FINTECH ONE-ON-ONE PODCAST 368-MATTHEW WRATTEN

Welcome to the Fintech One-on-One Podcast, Episode No. 368. This is your host, Peter Renton, Chairman & Co-Founder of Fintech Nexus, formerly known as LendIt Fintech.

(music)

Peter Renton: Today on the show, I'm delighted to welcome Matthew Wratten, he is the CEO and Founder of EverChain. Now, you may know the company as DebtTrader, that's what they were called for many years, but they have recently had a re-brand to EverChain. I wanted to get Matt on the show because I think it's really interesting what they're doing, they're taking this whole kind of debt buying experience from both the buyer and the seller and they've completely changed it with technology.

They have a platform that really is very sophisticated and we talk about that in some depth, we also talk about the different types of verticals they operate in, how a debt sale works, his thoughts on buy now, pay later. We talk about complaints, a really important piece of the puzzle and how they're able to reduce complaints and, of course, we talk about compliance and some of the actions that are coming out of the Federal government and much more. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Matt!

Matthew Wratten: Thank you, Peter, I appreciate the opportunity.

Peter: My pleasure. So, let's kick things off by giving the listeners a little bit of background about yourself. Like me, you talk funny, you're not from these parts so give us a little bit of a background about how you came to the US and what you've been doing since you got here.

Matthew: So, I grew up in England, left the UK at 21 to come to America. My mother had gotten us Green Cards 10/15 years before that and I had to arrive in the US before my 21st birthday or that Green Card would no longer be valid. So, I arrived three or four days before my 21st birthday just to see if I liked it and, of course, the first city that I set down was Las Vegas, rode down Las Vegas Boulevard, I saw signs larger than buildings I've ever seen, I was, let's just say, I fell in love with the city almost immediately. Since then, I got married in 2009 to my wife, Chrissy, who I met at a company that I worked for many years ago and I started a company in 2011, had my first daughter in 2012 and my second daughter in 2013 so it was a very busy period for us.

Peter: Indeed, indeed. So, you got a nine and eleven-year old.

Matthew: I do, yeah, two little girls, two little entrepreneurs. (Peter laughs)

Peter: That's great, that's great. So then, what led you then to the founding of what was known as DebtTrader now known as EverChain? Let's sort of get into the founding story, what happened there?

Matthew: So, I had the opportunity to work in financial services from wholesale mortgage banking through the lead generation, through the credit reporting and in that period it was really an eye-opening experience for me to really understand the way financial services works. There are some sectors of financial services that are very intelligent, you have very intelligent people creating incredible algorithms, really solid processes to ensure compliance. But then for some reason, when you get close to default it doesn't appear to be the same, it's almost as if it's in the past, there hasn't been really any crucial innovation post default.

So, the reason that I found the space and looked at the space and realized there's just not enough technology, not enough oversight, there's no way to simply determine the good from the bad. So, you're having me go out there, it's been a tradeshow, meet a debt buyer and give it a shot and then you had a bad experience and didn't do with it, but not selling debt. I think every creditor should have the opportunity to be able to clear their charge-offs, once they've got to the diminishing point of return at that time. Unfortunately, they don't have the peace of mind to do that so we wanted to make sure that that was possible.

Peter: Before we dig in into what you actually do, I'd love to sort of get your perspective on the state of the debt sales industry today. I mean, there's still lots of activity from what I can see, but what is the state of it, would you say?

Matthew: A very high demand, I would say less than 40% of the demand is currently being met. This is an impact of COVID, lower originations, more payments were made during the pandemic which led to less debt being sold on the open market and what that's done is it's led debt buyers to essentially reduce their margins to keep the flow of volume come to their centers. So, right now, we are experiencing, well at least for us who have in business for ten years, this is the highest pricing we've seen for charged up debt in our ten years.

Peter: Wow!

Matthew: It's about 25% up from where we would expect it to be since pre-COVID so right now, it is a great time…I suppose to use a real estate reference… it is a seller's market.

Peter: Right, okay. So then, maybe you could tell us a little bit about your platform, how it works, I mean, maybe you could start off by saying how a typical debt sale is being done historically and then how your platform is different to that.

Matthew: And that's really how EverChain or DebtTrader in 2012 came about because when I understood how credit is sold debt it was shocking and quite surprising. There was no platform, they were sending an Excel spreadsheet with PII to a number of debt buyers who would submit bids back to them. The problem with that was that all of those buyers mastering the PII and now you have to hope and pray that all the buyers or the buyers who weren't successful in winning the bid will delete that data. I just thought that was really unnecessary step, I see it in customer acquisition too, I think it's lazy. I think that, you know, you only have to ask questions to the buyers, why do you need that debt, to score the portfolio, whatever you've got.

Ninety nine percent of them said TransUnion, okay, so it sounds like we have to have a conversation with TransUnion, integrate with them and provide you with the value score without letting you know it's Peter and Matt, you can see it's one and two, but there's no reason to disclose who it is, there's no reason to share that PII because there's a way around it. So, when you look back at kind of the way things were being done, that was up until the point of sale, but even post sale, but level the both sides just didn't exist and, you know, when I think about one of the first clients we signed, they've experienced 1,700 consumer complaints a year which seems high because it is high and today, we look back I think in the last 12 months they've received two of 30.

Peter: Wow!

Matthew: How do you do that? Leverage, you create a network with creditors share their experience with one another, buyers are held to account, agencies are held to account, you create a technology platform that allows you to be able to record it, that negative consumer experience against the buyer's agency, to be able to investigate and to be able to ameliorate and then to be able to provide that service and doing business with that buyer in the future. One of my favorite things, buyers will laugh at this, but one of my favorite things is when a second place bidder or third place bidder wins, in the first place bidder would ask, how did I not win. The second place bidder had a better compliance report.

Peter: Ah, interesting, interesting. So then, maybe just take us through, like there's a lender listening to this who is interested in using your platform, never has before, what's involved in sort of getting their non-performing loans on to your platform for sale?

Matthew: So, we have an onboarding process where first we'd like to get familiar with the creditor so what the industry calls Sellers Survey which is essentially a multi-page document that allows us to really understand the DNA of the creditor, how they write, who are their customers, what they're looking to do, what they've done previously so that there's an ability for the buyer who's purchasing your accounts to really be able to the understand the originator and to be able to, hopefully, be able to continue into collections with an appreciation for what they were trying to achieve with their customer.

Past Seller Survey, we're going to look at your data file, we're going to help you prepare that data file. So, fast forward, past onboarding, when you upload to our platform, we are going to go ahead and say we'll look at the date that you've uploaded. Now, bear in mind, there is no other technology platform in the industry that can do this, right, you're still going ahead and uploading Excel spreadsheets to the security, whether you're working with a broker or if you're working directly with the buyer in sending that file over to them like I said before. When you upload your portfolio to our platform, first thing we're going to do is determine if you have sold these accounts before, seems like that shouldn't happen, credit system of record is solid, but the amount of time is we prevented the creditors from re-signing the same accounts twice is quite standard.

When you look at the impact, the negative impact that will have on their brand and their bottom line they're every grateful that we were able to do that, but it's really simple technology and, again, it reminds us why technology needs to exist because without it how will you be able to determine that these accounts have been sold before. In addition to that, when we look at the date, does it make sense, does the principal and interest equal the total balance, if it isn't then we need to have a conversation. So, the system's going to go ahead and scan the entire portfolio for errors and warnings and share those errors and warnings with the creditors so that they can make sure that their portfolio is clean and accurate.

After that point, the portfolios then are going to be scrubbed for the removal of any consumer who's in bankruptcy, deceased or active duty serving this great country. Those three need to be dealt with in a specialty manner and shouldn't be sold along with the portfolio, however, outside of EverChain they are sold, sometimes the creditors catch them, sometimes they don't. In the case where they don't, the buyer buys them and then the buyer puts them back so now the creditor's accounting, the creditor's IT has to now figure out how to get that money back and how to insert those accounts back into their system.

Peter: Interesting, interesting. So then, I know you operate in the consumer lending space, but tell us a little bit about the verticals you actually operate in today.

Matthew: We started by focusing on sub-prime because we thought that that sector needed a real lift in the consumer experience so that was where we were born out of in 2010 and when I gave you the examples of, you know, over 100 complaints a month that was where those were coming from and we're very proud of the fact that we reduced the consumer complaints, especially sub-prime and deep sub-prime, by 99%. From there, about four to five years in, we started to move up the tree, if you will, to near-prime and prime and that includes credit card and auto finance where there is sufficiency or secured and we plan to move into medical in 2023 mainly because we believe that patients should be treated and respected in the same way that we're trying to ensure the consumers in debt are also treated.

Peter: Okay, okay, that's good. So, you know, what was behind the re-brand? You started off, you were DebtTrader for many years, tell us a little bit about the thinking behind the re-brand to EverChain.

Matthew: So, when we started the business we wanted to create a compliant way to trade there for a creditor to abide and what we quickly realized was that we were working with the creditor, we were working with the debt buyer, we were working with the collection agency. We were working with the collection agency to ensure their compliant, we're auditing them on site, auditing the debt buyer on site. We were working with the creditor to ensure that they have absolutely everything they need even if they were to find themselves under audit by the CFPB. We've had several creditors that were and they've been able to hand that information over so when we think about the re-brand it was very clear to me that this technology and this mission can actually serve all of recovery, not just debt sales.

Before a debt sale, you have a period of time that creditors are going to collect internally, you potentially have a period of time that they're going to outsource the accounts, the differentiator is usually the time value of money. So, a creditor that has a higher interest rate is going to probably look to shorten their recovery cycle to simply take that say 50% of the return, the annuity remains, we invested in your loans and find themselves better off with that strategy. A more prime or near prime creditor has to work their accounts for a lot longer for the math to make sense.

Peter: Okay, So then, what about buy now, pay later because there's just not one flavor of buy now, pay later and I imagine like the.....there are a lot of 6-week loans that, I know they don't officially call them loans but that's what they are in my book, but there's also some that go six months, I mean, Affirm goes on to three plus years so is that a segment that you're looking at?

Matthew: It is, it is, it's the fastest growing sector, we've onboarded the buy now, pay later this year than any other asset. I think it's because these lenders, they truly care about their customer experience even post default so when we have the opportunity to demonstrate what we do, their customer experience folks, their compliance folks quickly realize this is actually a way to ensure that consumer experience isn't lost, but also for that consumer to be able to recover it for the benefit of the creditor.

Peter: So, what kind of volume do you need to be like a total portfolio size to be able to participate on your platform?

Matthew: What we do with compliance is quite expensive, we audit every debt prior to every collection agency, our auditors represent 25% of our company traveling around the country constantly auditing, constantly investigating and that does carry a way or a cause that our competitors do not have, we have a tech team our competitors do not have.

So, it does make it challenging for us to do business with creditors that are only charging about six figures a month. Generally speaking, we're looking at seven, eight, nine figures on a monthly basis, however, we do want to assist all creditors so we're looking at ways to create an aggregator of smaller lenders to allow us to be able to support them and their consumers through the recovery process without being cost prohibitive to EverChain.

Peter: Interesting, interesting. So, let's move to the other side of the marketplace here with the debt buyers, who are you mainly working with there and how does that work?

Matthew: So, if we go back to the beginning and I think it's important when you think about what I spoke about earlier on about unmasking of data. If you're a creditor buying leads you want all the data you can see, if you're a debt buyer buying debt you want all the data you can see. So, that was a challenge for us in the beginning and, you know, I would say that over the last three years we've been able to overcome the concerns and the objections of buyers who wouldn't meet our certification standards, but were concerned about the inability to get unmasked data. We have overcame that and today, I think we have more than 90% of the compliant debt buyers who want to do business with.

For every five that we buy, we probably certify two, maybe three on a good day, two on a bad day so what we represent is the best of the best. Instead of going to a trade show and meeting with the debt buyer who's wearing a suit and seems legitimate, you can know that when you come to EverChain we've run a criminal background check on every single one of their executive officers.

We've reviewed their SOPs, we understand how they pay their collection agents, their commission schedules, we understand the licenses, insurance bonds and COAs and then we digitalize all of that to ensure that when things expire, we already have the new copy, not in its files, there are no false in compliance. So, for a buyer it's harder to join our network than it would be to join the industry association or join one of our competitors, but it's that way for a reason because we want the very best and we want the very best to focus on becoming even better.

Peter: And then what about, I imagine this has happened where you have a buyer that's come onboard and then you get a whole bunch of complaints because something's happened in their system, how do you deal with that?

Matthew: There's two ways to handle this, you can be reactive and you can be proactive and we have to be both. We prefer to be proactive, we really try to encourage our debt buyers to let us know if they have issues before we tell them that we've determined that they have issues because then we have more time to be able to resolve the issue. When we receive consumer complaints that are submitted by the creditor we investigate them and more often than not, we realize that the collection agency has put a new individual or a new team on the floor and the reason for the dilution in compliance or a reduction in compliance or the reason for their complaint can usually be pointed to that.

One of the things I love hearing is when collection agencies ask their debt buyers, did you get this from EverChain, if you got this on the EverChain platform you will not be able to meet the expectations or the performance metrics that you're used to seeing because there is no grey with EverChain. They will suspend us from the platform and they provide too much supply so they will harm us so we have to live up to the standards that EverChain has. The worst example I can think of, and thankfully this has only happened once, is where a debt buyer sold a portfolio that they were not permitted to resell.

The way our platform works is that a buyer needs to resell to another certified buyer to ensure that compliance continues. So, in that case, we are able to use our leverage to ensure that that buyer re-purchase the portfolio from the buyer that they had incorrectly sold it to and then was able to focus on getting that buyer certified compliant to have been able to complete the transaction. The outcome was that it was remediated and resolved, I'm not so sure that would have been the case if the creditor wasn't working with EverChain because the buyer could have just said well, I'm not buying any of these anyway and I'm moving on to the next creditor. Whereas when all the creditors are on the EverChain there is no way to hide and they're all aware and now we get to focus on real compliance all the time.

Peter: Interesting, interesting. So then, for a lender, I mean, is there a sweet spot, I imagine it depends on credit box and on the vertical, but I'd love to get some insight here as far as the sweet spot for when lenders should be selling their non-performing loans.

Matthew: It's really at the point where the curve starts to come down, it's that diminishing point of return and we assist creditors who are determining where that is, right, I'm sure so creditors who are sophisticated are very familiar where that is and for many of them they stop collecting. They realize at this point they're going to essentially erase good returns and so they should stop and that's the point where the opportunity to sell to somebody who has the ability to collect, the experience to collecting at that stage and the time and the ability suddenly steps in.

So, where is that? It depends on who you are, if you're a prime lender it's probably well after a year from default if you're a specialist sub-prime lender it's two months from default. Why? Because for a specialist sub-prime lender they're charging you greater interest rate, as I've mentioned before and for that reason time and value of money encourages them to sell those accounts sooner than later.

Peter: Right, okay, that makes sense. So then, I imagine lots of the lenders you work with have multiple verticals they operate in. We know some of the fintech lenders are doing auto and they're doing, you know, unsecured consumer loans, others are getting into HELOCs and that sort of thing, are you trying to get all of their business with all the different verticals as long as you operate in them? What are the negotiations like when you're actually talking with a lender?

Matthew: Yeah. Generally, it's all of their receivables because there is no reason to place one asset and not another. So, generally speaking, creditors use the EverChain for all of their assets that have defaulted.

Peter: And so then, is the platform, like do people put in bids and I mean, obviously, sometimes it goes the second or the third highest bidder, but are you stepping away at that stage, do you make recommendations for, like the lender comes to you and say what do you think this is worth, do you let them price it however they want to price it or do you provide advice there and similarly to the buyers, do you provide any kind of feedback on the pricing that's on your platform?

Matthew: So, let's start with the back and go to the front. So, we do not provide buyers with advice on pricing, it's a company policy not to do that. Why? Well, because sophisticated buyers have spent a tremendous amount of money on valuation, I mean, some said that their valuation is made available to a brand of that buyer who has not and there's many ways for that to happen. We do not share with other buyers what are the price of bids ever, not on the system, not in person, we respect the time and the money they've spent to determine the value of the portfolio.

Now, for the creditor, we obviously have a tremendous amount of data. Remember, EverChain has facilitated sales of 11 million consumer loans in our system and for that reason we get to take a look at the market and really get a good idea and get a very tight range on kind of where you can expect to see pricing. However, that is just us giving them an idea, but ultimately the market will speak and because our market boasts 90% of the buyers we want to do business with it's a true market, it's a real market. You can see as many as seven to ten, eleven, twelve bids from, you know, certified debt buyers and from there we're able to decide who to do business with. Now, the difference with us is that you're not just looking at prices I mentioned earlier, you're also able to download it, you just do due diligence documents for that buyer.

You can even specifically look at what you're worth so you don’t have to download a 300-page stack, go looking for the thing that you're looking to check a box on, you're able to pull that down specifically and in addition to that, we're going to go ahead and provide you with information on that buyer. How quick do they fund, do they have any delays, do they have delays post-sale, do they have delays dealing with complaints, what is their complaint ratio, their complaint ratio is the number of complaints against the accounts that they've purchased. This allows us to truly provide the creditor the ability to understand the consumer experience with buyer 1 versus buyer 2 versus buyer 3. Our buyers are very aware of this rating system and it really doesn't encourage them to continue to invest in compliance because investing in compliance is the only way to scale.

Peter: When you provide a rating you're just looking at objective data, right, you're not sort of looking at anything that's subjective that isn't available just in hard data?

Matthew: In the initial certification we are looking at data outside of the EverChain to determine if there will be a certified buyer on our network, however, post certification, now they're in the platform. We're looking at the complaints that are being reported so the sellers receive the complaints almost always because the consumer goes back to the original creditors and complain about the debt buyers. The creditor then submits that complaint through our platform and we're able to go ahead and substantiate it. Once substantiated, we can then begin the remediation process to ensure that the complaint is remediated, the buyer is making the investments necessary to prevent that from occurring again and the creditor has all the necessary documents to being compliant.

Peter: Right, right, okay. That brings up another question then around compliance because I know the CFPB has been taking a look at debt collection, in general. I know there was a report they put out early this year, I believe, and they've also said, the Head of CFPB said multiple times they're going after bad actors here. So, how do you interact with the government agencies and I imagine government agencies may be taking action against someone potentially on your platform. How does that all work and how do you help support the companies on your platform.

Matthew: So, yeah, I mean, we've received subpoenas from the CFPB for requests for information in every single case that the buyer they're requesting or the agency they're requesting information from was denied during our certification process. To date, we have had no inquiries, I'm speaking to any active member of our network in the last ten years.

As far as expanding beyond that, we would love to sit down and discuss the way that EverChain does business with the CFPB because we think that it would probably give them confidence that they can start to push forward the regulation knowing that it won't stifle financial services or the innovation within financial services because technology does exist to allow creditors that price inflection to be actually be far more compliant than the regulatory standards.

Peter: Right. So then, I imagine, like states have different rules here, right, it is not just the federal......

Matthew: Even cities.

Peter: ....even cities, gosh, I didn't know that (laughs). What's your approach to compliance as you kind of look at the complex web that this country has created for itself, what are you doing to kind of keep on top of that?

Matthew: A lot of education. Our compliance team have so many letters up to their name that sometimes you can't even tell who's emailing you, CRCP, just to name one of many. So, it's a continual education, whether it's working with the RNAI or other industry associations that provide education and it's also about just listening. I can't remember the exact year, but I remember taking the entire team and sitting in a conference room and saying, listen to Richard Cordray [former head of the CFPB] speak, listen, because if you say something and it makes sense, it's common sense, it's likely going to happen.

So, we should start preparing the technology to ensure that that can be upon the time when that becomes the rule. So we're very curious about regulation, we're always trying to keep an eye on what's happening so that our tech team is always ready to start creating the new features, the new tools necessary to maintain continued compliance.

Peter: So, is that happening much, I mean......

Matthew: Reg F is the most recent. Obviously, everyone on our platform is ready for Reg F before Reg F came about, there are other regulatory changes that are coming and will continue to come, as you've mentioned, as the CFPB takes greater look at the collections as they should and we welcome that because it gives us an opportunity to continue to evolve our platform to be even better than it is today.

Peter: Okay then. So, in closing, I'd love to kind of get your perspective on where you're taking EverChain, I mean, what's next for you guys?

Matthew: We want to protect every consumer that's being collected from. So, how do you do that? Well, you have to expand your assets in the USA to ensure that every type of loan has the ability to have the EverChain protection when it's being collected on by a borrower, collection agency, but it's also beyond that. This global domination is to be ability to do this across the planet and the exciting thing that I can share with you today, Peter, is next month we launch in the UK...

Peter: Oh, wow!

Matthew:.....and the UK will be the first market outside of the US, that should go live middle of June so about four weeks away from that exciting expansion, but it's really about expanding the EverChain to every place where a tunnel is unsecure, where data is traveling unsecurely, resting unsecurely and making sure that all communications with consumers are compliant, whether it's digital or it's physical collection agent making a call.

Peter: Interesting. Well, good luck with that expansion and that means you've got another excuse to fly back home, I'm guessing. (laughs)

Matthew: It does.

Peter: Anyway, Matt, thank you so much for coming on the show today, really appreciate it.

Matthew: I really do appreciate the opportunity, thank you.

Peter: Sometimes you talk to people in the fintech space, particularly companies that have been around a while and you see that they're not really a fintech company, they've just kind of taken what their old systems were and put a nice app together or a nice sort of shiny user experience that makes it seem like they're a fintech company. That's why I appreciate what Matt and the team at EverChain have done where they've really built a technology platform, just listening to Matt you can see that technology is such an important piece of what they've done.

They've re-thought the whole debt buying and selling experience and brought it onto a sophisticated platform where people can really interact and have a much better experience and that's really what it's all about. I applaud Matt and his team and now they're going off internationally, that's a really big move as well.

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

(music)