FINTECH ONE-ON-ONE PODCAST – EVAN SINGER

Welcome to the Fintech One-on-One Podcast. This is Peter Renton, Chairman & Co-Founder of Fintech Nexus.

I've been doing this show since 2013 which makes this the longest-running one-on-one interview show in all of fintech, thank you for joining me on this journey. If you like this podcast, you should check out our sister shows, PitchIt, the Fintech Startups Podcast with Todd Anderson and Fintech Coffee Break with Isabelle Castro or you can listen to everything we produce by subscribing to the Fintech Nexus podcast channel.

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Before we get started, I want to talk about our flagship event, Fintech Nexus USA, happening in New York City on May 10th and 11th. The world of finance continues to change at a rapid pace, but we will be separating the wheat from the chaff covering only the most important topics for you over two action-packed days. More than 10,000 one-on-one meetings will take place and the biggest names in fintech will be on our keynote stage. You know, you need to be there so go ahead and register at fintechnexus.com and use the discount code "podcast" for 15% off.

Peter Renton: Today on the show I'm delighted to welcome back Evan Singer, he is the CEO of Smartbizloans. They are all about small business lending, as you could probably tell, and wanted to get Evan back because obviously it's been a very interesting time in the small business lending space and wanted to see what is the state of small business lending today. Evan provides his perspective, talk about what he learned and the banks learned from the PPP Program, he gives his perspective on the expansion of the SBA's 7(a) Program to more fintechs. He talks about the work they are doing with banks and also how the mindset of banks has shifted since the pandemic. It was a fascinating discussion; hope you enjoy the show.

Welcome back to the podcast, Evan!

Evan Singer: Hello, Peter, thanks for having me back.

Peter: My pleasure. Yes, it has been….it was December 2016 when we last chatted, so it's been a while. Maybe we'll get started by giving the listeners just a little bit of, you know, background about Smartbizloans. What is it you do, how do you describe it today?

Evan: So, we are a platform, we help small businesses on one side, we help banks on the other side and with small businesses we help them build up to get a bank loan and then package that loan up once they're ready with the combination of technology and people and then move it over to a bank on the other side of the platform. And our banks license software from us and outsource services, and we handle the underwriting and processing for small business loans for them and are able to make small business loans efficient and profitable for the banks that we work with.

Peter: Right, right. And so, just to be clear then, you obviously can apply for a loan on your website, I'm on it right now, it sounds like you can do that. So, you're helping individual banks, it sounds like, is it a white label type solution, maybe you can tell us the difference between how you're working with the banks and how you're finding loans yourselves.

Evan: Most of our business is where we find loans ourselves. We have a host of different marketing avenues that we leverage like TV and direct mail and then a number of partners across the country will send us clients that are looking for small a business loan, in particular, and typically a small SBA loan under $350,000 which is really our specialty. And we will work with that business again using a combination of tech and people to help them get ready and package up their loan and then we'll move it over to a bank on the other side of the platform. That being said, we do also help banks serve their existing customer base with more of a white label offering, but most of our business is where we're having businesses come to us directly.

Peter: Okay. So then, maybe you can talk about the different loan products you offer. I mean, you talked about the SBA loan sub-350 as a specialty, but tell us what else you offer.

Evan: Yeah, three main products for businesses. So, small SBA loans, that's really our bread and butter so under $350,000. These are typically priced at prime + 275, it's a variable rate loan, it's got a 10-year term, most of our customers use that for working capital, debt refinance, hiring, marketing, those types of use cases. And then we offer a conventional bank line of credit that's unique and we just launched that about a year ago, it's doing very, very well and it is an interest-only payment for that particular line of credit so we will offer lines of credit up to $100,000.

It's got a very fast decision and turnaround on that product, it's fully drawn from day one and then for the small business it has interest-only payments for that term, or they can pay it down or they can borrow it up, it's really a true line of credit. One of the reasons it's so unique is that there are very few lenders that are offering IO payments on a line of credit and so the monthly payment for that product can be extremely affordable for small businesses and they can access that capital when they need it. And then the last product we offer is a 2 to 5-year term loan, again, through our bank partners, that is going to be a bit faster than an SBA loan. It will have a fixed rate which many businesses want, as rates are going up, they are looking for something fixed versus something variable which is how that the SBA loans come in.

Peter: Interest rates are going up, you said prime + 2 and prime was what, 2/3%, not too long ago and now, I was looking it up before this interview and I see it's at 8. So, how often is that reset, is it every month or how often do those loans reset?

Evan: As prime goes up, the loans reset. That being said, with a $100,000 loan, if prime goes up a quarter of a point, the businesses don't see much in the way of an increased monthly payment. So, because it has such a long term for SBA loans, that 10-year term, I'd say that the monthly payment is still extremely affordable and it might be, you know, I couldn't tell you off top of my head how much it goes up with a quarter point but it's not much but they do reset. That being said, because it's a 10-year term in two/three years when rates hopefully come back down. If they come back down then the monthly payments will come down as well.

Peter: Right, okay. So, I want to talk about the PPP, the Paycheck Protection Program, and your role in that because obviously, going back three years now, but still such an important time for anyone in the small business lending space like you guys. Tell us a little bit about what you did there and how that worked out.

Evan: We helped a lot of businesses during PPP. So, we did a bit over 200,000 PPP loans for about $7 Billion and, again, a similar model as we have now so we did kind of the frontend work for our bank partners and then our bank partners originated those PPP loans so a very similar method. We initially started where it was more of a white label offering, we were helping our banks serve their existing customers as many banks did and then we opened it up to new customers and helped quite a few. One of the things that we were very focused on during PPP was preventing fraud, we caught just as many fraudulent applications as we did funded loans.

Peter: Wow, that's amazing.

Evan: So, quite a few fraudulent applications, yeah, it was rampant during that time, but we built machine learning fraud models and we had a unique combination of automated fraud checks as well as manual fraud checks.

Peter: So, I imagine, that was quite an operation for you guys because, I mean, you're not a big company and suddenly you're doing, you know, 200,000 loans in a pretty short amount of time, how was that operationally for you guys?

Evan: Oh, it definitely stretched us (Peter laughs), I mean, we all saw most of the big banks actually, the big banks largely did not lean into helping new customers and so it was up to fintechs and a few of the smaller operators to help customers that the big banks wouldn't serve, and it stretched us. We hired several hundred temps during that time and though it stretched us, we were still able to help over 200,000 customers and so that felt really good to make sure that they were helped during that time.

Peter: Right, right. So then, let's fast forward to today and, you know, we're recording this on the last day of the 1st quarter, March 31st, and would love to kind of get your sense of what is the state of small business lending today? What have you seen, are small businesses still borrowing money, is demand high, I mean, what's the state of small business lending?

Evan: Yeah. Look, for us, we're busy, we're having a good 1st quarter, we are finding that businesses want SBA loans that's got long terms, low monthly payments, they want a line of credit where they can get an interest-only payment. It's definitely, we're seeing the demand there, I think one of the unique things with us is that because we partner with banks to originate these loans and the banks are lending off of deposits, they're not leveraging the capital markets, they aren't having to restrict as much as some of the non-bank lenders are on the credit side. Thought that may be coming, we'll see, especially in light of what's happened over the last couple of weeks, we'll see if credit gets tightened with the banks that we work with so it certainly could happen. We haven't seen it happen here in Q1 but we'll see what happens in Q2.

The other thing that we've seen, from a lending standpoint, is we are helping many of our customers get employment retention credits and so you ask people about product lines, I was just focused on the loan side. But from a small business perspective, if they can get a check from the IRS as part of the pandemic government stimulus program, it's a huge boon for the business because actually this is not a loan. I mean, they're literally getting a check from the IRS and for the banks that we work with it's also a way for them to increase their deposits and it's a way for them to help ensure that their small businesses have enough liquidity to get through a potential recession and so we're seeing some demand for that as well, Peter.

Peter: Right, yeah. I noticed that, it's right on your home page there, you see and it's a great program, every small business should be applying, it's not as quick as the PPP was. Anyway, obviously you're not holding anything on your balance sheet, the banks are holding these loans, but, I mean, I'd love to know what kind of…….I'm sure you're talking to your banks about credit performance, is there anything that we can glean over the last three to six months when it comes to credit performance?

Evan: So, we have not seen performance degrade in the last three to six months. I think folks are worried about it, but we have not seen performance degrade. Now, I will say the clients that were helping their folks to get a bank loan, whether it's a conventional one or an SBA loan, they are typically the better quality credits and I don't know about the poor quality credits if folks have seen deterioration. But we have not seen it, it's possible that it will happen on the back half of the year, but, right now, we have not seen it.

Peter: That's good to hear, good to hear. So then, can you tell us a little bit about the typical Smartbiz borrower that comes to you guys. I mean, how big are they? I imagine, it's across a variety of industries, right, but tell us a little bit about your borrower base.

Evan: You're right, it is across a number of industries. We're in all 50 states and a typical customer will be between $250,000 and $5 Million in annual revenue, our average is $1 to 2 Million. They've got on average five to ten employees, but will go down to sole props and go up to about 50-employee companies, but typically five or ten employees. They've been in business typically for five to ten years but will go down to two years in business and then obviously some have been around much longer than that. But it's really Main Street, USA, Peter, it is kind of……think of a business with five/ten people, doing $1 Million a year, profitable, growing, all sorts of industries, everything from a dentist and a lawyer to a retail store, to an online store, to an IT consultant, to a small manufacturing facility, to an export/import business, I mean, you name it, it's really across-the-board.

We've got a couple of TV commercials running right now, one is with two women that run a motorcycle shop where they sell gear and then another with a woman that runs a doggie day care in New York so it's really across-the-board. We do have about a third of our customers are women-owned businesses and overall, over half of our customers are women-owned, minority-owned and veteran-owned businesses and so we do a lot of serving the underserved and that's a big focus and a mission for us as a business.

Peter: Right, right, got it, got it. Then I want to talk about the 7(a) Program, maybe you can just describe what that is for people who don't know. And it's become a big thing particularly post-PPP where fintechs really stepped in with varying levels of success obviously, but really, the bottom line is fintechs helped get the money out pretty quickly, like you're a perfect example, right, 200,000 businesses, that's a massive number of businesses that's getting loans. So, there has been talks about expanding that, many fintechs do it, you have one of the coveted SBA licenses that's I think there's only like 14, you can correct me if I'm wrong but there's not many when it comes to non-banks. So, tell us a little bit how you feel about expanding the SBA 7(a) Program, and describe it first.

Evan: And, actually, before just to chime in, we do not have one of the SBA lending licenses.

Peter: Oh, okay.

Evan: We are what's called a lender service provider and so what that means is that banks can outsource their different activities and services for SBA lending to us, but no we actually don't do any SBA lending, our banks do that, but our banks will outsource services to us.

Peter: Got you.

Evan: But to answer your question, what is the 7(a) Program. So, SBA was started about gosh, 70/80 years ago and it's established as primarily to help small businesses in country and really support that and it's got support from both sides of Congress which is fantastic, and the SBA has done and is continuing to do just a terrific job in supporting businesses. And for them to administer the PPP Program during the pandemic, I mean, that's a Herculean effort and they really did a great job and specifically on the 7(a) Program, PPP is actually technically part of that program, but the traditional 7(a) Program is where the government will guarantee a portion of a loan and encourage a bank to actually make that loan when they wouldn't typically make that loan.

And so, the Program is set up to really incentivize a lender to make a loan that they say gosh, I wouldn't normally do this so the government steps in and says hey, we will offer you a 75 or 85% guarantee or even a 90% guarantee if it's for an export business if you'll go ahead and make this loan. And so, if the loan goes bad, the government will cover that 75 or 85% of the losses on that loan as long as the lender has underwritten it, packaged it, and serviced it properly.

So, that Program incentivizes a bank and, like you said a few non-bank licensed lenders to make SBA loans and the 7(a) Program goes up to $5 Million loans and it's got no minimum size, it does have a few underwriting criteria that the banks have to follow, but largely, if the banks follow those underwriting criteria they can set their own underwriting on top of that as long as it is similar to their non-SBA loans. And the program at 7(a) typically does about $25 Billion or so of lending each year, the loan size has been creeping up over the years. I think last year the Inspector General just came out and said, I think the most recent average loan sizes, like $680,000 or $700 and something thousand, but it's about in that range. We focus on much smaller loans and we will help our bank partners with loans less than $350,000, our average SBA loan size is about $200,000.

Peter: Okay, okay. So then, one of the big criticisms of the 7(a) Program is that it is extremely onerous on the small business owner because it's a heavy lift to go through all the documentation and all the requirements. I'm curious about what you've done to make that easier and what is the typical time for the loan applications that come into you, how long does it take to get approved and how long does it take for the business owner to get everything together?

Evan: It is a bit onerous; it has gotten better. We've been doing this now for about ten years, a little bit more than ten years, and so the SBA has continually made some improvements to streamline the process, especially for the smaller loans, but you asked kind of what have we done to make it better and kind of what does it typically include. Well, each loan package, it could have as many as 50 documents per loan file and what we'll do to help make things easier, first is we'll let the business know upfront if they're a good fit or not and we'll also be clear on what's required. But we do quite a bit around making document collection easier and also reading documents automatically, we've got software that can do that as well.

And so, we make the application process easier for the small business and then we make the process easier on the back end to read those documents, be able to underwrite a file quickly and easily using automation and so it not only saves time for the borrower but it also saves time for the bank. One of the issues that we saw with small SBA lending when we got into the business is that because of all the documentation that you mentioned, it would take banks just as much time and energy to underwrite and originate a $200,000 loan as it did a $2 or 3 Million loan and so, obviously, they were more focused on the larger loans because there's increased profits there.

And so, we focused on bringing in efficiencies into underwriting and originating those small loans, our banks tell us we can strip out 90% of the cost versus their traditional retail side and so making those small loans profitable as the key to getting banks to say yes, I want to originate these small SBA loans even though there is a fair amount of paperwork involved. So there are sort of two sides to the efficiencies.

Peter: Right, got you, got you, okay. So, I want to talk about Cross River Bank, Cross River also very active in the PPP Program, tell us a little bit about how that partnership came about and are they doing anything different to your typical banks that you work with?

Evan: I've been chatting with the folks over at Cross River for years, I'm really impressed with that bank and their team over there as I'm sure a lot of folks in the industry are, and the way the relationship came about is they're looking, I think one reason with PPP lending is they are looking to get into more traditional SBA lending. And as you know and the listeners know, they're tech-forward so when it came down to a partnership I think we both thought we would be a good fit for each other to help them scale up their small SBA lending. And so we've kicked off that partnership and it's going well, but that's really how it started I think, again, coming out of PPP they were looking for ways to do more SBA lending and it's been going well.

Peter: So, you're only working with banks, right, and obviously there's others, credit unions do small business loans, financial institutions has direct lending that happens, are you only working with banks when it comes to funding loans. I mean, obviously SBA has to be with banks, I'm thinking about the other products that you have.

Evan: Yeah, look, our main focus is helping businesses get bank loans, whether it's SBA or conventional bank loans. If we can't help somebody get a bank loan, we do have a network of second look providers and so we will absolutely work with non-banks to help our clients get a non-bank loan if they can't get a bank loan.

Peter: So then, you obviously work with a number of banks. When someone comes to your website, I mean, I imagine a lot of banks' credit boxes are pretty similar, but they're not going to be identical, how do you decide where to send if you've got like, you know, 20 banks that have the same credit box that would fit this, how do you decided where to send these loans?

Evan: Yeah. I mean, for SBA it's pretty standardized because our banks all charge the same amount and they've got similar pricing and terms, but they do have different credit boxes, surprisingly. So, we have many clients that don't work at one or two banks but do work at another bank so that's easy. I think the tougher piece is what if it works at three banks or five banks or something like that and we want to make sure that there's not one bank that's more of a favorite versus another so literally, we have a random number generator that will pick a bank. So, they'll come in, they're looking for an SBA loan, this random number assigned, it goes to this bank and it'll stay with that bank.

Peter: Right, right. So, when people come in to your website, I mean, obviously anyone can come there and if you're doing TV advertising you're getting all kinds of different companies coming in, and SBA, as you know, as you said before, it's for well established businesses, it's not for startups, it's not for those that are teetering on bankruptcy. Is the quality coming into your website, does it sort of reflect the population of businesses at large, or I'm just wondering about kind of the approval rates, shall we say, on what you're offering?

Evan: We certainly attempt to target the right businesses; we don't want to waste businesses' time if they're not a good fit for the products that we're offering. And so, with our marketing, even if it's an SEM ad or something like that, we'll actually put in that SEM ad the criteria that somebody needs to have for us to help them. If we can't help them, they can answer a few questions and attempt to pre-qualify and if they don't get pre-qualified, they'll have an answer very, very quickly so we find that fast no is just as important as a fast yes because we don't want to waste clients' time. That's really how we do it, Peter.

Peter: Right, right, okay. So then, when you're talking to your bank partners today, I imagine you're continuing to talk to new ones. I mean, I imagine, the pandemic was pretty good for you guys because I'm wondering if the mindset shifted because you run a technology company, you're an online operation, there are some banks that probably thought well, I'm only going to do loans for people who are in my local area who come and sit down with me. When that wasn't possible, they needed a solution like yours, I'm just wondering, did that really change the mindset of bankers over the last couple of years?

Evan: Yeah, it really did. I think what we saw pre-pandemic to during and now post-pandemic, a couple of things that we've noticed changed the most. One is largely we found that banks, if they were doing PPP and a lot of them did, they were helping their existing customer base. And so, what we found coming out of the pandemic is banks saying hey, I just helped a thousand customers get a PPP loan, I have a deposit relationship with these folks, but, you know, are there other products and services that we can help provide for them?

And so, we have had a number of banks contact us for more of that white label offering that I mentioned upfront where a bank has said hey, I want to help my existing customer base get a small SBA loan. And they realized that many of their customers might have a million a year in revenue and even if they're focused as a bank on large loans, they don't necessarily have the product line to help that smaller business, that's in the bank.

We saw that, for sure, so that was I think a flip in mindset. And then the other certainly, not just in banking, but in pretty much every single industry around is the digital transformation and just the focus on, and the expectation from customers around having an online offering and a user experience online that's easy and that folks can use in their home versus going into a branch. But that same thing happened in every single industry out there, it certainly happened in banking.

Peter: Right, okay. So then, last question, what's next for Smartbiz, what are you excited about, what's coming down the pipe?

Evan: Well, I'm really excited about the line of credit that we were talking about before that we launched at middle last year and we're finding that's it is really helpful for our business customers to be able to get an interest-only payments on a credit line, it's unique. I know Wells Fargo has one but it's hard to get Wells Fargo's (Peter laughs) so I'm excited about that. I'm excited that we're into SBA, I think if there is a recession, that is a product line that has proven that it withstands a recession well, both for businesses and for lenders, and certainly there's help from the government with that guarantee, but I'm glad to be in a position where if there's a recession, we'll still be able to help businesses.

And I'm excited about the ERC opportunity, we've been helping a lot of businesses and the stories we hear from our customers are, you know, a lot of folks didn't know that they could actually get this credit. Every business should get it if they can, especially now, it's a way for them to get some liquidity in place before a potential recession, super important, those three from a product standpoint. And then, just from a tech standpoint, I'm excited to streamline some of those offerings so we're investing in automation, we're also investing in data from a credit risk standpoint.

You had asked about performance earlier, we are able to consolidate performance across multiple lenders and across multiple different loan types and that helps us expand a credit box in a way that doesn't actually hurt performance. And so we can say yes more which I think is really beneficial for us to help our underserved small business customers.

Peter: Right, indeed it is. Well, we'll have to leave it there, Evan. Thank you so much for coming on the show today, it's great to chat with you again and you're doing important work, best of luck to you.

Evan: Thank you, Peter.

Peter: If you like the show, please go ahead and give it a review on the podcast platform of your choice and be sure to tell your friends and colleagues about it.

Anyway, on that note, I will sign off. I very much appreciate you listening, and I'll catch you next time. Bye.

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