

## PITCHIT FINTECH STARTUPS PODCAST NO. 43-BERNARDO SILVA

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 43, I talk with Bernardo Silva of Yave. Yave is a mortgage origination fintech from Mexico. They help Mexican families with financing so that they can own a home, you know, Yave is really on the cutting edge of fintech. As Bernardo explains in the episode, they're one of very few number of companies that are taking on the mortgage space in the country and the mortgage market in Mexico, as he explains, is really dominated by a small handful of lenders and the Mexican government.

Yave is looking to change the dynamic by offering a better experience and having the willingness to serve a wider swath of the customer base than that small sliver that are served currently by the big banks. Bernardo and I discuss the overall mortgage opportunity in Mexico, the Mexican Fintech Law that was passed in recent years, their growing number of partners that they're working with including some banks and a writ raising capital, Formula One racing and much more. So, without further ado, I present Bernardo Silva of Yave. I hope you all enjoy the show.

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Welcome to the podcast, Bernardo, how are you?

**Bernardo Silva:** Hey, Todd, thanks for inviting me, everything's good.

**Todd:** Alright. So, you know, I like to start the episodes if you could just give the audience a background, you know, where were you before starting your current venture, Yave, and what brought you to the point that you wanted to start the company.

**Bernardo:** So, my background is in consulting, I spent six years at McKinsey, I joined McKinsey as an Analyst. In between an analyst and the next job, I did an MBA at Stanford and I got into the mortgage industry because when I wanted to buy a home, an apartment I needed mortgage and I just had a terrible experience buying this home with a mortgage in Mexico. So, I did our startup which was actually very successful, being a mortgage broker, and then we did another company called Yave that was more like a mortgage originator, it's not a broker, it's an online originator so that's a little bit about my own life story.

**Todd:** I always like to ask the question, did you always want to be an entrepreneur and a founder or was it something that you saw an issue, like you said you were trying to get a mortgage and you said

alright, maybe I can solve this problem or was it I'm always going to be an entrepreneur, shoot the matter or what?

**Bernardo:** So, even before the mortgage broker, we founded another company, (garbled) it wasn't successful, but I think I always had that chip in my head. My family and my uncles, my father, they already had their own business so the way I thought about it is I go to a very good school and in this case it was McKinsey and then I'll figure out something to do it by myself and I found mortgages.

**Todd:** How did you come to the name Yave and what's the close enough English translation to it?

**Bernardo:** The translation is key so it's like a key to open opportunities, to open a new house, to open a new life, etc., but to be quite honest, there is a name on that. We used to be called Smart Lending before being Yave, it's the same company, we just did a re-brand, we called it Smart Lending. The logic behind Smart Lending was we thought one of the few smart loans you should have is a mortgage because at the end you're like having your own thing instead of renting and you gain equity on the house and after a while you're going to be a home owner. So, that's one of the type of loans that make a lot of sense, we make smart lending compared to you're going to finance yourself with credit cards, that will be like a dumb move (Todd laughs) so that was a large concern.

But, I think the problem with that name is that we're based in Mexico, we target Mexico and maybe in the next stage we're going to target Latin America so it should be in Spanish. So, it didn't make a lot of sense to have an English name even though it helped at the beginning because people thought we were like an international company so you would gain like more trust oh, a new company from the US came called Smart Lending, that wasn't true. It felt better sometimes with an English name, but, again, it did not make a lot of sense.

The other thing is at the end, people don't want a loan, at the end they want to buy a home so I think that the loan is like a necessary evil and to buy a home is more like an enabler and I think that's the reason we changed the name into "key" like Yave being key, it was more memorable. We use the Y just to make it like differently and try to make it more memorable. That's the story behind Yave and then given the fact we're also very tech-enabled and you can play again with the keys of APIs, etc. and the thing is you can play with the name and it feels more like purpose-driven than Smart Lending.

**Todd:** If you can, give the listeners an overview exactly what you guys offer and ultimately who the target customer is that you're going after.

**Bernardo:** We offer mortgage so that seems like very simple, but in reality we offer mortgages in a more simpler, faster and digital way so what that means is we usually partner with home builders and other proptechs and those guys offer mortgages, again, because we can be very fast, we can be digital, we tend to be more flexible than the banks, but we also have very good interest rates as the banks have and at the end you get like the full package so you get a very good interest rate, you get it faster, you get it easier, you can get it online and you have a better service. So, we do that with the hand, again, of the home builders and other proptechs because at the end, the way we think about it

ourselves is we are enablers of helping the final customer buy their dream home so clearly the best hands to acquire customers or the best partnerships are with proptechs and home builders that have the same statement or vision or the same goal, that is, they want to help their customers find a home and the mortgage is an enabler.

So, going back to our target market, I would say our average loan in Mexico is around like a hundred peso marks so we can target like middle income people, most of them have like formal jobs and have a decent credit history. We also have loans for foreigners, we also have loans for people that are more in the semi-formal market so we tend to have, again, wider origination criteria than banks and that is usually very helpful for the customers because we can usually offer some type of loan.

**Todd:** If you can, what does a mortgage or a home ownership issue look like in Mexico today, I mean, is it common for a typical family to own their own home. You know, most Mexicans have a home or not, what does the landscape look like and is this market before companies like yours, were they served by traditional bank lenders like what kind of does the overall market look like?

**Bernardo:** So, let me give you an annual review on the market dynamics. One big difference is that Mexico fixed banks and the government originate 99% of all the mortgages. You would imagine how the industry is when it comes to service because you only have like seven players and by this time, the government usually they don't have the capability to give good service and usually the banks also lack let's say tech skills or usually if you see the MPS banks they tend to be very low and this is like worldwide, not only in Mexico and then you have like less competition because of that and the competition doesn't enable better customer service.

The reason this is very, very concentrated is that the barriers to entry are very high because there's no secondary market of mortgage so it's not like in the US. In the US, there's a Freddie and a Fannie that can actually buy conforming loans so it's, I don't want to say simple, but the barriers to enter a loan because you can originate a loan and then that loan will be sold to Freddie and Fannie as they comply with the regulations or the requirements regarding what is a conforming loan.

**Todd:** Yeah.

**Bernardo:** In Mexico, that doesn't exist so if you want to start lending then you would need to either have a large capital or you will have to have some type of agreement with some bank or another type of financial institution so you can basically lend this type of loan. Let's go back to the mortgage by itself, mortgages by itself tend to be very...maybe not attractive in terms of yield so usually the yields you're going to see in Mexico for mortgages are between 8 and 10%, that is huge compared to the US, but you have to remember, we have inflation and at 8 to 10% is not a lot. The interest rate is fixed, the amount is large, like the average mortgage in Mexico let's say it has to be, off the banks is around like \$75,000, off the government it's like \$25,000 so the amount is a lot, interest rate low and the term is very long, the terms is between 20 and 30 years. By itself, it's very, very difficult to finance those specific loans so seeing that, there seems to be very little competition.

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I'll get into how we solve for that seeing that we have very little competition and then what's going to happen is that ....going back to your first question, do Mexicans own a house, etc., you can see a lot of home ownership, but not a lot of let's say leverage in the industry so I'll give you KPI so you have an idea. So, the more debt as a percentage of GDP in Mexico is 11% and in the US it's around 65%, right, and I conclude that the GDP of the US is like 15 times so we have double effect there.

If you would like to compare Mexico versus Chile or Panama, they have better financial services, they have better financial dynamics, the numbers in Chile and in Panama is like 20/25%. What I'm trying to say is there's not enough penetration to mortgage and the reason for that is banks usually only target like the top 20% in terms of income so you leave like 80% of the population out and then the government, they too go to a lower income segment, but they only go to a lower income segment that is from the formal market.

So, it's people that pay taxes and they work for a formal company and that probably is only around like 30% of the population, 70% of the population are like independent people, they may pay taxes or maybe not, but they're part of like independent people and those guys, it can be very difficult for them to get loans. At the end, you're going to see a lot of home ownership, but you're not going to see a lot of mortgage penetration and then you're going to ask okay, so how do they actually buy homes? At the end of the day, they either buy with cash or you're going to see like smaller homes that actually people buy. They actually build their homes from scratch, it takes a couple of years, the home is very, very small in one specific part outside of the city where you're going to see a lot of like construction or self-construction of homes.

**Todd:** Question that just came to mind is what made you think like you guys can do this. The story you laid out feels as if this is a high task, a hard task for you guys, what makes you I guess confident or driven that, you know, we're taking this on and we can really have big success here.

**Bernardo:** The most difficult part is to start. I'll tell you how we got into this. What happened is when I was a mortgage broker, being a mortgage broker was very frustrating because we had a very good online experience where you could get pre-approval online, it wasn't perfect, but it was directionally correct and then you could upload some documents and that part was like very good, but very, very fast, it became a horrible experience where it was very paper-heavy.

So, I would receive your documents then I will have to fill out your application by hand then I will send like a courier to your house so you can sign the documents and I will put them back up and I'll tell you hey, you signed it wrong, sign again so it was a terrible experience for the consumer, but even with that it was better than being pointed to a branch loan. So, I was very, very frustrated that we couldn't deliver a good service because we were very dependent on the bureaucracy of the banks, very dependent on the process of the banks.

So, my logic was if I could control this experience and maybe lend from my own balance sheet, I would take it very differently and clearly, because of the reasons I told you before, this was a very full task. So, there's no secondary market then how are you going to be able to sell loans to somebody else so

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we got, I think the word is lucky, but we found the right partner to start. So, we found a mortgage suite in Mexico, that this mortgage suite, their business was to buy loans from the government and then do securitizations. They were the right partners because they weren't originators they were only buying this type of assets and then they were very good in terms of how to do securitizations and they were willing to buy loans from us and that was the moment when we started. We now have the possibility of being very capital efficient because we would originate a loan on the same day, sell a loan to a mortgage suite so now production will operate and you will not need a lot of working capital.

The next step is once you start having track record there and you start to make some noise in the industry, now the banks start to look at you and say hey, I've seen you doing a very good online experience. We saw the banks as our competition, it is true, they are our competitors, but they're also our partners because what happens is the banks started to say hey, I want to also buy loans from you so the banks saw us as a different way to have these types of assets in their balance sheet. So, if you think more structurally, it is cheaper for a bank to buy a loan from us because we're very tech-driven, we have a lot of regulations, those advantages, it's cheaper for a bank to buy from us than to actually originate them themselves.

Now, we're in a very interesting situation because we already have track record so that is very important for the banks. I just want to say, I want to see what you've originated, I want to see if you have frauds, I want to see your non-performing loans, I want to see a lot of things, but now that we have a track record for a couple of years, now that we have a little volume then the banks are seeing us as potential partners and now we're actually having more and more agreements with them so we can actually sell loans to them. It's not that there's a secondary market formal, but we've been successful in partnering with these financial institutions so we can basically sell loans to them.

So, just to give you an idea, right now, we have around \$500 Million of space available that we can originate and sell that to the banks so we have a lot of space so I would say banks are eager to have this type of asset in their balance sheet so that stays there, there's very few or there's no originators for the first bank to enlist. It is difficult, but we are getting there, we're getting there, I mean, challenges change, but I think we've solved part of the capital market aspect or purpose.

**Todd:** In doing research and looking on your website, you know, the partnership with is it FH Ippo or FHippo that's part of what you've been talking about here.

**Bernardo:** So, that is that is the mortgage suite and the banks we have relationships with, I don't know why they like to say who they are (both laugh) because for us that's even better. If the final customer says okay, so these guys are backed up by this specific bank they say, oh, no, no, this company's for real so you're going to actually gain more trust. We actually would like to use those logos in our web page because it somehow validates our business. These specific banks prefer to not show that for different reasons

**Todd:** Yeah. Banks can be a little tricky sometimes.

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**Bernardo:** It is. The logic behind that is hey, they are using our brand, do they know our manual of how to use our brand and then you have to get some work up close from Legal and afterwards from Compliance and afterwards for so many things. They say hey, if it's just a logo thing, nobody cares (both laugh) or at least they don't care, right. Just continue to submit these loans, make them perform well and everybody's happy in the short term.

**Todd:** The next question, I'm curious, but it's going to be broader question on fintech in Mexico, but there was a lot of publicity, a lot of excitement for the Fintech Law that was passed in Mexico. What's your view on the impact it's had not only on your business, but kind of a broader awareness among fintech? Is fintech becoming a more natural part of the financial ecosystem in Mexico either due to the law or not, like is there this momentum for fintech more broadly?

**Bernardo:** The answer is yes, given the fact, the same reasons that I told you about that if you go to personal loans or auto loans it is not as concentrated as mortgage, is it, but probably there's not many players in auto loans or any other type of loans, there are not as many players as you would see in other countries. Your first question is there's a lot of fintech momentum just because the lack of competition in Mexico has had a huge effect on the consumers and they cost so much so there's lots of opportunities to solve a lot of needs in the Mexican market, but now with technology and more information you can solve them.

**Todd:** Before you go to the second part of that, do you think that banks eventually, after they see the success some fintechs have had, do you think they start serving or looking to serve a different level of customer than they typically would or do you think they still kind of play in their space and maybe do partnerships like they do with you to kind of have access to fintech, but not necessarily be directly in the fintech space, so to speak.

**Bernardo:** Both, what you're going to see a lot is you're going to see more and more banks partnering with fintechs because it makes a lot of sense. Banks have the balance sheets, banks have the cost of capital low and the fintechs can have a very efficient customer oriented value proposition, that's what banks don't have. This is worldwide, I think if you go and see just like a QED matrix, there's like a QED matrix of fintech banks. There's a lot that says hey, these types of banks are going to always partner with smaller startup fintechs, well, that's one part of the aspect.

The other aspect is banks really understand there's a huge market that hasn't been served, what fintechs are doing as well is help gathering more and more information that is relevant for the underwriting so it's not that banks don't want to make money, it's basically banks do not have the capabilities or do not have the data to underwrite any specific type of loans. So, what's happening now more and more in Mexico is you have more information, we have more companies that are supplying more and more information and that information is relevant for all the people that are in the lending business because you want to do a better underwriting and you require that information. You're going to see banks going into different segments and you're going to see also banks partnering a lot with startups.

Going back to the Fintech Law, the Fintech Law by itself is very narrow, I would say, the Fintech Law by itself applies to crowdfunding and applies to some types of payment companies. It's good that that exists, it's relevant that you have a regulator that wants to, at least, put some rules to avoid any type of fraud, I think that is reality. In a more broader space, the good thing about the Fintech Law and the good thing about the regulator is that having your license to operate as a fintech is a checkmark of being a real company and that is very, very relevant in the context of Mexico or probably Latin America, there is a lot of fraud in Latin America, that is a reality.

In our case, it's a little bit more difficult to have fraud because there's a massive (inaudible) so we're like asset-backed lenders. It probably exists, but it's a little bit more difficult, but if you go and see the fraud that happened to lenders, all the things that happen to a consumer, that's sort of better.

So, I'll give you an example of something that happens all the time. Imagine there's a new company in Mexico and I'm just going to invent a name, let's say it's NeoBank, NeoBank is a real company, they decide to do personal loans so what happens is you could not find another company that could be a fraud that is going to try to impersonate NeoBank and they're going to be a consumer bank. Hey, I'll give you a loan, but in order to do your credit check or to review your application, you need to pay us \$100 so the customer is going to pay \$100 to somebody and it's not NeoBank, but they're going to try to impersonate that so there's fraud at that point.

It's very, very important for all the companies to have this checkbox with the authority that this is a real company and this is how they operate, etc. because there are a lot of fraud companies that operate on this basis and get money from a customer and that is a big barrier to entry and that's why many customers prefer doing business with banks because they know banks, they can be slow, bureaucratic, but they won't do any type of fraud. You're going to like question my.... I love the idea of the regulator doing more and more stuff, I love the idea of the Fintech Law and I think that is the right way to basically help put like a framework that everyone can operate and reduce fraud and give the consumers a see which companies are real and which companies are not real.

**Todd:** What's the biggest lesson you learned about your own company since launching?

**Bernardo:** The obvious would be trying to understand more and more what problem you are solving. So, in our case, when we started we thought it was going to be enough to say hey, we're going to give an online mortgage that is going to be fast, blah, blah, blah and it's going to be easy. That wasn't enough to be where we're at because we were solving the problems that banks already solved, but did a little bit worse and that's the moment when we somehow like maybe be able to say, no, no, we're going to then solve the problem not only for a consumer, but also for our partnerships in terms of what each one wants. So, at the end what happened in our case is we are solving like multiple problems for multiple stakeholders that is helping us a lot in terms of growth.

What I mean is we're solving not a problem for the bank, what's a problem for them, they want to have these assets in their balance sheet at a cheap cost so we can solve that for them. The customer wants a loan in order to buy a home, they want a loan by itself, they want to buy a home, they want to have a

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very good edge, have good terms so we are solving that as well and we're also solving that problem for the real estate companies that want to sell fast and easy and online, if possible. What I'm trying to say is it took us a while to understand what problem we were solving in the industry and I think that is just trying to hear more from the consumer and trying to understand a few (garbled) or not because it's not enough.

If you become like nice to have then probably we won't have the disruption you want to have for the few who are really, really solving big, big problems, but in these cases we're enablers for these stakeholders, right so these pre-stakeholders want the same. Banks want a loan, real estate companies want to sell a home and the client wants a home with a mortgage and we're solving that transaction at a very low cost, in a very efficient way and with an amazing customer experience and good quality. So, that will be the lesson. I want to try to understand what you're solving for and see if you're actually solving that problem or not. (garbled)

**Todd:** Shifting a little bit, how big is the team, what does the team look like today in terms of make up and types of roles that are at the team, you know, kind of how big are you? Tell us a little bit more about those that are around you.

**Bernardo:** We're like 60 people, well, I would say like maybe one third of the company is technology and product then maybe one third of the company is like operations and the other third of the company is between finance, marketing and human resources. So, that is about the team. We're going to grow, I would say, aggressively within the next months, years ahead of us or a year just to finish raising our Series A and that's going to actually allow us to grow more. What's been very, very good in terms of the business is that even being bootstrapped, because we were honestly very bootstrapped, we've been growing a lot and growing a lot not only in terms of users, but growing a lot in terms of revenue and that's losing less and less money, right.

We found a way of basically aligning these type of stakeholders and this is having them pay enough so I'll give you an example, but basically this first quarter compared to the first quarter of last year and, again, without actually investing more, actually investing less, we're going to grow between 3.5 and 4.5X so we're very proud of that. And, again, once we've finished raising our Series A, I think that growth should actually be higher and higher. We're very, very excited with where we're at and, again, we're still a small team compared to other startups, but I think we're getting there.

**Todd:** So, we have just a couple of minutes left, I'd like to end a little bit lighter. Do you have a favorite book and the last book that you read?

**Bernardo:** (laughs) The answer is yes. The favorite book it's a more personal book (garbled) it's an basic novel, but going back to more like a business book, the last one I read is this one about the (inaudible) Mission What Matters, I have to Google that because I don't know who wrote it, yeah, basically joy and fear, Mission What Matters, but that's the last book that I read and was very good.

I haven't written a book yet (Todd laughs) and, at least to be quite honest, me and my co-founder, so Andres is my Co-Founder, he's also from McKinsey, Daniel is my Co-Founder, he comes from Citi so we can go from some very institutional companies and even with that, it's completely different to manage a startup and to be quite honest, it's very difficult to hire talent that actually just work in a company that's very well established.

So, at least, it took us a while to make the decision to implement OKRs, we did implement OKRs and basically I read this book and I just loved it, it was very, very simple to implement and made a lot of sense and I think for startups, it tends to be something very pragmatic, but you can implement them and it helps you grow.

**Todd:** I assume that your favorite sport will be soccer, but maybe that's an assumption, but do you have a favorite sport and a team that you root for.

**Bernardo:** It has changed a lot of times, I like soccer, but for now it's difficult to see sports so in my personal situation, I have four kids and I have a very unique configuration because I have one son, Diego, and then I have triplets (Todd laughs) so you would imagine the chaos in my house between the triplets and Diego.

**Todd:** I grew up with three brothers so four people in my house so we weren't twins or triplets, but I understand the chaos (laughs).

**Bernardo:** Maybe it's worse for you, I don't know, all of them men?

**Todd:** Yeah, all four boys.

**Bernardo:** Oh, my God, that has to be chaos as well.

**Todd:** My mother is a saint. (laughs)

**Bernardo:** Yes. So, having said that, it's difficult to watch TV so I haven't seen that. The sport that I follow the most, if you want to call it a sport, right now is Formula One because Formula One in Mexico given the time and hours, most of the races are done in Europe, it's between 7 and 8 am so that's the hour I'm still waking up, there's still a level of calm in the house. In Formula One you can actually be playing with the kids and seeing the race unlike in soccer, if you lose the moment, it can get very, very boring, you need to catch the moment. So, yeah, I'm more like a Formula One fan right now.

**Todd:** And then final question, biggest inspiration in life?

**Bernardo:** That's tough, I'm going to invent something that is not real (Todd laughs).

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**Todd:** Well, that's okay, I'd rather an authentic answer than something that's just invented. So, Bernardo, I greatly appreciate a few minutes today. Thank you for coming on, congratulations again for winning our PitchIt Competition in LatAm, how can the audience find you if they need to find you?

**Bernardo:** Basically the best way would be to write me an email, my email is [bernardo@yave.mx](mailto:bernardo@yave.mx) and if you're a foreigner that wants to buy a home in Mexico, banks won't lend you, but I will or Yave will. Those of you who want to buy a home with a loan then go to [yave@mx](mailto:yave@mx) and we'll give you a loan so you can buy a home in Mexico as a foreigner.

**Todd:** Thank you very much, I greatly appreciate a few minutes, continued success and hopefully, we'll get you back sometime in the future.

**Bernardo:** Thank you, Todd, thanks for everything.

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