LendIt Fintech

Fintech one·on·one

Welcome to the Fintech One-on-One Podcast, Episode No. 335. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Before we start today's episode, I want to tell you about a new event from LendIt Fintech. Nexus, the Dealmaker Summit, is all about making deals. We'll be bringing together a select group of bankers, venture capitalists and debt investors for two days of face-to-face meetings in Miami on February 7th and 8th. Also at Nexus will be LendIt's famous Industry Award Show back in person for the first time since 2019. You can find out more about all our upcoming events at lendit.com

Peter Renton: Today on the show, I'm delighted to welcome Kevin Bennett, he is the CEO of Caribou, formerly known as MotoRefi, you might have heard of them that way. So, I wanted to get Kevin on the show because, you know, the auto refinance space is the space I haven't really touched on very much, but it is a very large space and one that I think is misunderstood certainly by consumers and one that is only just now started to gain attention in the fintech space.

We talk about what's wrong with the auto finance space and why consumers should refinance, what sort of typical kind of savings that are possible here, we talk about how Caribou funds their loans, the different partners they work with. We talk about their rebrand, the new partnership they did with Uber which was really interesting, we also talk about sort of the crazy state of the used car market and what that impact has had on their business. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Kevin!

Kevin Bennett: Peter, thanks for having me, it's great to be with you.

Peter: My pleasure. So, let's get started by giving the listeners a little bit of background, why don't you hit on some of the highlights of your career to date.

Kevin: Pleased to be the CEO of Caribou, very brief background, we're a mission-driven fintech that helps consumers transform their financial relation with their cars. It's been a wonderful journey, a wonderful journey with QED Investors, one of the most prominent fintech funds in venture capital and we partnered up early on, this was a venture built out of QED and so been a wonderful partner with Nigel and Frank and Matt Risley and the crew there. I've gotten to know them, they're obviously based in the DC area as Nigel co-founded Capital One based in the DC area as well and I've spent most of my life here so I've gotten to know them in various ventures and startups.

This is the fifth startup I've worked on, worked on a number of others and really all of them being mission-driven. This was really attractive to me not just because of the QED team and working with such a great group, but also because of such an incredible opportunity to help consumers and really help American middle class save money and get kind of fair financing and fair financial relationship really with their cars which is still the core of our economic engine in the social lives of so many people. You know, people need cars to get to work, to get gas, obviously it powers them to go to the grocery store, take their kids to school, go on road trips, see family, etc. so still a fabric of American life and an opportunity to really transform that landscape with a great group of investors and people too good to pass up.

Peter: Right, right, totally get it. So, I'd love to just go back to sort of the founding story because one of the funny things about this interview is that I was actually around at the founding of MotoRefi which obviously was the previous brand because I remember, I was chatting with Frank Rotman I think in one of our events many, many years ago and he was talking about how he wanted to start this auto refinance. You know, auto refinance was a really pumped up market and he was talking about trying to get something off the ground so why don't you tell us, like how did you get involved, how did the founding come together?

Kevin: It's fun and from that perspective it's so interesting. Investors are really great at pattern recognition and pattern matching and Frank's one of the best. What he and the team saw was this opportunity and really in an incredibly large asset class. So, auto today is over $1.4 Trillion as an asset class and debt and you've seen the transformation in digitization of the consumer asset classes of that, really started with that SoFi moment in student lending, in going to mortgage and made rocket and better mortgage for all players there to credit building, neobanks, etc.

But, auto financial services has really then virtually untouched by innovation when it comes to the consumer experience that then can actually save money. QED is in the capital markets perspective saw an incredible opportunity to help save consumers money to really transform the space and we partnered up with Great Trust and lenders like credit unions, community banks and others to help do it and it's been a heck of a lot of fun.

Peter: Right, right. So then, what is it about the auto refinance space, I mean, there are some more people, there are some fintechs now starting to obviously get involved, but, you know, we had like Lending Club started in 2006/2007 with personal loans then for like ten years, nothing happened with auto refinance. Why do you think that is?

Kevin: I think that the culture of auto financial services has not been as innovative, frankly, I think. When you look at the economic structure of auto, obviously it is centered around this dealership model and the way that that has operated historically as kind of a monopoly in distribution and that makes the origination of loans a little bit different in that you're going to partner with that kind of indirect channel through dealers, which many lenders do.

I mean, it hasn't been quite as straightforward as personal lending, for example, and obviously, it's a secured asset class though just more operations involved in the titling and those pieces as well. I think it took for us a great team that knew auto, knew lending, knew consumer tech coming together to really make it happen, I mean, it's been a lot of fun with a great team.

Peter: Right. So, take us through the car buying experience from a financing perspective. We know that you find your car and then you start talking about financing a lot of times and the car dealer has you captive, you're emotionally attached, why do consumers overpay, like is that something that's just systemic in the industry?

Kevin: Auto dealers are the primary way where consumers are kind of going in and purchasing, you know, vehicles via that channel and to your point, you see the advertising around the vehicle and that sticker price and the SRP and you're doing test drives, you're checking it out, you're falling in love with the car. You may spend weeks or months first online and then in person figuring out, make model features, all of that then you go to the dealer to do the test drive to kind of get the vehicle and oftentimes for consumers, you're busy, you want to go and get that car and drive off the lot and you're kind of just starting that journey.

In your mind, you may be over for the car dealership relationship you're just getting started and so you're locked-in on that vehicle and that price and you're negotiating a bit back and forth to get….most people are really busy and kind of want to drive that car off the lot and you really fall in love with that car and that vehicle. Then you go into the F&I office and economic engine for most dealers is F&I, financing and insurance products, where they're making most of that money and so most consumers then get in that office and they're sitting there and they're kind of ready to go. They're ready to sign and go, you know, it's all about what kind of payment can you afford. There is this much discussion often about the interest rate, the term of the loan, any other products that may have to be involved so you get a big stack of paper in front of you, you know, and you kind of just want to sign here, here, here and go.

As a result, most consumers are really excited to drive off the lot, they know the payment terms of the car, but they may not rate, they may not know whatever products they bought and they may have ended up in a worse situation financially than they expected or are even aware of because, to your point, of the sequencing or again how that process works.

Peter: Right, right, that's interesting. So then, it seems like there's just a lack of awareness. Most people, their car is their biggest asset or their second biggest asset and there just doesn't seem to be a whole lot of awareness. People have been refinancing houses for decades and it's a very streamlined process now, people understand it, why has there not been as much awareness about the financing side of the car? It's a two-part question, that and then how bad of a problem is it like how much are people overpaying?

Kevin: Well, think about a consumer's financial life, you know, they're going to finance their education, finance their home, finance their car, refinance their home which is a standard financial moment in one's life if you are a homeowner for a certain rate cycle so maybe it's kind of this more ubiquitous experience. So, 15 to 20% of mortgages get refinanced, 3 to 5% of auto loans get refinanced so why so few auto loans getting refinanced if consumers can save money there and there's a basic awareness question.

Less than 50% of people aren't even aware they can refinance their car so it's a money saving opportunity that is there for consumers, but most consumers aren't aware of it. They haven't been really trained to think about it, they are not made aware of it for the most part and it's not a traditional step in that journey and for those who are aware of it, it's traditionally been very cumbersome and kind of very difficult to go to a bank branch, you've got to go to the DMV, there's lots of friction.

And so, part of what we've done is bring technology and bringing the kind of tech in fintech to this process so a consumer can see kind of the rates that they've qualified for in seconds and 60 seconds from the application lock-in a rate then we have this hybrid of people who can actually assist you and are experts, but also the technology so you can fill it out and it's not something you've got to do between nine and five or on your lunch break. You can do it at 10:00 pm or 6:00 am or whatever is convenient for you and so bringing the benefits of technology and the Internet matching it with the best offer from our lenders so you can save the most money and making it seamless so that more people can benefit from this really great opportunity to save money.

Peter: Can you talk us through the loan terms that you offer and how much people are saving on average.

Kevin: So, on average, consumers are saving over $100 a month on their payments, that's real money for folks that really matters in terms of real savings on interest. One of the interesting things we've seen over the last ten years are cars are getting much, much more expensive so your average new car price is in the $40,000+ range, used cards are in the roughly $27,000 range so that means those loans are getting larger and those monthly payments are getting larger as well. You are seeing most monthly payments now up into the $500/$600 range. And that's at 25% from a decade ago and loan terms as a result because the asset is getting larger, loan terms are getting long and so, before you'd see loan terms top out at 60 months and now, you're seeing 72 to 84-month loans.

Now, we're actually seeing, with our customers, most loans on average are originating that at 70/75-month range, again that as an average and then post-refi, we're in that kind of 60-month range or so. So, you're seeing one/two years into the loan, maybe six months in, few months in that consumers weren't aware of the opportunity in the very real savings and we're helping them kind of deliver on that and put more money back in their pockets.

Peter: I had a stat obviously in the Marketplace yesterday, NPR Show and said the average new car now costs $46,000, I was blown away. I thought it would be, you know, mid-30s or something, but $46,000 average price of a new car, as you say, it's becoming a bigger asset. bigger lift for a lot people. So, is there a profile then of the customer that you work with, can you give us some sense or sort of the demographic that you're talking about here.

Kevin: You can think about our customers as reflective of middle class of America. So, most customers, again, just rough-cut branch from about 24 to 40 years old, income from about $60,000 to $140,000, that's primarily who we're serving today and we're expanding that over time with lenders and others as we can build more of a robustness into our ecosystem, but today, it's primarily the middle class and so that's over, you know, $1,000 a year in savings is quite meaningful.

The other piece I should add as an addition to refinancing the loan most customers in the eyepiece of that F&I have gap or vehicle warranties as part of that transaction and they're often paying thousands of dollars more than they maybe need to and so often customers are canceling those products, getting cheaper products from us of equivalent value for them and getting $1,000/$2,000 back in the mail as well. Real economics back to the customer that can really impact their lives, pay down debt, go on a vacation, you know, do the things they need to do and help them live their lives and really benefit them in meaningful ways.

Peter: Right. Let's talk about that for a second, the insurance piece, you recently moved into insurance like when you're doing a refi, is that part of the process now that you're looking at their insurance or how does that work?

Kevin: We ask our customers, how do you think about us, how else can we help you and one of the things they've said is what we love is you're saving us money, how else can you save us money. And as part of the process, there's obviously shared information about their cars so that we can refinance them. sharing information around their finances, etc. so we see opportunities to help them save money on insurance and reduce the friction in that process. People are really busy and not surprisingly, they're not waking up every morning saying, yay, I can't wait to think about refinancing my car, (Peter laughs) I can't wait to shop my insurance today despite seeing all the advertising on TV and everything else.

And so, when they have made the decision and say, this is the day, I'm going to go do it. For us, the opportunity is to be able to help them get as much done as possible in a short period of time, really be respectful of their time, remove friction and if we can go through a process and have a two-for-one effectively where they're going to fill out the same information, but fill it out once and we can help you save money two ways for the refinancing and through the insurance, it's even better. It's top of mind in there, have high levels of intent and are really committed to moving through a process and so our goal and their going through that process to save them as much money as possible.

Peter: And so, when did you start offering insurance? Is that a 2021 thing?

Kevin: Yes. So, we started offering traditional auto insurance last year through a pilot and that went incredibly well that we were able to save customers money. Remember early on, we had one customer call us back throughout the end of the process and just say, thank you, I saved $500 a month on my insurance.

Peter: Wow!

Kevin: Extraordinary, but if you think about it often, there are multiple cars on a policy. You may have multiple family members on a policy, depending on the age range and the characteristics of the vehicle, insurance can be quite expensive. So, it really is a meaningful opportunity to save consumers money and I'm really excited to continue expanding that offering in 2022.

Peter: Right. So, I presume you're working with an insurance partner, right, you're not doing this yourself so how does that process work?

Kevin: Correct. Similar to how we operate on the lending side where we have great lending partners, credit unions, community banks and others who we've partnered with and we're helping consumers find the best offer for them, it's a similar process on the insurance side where we're working with, you know, one or two carriers to start with which we're going to announce very soon and we'll be helping them find the best auto insurance offers for them as well.

Peter: Let's go back to the lending thing, you mentioned banks and credit unions, how does your funding operation work like on the capital markets side? It sounds like you work with a number of different investors, shall we say, just tell us a little bit about that process.

Kevin: One of the things we're aiming to do is to make it as fast and as easy for consumers as possible. So, we have an underwriting engine, we hook-up the lending criteria of our partners directly on our platform, we can auto decision a customer in seconds and so what that means is we have the blended underwriting of all of our different lending partners. And so, that means the consumer doesn't have to shop a number of different lenders, we can instantly do it through kind of the data and technology in our platform and then present that offer to our customers in seconds.

Peter: Right, right, got it, got it, okay. So then, I want to talk about the rebrand, you started as MotoRefi which is a pretty obvious name when you're refinancing autos, your name is now Caribou, tell us a little bit about the process there. I presume that's because you wanted to go beyond refinancing autos, but tell us a little bit about the new branding and how you came up with Caribou.

Kevin. Yeah. We're really excited about the new brand, coming off, we're really in an exciting year, a ton of growth, new product offerings and really expanding what we can do for our customers and expanding generally the brand and the aspiration. Our goal obviously started with refinancing and have grown very quickly with that helping consumers save a ton of money, adding auto insurance and we think there's such a tremendous opportunity to continue growing in the auto category.

There are so many ways to save people money, I mean, if you think about it, AAA came out with a study, a new car is an asset, it can feel like a liability because it costs $10,000 a year to own so it's an incredible amount of cost in your life and if we can help you optimize that, save money, put money back in your pocket, whether that be through refinancing your auto loan, helping you shop for your auto insurance or something else, we're really excited about that. We think Caribou is the right brand to help us move the company forward in that kind of deeper, more aspirational way and it can also reflect them and house multiple product offerings that can help us save the consumers even more money.

Peter: This is a podcast and people won't be able to see this. On Zoom here, I can see you've got a beautiful picture of a caribou on your screen here, it's quite a majestic animal, isn't it?

Kevin: It is and what some folks know and what some folks don't know, another name for caribou is reindeer.

Peter: Right, right.

Kevin: So, very seasonally appropriate and a lot fun… (Peter laughs)

Peter: So, recently you have a partnership with Uber which is obviously, you know, a huge name in technology and in autos, but tell us a little bit about that partnership. What are doing there and how did it come together?

Kevin: We're very excited about partnerships and see a lot of potential in the future. We announced earlier last year a partnership with SoFi and partnering with them and helping SoFi customers refinance their auto loans and then Uber. At the very end of last year, we launched and really excited, starting off California going nationwide. Broadly speaking when you think about the gig economy, it has become ubiquitous and really inextricably linked to our economy, whether it's moving people or moving food or goods during COVID times, it was such a core part of our economy. But, it had not yet fully integrated in all aspects and financial services is a great example where there's a real need to help gig economy drivers, Uber being a great example, save money on their largest fixed cost asset of their business which is their car.

And so, helping them save money on that vehicle, lowering their payments, helping them save money which helps them keep more of that take home pay from driving for Uber and generally help some operate a better business and helps Uber be great partners for their drivers, helps us be great partners with our customers who are their drivers. When you think about it, this is something you can do between rides when you're sitting in your car, you've got your license, you've got your registration, you've got everything there, we are integrated with the Uber Pro Driver app so pull it up and refinance between rides and save money.

It makes a ton of sense and we're really, really excited about what we can do for Uber drivers across the country and also what we can do for the gig economy more broadly which we think is only going to grow and get more important as part of kind of the economy writ large and obviously, auto and cars being a big part of that.

Peter: Uber drivers, they're doing that to make money so they if they can save, even if they can save like $25 a month, you think that that's pretty motivating for them because then that goes straight to their bottom line. Are you seeing good uptick and traction there?

Kevin: We're seeing a ton of early interest and more to come, but, yes, so far, so good.

Peter: Right, okay. What are you doing to build awareness? There's two things you've here. You've got your new brand which you need to build awareness for and you've got the whole sort of auto refinance category that you need to build awareness for so how are you getting the word out?

Kevin: We advertise through your typical online channels, digital's a huge part, affiliates so if you're on Credit Karma or you're on Lending Tree or you're just doing Google searches or otherwise, you will see our ads. We're advertising offline as well and these partnerships, Uber, SoFi and others. So, we're excited, we're multi-channel in terms of reaching customers and building awareness is a huge part of it, not just of our brand, but the category and we're really excited about 2022. 2021 was where we felt like we solidified our leadership in the auto fintech category and in 2022, category expansion is going to be really exciting and we're really excited to continue to bring the message out and help educate people and help them understand how much money they can save and help be a part of that story for them.

Peter: So then, can you give us a sense of the scale you guys are at like origination numbers sort of thing.

Kevin: 2021, couple pieces of information that could be helpful so we grew revenue 400% last year, similar to the year before, we facilitated over a billion dollars in loans, so far, most of which were done last year and we've saved customers over $70 Million in interest savings, we crossed that last year so growing pretty quickly. At the beginning of the pandemic, we were 40 people on the team, we crossed over 400 at the end of last year so we grew from 150 to 400+ last year hiring about a person a day so we're growing really quickly and really excited about the opportunity and expect similar growth in 2022 and beyond.

Peter: And is that mostly remote, remote workers? Do you sort of have a geographic kind of focus for hiring people?

Kevin: We're staying flexible at the moment so we have offices in Washington, DC, Denver, Colorado and Austin, Texas and we have folks on the team who are remote in most states at this point. So, we're staying flexible and obviously the pandemic and COVID has been a bit of an unexpected adventure for most of us over the last couple of years, I don't think any of us had it on the bingo card. You know, one of the things that we haven't talked about and really excited about is we see ourselves as a mission-driven organization and a values-driven one as well and part of what's allowed us to grow quickly.

Rightly so, talks about the Great Resignation and the chance of hiring and one of the ways we've been able to attract really a wonderful group of people who are good people, who do great work, incredibly talented, motivated is that it's a truly mission-driven organization. We are here to help consumers save money, that is what really we are about and that has been incredibly instrumental in helping us grow and hire some really great folks who are going to build a great business and help us save consumers save even more money.

Peter: Sure. So, I want to switch gears a little bit and talk about the used car market, in general, because it's been, I would say, an unprecedented year. I keep track of the value of my car and it went up like 20% I think last year or the last 18 months, it's crazy that this is now an appreciating asset in some ways. So, what has that done, this tremendous demand, it feels like, for used cars, how have you sort of tapped into that and how has that been a real tailwind for your business?

Kevin: Obviously, vehicle values that you've mentioned earlier have gone up pretty tremendously. I think in the last four months, used car prices have gone up more than 20%. Global supply chain issues are a piece of this, obviously, and you know, folks are saying about the chip shortages and everything else obviously had a mean impact. I think there's this broader trend of vehicles getting more valuable over the longer term and more technology in vehicles lasting longer and being kind of larger, more durable asset so I think that is a long-term trend that will continue.

I think there is the short-term spike in vehicle outage from supply chain and you'll see that normalize int the coming quarters and so my advice for folks is to not over-react to the short term. This will kind of even itself out as supply chains even themselves out in the short term although, long term, I think you'll see more stable, but continued growth of the asset class, of the category of vehicle values as the technology gets better, as cars last longer, you know, we see this is going to continue to be this trajectory forward outside of the real short-term spike. In the short term, I think you're seeing vehicle values go up and folks seeing that who might be thinking about buying a new car and saying, a new car price just went up a lot, I'm not sure I'm going to buy that new car right now, maybe I'll refinance it instead.

Peter: Right.

Kevin: So, I think you're seeing more refinancing now as well.

Peter: Particularly, as you just say, like with vehicles lasting longer, you can take on these longer loan periods and reduce your monthly outway, right, are you saying that people want these longer loan terms to kind of manage their cash flow?

Kevin: It's an important topic because the vehicle values are going up and as those go up and the real pressure on kind of consumers is economics and their finances, that's real and so as a result there's this natural extension of term to try and not move that monthly payment up, but so much. You've seen them increase even with extending loan terms and so there's a way to kind of manage that cash flow.

It has dangerous aspects as well in term of terms that are long and you see consumers get stuck in long terms that are too long and predatory and obviously we don't want to see that. So, it is I think a natural by-product of the vehicle value and that asset value going up and one of the reasons why we think refinancing is such a great option for so many people is because people are seeing real interest rate savings. I mean, on average, we're cutting interest rates by more than 50% so on our platform we're seeing rates from 9% to just under 4% on average. Recently, someone took them from 12% to 3% saving them $7,000 in interest.

Peter: Right.

Kevin: And so, there's thousands of dollars for consumers to save as these are large assets and to your point, at a time with inflation, generally speaking, everything getting more and more expensive from gas to groceries to cars, being able to find a way to save money and kind of get some relief is really important and we're really excited to be able to provide that relief to consumers.

Peter: Right, right. So then, last question, we're recording this in the first week of January and we've a whole year ahead of us. So, what's on top for Caribou in 2022?

Kevin: Peter, I think it's going to be a huge year for us, we're really, really excited, we can expect continued growth in our refi business. To our conversation earlier, there is so much pressure on consumers with inflation, there is such a huge opportunity to help save them money, we're incredibly excited about that. We'll continue expanding auto insurance offering and more on that soon and we'll really continue doing anything we can to help consumers save money on their cars.

That's our North Star, that's our goal and there's just a ton of opportunity there so we'll continue investing in the tech platform and hiring, as I mentioned, we're hiring about a person a day so cross product engineering, marketing, analytics, you name it. We'll probably expanding the team and growing so it's going to be another busy year and we're really excited for it.

Peter: Okay. It's a great story, Kevin, really appreciate you coming on the show today. Thanks a lot.

Kevin: I've enjoyed it. Thanks for having me, Peter.

Peter: Okay, see you.

It's interesting to me that Kevin talked about financial literacy a couple of times there, something I just want to highlight here because it seems to me that, you know, today, consumers have so much information. We just need to be able to present it to them in a way that makes sense because if you're paying, you know, 10/12% on your car loan, clearly that might be too much and coming here refinancing your car may be just an objectively good decision and that is really what we want to get to.

I feel like, you know, when Kevin says only 3 to 5% of auto loans is being refinanced, it's huge opportunity. That should be probably as much as a mortgage-based real estate space because for all people, this is a massive asset, for some people this is their only large asset and they should be making sure they pay as little as possible in interest for such an important asset.

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

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Before we go, I want to remind you about a new event from LendIt Fintech. Nexus, the Dealmaker Summit, is all about making deals. We'll be bringing together a select group of bankers, venture capitalists and debt investors for two days of face-to-face meetings in Miami on February 7th and 8th. Also at Nexus will be LendIt's famous Industry Award Show back in person for the first time since 2019. You can find out more about all our upcoming events at lendit.com