Podcast Transcription Session 65 : BRIAN WEINSTEIN

Welcome to the Lend Academy Podcast, Episode No. 65. This is your host, Peter Renton, Founder of Lend Academy.

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Peter Renton: Today on the show, I am delighted to welcome Brian Weinstein. He is the CIO, the Chief Investment Officer, at Blue Elephant Capital as well as a Co-Founder. Blue Elephant has been around for a little while, they have been investing in this space, they are an investment management firm totally focused on the lending space. Brian has a fascinating background coming out of BlackRock for many years and I wanted to get him on the show to talk about what he is hearing from investors and also his perspective on the news and how he feels this is going to impact his business and the industry going forward. It was a fascinating interview. I hope you enjoy the show!

Welcome to the podcast, Brian.

Brian Weinstein: Thanks, Peter, thanks for having me.

Peter: Okay, let's just start by giving the listeners a little bit of background about yourself, where your career has gone up to this point?

Brian: Sure, well currently, I am a Co-Founder of Blue Elephant Capital Management and the CIO. We are a direct lending fund or family of funds; part of that is marketplace, part of that is different, we can talk about that later.

As far as my career, I was…I should say born and raised at BlackRock, I spent 17 years there when it was a small firm at 150 people to 13,000 when I left in the middle of 2014. Before I left, I ran Institutional Fixed Income so I got to oversee about $300 billion of assets and really be the lead asset allocator over a pretty significant fixed income portfolio and that's really where I cut my teeth anyway. I was there from an intern, started an inflation business, got to run a global business, got to move to London and then in London a bigger business before I decided to go and do something out on my own.

Peter: That's really interesting because…I mean, BlackRock, I think they're now considered the world's largest asset manager and when you joined there were 150 people. I imagine they had just a tiny fraction of the assets that they have today.

Brian: Yeah, no one knew who they were. I used to have to explain to people that we weren’t Blackstone and why I didn’t go to an investment bank so obviously, times have changed.

Peter: Right, indeed they have. Everyone knows their name now.

Okay then, let's just talk a little bit about Blue Elephant, what is sort of your investment philosophy and how you invest your clients' money?

Brian: Yeah, the partners, if you look at the way we founded the firm, are…from the buy side obviously at BlackRock and two other partners are from the sell side and we've really gotten to watch two really distinct things happen. Obviously, everyone knows the story about banks being regulated, banks kind of being disintermediated and taken apart from the inside and made uncompetitive in some ways so I won't tell that story. I think people generally know it.

On my side, on the asset manager side....I got to see a lot of what I call the commoditization of fixed income. In other words, when I started fixed income it was hard to trade, most people didn’t really know what it was, there were certainly no ETFs, you could trade it in mutual fund form, but it was considered illiquid and as liquidity came into the space, yields and central banks came in and sovereign wealth funds have really driven yields to effectively zero, or negative everywhere. Fixed income is now liquid, but it has very little value.

When we looked around at the world and said, well, people need fixed income, you need a product that gives you real income and you combine that with the bank opportunity with the banks stepping away in certain places, we really approached the direct lending space here with the view that there are lots of ways to create income so long as you don't mind having some illiquidity that goes along with that.

Eventually, we approached the space is the same way we approached my BlackRock fixed income portfolio. When you run a couple of hundred billion of fixed income, you can't trade it around. What you buy, you have to assume at some point you will own it, you will be stuck owning it because the markets tend to cease. So basically, I have a long term view on the economy and have a view of where we're going. That directs kind of our diligence, we look for loans of certain quality at certain times, we will go anywhere on quality.

Right now, we're focused more higher in quality and we’ll basically build a portfolio that we see as being able to survive the next business cycle because if you’re going to hold these loans for on average around two years and then we'll redirect or reinvest towards wherever as the view changes, we'll change our asset allocation as prime goes on and with the cash flow that the bonds themselves create.

Peter: Okay so then, do you have multiple funds then, can you explain? Is there a different approach with different funds? How does it work?

Brian: Yeah, we have two funds. The original fund, the Growth in Consumer Fund is entirely for onshore investors and considered for tax purposes a lender not to get technically boring, but that’s the truth and it has leverage.

Our second fund is called the Blue Elephant Peer to Income Fund. That fund is for offshore and IRA type investors. At the moment, it has no leverage and it is not considered a lender so that's why it's appropriate for those investors...it has a similar asset mix to our Consumer Fund but it does not have any leverage applied to it so a slightly different risk profile although the same underlying philosophy.

Peter: Right, okay. And so how much leverage do you have on the other fund?

Brian: Our fund is, it's an interesting question so we can run anywhere from zero to three times leverage. We've run its high last year, we got into the actually the high two's, we came pretty close to maxing that out. We've brought our leverage down. Our leverage ratio for last month was under one and a quarter.

Peter: Wow!

Brian: So we are running at the lower end of our historical leverage on purpose as I think people are starting to see the risks in the space and have started to...I think be skewed against us and that's changing again, but we brought down our leverage over the last year and a half on purpose.

Peter: So you made the decision...sounds like a while ago to start bringing that leverage down. Was that due to macro economic conditions that you saw or what?

Brian: I think there's two pieces to it. One is certainly macro. We believe that we're later in the cycle than most people do although it's become a bit more of a common view over the last kind of six months. We had that view a while back and you can see it in the part of the deterioration in credit and more broadly, I think, is just macro economic.

The second and this is more topical. As you can see with some of the more recent noise in the market, I think there had been too much focus on growth at any cost. Our view is that that was going to impact the ability of some platforms to make quality loans. Again, now that shifted too so we brought down leverage for both reasons, risk-reward I think it just generally turned against marketplace loans for kind of a period of basically the last year.

Peter: Right, okay so let's segue into that. I know that people are still very interested in what you've got to say about...you are deploying capital. I mean Lending Club is one of the platforms that you have deployed capital to, correct?

Brian: Actually, interestingly we have looked a lot at Lending Club and we have Prosper loans in our portfolio.

Peter: Interesting.

Brian: But we do not have any exposure to Lending Club though we know them well and it was not because of any prediction. We actually think that their loan quality is very similar, we just happen to have gotten better access historically from Prosper, but certainly we never predicted Lending Club to have any problems like they've had.

Peter: Okay, okay, so that makes sense. I obviously would like to get your take on the Lending Club news and what you feel like it means for Lending Club as well as the industry more broadly.

Brian: Yeah, it's a great question and I'll caveat it by saying, I'm going to assume that we might not know all the details, but that there was no deep fraud or touching of the data or, you know, no more kind of benefitting one investor purposely over another. Obviously those things are game changers so we just kind of keep in mind what we know...I think what's interesting is that it's a culmination and, again, I wouldn't have predicted this culminating in this way, I think it's a culmination of focus on growth as opposed to loan quality.

My take on it is that up until the moment that this happened things were changing. People already noticed that the more volume that some of these marketplace lenders did, the worse the quality was getting, that it was hurting the investor. I think most people who know the industry know that there are some issues with disclosure or too many relationships that existed that should not. We've tried very hard and our policies...we have no personal investments that conflict in any way with our investors because we're fiduciaries…at BlackRock If I learned nothing else it's that when you touch someone else's money if there is any question about your motivation, they're going to take that back so you have to be a fiduciary above all else.

I think what the Lending Club news highlights is that if you're going to be a lender raising capital and the ability to deploy capital is fantastic, but if you can't deploy that capital into quality loans, you won't survive. So I think as I said, if you look at the last couple of months, what have Lending Club and Prosper have been doing and others, they've been tightening their models, they've been increasing lending rates.

And especially in Prosper's case, they've been doing less volume. Capital had become much harder to come by and, of course the Lending Club news kind of really drove all those points home and caused more capital to flee which is not a good thing. Again, I don't think it will last forever, but what it means is we've refocused these lenders on lending and I think it calls into question the broader business models, should they have skin in the game, should they own some of the loans?

We can go into that later, but in my mind the tide is completely turned from one of which I was afraid to invest in marketplace loans since the middle of last year to one where I'm actually excited because in my mind if Lending Club and Prosper are going to survive they have only one way to do that and that is to show people that they can continue to make loans that perform, service those loans properly which is something that I also think has gotten lost in some of the noise and really treat their loan investors, which is really the capital driving the firm, as their clients as opposed to maximizing volume. So to me this had to happen, I wouldn't have wanted it to happen this way, but now the focus is back on making loans again and that is what these companies actually do.

Peter: So when you say it had to happen, what do you mean exactly? Do you mean what had to happen was more of a movement away from the total focus on growth, what do you mean exactly?

Brian: Yeah, I mean these companies, if they play their cards right, have huge room to grow, right? I mean, I can give you all the stats around what percentage of consumer credit they represent and it's basically nothing. So my point is not that they shouldn't grow or that they won't grow. If your goal is simply to double in size every year because that's going to maximize your shareholder value, you're just missing some bigger picture things which is you're going to make the same mistakes banks make which is you'll make your most loans at the lowest possible rate at the worst point in the credit cycle. That's just how a careless lender would behave because, again, they're focusing on volume as opposed to future volume.

If all of the sudden you do...let's say that Lending Club and Prosper did $5 billion of loans each in this month which would obviously be five times the biggest month that we've ever seen, it would look great for the moment but if half of those loans defaulted then they would never get to make another loan at some point, right? The focus needs to be, what is my sustainable loan growth and that number changes as the credit cycle changes and there was just too much focus on let's double, let's double, let's double and you can see it in…

The second half of 2015 would be the worst vintage that I think Lending Club or Prosper will underwrite because the rates were too low and the credit models were just a little bit too lax and, again, that was going to jeopardize their ability at some point in the future to survive, but now that we've completely switched that, I do think they have a chance again to prove that they can have a tighter credit process and have a better loan kind of outcome for their capital which in the end is the buyers of the loans. But, again, all the pieces were in place for that to happen and Lending Club and Prosper had raised rates each two or three times since December so it was already starting, they had started to understand the problem and, again, this is a very stark reminder that capital is not always easy to come by and so it will call them to revisit the way they approach their loan buyers.

Peter: Right, right, that makes sense. So I imagine over the last ten days, we are recording this on May 18th, so it has actually been nine days since the big news from Lending Club, I imagine you've heard from some of your investors that may get nervous or whatever, I guess the question is what have you been hearing and what are you telling your investors?

Brian: It's a great question. I mean, we're in some ways lucky that we've been out telling a story about being cautious around this space so the first communication to our investors, once we had all the facts, was just what I've told you which is, we've been waiting for our moment where the winds kind of turned from against us, where I thought volume was the focus to where the winds is at our backs where I thought underwriting was the focus and I think this is one of those moments. My communication to our investors was…listen there are investors who will run away when there is an issue because fear is certainly an easy emotion to follow, but if you've been telling the right story and you've minimized your exposure, lowered your leverage, have the right call, this is the moment you've been waiting for, kind of like a call to arms.

So we have a lot of investors that have been waiting in the woodwork knowing that we have not been as...we've done fine, but we've lowered our returns purposely by bringing down leverage, but the point on a forward basis, I think. There's a lot of reason to be bullish as a loan buyer today versus...again, I'm not sure May 8th is the right date, but I really think things started to turn starting in February with the most recent increases in pricing. So my communication was, listen, there's a lot of news out there, we have no exposure to Lending Club which, again, makes us look smart, but I'm not worried about the Lending Club loans in particular, but our broad view that we've minimized our exposure when rates were too low because we know we kind of have the right view on the space and now things are changing. Investors on our side handled it well. I think away from us where people who have been kind of rah rah, cheerleading for the space and telling you they can grow forever; they have more questions to answer.

Peter: Right.

Brian: So I think it will slow down capital raising. Any of these big institutions that were looking at the space I think will have more questions and obviously the Lending Club name itself, they're going to have to figure out a way to regain the trust in that name and get through all these investigations which will slow things down as well.

Peter: Right, so would you consider investing in Lending Club at some point in the future? Let's just assume that the Department of Justice, the SEC investigations that are happening, they don't uncover anything else other than what we already know. What are your thoughts on Lending Club as an originator?

Brian: Yeah, I totally would, again, assuming all those things you said were true. Again, my job is as a fiduciary, so if there's any question out there about what they've done with the data, I think you have to hold off, but once it's clear that it's a clean situation...again, in my view, I'm essentially almost blind to the underwriter. Right…the way we model these loans is...you give me a thousand loans and didn't tell me who underwrote them but gave me the full credit file, I can pull out the ones we want to buy and the price we want to pay for them. So, remember, as an institution as opposed to some of the fractional buyers, we don't really have any exposure to the platforms, we have loans in custody, we have our own backup servicer.

Peter: Right.

Brian: So in the horrifying scenario where one of these platforms goes down, we've always been ready for that because it could happen. You never know what's going to happen so the whole point is to have a real structure. So yeah, I would buy Lending Club loans once as a fiduciary I could tell my clients I know that the loan data is correct which I assume it is. I would just like a little more of a statement saying, you know, 100% it is, but I think Lending Club will have a problem clearing their name for a little bit of time, but as far as we're concerned I think their loans would be something we would totally look at when they were free and clear.

Peter: Okay, so then let's just talk about Prosper for a little bit. I mean do you think that...because Prosper had a down quarter in the first quarter, the first one they've had since the new management team took over in early 2013, how do you feel about what Prosper is doing as far as transparency, in as far as some of the issues that were uncovered at Lending Club? How is your confidence in Prosper?

Brian: When we've gone back, of course, and asked all the diligence questions…we asked again about their audits and everything and, again, as far as anyone can tell they are doing all of the right things and no one's touching their data and everyone is getting clean look, I think based on the disclosure that we got from Lending Club around conflicts of interest, I think all these platforms are going to have to come clean with the little pieces that might be conflicting. I would love to know if…I think it was yesterday they said that this firm that Lending Club bought a piece and they had a special deal over a certain amount of defaults that they would guarantee, they would give them cash back like...in my mind if you want people to trust you, you can't have side agreements like that. Either we're all taking the risk or your shareholder is taking the risk, but we can't have some guys doing some of each. So I do think that this is going to be, again, a good thing over time as the industry cleans itself up and starts acting like a finance company/fiduciary as opposed to a Silicon Valley firm. I think there are some differences, but it's an interesting question, right?

Three weeks ago, it seemed like Prosper was going to be way, way behind Lending Club and certainly they were from a volume perspective and then this comes in. Should Prosper be able capitalize on this? You'd think so, but again as a loan buyer, I don't really spend that much time thinking about it. I want to know who's making the best loans, who's giving me the best data and the best access. Again, every day we have an API that runs and we can run through Prosper's, the loans offered in the active pool and pick out the ones we want, that's a great thing for us and I'm very happy to continue to do that and actually kind of turn it back on again as rates go up and standards get tighter.

So, I don't know how they are going to behave as a firm. It seems to me that since it's clear there are some business model flaws, the first person to come out with an answer of how they fixed it will have a pretty good advantage, but I don't spend too much time trying to predict who the hell will be...I just want to make sure my investors get the best loans at the right price and maximize their return.

Peter: Yeah, right, fair enough. So let's just move beyond Lending Club and Prosper for a second. Who else can you share where you're deploying capital as far as platforms go?

Brian: Yeah, totally. So our next biggest exposure goes down by a huge percentage. Our biggest exposure is Prosper, our second is actually Harmoney which is a New Zealand based consumer lender, some very unique things about the environment in New Zealand that attracted us there and they performed very, very nicely for us. They are our second biggest. For anyone not familiar, they're very similar in kind of concept to Prosper and Lending Club, but in a much smaller market with a lot less competition so that's an interesting proposition for us.

After that we have a non-marketplace lender called Freedom Financial that is also doing consumer in a very different way than the marketplace guys, a small amount of exposure to Funding Circle on the small business side and then the most interesting one, the one that's growing most quickly is a lender that we've launched with our own model. They're privately owned, but we were the first one to fund them and it's called Boat Finance. We found there was a huge shortage of truly quality collateralized lending being done and the used marine industry was hurt pretty badly by '08 and the community bank sector so we actually have a team that's out making secured loans on used recreational boats with very conservative estimates on the valuation of the collateral that has performed very well for us, so far. That's the fastest growing part of our book and is something that no one else has access to besides us at the moment.

Peter: Right. I met the Boat Finance guys like 18 months ago, fascinating business. As you say, they were hurt by '08/'09, considering you said that we're late in the economic cycle and let's face it, if we hit another recession I imagine the boat industry will be hit as well. How do you sort of feel about that and why are you excited about it?

Brian: If that's the view then certainly there's no reason to think that the boat loans could do worse than unsecured consumer loans where you have no recourse to anything.

Peter: True.

Brian: Right, so there's a couple of interesting facts about the marine market. Again, one is that we're not financing new boats, these are used, the depreciation has generally happened.

The second is we are being very conservative, as I said on the recovery and the valuation of the collateral and the guys who are in the company are kind of experts, they've had 30 years of experience in the industry so we're not assuming that you're going to get back 100%. You assume you're going to get a haircut so, basically, you set the rate appropriately and I would expect that those secured boat loans would wildly outperform consumer loans in a recession. It's the guys really who are doing new boats or being overly optimistic on collateral and recovery that will find out that you set your rate too low relative, but since we wrote the model we don't really see any danger of that.

In a recession, if you look at what happened in '08...basically, as the economic cycles get better and better, people start financing these new boats, with larger and larger tickets, and you could lose half the value of it trying to resell it the next day. It's like a car, once you drive it off the lot it has no real value, but fiberglass boats that has already been out in the water for ten years and you know it's seaworthy has pretty much a terminal value because you throw a new engine on it and actually, it's just as good as a new boat, it's not like a wood boat that rots so there's some pretty interesting facts about that market.

And, remember, these are titled, they're insured so it's not like you are securing copy machines that somebody's going to pick up and walk out of their office. The guys that we have doing this are experts in receiving collateral and auctioning collateral so it's operationally intensive, but I think it's a pretty interesting value proposition and our goal really is as we get closer to the turn of the business cycle towards another recession, we want to continue to increase our exposure to secured lending as opposed to unsecured lending.

Peter: Right, okay, so I want to talk about due diligence now. You worked at BlackRock where you were putting hundreds of billions of dollars to work and I imagine you had a massive team that would go conducting due diligence whenever you're putting new money to work and obviously at Blue Elephant you don't have quite that same size. When you're looking for a new platform, say it's Harmoney, say it's even Funding Circle or whoever, what are the steps you take and how is it different to what you did at BlackRock?

Brian: Yeah, you're right, at BlackRock we had an army of people and you say hey, go figure this out and someone will figure it out for you. A couple of things, one it's an emerging space in a lot of ways and so a lot of new players that are not as tight operationally as maybe you'd want them to be so the answer is we kind of have to devote our time. The first thing we'll do is kind of the broad check. I have a list, we've looked at now just under, like 98 or 99, just under 100 potential lenders...

Peter: Wow!

Brian: ...and you've heard the list of who we lend through, but we don't do deep due diligence on a hundred. At BlackRock, you might, right? We don't so a lot of guys will fail the test in the first case which is...we always ask, what problem are you solving? Is there a market?…this is all changing now, but before the stock violations fell, everyone thought they could lend everywhere and they would get some kind of VC funding no matter what so the ideas just weren't all that good and that's obviously eased off as valuations have fallen.

Firstly, you can't just show up and lend, right? Is it underserved by a bank? Is there a reason why no one's doing it? Is it a big enough demographic or cohort to attack so a lot of guys will fail there. From there you get into really two different pieces. One is the credit model, you'll find a lot of guys don't have one. You call yourself a fintech firm, but you use straight FICO as your lending metric, we're probably not going to partner with you unless we can use our model instead, guidelines etcetera.

The second part is legal and operational. A lot of guys try to skirt the rules on usury or kind of do regulatory tricks, we don't want to do that. Operationally, and you should hear our COO go through people. Everyone assumes making loans is the hard part, that's the easy part. Can you service the loan? Can you recover? And so what we'll find is the list of the people we have serious due diligence needs on is manageable so at anytime we'll be doing deep due diligence on say three to four kind of lenders of various types, but to your point we can't do it on everybody because we're not BlackRock. So I'm sure we do miss things, like listen, the boat guys actually came to us three different times and honestly I told them no the first two and they finally gave me some interesting facts around the lending that they were doing and convinced me, but it does probably take some work to get through to us because we do have a little bit of a backlog on the diligence side, but we can't skimp on it. We want full diligence on anyone that we approve.

Peter: And so is your due diligence process going to change given what we've heard in the last couple of weeks or do you already feel like it's rock solid?

Brian: You know, we're always trying to make it better so I just added to our checklist this question around…and we knew these agreements happened, I didn't think they happened at the bigger platforms, but...do you have any agreements that give preferential treatment to one investor over another in terms of buying back defaulted loans, you know things of that nature. So we're always trying to make it better and, listen, fraud is impossible, like if people are completely cooking the books and Deloitte and Touche can't see it, whoever the auditor is, that's a unique story.

For a platform that's been through SEC, CFPB and Cap One, we have a warehouse line with Cap One that we leverage with, like they do due diligence on Prosper so in some ways you get help from partners in that way. A brand new platform that has done nothing, we can actually kind of help control all the processes. When you start out with Boat Finance, you don't have the same fears because you're basically helping them do all the work.

Peter: Right.

Brian: It's kind of the medium size platforms that are the hardest. You have a small loan tape, you have some process, but then you have to go back and get all the information and it's hard. So, yes I think if we were looking at a medium size platform that had done some volume that was VC funded, we really have to do a deeper dive probably with legal and maybe even an auditor to make sure there weren't any irregularities in the loan tape in a much deeper way than we were doing before. So yes, things will definitely slow down capital movement in the space even from someone like us who I think is doing a pretty good job in terms of diligence.

Peter: Right, but your fund personally, you're not pulling back from the space. It sounds like, you're reinvesting.

Brian: Yeah, we had pulled back from the space and, again in my mind putting aside the Lending Club...it would be very unlikely, someone's been paying these loans back so the idea that the loans were somehow fraudulent is, again, far fetched, but to the extent that Lending Club does not drop any more bombs on us or anyone else, yeah, the time to get into the loan space as an institutional investor is just much better now because, again, the more capital we raise, the more we can dictate the terms.

I think all these guys are going to want more locked up capital and everyone wants that, but there will be a price extracted for that for the loan buyer. Before they had so much capital that as I said they were just making as many loans as they could. So, yeah we're actually getting ready to run back towards the space as opposed to run away from it from the loan side. From the equity side, it's a bit of a difficult question to answer, but again, a lot of the bad news you have to believe is in the past.

Peter: Yeah, yeah, for sure. So does that mean you're going to increase your leverage ratio going forward?

Brian: Part of that is economic cycle sensitive so I would say the first thing we're going to do is stabilize it, we've really let the leverage ratio fall and it's fallen every month since April or May of last year. So the first thing we're going to do is increase our reinvest and stabilize it and I don't think we will bring it back to 2.6 times. That's more of an economic cycle thing, but yeah, I think given the opportunity and the right terms we could certainly start to bring it up somewhat. I don't think it makes a lot of sense to bring it down from here so things are changing, again, for the better for loan investors.

Peter: Right, right. So final question, let's just talk about...look into your crystal ball. I know it's a very fluid situation and as I said we're recording this when we don't know what may come out next week, we obviously have no idea, but where do you see the industry, the marketplace lending industry, going? I mean, do you see massive contraction, do you see mild contraction? I don't expect you to see massive growth anytime soon so where do you see the industry going in the next 12 months?

Brian: Yeah, I think this is now going to be the time to adjust the business models to make them somewhat more rational. My view has always been that instead of having a number of behemoths that go public and do massive, massive volume, I think there will still be a few over a longer period of time, but I think this breaks down in two ways.

One is I think the stigma that technology valuations have put on having a balance sheet are going to go away so I think having some loans on balance sheet is actually a good thing in a lot of ways. It gives you cash flow, it means you believe in your underwriting, you have skin in the game, it answers a lot of regulatory questions so I think you'll see some business model changes.

My view has always been that, the second part is the amount of niche lenders. Our goal isn't to go out there and raise a $3 billion fund and buy all Prosper loans. I think that's a tough business model. Our goal is go out there and raise a $300 to $500 million fund and buy some loans from Prosper and Lending Club and those guys, but also a lot of "nichey" players that do some very, very good unique underwriting and that means when the economy turns you can go out there and say, okay, I want to add 10% sub-prime or 20% sub-prime to my portfolio, I want to add some small business to my portfolio, but I think the way the market...this opens up the door in some ways for a lot of niche players to kind of evolve their business model without feeling like they're missing something which was always, I think my view on how this was going to turnout.

So I think over the next 12 months you're going to see some major changes in the marketplace model which I think will be generally to the benefit of the loan buyer and I do think you'll see an evolution in the broad space where a lot of these smaller lenders start to get noticed for their value. As I said, smaller kind of balance sheet lenders, which I think is an important evolution. But the idea that you can always maximize volume I think will fade away and be replaced with something a bit more rational.

So, again, as you say it's hard to predict massive growth in the space, but I think in some ways it actually saves the space because it means that as loan performance picks back up, and we keep the focus on underwriting that there is actually a decent chance for rational growth and solid business model changes. That's a good thing even for the equity investors over longer periods of time.

Peter: Right, on that note, I'll have to let you go, but I really appreciate hearing your thoughts, it's great to catch up and find out from someone who's managing a lot of money in the space and what their thoughts are. So thanks for coming on, Brian.

Brian: Absolutely Peter, thank you for having me and we'll talk to you again…hopefully there's no more bad news.

Peter: (laughs) Fingers crossed. Okay, see you.

Brian: Thanks.

Peter: Bye.

I want to pick up on Brian's last point there and just expand on it a little bit because it's something I've been thinking about as well. Maybe this incident, while terrible for Lending Club and for Renaud Laplanche, it may end up being in the long run a good thing for the industry. Reason being is that there has been this fascination, this obsession almost with growth where we got to keep growing at these double digit or even triple digit percentages every year. I think that whole idea has just gone out the window now. It is simply not going to be the focus. The focus now is on really building a business that can sustain itself for the long haul and really focusing on underwriting and doing what is necessary, doing what is important to build a long term sustainable business. I hope that is what actually comes out of all this, I think it very well could be and I think the industry will be much stronger in the long run for it.

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

(closing music)