



Podcast Transcription Session 28: Matt Burton

Peter Renton: Welcome the Lend Academy Podcast, session number 28. This is your host, Peter Renton, founder of Lend Academy.

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Peter: Today on the show, I am delighted to welcome Matt Burton. He is the Co-Founder and CEO of Orchard Platform. Now, I've known Matt for quite some time. We actually met at, I believe, it was the very first peer-to-peer lending meet up that he hosted in New York. It was early 2013 and I think it was about 12 of us there, all the early adopters, and we had a great evening and now meet-ups, you know, they get 200 people coming...thereabouts growing tremendously since that time. We got to know Matt and Angela as well, one of his co-founders and we invited them along to the LendIt Conference in June 2013 where they presented. Since then I've really followed with great interest the work that Orchard is doing and how they've really been able to help facilitate and create an ecosystem for this industry, something that I think is really important. So I wanted to get Matt on the show to talk about what he's been doing at Orchard, what he sees for the future and his thoughts on the industry today. So hope you enjoy the show

Peter: Welcome to the podcast, Matt.

Matt Burton: Thanks for having me,

Peter: Okay, so let's just get started. For those who don't know your story, can you give a little bit of background about yourself and how you came to peer-to-peer lending.

Matt: Sure, I found Lending Club in 2011 and shortly after, I found Prosper. The story is interesting going into those. I was actually a start-up that was in the process of selling to Google in the advertising technology space. As part of the acquisition process, we actually had to go through a Department of Justice Anti-Trust review and when they were looking at potential issues with that...you know, they started interviewing a lot of people internally and it turns out that I ended up getting flagged so I spend kind of five months of my life just dealing with lawyers.

Peter: That must have been fun.

Matt: Yeah, I would wish it upon no one. I honestly had a lot of free time during this period where I couldn't really do any work at Lending Club and I was just amazed at what they were doing. There was a ton of parallels between what I had seen happen in the online advertising market as it scaled up and matured and Lending Club was very much at an early stage of selling loans online in a similar way that ads had been sold online. Through that entrance I had to do a ton of research and the more research I did, the more excited I got and ended up investing just like you as a retail investor. That fall of 2011, the acquisition closed and I became



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a Google employee...that's a story for another time, but during the next nine months of my life I became super busy and really reconnected when I was introduced that following summer to Angela Ceresnie, she is one of my co-founders at Orchard and she was kind of the first person I met who was also invested in Lending Club and Prosper loans. Her background at American Express and Citibank kind of opened my eyes to what you could do on the modeling side and I was really interested in understanding why she was interested in the space given that she was definitely an expert. Just hearing the stories around how difficult it was to work at both American Express and Citibank and deal with their internal systems, I realize that what Lending Club and Prosper were doing was really special and they didn't have any of those legacy tech issues that we're really building within the next generation of lending software from scratch and that was super exciting.

Peter: So when this sort of idea for a business start to germinate? Was that in your initial conversation with Angela or when did you think.....okay, there's actually a business to be made here.

Matt: When we were having that conversation and even afterwards when she kind of.....I basically spent the summer giving a Credit 101 course. It was still very focused on being retail investors in the space and it was all only later on once we ended up starting to connect with more people in the space and realized that there were similar challenges in placing orders on Lending Club and tracking how progress was going. We just realized that as the space scaled and really became a real asset class that there was going to be a lot of needs that were currently unmet. For us being at the LendIt Conference in May 2013 was really where we saw kind of the first institutional investor interest in the space and ended up consulting for some institutional investors which really working with them was when we realized that their needs were just radically different than the retail investor that as good consultants we went out and tried to find a good market solution for them to help them with their operations and accounting teams. When we didn't find any solutions out there, we thought really hard about ...oh, maybe we should just fill in this gap here. There was a good problem for our backgrounds and made a lot of sense.

Peter: Okay, so we all know that you and Angela presented at that first LendIt Conference and I know that was where you made that change. What was the specific problems that the institutional investors that came to you at that conference....what were they specifically trying to address?

Matt: So in working with them, it became clear that the investment committees were actually really supportive of the space. They really liked the asset class and believed it was a great opportunity, but as you continue to talking with the operation and accounting groups, as soon as they realized that the investment committee wanted to buy \$50 Million of \$8,000 loans, a terrified look appeared on their face. So they were just super concerned about the fact that none of the systems that they were currently using to account and keep track of were going to work in this new space. So it was really that need like how do we make sure that the internal teams feel comfortable enough to sign off on this. Also, as they scale their investing in the space, they're



LEND ACADEMY

not scaling people. Their concern is that, okay, if we invest \$50 Million, it is going to take a team of six people to keep track of it, but if we scale from 50 to 200, is that going to take my operations team to dedicate to this from six to forty people. When we did the math on that you realized that it didn't make sense, you couldn't just throw bodies at this problem because it wouldn't work. Given that I've a technology background, I was actively searching and knew that a lot of these things need to be solved through building scalable tech.

Peter: Right, so then let's just step back for a second and explain exactly what Orchard does today. What are the services you provide? I know you've got two sides to your business. You've got the investors and you've got the platforms so could you just take us through each side of the business and exactly what your company does?

Matt: Sure, so I'll start on the investor side. Majority of the clients that we have today we end up finding through personal referrals and, basically, they have found the space in some fashion and were going through and figuring out what were all the components that they needed to invest . You need a custodian in space and you need fund admin and you need a valuation provider. One of the things that they needed was a back office solution so that's really the piece of the value chain that we are providing.

Back office has two components; it has, one, an order management systems that you can post your investment strategy and credit model and actually be able to place orders through your account on Lending Club and Prosper and Funding Circle, OnDeck and Kabbage and anyone that you're connected to.

The second piece of that is after you have bought these loans; how do you keep track of them. One piece was all out of customized reporting and analytics which is very specific to each client that we generate everyday and either upload to an FTP server or sent via e-mail and it was just kind of keeping track of that and allowing the operations and accounting teams to get exactly what they need on a daily basis. Over time, we started sending data to various partners in the space as well. It's kind of automated and to make their lives easier, whether that be the custodian or leverage provider, fund admin, so everybody was getting the data when they needed it, on the schedule they needed it, the format that they needed it which was not a trivial problem.

Peter: Okay, sure, so then what about for the platforms, Obviously, the platforms aren't really your paying clients, but you obviously have that side of the business or is there a part of it where you do provide the paid solution for them, just go through all of that piece.

Matt: Yes, so today our clients are the institutional investors. As the **space has** scaled up, we have been asked by a lot of originators to help out on various pieces of their business and so one of the places that we decided that....our backgrounds are in technology could play a positive role was around the due diligence process.

Today, we had an announcement that we launched, from what I can tell is the first ever originator database and so we have a database of originators who are selling loans to



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institutional investors and it has information on the type of loans, the yields, all the characteristics around it and it's searchable for qualified investors who have signed an NDA with us. That's just the kind of help, you know, streamline the process of understanding the opportunities within that space. At the end of the day, we're really focused on increasing the velocity of capital and the diversification of that capital within the space. This was a pretty obvious win to help the industry.

Peter: Sure, so how many platforms are in that database today that you're making available to your clients?

Matt: The number has been going up pretty quickly over the past couple of days since we announced it, but, I think the last count there was 26 platforms in there and there's kind of another five to ten in various processes that's still looking at it.

Peter: And so of that 26, how many do you directly connect to so that the investors can say I like these four, do you connect with all 26 or is there a subset of that you connect with through an API?

Matt: So there's definitely a subset so today we're connected.....our clients are buying on six platforms today and it looks like the seventh will happen in the next couple of weeks. The originator database is just to start those conversations and streamline the due diligence. Hopefully, we'll be working with the majority of the 26, I mean, my goal for the originator database is that we're starting out with 26, but over time we can continue to add all the various asset classes and opportunities and have over 100 originators in the database.

Peter: Yeah, I'm sure you're tracking a lot more than that. We're tracking over 200. I'm sure you're tracking something similar to that where as far as...start talking globally and start talking across asset classes. It seems like there's a lot to keep track of.

Matt: Exactly and the space is expanding so quickly. I mean, not within the verticals that we talk about a lot, but just...I imagine you hear as well, there's a lot of people on the equipment leasing and factoring, needing it...other verticals that are really taking a hard look. I think what Lending Club has been.....we have to pat them on the back. They did an amazing job of validating the marketplace model and so now there is a lot of other originators saying like, wow, that's really impressive what they've been able to do, maybe we should take a harder look at that model.

Peter: Yeah, just wanted to switch gears a little bit and talk about your fundraising. So you raised just a year ago...feels like longer than that....it was just a year ago that you guys raised your first angel round and then a few weeks back you raised \$12 Million in Series A and you've had some pretty big names in both of those rounds. I'm just curious firstly just to talkpeople like Vikram Pandit, former CEO of Citi, I mean you got John Mack of Morgan Stanley obviously he has a Lending Club connection, how does Orchard get on the radar on these kinds of people?



Matt: I think most of my interactions with them were actually...they reached out to me or were introduced to me because they were interested in connecting because for a lot of people who have been watching the space for a number of years this is having a progression of similar industries and Bill Ullman, a consultant on the Orchard team does write a great blog post on this comparing it to the online brokers.

That's the story of old and you normally start out with some trailblazers who are kind of out there by themselves building up a brand new industry, but then as they get larger and larger and scale gets higher and higher then the second phase...there's a new chapter for infrastructure type companies that are helping support that scale. I think that they're involved in an interest. It's really a validation of the space that this space still has a long way to grow. We're kind of moving into a place where the ecosystem is so strong it can actually support companies like Orchard who are looking to....to really grow. I hope the whole space grows to hundreds of billions of dollars.

Peter: Sure, sure, we both do. So what are you going to use.....you raised \$12 Million, obviously, you're going to be probably hiring people, What specifically have you earmarked for that money for the coming year?

Matt: We've accelerated our hiring plan and we've already seen that happen. I mean, we're up to 22 people here in New York now and that will continue to be a huge focus of ours making sure that we're hiring people with the right skills and the right cultural fit at Orchard.

I think that a big focus for us is not only expanding to new asset classes and building the connection points that makes sense there, but also going internationally. We've spent a lot of time and had a big presence at LendIt Europe and at the AltFi Global Conference here in New York and have a lot of conversations going on with European investors who we work with today who are buying US-based loans, but I think the next chapter is there's going to be a lot of buying of European whole loans on the platforms. We see this trend as being a global one and not one that's isolated into any specific country so if we want to provide our services, we're going to have to have a global view.

Peter: Right, we've talked before and it sounds like you're intending to open a London office in 2015, is that fair to say?

Matt: Yeah, we're looking at various locations. I mean, I think that the most obvious place is London for a number of reasons and I'm planning on spending a lot of time on an airplane next year.

Peter: Right, so as part of the deal then.....so you're going to open up a London office and then you got UK institutional investors. Is your goal then like connecting potentially UK institutional investors with UK platforms as well as US platforms so you can kind of be a one-stop-shop for their global investments. Is that the plan?



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Matt: Yeah, we've seen ourselves just supporting investors who want to invest globally and so we're not going to be geographically limited in that regard.

Peter: Right, right. So I want to talk about something that you've mentioned many, many times and that's the secondary market. I think you publicly stated beginning of this year that your goal is to create a secondary market by the end of this year and we're nearing that right now and it probably was a little bit audacious, that goal, but can you just give us an update of where Orchard is at with creating a secondary market for whole loans.

Matt: Yeah, sure, I think that at the beginning of the year it looked like there was a clearer path and just to be totally transparent, it's a not a general secondary market for anyone. It would be only whole loans and only for institutional investors which are our clients and focus. I think that a lot of the core is built out on being able to do price discovery and matching, similar ways that we operate in the primary markets are applicable at secondary. I think that where there still needs to be a lot of work to be done to really figure out how clearing it, installments, the change of cash flows happens because if you talk to most of the top platforms today at their growth rate, they're always resource-constrained. Trying to pull resources away for a new project is very difficult to do. The reality of it is we require whole participation of originators who actually want to support that so we're at the mercy of them having resources to be able to help build the systems that will need to be in place. I think that it will get done, I think that there is definitely interest for it, but like a lot of things in the start-up world, they sometimes take longer than you expect.

Peter: Right, what you're saying is ...just want to be clear on this, you're creating a secondary market that will be a closed market, it will only be for Orchard clients? Is that correct?

Matt: It will only be for institutional investors who have signed up for Orchard. We need some agreement in place with them. We're actually open as well to other agreements where the originator would actually license the software from us and they would run it. That's fine as well, but overall, the goal is being able to provide institutional investors with liquidity.

Peter: Right.

Matt: After the last financial crisis, liquidity is an important topic to a lot of investors.

Peter: Sure and I feel like...we've talked many times about when we're going to see a closed end fund or even a mutual fund in the space and whenever you talk about that the first question that comes up is we've got to have liquidity. I know there are companies that are working on that, but I feel like these asset classes are not going to become mainstream until you can go to Fidelity, or Schwab or Vanguard and take out your marketplace lending accounts and fund it with loans and you're not going to get that without a secondary market. Based on that, it sounds like it's not eminent. Are you prepared to say there'll be something launched in 2015 or is that even still up in the air? Obviously, you're at the mercy of the platforms to some extent but what's your sense?



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Matt: Yeah, I mean, I think the first ones will be launched in 2015. I think that it's just....it took us...we're pretty much working all year just to get the first two platforms live. Just to be able to support Lending Club and Prosper was a huge amount of work, but now we're at a point where we can all be on board the originator in a pretty streamlined process. We can really talk to them about....and really starting to get that streamlined. I think that's going to free up a lot of resources on our end to work on the secondary market now that we have that done. I think as we work with more and more originators then there's more and more options for who actually is the first one to launch.

Peter: Sure, exactly, once you get one that's going to get the ball rolling.

Matt: Exactly and I think we're focused on just making the first one work and making it foolproof so that we can trust it.

Peter: Right because that's the thing, I feel like we need...I mean, I just can't see how the platforms aren't behind this. I mean, I feel likeobviously, they've got a lot of investor interest. It's not like they desperately need it, but to become a legitimate asset class and to really get the support, it seems to me that what is...it's such a big selling point for them to say, oh yeah, by the way, you can liquidate your whole loans, that's fine, you can go and do that because right now there are limited options obviously for institutional investors. As you say, it will take one and I certainly hope we can make some movements here because it's not going to....I feel like it's going to hamper the real mainstream acceptance if you can't liquidate these things, don't you think?

Matt: Yeah, if we want mass adoption it is a checkmark that a lot of investors just require. You've probably had a lot of conversations with investors who are like **love it**, I think it's great, but until there's liquidity, I'm not going to take a deeper look.

Peter: Yep, yep. So let's just talk about your client base, if you would, for a little bit and how things are changing. You talked to Ron Suber and he's always now talking about the movement towards like more passive investing and people just taking like a blanket spread across a variety of different loans based on risk. Now with your clients, are you.....most of your clients still really ...they're active investors cherry picking loans, I mean, are you seeing more of that movement as well, what are you seeing?

Matt: Yeah, but I think it's a pretty obvious trend for people in the space that a lot of the pools that investors have access to right now are passive and I think that just shows that a lot of leverage right now is still with the platforms. I don't see many of the upcoming platforms being able to say, hey, we're earlier staged, but we're also going to be passive, right? That doesn't work for investors and I think that over time the active strategy is preferable because there's a lot of transparency and there's feedback too.

I think that one of the things that we miss is that now, basically, all of the loans that gets listed get funded. If you go back a couple of years that wasn't the case and I think that that actually was the reason why the returns were higher back a couple of years ago. That was because



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there was the wisdom of the crowd actually helping do that second due diligence process. So, we'll see, I think like a pendulum these things will swing back and forth and I don't active is dead, but I see a lot of momentum right now still behind passive.

Peter: You also told me about the reduced Alpha from active and that's been clear to see if the average retail investor it's...yeah, the platform is getting better at underwriting. It's harder to get Alpha over the average. Is that something that you're seeing as well with your clients?

Matt: I think Alpha in the space is just changing. When there's only one or two options to buy, you really just have to buy, you really have to adjust this by your Alpha in regards to the existing loans that you are buying against. It was Alpha within a platform, but I think a lot of the investors, especially the larger ones that are really into the space have a different view. Their Alpha is which platforms they choose to work with and which credit grades they choose to buy so it's just different.

The end investors are looking for more diversified funds now and they're not looking for just specialty funds. They just buy Lending Club or just buy Prosper. There's definitely a trend towards buying small business and looking at all these new platforms around that are doing each of their asset classes like real estate, elective health, tuition, factoring, equivalent leasing. The world of loan originations is very broad so I think that's really the future of Alpha for investors is which platforms they decide to work with and which credit grades they buy with it.

Peter: Right, that's really good points, that's really good points. So can you give us a sense of how...sort of the scope and the size of Orchard today, I mean, can you tell me like roughly how many clients you have, roughly how much volume have you put through your platform?

Matt: Yes. The metric that we actually use to track is trading accounts which means the client is buying on like one platform so they are buying on Lending Club, Prosper and OnDeck. That would be three trading accounts. We're in kind of the high 50s in terms of trading accounts today and that's been growing pretty steadily and now that's more and more options, it's kind of accelerating. In terms of capital deployed through our technology or orders placed on behalf of clients, we kind of went from zero in January this year and now have scaled up to ordering hundreds and millions of dollars, just amazing growth. It's a testament as well as to how fast the originators are growing as well because we're directly tied to their growth. If they have more products to sell, our investors are more than willing to buy it.

Peter: Right, for sure, for sure. Okay, let's just talk a bit about the Lending Club IPO. We're recording this on December 5th which is..... all the talk this week has been about the IPO which is supposed to happen next week. I know that you've kind of said it before that you've been talking with a whole range of people about Lending Club and getting people up to speed including...you mentioned to me a while back, including some of the bigger banks so I'm curious to hear about the conversations that you're having with these people. Is Lending Club on their radar, what are their thoughts about Lending Club?



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Matt: Yes, just for perspective, the conversation six months ago was very hostile and dismissive. You just kind of a machine gun type questions on the space followed by the end of the meeting being like...oh, they're never going to be a serious player. I'm glad that we got all these information, but now we like... don't you do anything. I think that because Lending Club, OnDeck and the others have announced their filing, it's a huge validation of the space, like they can't ignore it anymore. It's just been interesting because it's obvious that some of the large banks...there have been directives that have come down saying you need to have a strategy here and people are scrambling to try to figure out what that strategy is going to be. I think it's a really interesting time to be in the space and I'm super excited for the next year. I think that 2014 the awareness grew and there was a coming out party for the space. 2015 it's going to be really exciting as all these players start to weigh in and make strategic moves.

Peter: For sure. So do you care to weigh in and make a prediction on what's going to happen next week as far as where we'll be, where will Lending Club open and close on their first day of trading assuming everything goes according to plan.

Matt: I wish I could, but I think for compliance reasons I am not allowed to invest in the IPO and I'm not allowed to give any guidance on it.

Peter: Okay, fair enough, fair enough. So I'm going to let you go, but I just want to ask about the future of Orchard and where you see your company going. What's the grand vision? Are you going to become like the Bloomberg of the lending space, I mean, what's the grand vision for you guys?

Matt: You know, I think that comparing your vision to another company is tough because obviously they have different circumstances that led to their rise. I think our vision is to increase the capital velocity within the space and to do it in the way that we know best which is through technology. So any place where we can add value by building out tech products that multiple participants can use ...it's almost being that grease that helps everything run smoothly and I want to see the space be massive and our goal is to do everything we possibly can to make that a reality.

What we end up looking like in a couple of years, I'm just as interested as you to find out, but I think that we're an exciting space, it's growing quickly. We have a great team here at Orchard and have built some great products, so far. Looking forward on the road map, we got some amazing products coming out in the first half of next year I'm really excited about. We'll keep on building and try to keep adding value through our skill sets and hopefully, we'll make this into a huge asset class and look back in future years and say....hey, we were here at the beginning and that we made a positive impact on the space and built a better system than what existed before.

Peter: Okay, that's a great note to end on. Thanks a lot, Matt, appreciate your time and best of luck.

Matt: Thanks so much, Peter, take care.



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Peter: Okay, see you.

I agree with Matt and I think 2014 has been a great year, but really 2015 is, I think, is certainly going to be the most exciting year ever. We will begin the New Year presumably with two public companies in our space and there will likely be more to come. I think we're going to see a lot interesting developments, some of will obviously come from Orchard, others elsewhere. I think we're going to have more awareness in the investing public into this asset class and I, frankly, am very excited just like Matt is too to see what develops.

So on that note, I'm going to sign off. Thank you very much for listening and I will catch you next time. Bye

[closing music]