



## **PODCAST TRANSCRIPTION SESSION NO. 93: JOHN DONOVAN**

Welcome to the Lend Academy Podcast. Episode No. 93. 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 John Donovan. He is the CEO of Bizfi, but John has been around this industry for a long time. I've known him for many years, he was employee number one at Lending Club, all the way back in January of 2007 and he saw Lending Club pre-launch, before they even got going, all the way through until it was quite a successful platform. He stayed there through late 2012, and since then he's gone and done a number of different things and he has ended up at Bizfi which is another company that's been around a while that I've known for some time. They're a small business lender, they run a borrower marketplace as well as operate off their own balance sheet, really interesting company and interesting opportunity for John. So I wanted to get him on the show to talk primarily about Bizfi, what it does, what makes it different and what they are focused on for the future. Hope you enjoy the show!

Welcome to the podcast, John.

**John Donovan:** Thank you very much, Peter, great to be here.

**Peter:** Okay, so you've been around this industry for longer than most people and before we start talking about Bizfi, I wanted to just have you talk a little bit about your early days in the industry. I know you started off at Lending Club so can you go and talk about what you've done in your career over the last eight or ten years?

**John:** Sure, I mean, even before, I've always really worked in what I would consider financial technology before it was financial technology but really started my career at MasterCard for a long time really understanding the payment environment; worked there for five years in Europe, worked for a lot of years in the States on the consumer credit side, on global product development, a variety of areas and really, at a certain point, it was wow, I want to try out this startup stuff.

I left MasterCard in 2005, to go to a company called Borderfree. At that time it was called the eForex but that was a company that was helping internet merchants sell in foreign currencies so did that for two years, kind of helped redo the strategy and that's where I met Renaud or when I met Renaud who had the idea for Lending Club. So I started to talking to Renaud in the middle of 2006, and liked the idea. I had never heard about peer to peer lending before that and, you know, we got together for coffee a few times, and then he dropped the bomb on me that the company was actually in California. So the whole time I was at Lending Club, I commuted from Connecticut...

**Peter:** Right.



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**John:** ...but, Lending Club was an absolute blast. I had talked to my wife when I left MasterCard to say, hey, let me try a few different startups and I went to eForex which was a well funded entity that the kind of a strategy needed to be redone. Going to Lending Club when it was really an idea at that point and that was tremendously fun and to put in place the financial services, to put in place the relationships with the banks, the credit, the underwriting, all those other things.

Left Lending Club to try the whole investing side of the business which I have to say I've got tremendous respect for the people who work in equity and venture investing. It's not for me, too removed, not operational so I really didn't enjoy that part of it. And as I was leaving a venture fund, I had been an advisor to CircleBack, Michael Solomon, and we were talking and he said, wow, if you're leaving now, why don't you come on board and help us with a few things here.

So had joined CircleBack in February of last year and it was at the point that they were going through and raising funding and really, unfortunately, weren't able to get funding, weren't able to do other things for CircleBack so we put it into servicing mode, but what I did realize and the benefit for me personally, was that I really did like getting my hands dirty in the operational aspects of the business.

I had known Bizfi for gosh, ten years. In fact, a funny story is that Steve and Walt, who were running Bizfi, I had talked to them back in 2007 when we were getting Lending Club going, to say hey, do you know anybody in the bank partnership space? And they actually recommended WebBank so that's how Lending Club came to develop a relationship with WebBank, it was actually through Bizfi.

**Peter:** Interesting, I had never heard that before.

**John:** Yeah, so small circle.

**Peter:** Okay, so obviously you did Lending Club, CircleBack, both consumer lenders, Bizfi, a small business lender, why did you decide to go into small business lending here at Bizfi?

**John:** Really, you know, a new challenge and a different space. I think it's similar in that you're really looking at financial technology, you're really looking at how can you make operations work more efficiently, you're providing a great service in terms of getting funds in the hands of small businesses so it was a different element of it.

While I was at Lending Club I had...managing underwriting there, we were doing some small business lending, but not in the same way, not with a specific product so it was an area I had always wanted to jump into and someplace that I thought I could provide some value so that really caused me to take that jump. I've been here now four months, great learning curve, but a lot of value.

One of the key areas for me with Bizfi was marketplace. So Bizfi had launched a marketplace a little over a year ago where as opposed to launching or offering one product to their customers, they actually have partnerships with 45 different entities. If a small business is coming in and



needs something that, you know, Bizfi can give a small business loan, they can give equipment financing through the relationships that they have as well as balance sheeting. So some of the same challenges we've heard in the past of Lending Club, with oh, they don't have skin in the game, without balance sheeting it they don't truly understand. Well I don't believe that type of comment. Bizfi is in kind of a unique place in that it does balance sheet and it does marketplace so that was another attraction.

**Peter:** Right, right. Firstly, I just want to clarify something. So Bizfi used to be Merchant Cash and Capital until fairly recently. I think it was last year or the year before, but it was...

**John:** Yeah, when they launched marketplace, I believe late 2015.

**Peter:** Right, okay so it used to be Merchant Cash and Capital focused on short term lending. So today, can you explain the Bizfi offerings? Like you said, there's the marketplace, there's the balance sheet lending, what are the offerings for the small business owner?

**John:** You know, as I was on the investing side of the business, I had looked at a few small business lenders and what struck me as I was going in and I sat with one entity looking at how they were doing underwriting and looking at what the business had borrowed, let's say, and what I saw is businesses had equipment financing, they had inventory financing, they had an SBA.

They basically, businesses require capital and so there's a wide breadth of needs that they have and it's not one solution that satisfies all of that. It depends on what they can qualify for certainly, in terms of...many people want that SBA loan that has a very low interest rate, but even those that qualify for an SBA loan also need short term financing for inventory or for other things. So what Bizfi has, through those partnerships, is offering both short term financing, but also SBA, equipment, invoice financing, franchise, medical financing, line of credit; that whole assortment of things that a business may need in one chop.

**Peter:** Okay, so basically, what I'm hearing you say is that you offer pretty much all kinds of financing that a business may need.

**John:** Correct, and we're only balance sheeting the merchant cash advance because that's what the history is of Bizfi with Merchant Cash and Capital, but as we expand marketplace out, we're able to offer a much more holistic solution and hopefully for our partners, give them higher conversion and for the businesses give them faster access to cash.

**Peter:** Right, right. Okay, so the founder of Bizfi, Steve Sheinbaum, I've known him for quite some time and he's been CEO for I think almost from day one till you came on, so why did he decide that he needed someone like you and wanted to step away from the CEO role?

**John:** Sure, you know it's interesting, I think entrepreneurs, the folks who really start the businesses, they tend to be sales people, they want to be on that front line, the energy and everything else. So with Steve...you know, Steve is doing what he loves which is how can he



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generate more business for the company and what he didn't love was the operational aspect of it and the managing day to day so he really brought me in to be able to handle that aspect of it. So, as I mentioned before, I've known Steve for a long time, great partnership.

My history has always been working with other strong people. I just find it a lot more fun to have a person there that you can bounce ideas off of and you can grapple with tough issues, whether that was Renaud at Lending Club, whether it's Steve here, you know, that was the role that we found that made sense.

**Peter:** Right, right, okay. So can you give us a bit of an idea about the scale of Bizfi today. You've really got two businesses really, you've got the loans that you underwrite yourself and then you've got the business where the loans that you kind of forward on to others. Can you give us an idea about the scale of each part?

**John:** Sure, if you look at the history of the business, it took ten years for Bizfi to do their first billion dollars, so from 2005 to 2015. It took two years to do the next billion and last year, they did a little over \$550 million. Now prior to marketplace, it was really all the advance business, but currently, that's about 70% of the business, in terms of what ends up getting balance sheeted. So the other sides of the business and partners are accounting for roughly a third and we think longer term will account for the majority.

**Peter:** Right, right, that makes sense, that makes sense. So you've got this massive breadth of products, I mean, I'm looking at your website and you've got pretty much everything, so who is the typical borrower that's coming to Bizfi these days?

**John:** Sure, certainly you're seeing people who...restaurants, retail, that need working capital and inventory, they tend to have \$75,000 a month in revenue, they tend to be in business over five years, tend to be a little over 40 years old, tends to be the segment, FICOs are decent, the average advance is \$40,000. I think we'll see, as we open up different channels, that demographic will change some and certainly the products that we're offering have to match what those folks need. So that's something that I think will evolve over time, but that gives you a feel for who our customers are today.

**Peter:** So are there any specific verticals that you target or is it just across the gamut?

**John:** You know, ultimately, my goal is how can you provide funding for every qualified business in America so I think as you look at how lending has taken place over time. You know, I equate it to a certain extent on the consumer side where when I started working for MasterCard there were 50 banks that represented less than half of the consumer debt. There's now five that represent over half on the consumer side.

You've never had that concentration on the small business side. It's always been a more distributed environment where there are smaller players providing the funding. But even in that instance, what you've had is the larger banks have bought the community banks where I think the numbers are, or they used to be, 12,000 community banks; there's now 5,000 or something



like that. Those community banks have tended to do better underwriting than the larger banks because they know the businesses in their community.

**Peter:** Right.

**John:** As we start to see this change and you start to see how you get the customers, what we're seeing is, these small businesses, 20% of them are accessing...they're going online for their funding. We're certainly seeing that the majority of the customers who talk to us are doing so after business hours and through a mobile device. So as you look at the channels, as you look at everything else that's going on, certainly on the consumer side as well as the business side, it's looking at what are the easiest ways for us to make life easier for these small business owners.

So we have partnerships in place with banking organizations, we've got partnerships in place with entities like Jack Henry and we're looking at how do we best expand those, but really try to focus on who are the businesses that we're most likely to streamline the discussion with. So they're more likely going to be online, not necessarily it's an online business, but they have a website, they're comfortable with technology online and that's how we'll communicate with them more and more.

**Peter:** Okay, that makes sense. I'm just curious, you've got your balance sheet that you're putting in quite a lot of volume through, why don't you do more of this yourself rather than passing the loan on, whether it's an equipment finance loan or just some other term loan, why don't you do that yourself instead of passing it on?

**John:** I think part of it is knowing what we do well and knowing what we don't do well. That was a challenge certainly that we faced at Lending Club where in the early days when we looked at small business, we realized that to underwrite that well you have to do cash flow underwriting. Each of these elements, whether it's equipment finance, whether it's SBA, whether it's anything else, there's a specialty to it, there's a finesse.

**Peter:** Right.

**John:** And we'd rather partner with people who can make that process as efficient as possible as opposed to thinking that we can do everything better than everyone else. Certainly we've shown that for what we balance sheet, we can operate that well, but again, trying to put those businesses' interests in front and a lot of times that's challenging to do...

**Peter:** Right.

**John:** ...but going and saying, hey, what is it that they specifically need and what's the best way to satisfy that and who would be the partners that makes sense for us to bring on to the platform. And, you know, at the end of that it's 5:00 and there's not much more you can do in a day. You know what I mean?



**Peter:** (laughs) Right, right. So let's just talk about the loans that you keep on the balance sheet or the advances, like are these actual merchant cash advance type, are they short term loans, I mean, what are the loans and what are sort of the terms of the loans that you keep on your balance sheet?

**John:** Sure, they're advances, average duration of about 11 months, 15% to 33% advance rate so they're a typical advance. It's the business that had been operated from the very beginning with Steve and I think there are certainly things we can streamline, there are certainly other areas, but it tends to be...hey, we can get someone cash in three days, sometimes same day.

There was one recent deal that I looked at that I felt was incredibly interesting. I am into boating and I had seen that we provided an advance to a shipyard and it was at the end of the season. I thought that was very strange that we would do that at the end of the season and started looking into it and what I found was that they had a lift that had broken. At the end of the season they're pulling the boats, putting them on to the yard and it's where they generate a significant amount of their revenue. They didn't have the money to replace that, they needed to get the money within the same day/next day, it's someone we had a previous relationship with and that ended up making a lot of sense for them and for us because they're able to salvage all that revenue that otherwise would have been significantly delayed or lost.

**Peter:** Right, makes sense. So then I just want to dig into the underwriting just a little bit here. How much of it is a consumer...you're underwriting the consumer, how much are you underwriting the small businesses, it's obviously not a consumer loan, but how does that interplay work?

**John:** Sure, certainly as you look at underwriting of the business, it looks at cash flow first and foremost. Is it a business that generates revenue, they haven't had any decays, they're otherwise healthy that we can see, that they can actually afford to pay this back, is it in a sector...in an industry that makes sense, that doesn't carry any excessive risk, do the principals have decent credit so have they shown themselves historically to pay things back and for that you are pulling credit bureaus and other things like that.

And then, last, is just overall character, right. We're interviewing every single business, we're looking into the details. Our underwriters have a good feel for how different industries work so through that discussion they can understand, hey, is this a business owner who understands his business, who is probably going to use the money for the purposes that he or she outlines. That's really the process that we go through with every advance.

**Peter:** Okay, so you actually physically speak to every single customer?

**John:** Correct and for larger ones, we'll actually have an entity go take pictures, so that we have a feel for the real retail front, we integrate in social data from a fraud standpoint making sure that it is a legitimate business, looking at all the state filings, all of that. Yeah, it's a deep process.



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**Peter:** Interesting, interesting. So I want to talk about how you find these customers now, I mean, you've obviously got some online presence there, I see your ads around. Are you working with brokers as well, are you working offline, I mean, can you just take us through how you're finding these customers?

**John:** Sure, I think in most things in life are in thirds for some reason. (Peter laughs) I've never figured out why, but a third of it is direct, right, where we're doing direct mail, we're doing other media to communicate directly with that entity. A third is through what I call channel partners. I mentioned Western Independent Banks, I mentioned Jack Henry, you know, we did a deal with an entity called InterNex. There's a lot of different channel partners that we have which is about a third and then a third from sales partners which tend to be more of the ISOs, some other sales offices that we're working directly with. We've developed some proprietary technology that allows submissions to be sent in electronically, other things that help streamline that process for those sales offices.

**Peter:** Some of those ISOs have come under a bit of flack in recent years, I mean, is that mix changing for you, are you comfortable with that and how do you...obviously, you want every transaction should be a "win-win" and the negative press that some of the ISOs have is that they're just trying to get their commission and move on, I mean, how are you policing that channel?

**John:** Yeah, absolutely, it's an area that's always been looked at and looked at even more as I've come on, but it's something that we've certainly looked at in the past and looking at what's the quality of the submissions that come in, what is the collections rate on those to make sure that it isn't an ISO that's bringing in risk that is not something we're comfortable with or that there's any confusion in terms of the terms or anything else that the business manages.

So, again, we're not just funding something. Our underwriters are going to speak to every single customer, whether they came from an ISO or something else so it's going to have to go by our specific underwriting. But as you know in this space, you've got to be on top of all your channels, you've got to be on top of every way that your customers come to you because you can just have negative selection that exists in how marketing went out to that person that brings in risk that you otherwise wouldn't see. So certainly something that we have looked at in the past, but we're certainly increasing those efforts to look at them.

**Peter:** Right, so I want to switch gears to the other side of the balance sheet just real quick here. You keep these loans on your balance sheet for the most part, what are your funding sources to be able to do that?

**John:** Sure, you know, as is typical, we've got a partner that provides us with senior debt and then we have junior and mezz debt underneath that so it's the classic structure. I think, certainly, what we're looking in the future is marketplace for lenders where you can bring in more of a direct approach that has been done in other categories, but right now, I'd say it's the classic debt approach of: senior, junior, and mezz.



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**Peter:** Okay, that's interesting because that was my next question really about putting a marketplace in for lenders, something you obviously have a lot of familiarity with. So that's coming down the track?

**John:** Yeah, I mean, we're seeing a lot of interest that people have in putting smaller pieces of debt to work so it's an area that I personally am very interested in and I think the category is right for. So I think you'll see things like that take place within the next year.

**Peter:** Okay, okay, interesting, interesting. So what else are you working on for this year? I feel like...you've obviously been on the job for a relatively short amount of time, you're still on a learning curve, but you've really got a business here that has pivoted away from being a pure play merchant cash advance and you said yourself that eventually the majority is going to be run in this kind of borrower marketplace, but where are you going to take this business going forward?

**John:** Yeah, certainly looking at the partnership strategy. I think that's a big area for growth and with that is making sure that the marketplace is dynamic enough, that it's satisfying the needs of those customers. Certainly, we're always interested in lowering our cost of capital, we're always interested in making sure that the business is properly equitized so those will be efforts that you'll see this year. On top of that is just overall enhancing the brand. I think the Bizfi name is a great name, certainly looking to make sure that we use that more consistently as we expand.

**Peter:** Okay, last question, I know that we are recording this a few days before LendIt USA and it's actually going to be published after LendIt USA, but I'm curious about...you spoke at the very first LendIt, I think you've been to every one and I'm just curious about what you're looking forward to when you go to LendIt next week.

**John:** You know, now that I'm back with a corporate gig, so to speak, I'm looking at the opportunities that LendIt always provides just in terms of meeting people that I've not seen for a while. I know lots of people who are coming in that I have already set up some coffees with and lunches with, but really just seeing the vibrancy of the rest of the fintech community and I think LendIt certainly has shown itself to get the right people in.

So I'm looking forward to reconnecting with people I haven't talked to in a while and then just seeing really what else is out there, you know, what's going on. I think the whole thing with the new administration and what's going to happen with Dodd-Frank and CFPB. That whole area will be very interesting as people are approaching it, what's going to happen with cost of funds going forward, how expansive do we think the securitization market is going to be so really just looking forward to the whole discussion.

**Peter:** Okay, great. Well I look forward to seeing you next week John, I really appreciate your time today.

**John:** Excellent, thank you very much, Peter.



**Peter:** Okay, see you.

**John:** Bye.

**Peter:** One of the big differences between consumer lending and small business lending is complexity. Consumer loans, let's face it, they're relatively simple. You can get a term loan from one of the online lenders or even from some banks, you can take out a loan through your credit card and maybe get a home equity loan, but those options are all very similar and you're not really faced with a complex choice which is really going to impact you in vastly different ways. Whereas with small business, you have all kinds of different financing options. You've got the term loans, you've got SBA loans, you've got equipment financing, invoice financing, you've got merchant cash advance and you've got all kinds of different products which are going to have a different impact on your business.

I think the average small business owner, unfortunately, is not very financially savvy and I think they need help to steer them through this process because at some point the reality is that a small business may need a term loan which is really the best solution for them with a low monthly payment or they may need money right away which John used in the example of the shipyard in this episode. That's something that if they tried to go and get an SBA loan for that, they might have gone out of business.

So this is why I think companies like Bizfi are providing a real service because small business owners need to know the different choices, they need someone really there to point them in the right direction. I think that's what companies like Bizfi are doing. There are many others in this space as well and I think it's something that is going to become more important as time goes on. I think small business owners are really well positioned now much more than ever before to receive the right advice.

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

(closing music)