

## PITCHIT FINTECH STARTUPS PODCAST NO. 54-MICHAEL BROUGHTON

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

(music)

**Todd Anderson:** On Episode 54, I talk with Michael Broughton of Altro. Altro helps you build credit and financial power through the recurring payment and subscriptions that you use everyday. You know, there are so many different facets and problems when you look at the credit score and credit profile system that still exists today and a lot of that, in large part, is due to going in debt to help create a proper score and profile which is still, with all the data that exists today is a crazy concept in many ways, but that's also why innovation, like Altro, is really beginning to change that. The biggest thing that they're changing is the data that they're inputting through subscription and payments is not going into a profile as a boost or an alternative piece of your overall credit, it's going in is what they call a trade line.

And so, it looks like a loan, a credit card, obviously, it isn't a loan or a credit card, but when you look at the score, it's a hard piece of your profile and I think that's very important to understand and it's also why working with Altro can help boost your score and build your profile in a way that some of these alternative and boost methods just do not. And so, Michael and I talk about how Altro was able to work with the bureaus to create the trade line, where the credit score is today, financial health and inclusion, getting the stamp of approval from RC Ventures which is Jay-Z firm and meeting Jay-Z, raising capital and a whole lot more. So, without further ado, I present Michael Broughton of Altro, I hope you all enjoy the show.

(music)

Welcome to the podcast, Mike, how are you?

**Michael Broughton:** I'm great, thank you for having me, Todd.

**Todd:** Of course, of course. If you could just give the audience and the listeners a bit of a professional overview, where've you been and then what's behind your founder story, why did you guys start Altro and tell us a little bit about yourself.

**Michael:** Professional background, I am Mike Broughton, Founder & CEO of Altro, formerly Perch Credit. Our platform helps people build credit for free using your subscriptions, your Netflix, Hulu, Spotify, etc. I, myself, have been in fintech since my career started which is not too long ago, had experience from.....currently Vice-Chairman and Board Member of the USC Credit Union, we're just of under a billion assets in management helping the local Californians in the California area around USC.

# LendIt Fintech



**Todd:** And so, were you always on the road to eventually being an entrepreneur or did you find this problem that you guys are solving and say, nobody's solving it today, we should start a company to solve it or would you eventually say, I'm going to be an entrepreneur, this is just maybe the first venture that I was passionate about?

**Michael:** Honestly, stumbled across the problem personally and tried to solve it and realized that that was the definition of entrepreneurship, did not even know the word existed until I walked on the campus of USC, actually. My story kind of resonates with the issue that we're solving now which is when going into college I didn't actually have the opportunity to finance my way through based on opportunity measures and personal issues.

I had no access to credit, got denied from every loan opportunity and it led me to a situation where USC was like hey, you're so deep in your tuition bill that you can't even start classes until you could pay this off which led me down this rabbit hole of I can't actually progress or even better myself because I have a lack of access to basic financial tools and that was a problem that I tried to solve that turned into Altro.

**Todd:** And so before we jump into exactly what you guys do, who your target, how'd you come to the name Altro and then.....I know you originally started as Perch so why the change from Perch to Altro?

**Michael:** We'll give you some insider information. We actually started as Credit Starter which apparently was a bad name, it was too obvious then we moved into Hatch Credit then we moved into Perch Credit and now, we're Altro which I think we better stick with. The reason for the change is A) of course, getting kind of like as a company changes and what we realize our value prop is and our personality is, kind of matching that, but also Altro represents other, it represents a different method, a better way and we believe that that that will engage very well to what our product does which is recognizes the things that the bureaus don't recognize right now, the data points that show that you're credit worthy that aren't being represented the other way and we know that's very important to the audience that we're serving too.

**Todd:** So, ultimately, you guys and Altro, you take, say I have a Netflix subscription, Hulu, whatever it might be and you take that payment that I make to that and basically report it to the credit bureaus.

**Michael:** Pretty much. We tie everything back to a traditional trade line and there's a whole world of alternative and traditional data that we can explain, but in essence traditional data impacts your score very heavily, the decisioning that people have on FICO and on the financial institution side as well. We tie those subscriptions that you already have, already existing to a trade line for the user so the user's building traditional credit using our platform.

**Todd:** So, why is it important that you build it to the traditional trade line versus another piece of alternative data?

**Michael:** It's very key in the end-game of making sure that we have the most impact on your decisioning and financial power. So, we have this pact here at Altro that we measure every consumer

on from zero to a hundred so in zero you're like me, you're going to get a college loan, a hundred you can get a refi on a mortgage at a pretty good rate, right, and our loans have growth opportunities where your credit and the thickness of your file really matter for getting your first credit card, getting your first loan product, your first personal loan, auto loan. These are all moments in that financial power spectrum that requires more financial independence as you build down that spectrum, our goal is to get you as far down that spectrum as possible.

In alternative data, although great, doesn't have as much of the impact on that spectrum as traditional data does which is why we have been very keen to A) showing your FICO score in the app rather than like a vantage score so it's your real score for decisioning. We also show users the impact that they're having, the delta and the thickness of their file that they're getting from the app as well as just adding the trade lines and hopefully, in the future more trade lines to the user's profile.

**Todd:** How big of a potential impact does this have on someone's credit, is it 10 points, 20 points, 40 points, is there an average?

**Michael:** You know, we've seen such a wide variety of use cases for the product that we have to put them in two different buckets. The first bucket is people who are starting their credit and there's people who are just improving their financing, credit score even better and that first bucket has definitely been very impactful. You see people go from a zero or a four, a four means that they don't have enough data on you yet, to a 660, to a 700 in as little as four weeks, max 60 days for some people.

Of course, everybody's use case is different, everyone has different files, what we're seeing is this being your first trade line, your first data point brings you as a notable person into the bureau system meaning that they know who you are, they know that you're a real person, they can actually log you at a data point which fits you at 50% financial power they'll let you go from there.

For people who already have score, again, it's very broad, there are people who are in their 600s or going up 20/30 points, you have people that are 750s who are going up 5 points and saving 20 basis points on a mortgage, right. So, we have a spectrum and we see people always benefitting and people are very consistent with their subscriptions, we make it very hard to, you know, not be able credit with us so you see the spectrum always going up, financial power always improving.

**Todd:** When you were coming to this idea did you have to work with each of the bureaus, like independently and get these data on a trade line versus a piece of alternative data, like how did that process work to have the biggest impact for your users?

**Michael:** Yeah. We are consistently, even to the big communication, we learned that the bureaus are really getting pressured by government right now to solve this issue that we see which is the lack of financial accessibility for 60 million plus Americans or even a notable way of saying, this is our goal from no credit to a good or okay score and they don't really have an answer, they're data systems, right, they're just big data logs who are just collecting data from wherever.

And they realized, in order to solve this issue they need to start working with financial institutions, startups, companies in the space that are incorporating new data. So, we have been on the argument and on the use case of working with the bureaus to incorporate these type of data, we purposely made it a trade line which the bureaus accept, tri-bureau, we report tri-bureau currently and we work with FICO as well to display scores to the open access program and to our users as well.

**Todd:** How big of an issue is it still that essentially, in many ways, you still have to go in debt to create a credit score. I guess I should ask you this question first before I go to the debt question, is if I didn't have a score and I signed up for Altro, would the subscription trade line be enough to get me on the radar or would I need to, at least, take out like a small credit card or something like that to also supplement the subscription, like how would that work if I was invisible to the credit bureaus today?

**Michael:** Altro would be enough to actually be visible, I mean, that's the beauty of traditional data, right. The issues the bureaus have, the reason why most people have a zero or four is that the bureaus don't have enough data on this consumer, they don't know who you are, they can't profile you, they don't know what trade lines you have and giving, at least, one trade line starts you on that path of getting that score, that 50%, that 660, that 700 score and improving the number of trade lines you have, thickening your file is really how you move up in that pipe.

A great example of this is if me and you, Todd, both have a 750 score and I only had one trade line and you had three, even though we have the same score you will have much more opportunities than I did because of the number of trade lines you had which means that there are two things that we're solving here at Altro, A) we bring a new trade line to the table where people are getting a score or B) for people who only have one or two trade lines, not matter what it is, signing on a new trade line is always going to be supplemental especially once when you get to the free market.

The reason there's a magic number that we use in our company to tell people is how many trade lines you should have to have what we call a thick file and it kind of plays into your second question too which is a very hot topic for me personally is how the bureaus are really pushing people to go into debt to get credit, but we can jump into that one as well.

**Todd:** Yeah. I mean, it does seem to be the anti-thesis of a credit score to see how creditworthy you are. The only way that you get a true measure of that is to first go into debt and then prove that you could pay off that debt and then your score goes up and they essentially see you as a healthy or good risk on their books. But first you need to take a risk and take on debt which to me has never made any sense and this owner knows the space better than I, do you think there'll ever be a day in the future where you don't have to go into debt to build out the credit score?

**Michael:** I can double down on this with some insights that I have. Most of the bureaus don't accept trade lines below \$250 which means most of the time if you are getting your first financial product it's going to be like a \$500 loan or maybe \$500 secure card then you see that number five hundred wrapped around so much because it's the threshold that people don't even want to do business with you unless you can, at least, do this much activity. And for some people, giving them \$500 that they did not have before and teach them to be a good actor with it is definitely a challenge for your first

step. It induces this behavior on being a bad consumer on day one and it doesn't come with much ability to properly walk into owning a \$500 line properly. So, it's definitely a problem there in terms of that zero to one that we want to solve.

To answer your second question about one day having this not be a debt-driven relationship, I believe that there is an argument for that. I think that there's a data, alternative data, won't be called alternative, it'll just be called data and it'll impact the decision making that lenders have for getting you your first product. We believe in this very heavily at Altro, it's why we look at what you're already paying for, right, we find that Netflix that you've had for 12 months or that Hulu that you've been paying for for the last six months and we use those as the first data lines in someone's credit score which means that we're reducing the risk, we're taking something you already have been habitually pay, turn that into a trade line and then growing it into opportunities over time. That induces the proper streamline, the proper behavior as you're the one that you don't see the market today.

**Todd:** Is there a limit on, say I've had Netflix for four years, is there a limit on how far you can go back?

**Michael:** No, not per se. It's not even really that we're using the going back as a data point, we're using it as a way to show that the user have the ability to repay. It goes into our underwriting process at Altro, right, it's hey, if you have a subscription, you just hit golden credit rather than hey, we need to look at your FICO score, we need to look at this, we need to make sure that you're not in debt so none of that matters to us. As long as you have a subscription that you've been paying for, we can start building credit for you immediately.

**Todd:** How important is education when it comes to credit. I still find that it's astonishing, as someone who's been through obviously elementary and high school and college, at no point in that journey were the ABCs or one-on-ones of money was explained. Today, we're still in that place where there is no like money basics in middle school or high school. A) how crazy is that, B) how much of a difference could it make if this was part of our proper education?

**Michael:** Man, that's a hot topic for me too. I think credit is simply education, right, and the more education you have, the better your credit score, no matter what your socio economics are, right. And when you live in a world where credit is not taught, it comes from mom and dad, if mom and dad has good credit, your child's going to have good credit, if mom and dad never had credit, the child is not going to have credit which creates this odious wealth gap. It's the education gap where credit is opportunity, but for some communities credit is scary, credit is wrong, people who need credit and that's the issue that you see happening today.

We actually keep education in the forefront of what we're doing and not in the way of like hey, we're trying to force a 30-minute blog on you or this or that. There are one-minute long audio clips that we've prepared where we tell people about 401(k)s, how to option trade, the whole system around leverage trading, everything, crypto and this one-minute long audio clips get harder each minute as you watch them, but they teach you everything you need to know in maybe five minutes, not what a 401(k) is and how to start saving, right. That has actually been foundational in what we've been doing in Altro as

well. There's a lot of companies out there as well that are also pushing on these goals that are, for example, they work with young adults and what they do is to get access to your money on Monday, you've got to take a quiz and learn a lesson on Sunday which is super cool. With stuff like that you see it happen paramount in the industry right now.

**Todd:** Yeah, I mean, it's still a big shock that we don't have, like how to balance a checkbook. I mean, granted we don't use checks that much anymore, but even the question of, you mentioned it early on, the vantage score versus the FICO score, there's Credit Karma out there. I mean, are people aware of their actual credit score versus a range of where they might be?

**Michael:** No, I don't think people are and people get so confused when they see their experience score versus the vantage score versus the TransUnion score, versus the Equifax score and there's so much data out there that people don't know what to rely on. Most people just see the biggest number and say oh, that's my credit score which honestly, even I have been at fault for in the past, okay, they scored me as X over here, but they scored me as Y over here. When you go to a lender, what score are they using is the real question, right, and that's the one thing that people don't know so we purposely show that FICO score on our app, the same decisioning our lenders are using is what we're showing you publicly and we also show you how to improve that score in the app too.

We'll say hey, you don't have enough trade lines, you have this default, this is wrong, this is correct, right, and that type of education, it's actionable, right. It shows you deep insights and deep action points you can take to better yourself and only thing that I think is really important too is you've seen the democratization of finance. You see it with crypto, you see it happen in credit, you see it happening with fintech, education has to be a part of that or else you'll see that what happened in 2017 when public markets jumped into crypto after the Big Wave then it dropped. It started to happen to Bitcoin hit 60K, where public markets jumped in, people are selling their homes to buy crypto then it drops again, right, and that's just the education game that needs to be understood.

**Todd:** In doing research for this episode, obviously I saw the stories about your pitch competition and eventually Marcy Ventures which is Jay-Z's fund got involved, I mean, how big of a boost was that for you, for what you're building, but tell us a little bit more about that experience overall and kind of giving that type of investments from that type of name.

**Michael:** So, we were (inaudible) at that time, not really knowing what we were doing, but we had this idea, we really stuck on it, we were helping people, we wanted to make an impact and Marcy Ventures, they were the first to believe and give us a real chance. They met me at a pitch competition where we won \$25,000 from Techstars in New York and right after, they wrote a check for a quarter of a million, it was our first money in, it was the most money I've ever seen and they helped us launch off. From there, we got into YC, we raised a seed round, you know, we moved on to a Series A now, things really took off after that first committed, I believe that we were on to something.

**Todd:** Does that type of investment and experience amplify the story, not only for outside, but the personal story that you guys are on to something because I'm assuming you probably go through pitches, you talk to investors. Every fintech and startup and founder I talk to, they're always dealing

with no's, but at a time they do get a yes, especially the successful companies that obviously must reinforce alright, we are on to something and it's not just this idea that me and co-founders popped up.

**Michael:** That yes meant a lot for us to get the first yes that we had and it was a big yes too. It made us feel like what we were building, especially after talking to the team at Marcy, meeting Jay-Z, it felt like what we were building is more of a responsibility than just building another social app or, you know, another opportunity to make money, right. This app, this product, Altro, it really feels like, you know, it's important, it means something for the community of what we're doing so that people that we're serving are members.

It's bigger than all of us and when building our team as a person that we talk about, in every interview it's how's this helping the community and how do you want to help make this change to a point when even after we raised a quarter of a million, my Co-Founder and I did not get paid until maybe a year and a half later and even at that point we were only going to get \$1000 a month, but the rest of the team as well, right. It really is bigger than us and we really pride ourselves on that.

**Todd:** What's the biggest lesson that you've learned, so far, about your company since you got started?

**Michael:** I've realized that B2C is definitely an experience. A lot what we end up building is around what our users need and want and I realize that my role in the company to serve that had definitely changed a lot too. Take it a year ago, I was running around doing everything, wearing 20 hats, now my job is only to wear one hat and it's really hard to do that at times, right. There's a moment, I share this all the time, where my phone number was the customer support number so whenever a guy has an issue, you talk to me directly, we'll figure it out, but now, like you cannot do that anymore (laughs). So, the small stuff like that I think we're learning day-by-day, it's turning into a real company, getting out of the startup mindset and getting into that let's figure it out and solve big problems mindset. We have a great team of 40 people who are charting that everyday now so.

**Todd:** Best piece of advice that you've received, thus far.

**Michael:** I think Brad Smith from Intuit, he's former Chairman of Intuit, now President of the University, he gave me really good advice when I met him. He told me the reason why Amazon was so successful was because they focused on three things. They focused on being the cheapest so they built this scraper, compared to Walmart every other company out there and their prices were cheaper, if not more. They wanted to be the fastest so they focused on a partnership with, you know, Posts, in service so that they can get their product there and they wanted to be accessible, right, they wanted anyone to be the user product and find anything they needed on Amazon. That's what they focus on, nothing else mattered to Amazon and that level of focus is something that you don't see in startups at all.

We want to solve the world, right, like we want to solve every problem out there, users are always coming to us saying I need this, I need this, I need this, but the best advice I probably got was to focus on one thing and do it really well and the rest of the world will come overtime. Airbnb, for example, they did their first app in ten years and it was like three really small features that, you know, any startup is

going to be like oh, I can build that in a day, right, just focusing on what you can do, right, in serving that purpose.

**Todd:** Tell us a little bit more about the team around you, your Co-Founders and those that are on the mission with you today.

**Michael:** My Co-Founder, I always claim him is a genius because he truly is. He started coding when he was nine, talk about sensibility, and built his first app when he was 13, had his first startup....

**Todd:** Geez!

**Michael:** .....yeah, I was like yeah, I'm behind the loop, right (laughs). Built a startup when he was 16 called DronesDash, they raised a couple of million to build drones that can delivery anything to your front door, the Trump administration shut that down with line of sight provisions so that shot down the startup and for that reason he had to go to college and we met in college. He was looking for something big to solve and, you know, I had this problem that I faced and we had a rooted end-game.

The rest of the team, truly they've got several forays and built off of passion, people who had downtime in their life story, where credit really hurt them and they wanted to make sure other people don't feel that, people who have met just in Ubers and just walking around San Francisco, truly these passion-driven people. We really don't look at resumes, we look at just how do you really want to solve this issue and it's led to us having motivation and discipline to follow this responsibility that we have and help the members out there so that's really a lot of what the team is.

**Todd:** Obviously, the investing angle to fintech has gone through quite the turn in the last couple of years and more recent obviously things have kind of come down off their highs, but outside of obviously the Jay-Z element which we've discussed, I mean, how are or how were other investors and, you know, their insights and their interest in what you guys are building, how did that go and what did you learn about your company through the process of raising capital.

**Michael:** Yeah, raising capital has been interesting story, started in the last recent months. I think the biggest thing is all of our investors are purposeful, we didn't go chase a big find and look for a big check, a big valuation, we looked for very strategic checks, a bunch of angel checks, people really gave meaning and purpose to what we were trying to solve and this made a big difference, right. I would say one of the biggest things was an investor introduced us to Joanna Rees, who's on the Board of FICO and Joanna joined our board at the Series A which gave great insight and also great purpose to what we're trying to solve.

You know, with the FICO and divine inspiration and all that, this knowledge that we have as a company, I think raising capital in this climate as a fintech, you've got to stay backed with advice, very purposeful and intent about what you're building. We're cautious of runway always, we had a very meaningful Series A which was great, but using that money effectively is definitely our purpose going into, you know, our future growth.



**Todd:** A lot of other founders who were by their bed, you're a stage earlier/later tend to listen to the podcast, if you had to give them one piece of advice from the last couple of years that you've learned, what would that be?

**Michael:** Focus is definitely a big one. I always say this one and I think it still applies, it had not changed for me. Before we started tonight, I think that there's just such an easy mindset to have when things are stressful, you have a million things on your plate, you don't know what to do, simply starting tonight makes such a difference, I've had these moments. And I'll talk about this publicly because I know other founders face this where you have so many things to do or they could do or you want to do or opportunities that you don't miss, like you freeze, you literally would do nothing because there's so much to do that you cannot handle all of it at once. I found that focusing on maybe three things a day and doing those things really well consistently is better than trying to do a million things at once which is such a hard mindset to have as a founder. The goal is to do less more effectively than do more less effectively.

**Todd:** Yeah.

**Michael:** That's one thing I've got to really even improve myself as well.

**Todd:** I mean, it's probably the toughest thing founders face is that they feel as if they've come up with this idea than maybe a group of co-founders and any piece that begins to let go from that they feel as if alright, part of me is now being let go versus your finding the right people to supplement what you've built, now you need to scale and go to the next level and it's not a bad thing, it's just a different thing.

**Michael:** Yeah, exactly. Gary Perez, the CEO of the credit union that I'm on the board of told me this, he said, the moment you start heading things off you're going to feel like you could do a better job always, you'll question their skills or you're going to question how they did it, oh, you could have done it like this, but whether or not the job gets done and that will change your mindset on letting things go, giving control away and being able to focus more.

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

**Michael:** My favorite book has to be, and this is in childhood, the "Legend of (inaudible)," that was the first book I actually got through and it's only because it had illustrations in it, made me realize that I had ADHD, but reflectively, it was like a 700-page book, like 300 pages or 400 pages of illustration and I was able, for the first time, actually read while like watching it in my head. I don't know if you know what I'm talking about, where you can like see the movie playing in your head as you're reading and that got me addicted to reading. That book kind of inspired me to start reading more and more and more and I've gone to a point where I read almost weekly at this point.

I'm working on two books right now, I re-reading "Principles" by Ray Dalio, it's because the first time I read it, I skipped through. Someone had told me that you could like jump through different segments

and still make sense and it really didn't make that much sense to me (laughs), well, I'm re-reading that one.

My favorite book I'm reading right now is definitely the "Startups on Emmanuel," (?) it's a book I have on my shelf right now as well, a really good read. It talks about a lot of stuff that I'm talking about right now, focus, how to prioritize your time, what it takes to be an effective leader, a lot of the basics with a startup that I have to learn, at least, helpful with the Series A's.

**Todd:** What do you do to kind of step away and unwind?

**Michael:** I love viewpoints, actually, whenever I'm stressed or at the moment where I'm freezing, you can probably find me at a viewpoint, there's a lot of good ones at Oakland and San Francisco area.

**Todd:** Do you have a favorite sport or sports teams that you root for.

**Michael:** I'm currently band wagoning on the Warriors right now (both laugh), but, you know, I watch basketball, watching the finals right now, the Western finals and yeah, it's been fun, so far.

**Todd:** Do you have a stay put vacation spot?

**Michael:** You know what, I just had my first ever vacation, literally my first one to Hawaii two weeks ago and that was awesome. Again, kind of Viewpoints, a lot of hiking opportunities, but that was super fun.

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

**Michael:** That's back to the heavy, heavy one. I would say right now, it's definitely my company. I think the biggest inspiration that I've had which may be a fear is startups are risky, companies die, 95% of them do and obviously 60% still die and the other way of 40 people who's completely dependent on Altro. It's scary waking up knowing that their job would be non-existent if we don't get this right so I think that's my current inspiration. It's now become a point where Altro is either going to affect millions or it's going to affect a million in a good way or a bad way, right. I definitely want to make sure that we have a positive impact on the world out of a negative one.

**Todd:** Mike, I appreciate what you guys are building and thank you for giving me a few minutes. How can, if someone wants to find you or find the team, how can they do that.

**Michael:** Altro Credit if you put Credit on the end, it's just Altro, but you put Credit you'll find all of our socials, our website and everything, altro.io is our website, we've a really cool video on there and more about the product if you want to see it. You can find me on Instagram, Twitter, everywhere @mike\_altro and any questions, just let me know, I'm always online.

Todd: Well, thank you, I appreciate it, continued success, hopefully, we'll get you back sometime in the future. Thanks so much, Mike.

# LendIt Fintech



**Michael:** Off and thank you, Todd.

(music)

Thank you for listening to the latest episode of PitchIt, the fintech startups podcast. I encourage you to take a few minutes to write a review or rate the episode. Both ratings and reviews both help us to improve the show for future episodes. If you're interested in learning more or would like to be considered for a future episode, please reach out anytime. My email is to Todd, T O D D @fintechnexus.com and until next time.

(music)