on a per transaction basis?

Steve: Exactly.

Peter: Right, right, okay. So, I want to switch gears a minute here and talk about your fund raising that you've done. You closed a big Series B recently so why don't you tell the listeners about that process.

Steve: Yeah. So, it actually was a unique process because of what was going on in the world with COVID. So, historically been used to traveling around and going to a lot of different meetings, but after this one you really just stock your schedule with a bunch of Zoom calls throughout the day and over a couple of weeks, but it's a little bit north of $40 Million Series B. Our investors are great, some new investors that are ...our group include a partner of DST Global, City Ventures, Detroit Venture Partners and a few others and then we just have great support from some of our existing investors as well who we're lucky to have such as CMFG Venture, Future Ventures.

So, we've just been lucky over the years to find such great investors that are willing to support our vision and where we're trying to take the company and then who also really share our corporate values, that's been very important to us as well.

Peter: That's great, congratulations. So, we're almost out of time, but a couple of more things I want to get to. I'd love to get a sense of the scale you guys are at today, I mean, can you maybe give us some metrics there.

Steve: Yeah. So, at this point, we're doing billions of loans, we are working on actually expanding out into new asset categories so it's really important for us. If someone goes to Splash right now, they would see us as a student loan refi only company, but we are working on expanding on a couple of other products to further support our mission of enabling a faster and less expensive financial world that's just not student loans. People have debt in a lot of different categories, people are struggling in a lot of different ways and our goal is to really help provide lower cost of capital with banks and credit unions, support and do it as quickly as possible. So, that's really what we're focused on.

Peter: What's your headcount these days?

Steve: Headcount is we just cleared a hundred, we'll probably be 180 or so by the end of the year. I think back to the days of early 2018 when we were five people or seven people and, you know, the scale is pretty immense at this point, but as we continue to scale the company, we have a lot of interest in talent. I know tons of people listen to this podcast so if you have any interest in Splash, we're a completely remote company looking for amazing talent so definitely hit us up.

Peter: And so you're based in Cleveland, right?

Steve: We're based in Cleveland. Prior to the pandemic, we were hiring everybody in Cleveland and the pandemic has been terrible in so many ways, but I think it helped open up our eyes and the world's eyes really to remote work and how you can just look at scaling the company with the vast people wherever they're located versus a 15-mile vicinity of your headquarters.

Peter: Yeah. It's limiting when you've got the whole nation out there even beyond the country. I mean, anyone with a good Internet connection, you know, it feels like that is ....I spoke to many CEOs in recent months and pretty much everyone now hires anywhere geographically as long as you can do that job. I think that's a huge change from what we used to do.

Steve: You have to because ....I can tell you that we have engineers that were based in Cleveland poached from Facebook and Amazon, came in and are stealing our engineers, we're grabbing, engineers from Amazon, Apple, Google, everyone's competing for talent and if you keep with the old school of mindset of everyone needs to be located in one area some of the best companies in the world are going to grab your talent, you're not going to be able to go outside of your vicinity and you're going to be left with a reduced talent force, you know, you're just going to struggle.

Peter: Right, right, that makes sense. Okay so last question, you sort of talked around a few things you want to have coming down the road, but as you look at over the next six or 12 months, what are you mainly focused on?

Steve: We're focused on a few things. I think the first thing is speed so trying to do everything we can to make the processes as easy as possible for consumers and that involves automation, that involves removing unnecessary processes from a form so that is definitely core of what we're focused on which is dramatically scaling up our engineering to focus on automation.

Second is expansion and trying to recognize that there's a big opportunity on unsecured consumer credit as an example where a lot of community banks and credit unions are not really playing in the space. They have a product, but they're not able to access digital marketplaces because of lack of technology and Splash solves that. And so, we're going to be focused on continuing to support our customers and more customers that, you know, maybe don't play in the student loan refi segment. Student refi is a very specific category, you have to have a student loan and right now, you have to have a private student loan which narrows that even further.

Peter: Right.

Steve: So, when you think about credit card debt which is just debilitating to a lot of people, I think there are ways to help people to shop and save for that product in better ways than maybe exists today and, you know, that's an area that we're definitely going to look at.

Peter: Okay, Steve, we'll have to leave it there, really interesting chatting with you. Best of luck and thanks for coming on the show today.

Steve: Yeah. Thanks so much, Peter, really had a great time.

Peter: Okay, see you.

Steve: Thanks.

Peter: You know, I'm fascinated by this concept of “intelligent marketplaces”. While we've had marketplaces around for years, maybe even decades, they've been mostly, you know, lead-gen tool where they'll pass or lead on to one of the lenders, but an intelligent loan marketplace, like what they're building at Splash Financial, is really interesting because it provides a lot of value for the consumer.

They don't have to go around and apply in different places and they know they can get a really good deal because they're getting many, many lenders' input to decide which one would have the best deal for them. So, I think Steve is right, there's a long future for these kinds of marketplaces, it's a "win win", a win, in this case, for the banks and credit unions and a win for the consumers. So, would be very interested to see how the progress of Splash Financial takes place over the next few years.

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

Before we go, I want to remind you about the brand new event from LendIt Fintech, Fintech Nexus, the Dealmaker Summit will be the first major in-person fintech event of the past 18 months. A hand-curated audience of venture capitalists, bankers, fintechs and debt investors will be meeting face-to-face at an event 100% focused on doing deals. It will be happening in Miami on September 1st and 2nd, you can apply to join and find out more at lendit.com

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