Podcast Transcription Session 33: Brock Blake

Peter Renton: Welcome the Lend Academy Podcast, session number 33. This is your host, Peter Renton, founder of Lend Academy.

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Peter: Today on the show, I am delighted to welcome Brock Blake. He is the CEO and Founder of Lendio which is a small business lending market place. Now it's no secret that I'm a huge fan of small business lending. I think it provides a great return to investors, it provides a win for the borrowers as entrepreneurs get access to capital that, historically, they would not have been able to. On the show today, we're going to talk about the kind of entrepreneurs who are using Lendio to apply for loans, about a really big deal that they just signed up with one of the major office supply chains as well as a couple of surprises. Hope you enjoy the show.

Peter: Welcome to the podcast, Brock.

Brock Blake: Thanks, Peter, excited to be on today. You've done a great job with other podcasts so I feel honored to be here.

Peter: (laughs) Thank you, why don't we get started by just giving the listeners some background about yourself, where you spent your career and how you came to start Lendio.

Brock: Yeah, so I've been an entrepreneur all the way since school. I went to BYU, actually, and studied Entrepreneurship and Finance there. Interesting enough, to start my entrepreneur career, I did an entrepreneurship contest, kind of like the TV show, The Apprentice. There were about a hundred applicants, they narrowed it down to 20 and then the 20 of us went through this eight-week boot camp where we did a sales competition, we did a fund raising competition. We did not have all the glitz and glamour that The Apprentice has, but at the end of these 8 weeks, there were five of us that won $50,000 to be able to start up a business.

Peter: Wow, that's fantastic!

Brock: So, yeah, I was one of those winners and had $50,000 and sought out to solve a problem and we started the predecessor to Lendio. It was a company that focused on connecting entrepreneurs to angel investors and venture capitalists. We figured out very quickly that there was a lot of demand from the entrepreneurs, but kind of the angel list of sorts back in the day, but there was only a small percentage of entrepreneurs that are actually going to raise money from angel or venture capitalists, but we had all these business owners coming in, mainstream business owners, restaurant owners and landscapers and dry cleaners and we realized the market was enormous and the demand for financing was incredible, but focusing on kind of this equity funding was the wrong approach.

That's when we decided to start adding kind of some of the debt financing components to it getting bank loans and lines of credit and business credit cards. That was kind of the early days of this debt financing market and we learned a lot and launched Lendio in 2011. That's kind of a shortened version of that background.

Peter: Okay, so can you just explain exactly what Lendio does**?**

Brock: Yes, Lendio, we are not, contrary to a lot of the other lenders in the space, we are not a direct lender. We are a marketplace for other lenders. One might think of us as maybe a kayak for small business loans or something like that. What we have done is aggregated, the best-in-class lenders, across all the different loan product categories in small business into one platform.

We have OnDeck and Kabbage and Dealstruck and Funding Circle, all of these lenders into one platform so when a business owner is looking for financing, instead of going lender to lender to lender trying to figure out which options is the best fit for them, we've aggregated them to make it an easy and positive experience for that business owner.

What's unique about small business lending is that maybe... in consumer lending there's two data points you really need to underwrite a loan. I'm not saying that's easy, but the two data points of credit score and income....almost every consumer in the US has those two data points so you can target anyone in the US.

In small business it's very different, so many different profile characteristics of business owners, so many different ways of underwriting. In fact, there's about 25 to 30 different types of business loan products out there. So if you're a business owner....let's say you're a restaurant owner or a landscaper or a dry cleaner, you're running your business and you're juggling all of these different balls in the air, it's really difficult for you to try to become an expert at all the different options that are out there.

So to try and understand between accounts receivables financing, merchant cash advance, cash for loan, SBA loans, equipment loans and so on. So what we've done is created this technology where we make that process simple by bringing all the options together in one spot for that business owner.

Peter: Okay, then so how do you do that in a way....are you making a judgment call when someone comes along there....like a manufacturer, they need a new piece of equipment and they need it quickly, are you going to make the call based on your inputs and say, right you could do an equipment finance loan, but you really need this fast…maybe you should go and look at like an OnDeck or something. How are you making that judgment call?

Brock: Yeah, so we use a technology system...a tremendous amount of data points we're using kind of people like to call Machine Learning or whatever it might be, where when a business owner comes in, we're gathering information let's say we pull our credit, we pull bank statements and we're analyzing this data.

The first thing we're going to do is identify which loan products they're a good fit for so the main categories. From the categories, the second step is out of all those categories in which they could be a good fit for, which are the best lenders that are most likely to get them approved for a loan. So we've aggregated it to this small group of lenders where we know this business owner is going to be a good match for these four or five lenders.

At that point, our process is to gather the full application requirements for each of those lenders. Let's say again, there are five lenders, we've consolidated their full application of those five different lenders and all the data requirements for those five different lenders into one standard application form. We gather that data from the business owner and we submit those applications to each of those five lenders at which point those lenders underwrite the loan and either make an offer or decline. Once those offers are .....let's say, three out the five gave an offer and two of them declined, so then we'll take those three offers back to the customer and say, okay, you've got.....they may be an equipment lender and you might have a merchant cash advance lender and maybe you've got a commercial real estate loan.

We put those three options on the table for that business owner. We really want to allow them to decide which is the best fit for them. Sometimes it may be, like you said, maybe it's a short time frame so I want the deal that's going to close within the next two days or maybe, hey, I want the largest loan size so I have got time to spare, but I want the loan with the largest that will offer me the most amount of money. Or, maybe, the third option for that business owner is I want the one with the lowest rate so I've got a little bit of time so I'm going to take whichever one will give me the lowest rate. Our job is to get them the best offers and then allow them to decide which makes the most sense for them and their situation that they're in.

Peter: So are you finding business owners…don't always take the best rate, I mean, what's the ....you've talked about three different scenarios there, which one is most popular?

Brock: That's a great question, I mean, I think people assume that rate is always the number one priority and it is a high priority for a lot of business owners...they're shopping for rates. I'm just trying to get the best rate out there and that's what's most important to me, but you find that there's so many business owners out there that care....I don't want to say they don't care about the rate because everyone cares about the rate, but what's higher priority for them is the speed to funding or the loan size and it's hard to be able to have all three. You can't say all three of these are really, really important to me where I get the most money for the lowest rate and the fastest time. There's just not that many lenders that are able to kind of do all of that. So it's hard to say what is the number one, the most popular? I actually think speed to funding is higher priority for business owners than the rate is, but loan size obviously plays into that as well.

Peter: Right, I also imagine.....you say you work with SBA lenders too. I imagine that the speed of application would be a factor as well because ....I mean, you go to a bank and try and take out an SBA loan application, it can be quite onerous. Are you finding that as well with the entrepreneurs coming to you, I mean, are they also impacted as far as what they have to actually submit to do an application because I imagine someone like OnDeck or Kabbage is just fairly....they have a lot of automation, is different than an SBA lender who is going to take their sweet time over a decision. So, I guess, my question I'm getting at…is ease of use one of those factors too, ease of the application process.

Brock: Yeah, there's certainly no question about that, I mean, what's nice about some of these more innovative lenders...you mentioned OnDeck, you mentioned Kabbage or CAN Capital, they're very, very focused on that user experience. They're focused on creating technology where the underwriting actually happens within minutes. So because we built APIs into these lenders' underwriting system like Strategic and Merchant Cash & Capital in there as well....now you build these APIs and now within a matter of seconds that borrower has a full offer through one of these lenders and that can fund later that afternoon or the next morning, before an SBA lender has even taken a look at the application.

So, certainly, that's attractive, especially if they could take that loan or that offer and get it funded now. Maybe what that does is buy them the time to actually get an SBA loan 30 or 60 days down the road because now they're not in so much urgency. They're going to pay a little bit more now, but it gives them that time to go through that full lengthy process that is an SBA loan.

Peter: You help them through that SBA loan process, I presume , as well so you might them a loan that might be from one of the other, from Kabbage or OnDeck or CAN Capital or what have you. You might still work with them and say, right, the SBA loan is going to be obviously your cheapest cost of capital so like you will help them do both. Is that what you're saying?

Brock: Yeah, there's no question about that. Fortunately, on the SBA side, there's lenders out there and platforms that are really trying to shorten that time frame and create innovation around SBA loans so it's not such a long process. SmartBiz is kind of out there leading the way, Celtic Bank, the national SBA lender, that's really focused on efficient process using technology, Financial Pacific is another bank that we work with and also does ...is aggressive on the SBA side, Superior Financial Group is another one and it's coming from the SBA themselves. They've talked about this SBA One which is to try and use technology to shorten that approval process. They certainly cannot compete with those lenders that I already mentioned.

They can't compete with an OnDeck, a Kabbage, a CAN Capital because it's happening in seconds literally versus weeks, but we do help that business owner try, you know, let’s say, okay, if SBA is really a priority to you, maybe let's get in a loan now, but we also want to be upfront with the lenders that we're working with saying, hey, let's do this loan now, but just know this is a short term bridge. When they get this SBA loan in let's say 60 or 90 days, they want to be able to pay this loan off and actually go to an SBA loan. We want to make sure that we're transparent about that process with our lender and the borrower so everyone knows upfront kind of what's happening.

Peter: Okay, so then it sounds like you work with a ton of different lenders, I mean, how do you decide whether or not to work with a new lender. I mean, there's new platforms in the marketplace lending space coming online, I mean, how do you evaluate the different lenders you work with?

Brock: Yeah, that's a great question. You know, when we started Lendio, we started in the lead gen space and we had over 300 lenders on our platform that we worked with and our focus was just all about customer acquisition. As we have leveraged that expertise of knowing how to acquire customers into an origination platform, what we did is we took those 300 lenders and we said, okay, who are the best-in-class lenders. We created a scoring system that helped us determine how to define best-in-class. Best-in-class for us is based on five different things.

One is, we want to make sure they have a national footprint. Some of these lenders, they're only going to offer loans in a state or a county or something like that and it really limits the number of business owners in there. It's difficult for us to work there. So it does not have to be necessarily a national lender, but it needs to be a regional lender or a super regional lender where they cover a significant footprint.

The second is we want them to have technology. We want them to either have the technology or be open to work with Lendio to use technology to make that a very efficient and speedy process of underwriting. So that's part of our process.

Third, we want to be able to have a great customer experience. We'll try that out, we'll have business owners where we match that business owner up to that lender and we do surveys to the borrower and say, okay, how was that experience with that lender and if we're getting negative reviews we don't want to be associated with that so we remove them from our list.

Fourth is loan performance. We care that these are lenders that know how to underwrite and it's not a kind of a fly-by-night lender that's just cutting their teeth trying to figure out how to underwrite the loan. That's important for the borrowers, important for the lender, it's also important for Lendio because we want to build a long term relationship. A lot of times, these long term relationships are built off renewals of the loan.

Fifth is, does it fit a loan gap that we might have. What I mean by that is our approach is we want to cover the entire breadth of loan products out there, every type of loan you can think of and across that entire spectrum. Well, we're constantly analyzing our data of business owners that are coming through our platform and saying, okay, who are the business owners that did not get any matches and what are the common characteristics of those business owners. Then we try and identify with all these new lenders that are popping up. Do these new lenders that are popping up, does their loan product match this segment of customers that currently aren't getting offers. I met with one last week and in fact, StreetShares. You just did a blog post about them.

Peter: Yup.

Brock: ...and they made an announcement of that $200 Million financing they got to be able to fund more volume. Well, not only are they focused on their veteran customers, but there's a segment of customers that they're starting to add to their credit box that really fits a segment that isn't really being serviced very well. So we're now starting to do that process with StreetShares to be able to validate that those other four other areas that we talked about ...that they can check those boxes and then we'll add them in as a lender on our platform to send business owners their way.

Peter: Okay, great, great. So as far as the businesses go....you talked about restaurants, dry cleaners, whatever, can you give us like what are the main verticals that you're working with in as far as those entrepreneurs coming to you looking for a loan?

Brock: Yeah, definitely this is a main street business, that's what we focus on, main street business owners. Those industries and verticals, I mean, we can service anyone in the United States. The high segment of industries is retailers, restaurants, manufacturing, wholesalers, kind of the medical doctors/dentists professionals. So the way that we look at our space of who we can target, we look at the characteristics of the business owner and the only segment of customers that we really don't have options for is this combination of a business owner that is a start-up and bad credit.

Peter: (laughs) Yeah, that's a bad combo.?

Brock: Yeah, bad combo. If they're start-up, good credit, we've got options for them; if they've got bad credit yet they've got some revenue in the door and they've been in business a little while then we've got options for them. For whatever reason, we cannot find a lender that wants to lend to a start-up and bad credit customers.

Peter: Right, that's fair enough. Okay, so I wanted to talk a bit about the deal that was announced, I believe it was last month, that you did with Staples. Now, you go to Staples.com and there's a little button on their homepage there which i know is obviously a highly traffic page that asks if you want to take out a small business loan and that is all powered by you guys. Can you tell us how that came about and a little bit about what the relationship means?

Brock: Yeah, we are thrilled about this relationship with Staples. They have just been such an incredible team to work with and we're excited about the partnership. So Staples, and I don't want to speak for them so I'll just kind of say what's been publicly available, but they certainly are always considering new ways to be able to service their customers. They've got millions and millions of business owners in their database that shop regularly online at Staples.com or go into their big-box stores, the retail stores and they're constantly surveying these customers. What are ways in which we can help you, what services can we provide, what products can we provide? It became pretty clear through some of those surveys that small business owners, one of their biggest pain points was small business loans or getting the access to capital for the financing they need so Staples decided they wanted to get into it in a big way.

Last summer, they got an RFP and they invited everyone to apply, to try and win this deal, in fact they said they evaluated over 30, not only direct lenders, but marketplaces and it was probably about a six-month kind of ordeal where they did a lot of diligence and a bunch of presentations. We were very, very fortunate to have been selected and to win that deal. We're very excited about it because they've got obviously a huge brand, trusted brand with business owners out there. We believe we've got the technology, the customer experience, the lenders and the business model to really scale so for us it was kind of a partnership made in heaven. We're a few weeks into it and the volume is exactly where we.....we're actually...it's better than we expected it to be and we believe it's...... and we're just getting started so it's a great partnership for us.

Peter: So I imagine, it's...such a partnership would increase your business dramatically overnight and you said it's been a few weeks now.... obviously, you're able to handle the volume that's coming in the door from Staples?

Brock: Well, we are rushing to handle it (laughs) and also just......... you know, we've already had loans that are funded. Today, in fact, we did our first customer testimonial video, one Staples customer that came through and was funded, but one of the things I'm excited to announce is, to help us to be able to handle that volume is that we just closed this last week a $20.5 Million series C round and we are very, very excited about that. That certainly will allow us to handle the volume that comes through Staples, but, in addition to that we've got a few other partner deals that are in the works that could be similar in size that we hope to lend as well. Having a little bit of capital behind us certainly allows us and helps us to be able to meet those demands and scale the way we all want it to.

Peter: Sure, congratulations on that round, it's great news. Can you share who is backing you on this round?

Brock: Yeah, we have kind of a couple of groups that led it.

We have Napier Financial Partners out in New York and these guys just led the Bill.com, the $50 Million round that Bill.com led. They're very focused on fintech and a great partner. We have Blumberg Capital out of the West Coast in San Francisco. I believe they're in Fundbox, they're also very focused on… they're in Cognical which is another fintech company and very focused on financial services, Chris Gottschalk from there.

Pivot Investment Partners out in New York, Larry Klane who used to be at CapitalOne, Head of Small Business at CapitalOne is in the deal.

North Hill Ventures out of Boston, also former CapitalOne Ventures guys and then our current investors are Tribeca Venture Partners. They're in New York, led the CommonBond deal and lead the ShopKeep deal.

Runa Capital who's in Zopa is in our deal and Highway 12 Ventures out of Boise, Mark Solon who has been with us kind of from day one. So, really good group of investors on board and believe in what we're doing.

Peter: That’s awesome, that's great. So can you just....I'm interested in the typical or the range, shall we say…because I imagine you get all kinds of different deals coming to you....what is the typical terms of the loans, the rates, the duration that you're getting and does it differ between like what Staples is sending you versus your other marketing efforts?

Brock: Well, that's a good question, I mean, there's so many different loan products that get financing. Obviously, there are certain loan products that......just more customers are going to meet that loan product.

For example, like the OnDeck loan, OnDeck has been a fantastic partner of ours and because of their credit box there's a lot more customers that will meet an OnDeck loan than would meet an SBA loan, for example. So if you take a look at the OnDeck loan or a loan similar to that, there's the cash flow loan or merchant cash advance loan, they're going to be somewhere in the 6 to-12-month term with a buy rate of around 15 to 35 buy rate which obviously.....APRs are going to be higher than that, depending on the term of the loan so there's that segment of customers, but on the other end of the spectrum, you've got your asset-backed loan and this is where the rates are lower and the terms are longer.

Anything that's collateral based or commercial real estate loans....loan sizes are going to be larger, terms are going to be longer, it’s going to be more like three to five years and rates are going to be anywhere between 5 to 10% rate and anything with asset-backed like an equipment loan is going to be the same thing. An equipment loan is going to be a year to two years, anywhere from 6 to 15% rate on those. It's hard to say because there are so many different loan products out there, but that kind of gives you an idea of the spectrum on one end to the other end and everything else in between are lines of credit, are term loans, are accounts receivable financing, purchase order financing. That's going to be kind of in between those two bucket ends that I referenced.

Peter: Okay, so then how do you make money and do you make money the exact same way regardless of the lender that you're working with?

Brock: Yeah, so we make money when...it's free for the business owner, we make money from the lender when the loan closes. So we take an origination fee as the loan closes. That origination fee will vary, depending on the type of loan product. An SBA loan may be a 1 to 2% origination fee versus maybe an equipment loan product or...... a merchant cash advance loan product might be around the 5 or 6% origination fee, but that's how we make money when that loan closes.

Peter Okay, okay, fair enough. So then, obviously, you're not in this market by yourself. We had the Fundera guys on the podcast last year, we've had Biz2Credit on....how do you differentiate yourselves from your competition?

Brock: Yeah, so we respect both Biz2Credit and Fundera tremendously, they are great organizations with very strong leadership and.....I love what they're doing. I think this is an enormous market and allows room for all of us.

A couple of differentiators, so first thing with Biz2Credit as was talked about a lot in your podcast, they're really starting to fund their own loans and take a lot of those businesses that come in the door. Instead of handling them off to lenders, they're starting to do that themselves...you know, putting....I don't know how the lenders view that. From our perspective, we don't ever want to be the lender. I'm not trying to underwrite the loan, I'm not trying to service the loans and we're not trying to take that business and underwrite it ourselves. We always want to be the marketplace and make sure that we're not competing with that lender. That's one of the differentiators with Biz2Credit.

On the Fundera side, very, very similar business model and I think it's just difference in magnitude. We're many multiples the size as far as loan volume and the number of lenders that we have on our platform, the number of business owners that are coming in our platform and some other .....some of the other differentiators will actually, hopefully, be announced soon, maybe between now and/or at LendIt. I won't get into those now, but that's maybe the differentiator is just the volume that we have gone through Lendio.

Peter: Okay, okay, fair enough. So then there's something that I think seems like a big opportunity and that is the general awareness is still not quite there. If you talk to the average entrepreneur on the street and say what are your options for a loan, most of them are going to say, well, I go into my bank and find out what they say. There's still not, shall we say, the awareness of the online options that companies like you guys...I mean, what's it going to take, why is it still….. here we are in 2015 and people are not looking online first. What's it going to take for them to look online first?

Brock: I think it's certainly happening at a very rapid rate just by seeing the size of the market and the alternative market as it continues to grow and expand, but as you mentioned, there's such tremendous amount of headwinds. You know, when you've dealt your whole life, you've ingrained your whole life to know that when I need a loan, I go to my bank, that's not going to just change overnight. Business owners believe, you know, if I worked my bank for ten years then the first place I'm going to go is my bank. It's just natural and I think bank and I think lower rates and I think that I'm going to get financing, but what's happening is, especially since the recession, banks are moving upstream, banks are focusing on loans larger than a million dollars where they can use loan committee. They can take 30 or 60 or 90 days, they don't need to use technology innovate and it only takes one time for that business owner to go to their bank and spend 26 hours filling applications or have the loan officer say, you're not a good fit for us or getting declined 90% of the time, that case...and feels, it hurts and then they start to say, wait a minute, there's got to be other options out there.

I think we are seeing that trend and I think that as business owners they might read about it or they might hear about it or they may be oblivious to it and they just automatically think, I'm going to go to the bank. I think the rate at which it is accelerating, it is pretty impressive considering that this alternative online lending space has really only been ......had the attention it's had over the last maybe five years.

The other thing, let me just add a second point to that, so many people in the online lending space have raised capital and they've got dollars to go out and spend for marketing. We're starting to see radio, we’re starting to see TV, direct mail has been very strong for years....business owners are starting to realize, well, there are other options out there. I believe that, again, that rate in which business owners are going to go directly online looking for that loan will continue to accelerate. I think we are maybe five years out or so where it will start...it will be mainstream at that point.

Peter: Yeah, I tend to agree with you, I think. It's happening slower it seems like in the small business space, but I think small business owners are more ingrained with.....they all have a long banking relationship so it may take a bit longer, but, fair enough. Anyway, I've got to let you go, but one last question. You've got yourself a nice amount of cash in the bank now, what does the future hold for Lendio?

Brock: Yeah, I mean, we are incredibly excited about the market, we’re excited about how we're positioned, we're excited about that trend that we just talked about. You think about marketplaces in any industry, whether that be marketplaces for airline travel, you've got kayak or marketplaces for restaurants, you’ve got Yelp, marketplaces for hotels, you've got Priceline.

What has happened with these marketplaces is that there usually becomes one or two and maybe three winners in the market. From our perspective, we believe it's an enormous market, we believe that it will only get more and more confusing for the borrower. You can only get so many direct mail pieces in your mailbox before you start to get confused. What is the difference between all of these lenders, I can't keep up with all the unique nuances between all these different lenders and loan products where that business owner wants to go somewhere and say, you help me figure out which loan product is the best fit for me, help me know what's the difference between Kabbage and OnDeck or CAN Capital and help me compare and contrast.

From our perspective, we're positioned well, we care a tremendous amount about our customer, the borrower and the lender and it's an opportunity for us to run and to run fast. We don't want to be a lender. Long term, we want to be that marketplace that is providing a great borrower experience for that business owner to get the financing they need.

Peter: Okay, well on that note let's wrap it up. Very much appreciate your coming on the podcast today, Brock.

Brock: Yeah, thank you, Peter, appreciate you having me.

Peter: Okay, see you later.

Brock: Bye.

Peter: You know, I have to agree with Brock and I actually think that small business lending is going through a transformation right now. It's going to be more changed in the next five years than we've probably seen in the last 50.

When I was looking for…. shopping for loans, like 15 years ago when I needed a loan for my small business, it was the bank or nothing pretty much. I actually did some loans on personal credit as well through credit cards, but the options simply were not available as they are today. It's a great time to be an entrepreneur, it's a great time to try and fund your business. There are just lots of options and I think over the next five years, you are going to see entrepreneurs gravitate online first.

I think, you're going to see all kinds of lenders do well, from the OnDecks, CAN Capitals through to Funding Circle, Lending Club and the SBA lenders. I think we've got a changing landscape here, changing demographics and I see a company like Lendlo very well positioned to do well in the future.

Anyway, on that note, hope you enjoyed the show and thanks for listening. We'll catch you next time. Bye.

[closing music]