



## **PODCAST TRANSCRIPTION SESSION NO. 184 / BRIAN HAMILTON**

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**Peter Renton:** Today on the show, I'm delighted to welcome Brian Hamilton, he is the Vice-President of Innovation at CU Direct. Now I've known Brian for a few years, he's been around the fintech space for quite some time, but he's really been focused, for the last like 16 months or so, on innovation in the credit union space, he actually has a lot of credit union experience.

So we go in this episode, we talk a lot about how credit unions are innovating today, what they need to be doing, we talk about what CU Direct is doing and the different things that Brian's working on in his innovation lab and we talk about what's coming down the pipe and what interesting technologies Brian thinks will be impacting the future of credit unions. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Brian!

**Brian Hamilton:** Thank you, Peter, it's great to be here.

**Peter:** Okay, so I'd like to get this thing started by giving the listeners a little bit of background, a bit of context to the conversation. You've had a pretty interesting career so why don't you give the listeners some of the details about your background.

**Brian:** Sure, sure. So my current position and title....I work with CU Direct, which I will explain a bit about, and I am the Head of Innovation and Insights for them, but I don't actually have the resume you would expect in somebody for my role. I actually have 25 years of lending operations background so underwriting, processing, funding, anything that goes into a lending portfolio management, but along the way, I've had a penchant for the application of new technology, emerging technologies to improve those experiences through efficiencies, quality, customer experience, etc.

I started out with a finance company back in the early 90's, was there a few years and then I went to what we might call a fintech now. Back in the late 90's, the company I was with was a startup that started one of the first online loan applications and loan-by-phone applications, 24/7



call centers for consumer loans. It was back in the day when nobody thought of putting personal information in a computer and getting an answer back. (Peter laughs) That company did really well, was also modified by an online... Digital Insights, a platform for online banking and into it in touch by now, was there and ultimately found myself in the credit union space and then I kind of dabbled a couple of times to play in the fintech space on the side.

**Peter:** Right, right. Okay, so then it looks like you've been at CU Direct for a bit over a year now, what was it that attracted you to this position and this organization?

**Brian:** Sure, so, you know, I've been working with credit unions in some form or fashion for over 15 years and I really genuinely love what the credit union movement is about. My personal values and credit union values collectively are very closely aligned and the challenge in that space or in our space collectively has sometimes been the adoption of emerging technologies, kind of new experiences, everything that kind of the space that you're more familiar with, in the fintech space really represents, right, user center design thinking, things like that.

So CU Direct is a CUSO, which is a credit union service organization, so we are a for profit technology company, but we're owned by about 200 credit unions and we go as credit unions go. So CU Direct really allows someone, you know, that's got this penchant for emerging technology and experiential design to still serve the credit union movement and be a part of the credit union movement while working in a particular company that operates much more like a technology company.

**Peter:** Okay, got it. So what is your role exactly there? You said you're the Vice-President of Innovation, that can mean different things to different people so what is it you actually do?

**Brian:** It sure can, it sure can. Lots of innovation labs fail because they don't actually develop anything and so at CU Direct, specifically, we define innovation in a couple of ways. One is that it's not just the creation of nascent ideas, ideas are easy, it's really about taking ideas and then vetting them with our market and our constituents to figure out what solution sets can we develop that can actually be adopted.

So in really large organizations, this might be part of a product organization and we have a pretty robust product team and product organization, but it actually can work independently for exploration purposes. And then as the innovation team....as we find ideas that can be viable solution sets that our clients and membership will adopt, those get handed off in a soft hand off and a transition to our product team.

So we spend about 60% of our time in what people might call iterative innovation, things like it's existing technology, it's existing marketplaces, but maybe we're stitching it down together in ways that others haven't seen and we need to be able to get those to market within 12 to 18 months.

The rest of my time is spent on things that are maybe a couple of years out so the adoption of AI and machine learning applications that are emerging technologies and solutions, but it's



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going to take us a year to really iron out the wrinkles and figure out what those practical use cases that we can monetize are, that's kind of our horizon too. And then I'm working with others in the industry on things like blockchain solutions so we know it's real, we know it's a thing, we know there's value, but we don't know exactly what that looks like yet. The innovation in CU Direct works on those on behalf of our constituents in the credit union space.

**Peter:** Right, got it. So what about CU Direct itself, what are the product offerings that you guys have. I know you've got a big auto lending business, but why don't you just run us through the broad offerings of what you do.

**Brian:** Sure, so when CU Direct started about 24 years ago, it was actually a very simple challenge we were trying to solve. It was founded by a credit union in Northern California that wanted its members....that when they went to an auto dealership to be able to sign the papers at the auto dealership and leave without having to come back to the credit union and so that product is what's known in the marketplace as CUDL and that's simply connectivity between the 14,000 dealerships we have across the country and our 1,100 credit unions.

So the dealership can put an application in, get a decision back, draw the documents, documents go to the credit union, they can fund the loan, dealer gets their money, member has their car and the member never has to go back to the credit union. It's a very simple kind of concept, that's our core product and was for many years. Since then, we've evolved to have solutions around just about everything around the lending lifecycle other than collections or core service processing, you know, payment transactions.

So we've got a digital marketing solutions suite; we've got a full direct consumer loan suite, personal loans, credit cards, home equity loans, etc.; a full loan origination system, everything from finance to backend processing; we've got a business intelligence or lending portfolio management suite; we've got professional services; we've got some credit insurance products and a number of other emerging products that we're working on. So we pretty much wrap the full cycle and in 2019, we're launching a mortgage product that we've heavily invested in.

**Peter:** Interesting, and when you say CUDL, we should point that out at C-U-D-L, right, that's the product.

**Brian:** Correct, CUDL is a product of CU Direct.

**Peter:** Yes, so what sort of volumes are you putting through...let me just clarify, you're really providing the software that connects the credit union with the auto dealer, right, you're not doing any sort of marketplace type operation, as far as sourcing deals for credit unions, you're just providing the plumbing, right?

**Brian:** That's an excellent question, Peter, so a little bit of both. We are not originating the loans, we are not an originator, we are a platform. In some cases, it's as simple as providing the technology to connect the dealers to the lenders. In other instances, we do have kind of indirect sourcing channels so we have an auto finding service, for example, so credit union members



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can go online, find a vehicle they want and then in doing so we connect them directly through the financing so before they even go to the dealer, the financing is already taken care of.

**Peter:** Right, right, and you also have....you know, I was looking around on your website and it seems like you've got an online lending program called Lending 360, tell us a little bit about that.

**Brian:** Sure, so Lending 360 is really a core lending product for credit unions. So credit unions have their indirect loan platform which is what they use on the auto dealership and then they've got their direct loan platform which is what they use for all other channels.

So when a member goes online, calls the call center, goes into a branch....this is the system by which they take the application in. We have a very robust decision engine that helps them automate those decisions, it's a work flow engine so it takes them all the way through the process, all the way through funding their loans and then pushing that data into their core system for servicing.

**Peter:** So can a credit union member go online to their credit union and do everything 100% online?

**Brian:** Absolutely.

**Peter:** Okay, and so does this roll out to ....you said you've got 1,100 credit unions, do they all have access to this?

**Brian:** They all have access to that, but the 1,100 credit unions don't all match that solution so we've got about 150 credit unions that use that solution. Our 1,100 clients use one of our products in some form or fashion.

**Peter:** Right, right, okay, got it, got it. I'm curious, because credit unions....obviously, they're very community-focused, they're very...almost by definition, they're a community-focused organization, but there are some large credit unions, but most credit unions are fairly small.

They've always competed with banks, that's been a competitive.....for decades and I'm curious about now how they view....obviously, fintech companies now coming in encroaching on their business to some extent, I mean, how are credit unions responding to sort of this....you know, it's a rapidly changing world, banks are encroaching more and more, fintechs are encroaching more and more, how are they responding?

**Brian:** Sure, I think that response, Peter, and this isn't maybe even unique in the banking space or to the banking space. If you and I look at how LendIt has evolved from when I first attended, say 2013, 2014, 2015 to last year's LendIt Conference, we saw a very different dynamic, right, when it came to how fintech viewed traditional financial institutions or vice versa and credit unions are kind of following that path.

There were several fintechs say at the last large Credit Lending Union Conference and so the fintechs have moved from the disruptive to the partnership kind of model and credit unions are



seeing that. There's been an interesting sea change in the credit union space, even as recently as the last two to three years, and as leadership now is kind of evolving and changing they recognize the need to improve experience, right, and to not confuse personal experience with personalized or curated experience, which can be enabled by technology.

The fintechs, in general, kind of a fintech ecosystem does a really good job of that and there are some real success stories now about credit unions actually partnering with fintechs to kind of create that "win win win" paradigm, right, for credit unions to buy a solution set that they can't develop internally. A win for the fintech so they have access to lower cost of capital and easier scale, and most importantly, a win for credit union members which is really what we care the most about. So we're starting to see that more and more often and even at our own conference we're inviting fintechs to the space to be a part of that conversation.

**Peter:** Right, right, that makes sense So with your services then a credit union can today have all these online offerings, right, can have offerings for their members where they don't necessarily have to come into a branch. I guess what's behind my question is are they still focused on serving customers in a branch, or they're more focused on digital now, what's their kind of balance?

**Brian:** Yeah, there certainly is a shift to the digital space, right, and CU Direct is heavily involved in that. If you look at our website today, you might not see that in our product offerings, but that absolutely is everything that, at this moment, is under development and design at CU Direct to enable the digital marketplace and to make that experience at the credit union level equal to or better than the experience that a member may go through if they go outside of the credit union space.

Also, that's very credit union specific and that's one thing that's unique to credit unions and others. You're absolutely right that there's that kind of community focus; there's also what we call the SEG focus, which is the Select Employee Group and that's kind of employer-centric. Some credit unions, they sit in the lobby of all the employers.....

**Peter:** Right.

**Brian:**...and in those instances having the digital space is an important aspect of that, but may not be absolutely critical because if it's convenient and if it's when and where the members want it, they're not pressing for that. I think we believe, as everybody does though, that even in those instances digital offerings are going to become much more relevant. So even those members that work there on site can still log on at 11:00 pm on a Saturday and apply from their mobile phone for a loan application and get a decision and fund that loan all at the same time without leaving the convenience of wherever they are. And those are the solutions we're chasing to have on behalf on our credit unions.

**Peter:** So you're chasing down, it that possible today with your offerings and many of the credit unions like can someone actually sit and take a loan out at 11:00 pm on a Saturday night?



**Brian:** Absolutely.

**Peter:** Okay.

**Brian:** In some instances, the credit unions will use our solutions all the way through. In other instances, maybe they've got their own mobile application or they're using another third party for that experience and they connect through our API's to our system. One of the things that we're big on is not forcing somebody to stay in our ecosystem end-to-end and to give credit unions flexibility in the solutions that they chased out and so re-architecting our platform with very flexible API's so that credit unions can create that experience they feel is best for their members. Hopefully, it's ours, but it can involve others.

**Peter:** Right, right. Okay, so then I'm curious about the innovation center, whatever you want to call it, inside CU Direct. What are you trying to accomplish, you said you sort of removed somewhat from the day-to-day, you get to focus part of your time on new projects so can you maybe just run us through some of the things that are coming down that might be coming 12 to 18 months down the road.

**Brian:** Yeah, absolutely, I'll give you an example of one that's already in play today based on previous 12-month cycle. So first to clarify, you know, for the listeners why is it a little bit different than a wholly owned innovation center say within a major bank. It's really that credit unions have a unique business model in that we both compete with each other internally, but we also collaborate a great deal, much more of collaborative than competition, frankly.

Our owners collectively got together and said, you know, we all want to be innovative, we all want to spend time on kind of exploration and understanding emerging technology and testing emerging technology, but independently, even the larger credit unions struggle to allocate those resources internally and exclusively. So we pool our collective resources and they look to us as a CUSO and said, hey, you guys go chase this down and we'll fund it.

So in March 2017, we launched the lab exclusively for that reason, but we innovate through collaboration. So I just came from a trip earlier this week where I went and visited credit unions in Utah and actually sat down with their processors and their managers and talked through challenges and watched them. Now we're tasked with coming back and figuring out what solutions should we develop in the innovation center at CU Direct that are going to reduce the friction in their process tenfold.

An example of that would be in 2017, we brought together many credit unions, we had a 2-day ideation session and we spun up 39 ideas of different things that could help the credit union space. We pared that down to about 18 ideas that we built up full business models and business plans for and then pared that down to seven ideas that we would actually work on. Of those seven ideas, five of those were in flight today.

One of them, as an example, is in beta, a little loan processing unit that we have where we take OCR (optical character recognition) and ADR (automatic document recognition) and those are



old technologies, but by themselves they're kind of dumb. So an OCR engine, if it pops at a dollar sign was a five, it would always think a dollar sign is a five, but when you layer on a machine learning application and you tell that OCR engine with machine learning that that's a dollar sign then it learns that. And so this is not a very sexy example, but it's really relevant in the credit union space and all processing spaces.

When somebody gets the backend of a loan, they've a person that sits there and compares the loan documents with what's on the system. It manually goes through and that's what we call stare and prepare before they fund that loan, but we've essentially automated that entire process. We created the ability to identify documents, sort documents, read documents and apply business rules to automate a lot of that document file preparation, file package preparation and then all of the QC and QA that goes along with that to fund the loan. Those are the types of solutions that we chase down.

Next year, we've acquired an AI engine that we're using and applying that to decisions that our credit unions make to help them understand correlations between credit or application attributes and decisions that they may not be able to make themselves. We're all familiar with scoring models, but sometimes populations of consumers are unique, especially in the credit union space and so can we layer an AI engine on top of an individual credit union's decision attributes, go back and work with their decisions and help them understand how they can automate decisions for their own unique membership.

**Peter:** Yeah, that's a really interesting point because, as you say, there's something that binds together all the members of the credit union, whether they may just be an employee of a company. Obviously, that's sort of the most common type so it's interesting that they probably have some things in common that if you go out to the general population, you wouldn't see that.

So it's like you need to take that into account in the underwriting model. The underwriting model can be more efficient, can be more predictive with that information so that's a really interesting example.

**Brian:** Absolutely.

**Peter:** How big is your team, the lab, like how many engineers you're having, I mean, what's the sort of scale of your organization?

**Brian:** Sure, so these are kind of ballpark numbers, but CU Direct has about 400 employees total. In that context, we've got about 60 engineers, 30 in product so about a fourth of the work force is involved in technology solution development in some form or fashion. Actually probably the largest constituent is, of course, our sales force so we've got a very large national sales and account management force and then we've got customer care, our own call center.

We have a business unit that does loan processing on behalf of credit unions so small credit unions struggle to scale even if they can't make the loans, you know, it's a big sum of cost to



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have processors and underwriters in-house so we provide some of that service on an outsourced service basis and then all of the other administrative staff.

The innovation team is actually really small, it's two of us, it's myself and then we've got a customer insights person that does a lot of market research and a lot of kind of anthropological analysis relative to what the market needs might be and then we really do the rest through collaboration. So there's developers that work with us on a project basis, there's a product manager that works with us on a product basis and our credit unions actually do a lot of the heavy lifting for us. We'll pick a project, we'll get some of our credit unions involved and we'll share that workload together.

**Peter:** Interesting, interesting. So then I know you talked a little bit about AI and you did mention blockchain, but is there anything that you're developing using blockchain technology or is that still in the sort of wait and see type thing?

**Brian:** Sure, so CU Direct isn't developing that ourselves, but great example, kind of hot collaboration works in the market space. There's company called CULedger which is a collective of credit unions that are developing a blockchain solution, [culedger.com](http://culedger.com), and we are one of the owners of CULedger so I serve as kind of a point person at CULedger. As you know, there are lots of different applications of this, the first solution at CULedger is chasing down kind of an identification model using block technology.

**Peter:** Interesting. And then I'm also interested in....I mean, there has been some examples of credit unions investing in the marketplace lending space, are you...I mean, you've been around the space for a while, do you see that happening more and more or how do you sort of view the marketplace lending space from your perch?

**Brian:** Yeah, absolutely that's an opportunity for credit unions. One example of that is Happy Money, works a lot with credit unions. As a matter of fact, I don't know if they use any funding that's not credit unions' and what that does for the credit unions involved is it gives them that level of sophistication and experience that that type of a company brings to the table. It gives them the new member, but then they don't have the burden of developing the science behind that underwriting, developing that experience to acquire the member or the loan or even the servicing on the backend.

In other cases, it's more a matter of working either with a company like CU Direct or another fintech to just maybe use the front end digital point of sale, you know, solution, or maybe a subset of a solution set. But the marketplace lending, you know, for some of the traditional lenders that you and I know of that go out and source the loans, originate the loans and bring them to an organization, there's a lot of opportunity there and like I said, we're starting to see those fintechs pop up at traditional credit union conferences and we have very low cost of funds so it aligns nicely with the values that a lot of the fintechs are aspiring to.

**Peter:** Right, right. So switching gears a little bit, the credit union model is not unique to this country, there are credit union type organizations all over the world and I'm curious about....are



you paying attention to what's happening in other countries. If so, what are some of the things you're learning?

**Brian:** Not only are we paying attention, we're involved. So there's a credit union organization called the World Council of Credit Unions and it's a cooperative, collective model. We are partners in that model and even just as recently as, I think, two weeks ago, there was a contingency from Latin America and South America that was on an educational trip throughout California.

They visited large credit unions, small credit unions and CU Direct and so we hosted them and helped them understand both, you know, how credit unions work in the US, what a CUSO model like ourselves is like, a little bit about innovation and financial technology and the applications of that and then, of course, they reciprocate and we learn from what they're doing as well. We attend those conferences every year.

**Peter:** So is there anything that you see that's interesting in other countries that you don't see here?

**Brian:** Yeah, and not a surprise to you, it's the same things that we see in the financial technology sector for modeling the usage of data and the use of kind of connectivity and outreach and processes that may be restricted here due to compliance, or maybe we have to understand what's happening more, but especially around the use of alternative data and how that's used in both sourcing borrowers and underwriting borrowers. That's something we certainly keep an eye on and how we need to adopt that and amend that to bring value to our credit unions.

**Peter:** Right, right, got it. We're almost out of time, but just a couple more questions here. Everything's moving digital and everything in finance is slowly moving into the digital realm and I'm curious to get your take....you know, here you are working in an innovation lab for credit unions so how do you see the credit union space evolving in the coming years?

**Brian:** Rapidly (Peter laughs). The whole digital tag is interesting to me, right, just as the innovation tag is, just as the blockchain tag is, it's almost cliché and what I'm finding that I really dig into the space is sometimes it's digital maybe on the front end, but then it's all smokes and mirrors because once a loan application or a borrower gets into the pipe then it's just a bunch of hamsters running really fast on the back end doing the same manual stuff they've always done.

So CU Direct is really chasing that down right now and we are chasing down how we make a digital experience all the way through, both from the customer or member's perspective and the back office.

**Peter:** Right, right.

**Brian:** How do we digitize that process, how do we bring operational efficiencies to our credit unions. That is our primary focus in 2019 and that's the solution that you'll see emerge from us



in 2019 and so we're big on digital, but maybe not in the spaces in the way that everybody else perceives digital. But I think our credit unions, the ones I'm talking to, are very excited about this. They are all in and helping us develop it and we'll see some solutions roll out in 2019 on that product.

**Peter:** Okay, interesting. This is the last question, so in all the different areas of fintech and areas of technology that you're looking at, what do you think is most exciting and what do you think has got the most potential to transform the credit union experience?

**Brian:** It might not be the answer you would imagine because it's not about a specific solution, it's not about a specific experience, it's not about say, you know, the super cool front end digital point of sale, it's not about an underwriting score or algorithm. Really, I think, what it's about is the ability with technology today to actually de-couple and de-construct the monolith that we've worked with before.

So I think this applies to all traditional financial institutions, not just credit unions, but we have built systems that have made it very difficult to pivot or to adapt new solutions because it's just this big huge model of the programming that is terribly complex. And if we can break all of that down and really leverage, you know, the kind of micro services that are available through really sophisticated API layers that simplify the process of somebody to be able to kind of plug-in and unplug any part of the solution set as they go along, that to me is the most exciting opportunity for credit unions. They're able to then control their experience and pick from so many more options and frankly, partner with fintechs. It's a lot simpler if we can bring a new architecture to that.

**Peter:** Right, right, that makes perfect sense to me. Okay on that note, we'll have to leave it there, I really appreciate you coming on the show today, Brian.

**Brian:** My pleasure, Peter, thank you.

**Peter:** Okay, see you.

**Brian:** Bye.

**Peter:** You know, I think Brian makes a very good point there towards the end about the fact that many banks have legacy technology that is really hampering them and we don't want to repeat that process going forward. We really want to be able to plug-in different pieces of technology.

It's interesting, I think about Ant Financial and what they're doing in China with technology in there, they are re-writing their entire code base every.....I think it's every four years or so they basically throw out the old and rewrite it. Maybe we don't need to go quite to that extent, but legacy technology of tomorrow is today's cutting edge technology, we need to make sure there is a way for us to update our systems and not cause the same problem all over again in a couple of decades time.



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

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