



FINTECH ONE-ON-ONE PODCAST 395-NICOLE LORCH

Welcome to the Fintech One-on-One podcast, Episode No.395. This is your host, Peter Renton, Chairman & Co-Founder of Fintech Nexus.

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Before we get started, I want to talk about our flagship event, Fintech Nexus USA, happening in New York City on May 10th and 11th. The world of finance continues to change at a rapid pace, but we will be separating the weed from the chaff covering only the most important topics for you over two action-packed days. More than 10,000 one-on-one meetings will take place and the biggest names in fintech will be on our keynote stage. You know, you need to be there so go ahead and register at fintechnexus.com and use the discount code "podcast" for 15% off.

Peter Renton: Today on the show, I'm delighted to welcome Nicole Lorch, she is the President & COO of First Internet Bank. Now, if you haven't heard of First Internet Bank, you should have and now is obviously your chance, they were this country's first totally online bank launching in 1999. Nicole has been there since the beginning and she tells a little bit about those early days and what they were like.

This is a bank with a long track record, profitable, a decent size. They're not a tiny bank by any means, they operate 100% online, been doing so for a long time, so she talks about what they've learned over the past, you know, 23 years and how to really bring the human touch to the online experience. She talks about Banking-as-a-Service and how First Internet Bank is becoming a serious player there, she talks about what it was like to see the rise of the digital banks, the neobanks over the last few years, she talks about Big Tech and much more. It was a fascinating episode, hope you enjoy the show.

Welcome to the podcast, Nicole!

Nicole Lorch: Thanks for having me, this is a real treat.

Peter: My pleasure. So, let's get started by giving a little background to the listeners. I mean, you've been at First Internet Bank, it seems like, for most of your career, but why don't you tell us a little bit of background about who you are and what you've been doing for the last couple of decades.

Nicole: Certainly. Well, I did join First Internet Bank when it launched in 1999, probably not very common anymore for people to stay in one place for 23 plus years, but this has been anything but the common experience. Sometimes in banks it can feel like the same year of experience repeated over and over, but I can honestly say that no two years have been the same since I joined. We were a de novo bank in 1999 when we launched, and ever since then our growth has been primarily organic. So something is always starting, something is always new and that has allowed me to grow my experience in ways that I may not have foreseen.

Before I joined the bank, I had a little bit of experience with banking in that I had done an undergrad internship at a community bank here in Indianapolis, did not expect to be a banker. I went into some fintech companies right out of college before the term fintech even existed so I was working with financial services organizations on a nationwide basis to implement digital banking systems at the time



which was very new. Then when the bank was getting off the ground, I had the opportunity to come over here and I thought I would be a dot com millionaire, (Peter laughs) it was 1999.

Peter: Right.

Nicole: Then the bubble burst, and now it's something of a get rich slowly program, but in terms of experience and knowledge that we've been able to grow over that time, that has been richly rewarding.

Peter: Right, right. So, I'd like to just talk about those early days for a minute, if we could, because, I mean, there's very few people I've talked to that have a history going back to the 90's at the same company. I remember the dot com era, I mean, it was just go, go, go and we were all going to be dot com millionaires, it felt like, everything was getting funded. What was it like because you launched the first online bank and banking is obviously a serious business, did you kind of feel like you were part of the dot com wave or how did you kind of think about it internally, what was it like?

Nicole: I think we've always had a foot in both camps, that fintech endeavor as well as the regulated industry. Balancing between the two is not always an easy proposition from the early days of filing our application with the FDIC for a charter to be a chartered bank without a vault, I mean, why would we need a vault, right? And so, we've been treading new ground on the regulated industry side, and I think sometimes fintech would then think because we have the charter, because we live in the regulated world we don't nearly have the same street cred or level of cool factor that some of the fintechs do. And certainly since we've been public in 2013 there's a pressure there to perform and to provide the shareholders with a return, so I felt unlike some fintechs, we are profitable and have been since 2001.

Peter: Okay. Wow, that is impressive. So, tell us a little bit about the bank today. Obviously, you're a digital bank, you have no branches, right, but what is sort of the core focus?

Nicole: When we launched in 1999, the idea was that we would provide a range of services to consumers who did not need that branch infrastructure and I think the assumption was that we might serve primarily a student population with a backpack and a \$20 checking account. But, in reality, we attracted high net worth individuals who traveled a lot so we had traveling professionals, we had people in the airline industry and we were growing our deposit base much, much faster than our asset size because we were getting \$20,000, \$30,000, \$40,000 money market accounts with no need for a \$20,000 auto loan.

So, the story of First Internet Bank has been a continual reinvention and in the early days it was about an effort to grow the asset side of our balance sheet which we did through indirect RV, and horse trailer loans, which remains to this day a niche for us where we can be very successful, but that, of course, kind of feeds the nomad lifestyle. And so, if you are in an RV, and even if you are just a snow bird and traveling in the winter months, still that ability to bank with a bank that doesn't have that branch network has mass appeal so that's been a successful market for us. We entered the mortgage industry right after the time that the financial crisis had melted everything down and many banks were sitting back and trying to make sense of their portfolios. That was a tremendous time for us to get into nationwide mortgage lending so we have been a long time residential mortgage lender on a 50-state basis.



When the commercial real estate followed residential real estate that's when we were able to get into residential real estate, I'm sorry, commercial real estate and we have some commercial real estate programs that also operate on a nationwide basis which is pretty uncommon for traditional banks, most banks like to lend within a certain footprint of their branch network. But with the programs that we've built, we've been able to do lending on a nationwide basis and have been very successful with tremendous asset quality.

So, after we got into commercial real estate, we continued to look for ways to expand the bank which we have done through municipal lending channels. We've grown into commercial acquisition development and construction projects and more recently, we have gotten into the small business lending space through an SBA government-guaranteed program and we're now inside the top 30 of nationwide of lenders in the 7(a) loan program.

Peter: Fantastic, that's really great. So, in some ways, you don't look that different to a traditional bank, I mean, apart from the fact that you don't have a geographic footprint. A lot of the products that you just talked about there, you know, a lot of the, maybe not the smallest community banks, but certainly some of the larger community banks have a similar type portfolio, right. When you compare yourself, like who are your comps, shall we say?

Nicole: (laughs) It's very difficult to find a peer group for First Internet Bank because in different lines of business we compete with different players. Obviously, on the residential mortgage space, you probably heard of Rocket Mortgage or Guaranteed Rate and there are other nationwide lenders where we are effectively competitive. And then as you look into some of the commercial real estate programs we're doing, we have a program called Single Tenancy Finance which I don't expect some of your listeners to know about, but we will lend on a nationwide basis.

As an example, take an out-lot tenant like Walgreens or similar drugstore or some quick service restaurant, so we're not talking strip-malls, but the ones that are on the out parcels. When they are going to finance a new location or open a new location they don't want to hold that real estate on their balance sheet, so they'll work with a local real estate investor, but those local real estate investors often find that they can do programs just about anywhere, even outside of where they live, and sometimes banks locally don't want to finance that. So, we've been very successful in building this niche program, also like our niche RV and horse trailer lending program. That's really been the secret of success for us, I think, is to find these programs that we can execute on a nationwide basis from a single office here in Fishers, Indiana.

Peter: Right, interesting, interesting. So then, obviously, you've been going for 23 years all online, you've probably developed sort of a way to create a human connection, you know, because a lot of people will go their branch, people will value that. So, I'd love to sort of get a sense how you approach sort of the face-to-face or person-to-person that you can get at a bank, what have you done to kind of emulate that in the digital world?

Nicole: Something that's been very important to the leadership of First Internet Bank is that while we believe we have all the technology you could possibly need in order to conduct your day-to-day financial transactions, for that matter, you could even get a mortgage loan with us start to finish without



having to pick up the phone, the digital tools are there. But the reality is money is personal, money is emotional and in those kinds of situations you want to know that there is excellent service backing those, you know, big decisions that you're making as a consumer so topnotch personal service has always been an imperative for us. So, I think we're able to create this hybrid experience where we have the technology, consumers need, but at the same time we're providing a personal level of experience that they might expect from a traditional branch experience.

So, one thing that we've done if you go out to our website at firsttib.com and you go over to the customer service area, we have in real-time all the photos of the people who are there to serve you and whether or not they're available at that very moment to take your call. So, if you called this last week and talked to Will about a complex IRA issue or something that had to do with a trust and today you have a follow-up question, rather than start that conversation over again with whoever answers the phone first, you can see if Will is available to take the call. Will has a direct toll-free number where you can get a hold him and you can resume that conversation. So, that has helped us to forge one-to-one communications with our customers so that when they are conducting these big transactions they can find a person who best knows their situation to carry on that conversation.

We do the same thing on the residential mortgage side. So, if you're working with one of our loan officers, you've worked with her before and you want to talk about maybe refinancing that loan or buying a second home, you can see if Ashley's available to take your call today and carry on the conversation. So, that's just one example of the things that we've been doing to help forge communications and a deep personal connection with our customers who may be thousands of miles away. We've actually had customers who have been on nationwide road trips from one end of the country to the other who stopped in here to Indianapolis to see what the hype's all about and to really meet the people that they've been working with all these years so that's always fun when we get a drop-in.

Peter: I'm on your website now and I see on the Home Page you really don't hide it, you're like front and center, also on the right hand side at the top right of the page is call now with your toll-free numbers so most fintechs don't have that as prominent. So, tell me a little bit about, like is your call center operational in Indianapolis, I mean, tell us a little bit about how you kind of manage that.

Nicole: So, that was always a consideration. We do not outsource or offshore our Customer Service Group. It was really important to us because we're building a culture here at the bank for our employees and because we want to extend that culture to our customers. That we manage that end-to-end so we do have a contact center here in Indianapolis, well Fisher is in Indiana, to be more specific. We have a few remote employees who have been alums of the center here in Indianapolis and life has taken them into different locations. So, not a hundred percent of them are under this roof, but they are all First Internet Bank employees, and so that really allows us to provide a more consistent experience because we are better able to manage the expectation.

Peter: Right, right. So, I want to go back to the technology piece because it sounds like that's a really important piece for you guys, maybe you can just touch on the approach there. Obviously, an online bank has to be very tech forward, it sounds like from what you're saying, is your technology is very much about consumer-facing technology so that you very much, making the experience easy and



positive for the customer, or the potential customer, but maybe just talk a little bit about how you approach technology in general.

Nicole: Because our Founder & CEO was not himself a banker, he was a technology entrepreneur, we have always approached our business model as being able to provide the types of services that that very busy professional would need at whatever hour that may be because anyone who's ever owned a business or has been a dedicated professional knows the professional life extends well outside the 9 to 5. So, bankers' hours just don't work for people and many who can help themselves will. So, we've tried to bring as many tools to our consumer as well as our small business banking experience as we can, it was a very big moment for us in 2019 to be able to move in an official way into small business banking with not just the lending, but also a deposit product so that we can bring services to the small business owner since our founder is himself a small business owner.

That was a very big moment for us to be able to extend our service in that way, we've been quietly doing it in the background all this time, but to be able to bring that loan product to help them grow their capital so that they can grow their business. All of that is intended to be very intuitive, easy to use because when it's one in the morning that may be the moment that you have available to do something rather than stand in line or try to reach somebody at the bank. So, we've brought as many of those self-service tools to the digital experience as possible and that includes some things that other banks may not have previously thought.

So, for instance a CD, we are in a rising rate environment right now and, you know, you may want to strike when the moment is hot and move money that's previously been in a checking account over to a CD to lock-in a certain rate and with us you can do that 24/7, online, buy a CD in real-time so you transfer the money from your checking account to fund that new CD and there it is, right there for you. Similarly, if you want to make a loan payment, you forgot to do that, I've done that myself, forgot to make a credit card payment very last minute, it's all real-time and up to the minute so it's available with just a couple of clicks to the button.

Peter: Right, right, okay. And what about behind-the-scenes, we looked at your sort of backend technology, your banking core, is that pretty similar to a traditional bank, I mean, is there anything going on there that's different?

Nicole: The interesting part about our technology stack and most people would assume that with a name like First Internet Bank we employ hundreds of programmers or at least dozens and the reality is we don't. We use commercially available software that other financial institutions are using. Often we are leading edge, but not necessarily the bleeding edge. I've met with other bankers locally and on a nationwide basis, we talk about the technology we're using, you know, there's nothing proprietary about what we're doing except perhaps the way that we have integrated those products in order to deliver the experience we believe our customers are expecting.

I like to think of the secret sauce as our digital DNA and that's just the fact that we've been doing this for 23 years, we've been opening deposit accounts online for 23 years and many banks are still not quite there and when they do think about building an online channel for deposit accounts, for instance, they strive to re-create that branch experience through a digital channel. The way we try to approach things instead is to say what makes sense because often traditional banking just doesn't make sense



to people who have been outside the system so we look at it from a customer's viewpoint first in terms of what their expectations might be.

How can we make this easy, how can we make it frictionless and, of course, any bank that is in this regulated environment knows there are just some boxes that we have to check, there are some steps that we absolutely must take. So, how can we put that in front of the customer, whether it's a small business owner or a consumer, in a way that feels intuitive, explains it and helps them understand what the next steps are going to be. So, it's that digital DNA that really helps us to continue to extend the experience even though the products and technologies we're working with would be available to almost any bank in the country.

Peter: Right, right. So, I'd love to get your take on the rise of the neobanks, the digital kind of banks, some of them don't have a banking license and have a partner bank, some of them now have banking licenses one way or another, you're talking about Chime and SoFi, Varo. These all have millions of customers now, not profitable for the most part, what's your view on these companies, many of whom have raised hundreds of millions of dollars or even billions at high valuations. What's your view on this rise of the fintech bank?

Nicole: Because we started as a fintech, I certainly don't begrudge them their opportunity that's ahead of them and I think in many ways what they are doing is inspirational, they have a mission, they are able to reach a target market and they are able to start from scratch without legacy systems to build that customer experience. And so, a lot of what we see, we do really appreciate what these neobanks are striving to do and often by building a target market where there is some affinity they are able to tap into that need that that particular community has in a way that mass market banks may not be able to understand.

So, I say by and large, we appreciate what they are striving to do and to continue to personalize the experience for whatever end consumer may be their target and so we're very pleased to be able to partner with these fintechs, neobanks, challenger banks in a way to help them get access to traditional banking rails, whether it's the ACH network or card network and we are providing the backend services for a number of fintech companies so that they can continue to partner and provide those services out to the end consumer.

Peter: Let's dig into that a little bit. You know, we're recording this in late October and I noticed just a few days ago, you had a press release out talking about Banking-as-a-Service, you've got a partnership with Treasury Prime, for example, tell us a little bit what you're doing there and how that came together.

Nicole: So, we have struck partnership with both Treasury Prime which is a long-standing, I think of it kind of a middleware platform or a middleman, but it's a communication point between a fintech and a financial institution. Treasury Prime is able to provide the technology stack that a fintech would need in order to apply its own user interface so that they can then in turn grow customers, but then, of course, you need that backend financial institution that has the access into the ACH network or a card network and in many cases, banks operate in an FDIC-insured way. So, Treasury Prime's an example, they're very successful, they work with a network of 15 financial institutions and we're proud to be one of them, I think that they're doing things in the right way.



This fintech bank partnership is something that I think has really exploded in the last year and we're going to see some winners, we're going to see some, you know, less successful entrants and I think the important thing is that the parties need to understand what their respective responsibilities are and that's something that Treasury Prime manages very well, like anybody who has worked inside a bank knows there is a long list of cans and cannots. And so, fintechs often don't want to know all of that, but there are certain things that they have to be ready to provide and ready to understand in order to work within the banking community so I think that Treasury Prime helps to facilitate that conversation.

We've also entered into a partnership with a company called Increase which operates in much the same way. The principal behind Increase actually has deep card experience and so understands the card processing network very well and we have three programs now that are in pilot through our partnership with Increase and we expect to bring those into full production over the next quarter. So, we're in implementation with Treasury Prime and are looking at some programs with Treasury Prime and then we have programs that are already in a pilot phase with Increase. So if we talk in three months more, I will have so much more to tell you.

Peter: (laughs) Okay, okay. So, given that you've been doing this for a while, what do you think that the fintech industry can learn from First Internet Bank, I mean, what do you think that you do better than or that you understand more than those that haven't been doing it as long?

Nicole: There are a number of banks that are currently in the space to provide Banking-as-a-Service to fintechs and some of them are smaller and some of them are about our size. We're \$4.3 Billion in assets right now and regardless of the asset size, I think one thing that a fintech should look for is that deep understanding of how fintech bank partnership ought to work. Certainly, everyone wants to be successful in the long run, but there needs to be a good give and take and an excellent partnership and stream of communication. The one thing, I think, First Internet Bank brings to the table is that we have been ...we started much like a fintech 23 years ago, and we have that deep understanding of what it is like to grow a nationwide digital audience from a single location. So, we've been there and we've been providing a relationship, Banking-as-a-Service relationship, before that term even existed.

Like you go back to the early 2000's, we were partners with the state of Indiana so that if you wanted to renew your license plate or get a hunting or fishing license through the state of Indiana's website, you could do that and pay via ACH rather than by credit card because, of course, ACH is much more economical. But other banks in other state websites just weren't offering that at that time so we were kind of pioneering in that way and that's something that we got off the ground very early.

We've also partnered with a search engine that was human-powered so if you searched on any term, you would get a more in-depth response because there was a person behind that search engine who was looking up that answer and digging down, and often these were subject matter experts. So, we provided kind of a real-time accounting solution for every search that that person was conducting, they were starting to rack up some earnings as an independent contractor, and then when they wanted to get paid on a real-time basis so we're not talking like, you know, an every other week kind of payroll system, but if they wanted to get paid at 2 in the morning, they could hit a button and all their earnings will be transferred to their branded debit card that we were also powering, and then they have funds available to spend in that moment.



So, we were working with about 20,000 guides on a nationwide basis through that powered search engine so that's another fintech partnership that we were doing in the very early days. So, I think it's our history, our flexibility, our willingness to think outside the box and understand where the fintech is coming from and, of course, then that scale and size that we bring to the table that we're able to bring to theirs for the fintech.

Peter: Right, right. So then, what are the challenges that you're tackling right now, as far as growth goes? Are there are certain segments that you're looking to grow more than others and in those segments who are you going up against?

Nicole: So, we're at a very interesting time here in late 2022, where we're in a rapidly rising interest rate environment. I think the rate at which we are seeing rates increase is truly historic that has been driving up the target rate faster than I've experienced in my career and inflation is at a level that many bankers have never seen in their careers so what we're seeing right now in the banking industry is a lot of soul searching on what is the right direction to go.

As for First Internet Bank, we are very pleased with the channels that we have built out, and so the areas that we will continue to focus on, where we think that we can provide value to our partners, value to our shareholders, would be our Banking-as-a-Service line. We have some great programs in pilot and will continue to emphasize those because there's just no abatement in the pool of ideas that are out there, I think, where we are seeing a bit of a maybe retrenchment in the fintech space. Certainly, there is that emphasis to not just have a great idea and get eyeballs, but to get to profitability so capital is a little less patient for some of those fintechs and we're certainly seeing a bit of a pivot in that industry where it's not just about great ideas, but ideas that can be monetized and done at scale.

So, I think that First Internet Bank has a great opportunity there to partner with some very well run fintechs. We're also continuing to see, even as rates climb, demand for lending and so we're seeing quite a bit of construction still happening on the commercial real estate side. With the supply chain challenges that we're all facing, some of those projects are taking a little longer to complete, there have been times where wood has been hard to come by and then it was glass and aluminum and concrete now so there are certainly challenges to get those projects done on time, but growth continues, and so whether it's growth in the commercial space or even on the residential side. Certainly, there is the need for housing in this country, there is a need for affordable housing, I think where rates are right now, unfortunately, that's putting a damper on the growth that is needed in that area, but we do still see some multi-family projects that are happening.

So, as our population continues to grow, we need to make sure people have a safe place to lay their head at night so we're proud to be a part of that industry and we're also seeing tremendous growth still in the small business space. Small business makes up half of the nation's economy and that is where we see the most innovation so we're proud to be able to support that innovation and growth and we are still seeing tremendous demand for small business lending as well as small business deposits so we're proud to be part of that.

Peter: Great, great. So, before we close, a couple of more things I want to get to. I want to talk about Big Tech, companies like Apple obviously doing deals with Goldman Sachs and getting deeper into



financial services, you've got Amazon doing different things, how do you view Big Tech from your perch as they move into financial services?

Nicole: Big Tech certainly can do things very, very well, sometimes though we don't see a focus in a specific....because they are in so many different areas, there needs to be more of a focus on any one area. People ask if, you know, we're concerned that Google seems to be moving into the checking space with their Google Wallet product and partnering with some banks there. You know, we've been partners with Google in the past, we were in the...I think it was about the 2010 timeframe we worked with Google which had started a search engine for mortgage rates. And so, often your very first search when you're thinking about buying a home is just what are mortgage rates now and so not only would Google bring back that information, but it can also point you in the direction of certain lenders.

So, we were taking leads through the Google network at that time and then one day Google decided it didn't want to put emphasis on that project anymore and so that source of opportunity has dried up for us almost overnight. And we've seen Big Tech dabble in some things in the financial services space and then we've seen them pull back on it just as quickly. So, ultimately, I think that, you know, even Big Tech companies realize that to play in these regulated industries is not a simple proposition, and you really do need a level of commitment to it.

So, I think Big Tech has developed some beautiful products that have revolutionized our lives, I can't imagine what my life might have been like before a smart phone, for instance, and I don't know how we settled bar disputes on a Friday night over a random trivia before smart phones. But we do see that, you know, there needs to be a focus when it comes to financial services because when we are talking about a person's life savings and we're talking about their homes, so those are deeply personal and they need to be very well executed.

Peter: Right, right. Last question, I know you're a public company, you can't make forward-looking statements necessarily, but I'd love to get a sense of what you're personally excited about for 2023 as we get close to the new year.

Nicole: Banking is never boring, I mean, I've had people say to me, why do you stay in this conservative, boring industry (Peter laughs) and I think that it's anything but.

Peter: Right.

Nicole: We're certainly at a moment again where it is anything but boring. So, we have some interesting things happening right now in the economy with rising inflation or inflation that refuses to abate and rapidly rising interest rates in an effort to combat that so I think that banking is in a really pivotal moment right now where we can continue to serve customers. So, when rates are going up, we can help them to save, when rates are going down, we can help them to refinance their homes and maybe save some money that way so we're never without an opportunity to continue to help the consumer, to help the small business owner.

And for First Internet Bank, because we're not that big in the scheme of banks, I mean, we're big enough to know what we're doing and where we can be successful and where we can't, but we're a very nimble organization. So, we will continue to look for opportunities, whether that is through



partnerships or that is going a line of business directly, something we announced very recently, within the last two years, was a partnership, for instance, with ApplePie Capital which is a fintech lender to franchise owners. ApplePie partners with the franchise as well as with the franchisee and through that we've been able to grow relationships and help entrepreneurs beyond their business. So, we will continue to look for opportunities like that where we can partner and serve an even broader audience.

Peter: Okay. We'll have to leave it there, Nicole, thank you so much for coming on the show, really fascinating story and thanks for sharing it with our audience.

Nicole: Well, thank you for giving us the opportunity, it's been a pleasure today.

Peter: It was really interesting hearing Nicole talk about some of the partnerships they have with some of the newer fintechs that are out there and how they've embraced Banking-as-a-Service which, you know, is certainly something that is one of the hottest trends in fintech right now. Everyone is doing it, it seems like, because there is so much demand and the fact that they have everything set up, they are a really interesting, you know, organization in all the deep experience, much more experience than pretty much any other fintech bank has and they are doing this in the context of their traditional bank services that they offer. So, really interesting to see all that and I think they are a bank to keep an eye on.

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

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