

# LendIt Fintech



Welcome to the LendIt Fintech One-on-One Podcast, Episode No. 340. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

(music)

Before we get started, I want to talk about the 10th Annual LendIt Fintech USA event. We are so excited to be back in the financial capital of the world, New York City, in person on May 25th and 26th. It feels like fintech is on fire right now with so much change happening and we'll be distilling all that for you at New York's biggest fintech event of the year. We have our best line-up of keynote speakers ever with leaders from many of the most successful fintechs and incumbent banks. This is shaping up to be our biggest event ever as sponsorship support is off the charts. You know, you need to be there so find out more and register at [lendit.com](http://lendit.com).

**Peter Renton:** Today on the show, I'm delighted to welcome CJ MacDonald, he is the Founder and CEO of Step. Now, Step is a really interesting company, they basically provide a free banking solution directed at teenagers and this is personal for me because I am the parent of two teenagers and one of my teenagers actually has been a Step customer for some time and really been helpful for our family in really helping good financial habits form.

We talk about that, we talk about the financial literacy of teenagers and what they want, how you actually reach out to them, how you can connect with them, we talk a lot about the details of the Step card and what makes it so unique. We talk about why Step has decided they were not charging any fees so everything is completely free, we talk about the new features they've launched and what is coming down the track. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, CJ!

**CJ MacDonald:** Thanks for having me, Peter.

**Peter:** My pleasure. So, let's kick it off by giving the listeners a little bit of background, I know this is not your first rodeo so why don't you tell the listeners some of the highlights of your career to date.

**CJ:** Yeah. I've been doing early-stage venture-backed startups for most of my career, serial entrepreneur, I'm a builder, I love to build things and definitely a zero to one guy so starting things from scratch. You know, started work on Step about three years ago and my kids were a big inspiration for it and we're building a banking platform for the next generation.

**Peter:** Okay. So then, you said your kids were a big inspiration, where did the idea for Step actually come from?

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**CJ:** A few years back, I was looking for financial service products for my kids. I thought about my upbringing when my grandpa used to give my sisters and I these US savings bonds and kind of religiously, every birthday, holiday, graduation, he would give my sisters and I these savings bonds. And, you know, I remember when my kids were a little bit younger, my parents would call me a couple of days or in some cases a week before their birthdays or holidays and it was always consistent, like what can we get your kids for the holidays or their birthdays.

And I remember just thinking, gosh, I wish there was a modern-day savings bonds similar to what Grandpa used to give to us and I started doing research. I was looking to see what was out there, you know, after doing a lot of research and doing a lot of focus groups and talking to families and kids and college students, I saw a big gap in the market with financial services for the younger generation. As I did more and more research, I got excited about disrupting, you know, traditional financial services for the next generation.

**Peter:** Great. So then, why don't you just tell the listeners exactly what Step is today and how it works.

**CJ:** I think a good way to think about us is Venmo meets Chase or Wells Fargo for the next generation. I bring up Venmo because you look at kind of peer-to-peer and mobile transactions in kind of instant and then you look at the traditional legacy financial institutions like Wells Fargo or Chase that offer FDIC-insured bank accounts and typically either credit cards or debit cards.

We brought those worlds together and so what Step offers is a banking platform for the next generation. All of our accounts are FDIC-insured, all of our accounts have routing and account numbers, we have a mobile app that's geared towards the younger generation from a UI/UX perspective, we built a secured Visa spending card. It's the only product in financial services that actually helps you establish and build a credit history before you turn 18, that's pretty unique in the marketplace.

And, as parents, we know how important that is to kind of set our kids up for success and start building positive credit history so when they go to get a loan or a cellphone or an apartment they've got some history and they're not getting gouged with higher rates. And then we built a P2P platform so the ability to send and receive money instantly and that's all built into this all-in-one solution. We targeted our demographic initially as the under 18 demographic, we want to be that first bank account, we want to be that first secured card and we ultimately, as a very mission and impact-drive company, want to empower and improve the financial future of the next generation.

**Peter:** Let's just talk about that for a second, how do you think this generation, the teenagers today, and full disclosure, I have two teenagers, a 13 and a 15-year old, one of whom is a Step user and very keen on the app and we'll get to that in a little bit, but when you look at teenagers today, what's the state do you think of financial literacy in general. I mean, in our family we talk

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about finance a lot, I'm in the industry, as you are, but said you have a focus group of teens, what are they interested in when it comes to financial literacy.

**CJ:** I mean, we love your perspective as well as a parent with teens, but we've talked to thousands and thousands of teens and we have lots of feedback, right. We get feedback in terms of what they like, what they don't like, features that they want to see, I think there's a few things that kind of jump out. This younger generation, first off, is kind of trained to just have instant gratification in life. You know, when you look at traditional banks like even something as simple as cashing a check, in the old days, it may take three days for that money to clear and actually hit your account, like that's unacceptable for this younger generation, they want it now, they want instant.

I think that's one thing, they're very entrepreneurial, you look at the access that they have today, that content to social media and a lot of them, they're creators, they're very smart and they're very creative in general and, you know, they're coming up with things on social media. We have this Creator Program where people are creating content for us and some of the work that's done is high quality and, you know, it's something that.....they give it a lot of thought. You know, at the end of the day, a lot of the younger generation, they may have seen their parents struggle or suffer like back in 2008 or what not when the economy wasn't quite as strong as it is today and things like debt and credit, traditionally, I don't think of something that this younger generation really...it doesn't resonate with them, they're much more about experiences.

For me, if I was going to build a product and a brand for a demographic that I am not, I really wanted to understand what was important to them. I, personally, spent a lot of time in the early days talking to teens and not just about money, a big part of our brand and a big part of our whole experience, we really lean into culture and lifestyle, I think that money plays a big part just in general in culture and lifestyle. I wanted to understand, you know, what clothing brands they were wearing or they were attracted to, what music they were listening to, what games they were playing, what their favorite restaurants were. There's a different lingo and language that the younger generation talk, they use terms or words that sometimes I have no idea what it means, right.

**Peter:** Right.

**CJ:** So, really just understanding them as people and empowering them and giving them the tools to have a little bit, in our case, of financial independence with guard rails so, you know, they can get in trouble, but they can kind of learn from experience. It's something that we've just tried to lean into to connect with them and something that they can relate to.

**Peter:** Right. It is interesting because, you know, I have a son and a daughter, my daughter is very creative, it's really important to her to have a nice looking app, a nice looking card, actually.

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My son, he wasn't interested, he wanted to stick with his Capital One account and we weren't going to make him sort of switch from that, but anyway, I want to dig into the Step card.

I've got to admit, you know, actually I heard you on Lex's podcast and made my kids listen to it, Lex Circle and the Fintech Blueprint podcast and so we ordered up the card. I assumed it was going to be a debit card like you get from most fintechs and yours is not a debit card, it's a credit card and I have a 13-year old and that's interesting that....I mean, it looks like a debit card, it functions like a debit card. I want to dig into that for a little bit, if you can just explain how it works and was it really...the reason you did it was just purely so they could start a credit history or is there anything else behind it?

**CJ:** You know, there is a lot of thought and reasons behind it which I'm happy to kind of dive into. As a team, we thought about what we have in terms of our financial services and products and I kind of speak for myself, but I got my first bank account at Wells Fargo when I was young, when I was your kids' age actually, it's still my core account today. I've got that that I've had for years, I call it my core bank account/checking account, my direct deposit goes through there, all my bill pay goes through there and then I got my first credit card when I went to college. I have religiously used that card for the last 20 years now for my day-to-day personal purchases and then when I went to the work force, I got an American Express card and I deemed that my business card and I started using that for business purposes and then I opened up a brokerage account with E-Trade and then I got a wealth manager that I set up an account with for investments and kind of family planning.

When Robinhood came out, I set up a Robinhood account because it was kind of the new modern-day trading and investing platform and when you think about it, I had my core account, I would manually move money around. So, every month, I would have to pay off my credit card bill and I would have to move money from my Wells Fargo account to my Bank of America credit card and there was a manual movement there which I was very disciplined about making sure I made all my payments on time, but some people miss payments and then they start to damage their credit and some people just forget. We started talking to people that have similar experiences in terms of their financial set-up where they've got maybe a credit card with one bank or company then a bank account in another and an investment platform with another. From a product perspective, we wanted to house all that into one simple solution under one roof.

So we thought a lot about the card and the account. For us and for me, personally, I don't really know that you need to have multiple cards unless you've got multiple credit lines that you're using. We thought what if you just had one simple card that could kind of function as your debit card or your credit card and if you need to go to an ATM and get cash out, you could do that with this card, if you needed to make a purchase, you could do that with this card, if you needed to borrow money or for us to extend credit to you, we could do that for you, right. You don't need multiple cards, it could be one card that's your transaction card that you use that could be

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physical or could be digital. Then we started thinking about it, we were like well, when you go to get your first card, you apply for a credit card and you have no credit history and you talk to people that immigrated from other countries and stuff like that that go try to buy a car, sign up for a credit card and they can't because they have no history.

And so, understanding the importance of credit history, we said well, what if we designed a card that could help you establish and build credit at an earlier age so you had a longer credit history and when you turned 18, if you ever needed to go get credit or what not you will just have more experience. And so, we just spent a lot of time thinking about the user experience and we also started thinking about the lifetime value of that customer and like future products that we are going to deliver and, ultimately, landed on why are we talking about checking accounts, why are we talking about debit and credit cards, we built a deposit account that's FDIC-insured, we built a secured spending card that runs on credit rails.

Obviously, we're not going to extend credit to your kids who are under 18 years old so we put guard rails, like I said, and, you know, protection around it so they can't overspend, there's no overdraft fees and we could start to teach them kind of Money 101 basics and educate them about building credit, balancing, spending and saving money and stuff like that and specific to the card, we innovated and built this new type of secured card that we today secure against your deposit balance at Step. If your kids have \$100 in their Step account, they can only spend \$100, when they spend \$10 at Starbucks, we pull \$10 from their account, now they can only spend \$90.

To be honest with you, you and many other people, you kind of just sign up and you think it's a debit card, we haven't really leaned as much into the credit building aspect yet, but, you know, we're starting to because it's really important now that we've built the product out more. It's more appropriate to kind of like start talking about what we do, it's a little sensitive because like it's not a traditional credit card so if we just say hey, it's a credit card that builds credit like as a parent you may say, I'm not going to get my 13-year old a credit card, they could get in trouble, they could damage their credit, they could overspend. That's not the case here, we're very disciplined and diligent about ensuring that you could kind of get the best of all worlds and we could help guide your kid as well as help them build positive credit.

**Peter:** Right, right. So, to be clear though, the transactions, you're not reporting....I don't think you can have a credit bureau record at 13, right, when do you start reporting to the credit bureaus?

**CJ:** You can't at 13 and we don't actually report until your child turns 18, but we can report years of history and while they're using it, you know, when they're 14, 15, they are actually accumulating and building a positive credit history and then when they turn 18, we give the option, would you like us to report this all geared towards why wouldn't you, it's all positive credit and all you're going to do is have a longer credit history.

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**Peter:** Right.

**CJ:** We can report to the bureaus and like I said, your kids have a running head start in terms of building credit compared to other people that are not on Step.

**Peter:** Right. So, you can report a credit line that's five years old when they turn 18, is that right?

**CJ:** We can't do five years. Starting at 16, you can report up to two years of history.

**Peter:** Okay, that's good. So, I want to switch gears and talk a little bit about influencer marketing which you touched on earlier and I feel like you really have some big names here. My daughter came to me and said, oh look, Charli D' Amelio is on TikTok talking about Step and if you don't know who Charli D' Amelio is, you need to ask a teenager because every teenager in the country knows who she is pretty much. So, tell us a little bit about your approach to influencer marketing what's the thinking there.

**CJ:** So, I mentioned like we really wanted to lean into culture and lifestyle, in general, and your daughter's a great example. She saw Charli D' Amelio on TikTok, she obviously followed Charli, she knew who Charli was and we wanted to connect with your daughter and how can we connect with your daughter. Well, social media is a great outlet where she spends some level of time consuming content and our thought was if we could provide engaging, relevant, hopefully, educational content that is entertaining and then somehow service our brand where your daughter goes to exactly like she did and says that Charli D' Amelio mentioned Step or Charli D' Amelio using Step or Charli D' Amelio is creating content around Step, that's something that starts the discussion in your household which is exactly what we wanted and exactly how we drew it up.

Most large traditional financial services, with no disrespect to them, like if I said the name Charli they would probably think it's Charlie Scharf from Wells Fargo (Peter laughs) who is the CEO, right, but, Charli D' Amelio is a 17-year old, she comes from a great family and her parents really instilled a lot of things in their girls, but ultimately, one of them that they talk about in their household was financial literacy and so it was really core to them and core to her. You know, we met Charli back when she was 15 years old, Charli D' Amelio has 120 million followers on TikTok globally and she's got 40 million followers on Instagram.

Whether people like her or not, you know, anyone that knows her loves her, but whether people like her or not, most of our demographic knows who she is and I think it's a discussion starter which is exactly what we want. We didn't stop there, we partnered with her, you know, she's an investor in the company, she's a great partner in the journey. We partnered with several other social media influencers and content creators and, like I said, we'll create content that's

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engaging, we'll create content that's educational and hopefully, be included in discussions and the thought process around just, in general, financial literacy and financial education.

**Peter:** Right. So then, beyond that how else are you getting the word out about Step?

**CJ:** There have been a number of ways, I mean, we have a lot of organic traffic where people are talking about it because it's a great product. You mentioned influencers, we've partnered with several influencers, we're very active just in general across social media, we've got a Referral Program where your daughter, her friends can refer and tell their friends about Step and we think that when you have a good product and if you're engaged, the ability to kind of just refer your friends is a great customer acquisition as well as referral opportunity. Those are the main ways, there's not one single thing that's like worked for us, I think it's been a combination of just building a great product, building a great team, building a great brand and really putting the customer first in all cases. We're customer-obsessed here and we want to provide a great customer product and experience.

**Peter:** Right, right. A couple of products that you announced, it was early this month, Step Savings Goals & Instant Cash Deposits and my daughter latched on to Step Savings Goals immediately, I think it was the day it came out and she set up a Savings Goals she wants to buy an Apple watch. She's putting money away every month to that goal, tell us a little bit about the thinking behind those two new features.

**CJ:** We wanted to ultimately kick off 2022, you know, a lot of people start setting goals and thinking about ways that they can make changes in their lives. Some people hold those goals and stick to them throughout the year and some don't, but with money that's one of those things that a lot of people start thinking about in the new year and we wanted to launch the ability for someone like your daughter to create savings goals so part of it is educational.

You don't just get an Apple watch because you want an Apple watch, it's like if that's what you want, you've got to save for it, set aside some money each month and love that she's doing that, that's exactly why we built it. Hopefully, she's learning and as a family you're talking to her about it a little bit and she may come out in a month or two and say she wants a new iPad and you can say hey, well look, you can save up for that, but you've got to decide, do you want or need one and you said you wanted an Apple watch then let's go continue to save up for that if that's what you really want.

**Peter:** Right.

**CJ:** We launched Savings Goals, we had phenomenal response of our customers setting them up and families talking about things. And then the other thing that we launched was the ability to deposit cash instantly into your Step account so these two features were the two most requested features that we got from our users in 2021. A lot of our demographic got cash when

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they were younger, have cash and they had no way before to deposit it into their Step accounts because we don't have traditional branches. So now, you can go on that 65,000 retail locations like 7/Eleven or CVS or Walgreens and hand a \$20 bill to the clerk and scan a barcode on our app and instantly puts \$20 into your Step account.

**Peter:** Right, great, great. So, it's interesting to me that you decided to not charge a fee, like there was no fee involved in getting the card or anything else, it seems, so some of your competitors are.....I think of all of your competitors that I can see, most of them anyway, charge fees, why did you decide to not charge a fee for your product?

**CJ:** Look, it was a hard decision because the reality is ....now I'll use your kids as an example because they're prime target for us, a lot of teenagers, they don't make a lot of money, they don't spend a lot of money and so something as simple as shipping out a card to your daughter, that costs us money, we have to print the card, we have to ship the card, we have to send it to your family. For us, it was really important to be thoughtful and figure out a way that not have to charge, it didn't feel right to have to charge a fee to your family or to your daughter for something as standard as her first bank account or her first card and traditional banks are wired to charge monthly fees or put a minimum balance in tack.

It's a very traditional model that we were looking to break and our goal is to build a long term relationship with your family and start them off young and give them a great product and not charge them and hopefully, grow with them, there's other ways to make money. We look at it from a long term lens versus a short term lens. I think a lot of card companies and I think a lot of financial institutions, both traditional banks as well as some of the newer fintechs that are charging fees, are thinking shorter term.

**Peter:** How do you make money then?

**CJ:** We make money in a few different ways. One of the ways we make money is through interchange, Visa pays us a network fee at the end of the day per transaction and to be clear, that is the way that we generate revenue today. We're not looking to build a long term business off of interchange, but, you know, it is something that we do ultimately capitalize on today and it allows us to not have to charge your family a monthly fee. We'll be looking to come out with some additional products along the way that in addition to what we're doing today will ultimately generate revenue for our company.

**Peter:** Right, okay. You know, I sat down with my daughter a few days ago when I said I was talking to you and asked her what new features she would like to see and the first one she said she wanted to be able to invest and I believe that's coming. When we chatted a few months ago, you said that was on the road map. The other thing she said was peer-to-peer payments, she wants to be able to pay her friends, and not a lot of her friends are obviously at Step, and



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she'd like to have a way to pay her friends. So, maybe you could talk about those two things, talk a little bit about the investing and what you thought about her second idea.

**CJ:** First of all, if your daughter ever has any other suggestions or feedback, I'd love to hear them.

**Peter:** Okay.

**CJ:** We take customer feedback seriously and it sounds like your daughter's got some great ideas and I love the energy and the enthusiasm so please keep bringing ideas that she brings into you or do you have any ideas as parents. To answer your question, investing is obviously something that is important and I think that's also part of your financial journey and part of financial education. If you're fortunate to have some money to invest, it can be a great outcome to not only learning, but investing in yourself, investing in your daughter's future family. You can expect to see investing built into our product at some point this year.

In terms of P2P and sending money, whether friends that might not have Step, we do have a P2P product today, we've made several iterations to that over the course of the past year and we'll continue to make additional improvements and add features and stuff to our P2P platform, but today, your daughter can send and receive money on Step with her friends. She's got a URL and a QR code that's built into her app that she can share with her friends, she can refer friends to get on Step and make money. Hopefully, she starts taking advantage of that and, you know, as more and more people apply now for Step, we're about to cross 3 million users here, hopefully, more of her friends are on it and they use that to send and receive money with each other.

**Peter:** Right, right, okay. So, we're running out of time, but a couple of things I really want to get to. You've got really two demographics here you have to target. You can't just target kids, you also have to target parents so how do you balance, like being cool which my daughter definitely thinks this is a good app and she likes the whole look and feel of it and then the trust that's needed with parents who want to be able to trust that this is a good app for their kids.

**CJ:** It's definitely a delicate balance. We want to be cool and, you know, and hip so your daughter thinks that, right, but at the same token we want you, as a parent, to trust us and give the stamp of approval that this is the best product for my kids as well and it's just something that I'd say you really have to balance those two things. Hopefully, from a product perspective, things like the fact that our product helps you build credit, things like the fact that we're not charging a monthly fee, you know, we take security very seriously.

All of our accounts are FDIC-insured, these are things that maybe your daughter's not as privy to or doesn't care as much about like you as a parent, but that's why we did all these things so we can kind of build that trust factor with you as a parent and then ultimately, like I said, still be

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the cool and connect with your daughter in terms of the brand and ultimately, the product. I think we continually balance it, I wouldn't say we perfected or anything, we've got a lot of work to do there, we continue to build trust, you know, with parents. We don't take that lightly, we hold ourselves to the highest regard, we've got to tailor to both demographics.

**Peter:** Right, right. I want to talk about your investors because you have some pretty big names. You've got people like Steph Curry, Alex Rodriguez, the former baseball player, you've got Will Smith, the actor, I mean, how'd you get on all these peoples' radar?

**CJ:** I've had relationships with some of them for years, some of them I met, you know, when I was starting Step. All the names that you mentioned are investors and they're also parents, what we're doing related to them as a parent and as people. For us, we lean into culture, we lean into lifestyle and kids know who Steph Curry is, parents know who Steph Curry is, like most people know him as a phenomenal basketball player, I know him as a great human being, a phenomenal golfer (Peter laughs), a great all-around guy, a father, a husband. Someone like him relates to a parent or a kid looks up to him.

Someone like Will Smith, I mean, Will Smith has teenage kids, he's a parent, most people know him as an actor. At the end of the day, like I mean, if you follow him on social media, he is very creative, he creates awesome content, he's very relatable to a teen or a parent.

Someone like Alex Rodriguez, he's a parent, phenomenal baseball player, he's also like a very, very smart businessman and he's done a lot of business ventures over his career and with life after baseball, he has a little bit more time to lean into that. So, we were very thoughtful in terms of our cap table and finding investors that ultimately related to our story and our mission and to have their support and backing is awesome and it's something that we don't take lightly there either.

**Peter:** Right, right. So, last question then, I mean, you have touched on it already, but maybe you can tease out some of the things that are on your roadmap here or, at least, what you're planning for 2022.

**CJ:** I mentioned our mission is to improve the financial future of the next generation so everything we do has that kind of mindset of educating our users. So, we'll continue to, you know, expand our educational efforts, really lean into that, we'll continue to add features and improve the product and the platform that you see today, we think that that's really important.

We think a lot about, ultimately, let's just take your daughter, for example, her journey, when she goes off to college, what products and services might she need, how do we continue to be relevant with her when she goes off to college. So, we think a lot about...I mentioned the lifetime value of our customers in building that long term relationship and so we'll continue to expand our product offerings to stick with teens throughout every step in their financial journey and build

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the trust and relationship and strong foundation with them today. So, hopefully, for years to come we've got an awesome relationship and partnership with teens.

**Peter:** Right. So, I did say this was my last question, but I've got one more follow-up just to close. Your plan is not just to have an app for teens, but you said take them off into college and into their adulthood. You talked about the fact that you've had the same bank account for decades, is your goal then to be able to serve these teens of today as adults and beyond, is that fair?

**CJ:** Yeah, absolutely. Our goal is to start young and grow with them each step of their journey like that's why we don't want to charge fees and have them graduate when they turn 18. We really want to build a relationship with them and we want to build a strong foundation for them and we want to guide them on their financial journey and we want to educate them about money basics and hopefully, with some of the tools and education that we provide it can limit or reduce the number of mishaps and mistakes that people like myself made growing up not having access to some of the stuff.

Another reason why, just to kind of, you know, double down on the fee part, I think a lot about financial inclusion so I think about like underserved communities and people that might not have access to a bank account or a card or the ability to build credit and they don't have \$5 a month or \$10 a month to pay for a bank account and being able to enable different communities, specifically, underserved communities, is something that I'm passionate about and as a company we're passionate about to be able to guide millions of people in the world.

**Peter:** Alright. Well, it's a noble mission, CJ, I wish you all the best. Thank you so much for coming on the show today.

**CJ:** Thanks so much for having me.

**Peter:** You know, I think the work that companies like Step are doing is just so important. I mean, if we can have teenagers today become financially literate, we are going to be in so much better shape as a country in the years ahead. The tools are there today, we really have easy to use tools, the Step app is very intuitive and simple to do the basics of moving money back and forth between parent and child, I can attest to that directly. More than that, I feel like kids want to learn about money through their phone, that's just the reality. They want to basically learn how to develop good habits, they don't want to learn bad habits and I think the way to reach them is creating the tools they need and can use every day to really encourage good financial behavior and that's what we're trying to do. In our family, I think the Step app is really helpful there.

Anyway 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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