



PODCAST TRANSCRIPTION SESSION NO. 111-TIMOTHY LI

Welcome to the Lend Academy podcast, Episode No. 111. This is your host, Peter Renton, Co-Founder of LendIt and Founder of Lend Academy.

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Peter Renton: This episode is being recorded in Shanghai, China. I'm here for Lang Di Fintech which is LendIt's annual Chinese event, I thought I'd take this opportunity to sit down with some of the interesting people here at the event. This and the next episode are both going to be recorded here in Shanghai.

For this episode, we've got someone very interesting, Timothy Li, who is the Founder of Fluid which is a fascinating new company and they were a finalist in our PitchIt event here in Shanghai and they actually won the LendIt Choice Award for PitchIt. We were very impressed with what Tim is trying to do so I wanted to sit down with him, get him on the show to talk about what he is doing that is really very unusual, hasn't been done before. I think it's a groundbreaking product and wanted to sort of dig into it, share with the listeners what his ideas are and how he's implementing them. I think it's a truly fascinating story, hope you enjoy the show!

Welcome to the podcast, Tim.

Timothy Li: Hey, thanks for having me.

Peter: Okay, so you've had a very interesting background, seems like you've worked in many companies around this industry so why don't you give the listeners a little bit of background about yourself and what you've done.

Tim: Sure, I grew up in San Francisco in the late 90's and early 2000's there was the dot com boom so I was actually involved in quite a few startups. We IPOed twice with Andover.net and VA Linux and also founded a startup while I was in college so entrepreneurship is in my blood, so to speak, but my mother told me that I needed to get a proper education and work in the corporate world so that's what I did. I studied Mathematics at San Jose State University and Applied Mathematics at USC and Harvard MBA later.

My first corporate job was at Intel Corporation making micro processors, then a gentleman from JP Morgan Chase called, I want to say 12 years ago, and said...hey, we have some issues at a



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bank that you can help me to solve which is also a mathematical problem. At the time, my career was in high tech so when he called I'm like well, I already bank with Wells Fargo, thank you, but no, thanks. So that was my entry point really to financial services, but he presented me with an interesting problem where we needed to solve an optimization problem, how to allocate currency in all the ATMs, branches, drawers in a multi-denominational way, meaning 5 cents, 10 cents, 1's and 5's and 20's so to me it was a mathematical problem that's what I was solving at school and at Intel to a certain extent.

I picked up on it and I spent the next six years at JP Morgan Chase, learned and did just about everything in their retail bank. That was my first foray into I guess fintech, right, we spend a lot of money, energy, resources and research to develop really cool banking technology. So I love banking, I owe a lot of what I do today to my experiences of managing all JP Morgan Chase's new account opening, online new account opening back in the day, ten years ago, so a lot of the new stuff that we enjoy today; geolocation, IP device, fraud, identity checks and things like that all really came out of the bank 10/20 years ago.

Then I spent the rest of my time working with just about every online platform out there, either advise or launched so my claim to fame is that I launched loanDepot's personal lending platform most recently, raised with Jefferies and Ellington over \$500 million, took me about nine months to build it from scratch to launch. After that I worked at RealtyMogul for a while building out some of their backend technology.

So here we are, 2017, I started my new startups which we're going to get into, about a year ago and I'd like to think that we've...it was a tough year, no lies about it. Anybody who wants to get into entrepreneurship in fintech...it was tough, it was a tough year for us let alone some of the things that have happened in the marketplace lending space in 2016 so a lot of people were telling me it was the worst time to start a fintech startup (Peter laughs), but this is what I know. I tell people if I sell shoes, I require training, but if I do online lending or online finance I have a head start, so to speak, so that's my sort of education background, upbringing, a little bit of my professional background.

Peter: Okay, so then let's talk about your entrepreneurial journey over the last year and what are some of things you've started. I mean, we'll get into the main one in a little bit, but just talk about the different things that you've done.

Tim: Sure, so as an entrepreneur I've tried just about everything. Last year at LendIt...by the way, we're here at the Lang Di Fintech Summit right here in Shanghai which has been a great conference, so far. Last year, we did a joint venture with P2P Protect TongJuBao out of Shanghai and we're going to bring a shared risk platform to the United States so that was something fascinating that I've been working on for the past year.

We also created another company called MaxDecisions which is an AI machine learning, algorithm team to help other lenders in the United States to do better in pricing, underwriting, fraud detection and portfolio management so we have 20 active companies who we're working



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with, large and small, not going to disclose who we work with, but there's a lot of people that need our help. We have about ten people that are all Ph.D. statisticians and Ph.D. mathematicians to help all lenders to figure out what they can improve upon, again, whether in fraud, credit risk or pricing.

The main, my baby, if you will, is Kuber Financial, it is an online lending or finance company where we have multiple products. The product we're launching I'm really proud of is this product called Fluid. I've been thinking about this product long and hard; what is one product that is new in terms of business structure product offering and do good at the end of the day. So Fluid is what we're pitching here at LendIt and we're so fortunate to be picked as one of the finalists for the PitchIt competition. Any fintech entrepreneurs out there, I hope that's your ultimate goal, at least for the first couple of years of your journey.

Peter: Okay, so then why don't you describe Fluid a little bit and why you decided to start it and what problem you're trying to solve.

Tim: Yeah, this actually goes back to my presentation at CreditEase in Beijing I think it was. Last year I was here exactly the same time last year and I was trying to figure out what I was going to do next, I was just coming off of a pretty intense build with a crowdfunding platform that I mentioned earlier and I thought about it for two hard months. The LendIt China trip that I took last year was very eye opening. In fact, my body went through a shock after the journey...I told my friend after I got back from Shanghai, I said, well, the Chinese in terms of innovation is about ten years ahead of us, by my measure, but US is ten years ahead of them in terms of regulations and compliance. There's pros and cons of that statement so long story short, I think everything that I was thinking about building, the Chinese platforms have already built. There's nothing really I can sink my teeth into. If I look at home it's somewhat saturated as well; there's a lot of large players out there in the personal, SME, factoring line which is kind of what I know.

What is the one thing that I can actually fixate on so I started to think about what is a fintech product that can really truly help people. I started doing some research and out of the Dodd-Frank ruling there was another piece of legislation called the Credit Card Responsibility Act of 2010 and the act did a couple of things. It pushed all the credit card companies and banks out of their on-campus advertising, you know, the booth where they give out a little football, t-shirts in exchange for a credit application. A lot of us got our first \$500 credit card here in the United States from that so now that's all deemed sort of illegal, the rule is written in such a way that's kind of funny that none of these companies can be within a thousand feet or yards of any university. (Peter laughs).

It's kind of a predatory law so I visited a lot of banks including Citi Ventures and they were saying that while Tim this is a great idea we're trying to figure out a way to serve that segment better, in essence they can't do it, because of legislative pressure. So I said, well, what are students' alternatives to build credit in college? I hear a lot of horror stories about finding out they have no credit after graduation so when they're trying to refi their student loans, buy a car,



even renting an apartment now you have to put down a pretty hefty downpayment if you have no credit or credit is not...

Peter: They'll do a credit check on you.

Tim: Exactly, that's right. Everything we do now involves a credit check. And then I hear...these folks were telling me that, you know, I was struggling because my last year was spent in Europe doing an exchange program, when I got back I had to restart my life in a way and credit is one of the things I really needed. They found these really unsavory products like secure a card and things like that where you have to give them a couple of hundred dollars to start a credit card and the activation fee is pretty horrendous, you know, no less couple hundred percent kind of APR.

So I thought there has to be a better way, there has to be a better way to help our best and brightest minds of young folks. We give them a great education, academic speaking, but we sort of left them languish in the financial education, financial literacy category. There's no credit card 101 or personal credit 101 that's being offered unless you take some MBA classes, I suppose, so I said why don't we build a truly unique product where we offer probably one of the, in my opinion, best financial products to really help students to build credit while they're in school.

So while they're getting this great academic education, they're also getting a great financial literacy education from a company so we created Fluid. We're offering a 0% personal loan to our students, unsecured, you pay it back in three to six in monthly installments and we report this activity to the credit bureaus to start helping students build credit. The mobile app delivers education content to students and the way we're doing it is unique as well; we're not telling our students what to do. Kids nowadays don't want to hear, you know, somebody badgering about their tidiness or this and that.

Peter: You have to make a budget.

Tim: Make a budget, exactly. The way we're trying to educate folks is in a passive way. We're telling students, hey...if the student goes to Caltech, Caltech's average FICO score or credit score just went up by two points or 20 points, keep going Caltech or the student body of Caltech here's three ways to build credit or keep going, make on time payments, watch your spending and check your bank account often for overdraft fees, things like that. So we're not really telling Tim or Johnny to hey, you better do this and that and this. Attaching credit at this loosely connected university social network...saying Caltech has been doing this and you're part of that average score or average whatever it might be so tangentially I'm pushing these education pieces in a psychological way, to tie it back to the school because people love their school, right.

We have sports rankings, we have academic rankings, why not a credit score ranking (Peter laughs) so we're also publishing these...If you belong in a certain league, within the league, here's the top one to 13 average credit scores, if you're in Ivy League, Harvard is this, Brown is this...again tangentially, I'm ranking all the universities by their average score and because



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you're part of that, the student is part of that, they might pay attention to that. So these are ways we're trying to pump education pieces to students and get their attention on why it is important, how you can build your credit and avoid really, in my opinion, predatory products out there that end up hurting you, not helping you. So that is our central aim, to help students and we worked really hard for the past three months to get ourselves ready for the new semester which is going to be in August 2017. Recently, we announced that we're going into 32 states so now we have coast to coast coverage and 90% of the population and 90% of the student population will be covered by Fluid. I think it's a great product.

Peter: I want to actually dig into that because you just sort of casually threw out there that this is a 0% unsecured loan.

Tim: Sure.

Peter: It's like I can hear the listeners going, what the heck is going on there.

Tim: Right.

Peter: So why don't you just explain that and how do you actually create a business that offers a 0% loan?

Tim: That's right, the simple answer is that Tim has gone mad. (Peter laughs) The more complicated answer is that Fluid is really a platform to introduce different types of products to students. The 0% is a "win-win" situation for all of us; students get to build credit, parents feel good about it and it's a good way to introduce them to the Fluid brand. Within the Fluid platform we will offer lifestyle products such as 24 hour fitness or certain discounted sports arena memberships and things like that and we'll offer other insurance products or other sort of financial products in addition to just additional lifestyle products because we understand their banking/spending behavior, credit spending behavior.

We will extract certain information off of their mobile phones to help us fully understand their behavior as a future consumer, if you will, so we can advertise different products to students and the match up between fintech and adtech. Advertising technology is how we're going to make money or how we're going to make a business so the loan themselves doesn't spit out interest or doesn't spit out a coupon, but our debt partners are getting a revenue split, if you will, on the advertising sales.

Peter: Right, so it's sort of like a Mint or Credit Karma type business, but instead sort of providing like a free credit score, you're providing a 0%...

Tim: ...an actual product that builds credit so it's actually useful for the students so I think it's something that hasn't been done before. I think it will be interesting to see how fintech, adtech on a private sort of a social network which is a university-based network could bring some fundamental changes and bring some fun back into fintech.



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Peter: (laughs) Come on, fintech is fun.

Tim: Yeah, fintech is great, I love it.

Peter: Not everyone probably agrees with that. So I just want to dig into that a little bit, the 0% loan you're saying is up to \$500.

Tim: That's right.

Peter: It's a monthly installment loan, unsecured, I mean, you're reporting to the credit bureaus, I mean, I guess the question the...I can see how the education piece is so key because...I remember when I was a student, I was pretty irresponsible in many ways, one of them was financial. There was many other ways I was irresponsible, but I guess that's going to be the challenge, I imagine. What are your projections about defaults and that kind of thing?

Tim: Sure, we actually did a study with Equifax, we dived into the age band that we're interested in. The closest thing we can find is a student credit card when we actually had student credit cards back in the days. If you look at their performance, if you look at credit card performance, if the student does carry a balance, if you will, on a credit card product it's anywhere between 10 to 15% of 90-day past due so 90-day past due is essentially a chargeoff. Anybody that works in the lending business knows that even if there's a 60-day delinquency rate, the percentage of that going to straight chargeoff is pretty high so 90 days is pretty certain.

So I'm expecting 10 to 15% default rate, it's pretty high, but our average loan amount is really \$150 to \$175, you can get up to \$500 if you have strong credit. Some establish strong credit and if you have a healthy balance in your bank account. We do risk based pricing...well, I take that back, it's 0% so we do risk based line assignment or loan amount adjustment so on average it's \$120, \$150, \$175, with the expected loss rate, if you will, is \$10 to \$15.

So my advertising revenue will first and foremost have to make up for that loss and then make another 20% on top of that to breakeven. The beauty of this is that I can advertise multiple products per student, not just one. I'm able to convert this lead to SoFi or CommonBond, for example, to put those sets of data, two/three semesters worth of data on a silver platter and hand it over to them and hopefully I'll command slightly more premium on my leads than the regular lead generators out there.

Peter: Right, right, that makes sense. So one big question that comes up for me is how are you going to find these students, what's the plan?

Tim: We have online and offline marketing strategies.

Peter: You're not really providing...are you allowed to setup on campus?

Tim: We are not a bank, we are not a credit card company or a credit education company and that's why we're offering the 0%. Even if this comes into question, 0% interest rate and it's uncollateralized, it's an unsecured product, and you have three to six month flexibility to pay it



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back and the goal of this product is to really build credit. Once the students have a credit score and have some history, I can package this entire packet of information and send it over to you, the bank...I can introduce students to the bank as opposed to the bank coming out and look for students on campus.

In fact, we have set up with...I want to say six or seven university campuses already all around Southern California. You know, when we go and interview with the campus organization we tell them exactly what we do so they underwrite us a little bit and they grant us to be on campus so we have tons of little giveaways and little fun games for students to play. Hopefully, they will download the app, learn what the app is about and all of our staff are really excited because they believe that the 0% product is the way to go.

Peter: Okay, so another question is around where are you at as far as...I know you've only really just begun, but can you share like how many colleges...you said you're now in 32 states, 90% of the student population...how long have you been live and what's your traction to date?

Tim: That's right. So we launched...I want to say about three and a half weeks ago, we have over 22,000 downloads, it has gone viral a little bit because of the message that we sent out, so going back to your first question. We're in 32 states, it covers about 90% of the universities, there are over 4,000 four-year colleges in the United States, a lot of universities and if you count two-years and vocational and other schools there are 10,000 universities. If you go on to our app you can actually see all the colleges. We actually select which college you belong to or university you belong to, there's 10,000 universities, on-campus, so we are hitting all the population centers obviously to get us started. We've already done a college tour in 2016, we took thousands if not hundreds of thousands of photos of every single campus we're going to be on.

Peter: Oh wow.

Tim: That was a secret tour our marketing manager took a lot of time to travel across the country back and forth so you follow us on Instagram, search for us under Fluid App or Fluid Credit. You can see that we've been posting all our branded messages on every single college campus, known statues or certain famous buildings and what not so we've spent a lot of time to really curate that message that we are all about credit education, we're all about on-campus, we're all about getting into the university system to help folks to build credit.

In fact, a lot of our staff are young themselves, they remember their experiences well so when they talk to our customer on the phone the chemistry is already established, in essence. So I'm looking forward to this August or the fall 2017 semester, again, we have an on-campus presence in most of Southern California, that's where we're based out of and leverage that to do an online sort of on-campus using a "marketing blitz online" as well so appearances around campuses in Southern California which we will. Also, on social media we have these photos already taken from last year, to start plastering all over the internet.



Peter: Right, so I want to talk a little bit about the data analysis you're doing. You've talked about the importance of artificial intelligence in what you're doing so can you just explain how you're bringing artificial intelligence into play here?

Tim: Most of the AI algorithm we've developed is really serving contextual and meaningful ads to students. I'll just state an example. For example, if I know that there's 10/20 of Fluid users on campus and last time I geolocated their phone they seem to be together near a stadium or near a student union. These are all representative of certain events so if I know that they're near the on-campus stadium I can easily pump a cohort or group level advertising at the same time to that batch of people.

So we know Amazon is clever, Amazon has made a name for themselves developing custom advertising to say hey, Tim, you bought socks, you might be interested in shoes or vice versa, but we're going one step beyond that; we're doing group real time advertising. So everybody gets an alert on their phone saying, hey, you're near a stadium, if you take another sort of loan with us, \$20, \$50, whatever it might be, you can get a discount at the service station or you can get a discount at this chain restaurant which we already have an established relationship with. If you go shop there, instead of \$20, I'm going to give you \$40 to encourage them to shop at our partner's facilities, but what is really interesting is that when all these 10/20 people get the same ad, not only do they see it, they may be closer to each other to create a conversation.

And because I have this sort of loosely related social network in our app there's bound to be peer pressure so even if I see the ad...oh, I'm not really interested in going to Johnny's Hotdog Stand or something like that, somebody in your circle may want to and if two guys say, hey, I'm going to go get a hotdog, fine, I'll go. So this is how we're going to use AI to really drive the next generation of adtech so that's what I'm most excited about and that's one example of how we're going to create conversations in a peer group setting using these AI detection...between mobile technology and also spending behavior when matched up together to deliver these contextual and meaningful advertising pieces to kids.

Peter: Right, I imagine being...if you're targeting college students they're not going to think that's creepy whereas if you try to target that to a bunch of 50-year olds they'll think that's kind of creepy. Here I am walking into a football stadium...

Tim: Right, right, how would they know, right, so, you know, I think that's a great point because we take privacy very seriously. Everything we do is opt-in, sometimes double opt-in so we think that the younger generation, Generation Z's that are born between 1996 and 2007, are more apt into...hey, you know what, yesteryears was all, me going to you, I need to go somewhere to get food, I need to go somewhere to do laundry, I need to go somewhere to get my car washed, now everything is coming to me, UberEATS, you name it, they are coming to me to service me so why not have meaningful advertising come to you when you need it at the time of that possible consumption event.

Peter: Right, right.



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Tim: So that's what I'm talking about. So, in essence, I'm delivering this on demand advertising but with a meaning and context. To a certain extent, I'm offering a \$50, \$100, \$125 loan, now they have a little bit of spending power to buy the hotdog and to buy that...

Peter: And at 0%, so what's not to like, it doesn't cost them anything really. In some ways it's a win if you pay that back, you have the money to learn, there's no time value of money and you...

Tim: Exactly, and we report that to the bureaus to build your credit.

Peter: Right.

Tim: So, you know, I could spend the whole show talking about this stuff (Peter laughs), I think it's really fun, but the proof is in the pudding. This semester is going to be really interesting and hopefully, in April 2018, when we do LendIt San Francisco I may have some really interesting results to share with everybody.

Peter: Yeah, that would be awesome. So I just want to clarify, I want to become clear on...you talked about having other Fluid products or other products you want to offer, what are some of the things that you're talking about?

Tim: Yeah, there are products that we just don't understand like selling electric bikes, for example, or some other goods. We're not in that kind of a distribution channel, but there are certain things such as identity protection. Say that a Fluid customers or students are borrowing \$500 to pay for that plane ticket to travel abroad, either during summer vacation or just study abroad, more than likely what's top of their minds is what if I lose my wallet, what if my credit card gets stolen. We may offer an identity protection program for, I want to say, \$5.99 or something like that for that trip.

So those are the things we're talking about or thinking about and if we do ink these deals with travel agencies, if you book travel with your peers during the summertime we may even offer some kind of a peer group or shared risk insurance offerings. How that works is that...let's just say that 20 people are going on this trip, each one of you guys pitch in \$10 to insure each other. In case somebody gets sick or somebody has an emergency and needs to come back to the United States, the insurance will pay out to pay a portion if not all of the plane ticket, the emergency plane ticket to bring that student home.

Peter: Hmm

Tim: But if nothing happens, which is a majority of the case, everybody's happy and everybody got back home then we will return 85% to 90% of that premium you paid back to you. No insurance company is doing that, right?

Peter: Right.

Tim: We always buy insurance when we fly for \$12.99 or something like that, we kiss that goodbye.



Peter: It's an expenditure, it's not coming back to you.

Tim: Exactly, so that's another way for us to introduce a little bit of flavor of insurtech right on to this platform as well. So those are the things I want to build that's beneficial and at the end of the day, making that business work so peer to peer insurance or shared risk platform, identity protection; anything that's around what students might worry about when they go out into the brave, new world. We may have a branded product as a lead in.

Peter: Okay, we're just about out of time, but I wanted to just some idea about where you're taking this, and what your goals are...like I know this is your first academic year you're going to be live so if we're coming back to Shanghai next year and we're sitting down, what are some of the metrics that you..that your goals would be of what you'll have achieved in the last year?

Tim: Yeah, so here are my measures. I need to have 5% of the incoming freshmen to use my product, just to download it and 2% of the existing student body to download it and a certain percentage to use that across about 1,200 campuses. My ultimate goal is to have 300,000 active users that are monitoring their credit, try out new products that are tailored to their need to make it work. I don't want to build anything small, Peter...so 300,000 active users, my projection is I'll get there in about 18 months, but that is based on some really hard marketing....we're going to have to slough through a lot of marketing, put a lot of marketing effort into this. What I am sort of betting on is virality. If this thing takes off, it could be a hockey stick and I might get to that 300,000 active users very quickly. It's sort of a good problem to have, but I've got to be prepared for that kind of stuff. My ultimate goal is no joke...is to become Snapcredit.

Peter: Right, okay.

Tim: All the social networks out there, Facebook included, they've either tried it or don't want to get into it, but I think this is a great platform for us to redesign a portion of this product into a chatbot that could be integrated into Facebook or sort of a fun interaction on Snapchat to get a small credit for the student population. That's what I'm hoping for, to become Facebook Credit or a Snapcredit. That's why I'm building this thing at the bank grade level, build some social network behind it so there's multiple ways that these social platforms may be interested in doing a partnership going forward.

Peter: Right, well, best of luck to you.

Tim: Thank you, Peter.

Peter: Thanks for coming on the show, Tim.

Tim: Appreciate that. Have a good day. Bye.

Peter: So this whole 0% thing is really interesting to me and obviously it's a very different business model to pretty much everybody else in the marketplace lending space, but I could see



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it makes perfect sense and you're generating revenue in a similar way as we said like Credit Karma or Mint where you're making money on the referrals that you provide. So I think it's...time will tell obviously if this is an idea that has legs or it's just one of those ideas that cannot become financially sustainable.

Clearly, I imagine if there is scale here it's all about acquiring the customers, acquiring all of these students and becoming this sort of viral app that can bring in customers very, very cheaply because that is going to be the key. Well, I'll certainly be following Tim with interest and I think it's going to be fascinating to see if this 0%, \$500 or less loans is a product that can be really great lead gen for the industry.

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

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(closing music)