LEND ACADEMY

PODCAST TRANSCRIPTION SESSION NO. 85: EVAN SINGER

Happy New Year everybody and welcome to the Lend Academy podcast, Episode No. 85. This is your host, Peter Renton, Founder of Lend Academy

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Peter Renton: I hope everybody had a nice holiday break. Here we are for the first episode of 2017, and we are talking small business lending, SBA lending to be exact. Delighted to welcome Evan Singer, who is the CEO of SmartBiz. Now they've only been around about four years, but in that short time they have made a dramatic impact. In fact, they are now the number one provider of SBA loans under $350,000; they recently got that honor and they beat out Wells Fargo.

I wanted to get them on the show, talk about how they've been able to do that and Evan explains how the process works, how he's been able to make the SBA lending process faster and simpler for small business owners and how he's been able to get an extremely high percentage of approvals when it comes to sending these loans on to the banks that actually fund the loans. We also talk about what kinds of banks he's working with, how the whole banking relationship works and much more. Hope you enjoy the show!

Welcome to the podcast, Evan.

Evan Singer: Hey, Peter, thanks for having me.

Peter: Okay, let's just get started and give the listeners a little bit of background about yourself and tell us what you did before SmartBiz.

Evan: Sure, well many years ago, I went to Stanford University. But since then, what I’ve done with most of my career is really building and growing new companies. I've been an entrepreneur and I've started up several different companies and have been focused mainly on identifying needs in the market that aren't being well met by current products or services and then building a product or service to better meet that need in the market and building a brand and a team around that and a company. So I've done that in consumer industries, in medical technology and now in financial technology.

Peter: Okay, interesting, interesting. So it sounds like you joined SmartBiz in 2013, but tell us a little bit about the origins of SmartBiz. I think on your website it says 2009, so just tell us a little bit about how you got involved with SmartBiz and what the origins were.

Evan: Sure, so the company was founded back in 2009, correct, we were actually incubated at PayPal and a venture capital firm called Venrock in Silicon Valley. It was founded by Sean O'Malley and Ryan Gilbert. Initially, we developed a consumer credit delivery platform online and then in 2013, I led up the development of a small business credit delivery platform online and we took a lot of the learnings and technology that we had built from the consumer side and brought it over to small business.

And so I actually came up initially as an advisor and a consultant to the company on the company's advisory board about five years ago and I had started up a company previously with Sean. We had co-founded a company back in the 90's, a medtech company, and so he asked me to come up and help and the rest is history. I've been now doing this now for about five years so that's the origins though.

Peter: Okay, okay, interesting. Why don't you just explain what SmartBiz does exactly.

Evan: So at our core, we make SBA loans easy, that's really what we're about. We make them easy for small businesses and easy for banks to originate SBA loans. What we've built is an online marketplace for SBA loans where borrowers, small businesses come to us, they will apply online. We have a dynamic application that makes the process much easier for them and then we'll send the right borrower to the right bank that's on our platform and that drives up approval rates so we get to "yes" more often than a traditional bank.

Only banks on our platform are originating our loans and the reason for that is all of our bank partners are licensing software from us to auto-underwrite and auto-originate these SBA loans so they move very quickly and so we're able to deliver funds to borrowers in as fast as a week after they complete their application, so much, much faster than a traditional bank. We're leveraging technology and really intelligent automation to speed up the process, make it more efficient for the borrowers and the banks and also do so in a compliant manner for our bank partners.

That efficiency and technology has led us and our bank partners to combine to now provide more traditional SBA 7(a) loans under $350,000 than anyone in the country, more than Wells Fargo, more than Chase and that's really what we do is make SBA loans easy for all parties.

Peter: So are you 100% focused on SBA then? You don't do any loans that fall outside that bucket?

Evan: That's right, we only do SBA, we're very good at it and we've built our business around that.

Peter: So can you just explain a little bit then how the process works because I know one of the criticisms of the SBA process is how time consuming, how difficult it is and that's one of the selling points that a lot of the online lenders say is that you can get a loan, it takes you five minutes to fill out an online form and you can get a loan, whereas SBA, clearly it's more than a five-minute process. Can you explain exactly how you've been able to make this process simpler?

Evan: Yeah, absolutely. So, you're right that the traditional SBA process can be time consuming and also a lot of what we find with borrowers is they'll spend the time and they'll put a month or two months or three months in and they'll get to a no and so it can be very frustrating as well. So when we look at customer needs and kind of how they weren't being met, it was that approval rate. So how do we get them to a yes and also making the process easier and faster.

As most small businesses know, SBA loans typically have the lowest rate, the longest term, the lowest monthly payment so that can really...you know, that's sort of across the board with SBA, but the question is really from a consumer or from a small business need standpoint. How do you get them to a yes more often and how do you make the process easier and so what we've done is sort of gone after both of those two so from the getting to yes standpoint, we built a closed ecosystem with multiple lenders that originate on our platform.

What many small businesses don't know is that what one bank may say no to, another will say yes to. A small business would traditionally go to a branch in their town or wherever they bank, that bank might say no to an SBA loan whereas the bank down the street might say yes and so we automate that. What the software does is we'll digitize our bank partners' underwriting policies so that we know which bank is going to say yes to which credit and that can drive up approval rates for the borrower.

Some banks, they'll say yes to different, not only different underwriting policies, but also they've got different collateral requirements, they say yes to different industries, they say yes to different use of proceeds and so from a small business perspective it's how do you get them to a yes and that's critical.

The second piece is from an ease and a speed standpoint. There's really two sides to that; first is on the borrower side. We put everything online where the borrower can apply and go through the application on their own time, whether it be on the nights or the weekends. In addition, a lot of traditional bank applications will ask for a slew of information that they don't necessarily need for that particular borrower so they'll ask for everything on their application when they might only need half of those things, depending on the borrowers' use of proceeds or industry.

So our application is dynamic where we're only going to ask for the things that are needed when they're needed so we ask for less information. For example, we don't require a business plan. From a need standpoint, the borrowers aren't inundated with requests that aren't needed and then it's a logical and smart application that the borrower can go through so they're able to do so quickly and easily.

But from a bank standpoint, typically a bank will have seven or eight people touch a loan, they'll take just as much time to underwrite and originate a $200,000 loan as they would a $2 million loan and it can take literally months to move the paperwork from one person to the next to the next to the next. What we've been able to do with software is automate much of those processes so from an underwriting to origination process our software is able to reduce the amount of people and improve the amount of speed or the amount of time that it takes for banks to underwrite and originate these loans by as much as 70%.

So they're able to move much faster with fewer people, they're able to move through these loans quickly using the software that automates a lot of the menial work that was being done before. So in total, what happens is, is you get a faster process for the bank, a faster process for the borrower and you get the borrowers to a yes faster with this great product, with a low rate and a long term so it's a win-win.

Peter: Right, so you know the kinds of banks that say…someone's…they're using it just for working capital and they want to expand the business, hire new employees...another person might say, you know, I want to buy this $400,000 piece of equipment and so what you do I guess...those two are different situations and you're saying that...you know which bank to send them to based on use of proceeds, obviously, also based on credit profile, I imagine. So that's how you're able…you take all your banks...so you don't send it to the bank that's going to say no. I guess that's the other question, I mean, how many banks do you send this to, just one or multiple?

Evan: Well we would send one loan into one bank so when we send a loan to a bank they will fund 95% of what we send them so an incredibly high rate. And the reason is that we've digitized that underwriting policy and we know their use the proceeds and collateral requirements and so everything has been customized from a software standpoint so that we will take their existing policies and digitize all of those. So when we give them a loan, we're 95% confident they're going to fund it and so we would only send it to one bank.

Peter: Okay, okay, that's amazing, I didn't realize that you could get that high of a success rate, that's fantastic. So then tell us about the banks, I mean, who, I presume you're not sending this to Chase or Wells Fargo, I mean that would be, I imagine, digitizing their underwriting process may end up being a bigger challenge...are you working with small banks, community banks, mid-size or are you working with large banks?

Evan: Yeah I mean, we certainly could work with a large bank, their underwriting would be easy for us to digitize. Certainly the process to work with a large bank would take longer. Our current banks, I'd say, are small to medium-sized banks, we have three that are originating now and then we're adding two others in Q1 of 2017 and these are all from a couple of hundred million dollars in assets to several billion dollars in assets.

So they're kind of small to mid-sized, the banks will lend in all 50 states and these are all PLP banks which is a preferred lending partner of the SBA and what that enables the banks to do is use delegated authority from the SBA so that they don't need to send each credit to the SBA for approval. The bank can actually approve it themselves and that speeds up the process too.

Peter: So can you just explain just for the listeners who don't know a lot about SBA loans, I'd like to actually...first, why don't you explain what an SBA loan is because it's not the Small Business Administration making a loan, so just explain…bank makes the loan and what does the SBA do?

Evan: Sure, the SBA acts almost like an insurance company on the loan where if the loan goes bad they will pay the bank a portion of the principal back. So there's a guarantee that the SBA will make to the bank as long as the bank follows certain rules and regulations and policies from a compliance standpoint. Also, the SBA will restrict how much the banks can charge so you're right, Peter, SBA loans are typically made by a bank and then the SBA will actually provide a guarantee to the bank if that loan goes bad. And really the reason they do this is so that the banks can take more risk in the market, they can go deeper into the credit spectrum.

The SBA was established back in the 50's to help spur lending to small businesses in the country and the mission is still the same today where the SBA exists and the taxpayers support it to encourage banks to make loans to small businesses. What's interesting, actually, there are guarantee fees that are paid to the SBA by the borrower when they borrow money from a bank and actually, those fees will pay for the subsidy.

It ends up being a zero cost to the taxpayers. The guarantee fees that are paid end up supporting the other defaults that exist so it doesn’t end up costing the taxpayers anything, but it's almost, like I said, it’s almost like an insurance company, but the purpose is so that the banks go deeper into the credit spectrum.

Peter: Right, and so what percentage does the SBA guarantee? Does it vary by loan program, what is the range or percentage?

Evan: Yeah, it varies by loan program and by size; it's typically anywhere from 50% to 90%. Most of our loans that we do, we do traditional 7(a) loans which is the largest program that the SBA offers by a wide margin. They are either 75% or 85% guaranteed by the government.

Peter: Okay, and so is it a larger...what dictates whether it's 75% or 85%?

Evan: From a dollar amount standpoint and so if it's a larger dollar amount, it's 75% and if it's a smaller dollar amount, it's 85%.

Peter: Okay, so then let's just talk about the borrowers for a little bit, the small business owners. You've got a purely online process, that's obviously going to be very helpful. What are the biggest challenges for small business owners who are thinking about a loan and they've got a negative opinion of the SBA loans simply because of the challenge of filling it out. What are the big challenges?

Evan: Well, from a small business perspective with all of our research when we’ve looked at what's most important to them and then sort of what is their needs hierarchy and how do they kind of think about lending or getting a loan, it's say yes to the amount I need, in a way I can repay it, at a rate that I want, in a fast and easy way. Those are sort of the key things that we hear from our customers are the most important things. So whether it be a SBA loan that they're going after or some other loan, if they can get to a yes for the amount that they need, with a low monthly payment that works for them, with a low rate that they like and it's a fast and easy process then it works.

So what we've done, again, is really attempt to turn things upside down where most small businesses in the country they know that hey, if they can get an SBA loan, fantastic, there's a gold standard. Our rates right now are 6.5%, the terms on our sub-$350k loans are ten years, our terms on our commercial real estate loans up to $5 million are 25 years and so that's going to result in the lowest monthly payment for them so they've got a low rate, low payment. It's just a question of can they get to a yes for the amount that they need in a fast and easy way.

So those are the pieces that we focus on from a technology perspective to make things kind of fit better for small businesses. So we encourage all small businesses, come to us first, we will tell you quickly if it's going to be a yes or a no and if it's a yes, you're not going to find or you're likely not going to find a better priced product certainly with a term as long as ours that results in a monthly payment as low as ours.

Peter: Right, who are the typical small businesses or does it go across the board? You've processed a lot of loans, so far, do you have a profile or a typical borrower?

Evan: Yeah, certainly, with our working capital loans less than $350,000, our typical borrowers...they're profitable businesses, they're doing anywhere from $500,000 to $2 million a year in revenue. They've got net income from $50,000 a year to probably $250,000 a year, they've got five plus employees, again, they're in all 50 states, the owners of the business generally have good credit and most importantly, the businesses have the cash flow to support their loan payment.

The good thing with a SBA loan like the ones that we offer, they've got a very, very long term so 10-year term on a working capital loan so the monthly payments are going to be as low as possible, but if they're borrowing $100,000 and their monthly payment is $1,100 a month, they have to be able to show us that they can afford to pay $1,100 a month and make that payment...the last thing the borrower wants or we want is to put somebody into a loan where they can't afford to make the loan payment.

Peter: Right.

Evan: And it's all different types of industries. We're not focused on any one vertical and it's all types of companies; it's really a wide range. We also, interestingly, are different than a commercial bank or conventional loan, about a third of our loans are to women-owned businesses. With a traditional bank, it's more like 5%, even though women-owned businesses make up a third of the businesses in the US and so we actually match the US statistics so women-owned businesses are getting their fair share from us.

Peter: (laughs) That's good to know, that's a conversation for another day, that's a terrible number, as far as the banks are concerned. Anyway, we will move on. I'm curious about how you find these borrowers, I mean, are you doing online marketing, offline marketing? I mean, you're not a household name yet like a Wells Fargo or a Chase, so how are you finding these borrowers?

Evan: Well, a couple of different ways. We work with partners across the country. For example, we actually had built and we host a lending center for Sam's Club and Sam's Club, many people don't know, about half of their customers are small businesses and they have several million of small business customers that shop in Sam’s Club every week. Their customers can go to SamsClub.com and answer a few questions in the lending center that's on their site and it will pop up with a response or a suggestion to either come to us, to Lending Club and they've got a small business product, or to get Sam’s private label business credit card and so through partnerships like that is where borrowers will find us.

And then from an online perspective, we've really become the leading place for businesses to come online so if they're doing a Google search, they're likely coming to us and that's traditionally how we will find customers.

Peter: Right, so if you're getting people coming on your site from a Google search, there's got to be a large percentage of those that will not pass muster. So what do you do for the borrowers who you can tell right away are not going to qualify for an SBA loan?

Evan: Yeah, actually what we’ve built and we built it into the technology, Peter, so we will tell the borrowers why they didn't qualify, we'll let them know what they need to do to improve their business credit or personal credit or financials and what they can do to come back to us and get an SBA loan at a later date.

We’ll actually, the software is built in such a way that we will reach out to them. If there is a time-based reason why they didn't pre-qualify, we'll reach back out and say, hey, it’s been 90 days, something, whatever it is, could have fallen off your credit report by now, come back to us, there’s actually a soft pull on credit to get somebody pre-qualified. So we will help the borrower figure out a way to hopefully get a SBA loan at some point in the future if they can't qualify now.

Peter: So you're not monetizing these people by sending them to OnDeck or Funding Circle or Kabbage?

Evan: Yeah, you know what, we'll talk to folks if they're in desperate need of financing. We can certainly recommend some of those folks…Funding Circle or others that you mentioned and then they can come back to us at a later date. So that's certainly an option for them if they want to get our advice on what other options are out there, but we obviously don't originate those loans or underwrite them, but we're happy if somebody says, hey, can you help me? We'll say, yeah, sure, here are the other folks that are out there.

Peter: Okay, okay, that's good. So I just want to talk a little bit about your recent news…you touched on it earlier, you were named the number one provider of SBA loans under $350,000. Your press release said you beat out Wells Fargo so what does that mean that you're basically a four-year old start-up, now doing more SBA loans than a 150-year old bank or whatever. What does that mean? Does that mean banks are doing a bad job or you're just doing an amazing job…or both?

Evan: Yeah, yeah, I think what it means is that we are very focused on meeting customer needs in the market and that means getting to yes more often, getting somebody a great low rate and a low monthly payment with an easier process than you'd typically get at a traditional bank, and I think small businesses are coming to us because we're able to meet their needs better than others in the market.

That being said, Wells Fargo, from an overall standpoint, they are number one in SBA loans, they do $2 billion SBA loans every year. Where we're and where our bank partners have combined to do more loans than they have is with traditional 7(a) loans under $350k.

So I would say when we think about our plans going forward, we certainly have our eyes set on being number one for all SBA loans, but this is a really nice achievement for us and I think a validation of how a technology company like ourselves can partner with a bank or with several banks to create a marketplace and an ecosystem that can deliver on customer needs better than a bank could just by themselves or better than a financial technology company could just by themselves. But this partnership and this ecosystem we've developed is I think the way to really meet the needs of the small businesses across the country and so that's what I think it shows.

Peter: Right, that sounds good. It's interesting to me that you've been able to do this in a pretty short time. As you say, it does point to an unmet need. You said you're going to add more banks, I mean, I imagine there'd be some banks that would be beating a path to your door saying we want to come on board too, particularly because if they want to increase their small business lending. There has been an increase in bank activity in this space in recent years after the falloff from the financial crisis, so are you actively courting new banks? If we talk again in a couple of years' time are you going to have 20 banks on your platform or what?

Evan: Yeah, we are adding new banks, as I mentioned, we are adding two in Q1 of 2017 and I'm not sure we're ever going to have 100 banks, but we'll continue to add more. Certainly if there's a bank that is technology focused and is looking to grow their portfolio and do things in an efficient and compliant manner leveraging technology to do so then they could be a good bank partner for us and we're certainly open to talk with them.

Also what we're doing is each bank that we work with, again, wants to say yes to different things and so some of our bank partners want to do larger commercial real estate loans. So we have several banks now that are originating commercial real estate loans up to $5 million using our platform and we recently launched this product to small businesses across the country where they can actually pre-qualify for a $5 million commercial real estate loan in just a few minutes from their phone and actually do the entire application from their phone.

We've made the process much easier for them to apply for and then get a loan which could…they could either purchase commercial real estate or they could refinance an existing loan. And so as we add new bank partners, we're also able to customize the software to fit what they're looking to do to build their business as well.

Peter: Okay, we're out of time, I could certainly chat a lot longer about this. I appreciate you coming on the show, it was fascinating to learn more about your company. Thanks, Evan.

Evan: Peter, thank you for having me.

Peter: Okay, see you.

I've been a small business owner my whole career, my father was a small business owner so I've got a soft spot for small business lending and I really enjoy stories that help sort of make the small business owners' life easier. That's clearly what the SmartBiz folks have done. They exemplify in many ways what's great about online lending and that is just taking an old and inefficient process that was primarily offline, bringing it online, making it more efficient, making it easier and allowing the capital to flow more smoothly.

Clearly SmartBiz is doing a great job at that, they've become number one provider, as I said, of small SBA loans and I think for me this is so important because small businesses are such the life blood of this country and they need access to capital and they need it in a quick and efficient way. If you can save 10 or 20 hours of time where the small business owner doesn't have to go through this arduous application process, that's 10 or 20 hours that he can devote to his business and that will increase economic activity and be a win for everybody.

Anyway on that note before I sign off, I would just like to give a quick plug to LendIt. We have LendIt USA 2017 where you'll hear about small business lending and much more actually. March 6 and 7th in New York. Go to lendit.com to find out more and I hope to see you there.

Thank you very much for listening and I'll catch you next time. Bye.

(closing music)