LEND ACADEMY

PODCAST TRANSCRIPTION SESSION 50: JAMES GUTIERREZ

Welcome to the Lend Academy Podcast, Episode No. 50. This is your host, Peter Renton, Founder of Lend Academy.

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Peter Renton: Today on the show, we have someone who's a little bit different. James Gutierrez is the CEO and Co-Founder of Insikt, that is I N S I K T, but it's a Swedish word which he gets to at the end of the show and why his company is named that way. Anyway, he has created a company that is pushing the envelope in many different areas. He coined the term "Lending as a Service," and he's really put a stake in the ground saying this is really going to be the future of marketplace lending and he is going out and helping to create that future. But he's not just lending as a service, he's got a whole bunch of offerings for investors, he does some unique things with Lending Club and Prosper loans which we're going to get into. He also has a whole bunch of research and analytics tools for investors. So we talk about all of that and more. I think it's a fascinating company and I hope you enjoy the show.

Welcome to the podcast, James.

James Gutierrez: Thank you, Peter, I'm very happy to participate.

Peter: Okay, so let's get started. I mean, you've got a bit of a different background to many of the people that I speak with. This is…you've been around this industry longer than most, you've got a successful company under your belt that I think is either about to IPO or has, I can't remember where it's at, but, anyway, why don't you share a bit of the background about yourself, what you have done before Insikt.

James: Sure, thanks, Peter. You know I grew up in Southern California, Latino family neighborhood and my parents always stressed the importance of giving back to the community. When I was younger, I witnessed a lot of family members and people in the community who were very hardworking, but they didn't really get a fair shake by either the kind of system we have in the US, the division of, do we still have the American dream and is it available to all?

I think it has been a bit challenged and particularly when you see people working three/four jobs, care about the American dream, providing for their family and I felt like there's some level of social injustice there unless that gets fixed. So I went on and went to...I was undergrad at Yale, went to Stanford for business school. When I was at Stanford, I started thinking about this a lot and I felt…hey, I want to start a company that solves this problem and gives opportunity more broadly and access to opportunity to people in America.

I then read a book by Muhammad Yunus and how he had built this innovative micro lending model in Bangladesh and that spread to other countries and I was inspired by that and thought, you know, I'd love to figure out if we could bring that to the US and also how to solve this unbanked problem because when I thought about access to opportunity, it matched up directly to access to capital.

You know, if people in our communities, in this case the Hispanic community, has more access to capital, we have a better opportunity to build wealth and move up the ladder and get the American dream. So that meant a lot to me and it was very personal and I thought about Jose, and Maria, who in this country as they did more research, found that if you don't have a credit score, you really don't have a face. I thought not only...can we figure out access to capital, but we're also really giving people a financial identity in the US if we could figure out how to help them build credit.

So I formed a research project when I was in business school and that project ended up turning into a company I founded called Progreso Financiero. So my background is…ten years ago, I had no experience in consumer banking or lending, but I embarked on starting Progreso and that was...really what got me into this whole space so now I'm the CEO and Founder of Insikt, but that's a bit about my background and how I got into it.

Peter: Okay, so let's just talk a little bit about Progreso Financiero before we move on. Can you just talk about...like you said, you didn't really have any experience in consumer lending and here you're lending to people that most financial services companies would think are a highly risky population. How did you approach that and what did you do that others wouldn't or couldn't do?

James: Sure, yeah, you're right, that's the number one challenge we're facing. As I did research in business school, I figured out that there's a data problem here, there's a lot of people in America that are part of this credit invisible where they just don't have a credit score or they don't have sufficient data in the credit bureau and so the challenge is it feels risky, can you really underwrite them, are they really going to be good credit? Going into it, I felt that our community, the Latino community...while they may not have formal credit history, they have what I used to call a lot of high moral collateral, they did not have formal collateral, but they had moral collateral so how could we figure out how to draw out information about them that would prove that they would be good credit.

So when I graduated the first thing I did was I said, okay, I need to go test that people actually need credit. There was a lot of data about the unbanked, but there wasn't really data about providing a credit product being the solution to solving the unbanked so I told the professor...hey, I just want to set up a booth inside a Latino supermarket, flip open a laptop, put up a Progreso banner and start taking applications and seeing if people need credit so I did that.

The first store was a small supermarket in San Jose called Super Mercado Mexico and we set up a booth and you can imagine Mexican music playing and lots of families coming in, a lot of people...ex-MBA sitting with a laptop there in front of the cash registers. For a few days nobody applied, everybody kind of looked at me like what's this guy doing and then over time I had the actual teller, the woman who worked at the cash register kind of felt sorry for us and so she said...what are you doing and I'll apply.

Once she applied then we started having a lot more people come to us. What we found out very soon as we did this really long…imagine an eHarmony-like application, but for credit, for a small loan, for like a thousand dollar loan and we came up with a very simple structure. If I could explain the loan to someone who didn't have a lot of financial education, but it made dollars and cents for them…it made sense from a dollar and cents perspective for them then that was a win.

So we came up with…hey if I lend you a thousand dollars and you can make a payment of $60 every two weeks and you could do that for ten months, you could afford $60 and we'd ask people...can you afford a $60 payment? They say, yes, I can do that. If you can do that, I can lend you a thousand and after ten months you'll pay me back $1,200. That's 20 payments x $60 = $1,200 and I would say, so if we lend you $1,000, you'll pay us back $1,200, what's your cost? Then they would look at me and say...that's $200 and I'd say, you're right. So $200, that's how it works, we lend you $1,000, pay us back $1,200, it's very simple and that was really the key to our success is making the product extremely simple.

I would then explain the loan had a 36% APR and initially customers kind of…their heads would jolt a little and say, well is it still $200? and I say, yes, still $200 cost. What we learned there was that in this market people really cared about the dollar cost of their loan and APRs were important, but they knew that getting a price of $200 to borrow $1,000 spread over ten months was a really good deal.

Peter: Right.

James: And I was able to break down that, look…they knew there were other forms of credit that cost them 400% or much higher cost and they also cared that they could build a credit history. So we had a lot of people apply who said...I just want to build credit and that's why I'm here. I don't actually have a need for $1,000 yet, but I want to build credit because I know it's important. So that's kind of how we got started and to answer your question about the scoring and underwriting, like I said we asked this eHarmony questionnaire just because we didn't know which questions would ultimately stick and which answers that would be predictive down the road and so we did that.

I kind of lead that process in the beginning and then I knew that one day we would have enough funding and we'd be big enough where we can hire some ex-CapOne type folks to come in from the credit card industry and make sense of all this data and build much more of an automated big data type algorithms to how we underwrote. But in the beginning it was very basic, it was all about can you afford the loan, do you have enough income relative to your expenses and let me ask you 30 minutes of questions. That really was our R&D for what ultimately became a more robust model on how to score people.

Peter: Fascinating, that's an interesting way to get started. So just to close the loop on that…Progreso rebranded to Oportun and have they gone public yet or they're about to go public?

James: I don't know, I've heard a lot of rumors. There was a Wall Street Journal article. I've heard that they are in registration, but that's all that I've heard. I don't have any other inside knowledge, but I've heard in the street..I know that the company has been successful. When I left it was several tens of millions of revenue and I know it's now in the hundreds of millions. I'm proud of what we built, I had no experience in consumer lending, but seven years I was the CEO and built it up to a very large business.

I think when I left we were close to 200,000 active borrowers. We originate like 20,000 loans a month so we had a pretty big book of business. I'm very proud, we changed a lot of lives, transformed a lot of lives and Oportun as it's now called has a great heritage in history and we were able to hire some of the best and brightest people to help us build that early success which now they've been able to scale it even further.

Peter: Right, so let's just move on now to Insikt. You started this after Oportun. Just tell us exactly…well, firstly, why you decided to start it and what is Insikt exactly, what does it do?

James: Sure, so why I started...so when I left Progreso, I thought, you know...when I started Progreso, as I mentioned, I knew that there's this big gap in terms of opportunity in credit in America and I specifically applied that to my community, the Latino community I grew up in. I wanted to make a difference there, but as I was building Progreso I realized...and really after I left that with the onset of all the regulation in the banking community, the market just got a lot bigger.

Basically, the number of people who in this country would have a hard time getting credit from a bank just quadrupled because Dodd Frank, the Credit Card Act, all the ensuing regulation just made it a lot harder, whether that was mortgage, consumer credit, unsecured personal loans…just made it a lot harder for banks and all the capital requirements to be able to lend specifically if you're talking about everyday Americans, hardworking folks who may not have the best credit histories or may not have any credit history coming out of the crisis they are going to have a really hard time. So I thought, hey, I really care about helping every one, not just the Latino community, but expanding this to everyone and this is just a bigger opportunity and it's a bigger need, but how do we go about building something like that that scales a lot faster than what I had done before and with a lot less cost, how can we use more of a technology approach to the future.

That's how Insikt was born so Insikt was born out of kind of a realization I had. Because banks are going to have a hard time providing this credit and this capital, I think big brands in America are going to step forward and say, you know what, this is my customer, I care about them, I want them to have a great experience and they have a need and I'm going to step in and try and fill that need. That need is credit and so I believe that, hey, the transformation that we're going to see is that brands are going to start being the lenders of tomorrow and not banks. So I thought, how do we build the technology that can help power that transformation and really that is what Insikt is about.

So at it's core, Insikt is a...we provide a white label loan origination platform, we call it "Lending as a Service" that brands can use so we can help them make loans to their customers. The other side of Insikt is I also think that there's millions of people in America who want to be part of…who are principled investors that want to be part of helping this problem in America so they want to be part of getting capital out to communities who need it the most so how can we create an investing product for them, that's an everyday product, and open that up for them to invest in. So those are the two sides of what we're doing at Insikt. We're enabling brands to be the lenders of tomorrow through this "Lending as a Service" approach in technology and we're also allowing more people in America to be able to invest in those loans made to those promising individuals that we give loans to using kind of a securitization model.

Peter: Right, right, okay, so let's just talk a bit about that "Lending as a Service." You're the one that really coined that term, it's been used quite a bit this year and there are many people, myself included, who think that this really is the way of the future, particularly when it comes to brands or even smaller banks, what have you. Can you just describe and I know you talked a little bit about it, but just go into a little bit more detail with...if I am a major brand and I want to… maybe you can provide an example...if I'm a major brand…why should I go to you instead of maybe partnering with like a Lending Club or a Prosper…those companies obviously have all sorts of different partnerships, why go through you and really have this white label solution? What advantages does it give?

James: So number one, on the "Lending as a Service" model, I think it's powerful because companies...they already have customers, they have data on those customers and they want to try and use both of those to open up credit, but they want to do it in a way that keeps their brand intact and it's clear that they're offering it to the customer and it's just powered by someone else. So, I think that's the first thing we do.

Our program is fully white label, meaning that when the customer...it's meant so there's no brand conflict so when the customer interacts with that partner, that partner doesn't have any risk of losing that customer and they know that they're building loyalty and brand identity with that customer for all of their products, this being the new product, but they're really thinking about if it's a consumer brand, lifetime value and loyalty and retention. So we're very focused on making sure we're powering the brands that already exist and we want them to be more successful with their existing customers.

The second thing that I think makes us different is who we focus on. I think that...since you mentioned them, Prosper and Lending Club, I think they're great models, very innovative companies and they've stuck out a focus on the prime/super prime segments in America, I think they're good at what they do. We have a specialty that's really working with brands that know that their customers are harder to approve and they know that banks have a harder time approving them. They know that some of the leading lenders in the country will have a harder time approving them because they are customers who don't have as much credit history or have poor credit and so they need to find a partner that can still prove they're a customer, but also give them a noble product. So I think they're also quite keen on making sure that the end product that the customers get is one that's empowering, that's noble, that reports credit, that meets a lot of the new standards that are being set on lending and can make them feel like proud of what they're giving their customer.

Peter: Right, okay, no that makes sense, I get that. Firstly, when did you really launch this or have you launched it yet, do you have any clients as of today using your white label service?

James: We do, we haven't been as public about it. As you know, Peter, but we have five partners, brands that are in market. Our first partner we launched almost a year ago, we spent a lot of time building technology because I think, you know, just to add a third point of what makes it different is…I built a company before that was a consumer brand and you're very focused on supporting everything around reinforcing that. When you have to build a company that's more of supporting someone else's brand and customer experience…I think the way you build the technology is very different. The way you build your scoring, the way you build kind of the whole company and so I think it would have been very hard to have done this, at least speaking from my prior life, in that context, so in that regard I think we've got something that's quite unique.

To answer your question, we have five partners that we are currently powering. We have made thousands of loans, thousands of credit applications have come through in a short period. We're very excited with the growth, we've been kind of uniquely focused on making sure our partners are successful so we spend a lot of time doing that. We probably, as you might be indicating, you should spend a little bit more time talking about what we're doing and who our partners are because we certainly want to bring in more, but, right now, we kind of focused on...hey, let's build an initial platform and let's really listen to our initial brand and partners and make sure that we're building software technology and the approach that works for them.

The nice thing is we always give them an a la carte menu so we say, look, one of those things is we can be the licensed lender, we're the balance sheet, we'll fund all the loans, we're doing all the technology and processing, we will hand all the payments so there's like this long list of a a la carte menu that they can have and we always tell them...you can hit select all or you can kind of go in and check off the things that you want to do.

So I think one other aspect that makes us different is it's very flexible. We found some partners who actually want to have more equity or skin in the game in the program. They kind of want to make it more JV-ish in how they structure it. We have the flexibility to do that as well, we have the flexibility to take things off the list if they, for example, want to fund the loans. You know, I think, one thing that makes it different though is we are willing to do the balance sheet and take all the risk and so far when we offer that up, I don't we've found anyone who has objected as I think most brands don't want to be in the balance sheet business.

Peter: Yeah, right, that is understandable. So who are funding the loans ultimately? Do you have a credit line, do you have a bunch of investors you work with, who is on the other side of this transaction?

James: Yeah so I was on a panel yesterday with Aaron Vermut of Prosper and I think he said it appropriately...you know, marketplace lending is really about how you fund your loans and having more than one kind of provider and trying to build a marketplace of investors. So to answer your question, we believe in that and I think really what Prosper and Lending Club started is tremendous innovation on how you have the law of large numbers and kind of have multiple parties funding loans and you reduce risk by having diversification.

The one thing that makes us different is instead of having investors buy whole loans or invest in fractional interest of loans from us, we think in the long run they're going to have lower volatility, outcomes, losses, higher certainty of certain coupons and yields by structuring everything as a securitization so all the loans that we make, we pool them together by partner and we securitize those and then offer…we're effectively then selling bonds and having investors buy into those bonds. We still want a marketplace of investors, we just think that the product they buy at the end of the day is a bond and not the underlying loan.

By pooling loans you get more diversification, you take out the kind of outliers, etc. And then they also get skin in the game as we are investing at the bottom in the equity of all the pools that are being securitized. They know that we're aligned with their outcomes. I think coming back into your specific question, so when we make loans we do use credit lines. We have over a hundred million of credit lines that we've secured from various parties and when we think those loans have seasoned long enough and we feel very comfortable about the direction of those loss rates, we then securitize them to a marketplace of investors.

Peter: Right, I want to talk about that for a bit because this is a pretty unique thing that you're offering to the community. You go on to your website and you have your Insikt market where right now there's a bunch of Prosper loans...they're pools, I guess, they're not loans...pools of loans that have a certain age and a certain coupon. Right now, it looks like you're only offering Prosper and Lending Club, at least publicly on your website, so I guess…so let's back up let's just talk a little bit about what you're offering, who you're trying to target when it comes to investors. Are these individual accredited investors? Are you trying to target funds? Particularly just start off with your Prosper and Lending Club loans that you have on your site right now.

James: So the idea is to make securitization done the right way so what you're seeing on our website is…I think criticism of securitization of the last crisis is…some people didn't know what they were buying, they didn't know what was...when you book through the bond that you're buying, what are all the loans that are collateralizing that bond and what the quality of those loans and how do they break out, how are they performing.

So just one thing on our website, as you've mentioned, if you click on our "Market" page, if you click on any of those debt securities and you click on those, you'll get to all of the underlying loans that are collateralizing that bond or trust certificate and that, effectively, we think puts a lot of the practices that were done before on its head and says...look, we believe in a hundred percent transparency, trying to make this simple, but giving people loan level data so that's really important to us.

In terms of Prosper and Lending Club and who we're targeting...so we're targeting individual accredited investors, Peter, we also realize that there are a lot of funds who are also interested so it's institutional and getting a portion of those 9 million individual accredited investors across the country. The thinking there is currently in the securitization market you have the same hundred to two hundred buyers, they're very large asset managers, insurance companies and they always show up to buy into all securitizations.

There's really no distribution that's been built or established…tens of thousands of other investors in the country and globally who are sitting in a similar position saying...look, I have X% of my assets in cash and in treasuries and I'm earning nothing, or I'm earning close to nothing, but I feel good about it because I've got the security of knowing I'm not going to lose my principal really, but is there anything else I can invest in that...I care about two things, I feel like the risk is mitigated, I feel like there's...it's short duration so it's very short.

If I have to hold this bond or security to maturity, it's not going be thirty years, it could be one year and I feel comfortable doing that, taking one year risk. Also, I'm getting compensated in a way that's significantly different from anything else in the market. We have what you're seeing on our website, we have trust certificates that pay a fixed coupon so they act like bonds and you're seeing coupons of 4% to 12% and those durations are going to be between one year and two years. So you kind of look, well what else can I buy that is that short of duration that's giving me that kind of coupon and yield and you'd have a real hard time finding that.

So we believe that need coupled with the need to be principled and say...look, who are these loans ultimately going to? Am I helping America, am I helping people move up the ladder and if I can do that plus achieve my financial and investing objectives, this is a great new product. So we want to open that product up to all of the accredited investors, family offices and also some institutions across the country that currently, securitization is not an everyday product, investing product. We want it to be, so that's our vision.

Peter: Okay, so what's the minimum of an investor…if an accredited investor is listening and they want to give this a try, what is the minimum you will take?

James: Yeah, sure, historically for us, it has been $50,000. I think we may move that up to a $100,000, but, historically, we've had $50,000 being kind of minimum and there's two things investors can do. They can buy these trust certificates directly or they can...we also set up a family of funds so we now have a family of Insikt funds that investors can invest in those funds. You can think of them as like index funds and those funds will buy across all of our securitizations. We had a couple of investors tell us...look, this is great and we understand in the future you want to be doing a securitization a week so that's a new issuance of bonds or trust certificates that we can buy, but, you know, I've got a busy life and it's going to be hard for me to log on and I want to participate every week. Do you have kind of like an index fund that I can invest in, put more capital in and then that fund can invest me across all of the securitizations according to a specific strategy. So every securitization we do has kind of three tranches.

There is a senior tranche, which is the lowest risk of the three and then there's a junior tranche which is the mezzanine and then there is the final tranche which is the equity and we the company are always the equity owner and if there's any impairment in the collateral and ultimately in the bond, the equity would lose the money first followed by the mezzanine and the senior so the senior and the mezzanine have more protection knowing that there's equity below them. The senior has protection knowing there's mezzanine and equity below them. So those are the two securities you can buy, the senior which we call the Class A and the junior the Class B and we have funds that will only buy the A or only buy the B.

So far, that's been a good strategy. If you want to dial up or down risk return you can look between the A and the B and get a fixed coupon. Our website shows all the cash flows of all the prior bonds and how they're cash flowing every month, how they're paying interest in principal. You know, all the information is online, you can go and check out our funds, you can see exactly what the yields have been, how many securitizations, you can see all the master servicer reports. The goal here, again, has been 100% transparency. How do we bring that as the norm to do securitization the right way. So that's what we've been doing.

We started with Prosper and Lending Club and they've been great partners with us. We have some great risk people on our team, we said...hey, you know, until our white label starts to really build, we want to build this securitization marketplace. In partnership with Prosper and Lending Club we've been able to selectively find loans there, buy those loans and securitize those loans through our platform to give investors an early proof of concept as to the kind of opportunity they would have. Our goal is to help investors do well now, make money on those underlying loans, be happy with the risk return and all the reporting that comes through our website. Then what we will have coming starting probably by mid next year, we'll be doing our first securitizations of our loans that we're making through our "Lending as a Service" platform.

Peter: So you said...when did you say, middle of next year did you say or when do you think?

James: Middle of next year, yeah. What we want to do there is we want to give those loans more time to season and just to be really sure about loss rates. We've got our own kind of equity invested in all of our securitizations so we want to make sure. Most important thing for us is to have, a reputation for high quality assets.

Peter: Right.

James: We did that at Progreso, we built an incredible risk result, an incredible story and reputation around underwriting so we want to make sure that anytime anyone buys anything from us they have a good experience.

Peter: Right, that makes sense. So before I let you go, I want to just talk about your...also on your website is this MyCRO product and you've really done a lot of work here in providing, just basically statistics, charts, information for investors. Can you just tell us a little bit about what the goal is with the CRO and what actually MyCRO...what it is?

James: Absolutely, we're very proud of this. So when I was running Progreso/Oportun, we had a whole team of analytics and risk people that every month would cut what you would call, inside the lending side, a loan tape so all the loans that you've made...at the end of every month you're looking at all the borrower payments, etc. and you're taking that data and you're producing graphs on loss curves, so you're looking at your cumulative loss curves by vintage so you're like, hey, how's May 2014 performing and every month that's outstanding is an additional month on book.

So you're starting this graph...is that heading for an 8% loss rate, is that heading for a 5% or 10%? and is June, the month after May, is that coming out lower than the 8% that May looks like it's heading to and if so it looks like I'm getting better, right? And so you really want a lot of good analytics at the end of every month as to how things are performing, but you need to kind of graph things in a way to then make it digestible. As we're seeing there's a lot of information out there about loans and kind of general information about loss rates, but no one has really digested it in a way where if you had your own internal risk team, you would do for internal reports.

So MyCRO means My Chief Risk Officer and so what we want is we want that to be a brand that stands for...hey, if you had to have your own chief risk officer and team, you know, take these loan tapes and turn them into graphs and digestible information so that you can evaluate risk and loss performance and you can understand the credit and how risk is performing much easier with the click of a button and then you can go and click through…well actually I want to see first payment default. So the loans that I just made last month I want to see how many of those have missed their first payment.

I want to look at 30-day delinquencies, I want to look a little bit earlier in the life of my more recent loans or I want to go back all the way to 2008 and see how did the loans perform during a crisis and how bad did things get, I want to go...I want to compare that across platforms. Those are the kind of tools that we wanted to enable folks to have back to this theme of 100% transparency. Right now, we've got in MyCRO...we've got some nice compliments from our partners about this at Lending Club and Prosper, but we've loaded a lot of their data, we know a lot of their data, it's all publicly available and there's a lot of other sites that have kind of taken a crack at trying to present that in a way that's more meaningful. We took a crack at it from...hey, how do guys who manage risk think about this and what do we want to see and that's what MyCRO is.

So we're very proud of that and I would encourage everybody go take a look at that. In the future we want people to be able to upload their own loans and use MyCRO as a tool that helps them at the end of every month keep track of performance. We think this could be a tool for the industry as well. There's a lot of investment banks who are making warehouse lines and are also doing securitizations for issuers of loans and they have to do this process every month with a team of analysts and we think we can be the source and the go-to source for the industry for that.

So that's what MyCRO is and then MyCIO, since you mentioned, is kind of the opposite of that which is my Chief Investment Officer and that's meant to keep track of…if you bought the bonds, because the loans are covered in MyCRO, how are the underlying loans performing. Including in MyCRO you can see all of our securitizations and you can track...okay, if we said the securitization was going to have what we think was an 8% forecasted loss rate after 36 months on a cumulative loss basis, are we on track…you can also plot in MyCRO the actual versus forecast in a graphical way, in a way that makes it really easy. If you bought the bonds and you just look at that graph and you know the actuals are right on track with the forecast then you don't have any reason to worry about any impairment in your bond and you can go on about your day.

So MyCIO takes that and says...okay, now let's look at these bonds and let’s look at what they're yielding and let's also do a red light/green light display to say, okay. If there is a problem in the underlying loans, I'm going to see a red light, if it's yellow it's somewhere in the middle and if it's green, I don't even need to worry about it. So MyCIO kind of looks more at the cash flows of the bonds and looks at the yields, the returns, has all the master servicer reports so MyCIO is more of…if you buy, if you're an investor in our funds or any of these securitizations, you're going to start with MyCIO and there's a great dashboard there, but then if you ultimately want to look through and get down to the details of how the underlying loans are performing then you go to MyCRO.

Peter: Okay, that's fascinating. I'd love to delve into this a lot more, but we're pretty much out of time. Just one final question before I let you go. You've got a lot on your plate here, it's pretty clear that you're really doing a lot of innovative stuff. So I guess what I'm curious about is where do you think your company is going when it comes to...is "Lending as a Service"...is this something that we will see in five or ten years time? Will this just be every like...all the major brands are doing it, everyone is doing it. I know you’re obviously...you're very bullish about it, you've spent a lot of time doing it, but I'm just curious to know what you think. Do you see this as a niche play that is really going to have a decent market, but it's not going to like transform or do you really think that Insikt can be a multi-billion dollar company that's really a huge part of the lending landscape and "Lending as a Service" is going to be something that everybody does?

James: Well, Peter, I think this is going to be massive. First of all, I think because of all the change in regulation to start with, non-bank lenders are going to rule the day because it's going to be harder for banks to provide capital so I think the whole surge and alternative lending...I think there will be some winners and losers, but overall, this space is just going to continue to grow. As part of that, "Lending as a Service," I think is the future because there’s…everyone is fighting for channels of acquisition of customers, cost of acquisition is probably going up across the industry because of all the new entrants and "Lending as a Service" is a way of empowering someone else to get in front of that customer who already has a relationship, who already has the data and they want to be part of the solution and we're seeing that.

We're being approached by a lot of companies who say...you know, that's what we want, we just don't want to be in the balance sheet business, we want to outsource these parts to you, but we want to be able to be part of this solution. I think that is the next wave so can that be billions of dollars plus? Absolutely, our goal is we want to have access to thousands and thousands of locations across the company and millions of customers through our partners…really focused on the segments I mentioned earlier.

The question I always get too is well where do the banks play out in all of this? Frankly, we think the banks can be part of "Lending as a Service" as well. As you know, one thing we've just announced that we're very proud of is, we've partnered up with BBVA Compass Bank. BBVA made an investment in our company and we partnered up with the bank that they have in the United States called Compass Bank which has been very successful, has almost 700 branches and we've announced that we're doing a partnership with them where we're live in several of their branches. They're using our platform, their bankers and their stores are using our platform to make loans to their customers and give them a very responsible small dollar loan.

That, I think, gives you a signal as to what the future is going to be about. Not only will there be brands partnering with "Lending as a Service" models like Insikt and I think you've seen Kabbage, I think you've seen a few others announce…kind of some white label partnerships, but I think also banks are going to be doing the same thing and banks are going to be partnering with innovators to make sure they're serving all customers.

We're very proud to be powering that transformation and when we get into thousands of locations and we're powering lending across the landscape where customers are touching us at different points and they find out that we're powering all that lending, I think that's absolutely multi-billion and something that...we named our company Insikt...I am not Swedish, it's a Swedish word, my wife is the Swedish one, but it means "insight" and that is because as we have all these locations and distribution and partnerships we're getting tremendous insights on the credit data that we can use that to power more and more partnerships. That's the network effect and I think that's multi-billion.

Peter: Okay, it's a fascinating idea, you've got a great company there, James. I very much appreciate you coming on the show.

James: Thank you, Peter, we appreciate it as well and I look forward to working with you in the future.

Peter: Okay, thanks, James, see you.

I know we've gone over time, but I certainly didn't want to cut James off there at all. That was a fascinating conversation and I think they're doing so many interesting things in so many fronts. The "Lending as a Service" piece is very compelling and on the investor side what they're doing…they're doing things that no one's ever done, no one's created these sort of bond-like instruments that is available just for accredited investors. You can choose your coupon, you can choose your duration and away you go. That's different, they are certainly a company to watch. I am glad we were able to get James on the show. We've been trying to get him on the show now for almost a year, but certainly I think lived up to my expectations. Hope you learned a great deal.

On that note, I will sign off. Thank you very much for listening and we will catch you next time. Bye.

(closing music)

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