LEND ACADEMY

PODCAST TRANSCRIPTION SESSION NO. 175/JASON BROWN

Welcome to the Lend Academy Podcast, Episode No. 175. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

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'm delighted to welcome Jason Brown, he is the CEO and Co-Founder of Tally. Tally are a very interesting company, they really focus on solving the massive problem of credit card debt in this country, but they're doing it in a different way to many of the online lenders. It's an app-based approach and they describe it as, you know, it's kind of like a robo-advisor for debt where they help you manage your credit card debt. They manage it for you in ways that are optimal for you to really get debt free so we go into that in some detail. We talk about how their product works, their approach to underwriting, we talk about Tally Advisor, sort of their automated debt manager, we talk about the scale they're at and what the future holds. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Jason!

Jason Brown: Thanks, glad to be here.

Peter: Okay, so I like to get these things started by giving the listeners a little bit of background about yourself and what you've done in your career before you started Tally.

Jason: Well this is my fourth company and I really wanted my fourth company to be something that was personally meaningful to me. And one of the things that has really stuck with me from my childhood was....our family, we had a lot of financial stress. You know, money was always a problem in our life growing up and even though I'm fortunate to have gone a different path than my parents, from at least from a money perspective, that anxiety and that feeling of uncertainty still is there, that relic of childhood.

So when I met my Co-Founder, Jasper, we actually built a previous company together, and he actually was auditing banks for PwC actually in Europe and we were talking about how we could build something that could really help people that have a lot less stress in their life and we realized that if you could build a technology that could automate the way that people relate to their money…so basically not only figure out what's best for them, but really do the financial work for them, you would have this unbelievable power to make people just enjoy their lives better, just make the little moments be so much more rewarding.

So we decided to found Tally and started working on credit card debt as our first problem that we were going to tackle with automation.

Peter: So tell us about that. What was sort of the aha moment or the force that sort of led to...what was the idea that led to it? Was this something that you saw others doing, I mean, the way you've approached it hasn’t really been done before, at least not to my knowledge, and so what was sort of the idea that led to this?

Jason: You know, we were actually thinking 20 years out and what we were thinking is...we just said, imagine the world 20 years from now and our belief is that 20 years from now, everybody will have this invisible and ambient service that is mediating most of their relationship with their money. So it's figuring out everything for you and is doing all of the work.

What we used as our kind of prototype are rich people, so if you're ultra wealthy, you know, you might be in France summering there and you've got this team of people in some office park somewhere and there's, you know, the tax specialist and the accountant and the investment advisor and they're actually doing real work. They're sitting there in their cubicles, and they’re crunching numbers, they're moving money around, they're signing contracts and they're only bothering the rich person in France when they need some kind of human input like, hey, do you want to buy a house in Vale or something like that, right.

If you think about...software has the power to take that advantage that rich people have and democratize it and provide it to everybody for free and we said, that's what the future is going to look like so if that's the future how do you actually build to that because obviously we're not there at this moment and we realized that if we tackle the really hard financial problem that a lot of people were facing that that would be a solid foundation for then automating the rest.

So when we looked at all the problems to solve, we were staring at a trillion dollars in credit card debt. Just under half of all households have about $15,000 of debt and there's no real solution there for folks and we said, that's going to be the problem, that will be our beachhead, we're going to go in and we're going to solve that problem and then from there we can start to automate the rest of people's lives.

Peter: Okay, so then let's dig in a little bit to what you've actually got today and that is, you're attacking credit card debt, you're providing people with a line of credit product to help them manage that debt, why don't you sort of explain how it all works and the principles behind it.

Jason: Perfect. Well it starts at the very beginning, you go to the App Store, you download the app for free, you pull out your credit card, you actually scan them in using your phone's camera, you pass a quick credit check and from there, we actually give each customer a line of credit. But what's interesting about the line of credit is it's exclusively controlled by our algorithm and our algorithms only use it to make you better off.

So the times where the algorithms will use your line of credit is number one, is to protect you from late fees. So there are $12 billion of credit card late fees every year in this country because only about 15% of people use autopay for their credit cards. So the line of credit allows us to step in for people and make payments if for some reason they're not in a position to, so we can guarantee no late payments.

Second, it moves balances from high interest rate cards over to Tally so it will only move balances over to that line of credit when it saves people money from interest and then finally, the way that our algorithms work is they actually shave 10 to 15 years off of how long it takes somebody to get out of credit card debt because it's managing everything properly and it's helping shape the way that customers pay their total revolving debt so that we can get them out of debt faster.

Peter: Okay, so I want to dig into this a little bit so I completely understand it. So let’s just maybe talk through an example, like a typical customer might have four credit cards, interest rates might range from like 24% down to 14% say, and they download the app, they scan the cards and then...they've got decent credit, they always pay on time. Let's just say maybe it's $12,000 spread over these four credit cards. Firstly, I guess you've got to decide how much line of credit you're going to give. Do you give someone the full $12,000 or do you say that we can only really give them $5,000 so I guess question is, how do you decide how much to give and then what actually happens once you’ve given it to them? Do you takeover paying all of them or some of them or how does it work?

Jason: Yeah, so we have full underwriting and risk management and it's all automated so one of the things that was...I guess, we underestimated is, we initially thought it would take us about a year to build the technology to make this possible and we were only off by 300%. It took us 3 years (Peter laughs) and we actually had to build an entire bank core from the ledger up so every aspect of Tally's technology we built from scratch. One of those components is instant underwriting so it takes in all of your information from your cards, your credit file, everything and it figures out, hey, what is a fair APR for you based on your credit risk and what's the right credit size so varies based on people's credit worthiness.

Let's just use the example that you gave us and let's just simplify it and say that Tally gave you a $10,000 line of credit so what it would do immediately is it would move over $10,000 of balances on day one from the highest APR cards and I think you said they range from like 20 to 14.9% so it'll clear out balances on the three with the highest APRs and then it will move over $1,000 from the one that had a little lower APR and leave on $2,000, okay. So now you still owe $12,000 of debt, but $10,000 is now to Tally and $2,000 is to your lowest APR card. What happens from here is you pay Tally for everything and then Tally pays your cards so you keep using your cards like normal, you get your points and rewards and then you pay Tally, Tally pays your cards.

So let's say that you spend an average $2,000 of new spend per month on your cards, Tally is going to recommend that you pay let's say $3,000 total so you pay $3,000 to Tally, again, Tally pays off the $2,000 in new spending and now it can move over another $1,000 from that card that still has a balance. So it's always the central hub of the spoke of your cards and Tally is helping you figure out how much you should pay and then it's always paying your cards and it perpetually goes on and runs algorithms every single day.

Peter: So they don't have to...I mean, have you worked out with the credit companies? You know, you've got to go in, log in, put in your autopay so if Tally is paying it then it's coming out of Tally's account, it's suddenly not coming out of the customer's account. As you said, most people don't actually have automated payments set up so I guess that's a moot point for most people so what you are doing is…are you automatically paying back that credit card, I mean, obviously...you said it's all automated, right, so how does it...like are you sending money to the bank each month for that credit card?

Jason: So we actually are sending money to the banks potentially multiple times per month so, again, this is all about optimizing. So every single day the algorithms wake up and say, hey, can I move more balances from any of these cards over to Tally if it will save the customer interest. What customers really like is the fact that they go from before Tally, they have on average 48 due dates per year so, again, 48 opportunities to either miss a payment, or 48 times where you have to do math and figure out how much can I pay, how much should I pay and that gets boiled down to we make one recommended payment every single month for you.

Recently this summer, we launched a feature called Tally Advisor and what's cool about Tally Advisor is it actually lets you collaborate with our algorithms to set a debt free date. So it's the first robo-advisor for debt and it's similar to like a retirement date where you say, hey, I want to retire at 62 and this is how much money I need to save.

This is similar, except our algorithms are actually helping you come up with a realistic date for when you can be out of debt based on your income, all of your monthly spending, your existing debt load and then it comes up with a custom recommended payment for you every single month and then you just have to press one button each month which is to say pay the recommended amount, or if you want to customize it you can. So we really like to make sure that customers once a month can come into Tally and they can see everything and then press that button to say, hey, I am going to pay that recommended amount and then they pay Tally.

Peter: Right, so I guess the mere fact that they've downloaded your app, and they've scanned their credit cards means they really...they're motivated to get out of debt, I imagine, because...I mean, the temptation is and we've seen this with some of the lending platforms where they...you know, someone says they want a debt consolidation loan and when you look at their utilization six months later it's back to where it was. So I guess maybe you could give me a little bit of a profile, maybe even a psychological profile of your customers and how they're different to the general population.

Jason: You know, I do believe that people come to Tally wanting a solution to their credit card debt, but I also think that people go to personal loans wanting a solution. It's just that personal loans get people into more debt, I mean, that's just the reality and I don't actually know if it is because the people are different, or because the mechanism is not actually helping solve their problem. The data suggests that people after they take out a personal loan to debt consolidate are, within 12 to 24 months, they are in substantially more debt. Usually, they've paid off the cards with that personal loan and the cards are back to where they were.

And it has to do with the fact that it's not actually solving the underlying problem, it's not helping them manage their financial life any better whereas Tally is saying, hey, we have one central hub, one view and we're going to help you set a goal for when you're going to be out of debt and we're going to set a recommended payment for you every single month that's not only based on your debt load, but also based on your new spending so that we can nudge you to make sure that you're actually making progress collectively, not just moving debt from one pile to another.

Peter: Right, okay. So then I'm interested in the behavior that you've seen since you launched, and maybe you can tell us when you launched, I know it hasn't been that long, but I'm curious because what I wonder about is people want to get out of debt and they sign up for Tally and then someone invites them out for dinner and they go spend $100 on an expensive dinner that they really shouldn't have and they can't afford to pay. So tell us a little bit about are people sticking to this kind of…firstly, are you seeing their credit card balances actually go down, or what data have you seen, so far?

Jason: We've been really energized by what we've seen. So we've officially been live for about a year so we launched in October. So it took us about three years to build the technology and we've got a year of being live and when we were in the beta phases we played with a lot of different experiments. The thing that we found most powerful is if you recommend people pay more, they pay more and if they pay more, they spend less the next month.

It's actually really interesting because they feel like they've "spent" so if I pay let’s say an extra $300 towards my collective revolving and new spending then the next month they feel a little poorer so they seem to be more disciplined and by just getting people to pay more every single month we see them spending less the next month. On average, our customers are on track to be out of debt 10 to 15 years faster than they were before they came to Tally. So we're really energized by the fact that by helping people have one view and one recommended payment, we're actually shaping their behavior in a positive way. Our mission is to make people first, less stressed and then second, better off financially so this is really core to our mission.

Peter: Okay, so I want to switch gears and talk about technology a little bit because you mentioned it took you a lot longer to build this platform. Obviously, there's lots of data points here, tell us how you're approaching the underwriting. I'm particularly curious about artificial intelligence that's behind some of the models that you're building, maybe you could give us a little bit of color on that.

Jason: Well let's see, maybe it would be helpful so the listeners know what our business model is. So the way that we make money is by charging interest. So it's free to use the app, we don't charge anything, we don't charge any fees, no late fees, no overdrafts, no penalties so we don't make any money off of any fees. The only time we make money is when we charge somebody interest and the only time we charge somebody interest is when our rates are lower than the card rates which is in most cases...the exception being sometimes people have promotional offers for let’s say six or 12 months and Tally is really smart and it leaves those balances on the card until that promo rate expires.

So what Tally is...our interests are completely aligned with the customer and making sure that we are getting them lower rates than what's on their cards. The way that we provide lower rates is we're actually borrowing money from banks in bulk and then passing on those savings on to customers and what we found is the way to get the cheapest money from banks is to actually have a more traditional underwriting model since banks are more likely to trust an institution that is using an approach to underwriting that they understand...

Peter: Right.

Jason: …then it actually turns out It is better for the customers to have a more traditional model so that's the approach that we've taken and we've actually seen in the last...I'm sure you as well have seen in the last couple of years. There's been more of a move to more traditional underwriting. There were a couple of years when everybody was talking about all of this alternative data and I think it has turned out to be that a lot of folks have come more to the center and have a more traditional approach.

Peter: Okay, so then that's the underwriting piece. So I guess, one thing on that, I mean, what percentage of the time....I imagine there are some people even without like removing the promotional offer...I mean, you must get some cases where your rates are going to be… either they've got a fantastic deal on a credit card or they're loaded up on relatively low interest credits cards, like what percentage of the time can you provide lower interest rates than what the customers are doing right now?

Jason: You know, in the vast majority of cases, Tally is lower than what the rates are on the cards, but there are certainly instances where somebody has either a promotional rate or a card that's just a really low APR card. What's great about Tally is that it's smart so it actually still pays that card, but it will only pay the minimum and then when you pay Tally, Tally will allocate the right amount of money to the right card.

So if you still have outstanding debt, that low APR card will be the very last one to get paid off. So we'll actually pay off Tally before that card because it makes more sense to get rid of the higher Tally APR than let's say this, you know, really low APR that you have on the card. So Tally always does mathematically what's in your best interest, even if it's not necessarily in Tally's best interest to do it.

Peter: Okay, and so when you've got...you said you've been live for a year and you were obviously in beta for some time before that, are you finding this is really a set it and forget it, are people really…I'm just wondering how much they're actually fiddling with things, whether they're trusting…are you seeing at the start people fiddling with kind of the way things are, like what your recommendations and you said you've got this Tally Advisor now which really becomes like a robo-advisor for debt. I guess what I'm most curious about is the trust because this feels like it's an exercise in trust. How quickly do people trust what Tally is doing?

Jason: I mean, using Tally requires...you nailed it, it requires trust. You think of most finance apps, the home screens have lots of charts and graphs and data, maybe they'll have recommended credit cards together, ads or things like that, whereas Tally's home screen is literally just a picture of a person with their feet on the table with a cup of coffee (Peter laughs). That’s it, there's not a lot of interface because we've automated everything on the backend and what we've seen, the most surprising statistics that we've seen, is that we have 99% monthly retention of our customers. So once they set everything up with Tally and they get it off of their back, it's not like they want that work back. They're like, oh, I'm really glad that I don't have to deal with that and so they are trusting Tally to do it.

One of the things that we've seen is important is in the home screen you can scroll down, you cap tap on this rocket and it fires up and then it shows you how much money you've saved and since we're controlling all of the money we can quantify exactly how much money they’ve saved so far, and on average we're saving customers about $7,000 so we've really focused our brand around showing results, like showing that we are actually doing this work for you, the payments are showing up on your cards on time, you're seeing savings and from there people check it about once a week.

So they like to see the central view because they can also see all the new spend on their cards and we've just observed that people like taking a look about once a week and then obviously once a month you at least have to tap the button to pay Tally so that we can keep everything running for you.

Peter: Right, right, okay, interesting, interesting. So then how many states are you operating in today?

Jason: We're in about 20 states and we cover about 75% of the population. This actually relates back to a critical early decision because at the time most fintechs were partnering with banks.

Peter: Right.

Jason: So they would effectively borrow a bank charter that would allow them access to the whole US right away. We’ve deemed for ourselves, since we're trying to create this truly new customer centric experience, that if we had to work through an existing bank that had old technology that we really wouldn't be able to deliver the experience that we wanted.

So we actually decided to have the rather painful and slow route of going state by state to get licensed in every state so we literally have been at it for three years and we finally got to 75% of the population and we'll finish off the rest of the US next year, but it's crazy how just like...again, if your goal is to have a screen with not a lot interface then there's all this immense financial regulatory work you have to do as well as technology work to make that experience possible for the customer.

Peter: Right, right. So you're literally going through one by one and getting your own license for each state, it sounds like.

Jason: Yeah.

Peter: So the first time I actually heard about you guys was in an article by Ron Lieber in The New York Times and the timing was interesting because...I don't know whether this was a PR push that you did, or if this is just something that came up and it was obviously mentioned in the article, it came out just like…I think it was a week or two after the LendingClub issues of May 2016, so I'm curious about...I mean, obviously getting in The New York Times with Ron Lieber is a massive win because huge readership, was that a net positive and how sort of did that kind of impact sort of the way you kind of ramped up?

Jason: That was a huge win for us, I mean having The New York Times. We were actually on B1 on the print edition which my Mom thought was pretty cool (Peter laughs) so print still matters at least to parents. What we liked about that is the first generation of fintech was more about filling in the gaps that had been left by the big banks after the financial crisis.

Peter: Right.

Jason: All these big banks had pulled back and then fintechs came in and said, hey, banks aren't lending there, I'm going to lend there. And so they jumped in and there wasn't really any technical innovation, it was just, hey, there's a gap in the market, I'm going to fill that gap. The second generation is about true technology innovation and about doing things that banks just are not good at. They're not great at automation, they're not great at doing things that cross the entire financial industry; they're great at doing things individually in their own bank, but not across institutions, and so this second wave is about automating people's financial lives.

There's a lot of folks that started on the investment and the savings side and there's folks that have done some great work there, obviously, we chose to start on the debt side, but we've seen investors and customers really gravitate towards companies that are trying to innovate on the technology and the experience side of things. You know, we just announced our Series B this summer which was $25 million led by Kleiner Perkins so it brings our total raise up to $42 million. We've definitely seen investors be pulled towards companies that are trying to do hard things on the tech side of things.

Peter: Right, okay. So I'm curious about...you've mentioned that you borrow this in bulk from banks so can you just describe exactly how you're funding obviously...I presume you're not using equity to fund any of these lines of credit, where are you getting your financing from?

Jason: One of the things that makes this business model harder than it would be otherwise is the fact that there is this algorithmically controlled line of credit that's revolving and it makes it a lot harder to fund. So we actually...I don't know if you had seen the announcement, but Erica Dorfman, she was previously the Co-Head of Capital Markets for SoFi and last year, she literally did billions of dollars of transactions for SoFi so we had her join our team to help build out the finance side of our business and to have a more sophisticated approach to doing the capital markets than we were already. And so we've taken an approach where we're working with small regional banks and we're working with Bulge Bracket banks simultaneously to have them lend us money so that we can provide savings to our customers.

Peter: Okay, I'm curious about the...what is sort of the…I mean these are lines of credit so it's an open-ended term, but what is sort of a blended average interest rate that you're charging your customers?

Jason: You know it depends based on every single person's credit so Tally is pricing every single person based on the likelihood that they will default. What's different, compared to the cards, is most credit cards just charge a really high interest rate so the average APR for people with 720 FICOs and above in the US is over 18% so they just charge really high rates whereas we're actually saying, hey, we want to give you a fair rate based on your individual credit worthiness so every person has a different rate with the average savings being about $7,000 per customer. So we obviously can only make money when we save people money on their credit cards so it really keeps our interests aligned with theirs.

Peter: Right, got it. Okay so then I guess you're really here in the debt space and you're really focusing on that, so who do you actually see as your competitors because you've talked about this is sort of just an entry point and I really don't know anyone who's approaching this problem quite the same way as you, but who do you view as your competitors?

Jason: You know in the short term, we don't have competitors, we actually view credit cards as our competitors. It's kind of interesting because Tally really separates the benefits of credit cards from the burden. So you keep using your cards, you get all the points and rewards; we're just making it so you don't have to worry about high interest and late fees, but it's just so easy for people just to, even though it's bad for them, just to stay with the status quo.

So there's over a trillion dollars of credit card debt, as I mentioned before, because it's just really easy to leave it there and downloading an app, you know, it takes some energy and obviously you have to trust Tally so just getting people over that initial hump is really the thing that's holding people back. We've grown primarily through organic word-of-mouth so since we have such high satisfaction, people tell their friends about Tally and we grow that way.

In the long run though, we think there's a lot of competition. We believe that many companies are working towards this end goal of a fully automated financial experience and different companies have just selected a different beachhead and so the folks that are doing automated savings or investing, we think that they're racing towards this fully automated point, as are we, so in the long run, we feel like there's a lot of competition there. It's just right now, it's not exactly clear because everybody has selected different strategies, but the strategies aren't transparent yet.

Peter: Right, I had Ken Lin from Credit Karma on a few weeks ago and he spent a good chunk of the interview talking about autonomous finance which is similar to what you're talking about as well where if we can do autonomous driving, you know, managing finances is a lot simpler than managing driving a car and so we really should be able to do that. Anyway, so I can see that it’s exciting times for consumers, that's for sure, because I can really see that there are going to be choices here to really get significant help in managing all areas of your business.

So I guess, we're almost out of time, but one last question, what's next for you guys? I mean, you've talked about...you've obviously got the credit card piece which is a huge piece and there's a huge amount of runway there really until the credit card revolving numbers come down from below $1 trillion there is a lot of help that you'll be able to provide people, but do you have like a logical next step that sort of fits in with that, or what is next for Tally?

Jason: Yeah, so with the Series B that I had mentioned, one of the key things is needing to hire a bunch more engineers, I mean, we started this year with I think 15 people and now we're almost at 60 so a lot of this has to do with just hiring a lot more engineers to be able to build the technology so we can expand outside of credit cards. We're focused right now on laying that next foundation to be able to broaden our product offering and that's what we're focusing on next year now that we're building out our team to be much more robust.

Peter: So no hints on what that’s going to be yet…

Jason: Yeah, we'll have to get my Co-Founder, Jasper, he's our Head of Product, we'll have to get him on here. He likes to play it close to the vest on that front.

Peter: Okay, understood. Well on that note, we'll have to sign off. I really appreciate you coming on the show today, Jason.

Jason: It was a pleasure to be here, thank you so much, Peter.

Peter: Okay, see you.

Jason: Bye.

Peter: You know, we have this massive $1 trillion revolving credit card balance that keeps going up despite the fact that we originate billions of dollars in personal loans every year to help pay off some of this credit card debt. I think one of the things that I really like about Tally is that they're addressing the problem head on and they're doing it in an automated way so it doesn't take…it sort of takes less willpower from the consumer.

I think that's really key and Jason talked about that a little bit, but until we see that credit card debt go down...in fact we were joking, after we stopped recording we were joking afterwards it’s like we really should be...I told him you could just focus on credit card debt until it comes down to like $800 billion or $700 billion because it's such a big problem and I think this sort of approach is novel and it's a “win-win" and I think it prevents those people from....you know, some people take out a personal loan and go back into debt. I think Tally will help stop that kind of behavior and I think that will be a great thing for the consumer,

Anyway on that note, I will sign off. I very much appreciate you 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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