



# LEND ACADEMY

## **PODCAST TRANSCRIPTION SESSION NO. 137-MATT HOLLENDER**

Welcome to the Lend Academy Podcast, Episode No. 137. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt.

(music)

Today's episode is sponsored by LendIt USA 2018, the world's leading event in financial services innovation. It's going to be happening April 9th through 11th, 2018 at Moscone West in San Francisco. We're going to be covering blockchain, digital banking and of course, online lending, as well as other areas of fintech. There will be over 5,000 attendees, over 250 sponsors and registration is now open. Just go to [lendit.com/usa](http://lendit.com/usa) to register.

**Peter Renton:** Today on the show, I'm delighted to welcome Matt Hollender, he is the Director of NetCredit which is part of Enova International. Enova are a publicly traded short term lender that many of us know, but NetCredit is their near-prime offering and I wanted to get Matt on the show. NetCredit is...they're doing some good things and they've got some decent scale and I wanted to get Matt on just to talk about how they do things there, how they do things that are different.

I mean, they've got a very interesting bank partnership model where they use a bank for many states where they operate and they have obviously a highly automated approach, but they also believe in not being 100% automated so that's an interesting discussion. We talk about how they fund their loans, how they attract borrowers, the channels they use and what the future holds for NetCredit. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Matt.

**Matt Hollander:** Thanks, Peter, appreciate you having me.

**Peter:** Okay, I like to get things started by giving the listeners a little bit of background about yourself and what you've done in your career up to this point.

**Matt:** Sure, absolutely. So first, my education is not in finance, it's in engineering so I studied industrial engineering, but what I found in my career is that there's a lot of parallels and I have been able to leverage that education a lot in terms of analytics and a focus on data-driven decisions. So my first job out of college was with CapitalOne and I was working on product strategy in their card division, specifically direct mail. So what I did there is I worked on developing rewards programs, doing customer segmentation and really understanding what customers were looking for in a credit card product.

From there, I went to business school and after that I joined Enova and what was really appealing to me about Enova as an organization overall was the fact that they were cutting edge in terms of technology and analytics, they operate an online model, they were in financial services which kind of allowed me to leverage my background from CapitalOne and it really



# LEND ACADEMY

played into my strengths as well as my interest in business and more specifically, the online model of service delivery. So my first role at Enova was part of the UK business so in that capacity I ran the strategy and products teams and ultimately led the business through the process of conforming to the new rules issued as the UK transitioned from the Office of Fair Trading, the OFT, to the Financial Conduct Authority.

So that work was really challenging and rewarding in that we were able to meet all the new rules that the FCA put out, but also to continue to bring our great products and services to the customers who needed them in the UK. So once the UK business was fully authorized, I was given an opportunity within Enova to take over as head of the NetCredit business. So the opportunity was exciting because NetCredit focuses on a different segment of customers and a different market which presents entirely different challenges.

So in NetCredit we are focused on a near-prime customer which is different than the UK which is focused on a subprime customer. The challenges are a bit different in that the near-prime customer is someone who, you know, is in transition. They may have had pretty poor credit performance in the past and now they're showing improvement or they might be customers that aren't scored at all and so it was really a compelling opportunity for me.

**Peter:** Okay, so let's just step back. Before we get into NetCredit, I'd like to just get a little bit of background about Enova. It's a public company, it operates globally...can you just tell us a little bit about Enova, the company?

**Matt:** Sure, so Enova was started in 2004 with a single pay product in the US. Enova was really the lead in terms of what we now call fintech so it was in fintech before fintech was really a word that we were using to talk about businesses like Enova. So our advantage has always been using our technology and analytics to deliver best in class products to serve customers that others simply can't or won't. So that was 2004, since 2004 a lot has changed.

The one thing that hasn't is our mission and so our mission here is to provide hardworking people with access to fast and trustworthy credit, but what has changed is that, as you mentioned, Peter, we are now a publicly traded company and in that intervening time we've lent and we've served 5 million customers over \$20 billion in credit. We've also accumulated over 15 terabytes in data that we can leverage to continue to serve customers in need of the types of products that we offer.

So in addition to the US product, we now not only operate in the US, but as I mentioned before, we're in the UK and more recently, Brazil. Across those geographies, we've got a number of different product types; we've got installment, line of credit, single pay products and we've also got products which are geared more towards small businesses.

Lastly, we've got a more recent business that we've launched called Enova Decisions and the purpose of that business is to really allow us to deliver our expertise in technology and analytics to companies that are outside of our traditional industry.



# LEND ACADEMY

**Peter:** Okay, so let's get back to NetCredit. So Enova obviously you talked about the subprime and NetCredit is more of a near-prime, or you can tell me exactly where it fits, but what was the sort of story behind NetCredit and where does it fit today in the overall company's picture?

**Matt:** So NetCredit was started in 2012 and kind of the impetus behind the launch was that we realized there was an opportunity to help customers who are closer to prime but still didn't have the access to credit they need to manage their finances responsibly. So if you think about typical credit offerings being a ladder, I think we're all very familiar with subprime and there's a number of product categories to support customers and consumers in that space. There's auto, there's credit cards, there's personal loans, among others, all geared towards the subprime consumer.

At the top of the ladder, we've got prime and prime is really saturated with almost anything you can imagine to serve any sort of need for that prime consumer so if I think about near-prime it's really kind of the proverbial missing rung in that ladder in that these are folks that may have previously had prime credit, but they've had challenges. These could be people that aren't yet scored by traditional bureaus so they don't have a FICO or a Vantage score and it could also be someone that has been more of your traditional subprime customer that has more recently shown an ability and a willingness to handle their credit obligations more responsibly. So, you know, really the goal of NetCredit and the way we think about the near-prime customer is that middle rung of the ladder.

**Peter:** Right, got it. Okay so then what is your role exactly, I mean, on your LinkedIn profile it says Director of NetCredit, but what does that actually mean and what is your role?

**Matt:** Yeah, so my role is the head of the NetCredit business. So in this capacity, I am responsible for setting the business and the product strategy for NetCredit as well as leading the efforts required to deliver against our financial plans. So in practice, what that means is that I leverage the amazing people that Enova has across a wide variety of disciplines to deliver the promise of NetCredit. So we've got some people that are focused on technology and analytics and we've got some people that are focused on finance, but the positive results that we're getting are really a result of the collaboration and innovation and execution across all these teams on a daily basis. So I'm just kind of the ring leader of a talented group of individuals to deliver NetCredit for Enova.

**Peter:** Right, okay. And so then can you give us a sense of the range of the terms of these loans. These are not single pay loans, I see on your website it goes up to \$10,000, so what's the duration of these loans, what are the typical APRs?

**Matt:** Sure, so before I get into the kind of the raw numbers behind the loans, our typical customer, again, is a hardworking American who is working on improving their ability and willingness to repay. So to generate our loan offers, our goal is to use a wide array and diverse set of data to make a fair and responsible lending decision that reflects the customer's kind of



# LEND ACADEMY

current reality versus where they've been so we want to look at them today and not yesterday, right.

**Peter:** Right.

**Matt:** So that's how we kind of think about the near-prime, as I discussed before. So, you know, what's important to our customer is that they want flexibility and they want limited fees so when we're presenting an offer to a customer, we're always giving them the ability to customize that offer to them. So we're going to present them with a range of offers that we deem appropriate in terms of the amount that they can borrow as well as the length they can borrow it for and then they're able to choose the combination of terms that's right for them.

So that said, NetCredit offers loans that are between \$1,000 and \$10,000, we have terms between 12 months and five years and our price points range between sub 36 bank loans all the way up to 150% loans. So I think...you know, when you think about that range, it's important to think about, again, the journey.

We talked about how a near-prime customer is someone that could have previously been prime, they could be unscored or they could be subprime. By trying to create a picture of where this customer is in their individual journey and thinking about where they are today, maybe they've demonstrated a more positive or an increased willingness and ability to pay for a longer period of time in which case we hopefully will be able to price them at the lower end of that price, you know. And if this is someone that has had more recent challenges in their credit history then we'll be able to price them at a higher price, but that range of prices really allows us to serve a broader range of customers with access to fair credit products.

**Peter:** And so then these customers you've talked about, they are people that maybe have had some challenges in the past and they are getting back out of it, or they're unscored or whatever...like a FICO score is not a perfect...it's obviously not a perfect metric, but it's one that we use to kind of visualize where a customer sits, where a company sits and what they are focused on so is your typical customer in like the 550 to 650 or can you give us some kind of sense of where these customers fit on the curve?

**Matt:** Yeah, so the vast majority of our customers are non-prime so prime is typically considered to be that 750 FICO range and we know that more than half of Americans fall below so our customers are comfortably in that non-prime range. I would say that we don't have necessarily a limits on who we'll serve relative to their FICO score because, again, our model is really predicated on our ability to individually score these customers and differentiate our view on their riskiness as someone to take on credit versus the traditional metrics. So we believe that our scoring capabilities...and we demonstrate this internally that they outperform FICO for the customers that we serve.

**Peter:** Right, right. So let's just talk about that a little bit. How are you scoring these customers or how are you making credit decisions? Obviously, you're rejecting some and you're pricing others, what kind of data are you using?



# LEND ACADEMY

**Matt:** So we use all kinds of data. NetCredit has been around for five years, Enova has been around for 13 years and substantially all of our experience is in serving these non-prime consumers so we've got a ton of experience here and we've got a ton of accumulated data internally. So we leverage our internal data as well as external data and you know we're constantly evolving how we think about that data and how it plays into a decision.

So during an application process, a customer will be filling out their application. Every step of the way we're updating our view on the customer and their credit worthiness. Ultimately, our decision is tailored to the combination of all the facts that we gather during that time and by the time they complete that application, which could be a few minutes, we're able to make a provisional offer based on what we know at that time.

**Peter:** Okay, okay, so then how do you get to these people, how do you find your typical customer?

**Matt:** So, as I mentioned before, Peter, we've got a 100% online model so we're acquiring customers through almost any digital channel that you could imagine, but where we're really putting our efforts in terms of you know...focus is making sure that our customers can find us when they need us. So since one our goals and something that we're successful at is to help our customer graduate to prime products, we're always looking for new customers as we successfully move these people forward in their credit journey.

**Peter:** Okay, so then you don't offer a prime product inside the Enova family, is that correct?

**Matt:** We don't.

**Peter:** So once you've graduated them, you move them outside of your organization?

**Matt:** Correct.

**Peter:** Okay, so then I'm curious about...how does that graduation process work, like someone comes in and they might get a \$3,000 loan and it's a 50% interest rate, they pay that back, then the next time they go for a loan are they going to become suddenly outside of your credit box? I mean, how does the graduation work? I guess what I'm really trying to get at is how are you improving the financial lives of your customers?

**Matt:** Sure, Peter, that's actually a great question. So, you know, as I mentioned before, when we're underwriting a customer, right, at the beginning of their journey, we're trying to get a picture of where they're at today so we can make a responsible and fair decision for them, but the goal is to help them move forward. I think that the most important thing that we do for our customers is that we report to the credit bureaus so every payment that this customer is making is establishing a positive credit history.

We live in a great country where there's tons of competition in the financial services space and we've got banks and other credit providers scouring the bureaus on a monthly basis to find



# LEND ACADEMY

customers and targets that they can market to so we're really counting on the robust financial services marketplace that exists in our country to give these customers access to kind of the next step of credit as other providers deem it appropriate.

**Peter:** Okay, then so are you operating in every state? How many states are you operating in?

**Matt:** NetCredit products are currently offered in 30 states. I think something that's interesting is that while NetCredit products are offered in 30 states, that's different than NetCredit lending in 30 states. So in 14 states, NetCredit operates as a direct lender. In these states we are licensed and regulated by the individual state and then the other 16 states, NetCredit products are offered by our bank partner. So our bank partner has leveraged our experience in technology and servicing capabilities and the online model that we've become experts at over the last 13 years to offer their products to consumers in ways that they don't have the internal capabilities to do.

**Peter:** Okay, so that's interesting. Basically, when you go to your website, if you're in a state that operates under this banking model, is it still a NetCredit process and the bank is really just making a loan or is it a co-branded process? How does it work?

**Matt:** So if you're a customer applying for a loan in a state where the loans are offered by our banking partner, you are applying for that loan directly with the bank and you are running through an application process which is dictated by them. So the bank is driving the bus and making all of the decisions and setting the criteria for those loans and they leverage our technology, our online platform and some of our analytics skills to do that, but ultimately, the customers are interacting directly with the bank.

Now it's offered under the NetCredit brand and the products are fairly consistent between bank states and non-bank states, the process to the customer is fairly seamless, but it is a process which is driven by the bank,

**Peter:** So why have you done that? Obviously, there are some states where it's easy to operate than others, as far as licensing goes, but what's the thinking behind having these two kind of models?

**Matt:** So really it's all about access, Peter. So in the states where we're able to operate as a direct lender, we do so and really it's a win-win for us and the bank because these are customers that the bank would love to serve, but they historically have not invested in the technology and capability necessary to reach these customers and so by leveraging our platform and our experience, it allows them into these states as well. So it expands NetCredit's reach and allows us to reach more customers as a brand, but it also gives the banks, the banking sector an opportunity to kind of move forward in terms of technology and capability and reach.

**Peter:** Right, right. So as you expand beyond 30 states, are you going to expand both of these programs?



# LEND ACADEMY

**Matt:** Yeah, so we're always looking for opportunities to expand our product offering and certainly in terms of the bank program, our partner has a lot to say in that.

**Peter:** Right, right. Okay, so I want to talk a bit about technology because you said it several times, so far, that you're operating online. I'd like to get some sense of how automated the processes are, how long it takes for someone to get approved and maybe you can just talk us through that, what happens once the borrower has filled in their information and they have clicked apply for a loan?

**Matt:** Sure, so I think the first thing I would point out is there's a couple of steps in this process. In the first step, I'd say that 100% of our underwriting is automated and rules based. It's incredibly important that all applicants are considered on equal grounds so we don't have anywhere, anyone that's looking at these applications and assessing their credit worthiness based on discretion. Everything is based on a predetermined set of rules and it's this discreet decision that's kind of pre-made, if you will.

As far as automation goes because we kind of said now that we've got 100% automation. I think we're kind of differentiated by the fact that at the end of the day we're not actually 100% automated in terms of the process. So some others will talk about and I'm sure you've heard this before during these interviews is that 100% of their decisioning is automated and the customer can get this loan without ever interacting with the lender one-on-one.

And so I don't necessarily believe that that's the right approach. I think that there is a balance that can be struck between automation and human intervention. In fact, I believe that we can serve more people by having a strong contact center and loan processing specialists on staff to help customers do the application than we could if the process was truly 100% automated.

When you start an application with a customer we're hoping that the data is available for us to make all the decisions and the verifications that we need in an automated way, however, that's not the case for 100% of people. So by having these people in our loan processing departments working on applications where this data is not available, we can partner with the customer to get the information from them to allow us to make the right decision for them.

**Peter:** Okay, so what percentage are you doing in a completely automated way, so that's one question. Second part to the question is are you then taking a proactive approach in all the ones that are not fully automated, you then reach out to the customer in a phone call or an email, or how does it work?

**Matt:** Yeah, so most of our applications get through the process with limited human touch and in the instance where we require some additional documents to verify income or identity or something like that, we've got people or staff in the contact center that are reaching out via telephone and email to talk with the customer and let them know the options that they have to keep their application moving forward.



# LEND ACADEMY

**Peter:** Okay, it's just curious to me that if someone is doing like a \$2,000 loan for example, I mean, there's not a whole lot of margin there, I imagine, for you to spend an hour on the phone with these people to really help them through. Maybe, you can answer my question, I guess, but is it for more of the larger loans that you're doing more of this sort of handholding through the process or is it across the board?

**Matt:** Yeah, so Peter, I think that's a great question and what it boils down to I think is our mission which is to provide access to credit. So we don't look at an application and say, you know, this is a larger dollar loan, this is a longer term loan, we've got an opportunity to make more money here. Really we look at these applications as equal and behind each application is a person that is in a situation that can be greatly helped with access to credit.

Our focus is on helping each customer as an individual get through the process and be there to answer those questions and be a partner with them because, ultimately, we want to be a partner in their journey towards prime. You know, it doesn't matter if they're going to be the biggest loan or the smallest loan; we're going to give the same kind of customer service and customer experience to each one of our customers.

**Peter:** Right, right, okay. The near-prime space is somewhat competitive, it may not be as competitive as the prime space, I'll give you that, but there are certainly others that are in this market. I mean, I had Ken Rees from Elevate on not that long ago and I know there are others as well. How do you differentiate between your company and your competitors in this space?

**Matt:** That's a great question. So I think the biggest differentiator is our experience. As I mentioned before, NetCredit has been in operation for about six years, but Enova overall has been in operation for over 13 years, you know, as an organization we've successfully moved through several economic cycles and we've got a full suite of products to serve customers through their subprime and near-prime journey.

You know, with NetCredit the differentiator is that we've got a fully customizable product that meets the needs and expectations of our customers. You know, we're licensed in the states that we operate in and we provide a range of products from bank issued installment all the way up to 150% APR loans and our focus is on being able to work with people no matter where they are in their journey towards prime.

**Peter:** Okay, and then I just want to talk about the funding of your loans. I presume you're a balance sheet lender, you're not operating a marketplace, all of these loans are coming off your own balance sheet. Is that correct?

**Matt:** So it's a good question. Historically, Enova's products have been short term and they've generated significant operating cash flow and so for the main part of the last 13 years this has been how we funded our originations. But as we've diversified our businesses and we've moved into longer products, right, so when we're talking about NetCredit, we're talking about products which span from one year to five years.



# LEND ACADEMY

The way that you fund these loans changes and the capital needs change so what that means is that we've had to think through how to best fund these loans. Many of our business units continue to generate significant operating cash flow and that can be used to fund growth, but to further support our business strategies such as NetCredit which have longer terms, higher dollars, we've also developed access to cost effective funding so that includes securitization, senior term debt as well as bank revolver markets.

**Peter:** Right, okay. Can you give us a sense of the scale you guys are at today like what sort of loan volume have you done?

**Matt:** So yeah, this is actually an exciting time to ask that question for us. We just hit \$1 billion in originations for NetCredit and it's a milestone that we're all really proud of. So when we talk about the typical term of a NetCredit loan being between \$1,000 and \$10,000...when you get to a billion, you can really think about the number of loans that we've made and the number of people that we've helped with our products and the amount of access that we provide to credit. So I think, you know, in terms of scale, getting to that billion dollar mark was a big win and I think that the biggest win though is really the number of customers that we've been able to serve.

**Peter:** Sure, sure. We're almost out of time, but there is one thing I'm curious about...you've got on your website here, you've got this thing called the My RightFit Tool. Can you explain what that is?

**Matt:** Sure, so I've touched on this indirectly a little bit before when we were talking about the application process, but the My RightFit Tool is part of every customer's loan application. So once we've determined that they're eligible for a loan, we're going to show them the My RightFit Tool and within that the parameters of the loan offer will be loaded so what term they're eligible for and what loan amount they're eligible for and any combination thereof.

And then the customer can fiddle around with this as much as they want and change it from a one year loan to an 18-month, \$1,000 to \$1,500 and they can see what impact that has on the amount that they're going to be repaying on a periodic basis, the total cost of credit on the loan. Again, it gets back to what we're trying to do which is deliver a flexible loan and the right loan for that individual customer.

**Peter:** So are you finding most of your customers coming to you on mobile or is it still desktop centric, what's the breakdown?

**Matt:** Yeah, so well over half of our customers are coming to us on mobile so mobile is a huge part of our strategy and we invest a lot of energy into ensuring that the experience that the customer has, whether they come to us with a 15-inch screen or a 5-inch screen, is going to be consistent and that they will have a clear understanding of the process and the questions they are being asked and the offers that they are being presented with.



# LEND ACADEMY

I think also important to mobile is, you know, one, being where customers are, you know, walking around the block in downtown Chicago at lunch time, people are on their phones, that's where people are, but two, it's also an expectation. So people expect to be able to log into their account through their mobile phone, make a payment, ask questions, see their balance, whatever it is so really we're just delivering what the customers expect at this point,

**Peter:** Right, okay so last question before I let you go, what does the future hold for NetCredit? Where are you taking this?

**Matt:** So I think we're just going to continue to try to innovate on our current product set and continue to reach more customers. You know, I talked a little bit about the milestone that we just reached with a billion and how important that was to us and our mission of providing access to credit to underserved customers and really the focus is on how we move the business forward and hit more of those milestones and provide more access to credit for more hardworking Americans.

**Peter:** Okay, well good luck with that. On that note, we'll have to leave it there. I really appreciate you coming on the show today, Matt.

**Matt:** Thanks for having me, Peter, it was a lot of fun.

**Peter:** Okay, see you.

**Matt:** Bye.

**Peter:** You know, before this interview I was doing some research on NetCredit. When I asked Matt about how much of their underwriting is automated, I expected the answer that a 100% is automated so it's interesting to me that they have taken an approach, despite all the masses of data that they have and all the history. Obviously they've done over \$1 billion themselves, but they've got all of the history of Enova behind them and all the rich data and he talked about 15 terabytes of data they have, it's interesting that they still find that human interaction important.

Obviously, they have decided that it is worth the additional cost to have that contact with the borrowers; very interesting approach and I'm sure it's one that they continue to refine, but you can see when you're talking with Matt the importance they place on that sort of customer-centric approach and doing things in a way that is serving the borrower. Obviously some of that involves holding their hands through this process.

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

Today's episode was sponsored by LendIt USA 2018, the world's leading event in financial services innovation. It's happening April 9th through 11th, 2018 at Moscone West in San Francisco. It's going to be the largest ever fintech event held in the Bay Area with over 5,000



LEND ACADEMY

attendees expected. We'll be covering online lending, blockchain, digital banking and much more. You can find out more by going to [lendit.com/usa](http://lendit.com/usa).

(closing music)