FINTECH ONE-ON-ONE PODCAST – EDDIE OISTACHER

Welcome to the Fintech One-on-One Podcast. This is Peter Renton, Chairman & Co-Founder of Fintech Nexus.

I've been doing these shows since 2013 which makes this the longest-running one-on-one interview show in all of fintech, thank you for joining me on this journey. If you like this podcast, you should check out our sister shows, PitchIt, the Fintech Startups Podcast with Todd Anderson and Fintech Coffee Break with Isabelle Castro or you can listen to everything we produce by subscribing to the Fintech Nexus podcast channel.

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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 wheat 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 Eddie Oistacher, he is the CEO & Co-Founder of Peach. Now, Peach is a really interesting company, they're focused on lending infrastructure. They call themselves an API first lending technology platform and they're able to help lenders or help fintechs scale lending products and we talk about this in some depth. We talk about what makes Peach different, their Adaptive Core™ we discuss what that means, talk about the different lending markets they're involved in, talk about some of the names who are using Peach today.

We also talk about lending and why many fintechs are looking to get into lending right now and how Peach can help them do that. We talk about loan servicing specifically and the challenges that may come this year where that's concerned. We talk about their new Self-Service Migration tool and why that's a game changer, and much more. It was a fascinating discussion, hope you enjoy the show.

Welcome to the podcast, Eddie!

Eddie Oistacher: Thanks for having me, Peter!

Peter: My pleasure. So, let's get started by giving the listeners a little bit of background. You've had an interesting career and been in fintech for a while, why don't you tell us some of the highlights.

Eddie: Happy to. So, first of all, I was born in Georgia, the country, and then my family moved to Israel when I was a teenager and in Israel my career started as a software engineer. That's where I spent, I would say, part of my career as a software engineer in different levels of engineering and as you guys know, Israel has a lot of different innovations that's where like, you know, been infused with ideas and experience.

And then I wanted to move more to the business side, so I decided to do my Masters in Business and I went to Duke and that's one of the reasons that I came to the US. At Duke, I completed my Masters and then after Duke that was the first time when I was introduced to lending. I joined a company called Enova International, a sort of like hybrid of like product and operational role and that's where I started learning about lending in the US and, you know, it was fascinating because it's such a huge market. Coming from a small country, you suddenly realize like oh my God, this is like a huge industry of like credit is there and specifically, my first experience at Enova international was serving sub-prime customers and we had also a lot of international operations and so I had the luxury of working on different types of loans, installment loans, lines of credit, as well as payday loans.

So, after four years working there, I joined Affirm as a Product Manager and also in the core product team so Affirm was like my second rodeo by being in the heart of the fintechs and that's where I got my experience of like basically now working on near-prime and prime population in the US. And especially, Affirm, as you guys know, was innovating like buy now, pay later so it was pretty much eye-opening and that's a nutshell of my experience before starting Peach.

Peter: It looks like Affirm was where you were before you started Peach. Tell us the founding story of Peach.

Eddie: And that's a really interesting story because being on the lending side, on the other side basically start facing issues like okay, how are we building the whole infrastructure of lending. When we looked at the market, we found that there was no real, flexible vendors or solutions that could sell what Affirm needed because buy now, pay later was at that time an innovative product and none of the existing platforms such as vendors who provide loan management solutions could support our needs and we decided within the company to build it in-house.

So, we built the first version, it was really interesting, it was working fine, but when we needed to scale the company to the next level and bring it already to millions of clients, we had to face the decision again, are we going to continue to invest resources into rebuilding Version 2 of our own platform. Or, we go outside and try to find the scale of the solution so we did the market sweep again and couldn't find anything again for the second time so we decided to build a Version 2 of our own platform. And that's eventually how the Peach idea brewed in my mind.

It's basically saying like what about building a company that can solve this problem for everyone else, not for a specific use case and that's how Peach was basically born as an idea, as a solution for other fintechs or banks who wants to use a scalable platform for loan management and servicing instead of building in-house.

Peter: Right, got it. So, it's really interesting to me because there seems to be quite a few companies that are around today that started from people who were at Affirm one day. So, was Max Levchin, the CEO, supportive of this whole idea?

Eddie: Yes, yes, absolutely. Max himself is a multiple entrepreneur and built a lot of companies and he's always been, has always tried to infuse his spirit in people of like we need to be innovative. As expected, if you bring a great talent and people work on very complex ideas and solutions and eventually have an idea of okay, how I can now make it like a product itself and when people have

been in the company for like five years or three years and start teaching like an idea, Max was supportive and I think almost everyone who left and started a company, Max basically, through his SciFi venture capital, also invested in the seed rounds.

Peter: Right, right, I've seen he's done that many times. So, let's take a step back for a minute, obviously, you've been in the lending space now for a long time with Enova and Affirm, two market leaders, and now you obviously get to work with a range of different lenders at Peach so I'd love to get your sense of the landscape today for lenders. What are the biggest challenges that they're facing today?

Eddie: I will address this question and just saying like, what's the specific issue that they're now facing given the market conditions and then I'll just expand in general like what normally lenders or any new lenders face in regards to the market conditions. So, in the current market condition there are two main challenges, I would say, for lenders today. One is capital, raising capital to lend money and this becomes an issue because the Fed rates are like climbing up which means as a lender lending money, your rates, your cost of borrowing money to provide debt to consumers is raising. And there is only so much interest you can put on consumers, there is so much fees you can put on consumers so you're basically naturally squeezing your unit economics. The condition that we're now hoping is collections.

As you guys know, everyone could expect during a downturn there is a lot of people who are late on their payment or not paying at all and lenders taking the toll of trying to recover as much as they can. But that's two issues that could be attributed overall to market conditions, but if we take a step back and look in general, when a lender wants to launch a successful lending business there are really like two issues that they need to solve.

One is a market fit, I don't think there is any one lender who can design a product that fills everyone so you have to find exactly what you're trying to build and what the consumer needs. So, finding quickly market fit is super important for the first stages of the company, like finding market fit means that you need to change your product very quickly to adapt to what the consumer needs and the challenge is that if you're building in-house, the solution you're basically giving your team is to build one use case. And then if you need to pivot, they need to change the code again and it takes time so you're losing a lot of time trying to navigate what is the market fit? So, that's kind of challenge number one.

Challenge number two is once you find the market fit, the solution that you built was not designed to be scalable and now you're trying to scale quickly, but you carry all the technical debt that you built while you were building quickly your market fit solution. So, now you're basically chasing the time of like okay, what I am investing, do I need to invest to scale or do I scale and then invest and those are two basic key issues that every lender challenges.

Peter: Right, right. That's interesting because some of the fintech lenders now, they're 10/15 years old some of them so, I imagine, the code that they wrote at the earlier stages of their companies are old and may not even be relevant today, right?

Eddie: Yes, especially if they change the product.

Peter: Right.

Eddie: So, designing a product is to do something great, for example, you use again Affirm like me I've had many times this conversation, Affirm built the best, in my view, buy now, pay later platform for their own use case, but if you need to take this product and now create a different type of product that maybe Affirm wants to offer, they have to rebuild or recode to use another platform to offer a different product.

Peter: Right, got you. So then, let's talk about Peach, how do you describe your technology platform today?

Eddie: So, Peach is, first of all it's a software company so Peach is an all-in-one cost origination lending software that is modern, flexible and asset agnostic. We're really the only software platform that fintechs need to manage, service, collect, and report in a compliant way on pretty much any asset class that they need and what we are not is also important to understand. We are not the origination stack and we also are not the call center with people, we provide the software the layer that the lender needs, post-origination and what is means by all-in-one design is, there are a lot of parts that come post-origination where you need to make sure that you have communications going to the customers, you have to make sure that you're able to collect, you need to make sure that there is a place where a borrower can come in.

For example, make modifications to their loan, or ask something and if you're not using an all-in-one solution it means that as a lender you need to pretty much build all these modules and stitch them together. And that's what we're trying to solve, is to provide like a really modern, flexible all-in-one platform where you only need Peach in order to service your loans and collect from them.

Peter: Right, got you, got you, okay. On your website here, it talks about the Adaptive Core™, which looks like you've trademarked, but what is an Adaptive Core™ and why is that important?

Eddie: Adaptive Core™ is our proprietary loan management, that's, I would say, the heartbeat of what we do, so far. If you think about Adaptive Core™, think about more of like if I need to make a change, I'm going to change the configuration versus I'm going to need to change my code or introduce a new feature and that's what Adaptive Core™ means. It is basically an ability for lenders to quickly and easily launch and modify lending products and because we support virtually any asset class, it's very adaptive to your needs and we give a lot of configurability to lenders.

We have 200+ like variables that control the loan behavior without needing a single line of code, not from us and not from them and also the Adaptive Core™ helps you a lot to modify the product after we launch it and still stay compliant. So, again, just to repeat myself, think about this as changing a single configuration versus having somebody to code the change.

Peter: Got you, that makes sense. So, you've said you work in multiple different asset classes, can you just tell us some of the asset classes that are most popular, do you have the most number of clients. Maybe you can just go through some of the different lending niches, shall we say.

Eddie: Oh, I'll happily explain that, what type of trends we see specifically in our clientele, but also I just want to clarify first. There's multiple ways to slice lending niches or what people call so we

basically support both consumer and business loans, there is another way to slice the market, say we both support installment loans and revolving lines of credit and credit card, we also support secured and unsecured loans and now you can create almost like any combination of those. Just to summarize, we basically support any asset class which is non-mortgage asset class.

Peter: Right.

Eddie: We stayed out of mortgages for strategic reasons, at least, for the next couple of years. It is still an interesting market, I wouldn't call it niche, but it's a market. We are still looking at this and still thinking about. In our clients, we see all a variety type of lenders starting I think from a very traditional lenders who offer a credit card, for example, or traditional buy now, pay later at the point of sale for merchandise.

We also see a traditional healthcare related loans, but we also see a lot of specialized lenders and that's what's interesting. Like a lot of people find the specific niche that they're very good at and they understand the market there and we see things, for example, like a loan to consumers or to small businesses secured by artwork, for example, or sort of like line of credit secured by lifetime policy. So, those are niche markets and those are niche lenders, that's fine. When I say niche it's still a big market, but alternatively it's still kinda niche so we see all types of clients on our platform.

Peter: Right, got you. So then, do you work with traditional banks as well as fintechs or how does that sort of...do you focus more on one or the other?

Eddie: That's a very interesting question because initially when we launched our product we started working with the fintechs. I would say that are not banks, but they do have, for example, bank origination behind them, smaller fintechs to more what you call enterprise and publicly traded type of like fintechs. And just recently, we are going after banks and credit unions or financial institutions, how people call them, so I believe in the next year or two, we're going to announce and go into banking as well.

Peter: Okay interesting. So, I see on your website here you've got some of the names that you're working with, obviously, Affirm, Mission Lane, Jetty, can you just share some of the names that work with you? I know there's probably some that you can't share, but the ones you can share, can you give us a sense of that and then just a sense of the scale you guys are at right now.

Eddie: Happy to. The names that you see on the website there are just some of the names that we are able to share. There are many others I can't name publicly at this point, including multiple publicly traded and household names fintechs that we are working with, but we cannot disclose at this point. But if you look at some names that we do disclose like, for example, Remitly and Mission Lane.

Mission Lane is a great company, a lot of veterans from lending and it is trying to solve a lot of multiple issues for non-prime consumers. So, some of them are like credit building, others is what they call non or sub-prime credit cards, for example, and then launching multiple innovative products to help people call like underserved customers or non-prime customers and that's where Peach is helping them to launch multiple types of products and iterate on them and find out what's the right market fit and the best products for consumers.

On the other hand, like Remitly, for example, is a company that is a not a lender at its core, Remitly is a company, a publicly traded company, that focuses on money transfers overseas, for example, over there in the same country, and that's their core business. They recently started moving into the lending business where, for example, you can take a loan and send money to your loved ones for example, overseas and then from your paycheck pay that. So, that's kind of like thinking what we see in those companies and we can feel they're just different types of clients that we're working with. There is like a lot of pull with their clients are a lot of companies that already have some product that works for them and they want to introduce another product, and one of the compelling products is to offer like loans and lending products to your existing clientele.

Peter: I hear a lot of talk about that in the industry when I'm talking to fintechs who are not lenders. They might have some sort of a digital banking product or a payments product and they're looking to get into lending. They're several of the biggest names in fintech who are also looking to get into lending. My thesis has always been that lending is really where the money is at, you can only survive a little bit to a certain extent on interchange fees for debit cards so then Remitly is a perfect example, right.

They're not a lender, they're cross-border payments, I actually had their CEO on my podcast last year, so fintechs looking to launch a new lending program, they might have established, they might have millions of customers, and they're looking to launch a new lending program. How are you working with them if there's some CEOs or executives of these fintechs that are listening, what are some of the things that they really should be looking out for when they're starting a new lending program from scratch?

Eddie: You're absolutely right in your assessment by looking at existing fintech players that are moving into lending because if you think about it, consumer or borrower acquisition is really the highest cost for any lender. And once you have already customers, loyal customers within your ecosystem, offering them another product, especially offering a product like a lending product alone which has the highest margins, if you think about overall fintechs, that's kind of almost a no-brainer. The challenge there is because you have the specific type of customers, how do you design the product that is the "wow", for example, the Remitly case, like offering the buy now, pay later products doesn't make almost any sense, right, because they are not on the Remitly platform to purchase merchandise for example, from websites. So, you need to find the right product for them and that's the interesting part of Peach.

When we talk to these companies, they always explain this innovative product that they want to construct that is not a traditional one that fits exactly their market niche and indirectly their consumers. And that's why we're excited about them because they always like provide a new view and innovative view on the product they want to build because it's not coming from okay, how to optimize from day one my basic profits. It's basically like, I want to find a product that fits my existing customers and that's where they come with a lot of innovative ideas and a lot of basically not challenges, I would say, but requirements, like for us it's only extended because we need a find a system to basically support innovative products.

But for them, as a company, who is lending is not core, the wrong thing you can do is jump in and start building the product because jumping and building a product brings you to the first topic. One of the first topics we discussed is basically you're committing to a lot of very fixed functionalities that you won't be able to change as quickly as you wanted to.

Peter: Right, right, got it, okay. So, I want to move on and talk about loan servicing. There's a lot of talk about a potential recession this year, the economic environment may end up being quite challenging, how should lenders be thinking about servicing given what may be in store for us this year?

Eddie: Yes. Downturn lending is always a very interesting topic and, you know, in my previous companies we learned a lot about those periods, like have some history from learning about how, you know, people behave during the recession and how lenders, those that survive, I would say, what they did differently from those that eventually had to write off entire portfolios. I think the key for any lender is to keep the borrower I would say, financially healthy and happy because these are your loyal customers, losing them during the downturn means losing probably the customer forever.

We spoke before about acquisition cost, we put so much effort into acquiring these customers and doing this in the economic environment, you just need to be flexible enough and to weather out the period where the consumer experiences, for example, financial hardship and the flexibility is coming from a lot of different ways to work with your customer on the solution. One way can be, for example, they can like make no payments for three months, right, or they can lower the monthly payment for a given period, they can re-finance the loan, they can extend the term, right, they can basically offer them to waive fees, for example, or to lower interest for quite a while.

So, there are different multiple ways where you can still help the customer and keep them on your platform without charging them off or writing them off in your books and that's where the robust technology will be very applicable at this point. If the lender doesn't have all these tools then likely they're going to lose the customer and the borrower forever because of if they cannot accommodate the customer and just say, sorry, guys, I can't pay you what you're asking me and if you're not willing to work with me, I'm just going to walk away and I'm going to, for example, either file for bankruptcy or just default on the loan because I just don't have the means.

Peter: Right, right. When did you guys launch, it was before the pandemic, right, you had customers before the pandemic, is that correct?

Eddie: That's correct. We launched right before the pandemic, we're about four and a half years old, about first two years we were heads down building the platform so we launched our platform slightly about three and a half years ago.

Peter: So, two and a half years ago. So, you're really launching as the sort of pandemic was happening, what was that like because that was a crazy time for lenders. Everyone thought the world was going to end and it ended up being the opposite, but how was launching during that time for you guys.

Eddie: I think for us, overall, it went fine. What we did see when the pandemic started was we saw a lot of customers, our initial customers we were talking to just said like okay, let's take a pause, let's

wait for a couple of months. For us, it was nothing we could do at this point and we just continued to talk to our customers, but they just said, I can't make any decisions right now, I need to wait and see where the world is going.

So, we were on this kind of brief hold of like not signing new customers, for example, not scaling existing customers, but for us it was, to be honest, like an opportunity just to re-allocate the resources and build another feature and another enhancement to our platform because, eventually, we were like optimistic that people will come back and the world will come back to operating the way it was before.

Peter: Right and yes and clearly, that happened. So, I want to talk about something I read about last month where you launched this Self-Service Migration tool, maybe explain exactly how that works and why really it's a big deal for lenders.

Eddie: Yeah. That's one of the like, you know, best features that I'm super excited to launch recently. If I take a step back, for example, and give you a little bit of an overview why it's so important in the space today because think about like a lender that is either sitting on their own existing system or they're using some legacy vendor and they really want to innovate and they want to offer new products. And because they have already this whole portfolio working on the existing system it's really hard for them to part away from this platform and move to another platform. And that's basically the core issue in our view, that prevent the lenders from innovating and moving to a much better solution because they need to take the whole portfolio and move it to the new system and migration was always a challenge in the lending market because to do the right migration you need to involve so many parties.

You need to make sure that companies that you're migrating to, allocating resources and making sure that almost every single loan is going through the whole migration like numbers and that's where we decided to innovate and that's what I believe is very key and a game changer in the market and we launched what we call the first ever Self-Migration tool. So, what it means is it gives the lender the control to do the migration on their own so if you think about our platform which is API-native and API-first platform, the lenders already need and will get familiar with how Peach platform operates, and how it works and they're going to use exactly the same API to migrate loans to our platform.

So, they don't need almost anyone else, of course, Peach will support them like to make sure they can do it, but they can do it on their own terms, with their own resources, they can test everything in our sandbox, for example, and when they're ready they can start migrating in a production environment. So, this just frees up the lenders from staying on their legacy platform and continue to basically accumulate all these like inefficiencies. That's a very interesting tool that we launched, and we already see a lot of vendors like using it and it's a really amazing tool. Lastly, which is probably very important, it's very expensive if you're doing it not as a self-service.

Peter: Right, right, for sure. Last question as we wrap here, what's next for Peach, what are you looking forward to for the rest of this year?

Eddie: We have so much on the table, (Peter laughs) but given where we are today and as a company, we really built the whole infrastructure from the ground up and we really found the right market fit, and we see like a huge demand for our product. For us, going forward is, to continue to

bring happy customers in our platform, big clients, and we really want to stand behind our mission to pretty much improve lives, giving every lender the power to innovate.

And the power to innovate is coming through Peach platform and that's where we're trying to uniquely position ourselves to make sure that any new generation or existing lenders are able to basically launch the next wave of innovative lending products, and that's where we're focused on. We're trying to continue, not trying, we actually continue to evolve our system and innovate the platform and this year our focus will be to continue to bring very successful clients.

Peter: Well, right, we'll have to leave it there, Eddie. It's great work you're doing, it's important work because the lending space is continuing to go through all sorts of changes and I expect a lot of movement this year. So, best of luck to you and thanks again for coming on the show.

Eddie: Thanks for having me, and great chatting with you, Peter.

Peter: If you like the show, please go ahead and give it a review on the podcast platform of your choice and be sure to tell your friends and colleagues about it.

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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