LEND ACADEMY

PODCAST TRANSCRIPTION SESSION NO. 84: DIWAKAR CHOUBEY

Welcome to the Lend Academy podcast, Episode No. 84. This is your host, Peter Renton, Founder of Lend Academy.

(music)

Peter Renton: Here in our last episode of 2016, we have a fascinating company. Di Choubey is the CEO and Founder of MoneyLion. Now they are very different to many of the companies in this space because they're not just a consumer lender; they have basically a personal finance app and that's sort of the core of their offerings, now they monetize it through the loans. We'll talk about this in a little bit, but they're very different from most of the other companies in the industry and I wanted to get them on the show because they've just successfully closed some pretty large funding rounds and they've sort of been…I wouldn't say lying low, but they haven't made a big splash and I think you're going to start hearing from them more and more, particularly I think in 2017. You're going to hear the MoneyLion name a lot, but in the episode we talk a lot about the app, we talk about the different offerings they have, we talk about their target customer, the kinds of loans they're making, we talk about the funding environment today and much more. Hope you enjoy the show!

Welcome to the podcast, Di.

Di Choubey: Thank you, Peter.

Peter: So let's just kick things off by giving the listeners a little bit of background about yourself, particularly about what you did before you started MoneyLion.

Di: Absolutely, firstly, thanks for having me on the podcast and thank you for playing an important role by facilitating this forum. I really appreciate that.

Peter: My pleasure.

Di: So prior to starting MoneyLion, I spent 12 years in the investment banking and proprietary investing industries at places like Goldman Sachs in their investment group and Barclays. Throughout all those jobs the one common thread was having a front row seat to the evolution of many different types of consumer finance business models, not only here in the United States, but also globally in the United Kingdom, in Asia and in some of the emerging markets. As a recovering investment banker, I was always fascinated and interested in the power of delivering powerful financial tools to the broader market with the help of advancements in parallel processing technologies that were at that point commonly termed as big data and machine learning. That's really my background for a good amount of time before I started MoneyLion.

Peter: So then what was it about that background, I mean, what was the kind of trigger that caused you to say, you know what, I need to take the plunge here and start this company?

Di: Sure, you know when we started MoneyLion we were just coming out of one of the biggest recessions that the world had ever seen. There was a little bit of overcorrection, if you will, from the response of governments and reacting to the credit crisis so Dodd-Frank and Basel III were put in place and that put a lot of capital constraints, as you know very well, on a bank's ability to have conversations with consumers.

At the same time, we were also seeing that with the help of social media, with the help of the proliferation of mobile technologies, consumers were getting very well educated and very comfortable with transacting online. So I was always fascinated with this evolution of the technical side which was using hundreds of computers in the cloud to access multiple datasets all at the same time to make credit evaluations in literally nano seconds.

I was also...given my role as an investment banker, I had the ability to see that most of the industry here in the United States hadn't adopted to some of those advancements in technology and for the most part, the industry was still really offline and burdened with a lot of manual processes that weren't helpful to consumers. So I was always fascinated with this idea of having an electronic exchange of data and a concept of using data as currency in online transactions. Why not empower the borrower to share more data in a real time environment where lenders get more comfortable with making a more real time credit decision instead of having to really rely on manual verifications, back office processes etc., etc. so it was effectively scaling the concept that consumers are already getting used to.

So the first genesis of MoneyLion was really born out of that idea of creating a data exchange between a borrower and a lender which ultimately would benefit both parties. The borrower would get lower rates on credit products more quickly than they would offline and the lender would benefit by lower principal default rates.

Peter: Okay, so let's just dig into there a little bit, I mean, when did you actually launch?

Di: We launched MoneyLion in early 2014.

Peter: Okay, and did you launch just with the consumer loan product? Why don't you explain exactly what you guys do and what you launched with and how it has evolved.

Di: So our DNA has always been in data analytics so our first foray into consumer finance was through our decision services platform where we were actually providing decisioning on identity and verification to other non-bank lenders and then ultimately, in early 2014, we actually pivoted to being a lender ourselves with the use of a lot of those algorithms that we found were more predictive in the short and medium term lending environments than what we otherwise found from data sources in the industry at that point.

So today, MoneyLion is a balance sheet direct to consumer alternative lender that uses what we think is a proprietary personal financial management application that consumers interact with.

Peter: Right, yeah so I sometimes describe your company as like a cross between Mint and Lending Club. Do you think that's a fair way to describe it?

Di: (laughs) Those are both very good companies or products so I'll take that as a compliment. But our philosophy has always been to incentivize consumers so that they constantly monitor their credit and financial profile. We've observed through data that consumers who use our personal financial management tools categorically make better borrowers, default less and pay off more on-time and engage in good financial habits.

So to a large portion of our customer base we provide just powerful insights on making better financial decisions. That's our value proposition to our customer base...download our app, link one, two or three of your financial accounts. They can be bank accounts, they can be credit card accounts, they can be investment accounts, they could be offline assets that you own; for instance, jewelry or watches or what not and allow our algorithms to give you insights into how you save better, how you make more money in the future and through those engagement tools we're then able to build a rapport with that customer and are then able to have multiple conversations on financial health and well being with technology as the medium through notifications and through sort of the powerful engagement tools that exist in the market today on both web and mobile platforms, if you will. That ultimately...and we've seen and shown this with data, drives a positive selection portfolio on the lending side.

Peter: Okay, so then how long have you had the app? Was this part of the roadmap from day one?

Di: What you see today in the app has in multiple facets been available in more simpler forms since day one. So our first product was a data portal like I said, where we actually allowed individuals on our network to get endorsements. There are a couple of others who've tried it, but basically an endorsement on the MoneyLion financial network ultimately reduces your interest rate by either giving you points or rewarding you in some other mechanism.

So that concept of, okay, if you get more of your network to really stand by you from a commitment perspective, we'll give back some of that risk that you're defraying for us in the form of interest rate reductions. So that's always been around and now it's actually been polished up a little bit more and it manifests in our mobile app.

Peter: Okay, so are you still...obviously I get...it's pretty clear you've got a mobile app, you've got a deep insight into your mobile app users, much deeper insight than just a traditional lender would have, but it sounds like you not only have that, you also combine this with the endorsement pieces. Is that true today?

Di: Yeah, that's absolutely true today. We realized early on in our evolution that building a monoline online lending business that was only relying on individual lending transactions didn't necessarily have...we would always be playing the same game of customer acquisition. So what we have embedded into our mobile financial network, if you will, is the ability for consumers and families really to use our tools, to have conversations around credit scores so you can download the MoneyLion app today and get your free credit score from TransUnion.

We also have built a very powerful simulator so you can actually go in and say...what happens if I pay off my oldest credit card, you'll see your credit score up usually or what happens if I don't pay my Chase Sapphire card for 90 days and you'll see that that has a massively negative impact on your credit score. You can do this in a community environment where you can actually go and share that with your spouse, you can share that with your parents or your kids and we see our customer base actually doing that as it relates to family finances.

So that level of insight, again, manifests through aggregated data and we're then able to have conversations beyond just credit score, but ultimately, the reliance on financial management allows us to, then in data-rich environment...really allows us to empathize with the balance sheet of our users.

Peter: Sure, it's funny because you do have a very different business...I mean, it sounds like to me that what you really want people to do is to download your app. I know you obviously want to monetize them, but it sounds like that's sort of...is that your primary acquisition target? So who is the primary customer and is it just someone who you want to download your app?

Di: Yeah, so our typical customer today is someone who is very conscious of access to credit, of their credit score, of implications of certain transactions on their ability to afford an auto loan, their mortgage or just general financial well-being. It's not going to be a very specific answer because our customer base today is very broad. They happen to have anywhere from $50,000 to $150,000 of household income, our customer base usually ranges from a median age of 30 to 45 so it's a very broad swath. It's probably the middle 75% of the American adult consumer segment is really our target audience. If you think about some of the folks that go just solely for the super prime or the prime plus segments, we're not that. We're targeting the lower prime and the near prime segment significantly with our products.

Peter: Right, sure. So then how are you monetizing these customers? I get it when you're taking a loan, but are you also doing what Mint does in referring them on...I was digging around your website over the weekend and I noticed you've got a bunch of…credit card, different people rating credit cards and all sorts of different things there, do you monetize it outside of just the loan product?

Di: Absolutely, so the personal loan is but one of many conversations we today have with our user base and want to have in the future. Ultimately...and I tell this to my team and to our investors that ultimately anyone with a bank account and a mobile phone should download the MoneyLion app and we want MoneyLion to be thought of as a hub for multiple financial products.

One of the trends that we've seen consumers really adopt over the course of 2016 is this concept of re-bundling the bank and I think that's really one of the trends that we're seeing anyway is that digitally native platforms will transform banking as we know it by replacing traditional banks as a core hub for money management. So at MoneyLion, we think, is that core hub for money management and you'll see in 2017 that we'll be releasing very exciting partnerships.

We already have a lot of them in place, but even more which includes banks, non-bank financial companies as well as insurance companies to provide frictionless access to financial products just in time for when consumers face that liability or balance sheet shock. Because of the fact that over 300,000 users have trusted us by linking their bank accounts to us, we're then able to use that data on an aggregate basis to really make recommendations that…hey, Peter, you know, you've spent $10,000 more than you usually do, you may have a liability in 17 days, consider taking proactive steps to avoid that today.

To do that very effectively, the tools to get out of that financial cliff are oftentimes not a personal loan. They could be an insurance product or they could be a refinance product or they could just be another credit card. So to manifest that in a frictionless process, we've got a very strong partnership team who's already in the middle of very exciting partnerships with other financial institutions and that's really the monetization path in the future.

Peter: Right, so I guess consumer loans is just going to be one of many ways you monetize, it sounds like. So do you...today, are you...the loans that you've run through your platform, has that all come from people using your app or is it sort of a mix of you go out, you try to acquire customers the way everybody else does as well or is it purely through the app?

Di: Sure, so the PFM (Personal Financial Management) app channel is clearly the leader of all of our origination acquisition channels today. There's a significant word of mouth and referral program through our endorsement channel as well, but in addition to those two channels which make up a bulk of our new customer acquisition, we have expertise in all forms of digital marketing as well as offline marketing including direct mail that we engage in.

Peter: Okay, okay it sounds like as your app gets more and more popular...obviously, your cost of acquisition, I mean, your direct cost of acquisition is close to zero when it's coming through your own app so I imagine you're very, very focused on trying to build that up.

Di: Absolutely, it has a multiplier effect and ultimately, one of the questions that investors ask us is why spend our resources on building out the PFM tools and we've spent a significant amount of equity dollars and profits from our consumer portfolio into building that capability out and what we've realized is that ultimately for our platform to be successful and for us to continue to attract investors, we need to show that there is a customer lifetime value beyond that first loan transaction and having that PFM app allows us to do that.

Peter: So then can you give the listeners a little bit of understanding of…you've talked about you're in sort of the mid-prime area, what is the typical loan terms, what's the size, the duration, that kind of thing?

Di: Sure, so just like our user base, the attributes of our personal loans are also very broad so we can write as low as a $500 loan and we can go all the way up to a $35,000 loan and the terms, again, are flexible. Whereas most lenders will focus on just three to five-year terms, we can structure the loan based on what we understand about the consumer's balance sheet as low as nine months, to as high as 60 months. So, again, very broad ranges in both term and maturity…sorry, size and maturity.

Peter: And what about rate, how do you...what's the range on interest rates?

Di: So our near prime products can range anywhere from 7% to 30% and then we also have a above 36% product where we're individually licensed in about 25 states.

Peter: Right, okay. Then so can you just tell us a little bit how you approach underwriting? Clearly, you've said you've got this treasure trove of data that few other, virtually no other companies have on their customers, but you also have customers...if you're acquiring them through direct mail then you're not going to have as much of rich data so can you just talk us through how...it seems like to me you must sort of have like multiple underwriting models because you've got one for the customers where you have rich data and you've got sort of the whole endorsement piece as well and then you've got another one for those that you're acquiring just through the direct mail channel.

Di: Absolutely right, so we're very data-driven on the underwriting approach and underwriting, as you know, is broken down into obviously a couple of different segments. One is obviously in an online environment, how do you mitigate fraud risk so there's a lot of time we spend in interacting with multiple different data vendors on fraud data so has this person just committed cyber crime on Amazon or BestBuy.com and now is looking for a $5,000 installment loan or has this person gone on to a lot of our peers' websites in sort of the moment of time where the credit bureaus aren't able to track it, stacked two or three or four different loans so we spend obviously a lot of machine learning effort on that segment.

And then the other point that you made about channels is absolutely right. We have different funnels for different channels, in certain channels, organic, where we have bank transaction data that's obviously the richest data in terms of verifying income and identity and in channels where we're relying more on direct mail, that's again a channel where we then have to look to our bureau partners to make sure that in a compliant manner we're able to create the best propensity versus risk models. That's a generally tried and tested methodology on the direct mail channel and then on all the others channels…

One of the things that we do slightly differently from the industry is we run a lot of data bureaus on almost every single loan application. From a specifics perspective, we can spend anywhere from $40 to $75 in just data costs on every funded loan. Historically, what that's allowed us to do is capture and see a lot of trends in how seasonality affects loan volume, how different regions in America have different proclivities. I mean now we're sitting on probably a dataset that we act as our own bureau even before we go to the third parties so that helps us scrub a lot of data costs at the top of the funnel.

Peter: Okay, so then I want to talk a bit about the fees, I mean, I read on your website that you don't charge an origination fee on the loans so I presume the monetization, that is on the interest rate spread...can you talk a little bit about why you decided not to charge origination fees and go just the spread route?

Di: Historically, we've been a balance sheet lender so as such we've been comfortable with the economics that accrue to us from our piece or our portion of each loan, but in the future as we diversify our funding mix we're certainly contemplating changing the mix there where on some loans where it makes sense, we would charge some origination fees where appropriate.

Peter: Okay, so when you said you're a balance sheet lender right now, does that mean that you are contemplating like a marketplace or are you comfortable being a balance sheet lender for the foreseeable future?

Di: Right, so said another way, we're definitely exploring ways to provide accredited investors direct access to...not whole loans, if you will, Peter, more sort of pools of our loans where we create that diversification on a blind basis for the investor.

Peter: Okay.

Di: That would be our hybrid approach, if you will, it wouldn't be a direct marketplace where you could actually go and pick off seven different credits, but instead it would be more of a pooled SPV that writes notes that accredited investors can buy interests on.

Peter: Okay, okay, that's fascinating. Is that product in development...I mean obviously you just told it publicly so it's not a complete secret, but is there a timetable on that?

Di: So 1st quarter, we'll be piloting it with select high net worth individuals and family offices and then hopefully, depending on how the demand is there we'll consider ramping that up over the course of the year.

Peter: Okay, we'll certainly keep an eye out for that. So I want to talk a little bit about the news you've had in recent weeks. You raised a large warehouse line as well as a series...warehouse line from Macquarie Bank and separately it seems you raised a Series A as well. Can you just tell us in this environment, what was that process like and how you were able to get those deals closed?

Di: Yeah so it's definitely been an interesting year for fundraising but we're excited about our new equity and debt partners, both believe in our ability to acquire and retain customers so we're excited about having them on board. But you know, again from an investors' perspective and from a fundraising perspective there's certainly been themes this year in terms of what resonates with investors. Investors seem to be very focused on how platforms can achieve balance sheet scale which is no surprise as well as the always present question around access to proprietary channels to acquire customers.

Overall, people who make an investment in this sector, in the alternative lending sector globally, want to make sure that they get a good return on equity in a finite period of time which said another way, they want to make sure that they can monetize their investment either in the public markets or otherwise. And to show that, there has been a higher responsibility on the platform side to say yes, we do have proprietary access to a customer base and this goes back to having a PFM channel, having an endorsements channel where a meaningful portion of your customers are coming in for effectively a zero CAC…you'll have data costs, it's never free.

Ultimately, investors are looking for, can this platform create positive selection in its portfolio or is it just reliant on traditional commoditized marketing channels where our larger peers in the market are much more scaled to win and it's hard to differentiate in that segment. So that's really been the challenge in terms of showing that through data that we as a platform have been able to deliver on those. So once we're able to show through data that our customer base is incredibly sticky, investors begin to understand the power of that platform.

Peter: Right, right, that makes sense. So I guess given the challenges in fundraising this year, was it a more difficult process than you expected? Obviously, you got it over the finish line, but was there...I mean, it seems like to me, I speak to others in the industry and it's been brutal for many companies, maybe those that don't have as much of as a unique customer acquisition channels but...so I guess was it surprising how difficult it was or did you find it...you expected this?

Di: Yeah, so I would say that it was probably in the middle of the two extremes. It was certainly not an easy capital raise, but it certainly...you know, with sort of the right positioning and the right platform, the right strategy, investors are...investors generally still believe in the secular thesis here that more of these types of transactions will go online. There is a clear re-bundling of the bank where consumers want to go to one platform for multiple financial products.

Consumers have already shown a willingness to share their very intimate balance sheet data with platforms for the right value proposition. So those themes are still resonating with investors and I wouldn't be surprised at all if more platforms like ours or even other types of credit platforms continue to get funding. I think over the last couple of months that environment has certainly gotten better over the summer. Clearly, there was noise in the market from the macroeconomic waves, but as we see sort of a new administration here in the United States, folks will certainly start to have different views on how these platforms can scale.

Peter: Yep, and speaking of scale, can you give us some idea...I mean, you mentioned your 300,000 users of your app, but can you give us some idea on the scale as far as your loan volume goes?

Di: Yeah so just to reiterate, the number of users are significantly larger, the 300,000 number is users that have linked a bank account to our PFM app.

Peter: Okay.

Di: On scale, my lawyers will get in the way here, but being a privately held balance sheet lender at this time...the only comment I can make about that is limited to what we have publicly disclosed and that's our warehouse capacity which is at a total of $650 million.

Peter: Right, right, and presumably that's not going to be used up over the next five years, it will be used in a shorter time period than that. We can leave it there, that's okay. (laughs)

Di: Thank you.

Peter: So then one thing that interests me, I know you have an office in New York, but you also have an office in San Francisco and Kuala Lumpur. Can you just tell us a little bit about your company structure?

Di: Sure, so historically I've been in New York so it was natural to have our headquarters in New York. Having three offices in three cities has allowed us to be nimble. For example, a simple thing like staffing, our online chat for 24/7 is made available because we have an office in Kuala Lumpur and we access two distinct pools of talent from finance heavy folks, finance and accounting heavy folks in New York to marketing and data science heavy folks in San Francisco so those three offices, we actually have a fourth one in Salt Lake City where we do loan processing and customer service allows us to keep a low expense base and gives us access to a very diversified pool of talent.

Peter: Okay, fascinating, then what are you guys working on, like what are in your plans for 2017?

Di: Sure, so 2017, first and foremost we want to make sure that we keep an eye out on the dynamic regulatory climate in the United States which with sort of the new administration coming in we don't fully yet know what that looks like so 2017 will basically be understanding that and recalibrating, if necessary, for any changes there.

But from a product perspective, we continue to build significant capabilities in our mobile app, whether it's through more in time notifications, whether it's partnerships with various types of banks or financial institutions to provide frictionless products that go beyond the loan, but ultimately, we want to grow the user base and we want to show through data that customers are coming to us for not just a loan but for other financial products. And if they do need a loan a second time, we're also able to show an increasing percentage of our portfolio that's already to customers that we have interacted with before.

Peter: Okay, well on that note, I think you've got a fascinating company here, Di, and I really appreciate you coming on the show.

Di: Excellent, thank you, Peter.

Peter: Okay, see you.

Di: Okay, bye.

Peter: So there are two things here that I really like about MoneyLion and both of the things we touched on but the first is that the access to a really unique customer acquisition channel. If you're running a company today, you can't just be a 'me too' player, you've got to have an acquisition channel that you can really attract customers in a cheaper way than your competitors and I think that's what MoneyLion has done. That's the one piece.

I think the other piece and I think this is even potentially a bigger play and that is, you're providing something other than a loan. If you're just a consumer lender and you have a successful business that's great, you're making loans, how do you keep those customers coming back, how do you keep them engaged? I know Prosper spent a whole bunch of money on a personal finance app 18 months ago. There's clearly value in having access to the customer through a positive relationship through something that happens on a daily basis.

Not only that, I also think what MoneyLion is doing as I said I've played around with the app, I love the fact that they're really helping to educate the customer, they're trying to help their customers make better decisions and that is something that I think everyone should aspire to and MoneyLion is clearly delivering that.

Anyway on that note, a couple of announcements. This is our last podcast of 2016, and I would love you to go to iTunes or Stitcher if you haven't already and leave a review. It's how more people can discover the show.

Lastly, I want to just say we have our LendIt conference coming up here in March of 2017. Just give that a quick plug, go to LendIt.com, you can find out all about that. It's going to be the biggest event ever in the history of our industry.

On that note I will sign off, all the very best for the holiday season, have a safe and happy time and I will see you back here in 2017. Bye.

(closing music)