



## PODCAST TRANSCRIPTION SESSION 44: JAMES HERBERT

Welcome to the Lend Academy Podcast Episode No. 44. This is your host, Peter Renton, Founder of Lend Academy.

(music)

**Peter:** Today on the show, I am delighted to welcome James Herbert. He is the President and Co-Founder of LendingHome. LendingHome first got on my radar just around when they launched in April last year. They had some pretty big name backers and I heard a lot of talk in the industry that this is the company to watch so I have been watching them and they have been doing extremely well. They've basically gone from nowhere to the largest online real estate platform in our industry in pretty short order so I wanted to get James on the show to talk about how they've been able to do that, what makes LendingHome tick, what makes them different to everybody else and how they've been able to scale so quickly and where they're going to next. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, James.

**James Herbert:** Thanks for having me.

**Peter:** Okay, so let's just get started. Not everyone's heard of LendingHome so can you just give us an elevator pitch about what LendingHome does exactly?

**James:** Sure, LendingHome is a online mortgage platform designed to make the process for getting mortgages simple, fast and reliable, both for borrowers and investors. We currently focus on investment property loans at this point and will be expanding into the owner occupants space at some point in the near future.

**Peter:** Okay, so then...so you're one of the co-founders, can you give us a little bit of background about yourself and why you decided to start this company.

**James:** Sure, I decided to start the company actually as a frustrated borrower. I used to run residential real estate portfolios, I ran acquisitions for Colony American Homes for the first year of its existence and then left and started my own fund. I was frustrated both on the investment side, getting loans for the portfolios that we had as well as on the personal side when the bank that currently had the mortgage on my home took 104 days to refinance my own property.

So as I looked around at the space and we looked at banks, we looked at the emerging portfolio lenders and we looked at the private lending space, we decided that there had to be a better way. We saw several pockets of borrowers that were either not served, underserved or mis-priced. We saw that the consumer experience was a horrible one; that it was slow, that it was opaque, that it was not reliable and we saw that the cost to originate for the lenders was actually going up significantly.

So we thought there was an opportunity to do a couple of things. Provide a consumer experience that was simple, fast, reliable, online, lower the origination cost, but, hopefully, pass



# LEND ACADEMY

some of that cost savings to the borrower as well as provide a platform to allow investors to get access to the high quality loans that we want to make.

**Peter:** Right, so how long did it take you to really get to launch once you had the idea, what was the timeline?

**James:** Sure, we started the company in October 2013 and we actually launched and made our first loans out of beta in April 2014 so we've been lending now for about 15 months.

**Peter:** Right, right, so you took really six months to get going before your first loan. That's pretty good, that's a pretty quick ramp up, I would say.

**James:** Yeah...

**Peter:** What about the deals that you're doing today, you said they're in investment properties, are these all like single family homes, I mean, what are the deals that you're doing?

**James:** Sure, yeah, we focus entirely on single family residentials, so one to four-unit properties. We offer two products today. The first product is a bridge product, that's a six or twelve-month loan. Additionally, we offer a single family rental product and that, right now, is a 30-year loan with a five/one period. What I mean by that is that the rate is fixed for five years and after that it adjusts. It's a 30-year loan and a 30-year maturity.

**Peter:** Right, so you've got two different, I guess, target markets there for borrowers; people who want to do like a fix and flip and then people who want to buy a property and put a renter in there and own it for the long term.

**James:** That's right, and sometimes we have folks that do both, so we have a number of borrowers that actually come to us for a bridge product and then they fix up the home and they decide that they want to keep it when they look at what rental income they can get for it and they refinance out the bridge product with a single family rental loan.

**Peter:** Right, right, okay, and what are the typical interest rates on both? Obviously, they're going to range based on your underwriting. What is the range that you provide for both products?

**James:** Yeah, on the bridge products our rates range from 8% to 18%, but a typical rate for us is just under 11% and the LTVs that we do there are under 80% on the value. On the rental product, the rates range from the high 5s to the mid 9s and the average there is right around 7% and there we do loan to value up to 75%.

**Peter:** Right, so are the borrowers particularly on the rental properties...are these people who can't get a bank loan, who don't want to go through the pain of a bank loan, what is the sort of the reason that they're going with you?

**James:** Yeah, it's all of the above. We have folks that want to have a quick process or simple process or an easy process who come to us who may qualify for a bank loan, but don't want to deal with it. We also have folks that don't qualify for bank loans for a whole variety of reasons. It could be around kind of a credit event where the bank has a more stringent requirement on that,



it could be around the sort of type of property that their bank that they usually work with doesn't do rental properties. It could also be that a lot of the properties don't qualify for Fannie, which is where most of the banks sell their loans off to anyway.

There are lots of ways in which you can not qualify for Fannie so when you look at the single family rental market, 86% of the rental homes in the U.S. are owned by folks who own ten or less, but the Fannie requirements are much more stringent when you own five to ten properties than they are when you own one to four and Fannie won't make you a loan regardless of rate or loan to value if you own more than ten properties. So we have a lot of folks that fall under the category where the primary source of capital for them is the bank, which is really Fannie Mae, they don't qualify anymore for it. So often, at that point, they're looking for alternative sources of funding.

**Peter:** I just want to be clear on that. I don't know exactly how it works so if it does not fit into a Fannie Mae kind of window or bucket shall we say, most banks simply then don't underwrite. Is that what you're saying?

**James:** Yeah, that's correct. So most banks, not all banks, but most banks will only do rental loans when they can take that loan and once they've originated, turn around and sell it to Fannie or Freddie and the reason for that is that the banks want to use their capital to acquire new customers as opposed to kind of doing a great job of serving their existing customers. The reason is when they get a new customer they have the opportunity to cross sell a lot products and that's how they make most of their money.

**Peter:** Right.

**James:** So for them, providing the service of the investment loans is really the sort of thing that they want to kind of move on from. So Fannie has a certain level of requirements if you own one to four properties and a more stringent set requirements if you own five to ten and then there is no bid at any price if you own more than ten.

**Peter:** Right, okay, that's interesting. So then how do you find these people? Are you finding these online, are you working through brokers. how do you get...you start from scratch, 15 months ago or whatever, I mean, where do you find the people, the borrowers?

**James:** It's a variety of sources. We certainly do most of it online so we have a pretty big direct to consumer, that's a lot of online marketing for us. We do a small amount of direct mail as well. We started working with the broker community as well and we found that to be really effective, we've tried to build some really nice tools for brokers to allow them to be more efficient and more effective with their time so we're starting to see some success there. We also have a big portion of our business that has come through unpaid referrals from other customers so we're driving just under 30% of our business as referrals from our existing customer base which we like to think is a vote of confidence that we're doing something right.

**Peter:** Sure, I know you've only been going a short time. I imagine repeat business is going to be a big thing. A lot of people don't just own one rental property, they want to build a whole portfolio.



# LEND ACADEMY

**James:** That's right, we have several folks that have come to us and that's the case both on the rental side as well as the bridge side. We have, I think, some borrowers with us that are on their 30th loan on the bridge side of things as well.

**Peter:** Wow, wow, that's a lot in 15 months. (laughs). Okay, so then can you...like one of the reasons...people acknowledge how horrible the real estate mortgage process is and how onerous...the amount of time...it's not nearly as bad as a small business SBA loan as far as what is required. Can you take us through what you do differently and what your application process is like?

**James:** Sure, we try to make our application process very easy and simple and reliable. So you come online to our website, within three minutes you'll be able to get a rate and see if you qualify for our loans. If you do, the rate that you see there when we go through the verification process is the rate that you'll get. It's not a teaser rate, it's your actual rate.

You'll be able to slide the bar and say...hey, do I want a little bit more or what does that mean for my rate, do I want a little bit less, what does that mean to my rate. If you decide to apply, the rest of the process takes about 15 minutes and it's entirely online as well. We built a dashboard for borrowers to be able to see what information they provided, what they still need to provide, interact with us as needed, through chat or whether we have a question on a particular file that we need some more information as well as to be able to see where we are in the process.

One of the things that personally was very frustrating to me when I was...as a borrower is the fact that it felt like my loan went into a black box. I never knew who was working on it and what the current state of it was so we've created a dashboard to try and help that as well for borrowers. They understand when am I expected to close, where is my loan, has underwriting been approved, what does that look like so we wanted to make the process very simple for them.

**Peter:** So then what is the typical like wait...if you've approved the loan and someone's given all of their documentation, how long before they can get their money?

**James:** So we've closed loans in as little as a week, but the reality is that most borrowers actually aren't looking to move quite that fast. What we find more is that what borrowers care about is not that every loan can be done in five days, but that their loan is done on time for their timeline. So the average borrower is actually asking us to close in about 20 days so we're actually trying to measure ourselves in terms of making sure that we meet their estimates as opposed to any particular day count.

**Peter:** Right, is that part of the process, you ask them when they want to close and then you will go at their speed?

**James:** Yeah, that's right. I mean, we have some minimums because we have to work with a third party title. If it's a bridge we have to get a BPO, if it's a rental we have to get an appraisal. Those processes sometimes take awhile and we do our best to stay on top of them, but they're also a little bit out of our control, but we still fight very hard to make sure that we're meeting the borrowers' expectations about when they need to close because sometimes there's a very firm closing date and sometimes there is a desired closing date. In both cases, we want to make sure that we're leaving the borrower with a very good experience.



# LEND ACADEMY

**Peter:** Right, okay. So then I just want to step back a little bit. Obviously, you came to this industry fully aware that it's...it's October 2013 and several platforms had already started. Now you know I hear the estimates of 75 or even 100 different real estate platforms out there. You guys are clearly one of the leaders, but how do you differentiate yourselves? Why are you different, I mean, you have, obviously....different to traditional lenders that's pretty clear, but how do you differentiate yourself both with traditional and with your direct competitors online?

**James:** Sure, starting on the traditional side, I think when you look at us or truthfully most of our competitors as well, there's a huge differentiation, particularly around kind of the consumer experience, the way information is transmitted, everything is online, everything is easy. We reinvented this the way we want to be treated as a borrower in today's 21st century. The bank processes is astonishing in terms of where it is in today's age of apps and on demand economy so I think the traditional lenders are a very different ballgame.

With regards to our direct competitors, I think there's a couple of things. I think, we believe that our processes is the simplest, fastest and most reliable. We think that you can come online, you understand exactly where you are extraordinarily quickly. We think that, specifically for people who do a lot of transactions, we make it very, very simple and very, very quick.

I would say also as well, we are funded by institutional investors and we have very large multi-billion dollar funds behind us versus some of our competitors which are truly more crowdfunded. We don't have to wait to figure out...will there be take up from our retail platform. If you come on and when we commit to that through that short form that your loan is eligible, we have the funding for that, we have committed funding for that.

So in that regard, there is no chance that you're going to show up and the money is not going to be there. We think that's actually really important particularly versus the smaller funds that we deal with and the other crowdfunding sites where it is somewhat at the whim of the community in terms of whether that money or that particular project is going to get funded. In our case, when you come online and you see that you're eligible, we have the money to fund your loan period, full stop.

**Peter:** Okay, let's just talk about that side for a bit. Who are your investors? I presume you are just doing whole loans right now so who is investing and how many different kinds of investors do you have?

**James:** Yeah, so our investors are relatively private in that regard. We've got about 12 different investors that span a different range of categories so we have hedge funds, we have REITs, we have multi-family offices, we have a university endowment, so we have large...the combined capacity of our institutional investors is something like \$9 Billion, so we have folks that have really, really big checks behind us and they love the assets that we're originating in part because the quality has been so high and they feel really good about these being originated institutional grade capacity.

**Peter:** Right, right, that's impressive. So then you go to your website and you have the invest button on there, you go down...it looks like at some point you're going to do retail. I mean, why bother, why do retail if you've got such strong backing behind you?



# LEND ACADEMY

**James:** Good question. We think that we want to give the opportunity for this community and other communities to be able to invest in these loans. We truly believe in the quality of what's here, we think it's a differentiated product compared to what's out there in the market. Most of the opportunities for people to invest retail on other marketplace lending platforms are really unsecured consumer credit and we think the rates that we're able to offer and the fact that it's secured is a very differentiated offering compared to what's out there currently. And we think that's something that will be extraordinarily attractive to a lot of investors, particularly when we're doing things an institutional grade way that they should be able to participate right along beside the institutions and benefit from all the infrastructure we built out.

**Peter:** Okay, so do you have a timeline for when that's going to happen?

**James:** We're not releasing that at this point, but it will be in the kind of short to medium term.

**Peter:** Okay, okay, fair enough. So then let's just talk a little bit about your loan book, if you would. I know you don't, you're not making this publicly available. What can you tell us about your loan book as far as loans in good standing, what percentages, how you've been doing. You would have had a lot of turn on some of these loans, you probably have many, many completed loans. Can you give us some idea of how it's going?

**James:** We've had a fantastic track record to date, we've had a significant portion of our book that cycled through. There has not been a single loan that we lost money on and we have not even needed to put any loans into foreclosure.

**Peter:** So zero foreclosures, so far?

**James:** Zero foreclosures, zero losses.

**Peter:** Okay, you can't do much better than that. What about like volume? I read an article, I think it was earlier this week actually, that said you've already done more than \$200 million in loans and you launched just 15 months ago. Can you give us some idea about the loan volume? Is that a current number?

**James:** It's a little bit of an outdated number, but it is accurate that we are over \$200 million at this point. We're not disclosing on kind of a monthly basis, but we're certainly above that.

**Peter:** Okay, okay, that's fair enough. I want to talk about your backers just for a second because just before the LendIt Conference you made a big announcement that you just raised a \$70 million equity round, which is now three or four months ago, but you launched right off the bat with some pretty heavy hitter backers. Most listeners would know Charles Moldow from Foundation Capital, he was a guest on the podcast last year and obviously he's also a big proponent of you guys so can you talk about like who your backers are and how you've been able to put such an A-list team together?

**James:** Yeah, we've been very fortunate to have a super strong group of backers: Charles Moldow, Foundation Capital, Micky Malka at Ribbit Ventures, Joe Chen at Renren as well as the folks from Cowboy Ventures, First Round Capital and Colony Capital. We've had a tremendous group that's backed us and I think what's also really important is with each new investor they brought a very specific and very diversified perspective on how to build out a great, long term



# LEND ACADEMY

sustainable business so that's been a really, really strong value add for us as we've accumulated these backers over the last 18 months or so.

I think from Charles' perspective who was our lead series A investor, I think he looked at the category and saw it was relatively nascent. He understood and knew folks that have worked with me previously, my background and he had also backed my co-founder, Matthew Humphrey at his prior company that had a nice, successful exit as well. So I think when he saw the combination and market opportunity, the way we were thinking about the model, the size of the overall market and the relatively nascent stage of the industry, he thought that was a recipe for success.

**Peter:** Okay, then do you have a board where you meet with these people...I mean, are your investors providing you with feedback and with advice on a monthly or regular basis?

**James:** Absolutely, we're in consistent dialogue with all of our board and several of our directors and we lean on them for advice, introductions and feedback on things on a very regular basis. Part of the reason why we've chosen the folks that we have at this point is because as I said we think they bring a good diversity of perspectives and if we don't leverage those perspectives, then it's a little bit silly that we kind of have gone out and gotten them for those particular reasons.

So it's very nice with Charles from the Lending Club side of things. Micky's background is in financial services, very focused on brand, very focused on credit, very focused on building an infrastructure,

Joe at Renren has obviously seen the SoFi story as well and has been a successful entrepreneur himself and grown a company extraordinarily fast and understands the pros and cons that come with that and what pitfalls to watch out for.

Cowboy Venture guys see a lot of things that are out there in terms of technologies and Bill Trenchard from First Round has also been extraordinarily valuable both strategically and tactically.

**Peter:** Okay, okay, so you guys have...like the real estate space is a pretty wide open space, there's no household name yet. I mean, we see there certainly is no one who's got more than maybe two and a half years of track record in the online space. So you've got someone like Charles Moldow on board, who has really been a major Lending Club investor and taken them all the way through to the IPO and beyond. I mean, are you looking to follow in Lending Club's footsteps? What is the goal here at LendingHome, do you want to own the online space or do you want to just own the whole property space?

**James:** We absolutely think that we can build a very, very large business out of this and I think following in Lending Club's footsteps is a good goal for us. When we look at this we want to own the mortgage origination space broadly. We want to be the best way to get a mortgage, that's our mission and we mean that for investors, we mean that for borrowers, we mean that for brokers and agents by the tools that we give them to allow them to apply their trade as well. We want to be the best way to get a mortgage broadly.



# LEND ACADEMY

When someone is searching for a mortgage, whether it's for investment property or for their own home, they can come online, they can perform a search and we will be able to show them the broadest range of products, the best execution for them on a per product basis where they only have to apply once to achieve the best outcome for them. So our goal is to be the best way to get a mortgage.

**Peter:** Right, so let's just put on your...peer into your crystal ball if you will, because the thing that I found crazy is the mortgage process really...it's been unchanged I don't know, for decades, I'm still staggered by the old kind of process, but if I go buy a home in five years time and you meet with the mortgage broker, what's it going to take for people to think online is just the way to go? Right now, this is still a very...you're talking about, what is it a \$13/14 trillion industry that...there's no one here that has done a billion dollars so it's a huge amount of growth left, but what's it going to take to get to think online first?

**James:** Yeah, we're working on that billion dollars for you.

**Peter:** (laughs)

**James:** I think one of the things it's going to take is it's going to take someone like us to really focus on making the process a 100% online. If you think about that the way, quote, online originators are classified right now, today, Quicken, being the leading example in most consumers minds, it's not really online. They ask you a couple of more questions online to figure out how to qualify you and then they call you and most of the rest of the process is offline. That to us does not qualify as an online mortgage experience. We don't think that's truly differentiated.

Our view is that you should be able to self-serve as a borrower all the way through the process if you want. You should always have access to someone if you have questions. It could be a confusing process even though we're trying to de-mystify it and use as much plain English language as we can. We want to be available for you by phone, by chat, by text, whatever is convenient for you, but our view is that you should be able to do this process entirely on your own should you so desire and we're building out LendingHome to allow that and serve that.

**Peter:** Right, okay, so before I let you go, I want to just...you know, I was in your offices, I don't think you were there when I was in your offices a couple of months ago in downtown San Francisco. It was a little bit comical...I don't know if you're still in that same office, but there were people in your reception area, that was their space, it was incredibly overcrowded so you guys have gone from pretty much nothing...to I think there was about a hundred people in that office. Tell us about your footprint in San Francisco and how big you are.

**James:** Yeah, we continue to keep growing so as we're rolling out to more states, I think we're in 22 states right now, we continue to expand. We're investing a lot in our infrastructure to make sure that we have the capacity to support growth, make sure we maintain a great customer experience and build institutional quality tools that allow us to scale, both in the investment space as well as in the owner occupied space. As we do so, that's where we're putting the



# LEND ACADEMY

capital that we've raised to make sure that we're building out the mortgage originator of the future.

**Peter:** Right, okay, fair enough, fair enough. One final question, do you think we're getting to the stage that...going back to that crystal ball...is this going to be something that people are going to do on their phone one day, I mean, where...the tech is coming a long way, but the customer of tomorrow...I mean, you talk to anyone who is in there teens or 20s, the phone is their primary computer, that's the thing they use the most. Can you just talk about how your planning your road map and sort of moving into the future with that in mind.

**James:** Absolutely, we've already taken our site and optimized it to be kind of mobile native to allow folks to search online. We continue to look to improve that process and make it easier and easier for you to apply all the way through your phone, but already today if you're at a property and you want to understand whether or not you could get a loan on this, you can go to [lendinghome.com](http://lendinghome.com) on your phone, type in the information and in about three minutes while you're sitting at the property, figure out exactly what your rate would be and actually start the application process right there on the property. So we also believe that that is a big focus of the industry going forward and particularly as today's consumer gets more and more comfortable with mobile. That's a big opportunity.

**Peter:** Okay, well on that note I would like to say thank you very much, James. It has been fascinating. You guys certainly have an interesting company and I wish you all the best.

**James:** Appreciate it, thanks for taking the time and having me on.

**Peter:** Okay, see you.

There are a lot of exciting opportunities in the lending space, there's no doubt about it, but, by far, by far, the largest opportunity of all is the real estate space. You're talking a vast majority of lending done in this country is done in real estate transactions. So as I said, there's no company that is really dominating it. I personally have just been very impressed with LendingHome. I think I'm more impressed now than I was half an hour ago and I think they are a company to watch.

If someone can crack the 30-year mortgage market doing it online and doing it to a broad range of investors then they are truly going to be a large company. The 20-somethings of today, the teenagers of today, they do not want to buy a house the way their parents did it. They don't want to take out a mortgage that's not going to be an online process, they want it to be all online.

LendingHome is already there, they have a great opportunity, I think, to create one of the largest real estate companies in the country and they're only just getting started, obviously, but they have a lot of runway that's possible. Now, obviously, it's a competitive industry. There are others vying for the same market, but so far, LendingHome has shown they are executing extremely well.



LEND ACADEMY

On that note, I will sign off. Thank you very much for listening and I hope you enjoyed the show. I'll catch you next time. Bye.

(closing music)