LEND ACADEMY

Podcast Transcription Session 20: Renaud Laplanche

Peter Renton: Welcome the Lend Academy Podcast, session number 20. This is your host, Peter Renton, founder of Lend Academy.

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Peter: So we have a very special guest for you today. Renaud Laplanche is the CEO and founder of Lending Club. He has built Lending Club from scratch to really the largest player in our industry. He's been the keynote speaker at both 2013 and 2014 LendIt Conferences.

If you've been following this industry for any length of time, you will have seen him probably on TV. He's quoted in the newspapers, magazines. He is out there a lot. So we are very, very pleased that he decided to do this interview with us today.

In this interview I wanted to take a bit of a different approach. I don't cover a lot of the questions that you will likely have read about before. I wanted to cover a lot of new ground, ask questions that haven't typically been asked. You will find out a lot of new things about Lending Club today. I hope you enjoy the podcast.

Peter: Welcome to the podcast, Renaud.

Renaud Laplanche: Glad to be here.

Peter: Let's just get started. I wanted to ask you how you came up with the name Lending Club. Was there anything specific about the club aspect that appealed to you?

Renaud: Yes. It was a while ago now but basically I was in my living room with my wife. We were discussing names and doing research and trying to find a name that would be a descriptive name. There are very conceptual names that have more emotional appeal that really don't describe the products but trigger the right emotion.

On the flip side, there are names that are more descriptive. Considering that we were creating something entirely new we thought there would be some benefit in really using a name that says what it is, to take a little bit of the mystery out of it.

In the category of descriptive name we wanted something that would have the word lending or credit to say what it is but also would convey the notion of peer to peer, the notion of a community of people coming together and entering into transactions together or putting resources together, so that that notion would become matched with the name through the word "club".

That is also ambiguous and can mean some other things but the notion of a club, lots of people putting resources or interests together, people who are joined by a community of thinking, of putting something together.

The other part of it, the other appeal of the name club, is it's also used in a few instances to convey the notion of getting a good deal, so it's like Sam's Club, for example.

Peter: You've got this brand pretty established now. Do you think the club aspect is important to investors and borrowers today? What are your thoughts on that?

Renaud: I think so. I mean, the two reasons I just talked about...they are very much true today The idea then of you putting something together and you get a better deal is very much part of our value proposition. So it's not going to be a centralized intermediary, but really doing things together among ourselves. That works quite well.

The feeling of a community and the impetus on social relationship between people is clearly not as important now as it was in the initial idea. The rest of the club values continue to be very strong and a big part of the value proposition today.

Peter: OK. Going back to those early days, you started the Lending Club at the very really beginnings of this industry, globally. There was obviously no guarantee of success back then. At what point along the growth trajectory of the Lending Club did you sit back and think, "Wow, we are going to make it. We're going to be a successful and profitable company." When was that?

Renaud: It was probably, if you remember, initially, the investor side of the platform was the hardest to build, because the value proposition for the borrowers is delivered immediately. You get a loan with an interest rate and then you know what that value proposition is.

On the investor side, they're taking more of a risk, and in the absence of a track record, there's not much that tells you how much of a return you're going to get, and so it's a little bit of a leap of faith.

It took us time to really build that track record and earn the confidence from investors. Initially, a lot of investors were friends and family, and the people we'd had a chance to reach directly. It was very much us getting customers one at a time, a oneonone direction.

The first time, we thought, "OK, it's really working, and now it's going to take off," is when we got the first $50,000 check in the mail from someone we never talked to.

Peter: Interesting.

Renaud: We thought, "OK, people are starting to hear about us, and through no direct interaction trust us enough to make out a $50,000 check," which was very meaningful to us at the time and meaningful for that investor as well.

Peter: When was that roughly?

Renaud: It was spring of 2009.

Peter: OK, so you'd been going almost two years by that stage?

Renaud: Yeah, although we launched the registered program in the October of '08, so it was really six months after we registered [with the SEC].

Peter: OK. Today, you're obviously a very busy guy. Can you just walk us through what you do on a typical workday these days?

Renaud: [laughs] Last year, I made the decision to shrink the unit of time from one hour to half an hour. The good news is I can do more things in a day. The bad news is I now have 15 to 20 meetings, on any given day, [laughs] as opposed to six to eight.

We do a combination of internal meetings, so just meeting with the executive team, with the folks who need my input to get things done, on one hand, and on the other hand, meetings or phone calls with a third party, so whether it's press, or equity investors, or potential or existing partners. That takes some part of my day.

The third component is the blocks of time that I reserve to just think about strategy issues, and to be able to draft documents, and answer emails.

Peter: OK, sure. What are the internal metrics that you keep a close eye on? What are the things that you focus on on a daily, or weekly, or monthly basis, that drives your business?

Renaud: It would generally have to do with the volume of transactions, credit performance, and cost to the business. Those are the three categories that are the most meaningful to us. Volume of transactions on both sides of the platform, so loan listings on one side, and investor's load on the other side, and the volume where they both come together is the origination volumee.

Peter: Right.

Renaud: On credit performance, we track, very closely, vintages, on a monthly, quarterly, and annual basis and every month there is a portfolio analysis, the performance of every vintage by grade, by channel, and by term, to slice and dice in many different ways.

Chaomei's [the Chief Risk Officer] group has a very granular version of that and I get a more aggregate version, and then we meet once a month to review portfolio performance. That's a big part of my focus.

Peter: Right.

Renaud: This third one here is about cost, so looking the acquisition cost, on both sides, and operations cost. As you know, there's a big focus here in taking costs down through automation, and trying to lower our operations costs so that we pass on the cost savings to both borrowers and investors.

Then the fourth category really is operating metrics around customer service really for the most part, and making sure the wait time on the phone is as short as possible, and most phone calls get answered, and so on, and so forth.

Peter: Talking about those originations, you've set up quite an impressive record now of consistently growing those originations at pretty much a fixed rate each month, how are you managing to do that so consistently now for many, many years?

Renaud: It's really because we're a marketplace. We have a supply and demand, but we're in this fortunate position that the marketplace is neither supply nor demand constrained. So we have more supply and demand than we're letting in on the platform on both sides, so we can really choose our growth rate.

We're choosing to set the growth rate at a pace that we believe is commensurate with good risk management, with goods planning of operations, with internal controls, IT security, IT scalability.

All the things that could break when you grow too fast with not enough planning time, and not enough attention to the things that really matter a lot to our customers and to us in terms of managing risk, and making sure the platform is as safe and secure as possible for both sides of the platform.

Peter: Should we expect this growth trajectory to remain consistent? You're adding, you've done an acquisition, you've got small business lending. These obviously add to the core business, but are we going to see this growth stay consistent? Do you think it's going to accelerate? What are your thoughts on that?

Renaud: We're not making projections available publicly at this stage.

Peter: Right, OK.

Renaud: Other than we continue to grow, I can tell you that.

[laughter]

Renaud: I can't tell you how fast. [laughs]

Peter: Fair enough. Let's talk about the team that you have there. Obviously you've started this from one person company up to what are you, over 600 now? How has that changed over the years? When you first started, you obviously had very different needs, now you're going into doing an IPO at some point in the future. So what skills were critical then that have changed now when you're looking to hire in your executive team?

Renaud: I think that the way I spend my time, and what I focus on, has changed a lot. Obviously from being a direct operator to thinking more about strategy, and really empowering people to operate and make decisions, and execute on these decisions.

Most of my time now is spent...When it's internal focus, it's really spent on company building activities, thinking about the organizational design and company culture, and hiring process, and training and development. Things that will help build a very strong company for the very long term, and that really come with scale.

At the time when I was interviewing every single new hire, there was really no need to have a very well articulated corporate culture, or to test against it, because I had always in my head, [laughs] I could talk to everyone directly.

Now that people get hired by managers, who were hired by senior managers, who were hired by people that I hired, you have three or four levels down, there's really more of a need to formalize these processes, and really be clear about the kind of people who we think are going to be successful at Lending Club. The hiring process had to be more deliberate and better structured. But from then on, after the hiring process there is the training and the onboarding of people.

So I think there's a lot more structure and process that's necessary with big size, but it's really important to build these processes and that additional structure, in a way that doesn't hamper creativity, and initiative, and people continuing to innovate, and create new solutions, and that we leave some inner space for people to really do what they love, and contribute to continuing to make Lending Club one of the foremost innovators in financial services delivered for the marketplace.

Peter: Ok. I want to switch gears a little bit, and talk about from the investor side, which is what most of the Lend Academy readers are interested in. You were quoted recently in a Forbes article saying that, "No individual loan at Lending Club is better than any other," and I just wanted to sort of, talk a bit about that, because the thing about it is, we have access to all of the data of your loan history. You can either analyze it yourself in an Excel spreadsheet, you can use one of the tools like nickelsteamroller.com, and people look at your loan history, and find pockets where every, say, B5 loan doesn't perform equally.

In the light of your actual history, what do you mean when you say that no individual loan is better than any other?

Renaud: I think the question is probably more nuanced, and more complex than that. I think the point I was trying to convey is that it's very hard for anyone to consistently pick loans that will outperform other loans, without taking more risk. We're seeing investors have a higher return than other investors. Obviously, that is generated by something they're seeing in loans that carry more risk, and the risk might or might not materialize, and then these investors might have a better return.

I think the important point here I believe is that we obviously make a lot of data available to investors so that they have the ability to see by themselves what's working and what's not working, but obviously we have that data as well. [laughs]

Peter: Right, you have more data than what we have obviously.

Renaud: In general, we also have a lot more people working on risk management, and portfolio management than any single investor, and our people are not necessarily dumber [laughs] than anybody else. I think the general point is it's going to be hard to consistently outperform as a platform, because when there is a arbitrage opportunity, we see it as well.

Our desire is to make the platform and the pricing as efficient as possible, and to continue to improve the risk ranking power of our models. We are not creating arbitrage opportunities on purpose, and we believe the goal is to make it as fair as possible for borrowers so borrowers will pay the interest rate that's commensurate with the risk they represent, and then make it as efficient as possible for investors.

I think over time, considering we have the data, we have the manpower, and we have the desire to continue to make the risk ranking as efficient as possible, I think it's going to be hard for any single investors to consistently find these arbitrage opportunities that generally when they appear, they pretty quickly go away.

Peter: Even though it was possible in the past, because you can just go look at the data, you're saying that your underwriting is getting better, and it's going to be more difficult going forward. Is that what you're saying?

Renaud: Yeah, and at any point in time, as you look in the past, and see that there were loan characteristics that perform better, or grades that perform better on a riskadjusted basis, than say as the characteristics that help you discriminate are changing over time, because when we see an inefficiency, we correct it as quickly as possible.

My point is, an investor would have to be very, very careful about analyzing the data, because again, there's the pricing...I think our goal is for the pricing to reflect the risk, and we modify our pricing to make it more efficient very, very often.

Renaud: Fair enough. On that, me personally, I've been investing now at Lending Club for over five years, my returns are still well over 10 percent. Obviously I invest in the riskiest C, D, E, F, and G, those grades. Do you see your interest rates coming down? Is a 10 percent return going to be possible in three years time do you think, or in the interest of really getting more borrowers on, and making it more attractive to borrowers, do you think these rates are going to come down over time?

Renaud: We really can't make projections of future interest rates, but the way we think about interest rate is, it's a little bit of regulating mechanisms on the platform. So if we are in the situation where we have so much supply of capital from investors that it creates a bad experience because loans get funded within a very short period of time, and there's not much inventory on the platform. That probably tells us that the rates are too high.

On the flipside, if investors stop investing, it probably tells us at the rates are too low. [laughs] So, interest rates is really a way for us to manage supply and demand.

Peter: Ok. I just wanted to touch briefly on some of the new partnerships you've got. You announced the Union Bank partnership at LendIt; that was over two months ago now. Have you made any progress there? Are they investing on your platform? Do you have products coming out so Union Bank customers can take a loan out through Lending Club? Where are you at right now?

Renaud: Yeah, so the partnership is active, so Union Bank is an investor on the platform, and we're working together to be able to offer innovative solutions for Union Bank customers benefit.

Peter: Then the other partnership that I want to revisit, because I haven't seen a word about it for a long time, is the Google investment that was made over a year ago now. At the time, you were quoted in many articles saying that this is going to result in new, innovative products, and opportunities at Lending Club. We haven't heard anything. So is there anything happening? Are you talking to the executives at Google? What's happening there?

Renaud: There's been a lot happening, not all of it is visible, or can be announced publicly. The partnership and the relationship has been very fruitful, I think for both companies. But obviously because of our scale, I think we are receiving more of the benefit here for Lending Club. I'm hoping there's a part of that partnership that will become public over time, but it's probably another year out.

Peter: We'll wait with bated breath on that one. Something that is happening now is your small business lending operation you launched a few months ago now. Can you provide an update on that? How has that been going? Are you growing that business aggressively? What's the latest you can say on the small business lending?

Renaud: Were very excited about the Small Business Lending Platform, and I'm personally very excited. My dad was a small business owner, and I worked at the grocery store for many years, and I've seen all the data in this country about small business owners really having a hard time to get affordable credit to grow their business, make the investments, hire the people there. They're needing to grow the business, and eventually will contribute to growing the economy.

It's really a major initiative for us. The goal, however, is not to grow the platform aggressively this year, or next. We're taking the time to learn from the market, and adjust the underwriting over time, adjust the acquisition funnel and fine tune our strategy, and take it to a point where we feel we can responsibly increase origination.

For example, the retail investors cannot currently invest in small business loans because we don't have enough data yet to really be able to put a grade on it, and responsibly tell investors what to expect. But as more data comes in, obviously we get better at underwriting. It's one of the things with credit, and with underwriting, is it gets better with more data, so it gets better over time, and there's nothing we can do to accelerate it.

Peter: Exactly, you just need the history.

Renaud: It's just being patient. I think with small business, and then Springstone, will be the two ways where we launch new products in the future, where with small business, it's more of a slow buildup, because we're starting from scratch, and starting with no, or little, data.

While with Springstone, we acquired a company that already had eight years track record, and so we've added eight years of underwriting data, which is as much data as we had for the rest of the platform. I think the pace to growth is going to be faster. I think over time small business is going to be very meaningful, but it's not going to happen overnight.

Peter: I promised I wasn't going to focus on the IPO in this interview, but I do have one question before you go. This is a question I've received dozens of times, I'm sure the customer service people at Lending Club have received it many, many times as well. That is, is there going to be a way for the average investor who has...some of them have been with Lending Club for many years, like myself, who want to participate in the IPO.

Now traditionally, obviously IPOs, you have to be in with the underwriters to really get a shot at it, but there are ways today to make it available to the average person. Is this something that you're planning to make available to average investors in your IPO?

Renaud: We're working on it, so that's my hope and desire that we'll find a solution that makes it convenient for our customers on both sides to buy shares of Lending Club, and really to benefit financially from the growth of the company, and continue to support the company as shareholders. We're not ready to give details right now, but it's something we're working on.

Peter: Great, great. Last question. If you put your future hat on, and look into the crystal ball, five to 10 years down the road now, what's your vision for the banking industry? You're talking about how it's really going to be impacted by Lending Club, and by the online lending industry in general. Where do you see the banking industry going, and what's Lending Club's role going to be?

Renaud: I'm really hoping we can help transform the banking industry into the marketplace, into a highly efficient, frictionless, transparent marketplace that operates at a lower cost, and delivers a better experience than the current banking system. And that Lending Club would be the leading role into that effort, and we obviously won't do it ourselves.

There are 6,500 banks [laughs] in the country, but that’s really the reason why we have a strategy of extending open invitations to banks, banks that believe in the marketplace model, and look at the data, and realize that it is operating at a lower cost, and they should benefit from it.

Banks can invest on the platform obviously, but even more importantly, they can work with the platform like they are doing at Union Bank to offer solutions to their own customers, and deliver a lower cost, and a more enjoyable experience to their customers.

I'm hoping in fact 10 years from now, you see banks being participants on both sides of the marketplace, and the investor base continuing to diversify with retail individual investors comprising a really meaningful part of the investor mix.

Peter: That sounds great. I really appreciate your time today Renaud, thank you very much.

Renaud: Sure, thank you Peter, it was great talking to you.

Peter: Yeah, bye.

Renaud: Byebye.

Peter: There you have it, potentially some good news for investors who are keen to participate in the IPO. While Renaud obviously didn't promise anything, it is good news that they are actively looking at that as a possibility.

Before I sign off, I just have one request. If you enjoy the podcast, or even if you don't enjoy the podcast, I would love to hear your feedback.

However you're listening to this, whether it's through iTunes, or Stitcher, please go ahead and give me an honest review. [music begins] It's very important to me. I read every single review, and I like to know what everyone's thinking. So on that note, I will catch you next time. Thanks for listening, bye.

[closing music]