



LEND ACADEMY

PODCAST TRANSCRIPTION SESSION NO. 142-COLIN WALSH

Welcome to the Lend Academy Podcast, Episode No. 142. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

Support for the Lend Academy Podcast and the following message comes from Wunder Capital, the easiest way to invest in large scale solar energy projects across the US. With Wunder, you can help finance renewable energy projects while earning up to 7.5% annually. To get started, visit wundercapital.com/lendacademy. Wunder Capital, where impact investing meets capitalism.

Peter Renton: Today on the show, I'm delighted to welcome Colin Walsh, he is the CEO and Co-Founder of Varo. Varo is a fascinating company, basically they've created a mobile first bank account and they're creating a banking experience really targeted at those people who want to use their mobile phones as their primary banking tool. Colin is actually, he's not a lifelong entrepreneur, he's got a fascinating background. He's worked at some of the largest financial institutions on the planet, we talk a little bit about that; he's also really in a good position to address some of the shortcomings of some the large banks and he's doing that directly with the Varo Money app, we talk a little bit about that.

We talk about their banking charter application, they've put in a federal application with the OCC, we talk about how that's going. We talk about who they're targeting, what kind of products they're offering today and how they're able to offer their customers a better financial experience. We also talk about the lending product they have and the savings product and who they see as their competition today. It was a fascinating interview, hope you enjoy the show!

Welcome to the podcast, Colin.

Colin Walsh: Thank you, Peter, it's a pleasure to be able to join you for this podcast.

Peter: Okay, so I like to get these started by giving the listeners a little bit of background about yourself. Looking at your LinkedIn profile, you've got a pretty interesting background working at some of the largest financial institutions on the planet, can you give us a little bit of history about yourself, what you did before Varo Money?

Colin: Sure, I'd be happy to. I did spend 25 years at, as you say at some of the big financial services brands including American Express where I ran the consumer business in Europe. Prior to that, I was with at Lloyds Banking Group for a number of years running various parts of their retail banking business. Had a very interesting time during the financial crisis, sort of before, during and after the financial crisis. Prior to that, I was at Wells Fargo for nine years in their home and consumer credit group so I do bring quite a bit of experience in retail banking and financial services which I feel is very relevant to what I'm doing today with Varo.

Peter: So did you have the entrepreneurial bug or what was it that sort of led you to start Varo?



LEND ACADEMY

Colin: Yeah, I think that after spending so many years inside the traditional system, I felt in many ways uniquely qualified to understand some of the shortcomings, but also to see a white space emerging in terms of what this next generation of consumers wanted and what the incumbent players were offering. It seemed to me that complicated products sold through sales channels that cost a lot of money, particularly for people that have more volatile cash flows versus...people were benchmarking against Google and Amazon and Facebook in terms of a digital experience that was actually frictionless and provided a real easy access and very low cost.

So things that...you know, there is a generation of consumers that just wanted to interact differently and also the way they were thinking about their money. Money is a scary topic for a lot of people and the banks don't make it any less scary. Many people feel like they don't have the tools and aren't provided with the guidance that they need to make good financial decisions and to get ahead.

So I started Varo really with the belief that technology had evolved to a place that we could help customers solve everyday financial problems with just a few taps on the phone, provide more affordable access to financial products to a whole generation of consumers so it was really with that belief that we could improve people's financial lives that the company was started.

Peter: And so when you started...you go on to your website there and you see you can open up an account, a bank account, and so what are the services that you're focused on right now?

Colin: My belief to really move the needle on someone's financial health, you really do have to offer a full range of banking services because you have to start with the basics which is helping to manage and stabilize cash flow and that really requires the core checking account so you can see the money coming in, and money going out, how people manage their bills. So that's the kind of foundation of Varo, is that core checking sort of direct deposit account.

The next product that is very helpful again in terms of helping people to sort of improve their overall financial well-being is savings. And so having a savings account with a relatively good interest rate so that really incents people to put money aside, whether it's for an emergency or for helping them achieve specific goals so the next product is savings.

Then on top of that, we feel it's really important for people to have responsible access to credit when they need it and that might be more in a short term basis sort of to bridge cash flow needs that they have an unexpected expense because it could be for good reasons. They might have to buy an airline ticket to go see somebody or they may have splurged out on the weekend or it could be for not so great things, you know, you have a vet bill or a medical bill or a car expense, but sometimes you need credit just to sort of bridge yourself from point A to point B.

And then also credit in the form of installment loans to help consolidate higher interest rate debt that people may have or to make a major purchase. So we offer...really the foundational banking products that we offer are the checking account, the interest bearing savings account, a



LEND ACADEMY

form of short term sort of revolving credit and installment loans and those make up kind of the core of the banking products.

In addition to that, we offer services like aggregation so you can link all your accounts, so you can actually have a full financial picture. We offer what we call the Varo Forecast which is using machine learning algorithms to be able to predict what your cash flow is going to look like at the end of the month. So after you've received your income and you've paid your bills, how much left over money do you have and that is really useful for our customers to just sort of calibrate how they're doing from a cash flow perspective. We're now starting to introduce a series of alerts and notifications to bring people into the app and then to have suggestions for them if they're going to run into a problem or if they're sitting on excess cash. So we're working very closely with our customers to develop this roadmap.

Peter: Right, right, okay. So I am curious about how you are offering that because obviously...I mean, we're going to talk about your charter application in a little bit, but you're not a bank as of right now, I presume you must be partnering with a bank to offer like the bank account and savings product, is that correct?

Colin: That is correct. So our business model today is we've partnered with the Bancorp Bank, we've got a great relationship with them. They've really helped us bring up our product relatively quickly and it's all through the mobile device right now. Today, it's on IOS, we're working on building an Android app as well, but that's through Bancorp where any deposits, so the checking account and any savings deposits sit at the Bancorp Bank.

On the lending side, we actually can lend in 20 states in the US so we can cover over 70% of the US adult population from the lending perspective and those are through state lending licenses.

Peter: Okay, okay, so you don't have an originating bank that you're using, you're going through state by state on the lending side?

Colin: We've done all the heavy lifting ourselves.

Peter: (laughs) Okay, good for you. So you know, over the weekend I actually downloaded your app and I opened up an account. It was actually a very easy process, but I'm curious about what do you think is...you've worked at some of the big banks and you obviously have analyzed them in depth, I'm sure, before launching Varo, what are they doing badly and how are you making this process better?

Colin: I think we follow kind of a playbook of classic disruption theory so it's about minimizing friction, maximizing delight, delivering products at lower cost. So we're constantly looking at all of those kind of first principles. I think that because we're in a mobile platform, we don't own branches, we have a partnership on our ATM networks as opposed to having our own ATMs, we don't do expensive cash handling, we don't have legacy technology; we're able to offer our products at very low cost.



LEND ACADEMY

So there's no fees, there's no minimum balance fee, there's no foreign transaction fees. The only ATM fee you would occur is if you went to one of the ATMs outside of the partnership network we have where there's 55,000 free ATMs and you can locate them all through geolocation in your app. Our 55,000 is bigger than Bank of America, Chase and Wells Fargo combined so it's a big ATM network. So first thing is how do you lower cost and I think we've done a good job at that and we're also able to offer a more attractive interest rate on our savings and so I think that's really appealing to customers.

The second thing is taking away friction. So finding all of those things that are such nuisances that the banks through kind of their old technology where systems don't talk to each other or just lots of bureaucracy, it can be a real hassle to deal with one of the traditional banks. As you probably saw opening up the account, it's really easy and you just kind of keep tapping and it takes you about 3 to 5 minutes and the next thing you know, you've got a bank account. You didn't have to get in your car, you didn't have to drive to a branch, you didn't have to present your ID to somebody. It's like, you know, there are cases where somebody might get referred and we'll ask them to upload some information, but for the most part, it's a pretty frictionless experience.

So we continue to work with our customers to find those pain points or how do we just keep making it easier. Like yesterday, we introduced a new version of the app in the App Store that just made the account tab really easy because it was getting to a point where people were having to scroll to see all of their accounts. Now we have created a much simpler design and these are the type of things that we're using customer feedback to continually evolve and introduce new things.

The next thing is just about how do we maximize delight. A big way we do that is just listening to our customers. For instance, we look at every app review, every time there's an app review I get a notification telling me. If it's a 5-star, I send kudos out to the team. If it's a 1-star, we figure out how to solve the issue that the customer has and try to figure out exactly what went wrong. We take all of that very seriously. We also do regular NPS surveys so we hear what people are saying positively, we hear what people are saying negatively and we take that feedback very seriously so we can continue to evolve.

But I think the most important thing for us is something that we put in the app called Suggest a Feature and it's in the settings tab and there are literally thousands of comments that our customers are saying these are the things we want. If somebody says they want something, everyone else can say they agree with that, they can give their point of view and we read that. Every day we are looking at what people are saying and then we use that to prioritize.

So in the 4th quarter, we had four things that customers, hundreds of customers were asking for. They said look, we want to deposit checks through the phone, we said okay; two, they wanted to deposit cash at like a Safeway or Walgreens or CVS; third, they said they didn't like our customer service hours, we just weren't open enough. They wanted us open on weekends



LEND ACADEMY

and in the evenings. The fourth thing was they were doing their salary direct deposit, they wanted to just have access to their paycheck a little bit earlier.

So we implemented all of those things in three months, at Amex or Lloyds or Wells Fargo it would take three months just to get a meeting scheduled (Peter laughs), but we focused our engineering teams and we just executed and that's kind of how we feel we're just going to maximize delight, is just listening and helping our customers feel like they're part of a community that's really building the bank of the future. That their ideas are not getting lost and that we want to be responsive and keep incorporating these features.

So for those that downloaded the app back in June or July last year when we first launched it, it looks totally different and it's going to continue to evolve. That's part of I think our point of differentiation and what's special about Varo is that we're building this with our customers, we really feel like we're creating a community of users whose voice is being listened to.

Peter: Right, right. So then this community that you're talking about, I presume it skews to a younger crowd being a mobile only banking service, I mean who are these customers?

Colin: The majority, I'd say over 80/85% of our customers, really do fall into what would be a classic definition of millennial so ages 22 to 36, they tend to skew more towards sort of urban and suburban in cities and outside major cities. These are people with jobs and salaries, you know, there's an interesting population of people that do sort of gig work like sort of Uber drivers, Lyft drivers that find it really convenient to push money directly into their Varo account through Square Cash or PayPal or other methods like that.

Peter: Okay, and so then are these people switching bank accounts? Obviously they're probably not going to switch immediately, but is that what you're finding?

Colin: Actually quite a few are.

Peter: Okay,

Colin: You know, I think a number of our customers have switched from their other banks. You know, I think they're just so fed up with the services that have or have not been provided by their old banks, they find us a delight to be able to have a bank that is listening to them and evolving quickly and so really and I've said this right from the start when we created the company is we want to be a real credible alternative to other banking choices that customers might have.

Peter: Right, right. So then how are you finding these people, I mean, what sort of marketing are you doing?

Colin: We've done some marketing on more traditional, I guess traditional in the digital sense, you know, everything in our world is digital, but when...think about Facebook and Google AdWords and the App Store discovery. We've worked a little with SnapChat, but we've also had



LEND ACADEMY

a really healthy sort of content program with a blog and our website and Instagram. And we've seen our organic, what we call organic, so people that are not coming through a paid channel, grow almost I think it was 94% over the last few months so it's almost 100% growth rate we're seeing just as more people are finding out about Varo, and discovering Varo through various media channels.

Peter: You've talked a bit about providing a better experience, I mean, what sort of financial intelligence are you giving your customers, like talking about the cash flow tool. Is that sort of core to what you're doing and what are some of the other things that you're doing as far as helping your customers get a better handle on their finances?

Colin: Well I think that traditionally when you think about financial health and social impact there are lots of papers that are written, there's lots of content out there and I think the way I think about it is that we're trying to productize the impact we're trying to have in the world. So in other words, our product itself helps people lower their cost, it helps people build their savings, it provides affordable access so instead of trying to refer somebody off to a website to read a manual about how to improve your financial health, we're just creating that in the product itself. So it actually feels very natural, and people feel much more in control, if that makes sense.

Peter: Sure, so then I want to switch gears a little bit and talk about your charter application, I mean, you're partnering with a bank right now, but why go through the pain and the headaches and the challenges of dealing with the federal regulatory agencies, why apply for a bank charter?

Colin: Well right from the start, we were very clear that we felt the best way to have an impact, both here in the US and potentially abroad someday, is to become a bank and to be inside the regulatory regime where we will be able to collect deposits on our own and lend money. So that was always sort of the thesis right from the very beginning and that's why we were able to attract such large investment from some real top tier investors like Warburg Pincus, TPG, The Rise Fund and so we started that process over a year ago, we submitted an application last summer, you know, we're in active dialogue with the regulators and I would say, I would characterize that as quite positive.

I think they're very rigorous, which I would expect, and they have very high standards, which I would also expect, but I would say that's all kind of moving forward in the right direction so that I feel good about. I think that part of the reason why is it does simplify our business model as opposed to having deposits sitting with a sponsor bank and having lending through a series of state lending licenses and in effect, we have 21 regulators right now...you should think about the 20 states...

Peter: Right.

Colin: ...and then indirectly the FDIC through the relationship with Bancorp so it does simplify things quite a bit. It also creates more stability in the model so when you're using a relationship business model where you're collecting deposits through checking account and savings



LEND ACADEMY

accounts, that's much stickier as you go through credit cycles and financial cycles. So it just creates a much more stable, long-term business model.

Peter: Sure, and you're going for the full bank charter, right? You're not going for the Industrial Loan Charter? You decided not to obviously wait for the fintech charter, it's a full bank charter, right?

Colin: That is correct, yeah. Actually in the 4th quarter of 2016 that we started the conversation with the OCC and we said to them that we're not interested in the ILC charter or state charter. We're not really interested in the fintech charter because we're collecting deposits, facilitating payments and making loans and that's what national banks do and so we were very clear that we really wanted a full national bank charter.

Despite what everybody out there was saying, they were very intrigued by that and said the mobile first approach is very different, but the core products that you're planning to offer and the way you're approaching it is actually very much aligned with the traditional banking model. So really that was the start of what's been a very healthy dialogue.

Peter: Yeah, in my conversations with the OCC and we've obviously had them speak at LendIt and had several meetings with them myself and they want to embrace innovation. They've got their Office of Innovation now and they want to do that so it's good to hear that so far, anyway, your conversations have been positive.

I want to switch gears to your personal loan product. It looks like you started offering it about a year ago, early 2017, can you just tell us a little bit about what the terms are on this product like interest rates, the length of the loans and that sort of thing.

Colin: So the personal loan, we started offering it in sort of the back end of 2017 as more on a pilot basis so we had our flexible line of credit that we did some testing on earlier last year so really it's relatively new. The product itself is pretty straightforward, I mean, it's 3-year, 5-year terms, loan size is up to about \$25,000, the primary use cases as I mentioned are debt consolidation, high interest rate debt consolidation and major purchases, interest rates are as low as 8% and go up to I think...I don't know the max interest rate but it's like sub 20% so we're doing very prime lending. We're not...there's no sort of 36% APRs or anything like that so it's a pretty standard product. Right now, we're offering it to our DDA [customers so it's really positioned as a cross sell product, but we offer it on a pre-screened basis. So if somebody has been approved, they will get a loan offer in their account card. So what state are you in?

Peter: Colorado.

Colin: Colorado, so you might...now that you've signed up for a Varo account you can check your account card and see whether or not you have a loan offering in there. We can lend in Colorado and if you've been pre-approved, so it depends on your credit, but if you've been pre-approved you would then be able to apply in the app, it's really quite simple. We will pull a credit report once you initiate the application process and it's really clearly disclosed that we would be



LEND ACADEMY

pulling a credit report. Oftentimes, we'll probably request some documentation in terms of a paystub to just verify your income. Then it's a really quick funding process and we can fund either into your Varo DDA account or to another account, if you prefer that.

Peter: Okay, so you've got a lot of intelligence on your customers because you're seeing what their cash flow is like, you're proactively doing that today. Is this a product that you want to roll out eventually and really provide this to non-customers?

Colin: We wouldn't roll it out, but really the focus is around the relationship with the customer and as I mentioned earlier we start with the core, what I call the DDA account, the checking account and then we really promote having the customers open up a savings account and then if they meet our credit criteria then we would offer them loans, either a line of credit or an installment loan, whatever made the most sense for them.

So our plans right now are not to necessarily offer loans to people who don't have a Varo relationship because it really is more of a...as I said kind of in many respects more of a traditional banking model, it's a model that survived the test of time for 2,000 years, but I think over the last few decades the banks have just gotten very inwardly focused. Our challenge is how do we really rebuild that trust relationship using modern technology and through that, again starting with that core banking relationship. So our intent is to continue to deepen those relationships with our core customers.

Peter: Right, so I presume you're funding these loans from your own balance sheet today, is that correct?

Colin: We are, we are.

Peter: Okay, and then eventually, I imagine, once you do get a banking license you will be able to fund it with your own deposits. I'm sure that's the plan, right?

Colin: That's right, over time that would be.

Peter: Right, okay so then I'm curious about the traction you're getting. You're still pretty new, it sounds like, can you tell us any kind of metrics about how many people have opened up an account or whatever, can you give us some sense of it?

Colin: Yeah, I mean, I can give you a little...I mean it's growing very quickly. So we put it in the App Store, very early version, I'd say even pre-version 1 back in the middle of June and we've been iterating ever since, but we surpassed over 100,000 downloads last month. Those customers are rapidly moving through our pipeline and we have tens of thousands of people using the product right now.

Lending is starting to grow much more rapidly now that we've got sort of a core DDA base in place so we're incredibly encouraged by the traction that we're getting. We feel that that's only



LEND ACADEMY

going to continue to improve as we roll out new features and we open up new marketing channels, we introduce an Android app so we're quite bullish.

Peter: Right, okay. So when I actually opened up the account...you have got some large banks that you're working with as far as linking, you don't have all the large banks, you didn't unfortunately have my bank.

Colin: Who is your bank?

Peter: US Bank, is who I bank with.

Colin: Oh, it should be on there, you should be able to link US Bank, we're using an aggregation service. So we have access to pretty much all the major banks, a lot of the smaller ones as well. We're using a third party aggregation service to be able to do those linkages.

Peter: Okay, okay, I'll have to go back and look.

Colin: Most banks should...yeah, you should check that out again.

Peter: Right, right. So then when looking at sort of the landscape today...I mean, who do you view as your competition? Is it the traditional banks, is it some of the other digital players that are offering similar type products. I mean, who are you looking at?

Colin: Yeah, so I think that there's several distinct groups of players out there so I think there are the traditional banks, you know, the Wells Fargo's, the Bank of America's and the Chases', who keep scoring their own own goals. You know, they're very helpful to us. In terms of customers, they're very unloved at the moment.

Peter: Right, right.

Colin: And I think that's probably where we're going to pick up most of our customers...is from people who have just had it with these big banks. And then there's a group of specialty banks like Ally and Discover and Goldman Sachs that are all doing some really interesting things. I think they're a little bit different from us in that if you kind of go a little deeper into their business model a lot of them are collecting deposits from one group of customers to fund loans to another group of customers so it's not really a core relationship model as much as what we're doing, but they're doing some interesting innovative things. That's certainly a group of competitors that I keep a close eye on.

And then you have other kind of neo banks or kind of sponsor bank led fintech players like Chime and Aspiration and Simple has now been bought by BBVA, but Simple would be another example, you know, possibly BankMobile and they're all really doing interesting innovative things. My feeling is I want all of them to succeed because it's sort of helping consumers see that there are alternatives to the traditional banking model so there is that kind of group of players.



LEND ACADEMY

And then there's more of the kind of monoline lenders like the Prosper's and LendingClubs' and SoFis'. SoFi sort of does a lot of different things, but they are now talking about a transaction account as well, but I think that they have traditionally focused more on just the lending activities so I think it's quite a broad playing field of players. I don't think that anyone has put it together as quite as comprehensive a product set on sort of those fintech players as Varo has. If we're successful at getting the bank charter then that really puts us in sort of a different league in many respects.

Peter: Right, right. Okay, so we're almost out of time, but one last question. I'm curious to get your vision here, I mean, are you trying to just become a major digital bank, do you see Varo as the Chase or Bank of America of the 21st century or something else?

Colin: I think it's more of the latter. Yeah, I would see us trying to become...my goal is to focus aggressively on how we have the social impact that we're trying to have in the world and improving financial health, improving people's financial lives with a kind of next generation banking experience. So that's my stated goal that I think we can really have an impact in the banking world not just here in the US but potentially abroad at some point as well.

Peter: Okay, we'll have to leave it there. Best of luck, those are lofty goals, but I wish you all the best.

Colin: I want to aim high. (laughs)

Peter: Indeed.

Colin: Okay, thanks so much, Peter.

Peter: Thanks, Colin, see you.

Colin: Okay, bye now.

Peter: Bye.

You know, I think what Varo does really give us a glimpse at where banking is going. I mean, I downloaded the app, as I said, it actually took me less than three minutes to open an account and that to me was the first really impressive thing about Varo. And I think they've got a great interface, obviously that's somewhat subjective, but they really are trying to take the complexity out of banking and make it simple, make it user friendly and really it's where banks should be today.

In fact, companies like Varo would have a much tougher time if the major banks had a much more customer-centric, mobile-centric focus, but they don't so I think companies like Varo are really paving the way. Whether they could become the Chase of the 21st century remains to be seen, but I personally am convinced that there will be several large digital banks that will be dominating when it comes to customer acquisition in the near term.



LEND ACADEMY

And I think in ten years time the incumbent banks are not going to go out of business or be replaced anytime soon, their massive businesses, but I think we'll see some of the...whether it's Varo, whether it's somebody else, I think within ten years time you'll see some of these digital mobile first banking operations...they will have substantial scale.

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

This episode of the Lend Academy Podcast was supported by Wunder Capital, the easiest way to invest in large scale solar energy projects across the US. Experts at Bloomberg estimate that \$2.8 trillion will be invested in solar energy by 2040. With Wunder Capital's solar investment platform, individuals can now take advantage of this economic opportunity. Visit wundercapital.com/lendacademy to find out how you can begin investing in solar energy projects while earning up to 7.5% annually and also helping in the fight against climate change.

(closing music)