PODCAST TRANSCRIPTION SESSION NO. 78: STEPHEN DASH

Welcome to the Lend Academy Podcast, Episode No. 78. This is your host, Peter Renton, Founder of Lend Academy.

(opening music)

Peter Renton: Today on the show, I am delighted to welcome Stephen Dash, he is the CEO and Founder of Credible. Credible is what is called a multi-lender marketplace and we'll describe what that is exactly in a few minutes. I wanted to get Stephen on the show because I think he's got an interesting model. No one really is doing what he is doing and he's basically creating an intermediary between the borrower and the lending platforms that really provides not just comparison shopping, but a really rich, informative experience for the borrower. He's really developed this unique company over the last few years and I wanted to get him on the show to talk about how his company works, why he decided to focus on student loans, talk about the experience that he's had with that and then adding personal loans into the mix. It was a fascinating interview, hope you enjoy the show!

Welcome to the podcast, Stephen.

Stephen Dash: Thanks, Peter.

Peter: So you know, you actually have the distinct honor of being the first Aussie that I've actually ever interviewed on the podcast. This is like 77 or 78 podcasts in and you're my first Aussie which I enjoy...obviously talking to somebody who sounds like me. But let's get started with a bit of a background about yourself and how you came to the USA.

Stephen: Yes, thanks very much for having me on the show, I'm glad I'm the first Australian. Have you had any New Zealanders on the show?

Peter: (laughs) No, no, New Zealanders yet either.

Stephen: Ok, good. So yeah, I moved out to the US in 2012 and sort of in the ten years before the move I worked in the financial institutions team at JP Morgan and that was at a time pre, during, and post-financial crisis so ended up seeing a lot of stuff there. Following JP Morgan, I was in an Australian private equity/venture capital fund where I ended up leading a lot of the fintech investments for that fund.

Those two experiences kind of gave me pretty interesting exposure to both sides of the market out in Australia. Really the catalyst for me finding my way to the US was I saw an opportunity, sort of like a tectonic shift is how I describe it, in the US consumer financial services market which ultimately led me to the student loan category. But if I sort of reflect on the themes that were playing out at the time it was sort of...the big one was, in a comparable sense, the immaturity of the intermediated consumer finance market in the US.

When I compare that to my experiences at JP Morgan and in Australia...you know, the Australian market more generally, but then other developed countries like the UK and Canada, New Zealand, South Africa where those similar countries to the US had these much more

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developed, much more mature intermediated marketplaces. I think the best example is...you know in Australia 50 to 55%, historically anyway, of mortgages are originated through these independent sort of consumer friendly intermediaries and they're not necessarily through the ultimate product provider.

So that model was really interesting to me and really kicked off my interest in the US space and then of course, the rise of the alternate lenders in the US at the time through the p2p platforms was sort of the other side which I said well there's going to be more competition coming into this market, this concept of fintech is really happening. The US is a market that's 25 times bigger than Australia and so I took the plunge and moved over in 2012.

Peter: So then did you move over with the express idea of starting up or focusing on student loans first? I mean, was that the biggest problem that you felt like there was to tackle?

Stephen: So the first stage was identifying that there was an opportunity in the consumer finance category; the second stage was which specific category would I go after. And so really it was a pretty simple filtering process where I said, you know, where are people getting ripped off the most, what's the most confusing area? If I think about why these other models in other countries were successful, it's taking something that's really confusing, that's not traditionally consumer friendly and sort of looking at that so what popped out to me was the student loan category.

And then the icing on the cake was the fact that if you think about how valuable acquiring a customer in this sort of first major financial decision, how valuable that is, that was sort of the icing on the cake. That's why in the early days I focused really on that market and, of course it developed a lot since 2012. When Credible was founded it was really only one or two lenders that were even thinking about this, this refi space. So it was kind of early and there were a lot of people saying that's not a great category to go into because of all the headlines you read about student loans, but I saw it as the perfect entry point because it was so confusing and there was so much misinformation around the student loan category.

Peter: Right, right and clearly when you go to your website, you present your website visitor student loan refinancing, it is the core piece so...just for the listeners who don't know about you, can you explain exactly what Credible does, what are you actually trying to solve here?

Stephen: Yeah, I guess it's bigger than just the student loan category, I mean, we sort of think about it as…the problem we're trying to solve is that consumers don't make optimal decisions when it comes to financial services products. There's two things that really drive that; they don't have full information, there's not that level of transparency. Frankly, most people have better things to do, they don't want to deal with it, right?

So to me that's two things; that's creating transparency or clarity and then it's making the process really easy so we've focused first on student loans and student loan refi so student loan origination and student loan refi and we've come at it with a business model that is different to a traditional lender's loan acquisition model or an alternate lender's acquisition model. We describe ourselves as a multi-lender marketplace so in the true sense of a marketplace definition we display offers from multiple different lending partners about their own brands and they're in the market with their own product. So think of us more like a Kayak or Expedia type experience for student loans, student loan refi and now also the personal loan category as well.

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Peter: So on that, I want to clarify because obviously every one knows about LendingTree, they're a major, public company, they're a pretty big player, their ads have been on TV, how are you different to LendingTree?

Stephen: Yeah, and I'd throw Credit Karma, I'd throw NerdWallet, BankRate and probably another 150 lead gen sites into that category as well.

Peter: (laughs) Okay.

Stephen: And so really how we think about it is…I sort of think about the value chain, right, you've got lead gen and what is lead gen providing? It's providing a click, if you like, so you're being qualified in some way and then you're being sold as a click to a lender who then has to originate you, right? We sit in between that so we'll take a click and turn it into a customer so we're really the fulfillment part of the value chain and, of course, we have our own consumer facing brand as well, but that's where we sit in the value chain.

Now what that means for a customer and sort of one of the key product elements that I want to talk about quickly, which really differentiates us, is our product that we call Lender Express that we launched about 12 months ago. What Lender Express does, and you can contrast this with all of those sites that I just mentioned, is that we provide a borrower in real time with a personalized rate without impacting their credit score and without sharing their data with the lending partner.

We're able to do that because we've built deep integrations with our lending partners and we've also built integration with all three credit bureaus so from a consumer's perspective...imagine going to our site, putting in eight pieces of information that takes you 30 seconds, clicking that you've consented for a soft credit pull and you've consented for us to run our engine in the background and we do that and display in real time, personalized offers of credit from multiple different lenders, from multiple different products.

So the comparison I like to draw is if you think about a lead gen site in the travel industry, it would be...the comparison here would be like going on to a site and looking for a ticket from SFO to JFK and someone coming back and saying, hey, you can fly there for between $200 and $600. It's not a personalized experience, right?

Peter: (laughs) Right.

Stephen: Whereas what we're doing is we're saying, hey, it's going to cost you $300 and you're going to leave at this time and arrive at this time. It's a personalized experience which is really hard to do in this category compared to the travel industry, right, because it's obviously based on someone's credit profile.

Peter: Sure, I want to dig into that for a little bit. Can we just talk about your actual application process and what's going on there because it sounds like you've got deep integrations, you said, with your lending partners. You really must have their underwriting model basically…if you're going to provide a price that...you're providing a price then you're going to pass them on...obviously, the consumer is going to want to get that price when it's passed on to one of your lending partners. Tell us exactly how it works and how you've done this integration.

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Stephen: Yes, so it really depends on the lending partners in terms of exactly how we do integrate with them. In some cases, yes, we house a replica of their pre-qualification model on our system and that is not something that lenders want to give away lightly, right?

Peter: I can imagine, yes, it's a hard sell to get that.

Stephen: Right, and you know there's benefits to doing it of course. The experience for the consumer is much better, our pull-through rates are market leading. You know, we're a trusted partner of…you know we've been working with these guys for three, four years and we've demonstrated that we can really drive...really as our own channel...drive a ton of volume to our partners. So it takes a level of trust which is a big part of what we do on both sides of the market to be able to deliver such an awesome product to the customers out there.

So some of the integrations are like that, some of the integrations are APIs where we have very specific requirements on both sides to ensure that this experience is maintained, where a borrower doesn't come to our site and then get phone calls from 15 different lenders. We don't think that's a good experience and so we've really tried to develop a product that puts the consumer at the center and builds this technology solution around that consumer.

Peter: Right.

Stephen: So, yeah, it's not something that others have replicated, it was not an easy thing to do and it's a function of adding a lot of value for our lending partners, but also our lending partners being aligned with us in terms of what the right customer experience is and I think we're seeing with a lot of the forward thinking lenders that they understand that this is where the world is going. It's going to a place where consumers can easily access this type of information.

You look at the UK, they've got mandated open APIs for switching checking account…if you open a new checking account, right, so the world is going that way and it's the forward thinking lenders who are partnering with us and really investing early on in this sort of evolution that are really starting to receive dividends.

Peter: Yeah so I imagine with the wealth of data that you have, you're going to have a very high approval rate. Once you actually send it off to the lender, I imagine...I don't know whether you can share, but I imagine that the approval rates are so much higher than it would be with one of the other just lead gen sites.

Stephen: Yeah, I mean, I can't share the specifics, but we're talking...you're pretty much going to get the rate that we display as a pre-qualification offer unless there's some additional information that a lender requires that is sort of different to what you had already disclosed. So we have really, really high approval rates, we have really, really high pull-through rates and even if you take a like for like kind of new user to close loan, compared to some of the lead gen sites that exist, because we're spending so much effort, time and we're really helping a borrower minimize friction in that experience, we're a multiple of conversion that a typical lead gen site would achieve if they were to partner directly with various different lenders.

Peter: Right.

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Stephen: ...because it's just a totally different experience.

Peter: Yeah, yeah, sure. So I just want to talk about the student loan refinancing because it sounds like it's still a big part of your business, how does it work? Do work with undergraduates, do you do work with graduates, like how does it work?

Stephen: One of the, I guess, key advantages of our business model…because we work with so many diverse sources of capital, so many diverse lenders from traditional banks to regional banks and community banks to some of the alternate lenders, we have by definition, really the broadest underwriting set in the market because we're basically taking the best of all of these different lenders who are going after different segments. So what that means is we offer products to undergrads, to grads, to parents on the refi side so if you have a Parent PLUS loan or if you're a co-signer of a student loan, you're able to get offers through our platform.

Recently, we were actually featured on NBC Nightly News where one of our borrowers was a mother of a student who had recently graduated. She refinanced $50,000 in Parent PLUS loans that she took out for her daughter and reduced her interest rate from 7% or 8% to I think it was 4.5%, saving $10,000 or $12,000 over the life of the loan so it's a very broad set. Technically, our product goes down to a 620 credit score if a borrower has a co-signer on the refi side and we offer 5, 7, 10, 12, 15, 20 year products, both fixed and variable, $5,000 to $500,000 loans on the refi side, yeah, so it's really broad.

On the in-school side, you know, similar. We have a 5, 8, 10, 12, 15, 20 year product; $1,000 to $170,000 and that's for a medical student on the in-school side. In terms of interest rates on the in-school product, they start at 2.31% variable, 3.74% fixed and of course you've got all the variations of the in-school products. You can defer payments, interest only, you can pay a flat payment while you're in school or you can start paying back the principal and interest straight up. There is a lot of complexity around that product and so we're sort of in the business of obviously making that really easy for our customer to choose between those different products and then ultimately get the loan product and help them through that process.

Peter: Right, so can you share who are some of the lenders you are working with today? You mentioned banks, you mentioned the alternative lenders, can you give us some names of who you're working with?

Stephen: Yeah, so we work across the spectrum and I sort of just mentioned the various categories of lenders that we work with and what we really care about is, we care about having a representative set of products for the lenders that exist in the market so, you know, back to the travel example. Kayak is not super useful if they don't have the flights that go from…choose a different city, LAX to Houston; if you can't get those flights, that's not helpful so we want to make sure we cover all those flights so to speak, and cover all the different pockets within the industry.

So, yeah, we work with College Ave, we work with Citizens Bank, we work with CommonBond, we work with some of the state-based student loan authorities like RISLA which is the Rhode Island Student Loan Authority; MEFA, the Massachusetts Educational Financing Authority; the New Hampshire Education Finance Authority called the EDvestinU, we work with some of the community banks like iHELP in graduate school loans which is the brand of some of the community banks. So a broad spectrum of different lenders where some of the alternate lenders

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like College Ave and CommonBond go after different segments compared to some of the traditional lenders like Citizens Bank and then, of course, some of the regional-based lenders can offer competitive products across the country, but in some cases specifically within their sort of region they're able to offer better products.

So, yeah, I see a real thematic playing out with some of the traditional lenders starting to get into the space, starting to be more aggressive and starting to have really competitive products with their deposit funding base…gives them a big advantage right now. And then I also see the student loan authorities from a state-based perspective starting to be more aggressive and they have the benefit of tax exempt bond financing in certain circumstances so they have also a bit of a leg up in some circumstances on the cost of capital side of the equation.

Peter: Sure, I mean you didn't mention Sallie Mae and I know that you recently signed a deal with them, can you just tell us a little bit about that?

Stephen: Sure, yeah so I was referring to the lenders on the refi side. On the in-school side, yes, Sallie Mae is one worth talking about. For those who are listening who don't know, Sallie Mae sits on about 50% marketshare of new student loans that are originated each year so that's around $10 billion, roughly speaking, of new private student loans are originated each year. You know, typically, private student loans are used to fund the gap between what a student can take out with federal loans and what the cost of tuition is and so it's about 10% of new student loans that are originated each year fall in this private student loan category and as I say Sallie Mae sits on 50% of the market so we signed a partnership with Sallie Mae in the summer this year.

The in-school business is an interesting one because it's very seasonal. You know, you have 80% of originations happen between June and really the end of September and then there's sort of what they call a mini peak season in around the holiday time. So we partnered with Sallie Mae, it's obviously significant to have such a major lender in the category on the platform. The way these partnerships typically work when we on-board a new partner is there's a big hurdle to get over to start with in terms of, hey, do we want to be on this platform and then the second hurdle is getting the lender integrated and there is various levels of integration in terms of having those offers displayed on the platform for the borrower.

Peter: Yeah, yeah, and so I'm curious about how it works once the borrower has been passed on, whether it's CommonBond or Citizens or what have you, I mean, they own the customer, right? I mean, where do you end and they begin or do you guys both co-own the customer?

Stephen: Yeah, so I have a perspective on this and I am sure not all people will agree with this perspective, but my perspective on customer ownership is that the whole concept of customer ownership is changing. I think Silicon Valley in terms of investments that are being made and focus on customer ownership. I think, and it's just my opinion, that some people place too much emphasis on this concept of customer ownership and the reality, I think, is that cross-selling...because obviously customer ownership, people think equals more cross-sell equals lifetime value equals I can pay more for customers.

Peter: Yeah.

Stephen: I sort of think the reality of it is that cross-selling financial services product is really, really difficult and you can look at every Bain Consulting or McKinsey Report out there that talks

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about, you know, USAA doing a really good job of it. We don't talk in massive numbers there, right, so cross-sell as a general concept, I think, is really, really hard and I think the market is going through a significant shift right now in terms of how a product provider...how that relationship or how the durability of that relationship is sustained in the world that we live in now where physical branches and personal relationships are gone or they are much less relevant for a millennial audience when the proliferation of data is very much in existence today, where a consumer really owns their data, that lender does not own their data themselves like Yodlee and Plaid and Intuit exist and the credit bureaus exist and make that data more accessible to both the individual, but also to other potential players in the market, and, of course technology has made the process of switching product providers so easy.

So that's a long-winded way of me saying that, you know, I don’t think this assumption of a durable customer relationship which equals cross-sell, which equals long term value for a product provider is necessarily still there. And the short answer to your question is I think we both own the customer.

Peter: Right, okay, that’s what I thought so speaking of cross-sell or maybe not, but you have personal loans now. I know you launched that about a year ago or whatever, but why did you decide to go into personal loans, is it a cross-sell opportunity or is it just a new market for you?

Stephen: Yeah, so I guess there’s kind of two things we care about when we think about new products and I will say that our personal loans marketplace is still...even though we technically launched it about 12 months ago or a little less than 12 months ago, obviously there have been some challenges in 2016 with some of the personal loan lenders in the market as far as access to capital etcetera. So we made a decision earlier in the year to really just focus on the student loan business for 2016.

So personal loans is still like a really small part of our business. I expect over the course of the next sort of 6 to 12 months that will change, but to step back into why we got into the category, yes. So my thesis on the idea of customer ownership changing and shifting sort of lands and this is maybe a little self-serving, but lands, in my view at you're more likely as a millennial to have a relationship with a non-product provider who can help you make decisions.

And, again, going back to the travel industry, look at the rise of Priceline that has a market cap that’s, you know that’s the sum of Delta or United, American Airlines and Jetblue because they've managed to build this customer relationship, the durability of that relationship and that exists in pretty much every other country in the world except the US right now and I think that is changing, that intermediary, that non-product provider is starting to really play a powerful role in the sort of customer relationship side of things. So we do think we have in theory at least, a better opportunity for cross-sell because we're not a product provider, we're not trying to sell our products.

So people will certainly disagree with me, but that's how we sort of think about it. And when I think about personal loans, it's both a new acquisition channel so if we acquire someone through that platform, we have an opportunity to potentially cross-sell a student loan, or a student loan refi, but it's also a supplement to our existing audience of roughly 350,000 users who create profiles on our platform where most of them have credit cards, most of them will make a major purchase at some point in the next couple of years. There's an opportunity there for offering that product, again, from multiple lenders to those individuals.

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Peter: Okay, so I get the whole thing around the pull back in personal loan lending. I mean, I think 2016 will be the first year that as an industry consumer loans originated online will probably be less than in 2015, at least at the major platforms anyway. So do you see yourself then as the kind of...you are the intermediary, you'll do personal loans, you'll do car loans, you'll do credit cards, home loans, is that sort of what you're thinking?

Stephen: Well, I think there's a couple of different ways to think about this, but when I think about who is our customer, the majority of our customers are millennials in the true sense where they're 18 to 35 years of age, right, they're either students or they're young professionals. So I think the more likely categories are the products that those individuals would want so you could think credit cards, personal loans, potentially auto loans, insurance products, renters insurance, auto insurance; these types of products that these individuals would look at. I think over time, mortgages and wealth management and those kinds of products become more interesting, but right now probably less of a focus for us.

I think about where do we sit in the value chain as being really important in this discussion so we've partnered with over a hundred organizations, be it professional groups, alumni associations, lead gen sites where we're powering that click to close experience. So once someone has become a lead or is within a membership base of one of these organizations, taking them through to the close line or close to the close line part of that equation is where we really are focused.

So we're really focused on being that intelligence layer that sits in between and powers some of these lead gen sites, powers some of these other organizations' offerings. So yeah, I think we're really focused on that conversion element which a lot of the lead gen guys are not focused on. It's not a straightforward process at all, it's sort of a different core competency, but yeah, that's how I see it playing out and I do see us offering other products over time, you know, really based on what our customer base is demanding or needs.

Peter: Interesting, interesting. So then who do you see as your main competitors because I don't see anyone doing quite what you're doing so who are they?

Stephen: Yeah, that's right. As far as from a product perspective, no one's doing exactly what we're doing. You know, you've got the lead gen category where we will compete with both the lead gen category and lenders, so both sides of the marketplace. We'll compete on keywords and SEO rankings and search rankings…we'll compete in that world. Our competitors when it comes to like social acquisition channels, we're competing with any brand that is trying to target this highly valuable millennial audience when I think about advertising on social networks, on Facebook.

And then we've got our proprietary channel where we've partnered, in most cases exclusively, with these associations, so we've powered the student loan platform for United Airlines Mileage Plus exclusively so we have this exclusive channel as well where we're acquiring customers through our network of partners. No one is doing exactly what we're doing, but we do compete with really anyone who is in the student loan category, who's going after the same customer. You are competing, but we live in a world where that sort of open marketplace and open competition for customers I think is inevitable as these intermediated markets mature.

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Peter: Right, right, we're just about out of time, but before you go you mentioned many different plays you can take your business. As you look at 2017, what's going to be your focus for the next 12 months?

Stephen: I think even beyond the next 12 months I think we're always going to focus on the customer experience so anything we can do to make it easier to get someone from a click to a closed loan so, you know, providing tools and resources and data-driven insights because we obviously sit in a unique spot where we have kind of access to both sides of the market and we can be really helpful to people in terms of this kind of intelligence engine and creating this seamless experience around these decisions. I think you can expect a handful of new, large partnerships most likely in the lead gen space where we're basically providing the conversion component to their borrowers' experience.

So I think you can expect a couple of those and I think we will look at new product verticals. We're thinking about the right way to do some of these other product verticals and which is the right category to get into next. We haven't made any firm decisions, but I would expect that we will start to think about other categories and we'll keep growing. We have plans to grow the team by at least 50% over the course of 2017, probably a little more than that so we're really bullish on where we sit in the market, growth we've experienced in the last 12 months and where our real opportunities are to make a really meaningful difference in the way consumers think about and make decisions and transact when it comes to consumer financial services products.

Peter: Well, that's fascinating. We'll have to leave it there but I wish you the best of luck and thanks for coming on the show, Stephen.

Stephen: Thanks, Peter, thanks for having me.

Peter: Okay, see you.

Stephen: Bye.

Peter: So the thing that struck me most in this interview was this whole idea of using lending as a starting point. Now we've seen it with SoFi, we've seen it with other companies as well where you basically start off with one vertical, I mean, SoFi is going into wealth management, they're going into insurance. It really does seem to me that lending…while lending is one of the biggest verticals there is in financial services, lending is also a great launching pad to offer other kinds of services to consumers so it will be interesting to see whether this trend will continue, I expect it will. I think we're going to see more and more of companies that have focused on lending branching out into other areas of fintech.

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

(closing music)

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