PITCHIT FINTECH STARTUPS PODCAST NO. 13–ABBEY WEMIMO

Welcome to PitchIt, the fintech startups podcast, one founder, one startup, one investor at a time. I'm your host, Todd Anderson, Chief Product Officer, LendIt Fintech.

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Todd Anderson: On Episode 13, we talk with Abbey Wemimo of Esusu. Esusu automates credit building by reporting monthly rent payments to credit bureaus, boosting credit scores one rental payment at a time. You know, it's pretty astonishing how long it's taken to take data points that rental payments and utilities into the credit scoring system. You know, this really underscores the fact that the financial system has historically overlooked certain groups, especially communities of color and immigrants. Abbey and I delve deep into the benefits of rental payments, not only for the renter, but also for the landlord, the state of financial wellness today, revamping the credit score and a whole lot more. We had a lot of fun and I hope you all enjoy the show.

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Welcome to the podcast, Abbey, how are you?

Abbey Wemimo: I'm doing well, such a delight to be here, Todd.

Todd: Oh, yeah. I'd like to start off these episodes with just some professional background, if you could tell the audience a little bit about yourself, where were you before starting Esusu and where have you been professionally before in your current role.

Abbey: Yeah. Happy to share a little bit of a background, particularly for me, it's always important to talk about my origin story because it paints the picture of the why behind my co-founding Esusu and my partner, Samir. So for me, I grew up in the slums of Lagos, Nigeria, I lost my father at the age of two, I was raised by my mother and two spirited sisters. One thing my mother always fundamentally believed in was education was the most important investment in any child's life and she afforded my school fees with 60% of her salary, it's one of the best high schools in the land.

When my colleagues were going to the United States and England for higher education, particularly college, although my destitution of my social position did not prevent me or limit my imagination. So to that end, I took the same exams, passed and got into the University of Minnesota, during my transition from 80-degree weather in Lagos to -22 degrees. It was a character building experience, but something really integral happened, which was one of financial marginalization, but I owed that for now which fits perfectly into why we do what we do at Esusu.

Professionally, I went to undergrad at the University of Minnesota, started working on the Obama election campaign and then moved to graduate school at New York University, started my foray into technology, founded a class project that turned into a company, was acquired in 2014 and went on to Accenture, Price Waterhouse, Goldman Sachs. These institutions really focused on M&A, did that for $50 Billion in deal value. My Co-Founder and I have known each other for many years and the story is similar, practically the immigrant story.

My mother and I moved from Lagos to Minneapolis, we didn’t have a credit score. We walked into one of the largest financial institutions to borrow money, we were turned away and had to go borrow money from payday loan lender at over 400% interest rate. In addition to that, my mother pawned my father's ring and a bunch of other jewelry and that's how we got started in the United States. Inspired by this experience and my Co-Founder's experience, we started Esusu, a company on three core premises; where you come from, the color of your skin and particularly financial identity should never determine where you end up in the wealthiest nation the world has ever seen.

Todd: So, in terms of the idea behind Esusu and when answering the question if you can give the audience kind of an overview of what you guys offer. Why that idea of, you know, the rental payments and rent reporting and why launch when you did.

Abbey: Yeah. The why behind it is our personal story and what we do at Esusu is work with large multi-family owners and operators who report rental data into the credit rating agencies to help residents establish or build their credit scores so what happened is my mother and I never happens to anyone again. For residents that can afford to pay rent, we pay them with a zero interest loan, pay directly to their landlord so as a society we are not solving homelessness backwards and the landlord is profitable. Number three is provide data and insights to actually show the impact of what we do.

Today, 1.6 million rental units in the country, you know, 50 states in the Union. The why and now, look you have 45 million people in this country without any credit score, the average debt is $92,000. If you do the math, you can unlock $4.1 Trillion in capital. That’s just not a good thing for the American economy, that’s a profitable thing, even if you think about general ordinary income taxes the government can derive. That’s what we are trying to do, create a sense of more inclusion, more financial access which mutually benefits everyone involved.

Todd: Related to the inclusion and access part, what is kind of the state of financial wellness today? I’ll preface this with so we’ve been through, I would say, I think one stage of fintech already so it’s kind of the pre-COVID stage of fintech and now we’re entering the post-COVID stage of fintech. A lot of fintechs talk about democratization, increased access, but in reality there hasn’t been a big shift just yet.

I think tools have been created to make things more equal, but overall, people have not been given the access that they should have been given or deserve to be given. So, what is that state of financial wellness today and is that rent reporting still some of the biggest barriers or are there other barriers that continue to keep people out of the system?

Abbey: So the state of fintech today, particularly as it relates to inclusion, the plethora of things, what I will focus on is the transition of (inaudible). Pre-COVID, you had……there's a popular statistics of roughly 76% of Americans have less than $400 in their bank account. Follow on to that, predominantly black people, particularly in this country, and minorities and not getting access to things like bank accounts and when you think about the credit system, it treats you as though you're guilty until proven innocent because you need to go into debt, get access to capital and show your payment history and history and then other people trust you.

Question, however, is what if you don't get access to that capital, in the first place, what if your bank does not necessarily lend you money because the credit scores you have essentially doesn't match. That's the current state of what we find ourselves in and the 45 million people that don't have a credit score in this country and we have over 100 million people that essentially have thin files and then you think about close to 140 million people that are renters. If you pay your mortgage, the data is reported, but if you pay your rent, predominantly that data is not reported. Thanks to companies like us and a bunch of other companies, we're having that data reported to the credit rating agencies.

So, that's the state, the state is broken into three things; exclusion is still prevalent due to the historical way we get things done, number two is it appears we have access, but they're still limiting things because we skip dealing with the symptoms of the issue instead of the root causes of the issue. The biggest is the lack of trust in institutions, we have institutions that fundamentally marginalize a group of people. You don't expect them to wake up the next day because you choose their services and they get onboard even if it's good for them.

So, let's talk about how to remedy that. The new wave of what we're going from a 2.0 standpoint post-COVID is really focused on number one, moving from this idea of a community-based approach. In fintech you add growth, growth, growth, growth, right and trying to get as many people involved. The question though is why you need to be focused on this customized product for the right people. If I'm a mortgage owner, your showing me rental insurance products, you algorithms are not doing what their supposed to do, tailored product approach. In psychology you call it nomothetic versus idiographic approach, people need to have not economics of scale rather economics of scope, that's what made Apple incredibly successful.

Number two is you have a crazy obsession with quality for low to medium income people. I think what we've done is we serve quality and exceptional products for a select few, but we need to be obsessed just like Jeff Bezos was obsessed with the customer. We need to be obsessed from a financial product standpoint in terms of the products we're pushing out there.

And, number three is really focused on this idea of trust. What we were doing in the past before that worked for everyone will not necessarily work for everyone included so we seek and go above and beyond. If you have a mobile application that's just in English, with the rising Latino population and you don't have, you know, Spanish, you're wasting your time or if you don't have other sort of immigrant language like Urdu or Arabic, with that huge influx of people coming to this country, that's the true genius of America.

So, if you're not taking these things into consideration, you know, you are building a mansion on sinking sand. So, these are three things that we have to pay particular attention to as we see a clear dichotomy of has happened in the past. How we're addressing the symptoms of the issues, I would encourage everyone from a fintech standpoint to really focus on the root causes enveloping the three things I just talked about.

Todd: I want to pick up on something you mentioned around trust. The last financial crisis was caused by the banks. We've had this fintech, you know, revolution, do fintechs have a higher bar of trust they need to get to? I think there is still this implied trust that if you give the bank your money, they'll, at least, hold that money and you won't lose that money, but being a fintech is generally new compared to banks. Do fintechs have to reach a higher bar of trust when serving their customer versus say a bank.

Abbey: I actually don't think so. I think fintechs have a huge opportunity due to the historical baggage that Large banks essentially have, it's a big advantage that fintechs can essentially leverage to reach consumers and say, this is a new day, this is a new opportunity of getting things done. But, fintech companies like us, we need to be very careful especially when managing risk. You know, not everyone at these financial institutions are horrible people. I am of the opinion that we are all better than the worst thing we've ever done and we as fintechs, as we grow and scale, can be the wild, wild west of cowboys.

We need to be very careful on managing risk and thinking about things like what Dodd-Frank has put in place like risk capital and making sure we cannot dismantle the trust of people who have essentially gotten included in the financial system which depends on how we run our business, which could be imminent if we're not calculating that risk ratio is right. So, that's something to keep in mind, but to your question, I think fintechs...we do have a strong competitive advantage because we don't have the historical baggage large institutions may or may not have.

Todd: Related to credit scores, obviously, credit scores, the traditional way they've been done have not been equal in any sense of the word. Have we reached a point where we need to completely overhaul what a credit score is, you know, kind of re-frame, re-start and completely change or this is the credit score for the 21st century that's more equal, more fair, it doesn't cause you to go into debt to have a score. And, is there a possibility that we can even do that based upon all the historical connection between the FICOs of the world and the banking system itself?

Abbey: You know, my grandmother always says little drops of water makes a mighty ocean and Rome was definitely not built in a day, that's a common saying. My world view is simple, you need build the dog house before you build the white house. The reason behind that is really you have a system, albeit that is not perfect today. Same thing in this country, they founding creed of the United States is for the founding fathers say you should make it more perfect. Now's not the time we should burn the entire thing down and say, we're going to move to Canada, you know, try to make refuge in Antarctica extension of Alaska, that's not the right way to do things.

The question we must ask ourselves is what is working very well with the current models, what is not working, what are some new things that we can include to it to make it more stronger and making it more perfect just like what this country stands for and create alternative models, You know, right now, your credit data, credit card information applies, you have things like derogatory remarks and if you add a particular offense could be on their evictions so be very thoughtful about remedying those things first. And then, think about all kinds of data that's not included, traditional credit data is included, but rent, utilities and a bunch of other information are not included.

So, how do we make sure these things are included and have different business models that makes the pie more expansive for multiple stakeholders. I think if we burn down the current system, a lot of people will be hurt and there's the transitional phase, right. My school of thought is think about what's working, don't burn that down, add things that would enhance it and have multiple stakeholders, offer what the Japanese call "kaizen," continuous improvement. That's a more logical way to do it, just add multiple stakeholders that capture the data, transform it and reporting it in the right and responsible way keeping justice and inclusion top of mind.

It's going to be incredible, but if we decide to burn down the entire thing, this transitional period, there's a establishment of processes. There's the blow back from folks that kind of owe the rent which is all fine, but I think a lot of medium income people would hurt more if we decide to radicalize the current system we have. I think there's value, I mean, both, but we just need to be thoughtful about it.

Todd: Related to the score, you know, the rent, utilities, it seems like those are pretty good indicators as to whether someone would pay back a credit that they've been given. Why did it take so long for stuff like that to start being included? Was it just kind of tradition and hey, this is kind of the way we've been doing it because on the face of it, it would seem like if I paid my rent for five years that's a pretty good indicator that I'm going to pay whatever credit is given to me. Quickly on top of that is I think on your side you guys go back two years with rent, why just two, why not go back more? What are your thoughts on some of that?

Abbey: Yeah, you make a very good point. You know, if you look at the stats, most people pay 30/35% of their monthly income on rent, it's ludicrous if that data is not reported to gauge the propensity of your credit risk while the reality is it wasn't included because the way we think about credit risk is about people going into specific debt not run rate obligations to gauge if they'll be able to meet particular payments or debt obligations so that excluded a lot of people, you know.

There's a famous saying, the bank don't give those that need their money, they give it to folks that do not need it and that's the reality and it's just the risk management mechanism. What we need to do is proliferate and get more people involved because there's a big benefit there. If you think about what we are doing at Esusu reporting two years of historical data, that's the letter of the law. The legislation, particularly on this front, talks about the report, 24 months historical data, no other credit bureau that we know of ask for anything more than 24 months, assuming most of them do not have that historical report and capability. So, rent reporting is at the forefront and as alternative data of establishing residence by people at large credit profile.

That's essentially the conundrum we have in front of us, but nonetheless, creates an opportunity for us to drive, include more people and report data that's not being reported. It's crazy, if you want to get a mortgage, you look at the credit card bill and say, oh, this person is good for a $300,000 window of obligation, why are you not looking at something that's simpatico of the mortgage which is rent. That person has paid their rent for ten years consistently and missed their medical payment, you should weigh the rent payment higher. So, these are some of the new answers, but we just need to go back to the basics and question the real ethiology as why it was not implemented and the world will be more perfect place.

Todd: Related to the reporting to the bureaus, do you have to basically go to each and say hey, can we start a partnership, we want to report this data to you, kind of how does that process work so they do start reporting this data and people can start seeing their scores.

Abbey: Bureaus are like tough and rightfully so because they need to abide by a legislation called the Fair Credit Reporting Act and a bunch of privacy acts and they have data that controls a lot of people's lives literally. To do the partnership with them is hard, it takes months, years. It took us two plus years of due diligence to get there and you need to have certain things in place for them to trust you with certain data so you have to furnish data into them or even receive data back. At Esusu, we don't care about the 99% of what goes right, it's the 1% that can ruin our reputation we focus on that is why we invest a lot in security measures and invest a lot of processes and our people to make sure we don't run afoul of any rules and regulations in the first place and making sure we follow the letter in the spirit of the law by being as compliant as we can be.

To someone who's had things done at Esusu, annual or even quarterly, they understand our systems, showing our team members to make sure we're up to speed so we're not exposed to certain attacks and above all, getting us to lead in certification like SOC2 Type 2 which is usually reserved for publicly traded companies the use of information we're furnishing. We consider that a great responsibility and something that someone can take advantage of. So, that's the construct of what we do at Esusu to mitigate any risk. To your question about beauty in relationships, there are credit rating agencies that are really hard and rightfully so because you're dealing with people's lives.

Todd: Yeah. There's been a lot of talk in the news and it seems it's ramped up recently with overdrafts as well as kind of rate caps on loans as well. Playing into the broader question of financial wellness, financial inclusion, you know, how beneficial could some of that stuff be and is there kind of this balance of too much intervention from the legislative and regulative area and too much mandating and, you know, how that might help or hurt.

Ultimately, in the end there needs to be those that provide credit and just kind of curious to hear your thoughts on some of the stuff that's been out there and what it might mean to the overall financial wellness of people who ultimately need better access and fairer access in the end.

Abbey: Yeah, I think we need to go back to the basics, right, and ask ourselves what's the root causes of why we are where are today. The reason why we have the average white family has ten times as much worth as the average black family is because of things like the color of the law where after reconstruction people were fundamentally left behind, right. Housing discrimination where FHA discriminated against black people, did not back their mortgages, you had Jim Crow and then you have the schools and different pipelines. It's a lot of things that kept people fundamentally behind.

I am all for the free market system, but I think the capitalist system is one whereby we’re not building a mansion on sinking sand. We need to listen a little bit with justice and having real sense of capitalism which I like to call justice capitalism and what that looks like is essentially how do we create business models like us which is fair, right and more inclusive and thinks about all stakeholders and creating "win win" solutions. Right now, in a lot of situations we have a "win lose."

If I have a credit card that's 35% APR and I can't pay, right, I'm paying money on the interest, on the compounded interest on interest, it's ludicrous. Who needs to do that to someone that's low to medium income, you create debt traps for them. We have payday loan folks that are essentially charging people 400%. If they don't make that obligation, it can go as high as 1000% and their interest becomes larger than the principal. So we need to really look at ourselves in the mirror as a society and to doing things like that to continue. Is that a debt system we need and we've got to remind everyone that this country was built on cheap debts, either from Franklin Delano Roosevelt's New Deal and all the GI Bill, all the services we provide. That's what this country is fundamentally built on.

I've been on the record saying this, we need to invest in our people because that's one of the biggest drawbacks. If the government has a long lost reserve fund that when Todd can afford a practical obligation and Todd can lend and for some reason Todd is delinquent and after a period of time of trying to get the money back from Todd, the government steps in and when Todd gets back on his feet can get that from taxes. That might be an interesting model, it's shows we’re better with people. This idea of getting people in perpetual debts, we need to look at ourselves in the mirror and say, are we solving the symptom of the issue or the real issue. If we're serving the sympton, we're not serious.

Todd: I feel like it’s starting to change, the shift is happening though clearly, we’re in the early stage of that shift because even with overdrafts….I mean, you’ve seen like the last six months, it’s been bank after bank has started to re-think, alright, overdrafts, and fintech has been a big reason why because of, you know, offering services with no overdraft fees and so I think the shift is starting to happen though there’s clearly a long way to go in what the incentives are for those that essentially hold the power.

Abbey: Yeah. I think what we need to think about is we can be two steps forward and then do one monumental thing that makes all the progress go back. So, for me, I’m always a big proponent of progress, I think hopelessness is the enemy of progress and you have be optimistic to be in the arena to play. Be that as it may, we need to ask ourselves the fundamental question, are we moving as fast as possible?

You know, we're talking about eliminating overdrafts, while that's good we should be focused on how many people can get access to homes and at what basis points are they getting access to that interest rate to get their home. Home ownership is the largest driver of wealth in this country. I know we're all crazy about the stock market, but that hasn't changed. Property is the most lucrative, even from a tax standpoint. We need to start thinking big, you know, Ronald Reagan once said it, I'm not a Republican by any means, but America is too big for small dreams so start thinking big.

Todd: Yeah. It feels like the American Dream part, the owning of a home has kind of been pushed, I don't know, aside or, you know, some of these other "schemes" have been given more life, whether it's crypto, get rich or the stock market and stuff that you've been mentioning resonates more and is a better slow build to change versus somebody's, you know, rapid things.

I want to shift a little bit, the last 18 months has been quite the time, you know, how have things been at Esusu? You know, you're building a team, you've been building through this pandemic, how do you guard against kind of fatigue for the team, working from home and just overall, how have things been going through the last 18 months for you and the team?

Abbey: Things have been incredibly challenging in a good way. I think working remotely, I haven't been able to white board and collaborate with a major issue, especially for someone like me that's very old school and writes things down, be like a professor. It's been hard, but kudos to our team being very, very resilient. Our team has doubled since the advent of the pandemic, we're raised additional capital to move the frontiers of the vision forward, business has grown over 800% since the pandemic. Before the pandemic, we were in 28 states in the Union, we're now in 50 states right now so the progress has been tremendous, and we've outperformed during the pandemic even from a revenue standpoint beating plans last year by 4400 basis points.

So, it's been great and we've always been very clear that, we will do well in a down market. What we're going to do well in a down market is we care about people that are fundamentally left behind and to that end, we've seen these fractures in society where you have 28 million people that owe $70 Billion in outstanding rent due. The government has issued over $50 Billion, it's hard to get access to that and we're here to support, we're here to help and that's what's driving our growth and excitement, but we've always known we will outperform in a down market because we're here to support people, make money while doing it and make society a more perfect place.

Todd: Yeah. You guys, obviously, you mentioned the raising of the capital, how has investor appetite been, you know, for your solution and what you guys are doing. You know, for other fintechs out there that might listen to the show, any advice on raising capital and that process that maybe you can offer, you know, helped you guys secure a round of financing.

Abbey: I think what we've done during the pandemic, and it seemed really…..we've found and partnered with the right investors that can move the frontiers of the business forward and we closed an oversubscribed round of finance which is great. There are three things I usually tell folks about raising capital. Number one, it's going to take twice as long as you think it's going to take so just prepare yourself. If you think it's going to take two months, double it, it's going to take four months. Just give yourself a buffer throughout that process.

What I'm learning now, especially as you go through multiple rounds of finance in this, whoever you allow on your cap table is going to be there for a long time and it's like a relationship really, we can't stress that enough. So, if you cannot deal with someone, you can't break bread with them, don't let them invest in your company, regardless of how desperate you need that money because it could make your life miserable once you're trying to get things done. It's very, very important, I can't stress that enough. Do not just take money for taking money's sake, you've got to take money from the right people and that's what will help you grow your business.

Number three, this is essentially running like a sales pipeline. Know the people you want to talk to of your deck and other collateral. If you don't have a relationship with certain people, ask them to broker introductions for you that if you actually receive capital and have a good relationship with those funds and then just run the process. Always try to push VCs to get you a yes or no answer because the last place you'd want to be is a maybe and that's what usually draws out your process.

So, that's really it, take your time, maintain your mental outlook throughout the process, it's important for you to stay sharp and just be thoughtful about the process, I think that's key and above all, remember, anyone you take money from is going to be a family member, you're going to be stuck with them for a very long time so you do not just take money from a random person else your life will be miserable.

Todd: I think that's a huge point, especially in a market like we're in now where, you know, there's this appearance that there's money everywhere and you might go into that thinking, alright, I'm going to raise a round and there'll be some passive investors and some active investors and I'll be able to raise what I want. I think the advice of you're in bed with this person, you know, this is a partnership, a long term partnership, it's a key one. You know, I think young founders might be misguided at times, but…..

Abbey: I can't stress that enough, don't take money from any random person, it would come back to haunt you and make your life miserable. Take money from people that you trust and truly can help you move the company forward.

Todd: Is that from a personal experience like in the past for you or your Co-Founder?

Abbey: Personal experience, I can speak to it directly, just needs to be very, very careful about the people you take money from. You need to be very, very careful and intentional, it would haunt you if you're not. You can come back from anything in life, we successfully did, but it's not worth the stress it causes in your life, it's just not worth it.

Todd: I usually end with some fun with our last few minutes. So, I wanted to ask, do you have a favorite book and the last book you read. If you're not a big reader then do you have a favorite podcast or something, but if you have a book, let's go with the reading medium.

Abbey: The book is hard, I read a lot, I have too many books, I can give three. Number one is Keith Ferrazi's "Never Eat Alone," I think that talks a lot about how you can better serve yourself, I found that book very helpful, especially as I was growing in my career. One book that I have found very, very helpful, especially if you have an entrepreneurial view of things, is "The Wright Brothers" and that book is really powerful, it talks about the journey of inventing the airplane, a lot of failures, a lot of mistakes, a lot of conflicts, intellectual property. I think it's just such a powerful book if you are an entrepreneur, it gives you this resounding sense of optimism in whatever you are doing, you know, not as hard as creating the airplane.

The book I recently read, I read a couple of books, I read Barack Obama's "A Promised Land," I read "The Color of Law," which talks about the housing discrimination in the United States and recently "Caste," by Elizabeth Wilkerson. Those are some of the books I have perused lately and really good books to enjoy.

Todd: Do you have a favorite sport and the sport teams that you root for?

Abbey: Yeah. I used to be a former semi-pro soccer player so I'm a huge Arsenal fan of London, I'm a proud supporter for years now, yeah, a big football fan, the real football not the American football. (Todd laughs) Yeah, I love, love football in my spare time, but for workouts, I go boxing.

Todd: I've one more question, but I want to sneak one more in before I ask the last question. What was the biggest, you know, shock coming from Nigeria to the US? Yeah, you mentioned at the top the 80 degrees to -20 degrees, but maybe something culturally that was like wow, this is a huge culture shock?

Abbey: Back home, you know, it takes a little bit longer for you to leave your parents' house, you might leave your parents' house after college or if you're 30 and you're getting married. In America, it's such a big shock that once you're 18 years old, everyone can just pack their bags and go, especially once they go to college. It shows that this country is very individualistic and where I come from is being a collectivist, but we're seeing a marriage of both because what makes America special is the cacophony of cultures that come together to make it what it is and what it could be. So, that is one of the biggest shocks I had essentially experience when I transitioned to the United States.

Todd: After the last financial crisis, a lot of those people started coming back to their parents' house after college.

Abbey: Keep it simple and stay home for a little bit, get a little bit more mature then go out there.

Todd: Final question, biggest inspiration in life?

Abbey: My biggest inspiration in life is my mother. My mother raised me from the age of two when I lost my father, sacrificed, went above and beyond 60% of her salary to afford my school fees in one of the best high schools in the land, always put me and the family first. There's no one like my mother and I'm just immensely grateful. The world is a more perfect place because of people like her.

Todd: I think that's a perfect way to end the episode here. So, Abbey, I appreciate your giving me a few minutes, it was a great pleasure talking to you. I wish you and the team at Esusu continued success and, hopefully, we'll get you back sometime in the future.

Abbey: Thank you so much, Todd, such a delight to connect with you.

Todd: Alright, we'll talk soon.

Abbey: Bye.

Todd: Bye.

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