PODCAST TRANSCRIPTION SESSION NO. 163 / ANGELA CERESNIE

Welcome to the Lend Academy podcast, Episode No. 163. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

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Today's show is sponsored by LendIt Fintech USA 2019, the world's leading event in financial services innovation. It's coming up on April 8th and 9th, 2019, at Moscone West In San Francisco. We've recently opened registration as well as speaker applications. You can find out more by going to lendit.com/usa

Peter Renton: Today on the show, I am delighted to welcome Angela Ceresnie. Angela is the CEO of Climb Credit, but many people would know of her from her time at Orchard where she was one of the co-founders, but she's actually been at Climb Credit for a couple of years now and recently became CEO. So I wanted to get her on the show to talk about Climb Credit, they're a fascinating company.

They believe that education is an investment and should be treated that way and I completely agree. So we talk about their mission and how they're really working to help students obtain degrees. We go into some depth about how they approve schools on to their platform, how they approve students to get a loan. We talk about the problem with the whole student loan system overall and why it needs to move more towards this sort of idea of education as an investment with an ROI. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Angela.

Angela Ceresnie: Thank you, thank you, excited to be here.

Peter: So I like to get these things started by giving the listeners a little bit of background. I know many people know you in this industry, but still it would be good to get a background about yourself and what you've done before Climb Credit.

Angela: Yeah, great. So, yeah, I started my career at American Express and then at Citibank on the credit side so I managed Consumer Credit Risk and Analytics at Amex and then Small Business Risk and Analytics at Citibank and that was about nine years of experience just in terms of learning the basics of how credit markets work and specifically, how credit works for individuals, a great learning experience.

I left in 2012 to start a company called Orchard which obviously you know and I think many of your listeners probably know with several other co-founders leveraging a lot of the experience that I had from Amex and Citi on the credit side. So Orchard's initial business model was providing active investors on Prosper and Lending Club tools to figure out which loans they should buy, actually to buy those loans and then manage their portfolios on the backend.

I was sort of part of the team that created the initial models that we would share with our investor clients. So that was just such a fabulous experience scaling a business, you know, bringing on institutional customers, building out a B2B sales team, building product and you know, kind of fighting for product market fit and understanding kind of the day-to-day of running a business and scaling.

In 2016, I joined Climb initially as the COO and now I've transitioned into the CEO role, but one of the great things about Climb, and we can get into the business here, but is that it enabled me to get back into the lending business directly so kind of back to my roots of actually making loans to people who need them.

Peter: Sure, we actually first met I think it was before Orchard, it was one of those meetups when there was like 25 people in the initial early meetups and I know you and Matt Burton spoke at the very first LendIt and we've sort of been following your career since then. But I'm curious about, what was specifically...you talked about getting back to your roots, you know, being actually a part of a lending platform and obviously there's many of those out there, what specifically attracted you to Climb Credit?

Angela: Yeah, so there's I'd say three kind of pillars of our business model that having existed from the beginning are kind of key to the success that we've seen to date. So we're an education finance company and we partner with programs and then offer loans to their students and I'd say that the first and probably the most important part of the business is that we are a mission-based company and that we only partner with quality programs.

So our mission is to expand access to quality education and we do that by doing a fairly robust diligence of every school and program that we work with to ensure that the program is delivering results, quantifiable results, to the students who attend. That to me was kind of first and foremost great because if you're going to be giving credit to people to go do something in their lives and as a credit provider you have some point of view and some level of, you know, sort of check that that thing that you're enabling someone to do will have at least a reasonable chance of having a positive impact that's really great.

Peter: Right, so I actually want to dig into that a little bit because you talked about...when you first said high quality program that feels like a pretty subjective assessment. But what it sounds like you're saying this is quantifiable, the fact that the program is high quality is truly quantifiable. So what does that mean and how are you quantifying these programs that you decide to work with?

Angela: Yeah, so you're absolutely right, quality is inherently subjective. So what we did was we created what we call our return on educational investment calculation and what we do is we essentially assess the actual impact to someone's earning potential from attending a program versus not, by gathering data from that program and other data sources to understand kind of what happens historically.

First, you have sort of where most people who enter that program are starting from. So does a…as an example, a welding school in Ohio, are they typically taking people with a high school degree or do most people come in with a bachelors and based on that you kind of have an idea of where some people are coming from and then what's the percentage of students who actually graduate, what percentage of those students actually get jobs upon graduation and how much money do those jobs typically get for people so that you kind of understand the upside, the potential upside.

And then the downside is that you have to pay for it, right, and you have to take time out of the workforce. And so we kind of compare that scenario to the scenario of essentially just keep going with wherever the person started with and don't take time out of workforce and don't pay for the program and we ensure that that differential is positive.

Peter: Sure, so are you just primarily working with vocational schools and things like coding bootcamps, and that sort of thing, not four-year degree programs?

Angela: Correct, so our target market is career and vocational schools and we really just I would say, we really define that as schools that lead directly to either a new career for somebody, or an enhanced earning ability in an existing career. So the first example might be a coding bootcamp, a truck driving school, a welding program, you know, kind of any number of programs where you can go in and essentially transform your earning potential.

Also we work with a number of programs, some IT programs, some online masters degrees that take people who are in existing careers and enable them to earn more. So one clear example of that is we work with a masters in education program, it takes working teachers and then those teachers once they get the masters degree, it costs about $8,000, they get an automatic pay bump in most school districts as a result.

Peter: Right, right, got it, that makes sense. I can see how this...you can gather in the data and really get a pretty accurate assessment, I imagine, on averages for salary bumps. It just becomes a mathematical equation for a lot of this sort of thing.

Angela: That's right.

Peter: So I want to take a step back for a second, I mean, you're addressing a certain part of the student loan problem, shall we say. I have conversations with people on a regular basis who are in the student loan business or who are graduates with huge student loan debts...I think it's now like $1.5 or $1.4 trillion, what's $100 billion...

Angela: That's right.

Peter: ...something like that, but it's massive and I feel like it's unsustainable. I'd like to get your take on what are the biggest challenges with higher education in general today, and what really needs to change?

Angela: Yeah, so I think that you know, we obviously do a lot of thinking about that and kind of considering that in our day-to-day business and some of the stats that I think are really astounding to me is one, 30% of graduating high school students don't even go get a bachelors degree, okay, and 40% of the people who start a bachelors degree don't finish in six years. So now there's a lot of other problems in higher education and the way we finance things.

But to me, that is Climb's addressable market and that's the problem we're trying to solve, which is that as of right now, for a vast majority or a very large percentage of our American public and young people, the current system of graduating high school and then going to like some system, some higher education, institution of higher education and just taking on whatever debt comes along with that isn't working.

So what we're trying to do here is create the right financial products so that the career training programs that do add a lot of value are far lower cost and therefore lower risk and can be a great alternative even in the short run for somebody who's maybe not sure what they want to do to create the financial products that really enable and open up access to those programs, to that kind of education.

Peter: Just one more point on this before we move on to more practical matters. I know you have young kids, I have young kids and I think about what higher education is going to be like when they are...I have a nine and eleven-year old, so my eleven-year old is just about to go into sixth grade so it's not that far, another few years before he has to decide, but I just wonder.

To me, you can't keep going on like this, are we going to get to $2 trillion, $3 trillion, $4 trillion, $5 trillion in student loan debt, I mean that's sort of...we didn't cross $1 trillion that long ago and eventually, it feels like your approach at Climb Credit really should be applied to the entire education system.

I mean once you finish high school…for an example, one of my wife's friends...my wife was in social work for a while and one of her friends went back to Denver University, an expensive private university for a masters that costs an absolute fortune and her pay was still going to be really mediocre at the end of it and to me it's like there is just no ROI on getting a masters in social work, I hate to say that...just picking one piece as an example.

Angela: Right.

Peter: If it costs you $80,000 and you're going to get a $5,000 a year bump in pay and then you've got to pay interest…

Angela: Doesn't make any sense.

Peter: ...you've got to pay interest on the loan, it doesn't make any sense. It seems to me that I think we're ripe for a transformation in higher education where it all goes down to what is the ROI. If there's no ROI, I mean, you see it now already, some of the MBA schools have closed down because that's a real ROI-oriented decision. I'd like to hear your thoughts on it.

Angela: Yeah so I think, you know, we see this all the time because as part of our business, as I mentioned, we diligence every school and we've seen schools where when we look at the data we say, listen, you're actually getting people jobs, but for a $50,000/$60,000 tuition if that job is going to pay somebody $35,000 coming out, it doesn't make any sense. And the reason that schools are typically able to get away with that is because the federal government funds it.

Peter: Right.

Angela: So you can go to...so I am going to pick on culinary schools. There are some great culinary schools out there, but (Peter laughs) you go to culinary school, it costs $50,000 something, right. You get a pretty big loan, you come out, you're working in a kitchen, right, you're not making a ton of money at first and the reason they can get away with that is because if you're getting a federal loan going to that program, you can just defer it, you can defer it because you're not making enough money.

So you just have no alignment of incentives because the school got all of their money upfront from the federal government, basically, right, so they get the $50,000 upfront so they don't really care. And then the federal government is the federal government so they're kind of like cool to defer because they're not like beholden to, you know, make a return necessarily on that one loan so the person holding the bag is the student. Sure, that's great that there are deferral options, but is that really the answer for someone to just essentially be unable to make a debt payment and then be living in kind of perpetual terror of the fact that that's going to come due at some point.

At the end of the day, I think there needs to be a time for reckoning on the whole system. We're starting in an area where, I think, we can make the most immediate impact because it's the education that does pay for itself already. But my view is that, you know, as we become a larger and larger part of the education finance system that other schools will adjust their pricing and change the way that they think about the amount of money that students owe on the other end, not as how much can I get, but what's the right cost.

Peter: Right, right, that makes sense, that makes sense, I think it's inevitable. Eventually, whether it's this decade or next decade, eventually, there's going to be a reckoning where you're just going to see schools not getting enrollment because the ROI is not there.

Angela: Yeah.

Peter: They're just going to suddenly see their enrollments shrink and that's the way...if you're not providing an ROI, the whole purpose of getting a higher education is really to launch yourself into a career that provides you a decent income.

Anyway, let's get back to the nitty gritty here. You've touched on this already, but I'd like to just delve into a little bit on how you go about approving a school. Does the school come to you, does a student come to you and say, I want to go to this school and you haven't approved, how does the process work and what's the data points that will cause the school to pass or fail your tests sort of thing?

Angela: Right, so we get in touch with schools both ways. So we have schools that come to us, we have schools that we reach out to, we have students who come to us, but then direct us to schools so it can vary and we have a team of people whose job is to talk to the schools and essentially explain Climb's products, but then simultaneously better understand them and their data. But really, I mean, the crux of it is that ROI calculation that I talked about.

So we get from the school as much data as they're willing to provide us on the types of students that they're educating so the background of those students so we get a better idea of the starting point and then the graduation placement rates and typical salaries. And then we take that information that they give us; sometimes it's kind of rolled up, sometimes it's very granular, like student level info, you know, anonymized, and then we sort of tend to pressure check that against either other schools that we know that are either in the area or teaching similar vocations and public data that's available.

So you know kind of one of the cool things about our model is that it's always learning so as we work with...you know, once we've worked with three or four let's say truck driving schools, that helps us underwrite the fifth which then helps us underwrite the sixth and the seventh and we kind of really can get an understanding of who's doing a good job and who's really getting the students the outcomes they want.

The great thing about that is that helps us in terms of from the capital markets side of things in funding our loans, have the data to be able to make sure everything is priced appropriately. In a market like the one we're in there's just not a lot of data out there on performance on loans, but also on performance of schools and so that becomes a very valuable kind of...I'd say like sort of network effect within our own business of more growth. The more business we do means like the smarter we can be at the next business that we do.

Peter: But I imagine some of these...you talk about salaries of graduates, I mean, some of that stuff would not be easy. If you can't verify that I presume that's a non-starter then right, well tell me this, where are the areas typically that happen that would prevent you from saying, we don't have enough data to approve this program?

Angela: Yeah, so one thing is it depends a little bit on the type of job that schools are preparing students for. So some jobs have a wide variety of salary and potential outcome, right, so actually, I would say software development is one of those where there's just a varying level of kind of software jobs that you can get.

But we have a pretty good understanding within each market of what like an entry level job is and so our assumption is that that's where the students are going, right, unless they can provide us some data otherwise to show that they somehow get people mid-tier jobs or something.

But the main thing is, are the people getting jobs, right, and that data that is easier to get in some ways because a lot of schools do keep track of it. Once we start working with a school then we can start kind of getting that data ourselves because we start talking to the students and having interactions with the students and so we can sort of also collect that data.

Peter: Right.

Angela: But other industries it's pretty tight, again, you know, to get to the truck driving analogy like most truck drivers' starting salary I think is around $43,000 a year and that's pretty tight. You're not going to see someone come out and make as an entry level truck driver like $150,000 a year I don't think.

Peter: (laughs) Right, right.

Angela: You might get there, you know, depending on how you…whatever, but there's a pretty tight kind of market. What we want to do is unless a school can truly prove to us that they are like giving some outsized return to most of their students, we just want to make sure that what they're doing makes sense for the baseline, right.

Peter: Right.

Angela: So if the baseline is $43,000, it needs to work at $43,000. If it doesn't then I don't really care that there's the one outlier who was able to somehow to finagle some crazy salary.

Peter: Right.

Angela: So that's sort of our approach, but then we continue to monitor it so we're also very keenly aware that, you know, like you don't want to be in the business of diligencing a partner one time and then assuming that everything stays the same. So we go back and ask schools for more data at least on an annual basis, particularly if we have some reason to believe that maybe things are changing.

If they add a new program, we re-diligence that program, we don't just add it, you know, because we are already working with them. So we have some, I would say some kind of pretty, pretty good checks that kind of continue to trigger throughout the life cycle of the school.

Peter: Right, right, and so then what about the borrower themselves, like the truck driving example. You go to the truck driving school, someone comes along and says, I can't afford to pay this, I need to finance it and they come to you; what's the underwriting process there?

Angela: Right, so the kind of top line of that is actually one of the other key kind of pillars of Climb's business that is probably one of the big reasons why I was excited about it and continue to be is that we are a point of sale business so 90% of our loan applicants come to us directly from schools.

So what's good about that is as we know so well customer acquisition is a very complicated and expensive part of running a lending business and so if you have a distribution channel that is kind of embedded where you're embedded in the workflow and kind of have a contractual obligation between the parties, it scales a lot easier. So just as kind of a side note that's a part of the business that's really great.

And the good news is what that means is that most students learn about us as they're learning about the programs. So truck driving student shows up, they're in the office of the financial aid officer learning about the program and what it could do for them and then at some point they inevitably say, how do I pay for it and then they're...you know, we’re a point of sale wherever the school is, if the school is an in person school that has a financial aid counselor then we’re point of sale…there is a pamphlet sitting on their desk. If it’s an online program that has an online admissions app we’ll be a button in the admissions app and in some cases that they click that button, the Climb loan application is already filled out.

So we have that through an API connection with the school if they have that level of technology so we sort of play wherever the school is. Once the student comes in and applies, the loan application is quick, easy, automated and 96% of the time we offer an automatic decision to the student themselves within the application.

Now, who we approve depends a bit on the school and whatever loan program we've signed up with them because there's another kind of important feature of our business which is that we have what we call a school guaranteed loan which essentially has the school participating in the risk of the loan alongside with Climb.

So our view is that the student is clearly taking a risk, right, they’re dropping out of the workforce to go into the school, paying money, getting a loan...you know, it’s not a huge loan like some people get, but let’s say $10,000 on average with the expectation that they're going to be able to get a career on the other side. We as the lender are obviously taking a risk because we’re lending money and historically, in the example I gave at the beginning, schools just get all of the money upfront.

So by asking the school to take a risk share, we align incentives so that the school is then actually paying attention to whether or not students are able to pay, paying attention to the amount of money that people are borrowing as it relates to the amount of money that they're going to make on the other end because if it is out of whack then people aren't going to be able to pay.

Now the school has a financial incentive to care about that. So the way that works practically is that if a student, we basically advance some portion to the school based on the credit mix we expect to see at that school and based on kind of the school’s financial situation. So we create essentially a custom product for every school that we work with to make sure that they can approve as many students as they need to based on kind of their credit profile, but they're still getting enough of that kind of upfront money to be able to run their day-to-day business.

Peter: And so do you work on the credit profile, like the credit model that you're creating, are you working on that together with the school because...take the truck driving example, these might be pretty unsophisticated low wage people, they might have been doing some manual labor before and might not have very good credit. So how do you go about building that model?

Angela: So when we enter a new industry, we have kind of a base model that we use and when we go to enter a new industry, we kind of learn....you know, we learn usually pretty quickly what the credit makeup is going to be. A lot of schools kind of already know because they maybe had students on internal payment plans or other kind of, you know, less favorable to them, I would say, products and a lot of times less favorable to the students as well. So we're able to figure it out pretty quickly, but we have sort of a base model that we sort of go with and then we can adjust over time.

Peter: Okay, and then what are we talking about as far as interest rates, loan term, amount, that sort of thing? I'm sure it's a range, but can you give you give us some of that range?

Angela: Yeah, so our average interest rate is around 8.5%, Our average loan amount is a little over $10,000 and the average term is about 3.5 years. In terms of the term, we typically start with a low monthly payment like an interest only type payment while the student is in school and for a period of time after before finding a job and then we flip to principal and interest which is typically three years.

We do have loans that go all the way out to seven years and that just kind of depends on the program so for some of the Allied Health programs we work with, nursing programs, they tend to be a little bit longer, slightly more expensive, but obviously there's better, you know, there's pretty good salary outcomes and lots of jobs on the other side so we find that it's slightly more affordable to go with the longer term loans.

Peter: Right, right, okay. How many states are you in and are you using an originating bank to partner with to issue these loans or are you doing it state by state, what's the story there?

Angela: State by state and we are in all 50 states, plus DC and Puerto Rico.

Peter: Wow, someone's been busy on the regulatory side in your company, okay. (Peter and Angela laugh)

Angela: That's a lot of the work I did at Orchard was on that side. You know, I learned, and also working in banking, you learn a lot about that so as the COO here I kind of set up our licensing infrastructure. It's not a negligible amount of work, but it's great to have the flexibility and the actual assets yourself and to be able to keep all of the economics.

Peter: Sure, sure, that makes sense. So then when was the first loan issued and sort of give us some sense of the scale you're at today.

Angela: Yeah, so our first loan was issued in 2014, we will pass $100 million in cumulative originations this year so growing pretty fast, all of that is through our network of over 70 schools now that we have and across about 30 different disciplines.

Peter: And so what about the other side of the equation, the funding side of your business, where are you obtaining your capital for these loans?

Angela: Yeah, so right now we have partnerships with various asset managers and funds where we sell essentially groups of loans from our individual schools to them for the cashflow.

Peter: Okay, so like a forward flow type agreement?

Angela: That's right, that's right, that's right, and we did that intentionally because that has enabled us to, because we have that risk share structure with the banks that has enabled us to stay equity light so we didn't need to raise kind of like expensive equity capital in the early days to then turnaround and lend out, we didn't have to do that. So it's been a good model for us in order to sort of be able to invest the equity capital more in scaling and building out the technology and the services for schools and students.

Peter: Right, right. We're pretty much out of time, but before I let you go, I'm curious to know....I can see, I can hear it in your voice that this is something you believe in and you're passionate about it so what is one project you're working on right now that you're most excited about?

Angela: Oh my goodness, that's so hard to answer, but (Peter laughs) I would say...I'm going to give you two things.

Peter: That's fine.

Angela: But I would say number one is on the sales side. I stay pretty tightly involved with the sales process and talking to schools that we are bringing on and then as we work with them. It's amazing how great the schools are, it's a totally underserved market, but they work so hard to try and do the right thing for their students, you really see it when you're out there. You know, these schools are all over the country so I'm traveling sometimes to places I never would have traveled to when I was at Orchard, you know, Tulsa, Indianapolis, all over the place and you see these schools that are just totally transforming peoples' lives.

So that's not like a project, but that's part of the job that I think is really fun, but the one project that's been really interesting, and we're just getting started to work on some corporate partnerships. What we're finding is that in certain industries where there's a really big skills gap, the corporations are so incentivized to have relationships with the educators so that they can get access to the students. And since we have a network of educators and have relationships with the students, there's sort of interesting partnerships that we can do even as simple as partnering with an employer.

They then connect us to the schools that they work with and then we advertise their jobs to our students in the graduation email, even just something as basic as that, but I love the idea of really being part of the full cycle of employment because I think that's, you know, at the end of the day, the problem that we're really trying to solve is getting people jobs. If you can have access to the employer networks that's eventually employing people, that just makes us stronger from a knowledge perspective, but also in terms of the services that we're offering.

Peter: Right, right. Well indeed, it's certainly a noble cause and I think that this is something that I think is desperately needed at all levels of higher education.

Angela: Agree.

Peter: I appreciate you coming on the show today, Angela, its great to chat with you.

Angela: Great, thank you, Peter.

Peter: Okay, see you.

Angela: Bye.

Peter: I just want to back to revisit what we were talking about earlier about the student loan problem and it's interesting to see Climb Credit's approach. I think, you know, the whole idea about school these days, getting a higher education degree and a lot of times there's not a real data driven approach, not that that should be the only thing that comes into the equation, there's obviously people, they're going to be very passionate about certain things that may not be economically all that valuable, that's totally fine, they can make that decision, but they should make that decision with their eyes wide open.

I'd like to see people who are really looking to improve their lives and wanting to see what...is this $100,000 in student debt going to be worth it and taking into account the profession, the school, and we really should have a complete data driven mindset here I think, and that's to me the only way we're going to solve the student loan problem is if people start really thinking about the fact...is this loan going to be worth it. It may not, it may be more worth it to go and do a different kind of vocation like the ones, the schools that Climb Credit work it.

Anyway, lots more to say there, but I think I will sign off. I very much appreciate your listening and I'll catch you next time. Bye.

Today's show was sponsored by LendIt Fintech USA 2019, the world's leading event in financial services innovation. It's coming up on April 8th through 9th, 2019 at Moscone West in San Francisco. Registration is now open and we're also taking speaker applications. You can find out more by going to lendit.com/usa

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