



LEND ACADEMY

PODCAST TRANSCRIPTION SESSION NO. 118-MISHA ESIPOV

Welcome to the Lend Academy podcast, Episode No. 118. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt.

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Peter Renton: Today on the show, I'm delighted to welcome Misha Esipov, he is the CEO and Co-Founder of Nova Credit. Now you might have heard of Nova Credit because they were the winner of the 2017 PitchIt at LendIt contest. They won both the Judges' Award and the Audience Choice Award so they were obviously very popular at LendIt back in March.

So I wanted to get Misha on the show, he has got a fascinating company and it's something that I truly believe in the mission of what they're doing so I wanted to get him on the show, talk about how he's able to do something which is create an international credit bureau. It's never been done before so I wanted to dig into that, talk about the challenges in really logistically pulling all that together, talk about the kind of lenders and customers that he's working with today and what his visions are for the future. It really was a fascinating interview and I hope you enjoy the show.

Welcome to the podcast, Misha!

Misha Esipov: Great to be here, Peter.

Peter: Okay, so let's get started and give the listeners a little bit of background about yourself. We'd like to hear a little bit about your immigrant story and also about what you've done in your career.

Misha: Sure, happy to give you a little bit of light into that. So my background, originally from Russia, immigrated to the States almost 30 years ago with my parents, we were part of this post Soviet Union academic drain of people to the States and came here, went through school in the States, and then studied math in undergrad, started my career in New York. I was there at Goldman Sachs for a few years and then at Apollo, the private equity fund, before running away from the institutional private equity investing world to go to graduate school at Stanford really just to reflect and figure out what was next in my journey and then figuring out how I wanted to further develop myself and my career.

Maybe a little bit more on the immigrant story, I mean, as an immigrant yourself, Peter, you likely can relate to some of the challenges of moving to a brand new country, many times a new



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language, new culture, no economic safety net, your education isn't necessarily understood or respected, your skills aren't necessarily directly transferrable and on top of that, the financial services industry shuts you out. I hope to cast some more light on that, that's specifically the problem that we're addressing.

Peter: Right, so let's just go into that like what was the...because obviously you came over as a child, you didn't have to try and get a credit card three months after you landed. Where did the idea for Nova Credit come from?

Misha: We were working on a variety of entrepreneurship courses at Stanford Business and Engineering Schools and we were very focused on learning more about student lending and student lending experiences. We were doing a dozen or two dozen interviews every week with graduate students from around the country. If you look at the demographics of any major graduate school, half of the student body is international and a 100% of that half will complain about this problem, how they can't get a credit card, they can't get a student loan, they can't get a cellphone plan without putting down a deposit, they can't get an apartment rental without six months of deposit or getting a US co-signer, they can't get an auto loan, they can't get their utilities turned on. It started to become increasingly clear that there was a systemic problem here that just didn't add up.

Peter: Right, right, so then...to me it's one thing to recognize the problem and another thing to actually create a business because clearly, this is not a simple problem you're trying to solve. There's a reason that here we are in 2017 and this is still a problem until you guys have come along primarily hasn't been solved. So tell us exactly what Nova Credit does and how did you go about starting? I imagine the challenges about where do we even begin would have been pretty tough so tell us a little bit about that.

Misha: Yeah, so the immediate solution and one that there are two companies out in the marketplace that try to solve is by actually providing a financial product to this demographic. So launching credit cards for immigrants or launching student loans for immigrants or auto loans that are tailored for immigrants or co-signing products on apartments for immigrants; all of those services can take some risk, they're great businesses, they're backed by some exceptional entrepreneurs, but they are very siloed and they really focus on one or two financial products or verticals and we really thought there has to be a better way, there has to be a way to democratize access to financial services to immigrants and returning Americans from day one.

We really started by learning a lot about the international consumer reporting space, it was a relatively new industry for us and I think in part a combination of stubbornness and naive optimism we sort of continued to pursue it and get more and more informed about the fact that this bureau system that exists in the US between Experian, Equifax, TransUnion and a number of smaller players exists in a very similar format around the world.

Bureaus now exist in nearly 200 countries. There are very few exceptions for major economies that do not have established credit infrastructure. The reporting standards are relatively similar



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around the world, this is very well structured data that is being used by thousands of lending institutions in those local markets. In many cases, these are US companies that have local subsidiaries that are putting billions of dollars in balance sheet at risk on the basis of this type of information.

And so the thought was well what if we actually pull all of it together and link up these large, discreet and growing databases into one holistic system and that effectively is what Nova has created. We are a single endpoint that allows companies, lenders, landlords, telcos, name the use case that has a credit component to it and we allow them through one endpoint access into consumer credit information from all around the world.

Peter: And you call that your Credit Passport, right, is that the product that you're talking about there?

Misha: Yeah, so the Credit Passport you can think of today as an international credit report so just as easily as, Peter, when you came to the US and got a stamp from the customs officer or the passport control on your Australian passport, people should be able to come to the US and immediately gain access to financial services. So it's their financial identity that travels with them wherever they go.

Peter: Right, and that would have been wonderful to have when I arrived here in 1991, I'm a big proponent because I feel the pain that your customers or the people you're working with. It is amazing, you go from being the equivalent of a 800 FICO in your homeland to the equivalent of a 400 FICO in the place that you've moved to so it's kind of crazy. So I just want to dig in a little bit to the Credit Passport. Firstly, let's talk about what are the countries you are working with and just break down how you're able to get this data because I imagine this data...they don't just give it away, it's not easy to get so explain how you've done that.

Misha: So the countries we have online today, we're up and running in India, Mexico, Canada, the UK, Australia and we're launching in the next few months China, Korea, Brazil, Germany and then a number of other major economies that send immigrants to the US. The way we've really thought about how we prioritize integration is the combination of technical and data availability and immigrant volume flows into the US because our primary focus is to help immigrants coming into the US or returning Americans that come back here.

To your question about how do we pull this off. When we first started, again, there is certainly a level of naive optimism in asking for something from these international bureaus that had never been done and the way we've pulled it off is a combination of regulatory work to understand local laws and how to navigate them to enable this information exchange to occur, business development work to motivate these largely privately held bureaus to want to work with us to allow them to better serve their citizens, working with their regulators to the extent necessary to bring comfort to such information exchange happening which is ultimately within the spirit of this entire industry that supports consumer access and control over their own information. A



consumer ultimately owns their file and a consumer should have a right to access and distribute that file at their own desire.

Finally, there's an incredibly complex technical element to collecting all the identification fields, integrating with various systems all around the world in real-time, authenticating consumers in real-time and then actually collecting this information, parsing it, mapping it into a global dictionary and providing additional scoring on top of that and then packaging all of that really neatly into a format that a US lending institution or property manager can digest.

Peter: Right, so I want to just use just an example, obviously Australia is the country I know best, I mean, I'm curious, the leading credit bureau in Australia as I'm sure you know, is Veda. They were acquired by Equifax not that long ago, so I'm curious, why doesn't Equifax do this or do they do this? If you're going and like you're an Australian immigrant, you've just arrived in the US, you go and apply for a credit card and the bank that you're applying to pulls an Equifax report, they should know that you are from Australia and you have this big file in Australia, but it seems like they don't. What is going on there that companies like Equifax haven't done this?

Misha: It's a great question and one that certainly puzzled us from the beginning because it is an obvious problem and the irony, as you're raising, is that the big three bureaus are multinational. Each one has a presence in 10 to 15 countries, but I think that also presents a limitation that the solution that they can develop within their own systems is confined to their own footprint. So Equifax, as an example, does not exist in Mexico, their presence in Asia is relatively light, Experian doesn't exist in Mexico or Canada; TransUnion doesn't exist in Europe.

So their ability to build a solution would only really address 20% of the problem; it wouldn't actually develop a complete solution. The only company well positioned to complete this, you know, what is a relatively herculean effort of bringing together these global systems is one that is independent and one that can work with all three bureaus hand in hand and that's the role we play, similar to acting like the Switzerland of the consumer reporting space.

Peter: Right, so companies like Equifax haven't done it simply because this wasn't a big enough problem for them, the market didn't...because they're not everywhere. They feel like there is just no point in developing the complex systems that would be needed to pull it off, I presume, is that what you found?

Misha: Yeah, I think it's a combination of a product that they can develop is a partial solution and the addressable market from the partial solution they can create doesn't justify the cost that it would take them to develop something like what we have developed.

Peter: Right, right, okay. So you've got Mexico and India, for example, obviously two very different countries; how difficult has it been to standardize all the data so people know that they're pulling credit data that is apples to apples?

Misha: It's a meaningful amount of work, I mean, our company is 70% engineering and that's because there's a lot of technical infrastructure that has to be built out and that is all being done



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out here in San Francisco by really an incredible team of engineers from around the country. The work involves first, understanding, breaking down and parsing the information that we received, understanding the definitions behind the information that we receive and then mapping it into a global format, but at it's core the information that we are receiving is very well structured and that makes this effort possible. We've spent a lot of time up front talking to industry experts, understanding how do the global data definitions need to look so that we can truly develop a global format and that's precisely what we've done.

Peter: So are you working then just with credit data or are there other kinds of alternative data that is part of this or is it just purely just credit data?

Misha: So the focus today is on traditional credit data, whether you want to refer to us as alt data is really subject to interpretation. Our product offering is traditional credit data that's been repackaged in a format and made available through a new distribution channel.

Maybe to add one point on that one, Peter, there is a vision to add additional indicators into our Credit Passport so pulling in and supplementing the bureau information that we're receiving from India with additional information from India or additional information about this consumer in the US. That's something that we certainly can continue to add into this underlying Credit Passport because the goal is to present a global representation of this consumer and their financial identity.

Peter: Right, so then I'm curious about...you're obviously focused on the US for the consumption of this data, so what is your business model? Is your business model very similar to the big three bureaus where the companies will pay to get these credit reports? What is your business model exactly?

Misha: It's very similar so from the perspective of our customers, you know, they go to Experian, Equifax, TransUnion for the traditional US data and they go to us for international data. We are a consumer reporting agency subject to the Fair Credit Reporting Act, we're regulated by the CFPB, we act and feel similar to traditional consumer reporting agencies and the business model is therefore one of selling credit reports for every report that we generate.

Peter: So does that mean that people are going to report back to you like they report back to the bureaus because that's how the bureaus obviously get their data, people send it back to them. Is that the same thing that's happening with you guys?

Misha: It is, yes, so the traditional bureau model is one where bureaus present certain discounts to customers who report back to them. So we have a similar process where the price is X if you want this report, if you also choose to share back with us there are real benefits for doing so and in addition to price being one benefit, but other benefits is that a number of customers are concerned with what's called flight risk. So, you know, people come to this country and underwriters are worried that they could then leave and walk away on their obligations.



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Statistically, that's a very, very low probability event, but underwriters are still very drawn to it and are always looking for solutions. One of the areas where we can help there and this is also what motivates data sharing with us is in certain countries we can actually report the events back to the foreign bureau.

Peter: Right, that's what you need, that's what you need. I had a person, an associate that I knew, a fellow Australian in the 90's, who was an entrepreneur, set up his business, it failed and he just went home. He said "I never intend to come back to America again" and he just basically left all of his debts unpaid and obviously it's a flight risk. That's what you need. If he knew that his data was going to be reported to the Australian bureaus, there's no way he would have done that and I don't think he would have done that in that same way so that's really I see is a huge piece of the puzzle for you guys.

Misha: Yeah, so ideologically, we believe in promoting a transparent credit system. Bad actors should be penalized as they move from country A to B and good actors should be rewarded and that's ultimately the ecosystem that Nova helps support.

Peter: Right, right. So I want to talk about who your customers are because obviously you think of like a Lending Club or a Prosper, or any of those guys. Obviously there's a certain percentage of them that are going to be immigrants that are applying, but then I know there are other lenders who work, like Oportun obviously, that we've had on the show before. They work with a very large percentage of immigrants for their platform so are you focused on platforms that focus on immigrants or are you focused on just general lenders?

Misha: So it depends on the verticals. Today, Nova operates in two primary verticals. I mentioned there are a number of use cases where credit information is needed and as a credit bureau we are ultimately product agnostic. We're happy to support decisions across financial services and telecom and utilities, etc. So our two verticals that we focus on are lending and the second is property management.

Within lending obviously there are so many different subsets. We started with some fintech customers, most of whom are focused specifically on helping serve recent immigrants and internationals, but we've also started working with a few general fintechs that see this opportunity as a growth market where they're already receiving hundreds or thousands of applications from this demographic and what they do is they go through the regular flow.

They will go ping one of their bureaus or whoever their data provider is, they'll try to receive a US file, they will find zero, or very thin information and they'll default to rejecting the person not because they're bad, not because the bureaus are bad, but because this information has never existed. So by working with us they are able to address a large and growing market that has very high credit characteristics.

Peter: Right, so you envisage a world...obviously the more countries you get online...the countries you mentioned earlier, obviously are most of the major countries that would contain the immigrant population, particularly those that are seeking credit or property. Obviously what



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you want to have is they pull from a regular bureau, see it's a thin file/no file and then they pull from you guys and they suddenly get all this rich information. I presume that is the holy grail for you guys, right, where there's your regular bureaus, whether you use TransUnion or whatever, they are similar in this country, so you use a domestic bureau, you use the international bureau and that's sort of what you do for all the thin file customers. I mean, is that what you are working towards?

Misha: Yeah, we want to be the data provider for this demographic. We are effectively, the only provider that exists today as we've spent some time talking already this is a very difficult puzzle to solve that requires global coordination and a lot of heavy technical build-out, but what we want every financial institution in the country to be able to do is to pull credit information on any consumer. So if you're a US consumer, your best source of information will be one of the US bureaus; if you don't have a US file but you have international information about you then you should be able to access that information through Nova.

Peter: Right, okay, so you know, as I mentioned in the introduction you guys won the PitchIt contest earlier this year in New York at LendIt. I actually went back and watched your pitch again just yesterday in preparation for this call and I'm curious about...we're almost six months removed, it's hard to believe we're six months removed from LendIt USA 2017, tell us about the progress you've made in the last six months.

Misha: It's crazy how fast time flies. I mean, we are incredibly busy, it's the nature of the stage that we're in and having found product market fit and continuing to build the business that we're building. Our team is at capacity, I think the progress in the last few months has really focused on continuing to add international lenders and add customers and further build out and improve our product.

So, you know, you and I were last in China, China is a huge market for us for many reasons and one that we're very focused on having a solution for the millions of Chinese immigrants who come to the US. So the supply side of our equation has been really an area of focus, I think on the customer side we've really built out the property management vertical in the last six months so we've had some really exciting customers on boarded who are noteworthy and scalable and really can act like incredible reference-able customers for us.

Now on the product side, we've made huge investments in information security and compliance to be able to work with the types of institutions that ultimately are in the most need for this solution as well as further building out the flexibility and the ease of on boarding and integrating our solution.

Peter: Right, so can you give us a sense of...I didn't actually ask you when you founded Nova. Can tell us that and when you got your first paying customer on board and then maybe tell us a little bit about the scale you're at, maybe the size of your team. Just tell us a little bit about sort of that journey into viability, shall we say.



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Misha: Yeah, it's been quite the ride. (Peter laughs) The idea formation really took off a couple of years ago now in 2015 where the problem statement became very clear and it took us over a year to go from what we thought would be the solution to first revenue.

A little bit about our history, we came out of the Stanford graduate program in 2015, immediately enrolled in Y Combinator, went through that program and subsequently raised our financing, grew our team and a few months later, early part of this year, we turned on our first set of customers. That's really been an exciting validation point in that the systems work, the information can be accessed instantly, as easily as you access traditional US information and it's scalable, it's something that is working. Every day I wake up and we have credit requests coming in overnight and that's really an exciting stage of the business to be in.

Peter: For sure, for sure. Who has backed you? Obviously, you went through Y Combinator...I know you haven't raised tens of millions of dollars otherwise you wouldn't have been eligible to do PitchIt so can you tell us any sense about like who's backing you and your fundraising kind of strategy?

Misha: Yeah, so we're backed by a number of incredible investors from East Coast, West Coast and internationally. To name a few, First Round Capital who is really a seed stage focused fund out here [in the Bay Area] has been an incredible partner to us; Index Ventures, as you may know, is one of the leading investors in Europe and here as well, have been fantastic. We also have a few fintech specialized funds including Nyca and Core as investors as well as an incredible group of angels from all parts of the financial services sector. You know, fintech, traditional finance, US, international and we're incredibly fortunate to be backed by such a broad and passionate group of people who believe in the mission of what we're after. It's certainly a big and ambitious vision and one that we always need the help and support of people from around the world to pull off.

Peter: Most definitely. So then tell us what lies ahead for you guys, what's on your roadmap for the next 6 to 12 months?

Misha: It's continuing to scale. Adding additional countries is a huge effort, there are 200 plus countries out there and we want to figure out a way to help as many of them as we can. There are immigrants coming from every one of those countries to the US, particularly countries where there are huge refugee crises going on at the moment. We are very focused on figuring out ways to develop solutions there as well. So the focus for the next 6 to 12 months is further build out the supply side so our data vendors, continuing to build out the products and the ease of integration and continuing to add more depth into how far we've penetrated into the lending and property management verticals.

Peter: Right.

Misha: There's a very clear direction for our business because the problem is very clear.

Peter: Sure.



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Misha: And the solution that we are taking is one that we have conviction around continuing to pursue.

Peter: Right, so we're almost out of time, but I just want to ask one more question because it strikes me as you're talking...I mean, you're obviously an international company and you're focusing right now on the American consumer. Clearly, there's the same problem that happens in Canada, I know in Australia, the UK, throughout Europe...is your focus going to be just on the US or do you feel like long term you can really be a truly international company where it goes the other way. You have all this information and you can be in 20 countries around the world doing the same thing that you're doing here in the US.

Misha: It's a great question. We were international before we were national.

Peter: (laughs) Right.

Misha: By virtue of our business model, we've had to build international relationships before we had a product because it is through those international relationships that we have developed a product. By virtue of our size, we've had to really focus on the US to start and it is the largest immigrant market in the world, but it's a matter of time before we launch in the UK, Australia, in London, in the Middle East, in Japan, in markets that receive millions or hundreds of thousands of immigrants, expats or returning citizens. As the global gateway for information or consumer credit information exchange, we have a duty to help and support immigrants in those markets. We're moving as fast as we can to further unlock those gateways in a manner that's scalable and regulatory compliant.

Peter: Okay, well, I wish you all the best, Misha, it's really been fascinating hearing about your company and good luck to you.

Misha: The pleasure is mine, Peter, really appreciate you taking the time and please do stay in touch.

Peter: Okay, sounds good. See you later.

Misha: Bye.

Peter: Bye.

As I touched on briefly on the show, this is something that is personal for me. I first came to this country in 1991 and I came from Australia, obviously I had no credit footprint here whatsoever, tried to apply for a credit card, got rejected, tried to apply for a store, like a store credit card, got rejected. Luckily, I did have an American Express card which was in Australian dollars that I would spend in American dollars, pay it off in Australian dollars. That helped me get by, but it took me, I think it was eight or nine months, to actually get a \$500 credit limit card. It shouldn't have been that hard.



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You could be a billionaire in Australia, you come over here and you try to apply for a credit card and you're probably going to get rejected if you have no credit footprint in this country. That's insane in 2017 so I fully support the mission that Nova Credit is undertaking. It should have been solved a decade or two ago, it hasn't so I feel like Nova Credit is doing a great job in solving what is a problem. It's a huge issue. If you're an American, you don't feel it, but if you're an immigrant here it's a huge issue and one that's very frustrating when you keep getting rejected. I wish them all the best, as I said, and I think they have a mission that is truly honorable and one that I see that will really improve the lives of many, many people.

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

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