LEND ACADEMY

Podcast Transcription Session 30: Rohit Arora

Peter Renton: Welcome to the Lend Academy Podcast, session number 30. This is your host, Peter Renton, founder of Lend Academy.

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Peter: We are kicking off 2015 here on the podcast with a fascinating company and a fascinating guest, Rohit Arora. He is the CEO and Co-Founder of Biz2Credit. Now, Biz2Credit have been somewhat of a quiet achiever. The name is becoming mentioned more and more, but they're not still probably the household name like a company like OnDeck or Lending Club is. I think that's going to change. With the podcast today, we'll learn a lot about what Biz2Credit's doing, some of the real groundbreaking work they're doing in small business lending and just how successful they've been in attracting investors, in attracting borrowers and really the returns they're providing are nothing short of excellent. Hope you enjoy the show.

Peter: Welcome to the podcast, Rohit.

Rohit: : Yeah, welcome for the opportunity.

Peter: Okay, so let's get started. Just tell our listeners a little bit about yourself. Can you give us some background and how you came to start Biz2Credit.

Rohit: Biz2Credit was started in summer of 2008 by me and my brother, Ramit. Being four-generation immigrants into this country, I came here in fall of 2003, so pretty recent immigrant. One of the things that struck both of us was that even during the last credit boom, while the mortgage availability was there, there were lots of brokers and a lot of assistance from banks, it was a big issue with small businesses who were trying to get access to credit and they were having a very hard time in doing that, especially with immigrant businesses, it was even worse. That's how the idea came to set up an online platform via business owners should be able to get access to the best credit options that they should be availing of at any point of time in the business.

Peter: Okay, did you have any background in credit yourself or did you just or did you just see the ....you saw the problem and you wanted to fix it?

Rohit: Yeah, so my background was when I started my working career with GIC Singapore which is a big sovereign fund managed....was part of the fund where we were investing money in companies in India and China and by using Singapore as a front end. That was in late 90's, early 2000. One of the companies that we put money at that point of time to our fund was Alibaba, which one everybody knows. It was all SMB play and logistics play so when I came to the US I had an idea that because technology is changing and all that stuff in the emerging markets, but also in the US and one thing that struck me at that point of time or two things that struck me at that point of time.....one was the mobile space in the US was far behind the rest of the world, especially Asia.

The second thing was still a lot of stuff in the SMB space in the US, whether it was credit, whether it was SMBs trying to get a new location or buying insurance or everything else was still pretty much offline. The whole technology market was more focused on the consumer stuff and less on the small and mid-sized businesses.

Peter: Sure, okay.

Rohit: So that's how we started the business and my brother.....he used to work in Citibank in India and then came here and was working with Xerox as a financial analyst. So both of us had financial background and at the same time understanding the gaps of the lending marketplace.

Peter: Sure. Can you tell us what exactly Biz2Credit does, I mean, obviously, you're providing financing for small business, but how does it work?

Rohit: Yeah, so Biz2Credit, as I said....we started it off as a marketplace where we said that it should be an intelligent marketplace. What we mean by that is we should have the ability to act like virtual CFOs and for doing that we looked at various models. One model we found was that in 2008 most of the platforms, even on the consumer and mortgage side were doing lead generation so we said that at Biz2Credit we will not be lead generators. What that meant was that we'll not get the customers in and sell that information to lenders. We said we have to do a lot better than that. That was the whole genesis of Biz2Credit so we said what can we do better than a normal lead generation platform?

We identified five big touch points for businesses; they were accounting, you know, businesses maintain their books or their accountants to handle their payroll; their payroll is run by a third party company. They put a lot of money in trying to market their businesses. It used to be more offline and a lot more online now, but obviously rmarketing was a big challenge for them at any given point of time. They hired a payment staff, they were invoicing or accepting credit card payments and they were also filing their taxes, whether they were sales tax or they were quarterly taxes, tax returns or they were annual tax returns. What we found out was in most of these things they were doing, either they were using a third party or if they were doing it on their own, it was very manual-driven.

So we said that if we take into account all these five touch points, these generate a lot of data from a credit perspective and if we have the ability to go and build the pipelines, put different accounting packages into payroll products and into other aspects out there, what I just mentioned, then without having to ask the customer a lot of information on an ongoing business, with their consent we will be able to get that information and we will be able to float their credit worthiness. Then offering them credit becomes just a process and a product because if we are able to benchmark them, scorecard them, help them to keep improving their credit worthiness and by promising the customer we will make money only if you get funding and not selling the leads to anybody else, we said why don't we so that will create a lot of trust.

At the other end, what we started doing was we went to lenders and told them that we're not going to sell your leads so you don't have to pay us anything upfront, but in lieu of that you give us your underwriting criteria. To a lot of lenders, obviously, it was a big no, no, but they eventually realized that that was a better way. So we crowdsourced a lot of underwriting models in the business. Now that gave us a very good insight into what the lenders are doing, what they doing well, what they are not doing well, what level of information they're asking and in lieu of not selling them leads, we also forced them to give us all the performance data that was ....so like we said, okay, we are not taking any balance sheet risk, but we should still have all the performance data on these loans we made for the platform that we think we will be able to help both the business owners to keep improving their credit worthiness as well as help the lenders because we will be able to benchmark the borrowers, we will be able to benchmark them against our scorecard and then we can help the lenders to build better products.

Peter: Okay.

Rohit: : So that was the whole genesis.

Peter: Okay, I wanted to touch on a couple of points there. The first, the virtual CFO thing you talked about where you go in and you provide basically a part time CFO, is that a service you still offer today? Can people get into Biz2Credit as a client without actually taking out a loan or are you purely just a loan marketplace today?

Rohit: : We still do that and what we have done is that whole virtual CFO concept, we have automated it so much so that even today when a business owner goes in and they want to sync their bank accounts, they want to sync in their accounting packages, they want to get the data from IRS so we provide all that. They can actually...and they get this BizAnalyzer score which is a culmination of their personal credit scores, their business credit and all the cash flow analysis and the industry list and they get a document storage board where they can store all their docs and their accountants can work with them.

So the whole philosophy today, we will help you as a virtual CFO and we make it so easy for you as a business owner to go in and do things which you normally won't do. One big challenge for most of the businesses is their documents are never stored in one place and every time they are going to apply for any lending product....you know, once you have gone beyond the typical cash advance then the lenders will need your tax returns for the last two or three years, they need to do all the cash flow analysis and every time the borrower either scampers for it or will go back to their accountants, want to get it from them so that's a big nightmare for a lot of these guys out there.

What we have done is that when we initially started it was manual to a certain extent, but over the years we have automated it and the benefit of that is we actually have a very high personal retention and we can actually upsell them a lot more credit products and the performance of those customers on our platform is great because before the default...let's say they get into any problem, we can see that, we can help them with the solutions and then we also have a team of credit-trained loan specialists who actually have very sophisticated dashboards and to them.... we provide every customer the ability to do a free loan consultation once they have to fill out the stuff, they have to give us access to their data. By doing that we have seen that we are able to attract and retain very high quality customers which typically in the industry is a challenge because companies spend a lot of money just acquiring customers while we are positive that acquiring customers is one part, but the retaining and growing those customers over a period of time is actually more important.

Peter: Sure, sure, okay. So then just on those customers, who are the typical clients, I mean, these are small businesses, obviously. Do you specialize or do you seem to have a concentration in certain areas? I mean, who are... who's applying for loans?

Rohit: That's a very good question. You know, Biz2Credit runs an institutional platform as well as a banking platform and the one platform works in conjunction with the other as well as it competes. So the kind of customers that we get could be, in certain cases, purely start-ups which get funded through RSB, a loan program which is part of our banking platform via micro lenders like Accion and Valley Economic Development Corporation who are fully automated to our platform. These are the guys who will actually fund more very small businesses and businesses typically not getting funded through our institutional or through our traditional banking platform and then we have institutional platform there.

We have seen that by attracting such high quality customers, a large number of our customers there have average age of business of between four to five years, have revenues of more than a million dollars and what we are seeing is by giving the customers a lot of transparency and an ability to move between the institutional products and banking products, we are able to attract very high quality customers on the institutional platform, we are able to retain them and we are also able to do products which nobody else is able to do because of this mix and match kind of stuff. By making it fully automated for the end customer as well as for our institutional partners as well as for our banking partners, the cost of doing that mix and match and cost of doing all the analysis actually is very low. This also encourages borrowers to not default and also it encourages them to keep growing their business and keep getting better products because that's our whole promise...that if you keep performing on our platform as a business borrower, we will ensure that the next product that you get on the platform is better than the last product that you bought.

Peter: Sure, sure, let's just talk about those products then. I mean, obviously, you've got your banking platform, institutional platform, you talked about the SBA loans that are on the banking platform, could you just talk about the range of products on both platforms. I mean, are these one-year loans, three-year loans, five-year loans, what are you doing?

Rohit: Yes, on the institutional platform we have loans ranging between one to five years now, we go from a typical amount anywhere from $25,000 going up to a million dollars, we have products which are bridge financing products. Let's say a customer comes in and they need institutional money, but they can qualify for a bank loan let's say, six months or a year down the line then we'll give them a three-year or a four-year products with early pay off discount and we'll also facilitate through our banking platform an ability for them to get a bank loan that's good for institutional guides because they get their money back pretty quickly, they are able to deploy that money back on the platform and by putting all the bridge product they are able to attract some high quality customers.

Then we have typical working capital loans which are anywhere from 18 months to five years, normal day-to-day working capital, then we have multiple products which is a traditional working capital, we do a payroll financing product because we work via partnerships with companies like PayChex and some of the other large payroll companies so we get a lot of data from these payroll companies then we have a payroll product for their customers so these customers can meet their payroll needs. Most of them...their payroll needs arise because some of these companies have got big contracts and they have a little longer account receivables and they need the money to bridge that gap.

Then we also have a real estate back products now in our institutional platform where we do a five-year loan products against a commercial real estate, owner-occupied commercial real estate and we have modeled that product on an SBA product because SBA, if you see a large piece of SBA lending in this country is against business acquisition or for businesses who have some kind of a commercial real estate. So we have brought that product on the institutional side, products with very attractive yields, very low defaults and also the ability that the banks are also buying those loans, season loans, off our institutional platform. What we have done is we have taken a lot of the banking products and put it on the institutional platform and by doing that we are able to provide credit to very high quality customers, we are also able to ensure very low default rates, we are also able to ensure that our institutional investors, even if they invest in products ranging from three to five years, can get an exit or part of their portfolio can get an exit at par or at premium within a time period of 12 months to 24 months so that keeps the whole engine chugging and the whole premise that as a business owner, if you keep performing well, you can keep getting better products.

That promise is also there for the business owners. The institutional guys are happy because the way institutional loans are returned as assets if you are underwriting a bank loan, but without the bureaucracy and they're fully automating it and for banks it's great because they are not able to compete in the primary market, but now they can come and buy loans off the institutional platform once they are seasoned.

Peter: Okay, that's actually what happens. It's almost like you have a secondary market.

Rohit: Yes.

Peter: So you've got loans coming in, they've got a....you might have 12 months or more of payments and then you're selling off these whole loans off to banks. That's fascinating. I guess...what goes on your banking platform, is it really just SBA loans that go on there? How do you decide what goes where?

Rohit: Yeah, this is a very interesting question. What goes where obviously gets decided by the loan terms, by the amount you need. Let's say somebody qualifies for more than a million dollars, it will go on our banking platform, but obviously, if the banking guys are going to take a little bit more time then the institution can fund it as a bridge loan. Typically, what we see on our platform is that when the customer or business borrower is coming in we are obviously capturing their financial information. We have built pipelines into IRS, built pipelines into their bank accounts, pipeline into their accounting packages and we are able to calculate all the financial ratios including debts and recovery ratios and their historical financial data. At that stage, based on the customer preference, how quickly they need the money, what for they need the money, we offer them both institutional product and a banking product.

What we are saying is that a large number of banks ....the borrowers will pick institutional products with the clear visibility that what kind of banking product that they can get. Now in terms of banking products, we have partnerships with banks like Union Bank of California, TD Bank, Citibank and now other banks are joining in.

What we have done is we have automated that process also. So let' say you need a banking loan product, whether SBA or non-SBA, we have these banks. Of course, we have a large number of small banks on the platform so you don't have to go and fill out their applications manually or anything. All that gets filled through the platform and you can see your options at any given point of time. A large number of times what we are starting to see now is people are opting for a mix and match, especially the bigger borrowers. They will take some institutional money and some bank money or the institutional money gets refinanced into the bank money. Obviously, it's an acquisition financing that we do.

We do bigger C&I (Commercial and Industrial loans) deals so what I mean bigger C&I deals are deals above a million dollars so sometimes they also go directly to our banking platform, but the beauty of the platform is that the customer can see all their options and they can decide which option they want to work with. I think that is something interesting on our platform because while we run an institutional platform, we also by making it compete against the banking platform and banking platform to compete against the institutional platform, all the best practices are transferred to each other. At the end of the day, the customer gets the best products that they can get and that's a motivation also for them to keep working.

Peter: Right, so you present a number of options to a borrower. Obviously, some of them...they're going to range in interest rates, they're going to range in loan terms and then.....

Rohit: And based on their preferences also.

Peter: Right, sure. So even if someone says that I want a three-year loan, with this amount like $200,000, even though it's pretty clear the loan terms that they want, you'll still provide them with multiple options.

Rohit: Yeah, we'll provide them with multiple options and there’s education stuff also there because we'll tell them that if you go on our institutional platform, this is what you will get, these are the terms, this is the turnaround time and everything. If they want the banking platform then this is what you get and there's a third option that you can borrow money from the institutional platform and then can get sort of a refinanced or the whole loan can be bought by the banks down the line after you have made all these payments. A lot of people like that because then they have a clear visibility and they can borrow money quick and they can get what they want to do without having to pay exorbitant prices.

Peter: Right, okay, so let's just talk about defaults for a little bit because, I mean, you obviously got a range of products and I imagine that some loans are more risky than others. Give people a little bit of an idea about your default rates as well combined with the actual interest rate that you're charging so we can get some idea of what those returns can be.

Rohit: On the default side, the interest rate side....what we charge on our institutional platform to the borrower is anywhere between 11 to 17% per annum. In terms of default rate on our institutional platform over the last three years, we have done $300 Million just in the institutional platform and our default rate right now is only 0.6% actually.

Peter: Wow, that's amazing.....

Rohit: Yeah, yeah, the reason behind it...the reason is very simple. I would cite two or three reasons.

One, we don't source any of our deals to any brokers so there are no ISOs on the platform. Every customer gets an intelligent dashboard, every customer gets that virtual CFO stuff, every customer has an ability to set up a free loan consultation, every customer will not get this but every customer has the ability and the visibility on what could be the exit path from an institutional loan could be there. So by keeping that kind of a tight underwriting and by working very closely with the customers and by using technology really well and we have our own BizAnalyzer score which actually updates every month or every quarter so all the loans that have been given to our institutional platform....you know, we monitor them on an ongoing basis for this analysis score and we can see if any stretches are coming in, a lot prior to their starting to miss payments or if they miss one or two payments then we start to do some workouts for them.

So the benefit .....I mean, by having a mix and match of products and by showing to the customer that you have a path towards a better and a better and a better product because on the banking side, our interest rates are anywhere between 3.25% to the US prime to 6%. That's a big incentive for borrowers to keep performing on our platform because the more they perform on the platform, the better they perform on the platform, it's easier for them to get cheaper and cheaper loans down the line.

Also, if they're performing well and the loans are performing well then the banks are willing to buy it at a premium, which we share it with our institutional guys. The institutional guys are willing to lower the returns like from January we are launching some products on our institutional platform. The rates will drop to 7 to 8% because we know exactly how the performance of these loans are, what premiums the banks will pay so whatever money the institutions are foregoing upfront....you know, they make a lot more at the backend pretty quickly once they have a certain amount of portfolio.

The other benefit of this is that we are the first dedicated SMB platform which has got a leverage facility so we have a leverage facility from Citibank and Nomura in place. These leverage facilities are coming in at very competitive price, much lower than CapOne's of the World like what they were giving. The reason is because of high quality portfolios, low default rates, you know, traditionally having a maturity period between one to four years and the ability that banks can buy those loans for their CRA requirements. So the leverage guide is very light, that kind of stuff.

Peter: Sure, I can see that. I just want to talk about the investor size. So someone wants to come on as an institutional investor today, firstly, do you have a waiting list and what sort of minimum investment do you require. I presume you only deal on whole loans, is that correct?

Rohit: Yeah, right now we are dealing in whole loans. Starting end of January/early February, we will also start offering the syndicated portion of fractional loans because our loan sizes have gone up and we have more and more institutions who want to join the platform. We also want to diversify that source of the money so that's happening as of now.

In terms of waitlist, I would say, right now, we have this added four to five new institutions. Some of them are pretty big Euros, some of them are Asian and European institutions, pension funds and all that have come to us and they have been looking for two to four-year products from very high quality customers that they want to fund through our platform. So I would say we are growing very fast and what we are doing is ....there are two ways to grow fast.

One is to lower your underwriting standards which, obviously, we are not in any mood to do that, but what we have done is we have looked at a lot of market gaps and are transferring a lot of products from our banking platform into our institutional platform. Prime example was the real estate-backed product that we recently launched. When we look at the market side, we are saying that by launching these kind of products we are literally launching a private SBA market and if you see the SBA market share, every year they do almost $40 Billion in new lending and they have like almost $800 Billion in outstanding loans.

By increasing the deal size, we are able to capture a lot of C&I market which are the commercial and industrial loans. The banks still, with all the slow processes and everything, still do between $180 to 200 Billion a year. So what we are saying is that by transferring a lot of banking practices into our institutional platform, but making it fully automated, fully seamless, by helping customers and by monitoring them on an ongoing basis...because the typical challenge for a lot of alternative lending platforms is what size they can go up to at any given point of time.

What we are saying is if you can map out the credit worthiness of the customers then you can do a larger size, you can take collateral, you can even have secured loans out there and you can have a fractional opportunity for a lot of institutions so that when they get a portfolio which is very diversified on our platform itself, part of it could be bridge, part of it will be bought by banks, part of it will be working capital, normal part of it would be just for growing their business. The benefit of that is on a platform like Biz2Credit and institutions are building very diversified portfolio, both from a loan product type, credit profile as well as their exit options. So some could be secure type, some...the secondary market already available on our platform so that keeps their money constantly rotating, that also helps the borrowers and the banks and the institutional platform.

Peter: Sure, so what is the minimum then if you're starting a fractional platform? So there's someone out there who's listening, who's running a hedge fund whatever and is thinking, I'd like to give this a try, what is your minimum that you will allow on?

Rohit: Yeah, so right now the minimum that we are allowing on the platform is....you know, the first pool of money they can come in with anywhere between $250,000 to $500,000.

Peter: Okay, okay, that's not too bad.

Rohit: Yeah, yeah, and then, obviously, they can participate in those products and as it grows then we might ...really look into it.

Peter: Sure, sure. Before I let you go, I've got a couple of more questions about........one of the things that you offer which I've seen mentioned in the press a little bit is your Small Business Lending Index. Can you talk a little bit about that?

Rohit: So, Small Business Lending Index, we started it in January 2011 with the premise that we were seeing there's a lot of stuff going on where banks said, we want to lend money and borrowers said we are not getting money. By having the underwriting criteria of the banks on our platform so we divided them into big banks with assets over $10 Billion, small banks with assets less than $10 Billion, credit unions and then institutional platform that we launched so we also started mapping the approval rates.

The whole aim of the Small Business Lending Index was that you need one place as a borrower, as a reporter, as a policy maker, as a lender, you should be able to compare what is happening in the market, who is getting money from whom, who is getting approved from whom.

For the last four years Biz2Credit Small Business Lending Index has become the benchmark lending index in the country so much so that it has been so successful that starting in 2015, we're launching the Hispanic Small Business Lending Index in partnership with Univision.

We are starting some city-based lending indexes now because we have the phenomenal response from the lenders, from the policy makers so the Federal Reserve Board actually and Federal Reserve in New York actually partnered with us. They get a lot of these data from us and then they analyze it from their own and share it back with us. Federal Reserve has written white papers, they've got their benchmark bill, senior loan officer survey data with us, Small Business Lending Index data so that has been very helpful.

Our aim is to make the index stronger and stronger and also more focused by region, more focused by ethnicity so we are able to figure out what is happening in the industry and how we can build better products. That's great also for our institutional platform because a lot of time when we are building institutional products we exactly know what the banks are missing and what they will take in the secondary market and what kind of premiums they will pay out there. So that has helped us a lot to develop better products and be more innovative in the market place.

Peter: Right, and it also...it seems that you also produce reports that are based on this index and there's ....just on your website right now, there's a whole bunch....anyone can go and download some of these reports, right?

Rohit: Yes, I think one of the key things that we are seeing in the small business market place, even more than consumers, is that there's a big change happening in this country, you know, there's a lot of new....especially with the Immigration Bill now coming in and even prior to it. You see the SBA data and other data. The fastest growin g businesses are Asian Americans and

Hispanic businesses so we do a lot of these studies now via think groups because even Dodd-Frank has made it a mandate for lenders to know the ethnicity of their borrowers starting in 2016.

But more than that for us, it's something very interesting because we can figure out where the growth areas are, we are going to do the annual studies on top 25 metropolitan areas in the country by business groups, by loan performance, by industry. We are doing now studies on women entrepreneurs, what they are doing, how they are doing, what kind of loans or how they're accessing loans, what they do with the money once they get it, how they are growing their business.

So by having a very, I would say, granular approach on the data side, now we are able to build better products and also from the messaging perspective and the whole philosophy of being a virtual CFO is that if we know our customers much better then we will be able to produce the right content for them that will help them how to do better.

Peter: For sure. Okay, before I let you go, just a couple of more things. Just on where you're at right now, are you....how many loans have you done? I mean, what sort of volume is running through your platform today?

Rohit: In terms of the institutional platform, what we have done now is that we will be closing the month right now with a volume of almost $25 to 30 Million this month. On the banking side, it's around $25 Million this month.

In terms of our projections, what we are foreseeing and with new partnerships that we're launching, in early 2015 we are targeting on the institutional platforms almost a Billion dollars and on the banking platform it will be also in the similar range. Right now, our institutional platform is growing a lot faster than the banking platform because, obviously, we have been able to introduce new products, we've got a lot of US money and global money.

My take is in 2015, a lot of banks are coming to us to buy these loans from us and that way we are able to take it to the next level pretty quickly. This whole interplay on the secondary market that we have set up...this is going to even increase our volume more because what we do on our institutional side as it's loan season and banks start buying more and more of it. That's going to even improve and increase the volume.

Peter: Right. Okay, final question. Obviously, you saw the recent IPO of OnDeck. Obviously, you're not in the exact same market as what they're doing, but you are a small business lender. Any plans to go public anytime soon?

Rohit: I think that's a very good question. So we are growing very fast right now and what we are thinking is that we are targeting to go public sometime in early part of 2016. So 2015 is the year for us to keep on growing very quick. We have grown a lot in 2014 and 2015 is a year to keep growing with all the systems in place so that we can go public sometime in 2016.

Peter: Okay, so on that note I'll let you go. I really appreciate your time today, Rohit.

Rohit: Yeah, thanks.

Peter: Okay. Hopefully, you'll agree with me now that Biz2Credit really is a company to watch in this industry. I've used the word many times, but I find it fascinating that here's a company that is providing small business funding and they're providing it at a pretty high level, but really digging into these small businesses and digging into their finances, providing that virtual CFO service, it's brilliant because not only do you get potentially more loyalty from the business, but you really can make better underwriting decisions. I think given their success, so far, and the amount of interest in the space today, I think 2015 is going to be a year where a company like Biz2Credit just starts to really dominate the space.

So on that note, I will sign off. Thank you very much for listening. We got lots more great stuff in store in 2015 and I look forward to chatting with you next time. Bye for now.

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